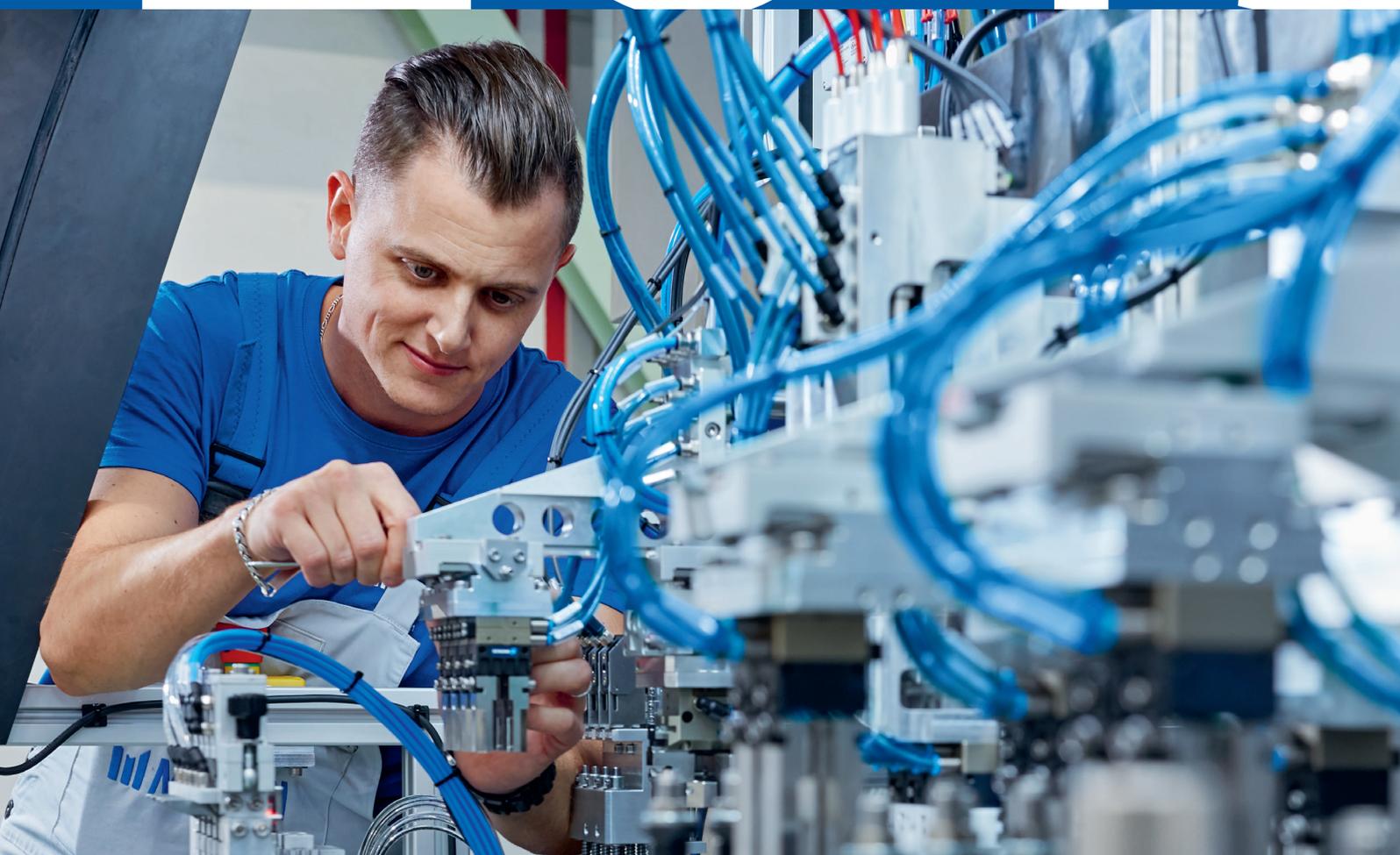


# 2019



In the 2019 financial year, the Mikron Group was able to increase sales and maintain EBIT at the previous year's level. By contrast, the Group saw a significant year-on-year decline in order intake and order backlog, especially in the Mikron Machining Solutions business segment. Overall, the Group achieved sales of CHF 327.6 million (prior year: 314.7 million, +4.1%) and order intake of CHF 288.5 million (prior year: CHF 362.3 million -20.4%). The order backlog of CHF 157.4 million on December 31, 2019, is markedly behind the record figure of December 31, 2018 (CHF 195.7 million, -19.6%). With EBIT at CHF 14.1 million (prior year: CHF 13.9 million, +1.4%), the Group achieved an EBIT margin of 4.3% (2018: 4.4%).

# Key Figures

in CHF million, except number of employees

2019

2018

+/-

	2019		2018		+/-	
<b>Key performance data</b>						
Order intake <sup>1)</sup>	288.5		362.3		-73.8	-20.4%
Machining Solutions	119.4		162.2		-42.8	-26.4%
Automation	169.2		200.9		-31.7	-15.8%
Net sales	327.6		314.7		12.9	4.1%
Machining Solutions	151.5		160.3		-8.8	-5.5%
Automation	177.2		155.2		22.0	14.2%
Order backlog <sup>1)</sup>	157.4		195.7		-38.3	-19.6%
Machining Solutions	38.1		68.0		-29.9	-44.0%
Automation	119.4		128.2		-8.8	-6.9%
Research and development	10.4		11.6		-1.2	-10.3%
Number of employees (end of year) <sup>1)</sup>	1,486		1,398		88	6.3%
Machining Solutions	707		695		12	1.7%
Automation	750		679		71	10.5%
<b>Earnings</b>						
Earnings before interest, taxes, depreciation and amortization (EBITDA) <sup>1)</sup> , as % of net sales	22.9	7.0%	22.2	7.1%	0.7	3.2%
Earnings before interest and taxes (EBIT) <sup>1)</sup> , as % of net sales	14.1	4.3%	13.9	4.4%	0.2	1.4%
Machining Solutions	1.1	0.7%	4.2	2.6%	-3.1	-73.8%
Automation	12.9	7.3%	8.4	5.4%	4.5	53.6%
Operating result, as % of net sales	14.0	4.3%	12.7	4.0%	1.3	10.2%
Profit for the year, as % of net sales	8.8	2.7%	12.2	3.9%	-3.4	-27.9%
<b>Cash flow</b>						
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	7.3	2.2%	20.1	6.4%	-12.8	-63.7%
<b>Balance sheet</b>						
Balance sheet total	289.5		289.5		0.0	0.0%
Current assets	178.0		185.0		-7.0	-3.8%
Cash and current financial assets	44.1		44.6		-0.5	-1.1%
Non-current assets	111.5		104.5		7.0	6.7%
Current liabilities	103.6		110.0		-6.4	-5.8%
Long-term liabilities	16.6		15.2		1.4	9.2%
Shareholders' equity, as % of balance sheet total	169.2	58.5%	164.3	56.8%	4.9	3.0%

1) Alternative performance measures, see pages 102 to 104, or [www.mikron.com/apm](http://www.mikron.com/apm)

# Mikron Group

2019

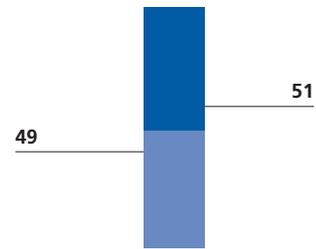
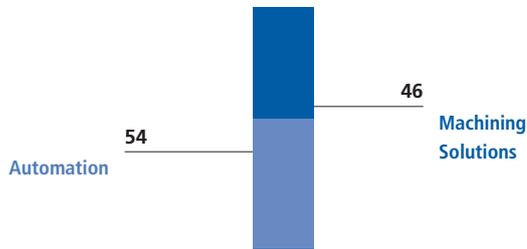
2018

Sales

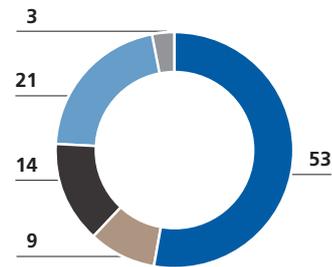
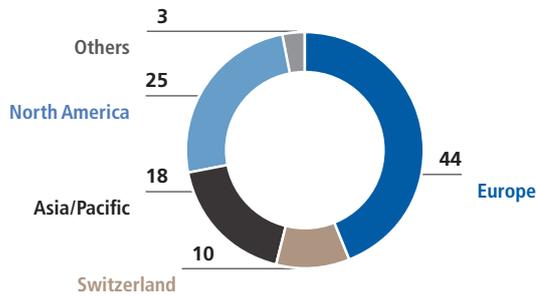
CHF **327.6** million

CHF **314.7** million

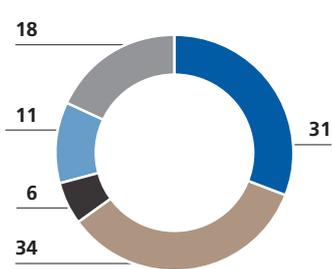
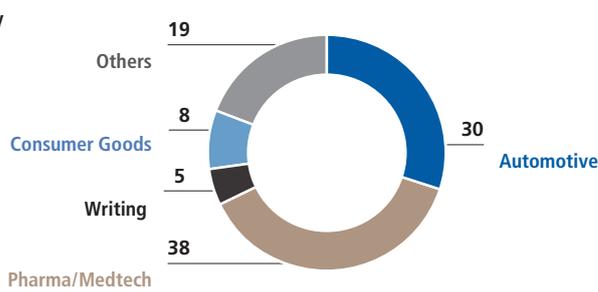
By segment  
in %



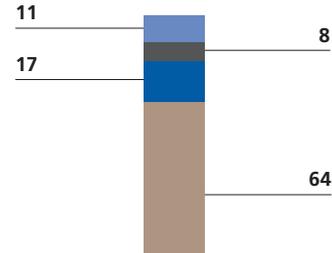
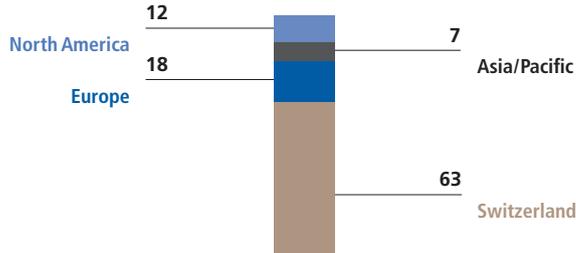
By region  
in %



By industry  
in %



Employees  
by region  
in %



Total 1,486

Total 1,398

# Content

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## Dear Shareholders,

The major changes in the automotive industry have left their mark on almost all mechanical engineering companies and tool manufacturers. The Mikron Group is also looking back on a challenging 2019. The Machining Solutions business segment was clearly affected by customers' great reluctance to invest in durable production equipment. Following a boom in the 2018 financial year, demand for our tools also fell significantly from mid-2019 onwards. However, thanks to the broader range of tools on offer, especially for new markets and applications, the volume stabilized at a satisfactory level.

The continued good performance of Mikron Automation is very encouraging. All locations in this segment with the exception of the Berlin plant, which primarily serves German automotive customers, benefited from a good market environment.

Mikron Automation's business developed particularly well in Switzerland and the USA. Both locations succeeded in delivering very large and technically highly complex assembly systems to the full satisfaction of our customers. Mikron also made further important progress in Asia in 2019.

Overall, the Mikron Group increased sales by 4.1% in the 2019 financial year and at CHF 14.1 million maintained EBIT at the previous year's level. By contrast, incoming orders fell by 20.4%. This reflects the sharp decline in machine orders from the automotive industry since the third quarter of 2019.

Unfortunately, the Group has been significantly affected by the outbreak of the coronavirus at the beginning of 2020. Several completed production lines cannot be commissioned as planned in the first quarter of 2020, and sales and service activities have been severely restricted since the start of 2020.

The declining production figures and uncertain future prospects in the automotive industry are leading to a marked decline in equipment investment throughout the supply chain in this market segment, which is very important for Mikron Machining. Opportunities could arise in the watchmaking, electrical and writing instrument industries. Mikron Machining's newly developed machines are now ready for the market. The first machines have been sold. In 2020 we will further optimize and industrialize these machines. Despite the difficult market environment, the task now is to convince existing and new customers of these new machines.



Bruno Cathomen, Chief Executive Officer  
Heinrich Spoerry, Chairman of the Board of Directors

We expect the tools business to grow slightly again from mid-2020 onwards.

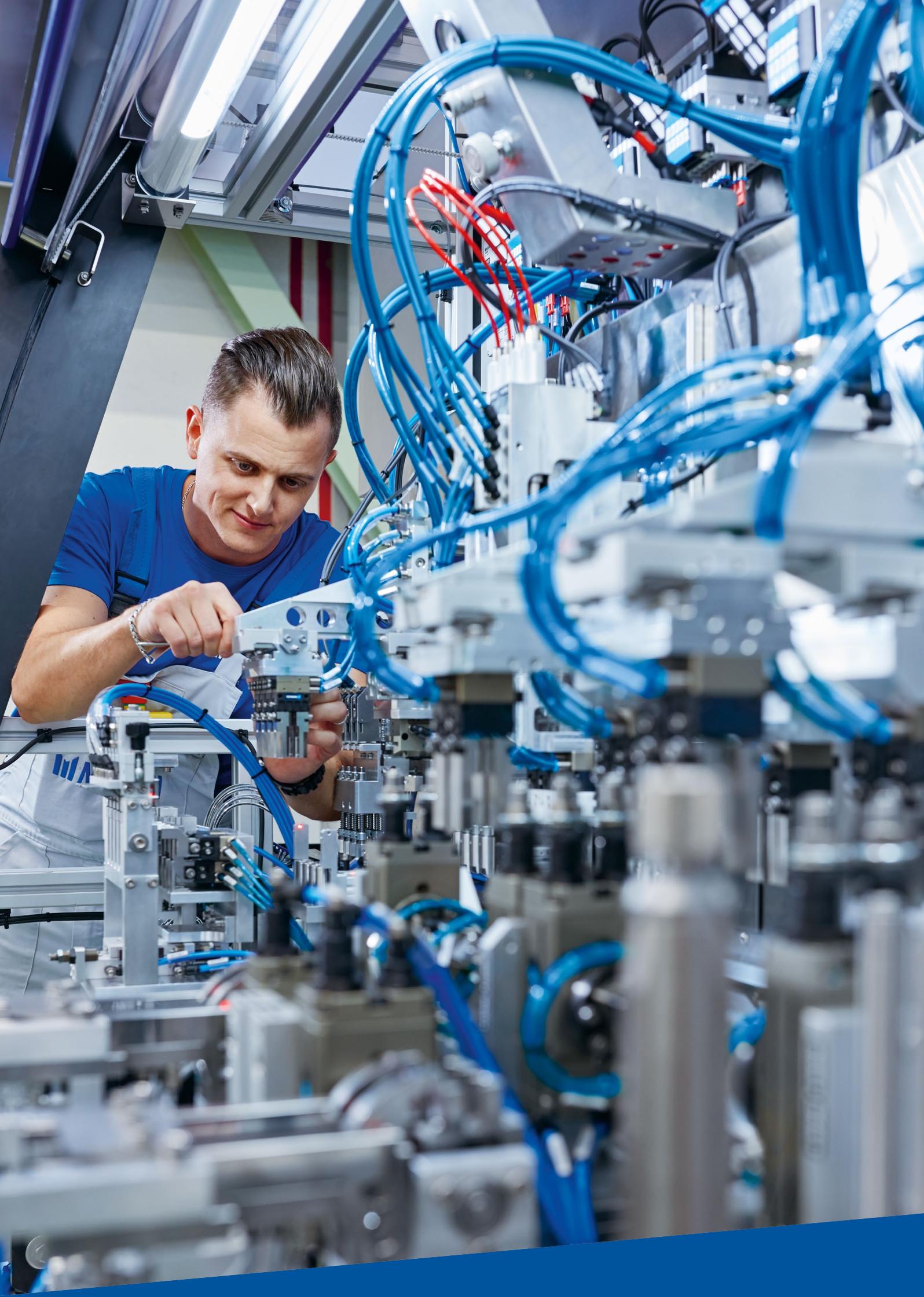
At Mikron Automation, we expect the pharmaceutical and medtech market to remain stable in 2020 and demand for our automation solutions to remain strong.

At Group level, the outlook is currently very difficult, not only for order intake, but also for sales and profitability in 2020. The lower capacity utilization at Mikron Machining Solutions and the necessary adjustments will have a significant impact on Mikron's results in 2020. The effects of the coronavirus cannot yet be estimated.

We would like to thank all Mikron employees for their great commitment, our customers for their trust, and you, our shareholders, for your loyalty.

Heinrich Spoerry,  
Chairman of the Board of Directors

Bruno Cathomen,  
Chief Executive Officer



# Innovation at Mikron

## Finding answers today to the questions of tomorrow

**A**t the beginning of every innovation there is the discovery of an opportunity. A growing market, a new need or a sought-after material.

Mikron monitors developments carefully and reacts quickly and with creativity.

In dialog with partners and customers we develop new solutions, promising alternatives and surprising answers. Always market-driven and needs-oriented.

Admire the new system from Mikron Automation, presented for the first time in Denver.

Or find out how Mikron Machining has managed to gain a solid foothold outside the automotive industry in consumer goods, watch-making, connector contacts and the music industry.

Find out on the following pages how Mikron Tool has responded to the increasing demand for chromium-nickel steels and how it is now profiling itself as a technology leader in the growing markets of medical technology and aeronautics.

Innovation is our strongest competitive advantage and the core of our company. This has always been the case in the past. And will remain so in the future.

## Mikron Automation

# New scalable assembly solution for medical devices

The Mikron Automation division once again captures the spirit of the times. The flexible, modular assembly solution enables quick market launch, easy set-up and operation, and requires a low initial capital investment.

The Mikron Corporation Denver responds to medical customer requests by delivering a flexible, low-volume assembly solution for clinical trials or early-stage market introduction. This system is based on the same linear concept as the other Mikron platforms. It uses servo-driven handling units which provide full flexibility in the programming of assembly processes. Another advantage is that all processes are validated and can be utilized for the next phase of production scale-up. For the customer, this solution offers quick time-to-market, easy set-up and operation, and a low initial capital investment.





With sparkling ideas for a successful future.

## Mikron Machining

# Thinking ahead – managing the future

Once again this year, Mikron's Machining division demonstrated its exceptional innovative strength with a new, pioneering platform. The Mikron MultiX presented at EMO 2019 in Hanover not only convinced potential customers, but also the specialist jury: Mikron was awarded first prize for outstanding innovation in the machine tool category by the leading trade magazine for the machine industry "MM MaschinenMarkt".

Thinking ahead, thinking differently – the determination to innovate is in the DNA of the Mikron Machining division. Following its spectacular presentation of the Mikron 6x6 in 2018, the machine manufacturer surprised the industry once again this year with a groundbreaking world innovation: the Mikron MultiX.

The new platform is consistently tailored to customer needs. It is easy to reconfigure and offers unique possibilities with machining solutions for the production of 50 to 5,000,000 parts.

In order to optimally meet the many different needs, the new platform offers various configuration options. With Mikron MultiX, clients can tailor their specific machining solution to their own specific needs in terms of productivity, precision, size, cost or power.

If the application for which the system was originally configured is no longer used, the system can be reconfigured using a revolutionary, patented concept. In this way, the customer can avoid having to invest in a new system. Scalability provides further flexibility.



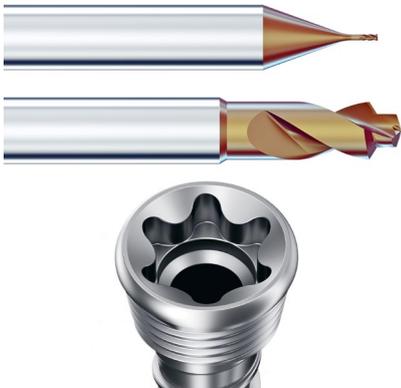


Always ready for  
the next step.

## Mikron Tool

# Turnkey solution for more efficiency

Thanks to targeted research, Mikron Tool is constantly finding emerging markets. For example, the production of bone screws for surgical applications. Mikron Tool developed a turnkey solution, which machines hexalobular bone screws (better known as Torx) 50 percent faster, at the same time guaranteeing a high degree of precision of the profile and nearly burr-free results.



Reinventing tools again and again: this time for fast and precise machining of bone screws.

An innovation every year – the Mikron Tool division has maintained this high standard this year. And once again, the process began with careful clarification of the market and customer requirements. Above all, the medical market promised opportunities. Over 900 million screws made of titanium or

stainless steel are produced here every year. With high demands on efficiency and precision.

Mikron Tool has developed the solution for the future: with a new Crazy-Drill and the CrazyMill Hexalobe micro-milling cutter, Mikron Tool has made it possible to reduce four common operations to two. The materials commonly used in production, titanium and stainless steel, are processed differently according to their characteristics. However, Mikron Tool's solution not only includes the new tools themselves – the machining strategy with perfectly tuned parameters plays a key role here. The results are high profile accuracy, very good surface quality, a virtually burr-free product, a cycle time reduced by half, a stable process and longer tool life.



*"Innovation is like a journey. Once you are on your way, you keep discovering more and new things."*

Markus Schnyder  
Head of Mikron  
Tool Division



Tirelessly searching  
for the best  
solutions.

# The Mikron Group

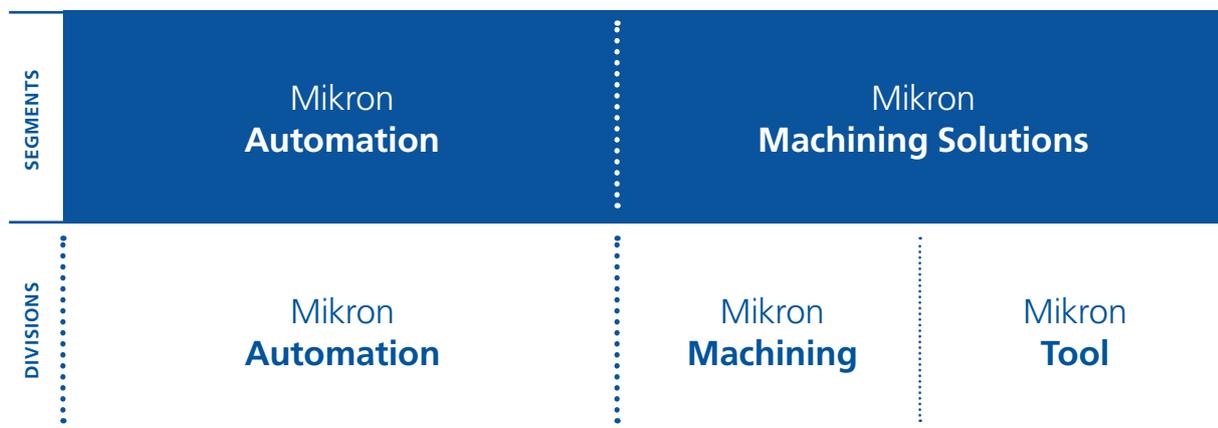
The Mikron Group develops, produces and markets highly precise, productive, and adaptable automation solutions, machining systems and cutting tools. Rooted in the Swiss culture of innovation, Mikron is a global partner to companies in the automotive, pharmaceutical, medtech, consumer goods, writing instruments and watchmaking industries.

The Mikron Group enables its customers to increase quality and industrial productivity. The Group has over 100 years of experience, state-of-the-art technologies, and a global service. The two business segments Mikron Automation and Mikron Machining Solutions are based in Switzerland (Boudry and Agno). Additional production sites are located in the USA, Germany, Singapore, China and Lithuania. Mikron Holding AG shares are traded on SIX Swiss Exchange (MIKN). The Mikron Group employs a total workforce of around 1,500.

## Corporate Story

The Mikron Group's core business is the engineering and building of customized assembly and machining systems which enable productivity and quality gains in the manu-

facturing processes of our customers. Mikron's products and solutions support industrial production companies in a wide variety of sectors by reducing unit costs, space requirements and staffing costs, and by increasing manufacturing quality. Mikron's ultimate goal is to enable its customers to improve their production processes, product quality and profitability. With its gear-cutting machines and tools, Mikron, a company rooted in the Swiss culture of innovation, contributed significantly to the industrialization of Swiss watchmaking in the first half of the last century. Today, Mikron markets machining and automation solutions for the highest-precision manufacturing processes, supported by digital services and technologies. Proactive and long-term customer services and the best-performing innovative cutting tools supplement the high-tech offering.



## Mikron Automation

Mikron Automation is the leading partner for scalable and customized assembly systems – from the first idea to the highest-performance solutions. Mikron's expertise and proven track record guarantee the most productive solution for the assembly of customer products at each stage of their lifecycle.

- Number of employees: 750
- Systems installed worldwide: over 3,500
- Projects: more than 60 per year
- Project delivery times: 4 to 24 months
- Main markets: blue-chip pharma/medtech customers
- Number of facilities: 6 production sites

## Mikron Machining Solutions

The Mikron Machining Solutions segment comprises two divisions: Mikron Machining and Mikron Tool. Mikron Machining is the leading supplier of customized, highly productive machining systems for the manufacturing of complex high-precision components made of metal such as turbocharger housings, injection nozzles and ballpoint pen tips. Mikron Tool develops and produces the necessary high-performance cutting tools. These are regarded as some of the best in the world and are also used on other manufacturers' machines.

### Mikron Machining

- Number of employees: 480
- Systems installed worldwide: over 7,000
- Projects: between 80 and 150 per year
- Project delivery times: 4 to 18 months
- Main markets: blue-chip automotive and watchmaking customers, and many hidden champions in diverse industries
- Number of facilities: 2 production sites and 2 sales and representation offices

### Mikron Tool

- Number of employees: 225
- Product portfolio: 60 tool families
- Main markets: blue-chip automotive and watchmaking customers, and many hidden champions in diverse industries
- Number of facilities: 2 production sites and 2 sales and representation offices

# Highlights 2019

## February

At the Intec trade fair in Leipzig, Mikron Machining impresses the experts with its new Mikron 6x6 machine tool system. The individually configurable machine has 102 possible combinations and can be perfectly adapted for any manufacturing situation. A particular highlight for Mikron at Intec is a visit by Saxony's Minister President Michael Kretschmer to the Mikron booth.



## March

At the last ATX West trade show in Anaheim, CA (USA), the new assembly platform developed by Mikron Corporation Denver receives a lot of attention and positive feedback from visitors.



## May

For many years, the Mikron Group has been committed to the promotion of young scientists in a wide variety of ways, including sponsorship for a talented team of students from Ticino in national and international Lego robotics competitions. In May, the Smilebots team celebrates a major success: 12th place in the World Championships in Detroit.



## May

For the first time, a special prize for outstanding corporate performance is awarded at the renowned PRODEX Award 2019 in Basel, Switzerland. First prize goes to Mikron Tool SA Agno for its outstanding corporate performance over many years.



## July

Once again, a Mikron Group division is selected as Supplier of the Year by a customer. Boston Scientific, Cork, presents the award to Mikron SA Boudry. Impeccable quality, prompt delivery and cost-efficiency – these are the characteristics that convinced Boston Scientific.



## August

The market reacts with interest to the new Mikron 6x6. With the extremely flexible, modular and space-saving machine tool system for high-quality parts made of steel, cast iron or light metal, it also explicitly meets the needs of very small companies. In August Mikron Machining sells its first system to Franz Stankalla GmbH, based in southern Germany.



## September

First prize for outstanding innovations in the machine tool category for the Mikron MultiX and a great deal of visitor interest: The Mikron Machining division's participation in EMO 2019 in Hanover is proving very successful for Mikron. Mikron's booth covers the entire range of production solutions.



## September

On September 26, Mikron Automation celebrates the official opening of a new factory in Kaunas, Lithuania. The Mikron Automation division engineers and produces industrial automation systems for the global automotive component industry. The company already employs 15 people and plans to recruit up to 50 specialists in the next few years.



## October

At the Assembly Show in Chicago, visitors were able to discover the P04 assembly platform, the latest development from Mikron Corporation Denver. This versatile machine base can be tooled using the standard modular building blocks from Mikron's proven platform library including CAM, servo, and robotic units – perfect for assembling new devices for laboratory trials or low-volume production.





# Management Report

# Management Report

In the 2019 financial year, the Mikron Group was able to increase sales and maintain EBIT at the previous year's level. By contrast, the Group saw a significant year-on-year decline in order intake and order backlog, especially in the Mikron Machining Solutions business segment. Overall, the Group achieved sales of CHF 327.6 million (prior year: 314.7 million, +4.1%) and order intake of CHF 288.5 million (prior year: CHF 362.3 million -20.4%). The order backlog of CHF 157.4 million on December 31, 2019, is markedly behind the record figure of December 31, 2018 (CHF 195.7 million, -19.6%). With EBIT at CHF 14.1 million (prior year: CHF 13.9 million, +1.4%), the Group achieved an EBIT margin of 4.3% (2018: 4.4%).

With EBIT of  
CHF

**14.1** million

Mikron achieved an EBIT  
margin of 4.3%.

## Group business review

The two business segments Mikron Automation and Mikron Machining Solutions have seen very different market developments and business performances in 2019. Mikron Automation made excellent use of the good order backlog at the beginning of the year and of the generally positive dynamics in its core market. The Machining Solutions segment suffered primarily from the sharp decline in demand in the machine business – especially from the automotive industry.

Mikron Automation established itself further as a leading technology and assembly solution supplier in the European and US pharmaceutical and medtech industries. In contrast, order intake from the automotive industry was well below the corresponding prior-year figure.

The Mikron Machining Solutions business segment operates as two divisions: Mikron Machining and Mikron Tool. The Mikron Machining division already saw a decline in demand from the automotive industry in the first half of the year. In the second half, demand began to falter in the other market segments as well, while demand from automotive customers reduced further.

After the excellent growth seen in the prior year, the Mikron Tool division started 2019 with a large order backlog. As numerous customers reduced their inventories and call-off obligations after the market overheated in 2018, tool orders decreased markedly in 2019. The division generally maintained sales at the solid prior-year volume, thanks in part to new products.

## Outlook

In December 2019, the Board approved the budget for the year 2020. Mikron Automation started 2020 with a solid order backlog and expects to see good capacity utilization

**Annual sales**

in CHF

# 327.6 million

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2019

# 314.7 million

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2018

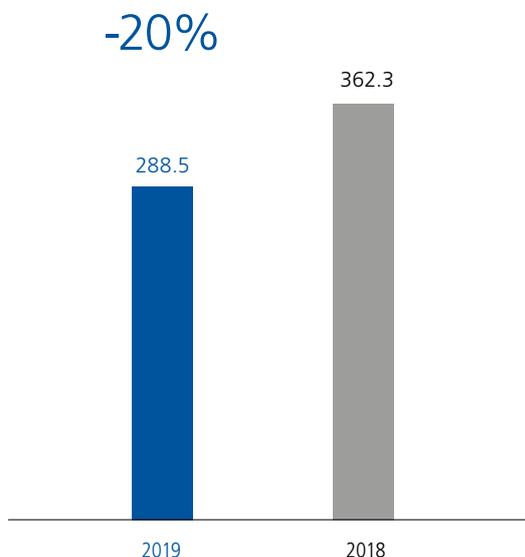
levels and a continuing solid performance at its main sites. The segment anticipates further encouraging developments in the pharmaceutical and medtech sectors.

Mikron Machining Solutions is facing major challenges in the machine business in 2020. The order backlog is very low and customers are hesitant to approve investments in new production machinery in general. It remains extremely difficult to predict when automotive customers will start investing in machines again. The division expects very low order intake from this market throughout 2020. On the strength of the new tools, the Mikron Tool division is predicting an increase in volume in the medtech, aeronautics, power generation and watchmaking industries, and a recovery in demand for consumables such as our "Crazy" tools from the automotive industry in the second half of the year.

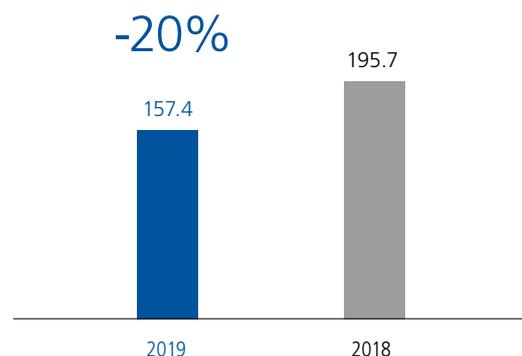
Like many other companies, Mikron also operates in China and has a significant share of customers there and in other regions impacted by the coronavirus. Mikron is therefore also affected. Several customer projects had to be put on hold in early 2020 with operations starting later than usual and at lower capacity. It is still too early to estimate the half- or full-year impact of those events.

At Group level, the outlook is currently very difficult, not only for order intake, but also for sales and profitability in 2020. The lower capacity utilization at Mikron Machining Solutions and the necessary adjustments will have a significant impact on Mikron's results in 2020. The effects of the coronavirus cannot yet be estimated.

**Order intake**  
in CHF million



**Order backlog**  
in CHF million



**Order intake**

The Mikron Group reported order intake of CHF 288.5 million in 2019, representing a decrease of 20.4% against the prior year (CHF 362.3 million).

Europe remains Mikron's most important market, with approximately 51% of orders received in 2019 placed by European customers (previous year: 49%). The two strongest market segments are the pharmaceutical and medtech industries with 48% (previous year: 40%) and the automotive industry contributing 16% (prior year: 31%) to overall order intake. In North America, Mikron Automation did not quite reach the high level of the previous year, while Mikron Machining Solutions was able to make some gains at a low level. In Asia, on the other hand, Mikron Automation received more orders and Mikron Machining Solutions fewer than in the previous year.

**Net sales, capacity utilization and order backlog**

Posting annual net sales of CHF 327.6 million, the Mikron Group exceeded the prior-year result (CHF 314.7 million) by 4.1%. While Mikron Automation succeeded in increasing sales by 14.2%, Mikron Machining Solutions posted a decrease of 5.5%.

While the Mikron Automation business segment enjoyed good capacity utilization throughout the 2019 financial year, this was not the case for the Mikron Machining Solutions business segment. The Machining division already started to reduce capacity and introduce short-time working toward the end of 2019. During the year under review, the Mikron Tool division was mostly able to fill the available capacity thanks to an exceptionally high order backlog at the beginning of the year and reduced but relatively stable order intake.

At CHF 157.4 million, the Mikron Group's order backlog at the end of 2019 was 19.6% lower than the prior-year record figure. While the Machining Solutions business segment reported a year-on-year decline in order backlog of 44.0%, the same figure decreased by 6.9% in the Automation segment.

### Profitability

In the 2019 business year, the Mikron Group reported EBIT of CHF 14.1 million (previous year: CHF 13.9 million).

The Mikron Machining Solutions business segment posted EBIT of CHF 1.1 million (prior year: CHF 4.2 million). The decrease in profitability reflects the lower level of machine sales in 2019 as well as ongoing new product development costs, with the tools business achieving a pleasing result overall. Mikron Automation reported improved EBIT of CHF 12.9 million after the prior year's EBIT of CHF 8.4 million. The EBIT margin for this business segment increased to 7.3% (prior year: 5.4%).

CHF  
**18.5** million

Investments were made in production equipment, a building extension, product development and IT projects.

### Financial result, income taxes and profit

The financial result improved compared to the previous year's figure and totaled CHF -0.5 million (prior year: CHF -1.0 million), CHF -0.2 million of which was related to net exchange rate losses (prior year: CHF -0.2 million). Profit before taxes amounted to CHF 13.6 million (prior year: CHF 12.9 million), on which income taxes of CHF 4.9 million (prior year: CHF 0.6 million) were expensed. The tax expense was higher due to reduced forecasts regarding taxable profits for one Swiss company. The income tax rate is also still distorted by tax losses not capitalized due to uncertainty about the companies' future taxable profits. Mikron's net earnings for 2019 were CHF 8.8 million, compared to CHF 12.2 million in the prior year. Net earnings per share for 2019 came to CHF 0.54 (prior year: CHF 0.74). At the Annual General Meeting on April 15, the Board of Directors of the Mikron Group will propose a distribution from capital contribution reserves of CHF 0.03 per share and a dividend of CHF 0.03 per share.

### Investment property

The investment property in Nidau (Switzerland) generated net income of CHF 0.2 million (prior year: CHF 1.1 million) including an impairment of CHF 0.5 million based on an update to the third-party market value assessment performed at the end of 2019. The non-operating result excludes the financing costs of the mortgage of CHF 9.0 million, which was drawn down in July 2019. Around 60% of the building has been vacant since August 2019 because one of the lessees moved out. Various development ideas for the property are currently being evaluated.

### Balance sheet, financing and equity ratio

Overall, the Mikron Group's balance sheet remains strong. Mikron is free of net debt, and reports a healthy equity ratio.

Cash and cash equivalents plus current financial assets of CHF 44.1 million exceed interest-bearing liabilities of CHF 21.6 million. The current financial assets of CHF 6.2 million are mainly invested in Swiss franc bonds with a residual maturity of less than three years. The net cash position remained at a high CHF 22.5 million or 7% of net sales (prior year: 11%).

Net working capital rose by CHF 9.5 million to CHF 41.8 million. Overall, net working capital to net sales amounts to 13%, which is an increase compared with the prior year (10%). This was driven by a lower level of prepayments received from projects sold before year-end.

Totalling CHF 111.5 million, non-current assets increased by CHF 6.9 million. In line with strategy, investments of CHF 18.5 million (prior year: CHF 15.9 million) were made in production equipment and a building extension for the tool business and different IT projects to improve efficiency and security. The total amount of expenditure for new product development and enhancements (capitalized and not capitalized) was around 3.2% of net

CHF  
**169.2** million

Mikron's shareholders' equity increased. Equity ratio is 58%.

sales. Total amortizations and depreciations came to CHF 8.3 million (prior year: CHF 7.9 million). The long-term financial liabilities of CHF 10.1 million mainly relate to finance leases for production equipment and the mortgage for two production facilities. The loan contract for the mortgage relating to the investment property and for one production facility of CHF 9.0 million was drawn down in 2019.

Since May 2015, Mikron has been able to draw on a CHF 50.0 million credit agreement with a bank consortium which is available for bank guarantees to secure advance payments from customers and for fixed advances that are currently not being used. This credit agreement will expire at the end of June 2020. The credit agreement requires Mikron to achieve certain key financial figures (covenants). The Group met these by a comfortable margin. The renewal of the credit agreement has been secured with the existing partner banks.

In 2019, shareholders' equity increased to CHF 169.2 million. This represents a strong equity ratio of 58% (prior year: 57%). The increase is fully attributable to the higher equity, as the balance sheet total is unchanged.

#### **Cash flow**

Cash flow from operating activities reached CHF 7.3 million at the end of 2019 (prior year: CHF 20.1 million). A total of CHF 10.7 million (prior year: CHF 11.9 million) was used for investment in non-current assets.

A lower level of customer prepayments on orders led to an operating free cash flow (without changes in financial assets) of CHF -3.5 million (prior year: CHF 8.2 million). The Group was able to create a positive operating free cash flow over the last five years.

Cash flow from financing activities amounted to CHF 3.4 million in the year under review (prior year: CHF -20.8 million), mainly stemming from the draw-down of mortgages, fewer purchases of treasury shares, repayment of financial leases, and the distribution to shareholders.

#### **Share performance and return**

At the end of 2019, the share price stood at CHF 6.76 (prior year: CHF 6.76 per share). The precise share performance is available at all times on the Mikron Group website.

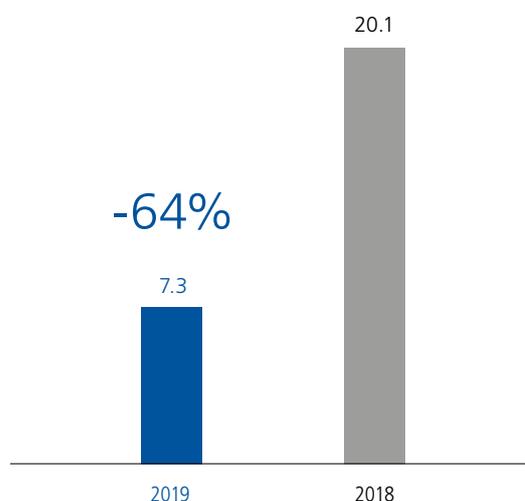
Based on the year-end share price, the Mikron Group is valued at CHF 113.0 million. Since this amount is lower than the Mikron Group's shareholders' equity, a test of potential impairment losses was carried out. The strategy outlook and impairment tests on material assets (in some cases with valuation reports from third parties) attest to the value of the shareholders' equity.

#### **Corporate Financial Statements of Mikron Holding AG**

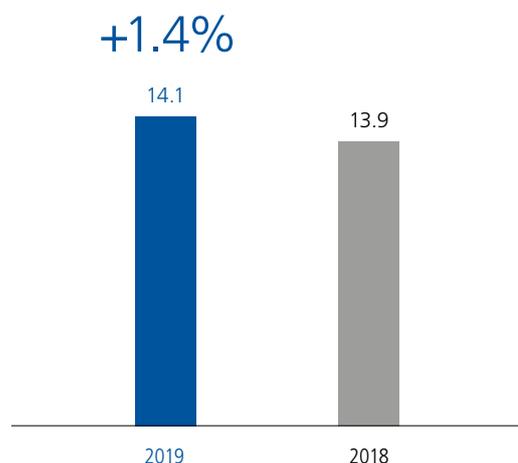
Mikron Holding AG is the legal owner (directly or indirectly) of all subsidiaries of the Mikron Group, the owner of the Mikron trademark and the treasury center for the Mikron Group. The CFO and a small Group finance team are employed by the separate management company, and costs are charged back to Mikron Holding AG. Excluding the net finance result of CHF -3.3 million (prior year: CHF 2.0 million), the trademark fees charged to the companies covered the costs incurred. As in 2018, no dividend income from subsidiaries was booked this year.

The financial statements of Mikron Holding AG show a high equity ratio of above 69%.

**Cash flow from operating activities**  
in CHF million



**EBIT**  
in CHF million



### Customer satisfaction

The Mikron Group focuses on the needs of its customers, with the aim of establishing and cultivating strong, long-term relationships with them. All strategic and operational initiatives and activities are triggered by Mikron's mission to increase its customers' industrial productivity. As in previous years, Mikron actively contacts customers systematically to ask for their opinions and feedback. The customer feedback received conveys a very positive picture overall. Besides high-performance turn-key production systems and excellent "Crazy" tools, Mikron offers its customers a broad range of after-sales services to foster long-term partnerships. Mikron asks for and receives suggestions for improvements and refinements in its strategic planning in the form of targeted initiatives, product and process enhancements, and investments in new product developments.

### Employees

Mikron operates in a demanding, highly cyclical and global market, and is exposed to globally active and locally specialized competitors. The key to success is highly skilled and motivated employees who are willing to assume responsibility and work together constructively. This allows the Group to respond to the rapid changes, diverse customer requests and complexity inherent in the business. About every two years, an independent consultancy for personnel and organizational development assesses the level of employee satisfaction. In 2018, all Mikron companies participated in the survey. Based on the anonymous responses, various specific actions were implemented during 2019. Some initiatives are still ongoing.

Mikron is seeking to attract and retain employees with the right level of technical qualifications, who are able to work in dynamic interdisciplinary teams, have a broad set of language skills, and are willing to travel and work abroad. Mikron also continued to invest in

training and education in 2019. New apprentices and trainees were taken on, while the management and leadership training program and specific project managers' training continued. With very few exceptions, all employees were trained in the application of our Code of Conduct.

As at the end of the 2019 financial year, the Mikron Group numbered 1,486 employees (FTEs), representing an increase of 6.3% (prior year: 1,398 employees). Additional personnel were mainly taken on in response to the higher sales volumes from the pharmaceutical and medtech industry at Mikron Automation and the expectation of continued growth at Mikron Tool. After the initial high workload at Mikron Machining, the division started to reduce headcount towards the end of 2019. The actions initiated, however, will only have an impact in 2020.

The number of apprentices increased from 96 to 110 at the end of 2019. Around 63% of the workforce are employed at the companies in Switzerland, approximately 18% in the European Union, 12% in the US, and 7% in Asia.

Employees' remuneration is based on their role, performance, specific knowledge of value to Mikron (languages, special technological expertise) and experience. Men and women are paid equally for performing comparable work. About 10% of Mikron staff are women, most of whom perform tasks in internal service functions. The economic performance and regional differences of the individual companies are also taken into account. It is Mikron's aim to compensate fairly and in a comparable way to similar internationally active companies.

#### **Innovation and key investments**

Several development projects continued in 2019. In the year under review, a total of CHF 10.4 million (prior year: CHF 11.6 million) was invested in the development or enhancement of new products or product platforms. These figures include capitalized research and development expenses, personnel expenses, material costs and other operating expenses, and represent 3.2% of net sales (prior year: 3.7% of net sales). This does not include daily innovation activities which are triggered by customer projects and are required to develop new specific assembly or machining processes. Details of the main innovation projects in both business segments can be found in the segment reports on pages 30 to 39.

Today, Mikron offers all kinds of digital and connectivity-related services and solutions commonly summarized as "Industry 4.0". In recent years, such technologies have been systematically developed, tested and integrated into existing and new products, processes, and service offerings.

#### **Sustainability**

The Mikron Group acknowledges its responsibility towards people and the environment. Its Sustainability Report is guided by the globally recognized principles of the Global Reporting Initiative (GRI). The Group's aim in this respect is to ensure transparent, standardized, and comparable reporting. The full report is available on the website at [www.mikron.com](http://www.mikron.com).

### **Business model and strategy**

#### **Mikron Group**

The Mikron Group develops, produces and markets scalable automation and machining systems that enable extremely precise and productive manufacturing processes. Rooted in the Swiss culture of innovation, the Group is a globally leading partner to companies in

CHF  
**10.4** million

were invested in  
new products.

the pharmaceutical, medtech, automotive, consumer goods, writing instruments and watchmaking industries. The two segments, Mikron Automation and Mikron Machining Solutions, are based in Switzerland (Boudry and Agno). The company has additional production facilities in the US, Germany, Singapore, China and Lithuania. The 1,486 employees of the Mikron Group can draw on over 100 years of experience in the production of high-precision systems for large-series product manufacture – always striving to increase the industrial productivity and quality of its customers by applying proven techniques combined with the latest technologies and supported by global services. With their innovative products, our companies work towards becoming the employer of choice for technical jobs.

Led by the vision of “creating value with passion for precision” and Mikron’s mission statement, the Board of Directors periodically reviews the Group’s strategy. In line with the targets communicated in the last few years, the Board of Directors expects the Mikron Group to improve profitability to an EBIT margin of 5-7% in the medium term, while growing sales in the magnitude of 5% annually on average.

“Creating value  
with passion  
for precision”

### **Mikron Machining Solutions**

Mikron Machining Solutions’ strategic objectives are to strengthen its leadership position in the transfer machining niche, expand the service business by introducing additional services and addressing the whole installed machine base, and grow the cutting tool business. The business segment consists of the two divisions Mikron Machining and Mikron Tool. As an innovative technology leader, the Machining Solutions business segment plans to introduce to the market at least one newly developed high-end cutting tool every year and to offer its customers the best-performing solution for high-volume production. Delivering machines and cutting tools to different customer segments globally is an important driver for further development. In its niche, Mikron Machining competes mainly against other transfer machine, transfer center and multi-spindle machining center manufacturers. The business segment wants its customers to see its Mikron Machining and Mikron Tool divisions as international providers with the capability to adapt their innovative products quickly to specific needs and to execute projects efficiently with globally aligned key processes.

### **Mikron Automation**

As the partner of choice for global blue-chip customers from the pharmaceutical and medtech industries, it aims to maintain its leadership position in Europe and US and to strengthen its footprint in Asia. Other customer segments such as the automotive, consumer goods, and electronics industries are expected to contribute to its growth. Mikron Automation’s strategy aims to provide customers with scalable and customized assembly systems – from the first idea to the highest-performance solutions. Mikron’s expertise and proven track record guarantee the best productivity for assembling customers’ products throughout their lifecycle. Competing against a significant number of smaller competitors, and a few larger ones, Mikron Automation is a leader in highly productive assembly solutions thanks to its platform-based assembly concepts supported by fully customized automation, and its technical expertise in engineering innovative solutions and compelling value propositions. Its aligned processes, world-class project execution and in-depth experience of validation and obtaining all the required approvals (especially FDA) enable the Automation business segment to carry out projects across several sites and thus also deliver projects worth up to CHF 30 million.

## **Management principles**

Six values guide Mikron's management and staff: skilled and motivated employees, market and customer focus, focus on targets and results, responsibility and role model function, and quality and confidentiality. These values guide their daily behavior and serve as a common basis on which management and staff do business and develop the company.

## **Risk management**

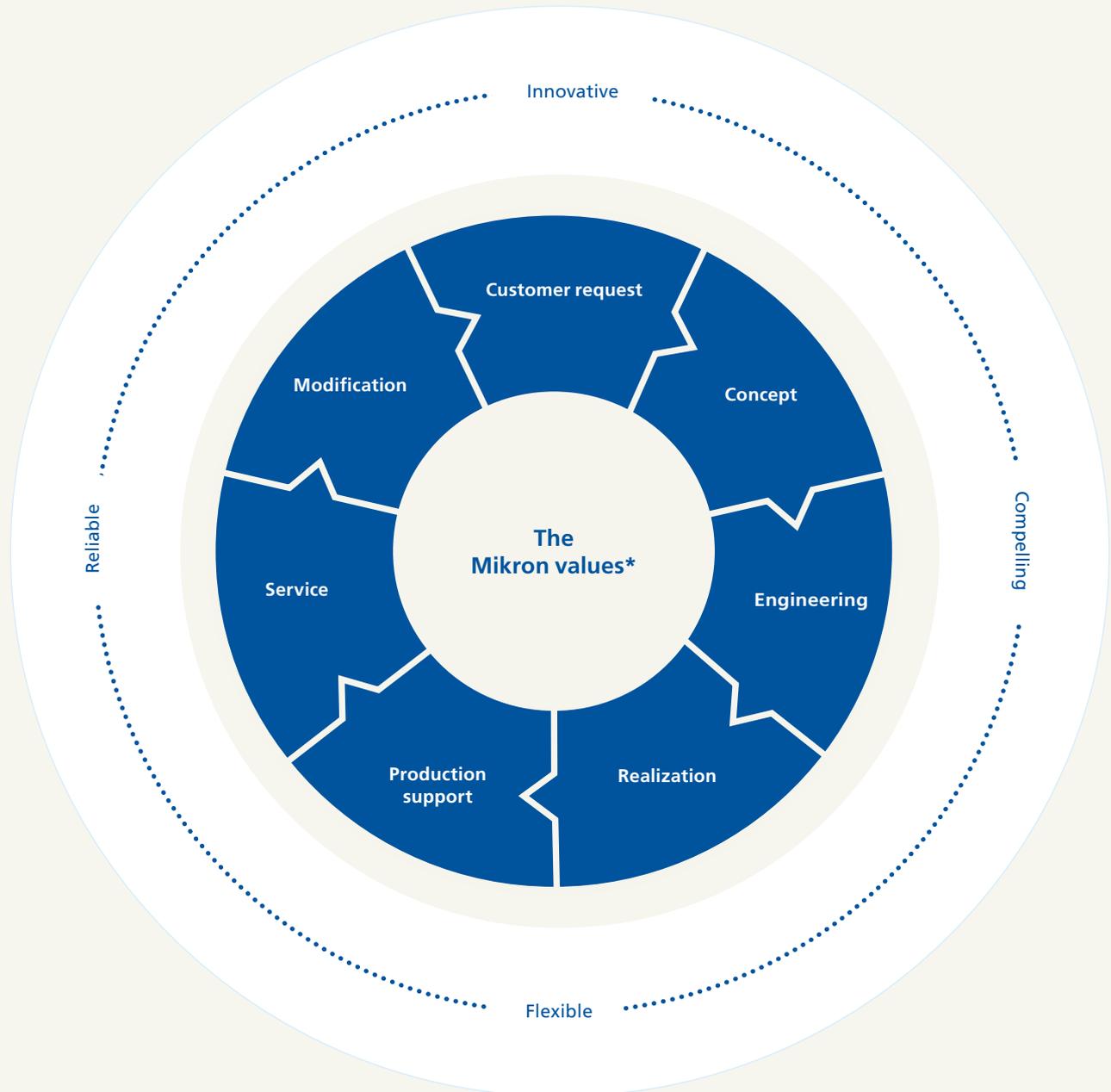
Mikron monitors and carefully evaluates the handling of strategic, financial and operational risks. The company also accounts for risks related to compliance as well as political and regulatory changes.

A holistic risk management process headed by the Group CFO ensures that risks with a potential impact on the business and financial situation and actions to mitigate those risks are regularly reviewed and presented to Group Management and the Board of Directors. The operation of the risk management process and the main risks are described in the Corporate Governance Report (page 51), while financial risk management is outlined in the Financial Report (pages 78 to 80).

## **Brand management**

The Mikron Group actively manages its umbrella brand and sub-brands. Both the Automation and Machining business segments attend trade fairs all over the world, where they present their range of systems, products and solutions. The Group also uses various brochures, a state-of-the-art website including videos, a YouTube channel and an iPhone/iPad application as brand management tools.

## The Mikron business model



### \*The Mikron values

#### 1 Skilled and motivated employees

Success is founded on skilled and motivated employees who are willing to take responsibility and work together constructively. Mikron employees overcome technical challenges through lively knowledge-sharing that results in intelligent, innovative, and high-performance production solutions for its customers.

#### 2 Market and customer focus

Mikron employees always focus on the needs of its customers, with the aim of establishing and cultivating long-term relationships with them. The Group excels in a competitive market, offering cost-effective and technically optimized solutions for the manufacture of high-precision products in large quantities.

#### 3 Focus on targets and results

The Mikron Group has well-defined, demanding quantitative and qualitative targets and devotes all its energy to achieving them. Each employee is aware of the targets – both their own and those of the company – and contributes to their achievement.

#### 4 Responsibility and role model function

The Group honors common agreements and takes responsibility. All employees see themselves as ambassadors of Mikron and show respect and loyalty towards their colleagues, customers and business partners. Employees of the Mikron Group talk to each other openly and honestly to keep one another informed.

#### 5 Quality

Quality is all-encompassing. Mikron employees work independently to the highest level of precision in order to meet all explicit and implicit requirements. The Group continuously improves its products and processes, and invests in new technologies and projects.

#### 6 Confidentiality

All employees are regularly informed of key developments by their line managers. Outside the company, they are very careful and restrictive with information, and ensure that only duly authorized people have access to information.



# Mikron Automation

## Mikron Automation

The Automation business segment witnessed a renewed year-on-year increase in sales as well as a further improvement in profitability in 2019. This was due in particular to encouraging developments in the pharmaceutical and medtech sectors, its main market.

### Business performance

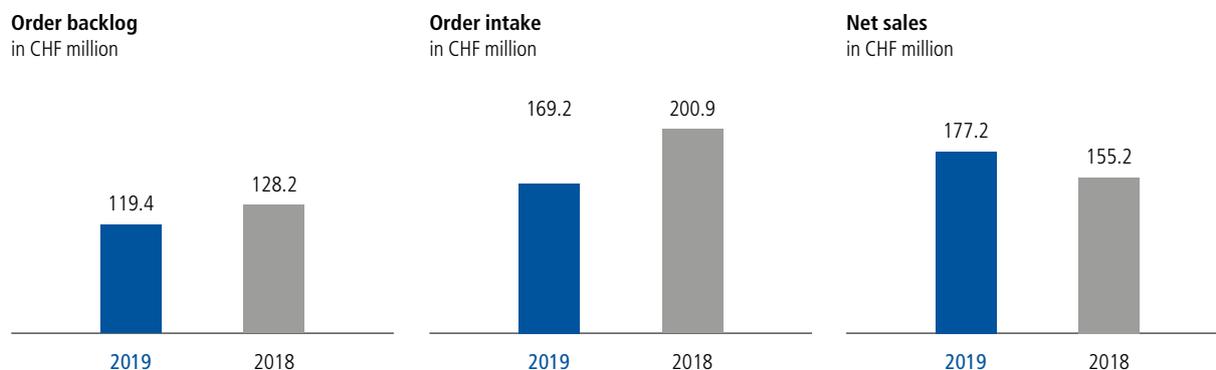
In the 2019 financial year as well, Mikron Automation's highly productive assembly systems continued to enjoy strong demand worldwide in its main market, comprising the pharmaceutical and medtech industries. In contrast, order intake from the automotive industry was well below the corresponding prior-year figure. The uncertainty prevailing in this sector also impacted Mikron Automation. Several projects were postponed, and prices came under greatly increased pressure. This was felt particularly acutely by the Berlin site, working exclusively for the automotive industry.

### Order intake and order backlog

Thanks to a solid pipeline of projects from 2018 at the decision stage, a number of major repeat orders from the pharmaceutical and medtech industries and several new orders from the European electronics industry, Mikron Automation was able to keep order intake at a healthy level despite a substantial fall-off from the automotive industry. Western Europe and the USA remain Mikron Automation's main geographic markets. Accounting for a share of around 80%, the pharmaceutical and medtech sectors assumed even greater weight as Mikron Automation's main market again in 2019. Overall, Mikron Automation achieved an order intake of CHF 169.2 million in 2019 (prior year: CHF 200.9 million, -15.8%).

With a level of CHF 119.4 million at the end of 2019 (end of 2018: CHF 128.2 million), the order backlog is still high and well distributed over various sites. The sharp increase in the volume of customer service orders is also reassuring. One important sales driver was the upgrade of control systems for older assembly lines for which spare parts are no longer available from the manufacturer. This upgrade significantly extends the useful life of the systems. Mikron Automation has also expanded its range of customer services, for example in supporting customers during the start-up phase of a new product.





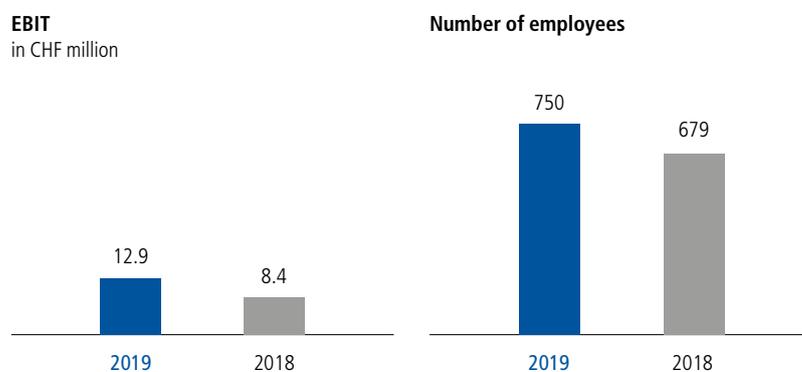
### Innovations and strategic projects

The Automation business segment pursued various development projects in the year under review, including several in close collaboration with EPFL (École Polytechnique Fédérale de Lausanne) and with various universities of applied sciences. All Mikron Automation sites are now engaged in innovation activities. The focus in the year under review was on Mikron Automation’s tried-and-tested platforms, the objective being complementary solutions that provide customers with fit-for-purpose, scalable options for smaller volumes, for product homologation (proof of principle) as well as for production start-up and during run-up.

In Boudry, Mikron Automation is planning a plant extension and modernization program to be completed in the next few years. With space for future growth, with an additional air-conditioned assembly hall for demanding, high-precision systems required by the pharmaceutical and medtech industries, and with an optimized layout – all serving the overriding goal of a further increase in quality and profitability. Mikron Automation is broadening vocational opportunities at the Boudry site with a new technician training program to follow on from the four-year multi-skilled mechanic apprenticeship. This program was launched by Mikron in close cooperation with the Canton of Neuchâtel. The new subsidiary in Kaunas, Lithuania was opened in September and had a staff of 14 employees at year-end.

### Employees

At the end of December 2019, Mikron Automation had a headcount of 750, up 10.5% on the prior year (679). The additional employees were largely deployed to handle the increased sales volume. Offering attractive job profiles, Mikron Automation was able to recruit well-qualified new employees at all its sites. In the year under review, Mikron Automation employed 56 apprentices overall. Mikron Automation has further expanded its in-house continuing development program by adding multi-site Group-wide training events for specific functional and leadership roles.



## Outlook

Mikron Automation is also beginning 2020 with a solid order backlog. Despite the global economic uncertainties, the business segment expects to see good capacity utilization levels and a continuing solid performance in anticipation of further encouraging developments in the pharmaceutical and medtech sectors, its main market. Demand from the automotive industry remains an uncertain factor.



# Mikron Machining Solutions

## Mikron Machining Solutions

The Machining Solutions business segment very clearly felt the decline in demand from the automotive industry in the 2019 financial year. This is particularly true of the machinery business. Despite an encouraging order backlog at the beginning of the year, the business segment suffered a year-on-year decline in sales.

### Business performance

The Mikron Machining Solutions business segment operates as two divisions, Mikron Machining and Mikron Tool. The Mikron Machining division began 2019 with a satisfactory order backlog overall. Despite a highly volatile market environment in the first half, demand was generally intact. The automotive industry saw a significant decline in demand already in the first half of the year. From August on, though, demand began to falter in the other market segments as well. The need for services remained at an encouraging level in the machinery business throughout the entire year under review. Overall, demand in the Machining division was disappointing, especially from mid-year onwards.

After the strong growth seen in the prior year, the Mikron Tool division started 2019 with a high order backlog and delivery times still long. As of early summer there was a visible fall-off in demand from the automotive industry. As numerous customers reduced their inventories and call-off obligations after the market overheated in 2018, tool orders decreased markedly and delivery times returned to normal. In other markets, including med-tech, aeronautics and watchmaking, demand for Mikron's high-tech tools continued to grow. Thanks in part to new products, the division generally maintained sales at the solid prior-year volume.

### Order intake and order backlog

The business segment posted order intake of CHF 119.4 million in 2019 (prior year: CHF 162.2 million, -26.4%). This substantial decline is attributable both to the lack of demand in the second half of the year in the volatile machinery business, as well as to lower demand volumes in the tool business compared to record year 2018. Mikron Tool significantly reduced delivery times thanks to investments in new production resources and through the recruitment of additional skilled personnel. By expanding the range accordingly, Mikron Tool increased the share of standardized tools.

The segment reported a year-end order backlog of CHF 38.1 million, which was considerably below the figure for 2018 (CHF 68.0 million, -44.0%). As a result, Mikron Machining introduced short-time working and reduced its headcount for machinery operations

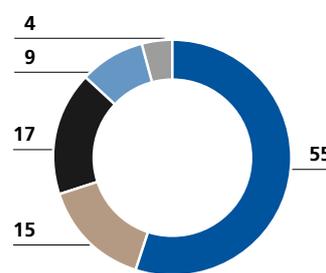
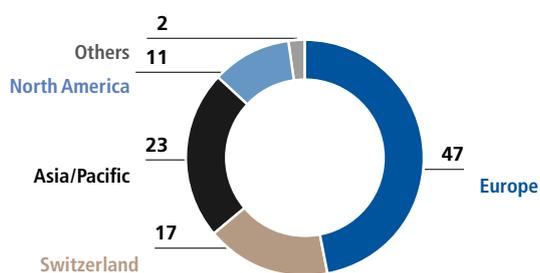
2019

2018

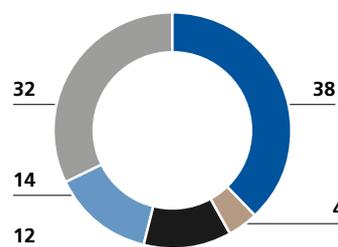
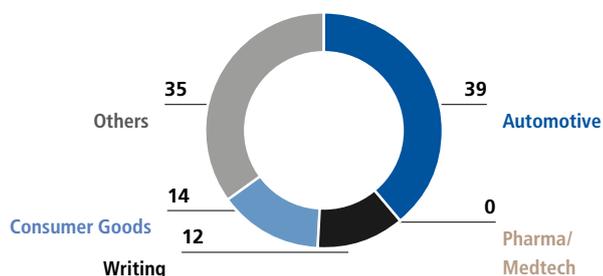
CHF 151.5 million

CHF 160.3 million

Sales



By region  
in %

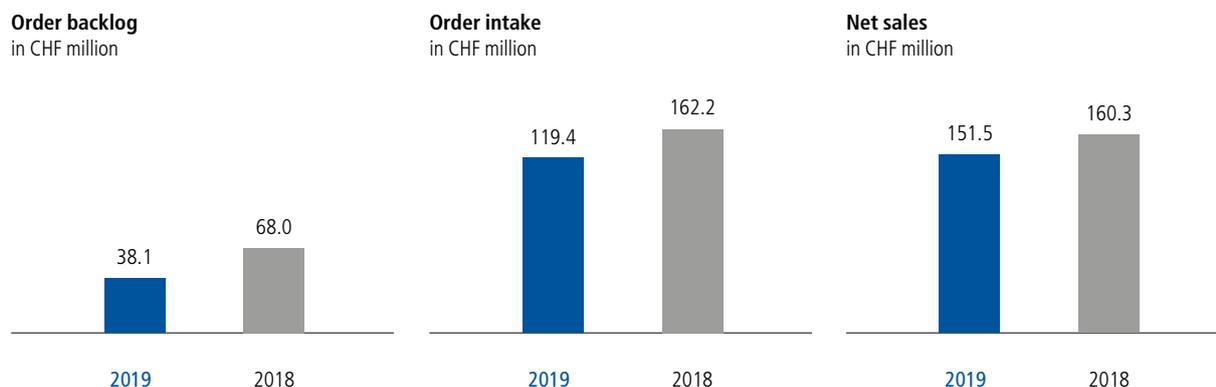


By industry  
in %

at the Agno site already in November 2019. The order backlog at Mikron Tool is also below the previous year's high volume, prompting the division to follow suit and adjust capacity, including downsizing the temporary workforce as well as introducing short-time working in some areas at the German site at the end of 2019.

### Sales and EBIT

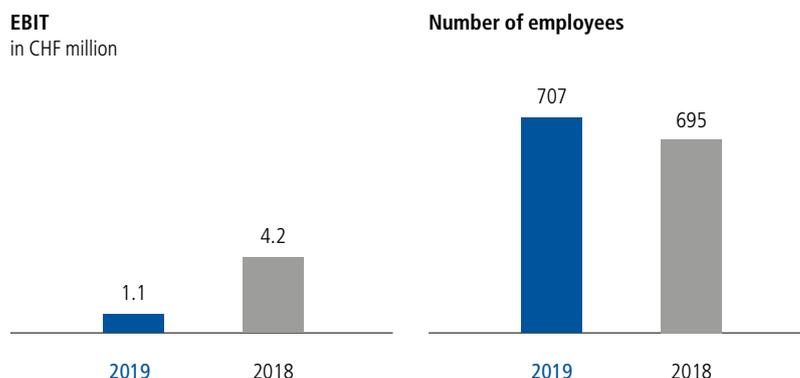
In the year under review, the business segment reported sales of CHF 151.5 million (prior year: CHF 160.3 million). Of this, 17% came from Switzerland, 30% from Germany, 19% from China and 11% from the USA. The segment's EBIT fell from CHF 4.2 million in 2018 to CHF 1.1 million, with the tools business achieving a pleasing result overall.



### Innovations and strategic projects

During the year under review, Mikron Machining pressed further ahead with innovation projects in all three production areas – machining centers, rotary transfer machines, and services. A crowd-puller at the EMO, the Mikron MultiX – a newly developed platform in the rotary transfer machine range – was awarded the trade show’s first prize for innovations in the machine tool category. The Mikron 6x6 product platform again attracted a lot of interest at the EMO Hanover. In the meantime initial deliveries of machining centers have been made to customers. The completely overhauled Mikron Multistar CX-24 impressed, as reflected in the healthy sales numbers over the year. In the services area, Mikron Machining made further headway with the successive integration of Industry 4.0 technologies and related features into machines already in operation. Working closely with customers in the watchmaking and electronics industries, Mikron Machining also developed innovative solutions slated for implementation in the coming years.

2019 was a year of intense development for the Mikron Tool division too, as it expanded its range of tools for machining stainless steels and heat-resistant alloys. Among the interesting new products for drilling and milling presented by Mikron Tool at the EMO was the CrazyDrill Cool SST-Inox, the world’s most efficient drill for materials of this type. Hex-lobe tools, developed especially for the medtech sector, will allow Mikron Tool to establish an even stronger footing in this industry in the future. Further close collaboration with the world’s largest machine tool manufacturer during the year under review will help make this happen.



## Employees

At the end of 2019, Mikron Machining Solutions employed a total of 707 people (prior year: 695 employees). Minor readjustments were made at individual sites. Towards the end of the year, personnel capacity reduction started in both divisions, with Mikron Machining having to terminate staff in individual cases. In the past, Mikron Tool has been engaged in expanding distribution and building up production know-how. The division is looking to see a recovery in demand for tools in the second half of 2020 and so has retained this capacity.

The business segment continues to attach a lot of importance to giving young people access to careers in industrial production so that the required knowledge can also be safeguarded from within the company, both globally and in the long term. In the year under review, Mikron Machining Solutions employed a total of 57 apprentices and trainees. What is more, the business segment provides comprehensive systematic training and development for its specialists and managers.

## Outlook

Mikron Machining Solutions is facing major challenges in 2020. Demand from the automotive industry is very difficult to gauge, with the sector's machinery demand likely to remain low in 2020. The Mikron Machining division's priority is to go all out to establish its new product platforms in the markets and, in particular, to leverage any opportunities in the electronics and watchmaking market segments, as well as to initiate novel projects from the automotive industry. On the strength of the new tools, the Mikron Tool division is predicting an increase in volume in the medtech, aeronautics, power generation and watchmaking industries and is expecting demand from the automotive industry to recover in the second half of the year.



# Corporate Governance Report

## 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 1 January 2016 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

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/ISIN CH0003390066) and on 31 December 2019 had a market capitalization of CHF 113.0 million. The Mikron Group is organized by segments. For the purposes of reporting, two business segments and the Corporate Service organization have been identified.

The segments are structured according to market, 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. Among other things, the Corporate Service reports the income and expenditure related to an industrial property that is not required for operations and is rented out to third parties.

The Mikron Group consists of 13 active companies worldwide. The corporate structure and the companies are listed on page 119 of the Annual Report. 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 31 December 2019, hold 3% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2019		31.12.2018	
	Number of shares of CHF 0.10 par value each		Number of shares of CHF 0.10 par value each	
Ammann Group Holding AG	6,992,335	41.8%	6,958,335	41.6%
Rudolf Maag	2,348,588	14.1%	2,348,588	14.1%
Veraison SICAV	0	0.0%	1,199,048	7.2%
Public shareholders	7,175,666	42.9%	6,052,228	36.2%
Board of Directors and Group Management	196,155	1.2%	154,545	0.9%
<b>Total</b>	<b>16,712,744</b>	<b>100.0%</b>	<b>16,712,744</b>	<b>100.0%</b>

Further information on the corporate structure is given on page 119. Changes in significant shareholdings since 1 January 2019 have been communicated to SIX Stock Exchange in accordance with regulations and published on the following website:

<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html>

## Cross-shareholdings

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

## Capital structure

### The Mikron Group's capital as at 31 December 2019

	Registered shares	Par value in CHF	Total in CHF
Ordinary capital	16,712,744	0.10	1,671,274.40

### Changes in capital over the last three years

		Number of shares	Par value in CHF	Ordinary capital in CHF
2017	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40
2018	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40
2019	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	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 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. All shares have equal dividend rights.

## **Participation and dividend right certificates**

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

## **Limits on transferability and nominee registrations**

Persons acquiring registered shares shall on application be entered in the share register without limitation as shareholders with voting rights, provided they expressly declare themselves to have acquired the said shares in their own name and for their own account.

Nominees shall be entered in the share register with voting rights without further inquiry up to a maximum of 3% of the outstanding share capital available at the time. Above this limit, registered shares held by nominees shall be entered in the share register with voting rights only if the nominee in question at the application for registration, or thereafter upon request by the Company, makes known the names, addresses and shareholdings of the persons for whose account he is holding 0.3% or more of the outstanding share capital available at the time. 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 intent to evade the entry restriction are considered as one shareholder or nominee.

The Company may in special cases approve exceptions to the regulations in the Articles of Association. After due consultation with the persons concerned, the Company is further authorized to delete entries in the share register as shareholder with voting rights with retroactive effect if they were made on the basis of false information or if the respective person does not provide the requested information.

## **Convertible bonds and options**

There are no convertible bonds or options outstanding.

## **Board of Directors**

### **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 31 December 2019:



**Heinrich Spoerry**  
lic. oec., MBA.  
Swiss, born in 1951.  
Chairman, non-executive.  
First elected 2001,  
elected until 2020.

From 1987 to 1995 Heinrich Spoerry was a member of the Executive Board of Staefa Control Systems AG. From 1996 to 1998, he held a seat on the Executive Board at Cerberus AG, a subsidiary company of Staefa Control. Heinrich Spoerry then became Chairman of the Board of Directors and CEO (until 31 December 2015) of the SFS Group in Heerbrugg. He currently serves as chairman. He is a member of the Board of Directors of Bucher Industries AG and of Frutiger AG. Heinrich Spoerry has been a member of Mikron's Board of Directors since 2001 and its Chairman since 2010.



**Eduard Rikli**  
Dipl. Ing. ETH,  
Dr. sc. techn. ETH.  
Swiss, born in 1951.  
Vice-Chairman,  
non-executive.  
First elected 2010,  
elected until 2020.

After many years in various managerial positions at the Sulzer Group, Eduard Rikli – as a member of the Executive Board – headed the Sulzer Services and Equipment division from 2000 to 2001 and the Sulzer Metco division from 2001 to 2003. He was CEO of Mikron from 2004 to 2009. In 2010, Eduard Rikli was appointed to the Board of Directors and was elected Vice-Chairman. He is Chairman of the Board of Directors of Brüttsch/Ruegger and is also a member of the Board of Directors of a number of SMEs. Eduard Rikli also sits on the Board of Trustees of Technopark Zurich and Technorama.



**Patrick Kilchmann**  
Dipl. phys. ETH,  
lic. oec. HSG.  
Swiss, born in 1958.  
Member, non-executive.  
First elected 2011,  
elected until 2020.

Patrick Kilchmann was a member of the Executive Board of Sulzer AG, Winterthur from 1999 to 2002. Since 2002 Patrick Kilchmann has held several management positions, most recently Head of Group Services and member of the Executive Board of the Ammann Group, Langenthal. He chairs the Board of Directors of Ammobilien AG, Langenthal and is a member of the Board of Directors of Transmission Technology Holding AG, Zug, selfrag AG, Kerzers and Landert Motoren AG, Bülach.



**Andreas Casutt**  
Dr. iur., LL.M.  
Swiss, born in 1963.  
Member, non-executive.  
First elected 2013,  
elected until 2020.

Andreas Casutt joined the law firm Niederer Kraft Frey AG in Zurich in 1993 and was made a partner in 2002. He served as the firm's managing partner from 2006 to 2014. His practice focuses on corporate law, contract law, mergers & acquisitions and stock exchange law. Andreas Casutt studied law and received his Ph.D. from the University of Zurich (Switzerland) and completed an LL.M. program at the University of Michigan, Ann Arbor (USA). He is Chairman of the Board of Directors of Siegfried Holding AG as well as various privately held companies including maxon motor ag and Bendura Bank AG.



**Hans-Michael Hauser**  
MSc Physics, MSc Mathematics, Engineer, MBA.  
German, born in 1970.  
Member, non-executive.  
First elected 2016,  
elected until 2020.

Hans-Michael Hauser worked for the Boston Consulting Group (BCG) as Partner and Managing Director in Munich and Zurich from 1995 to 2015. In this function he was responsible for establishing and expanding BCG's consultancy business in the industrial and technology segment amongst other tasks. Since 2015, he has been helping companies to develop and launch digital business models through ML Insights AG, the company he founded himself. Furthermore, he is a member of the Board of Directors of Meyer Burger Technology AG, Chairman of the Board of privately held Q Point AG, Langenthal and Member of the Board of a number of SMEs.



**Paul Zumbühl**  
Dipl. Ing., MBA, AMP.  
Swiss, born in 1957.  
Member, non-executive.  
First elected 2018,  
elected until 2020.

From 1988 to 1994 Paul Zumbühl held several management positions and was Managing Director of Sarna Group, Switzerland. From 1994 until the end of 1999 he was Head of the Mikron Plastics Technology division and a member of Group Management of the Mikron Group. He has been CEO of the Interroll Worldwide Group since January 2000. Paul Zumbühl is also Chairman of the Board of Directors of Schlatter Industries AG, Schlieren/Zurich.

### **Elections and terms of office**

Pursuant to the Articles of Association, the Board of Directors shall consist of a minimum of three and a maximum of seven members. The term of office shall correspond to the legally permitted maximum term of one year and shall last until the end of the next Annual General Meeting. Re-election is possible provided the relevant member has not reached the age of 70.

If the office of the Chairman of the Board of Directors is vacant, the Remuneration Committee is not complete, or the Company does not have an Independent Proxy, the Board of Directors shall appoint a substitute for the period until the conclusion of the next Annual General Meeting who – with the exception of the Independent Proxy – must be a member of the Board of Directors.

### **Duties**

The duties of Mikron Holding AG's Board of Directors are defined in the Swiss Code of Obligations, the Articles of Association ([www.mikron.com/aoa](http://www.mikron.com/aoa)) and the Organizational Rules ([www.mikron.com/or](http://www.mikron.com/or)). The procedures of the committees are also set out in the Organizational Rules. The Organizational Rules are reviewed annually after the Annual General Meeting ([www.mikron.com/or](http://www.mikron.com/or)).

The Board of Directors is entrusted with the ultimate direction of the Company as well as the supervision of the Management. It represents the Company towards third parties and attends to all matters which are not delegated to or reserved for another corporate body of the Company under the law, the Articles of Association or the regulations. It issues guidelines on corporate policy and keeps itself informed about the course of business.

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

- To ultimately direct the Group and issue the necessary directives; namely, to develop the Group's strategic objectives and determine the means of achieving these objectives, to set out the business policy, establishment, acquisition, disposal and liquidation of subsidiaries, mergers and de-mergers
- To determine the Group's organizational structure and to approve the Code of Business Conduct
- To organize the accounting, the internal control system (ICS), the financial control and the financial planning as well as to perform a risk assessment
- To appoint and recall persons entrusted with the management and representation of the Company and to grant signatory powers
- To ultimately supervise the persons entrusted with the management of the Group, in particular with respect to compliance with the law, the Articles of Association, and other regulations and directives
- To prepare the business report as well as the General Meeting and to implement the latter's resolutions
- To prepare the compensation report
- To inform the judge in the event of over-indebtedness
- To pass resolutions regarding the subsequent payment of capital with respect to non-fully paid-in shares
- To pass resolutions confirming increases in share capital and regarding the amendments to the Articles of Association entailed thereby
- To examine compliance with the legal requirements regarding the appointment, election and the professional qualifications of the auditors
- To execute agreements pursuant to Art. 12, 36 and 70 of the Merger Act.

In addition, the Board of Directors is assigned the following significant duties and competencies under the Organizational Rules ([www.mikron.com/or](http://www.mikron.com/or)):

- Decisions on the annual budget and the medium-term planning
- Decisions concerning the purchase and sale of land and real estate for sums in excess of CHF 3 million, as well as rental agreements involving an obligation of CHF 3 million until the first opportunity to terminate
- Decisions on sureties and pledges of more than CHF 5 million
- Decisions on restructuring of subsidiaries with expected costs, subordination or write-off of loans exceeding CHF 1 million
- Decisions on investments/disposals of production and IT equipment of more than CHF 2 million if budgeted and CHF 1 million if not budgeted
- Decisions on internal developments of more than CHF 2 million
- Granting of loans to corporate bodies, employees and third parties of more than CHF 0.25 million in any individual instance

The duties of the three committees of the Board of Directors are described in more detail in the appropriate sections below.

The Board of Directors delegates all management duties to Group Management to the extent permitted by law and by the Articles of Association. The Organizational Rules contain details related to the delegation of competencies.

### **Procedures**

The Board of Directors convenes as often as business requires but at least once every quarter. During the 2019 business year, the Board held seven meetings as well as one teleconference. The physical meetings lasted between three and nine hours, and the teleconference about one hour. Except for one meeting held at short notice, where two members were not attending, all meetings of the Board of Directors in the year under review were attended by all members.

Approval of the annual financial statements and preparation for the Annual General Meeting normally take place at the first meeting of the year, while the budget and – if applicable – the updated medium-term planning are approved at the final meeting of the year.

The members of Group Management attended all physical meetings.

The members of the Board of Directors generally receive documentation five working days prior to meetings, allowing them to be properly prepared to discuss the items on the agenda.

The Board of Directors is deemed quorate when an absolute majority of its members is present. Participation via tele/videoconference is regarded as being present. For resolutions concerning confirmation of the successful completion of a capital increase and any ensuing amendment to the Articles of Association, the Board of Directors is deemed quorate when only one member is present.

The Board of Directors adopts resolutions and conducts elections based upon a majority of the votes cast, irrespective of abstentions. In the event of a tie, the Chairman has the casting vote. At the Chairman's request or, in his absence, that of the Vice-Chairman, resolutions of the Board of Directors may also be adopted by circular in the form of a letter, fax or e-mail, unless any member requests that the matter be discussed at a meeting.

## **Committees**

Three committees were set up to support the Board of Directors: the Audit Committee, the Remuneration Committee and the Innovation 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 urgent matters immediately.

### **Audit Committee**

The Audit Committee assists the Board of Directors in its overall supervisory role, specifically with regard to the completeness of financial statements, compliance with statutory provisions, evaluating the qualifications of the external auditors and the performance of internal and external auditors.

In particular, the Audit Committee shall conduct the following activities:

- To maintain a comprehensive and efficient audit concept and internal control system (ICS) for Mikron Holding AG and the Mikron Group
- To rate the external and internal auditors in terms of their independence, qualifications and (mandate-related) experience of their employees and to make a proposal to the Board of Directors regarding the election of external and internal auditors
- To assess the systems and scope of the audit approach, as well as the content, clarity and timely completion of reports
- To approve the key audit areas, to review the audit results, to supervise the rectification of any weaknesses identified
- To approve the budget for the external and internal audit activities and non-audit related services of the external auditor exceeding CHF 0.1 million annually
- To monitor compliance with the accounting principles and financial control mechanisms and to regularly examine the Group's risk matrix; to implement measures decided in relation to key risks
- To evaluate and submit proposals to the Board of Directors regarding the approval of the annual and semi-annual reports of Mikron Holding AG and the Mikron Group.

The Audit Committee's decisions are subject to approval by the full Board of Directors.

The members of the Audit Committee in the year under review were the Board members Andreas Casutt (Chairman) and Eduard Rikli. The Audit Committee meets two to five times each year. Three meetings were held in the 2019 business year, each lasting two to five hours. All members attended the meetings. The Chairman as well as the CFO and CEO (if needed) on behalf of Group Management attended the meetings in a consultative capacity. Representatives of the internal auditors and of the external auditors were invited to the meetings as required. The external auditors were partially present at two meetings.

At its first meeting of the year, the Audit Committee normally assesses the annual financial statements in the presence of the external auditors. The summer meeting usually approves the external auditors' audit plan and assesses internal audit reports. At its autumn meeting, if not postponed to the next meeting, the Committee is above all informed of the status of the internal control system (ICS) and the internal audit plan for the following year. The December meeting focuses on discussing the interim reports of the external auditors as well as the risk matrix and the upcoming year-end close.

### Remuneration Committee

The General Meeting elects individually at least two but no 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 shall be one year and shall end at the next Annual General Meeting. Re-election is possible.

Subject to and within the scope of the overall compensation approved 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, both as set out below.

The Remuneration Committee has the following duties:

- To submit proposals to the Board of Directors regarding the compensation scheme of the Mikron Group and to issue corresponding regulations (details are given on pages 60 to 64)
- To propose to the full Board of Directors targets for Group Management
- To submit proposals to the full Board of Directors regarding 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
- To determine, subject to and within the scope of the overall compensation approved by the General Meeting, the individual compensation (fixed, variable and long-term compensation) of the other members of the Executive Management as well as their further terms of employment and titles
- To propose to the full Board of Directors amendments to the Articles of Association with respect to the compensation scheme for members of Group Management.

The members of the Remuneration Committee in the year under review were the Board members Patrick Kilchmann (Chairman) and Andreas Casutt. The Remuneration Committee meets one to five times each year, usually in December and after the results for the financial year have been prepared. Three meetings were held in the 2019 business year and were attended by both members. The meetings lasted about two hours. The members of Group Management may be invited but have no right of participation or co-determination on this Committee.

### Innovation Committee

The Innovation Committee reviews planned and ongoing strategic projects at divisional or group level that aim at modifications or extension of the product offering. In this regard, the committee supports the Board of Directors in its task to focus in a timely manner on the decisive entrepreneurial and technical aspects. The Innovation Committee acts as a review board and provides the Management of Mikron Group with specific advice.

The two main strategic development projects of Mikron Machining are supervised by the CEO and the two delegated members of the Board, Eduard Rikli and Hans-Michael Hauser, in the respective Supervisory Boards. The Supervisory Boards meet on a bi-monthly basis and replace the activity of the Innovation Committee until conclusion of these development projects.

### **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:

- Income statement and financial key performance indicators are reported on a monthly basis, while full financial statements (income statement, balance sheet and cash flow statement) are prepared quarterly. These figures are consolidated at Group, business segment and legal entity level. They are compared against the prior-year figures, the monthly budget and the forecast, which is revised on a quarterly basis, then sent to the Board of Directors following discussion within Group Management.
- Within the same structure, a medium-term plan spanning three years is prepared every two to three years in addition to the budget and both are presented to the Board of Directors for approval.
- Each month, the heads of the three divisions report to the CEO and CFO at the business review meeting on the operating performance, the status of sales activities and the progress on plans to increase profits and implement strategy. These reports are presented in summary form at meetings of the Board of Directors.
- By request, other managers from outside Group Management and external consultants will attend meetings of the Board of Directors and Group Management to report on their areas of responsibility or special projects.
- Between the meetings of the Board of Directors, internal and external reports are submitted in advance to the Board of Directors.
- A risk matrix is drawn up in the divisions based on a Group template and updated at least once a year. It quantifies risks based on their likelihood of occurrence and the potential impact on the Group's EBIT. A consolidated matrix is reported to the Board of Directors once a year. It notes the report and approves control measures in relation to the key risks. The operational risks are normally discussed once a month at Group Management meetings. Group Management reports major emerging risks to the Chairman of the Board of Directors immediately.
- The Audit Committee meets regularly with the CFO, the external auditors and the internal auditors. It coordinates the work of the auditors and receives their reports as well as those of the CFO. Ernst & Young has been given a mandate to perform the internal audit function and is supported in executing the audits by Group Finance & Controlling.
- Group Management attends the meetings of the Board of Directors.
- The Chairman of the Board of Directors periodically attends Group Management meetings and holds discussions with the individual members of Group Management.

Group Management must notify the Chairman of the Board of Directors immediately when significant unanticipated developments occur. The members of the Board of Directors may request additional information from members of Group Management.

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

## Risk Management

The Mikron Group applies a consistent Group-wide risk assessment system which covers strategic, financial, and operational risks. All identified risks are given a rating (based on the probability of occurrence and the extent of potential losses) and recorded in a risk inventory. Based on this risk inventory, the Board of Directors conducts a review, at least once a year, of whether the risk governance and reduction measures in place are adequate for the company's needs. Ongoing monitoring of the risk inventory is the responsibility of Group Management. In addition, accounting and financial reporting risks are monitored and reduced through a suitable internal control system.

### Key risk factors

- Mikron operates in highly cyclical markets resulting in a volatile order intake and capacity utilization. Market fluctuations may result from numerous factors beyond the influence of the Group. By offering a diversified product portfolio and operating in different regions and markets, the Group tries to mitigate these risks.
- Mikron is committed to engineering and delivering highly productive and precise machining and automation solutions which usually include a combination of complex technologies and processes. The Group may agree to product specifications, quality and delivery times that are difficult to achieve in certain cases. Non-compliance with contractual requirements or specifications may amount to a material breach of contractual obligations, which may lead to payment of damages or contractual penalties or, in some cases, even the termination of the contract. Strong sales processes and project management are the key to mitigating this risk. Close cooperation and transparent communication with customers make it possible to quickly identify problems and correct them.
- The Group invests significantly in R&D while the development and industrialization of new products takes several years. Changing markets or customer requirements as well as failure of innovations may lead to obsolete products, missed opportunities or even losses. The Group systematically assesses long-term economic and technical trends in all its relevant markets and takes these into consideration when approving innovation and investment programs.

## 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 members of Group Management. Group Management comprises the CEO, the CFO and the head of the Automation segment.

The Group's Organizational Rules set out the rights and duties of the Board of Directors and Group Management and describe in detail how these cooperate.

### Group Management

Group Management is responsible for the management of the Group insofar as this task has not been assigned under the law, the Articles of Association or the Organizational Rules to any other corporate body.

It 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 discussion and approval.

Group Management regularly reports to the Board of Directors on current business developments, anticipated opportunities and risks, as well as changes at lower management levels. (See "Information and control instruments vis-à-vis Group Management.")

### Chief Executive Officer (CEO)

The CEO is the Chairman of Group Management and responsible for the executive management of the Mikron Group.

Furthermore, the CEO submits proposals to the Board of Directors for its decision on the annual budget (consolidated and for the holding company), individual key matters that exceed a certain financial scale (see "Duties of the Board of Directors") as well as separate and consolidated financial statements.

The CEO assists the Chairman of the Board of Directors in preparing for the meetings of the Board of Directors and is responsible for the administrative leadership of Group Management meetings. He is responsible for ensuring that meetings are minuted.

The CEO establishes and monitors profitability targets and submits to the Remuneration Committee proposals concerning the compensation of the members of Group Management.

### Chief Financial Officer (CFO)

The CFO reviews compliance with the Articles of Association, the Organizational Rules and the signatory authority rules and proposes amendments to the CEO or the Board of Directors should they become necessary.

The CFO manages the Group's strategic planning process, as well as its medium-term planning, budgeting and forecasting process, and is responsible for internal and external financial reporting.

He heads Group Treasury and Corporate Communication and leads M&A activities, corporate finance projects and the Group's risk management.

The Group's IT function reports to the CFO.

### Business segment heads

The business segment heads manage their respective business in accordance with the Organizational Rules, as well as the budget and strategy approved by the Board of Directors. They are responsible for ensuring that their business segment achieves its operational and strategic targets. Purchasing, Production and Sales are organized along segmental lines and report to the business segment heads.

The following table provides information on each of the members of Group Management as at 31 December 2019:



#### **Bruno Cathomen**

Dipl. Ing. ETH  
Swiss, born in 1967  
Group CEO, Head of Mikron  
Machining Solutions  
Joined 2009

Bruno Cathomen assumed the office of the CEO of Mikron Group with effect from 1 October 2011, in addition to heading the business segment Mikron Machining Solutions since October 2009. He spent the eight years before he joined Mikron with Elcoteq Network Corporation, most recently as Vice-President of Communications Networks. Prior to this he held a number of posts at ABB. Bruno Cathomen is a member of the Swissmem specialist group "Machine tools and manufacturing technology", a delegate of Swissmem and Chairman of the communication and advocacy at the European association CECIMO. He also sits on the Board of Trustees of the sfb Bildungszentrum für Technologie und Management.



#### **Rolf Rihs**

Dipl. Ing. ETH  
Swiss, born in 1963  
Head of Mikron Automation  
Joined 2002

Rolf Rihs took over as head of the Mikron Automation business segment 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. Rolf Rihs is a member of the Swissmem specialist group "Assembly and factory automation".



#### **Javier Perez Freije**

Dr. oec., dipl. Wirt. Ing.  
Spanish, born in 1975  
Group CFO  
Joined 2018

Javier Perez Freije joined the Mikron Group as its Chief Financial Officer in mid-2018. His previous positions include Head of Controlling for a division of the Swiss industrial group Rieter, CFO of the American business unit of the Swiss automotive supplier Autoneum, and CFO of Netstal-Maschinen AG.

### Management contracts

There are no management contracts.

## Compensation

### Basic principles

The basic principles of the compensation policy are stated in the Articles of Association.

The members of the Board of Directors receive a fixed basic fee, a lump sum compensation for expenses and are granted a fixed number of shares that are determined by the full Board of Directors based on the proposal of the Remuneration Committee and subject to and within the limits of the aggregate amounts approved by the General Meeting.

The members of the Board of Directors providing consulting services to the Company or other Group companies in a function other than as members of the Board of Directors may be compensated in cash at standard market rates, subject to approval by the General Meeting.

The members of Group Management receive a fixed compensation, a lump sum for expenses as well as a short-term incentive bonus in cash and a long-term incentive in blocked shares.

No additional compensation shall be awarded for activities in companies that are directly or indirectly controlled by Mikron Holding AG.

No loans may be granted to members of governing bodies. Individuals have no right to say when the Remuneration Committee and/or the Board of Directors are to address the matter of their compensation.

Further information on the compensation paid to members of the Board of Directors and Group Management can be found in the Compensation Report on pages 60 to 64.

### Additional amount of compensation for new members of Group Management

With respect to any member joining Group Management or being promoted within Group Management during the period for which the General Meeting has already approved the overall compensation of Group Management, the Company and its subsidiaries are entitled to pay an additional amount of compensation for that period provided that the approved aggregate compensation does not prove sufficient. The General Meeting does not vote on this additional amount.

The additional amount of compensation may not surpass CHF 1,000,000 for all new members during each compensation period.

Within this additional amount of compensation, the Company can award a joining bonus to compensate a new member of the Executive Management for disadvantages in connection with the change of employment. If the additional amount of compensation is not sufficient to compensate for the disadvantages, the exceeding portion of the joining bonus must be approved by the next Annual General Meeting.

### Resolutions

Each year, the General Meeting votes separately on the proposals of the Board of Directors regarding the aggregate amounts of:

1. the compensation of the Board of Directors for the term of office until the next Annual General Meeting;
2. an additional compensation of the Board of Directors for the preceding business year;

3. the maximum overall compensation of Group Management (fixed and performance-based components) that may be paid in the subsequent business year;
4. the allocation of a number of shares to the members of Group Management for the subsequent business year as per the long-term incentive plan;
5. possible additional compensation payable to the members of Group Management for the preceding business year.

The Board of Directors may submit proposals to be approved by the General Meeting regarding (i) compensation or compensation components for other periods and/or (ii) additional amounts for certain compensation components.

If the General Meeting does not approve the proposed aggregate amount, the Board of Directors may make a new proposal at the same General Meeting. If the Board of Directors does not make a new proposal, it may either convene a new General Meeting and make new proposals for approval or may submit the proposals regarding compensation for retrospective approval at the next Annual General Meeting.

The General Meeting may cast an advisory vote on the compensation report issued by the Board of Directors.

### Permitted additional activities

The members of the Board of Directors may perform the following additional functions in the senior management or administrative bodies of legal units obliged to register themselves in a Swiss commercial register or a foreign equivalent thereof and which are not controlled by the Company, do not control the Company or do not constitute pension funds insuring employees of the Mikron Group:

1. up to 5 mandates as member of the Board of Directors or of any other senior management or administrative body of publicly traded companies pursuant to Art. 727 para. 1 section 1 CO; and, in addition,
2. up to 10 mandates as member of the Board of Directors or any other senior management or administrative body of companies pursuant to Art. 727 para. 1 number 2 CO; and, in addition,
3. up to 20 mandates as member of the Board of Directors or any other senior management or administrative body of legal entities that do not meet the above-mentioned criteria.

Subject to the approval of the Chairman of the Board of Directors, the members of Group Management may perform the following additional functions in the senior management or administrative bodies of legal entities which are required to be entered in a Swiss commercial register or a foreign equivalent thereof and which are not controlled by the Company, do not control the Company or do not constitute pension funds insuring employees of the Mikron Group:

1. up to 2 mandates as member of the Board of Directors or any other senior management or administrative body of publicly traded companies pursuant to Art. 727 para. 1 section 1 CO; and
2. up to 3 mandates as member of the Board of Directors or any other senior management or administrative body of companies pursuant to Art. 727 para. 1 number 2 CO; and
3. up to 5 mandates as member of the Board of Directors or any other senior management or administrative body of other legal entities that do not meet the above-mentioned criteria.

With respect to the additional activities of both the members of the Board of Directors and of Group Management, mandates in legal entities that are under uniform control or have the same beneficial owner(s) are deemed one mandate.

## **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 or reverse entry in the share register if the applicant supplies false information regarding his or her person or his or her entitlement to the shares or if, when acting in a fiduciary capacity, he or she supplies no information or false information regarding the person of the trustor.

### **Shareholders' rights**

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

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

Mikron does not impose any voting-right restrictions, except for nominees (see page 44).

Shareholders who are unable to attend the General Meeting in person may appoint the independent proxy or someone else as their proxy by giving him/her written authorization to represent them. Shareholders have the option of appointing the independent proxy online until two days before the General Meeting. The Board of Directors determines the requirements regarding proxies and voting instructions.

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

Notice of the General Meeting is given by publication in the Swiss Official Gazette of Commerce at least 20 days before the date of the meeting as well as by post or e-mail if the address of the shareholders is recorded in the share register. The notice states the day, time and place of the meeting, the agenda, the proposals of the Board of Directors and the proposals of the shareholders who have requested the General Meeting or that an item be included on the agenda. The notice in the Swiss Official Gazette of Commerce shall state at least the day, time and location and also where the agenda and items can be inspected.

One or more registered shareholders that individually or jointly represent ten percent of the registered share capital of the Company may request the Board of Directors to place items on the agenda. Such requests must be submitted to the Chairman of the Board of Directors at least 45 days before the date of the General Meeting and shall be in writing, specifying the items and the proposals.

### **Entries in the share register**

For three days before the General Meeting, up to and including the day of the General Meeting, no entries will be made in the share register.

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

The 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 ([www.mikron.com/aoa](http://www.mikron.com/aoa)) specify otherwise. Abstentions, empty votes or invalid votes will not be taken into account for the calculation of the required majority.

## **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 conduct their audit in accordance with Swiss law and Swiss auditing standards.

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 2015 business year, Norbert Kühnis, as lead auditor, has been responsible for the mandate.

### **Auditing fees and additional fees**

In the 2019 business year, fees of CHF 367,000 for services rendered by PwC in connection with auditing the 2019 annual financial statements and the compensation report of Mikron Holding AG and its subsidiaries and the consolidated financial statements of the Mikron Group were expensed.

The fee budget for the external auditors is assessed by the Audit Committee and based on empirical figures from the previous year, comparisons with similar listed companies and the audit scope considered necessary by the auditors.

Additional fees of CHF 24,000 were paid to the auditors in the year under review for non-audit-related services (tax consulting).

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

The Audit Committee of the Board of Directors takes note of the audit plan and approves the key audit areas for the current year. The Audit Committee is notified in writing of the results of the interim audits. The external auditors inform the Audit Committee and the Board of Directors verbally and in writing of their work and the results of the audit of the annual financial statements.

Group Management informs the Audit Committee of planned "non-audit" services to be provided by the auditors. The Audit Committee approves individual "non-audit" services exceeding CHF 100,000 annually. The auditors may only provide "non-audit" services if the financial scope or

content involved does not affect their independence.

To ensure independence, the lead auditor is replaced every seven years, which last occurred in 2015. For further information regarding supervisory and control instruments, please see the chapter entitled "Audit Committee" on page 48.

## Information policy

Mikron Holding AG pursues a contemporary 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	31 December 2019
Announcement of the annual results/Publication of the Annual Report	16 March 2020
Annual Media and Analyst Conference	16 March 2020
Annual General Meeting	15 April 2020
End of the first six months of the business year	30 June 2020
Announcement of the semi-annual results	23 July 2020

The dates are also published on the Mikron Group's website at [www.mikron.com/calendar](http://www.mikron.com/calendar). Corresponding notices for the Annual General Meeting are also placed in the Swiss Official Gazette of Commerce. Visitors to the website can view the current share price, the Annual Report and all press releases, and subscribe to receive news updates and press releases free of charge (push and pull links).

In addition to publishing its financial results, the Mikron Group 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.

Should you have any questions, please contact Corporate Communications by telephone (+41 (0)91 610 62 09) or e-mail ([ir.mho@mikron.com](mailto:ir.mho@mikron.com)).

# 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.

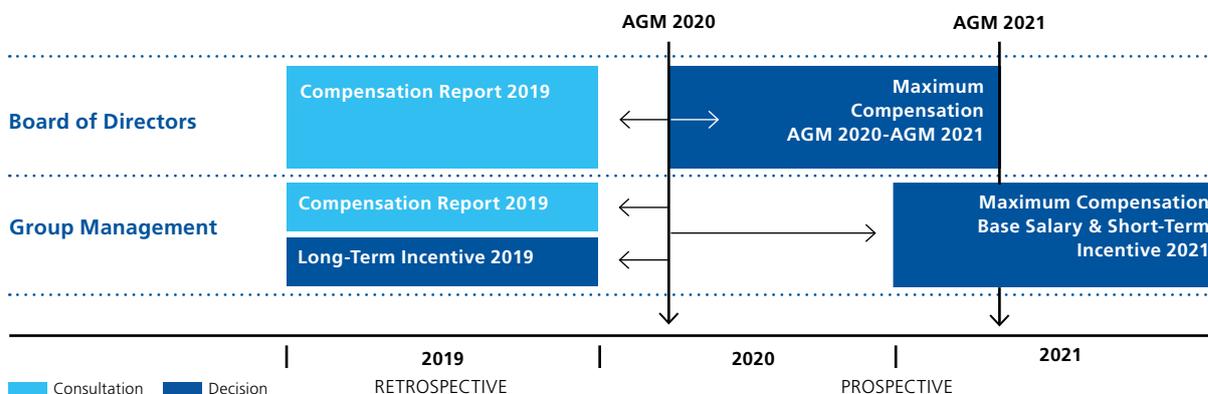
### Geared to the labor market

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
<b>Fixed annual basic salary (fixed compensation)</b>	Monthly cash compensation	Remuneration for function	Scope and responsibility, individual qualifications and experience	–
<b>Short-term incentive bonus in cash (short-term incentive)</b>	Annual cash compensation	Remuneration for performance	Company results, individual performance	Order intake, EBIT, free cash flow, quantitative and qualitative targets
<b>Long-term incentive plan (long-term incentive)</b>	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
<b>Pension and benefits</b>	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
<b>Total</b>	<b>293</b>	<b>373</b>	<b>200</b>	<b>0</b>	<b>61</b>	<b>67</b>	<b>554</b>	<b>440</b>

\* 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
<b>Total fixed compensation and short-term incentive</b>	<b>644</b>	<b>687</b>	<b>1,565</b>	<b>1,629</b>
<b>Total approved by previous General Meetings</b>			<b>1,800</b>	<b>2,100</b>
Long-term incentive		65		139
Pension and benefits		4		10
<b>Total approved long-term incentive**</b>		<b>69</b>		<b>149</b>
Long-term incentive to be approved by General Meeting	86		182	
Pension and benefits	6		14	
<b>Total to be approved by General Meeting</b>	<b>92</b>		<b>196</b>	
<b>Total compensation</b>	<b>736</b>	<b>756</b>	<b>1,761</b>	<b>1,778</b>

\* 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>B. Cathomen, CEO</b>			
Short-term incentive	25%	44%	
<b>Total</b>	<b>25%</b>	<b>44%</b>	<b>100%</b>
<b>Other members</b>			
Short-term incentive	23%	28%	
<b>Total</b>	<b>23%</b>	<b>28%</b>	<b>75%</b>

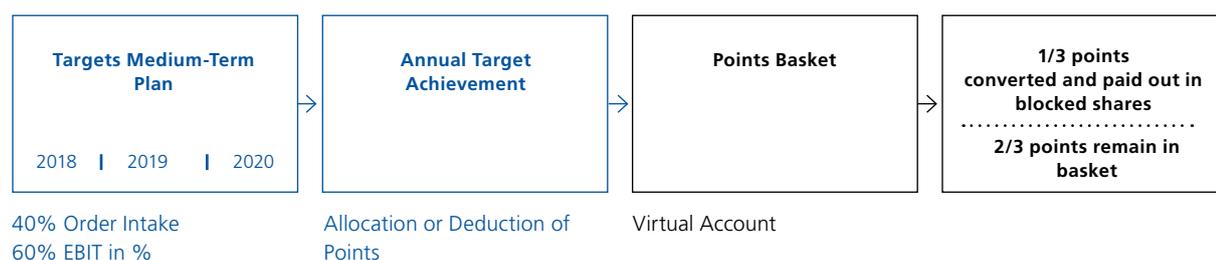
Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. Expenses that are not covered by the lump sum compensation for expenses pursuant to the expense regulations of the Company are reimbursed against presentation 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%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

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
<b>Board of Directors</b>				
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%
<b>Group Management</b>				
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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# Mikron Group

# Financial Report 2019

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# Consolidated Financial Statements 2019 of the Mikron Group

## Consolidated income statement

CHF 1,000	Note	2019		2018	
<b>Net sales</b>	<b>4.1</b>	<b>327,553</b>	<b>100%</b>	<b>314,692</b>	<b>100%</b>
Change in work in progress/finished goods		984		8,384	
Capitalized own production		1,006		1,018	
Material costs and subcontractors	4.2	-120,256		-127,336	
Personnel expenses	4.3	-134,409		-128,271	
Other operating income	4.4	1,560		2,035	
Other operating expenses	4.4	-54,222		-49,839	
Depreciation of tangible assets	5.5	-6,885		-6,242	
Amortization of intangible assets	5.6	-1,375		-1,704	
<b>Operating result</b>		<b>13,956</b>	<b>4.3%</b>	<b>12,737</b>	<b>4.0%</b>
Financial result	4.5	-474		-1,000	
<b>Ordinary result</b>		<b>13,482</b>	<b>4.1%</b>	<b>11,737</b>	<b>3.7%</b>
Non-operating result	4.6	161		1,132	
<b>Profit before taxes</b>		<b>13,643</b>	<b>4.2%</b>	<b>12,869</b>	<b>4.1%</b>
Income taxes	4.7	-4,877		-626	
<b>Profit</b>		<b>8,766</b>	<b>2.7%</b>	<b>12,243</b>	<b>3.9%</b>
Net earnings per share – undiluted		0.54		0.74	
Net earnings per share – diluted		0.54		0.74	

The accompanying notes form an integral part of the consolidated financial statements.

## Consolidated balance sheet

CHF 1,000	Note	31.12.2019		31.12.2018	
<b>Current assets</b>					
Cash and cash equivalents		37,992		27,567	
Current financial assets	5.1	6,152		17,033	
Accounts receivable	5.2	21,889		24,110	
Inventories	5.3	61,171		65,532	
Net assets from customer projects	5.4	40,764		41,460	
Other current receivables		4,800		5,302	
Prepaid expenses		5,276		3,977	
<b>Total current assets</b>		<b>178,044</b>	<b>61.5%</b>	<b>184,981</b>	<b>63.9%</b>
<b>Non-current assets</b>					
Tangible assets	5.5	73,781		64,197	
Intangible assets	5.6	5,224		4,941	
Investment property	5.7	28,415		28,908	
Deferred tax assets	5.9	4,048		6,494	
<b>Total non-current assets</b>		<b>111,468</b>	<b>38.5%</b>	<b>104,540</b>	<b>36.1%</b>
<b>Total assets</b>		<b>289,512</b>	<b>100.0%</b>	<b>289,521</b>	<b>100.0%</b>
<b>Current liabilities</b>					
Short-term financial liabilities	5.10	11,527		1,967	
Accounts payable		20,205		25,971	
Net liabilities from customer projects	5.4	39,621		51,341	
Short-term provisions	5.11	9,791		5,805	
Other current liabilities		3,536		4,316	
Accrued expenses	5.12	18,969		20,629	
<b>Total current liabilities</b>		<b>103,649</b>	<b>35.8%</b>	<b>110,029</b>	<b>38.0%</b>
<b>Long-term liabilities</b>					
Long-term financial liabilities	5.10	10,063		8,605	
Long-term provisions	5.11	509		413	
Deferred tax liabilities	5.9	6,071		6,165	
<b>Total long-term liabilities</b>		<b>16,643</b>	<b>5.7%</b>	<b>15,183</b>	<b>5.2%</b>
<b>Shareholders' equity</b>					
Share capital	5.13	1,671		1,671	
Treasury shares		-3,658		-4,092	
Capital reserves		95,901		99,158	
Retained earnings		75,306		67,572	
<b>Total shareholders' equity</b>		<b>169,220</b>	<b>58.5%</b>	<b>164,309</b>	<b>56.8%</b>
<b>Total liabilities and shareholders' equity</b>		<b>289,512</b>	<b>100.0%</b>	<b>289,521</b>	<b>100.0%</b>

The accompanying notes form an integral part of the consolidated financial statements.

## Consolidated statement of shareholders' equity

CHF 1,000	Note	Share capital	Treasury shares	Capital reserves	Retained earnings			Total shareholders' equity
					Accumulated profits	Goodwill recognized	Translation adjustments	
<b>Balance at 01.01.2018</b>		<b>1,671</b>	<b>-68</b>	<b>99,993</b>	<b>56,705</b>	<b>-962</b>	<b>6</b>	<b>157,345</b>
Profit 2018					12,243			12,243
Translation adjustments							-435	-435
Distribution to shareholders				-835				-835
Change in treasury shares	5.13		-4,024		15			-4,009
<b>Balance at 31.12.2018</b>		<b>1,671</b>	<b>-4,092</b>	<b>99,158</b>	<b>68,963</b>	<b>-962</b>	<b>-429</b>	<b>164,309</b>
Profit 2019					8,766			8,766
Translation adjustments							-961	-961
Distribution to shareholders				-3,257				-3,257
Change in treasury shares	5.13		434		-71			363
<b>Balance at 31.12.2019</b>		<b>1,671</b>	<b>-3,658</b>	<b>95,901</b>	<b>77,658</b>	<b>-962</b>	<b>-1,390</b>	<b>169,220</b>

The accompanying notes form an integral part of the consolidated financial statements.

## Consolidated statement of cash flow

CHF 1,000	Note	2019	2018
<b>Cash flow from operating activities</b>			
Profit		8,766	12,243
Depreciation and amortization	5.5, 5.6	8,260	7,946
Revaluation of investment property	5.7	493	386
Net gain (-)/loss (+) on sale of non-current assets	4.4	-156	-33
Changes in provisions	5.11	4,160	1,965
Changes in deferred taxes	4.7, 5.9	2,378	-544
Other non-cash items		1,033	495
Movement in accounts receivable		1,917	-5,413
Movement in inventories		3,847	-18,283
Movement in net assets/liabilities from customer projects		-11,383	15,907
Movement in accounts payable		-8,913	2,996
Movement in other receivables and prepaid expenses		-837	-1,586
Movement in other current liabilities and accrued expenses		-2,284	4,028
<b>Cash flow from operating activities</b>		<b>7,281</b>	<b>20,107</b>
<b>Cash flow from investing activities</b>			
Investments in tangible assets	5.5	-9,349	-10,376
Divestments of tangible assets	5.5	571	124
Investments in intangible assets	5.6	-1,962	-1,572
Investments in investment property	5.7	0	-61
Investments in financial assets	5.1	0	-9,336
Divestments of financial assets	5.1	10,688	7,542
<b>Cash flow from investing activities</b>		<b>-52</b>	<b>-13,679</b>
<b>Cash flow from financing activities</b>			
Purchase of treasury shares	5.13	0	-4,092
Distribution to shareholders		-3,256	-835
Increase (+)/repayment (-) of financial liabilities		8,603	-14,186
Repayment (-) of finance lease liabilities		-1,902	-1,512
Interest received		339	264
Interest paid		-418	-477
<b>Cash flow from financing activities</b>		<b>3,366</b>	<b>-20,838</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>-170</b>	<b>-184</b>
<b>Net cash flow</b>		<b>10,425</b>	<b>-14,594</b>
<b>Increase (+)/decrease (-) of cash and cash equivalents</b>		<b>10,425</b>	<b>-14,594</b>
Cash and cash equivalents at beginning of period		27,567	42,161
Cash and cash equivalents at end of period		37,992	27,567

The accompanying notes form an integral part of the consolidated financial statements.

# Notes to the Consolidated Financial Statements 2019 of the Mikron Group

## 1. General information

### 1.1 Business operations

Mikron Holding AG and its subsidiaries (together the Mikron Group) develop, produce and market automation and machining systems that enable extremely precise and productive manufacturing processes. Rooted in the Swiss culture of innovation, the Group is a globally leading partner to companies in the automotive, pharmaceutical, medtech, consumer goods, writing instruments and watchmaking industries.

The two business segments, Mikron Automation and Mikron Machining, are based in Switzerland (Boudry and Agno). The company has additional production facilities in Germany, Singapore, China and the US. The 1,500 employees of the Mikron Group can draw on over 100 years of experience in the production of high-precision systems for large-series product manufacture. Mikron Holding AG shares are traded on SIX Swiss Exchange (MIKN).

### 1.2 Basis of preparation

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER as a whole, including Swiss GAAP FER 31, applying the principle of historical cost accounting. Exceptions to this rule are deferred taxes that are calculated from valuation differences or tax loss carry-forwards and the applicable tax rate, marketable securities reported as current assets, derivative financial instruments and investment properties, which are reported at fair values.

### 1.3 Events after the balance sheet date

The Board of Directors approved the consolidated financial statements at its meeting of 13 March 2020. The approval of the consolidated financial statements by the Annual General Meeting is scheduled for 15 April 2020.

## 2. Significant accounting policies

### 2.1 Consolidation

#### 2.1.1 Scope and method of consolidation

The consolidated financial statements include Mikron Holding AG, Biel, and all Swiss and foreign subsidiaries which the parent company, directly or indirectly, controls either by holding more than 50% of the voting rights or by some other form of control. These entities are fully consolidated. All intercompany transactions and relations between the consolidated companies are offset against each other and eliminated. Profits on intercompany transactions are eliminated. Capital consolidation is based on the purchase method applied to the annual financial statements of all consolidated entities, prepared as at December 31 and determined according to uniform accounting policies. The Mikron Group does not have any shareholdings with voting power of less than 50%. The list of Group companies can be found on page 119. In the year under review there were two changes (prior year: none) in the group of consolidated companies, as a new company was founded in the People's Republic of China and in Lithuania.

### 2.1.2 Acquisition of Group companies

New companies acquired by the Mikron Group are reported in the consolidated financial statements from the date of obtaining control. The net assets acquired are valued at actual values and consolidated applying the purchase method. Intangible assets not previously capitalized are not valued or recognized. Any difference between the higher purchase price and the net assets acquired (goodwill) is offset against shareholders' capital.

### 2.2 Business segment reporting

The Mikron Group is organized by business segments which are grouped according to the types of products and services they provide.

For the purposes of reporting, the following business segments have been identified:

- The Mikron Machining Solutions segment comprises the two divisions Mikron Machining and Mikron Tool. The Mikron Machining division is the leading supplier of customized, highly productive machining systems for the manufacturing of complex high-precision components made of metal such as turbocharger housings, injection nozzles and ballpoint pen tips. The Mikron Tool division develops and produces the necessary high-performance cutting tools. These are regarded as some of the best in the world and are also used on other manufacturers' machines. To date, Mikron Machining Solutions has developed and commissioned over 7,000 machining systems. Its international customers operate in the following industries: automotive, electronics and telecommunications, medtech, consumer goods, construction/building and pneumatics and hydraulics. Mikron Machining Solutions employs around 700 people and is headquartered in Agno (Switzerland). It also has sites in Rottweil (Germany), Monroe (USA) and Shanghai (China).
- Mikron Automation is the leading partner for scalable and customized assembly systems – from the initial idea to the highest-performance solutions. Mikron's expertise and proven track record guarantee the most productive solution to assemble customer products at each stage of their lifecycle. To date, Mikron Automation has installed more than 3,500 assembly and testing systems worldwide. Its international customers operate in the following markets: pharmaceutical, medtech, automotive, electrical/electronics, consumer goods and construction/building. Mikron Automation currently employs around 750 people and is headquartered in Boudry (Neuchâtel), a region that is regarded as the heart of the Swiss watchmaking industry. It also has sites in Berlin (Germany), Kaunas (Lithuania), Denver (USA), Singapore and Shanghai (China).
- The Corporate Service segment reports information on Mikron's holding, management and finance companies. The Corporate Service supports the individual Group companies as well as the Board of Directors and Group Management in their management and control functions. It also reports income and expenses related to a non-operating industrial property, which is fully leased to third parties. Eliminations at Group level are presented together with the Corporate Service.

### 2.3 Foreign currency translation

Foreign currency transactions are translated into the local currency using the exchange rate prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation at year-end exchange rates are recognized in the income statement.

The consolidated financial statements are reported in Swiss francs. For consolidation purposes, assets and liabilities are translated into Swiss francs at the exchange rates on the balance sheet date. The income statement and all cash flows are translated at average rates for each period. Differences between the translation of assets and liabilities and the income statement are recognized in equity. Exchange differences on long-term intra-Group loans with equity character are likewise taken directly to Group equity.

The most significant exchange rates for the Group in the year under review in Swiss francs were:

Currency	Average rate 2019	Average rate 2018	Closing rate 31.12.2019	Closing rate 31.12.2018
1 EUR	1.11	1.15	1.09	1.13
1 USD	0.99	0.98	0.98	0.99
1 SGD	0.73	0.72	0.72	0.72
1 CNY	0.14	0.15	0.14	0.14

### 2.4 Disclosure of related party transactions

Related parties are defined as companies or persons that exercise significant influence over Mikron or that are controlled by the Group. The Ammann Group, the Board of Directors, Group Management and the pension fund of Mikron Group are defined as related parties. All significant transactions, outstanding balances and, if applicable, contingent liabilities are disclosed in note 6.5 to the consolidated financial statements.

### 2.5 Assets and liabilities

#### 2.5.1 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, current bank and postal accounts, as well as deposits held at call with a bank or other financial institution with maturities of 90 days or less, and are shown at nominal value.

#### 2.5.2 Financial assets

Marketable securities, derivative financial instruments and term deposits with maturities of more than 90 days are reported as current financial assets. As all marketable securities are investments of excess cash that are available for sale, they are considered to be current financial assets independent of any maturity longer than one year. Term deposits are valued at nominal value less any impairment. Marketable securities and derivative financial instruments are measured at fair value and any changes in fair value are presented in the financial result.

### 2.5.3 Receivables

Receivables are carried at nominal value. A provision for bad debt risks is established for cases where the Group faces an objective risk of not collecting the outstanding amount. Factors such as information on financial difficulties being experienced by the debtor and overdue payments (more than 30 days overdue) are used to assess whether or not there is a bad debt risk. Changes in provisions are recognized as other operating expenses.

### 2.5.4 Inventories

Raw materials and other supplies, as well as goods purchased, are carried at weighted average cost, and finished products at the lower of costs of conversion (standard costs), including directly attributable production costs, or fair value less costs to sell. Settlement discounts are recognized as financial income. Additionally, downpayments from customers are disclosed as a deduction and prepayments to suppliers as an increase of inventories. Provisions are made for slow-moving items. Obsolete items are written off.

### 2.5.5 Customer projects

Customer projects for machining and assembly systems are accounted for using the “percentage of completion” method. The respective stage of completion is determined by individually measuring the work performed to date, based on the costs incurred compared to the total estimated costs. Costs to date and realized revenues calculated by reference to the stage of completion are continuously recognized in the income statement. On the balance sheet, projects in progress – offset by prepayments and progress payments from customers – are recognized as net assets or net liabilities from customer projects.

Projects for which no specific customer contract exists yet are capitalized as work in progress until delivery and disclosed as inventory. They are measured at the lower of costs of conversion (standard costs), including directly attributable production costs, or fair value less costs to sell. Net sales and profit are recognized at the time of delivery.

Immediate provision is recognized in the income statement for present or foreseeable losses on customer projects.

### 2.5.6 Tangible assets

Property consists of production and office buildings. Tangible assets are measured at historical cost and depreciated over their estimated useful lives. The exception to the rule is land, which is not depreciated. Added value expenses are capitalized and depreciated over the corresponding useful life. Expenditure on repairs, maintenance and replacements is charged directly to the income statement.

The straight-line depreciation rates are determined by the expected useful life, taking into account operational use and technical ageing. The estimated useful life is as follows:

	Years
Real estate	30–45
Leasehold improvements	over the duration of the lease agreement
Equipment and installations	12–25
Furniture	8–12
Machinery	5–10
Other	2–7

### **2.5.7 Intangible assets**

Items which qualify as intangible assets mainly comprise development costs, purchased software and patents.

Development costs relating to new or significantly improved products and processes are capitalized only when they are technically and commercially feasible and when the Group has sufficient resources for their implementation. Expenses related to smaller development projects or early stage developments as well as product maintenance are taken to the income statement as an expense. Capitalized development costs are recognized at cost less accumulated amortizations and impairments (see note 2.5.9). The maximum estimated useful life is 5 years.

Other intangible assets are reported in the balance sheet at acquisition value less accumulated amortizations and impairments (see note 2.5.9). The estimated useful life of software is basically 3 to 5 years, for ERP licenses up to 10 years and for patents 5 to 10 years.

### **2.5.8 Investment property**

Property held as a financial investment includes production and office buildings which are rented out to third parties. Investment properties are reported at market value. The Mikron Group currently owns a property in Nidau, Switzerland, with a market value of CHF 28.4 million as at 31 December 2019. The fair value of the property is reviewed annually as per the balance sheet date and adjusted if necessary. Revaluations are recognized in the income statement.

### **2.5.9 Impairment of non-current assets**

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognized at the amount by which an asset's carrying value exceeds its recoverable amount. The recoverable amount is the higher of an asset's net selling price and its value in use (net present value of estimated future cash flows). The recoverable amount is determined for each asset separately or, where this is not possible, for the cash-generating unit to which the asset belongs. A reversal of impairment is recognized if the review of the recoverable amount reveals none or only a reduced impairment.

### **2.5.10 Lease contracts**

Agreements that substantially transfer all the risks and rewards of ownership to the lessee are accounted for as finance leases. Assets held under finance leases are recognized as tangible assets at the lower of fair value at the time of acquisition and the net present value of the future lease payments. The corresponding liability to the lessor is included in the balance sheet as a financial liability. Lease payments are apportioned between financial expenses and reduction of the lease obligation. Assets under finance leases are amortized over their estimated useful lives.

Operating lease payments are treated as operating expenses and charged to the income statement as incurred.

### **2.5.11 Payables**

Payables are measured at nominal values.

### **2.5.12 Financial liabilities**

Short-term and long-term bank borrowings and loans are recognized at nominal value. Derivative financial instruments are measured at fair value and any changes in fair value are presented in the financial result.

### **2.5.13 Provisions**

Provisions are recognized only if the company has a present obligation to a third party as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the obligation can be sufficiently reliably estimated. If the time factor has a significant impact the amount of the provision is discounted.

### **2.5.14 Deferred taxes**

Deferred income taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases and are accounted for using the liability method. Deferred tax assets from capitalized tax loss carry-forwards are valued at the respective applicable tax rate. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available to offset against these assets.

Deferred tax assets and liabilities are calculated at the rate that is expected to apply in the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that are valid at the balance sheet date.

### **2.5.15 Employee benefits**

There are a number of employee benefit plans in existence within the Group, each of which is aligned with local conditions in the country in question. They are funded by means of contributions to legally independent employee benefit schemes (foundations, insurance). An annual evaluation is made to see if an economic benefit or an economic obligation exists for the Mikron Group. Any such amount would be recognized in the balance sheet. The net periodic expense to be recognized in the income statement is equal to the contributions made by the employer plus any changes to the economic benefit or obligation.

## **2.6 Income statement**

### **2.6.1 Revenue recognition**

Net sales comprise the sale of products as well as the rendering of services. Sales are recognized if it is probable that the economic benefits will flow to the Group and the amount can be estimated reliably. Sales revenue is recognized upon transfer of the risks and rewards of ownership of the goods to the client. Cash discounts granted to customers are treated as reduction of sales.

Pro rata net sales and profits on projects for customer contracts are recognized in accordance with note 2.5.5 on the basis of the percentage of completion and of the estimated total profit for the project.

Service sales are recognized when the intervention has been completed.

### **2.7 Share-based payments**

No share purchase plan is in place for Mikron Group employees. Refer to note 5.13 for shares granted to Group Management and the Board of Directors. The long-term incentive plan foresees granting shares to Group Management in the extent of achieving certain financial targets as per the financial medium-term plan, refer to note 4.3. The Board of Directors is granted a fixed number of shares as part of the annual compensation.

### 3. Risk management

The Mikron Group applies a central risk assessment system which covers both strategic and operational risks. All identified risks are given a rating (based on probability of occurrence and extent of potential losses) and recorded in a risk inventory. Based on this risk inventory, the Board of Directors conducts a review, at least once a year, of whether the risk governance and reduction measures in place are adequate for the company's needs. Ongoing monitoring of the risk inventory is the responsibility of Group Management.

Accounting and financial reporting risks are monitored and reduced through a suitable internal control system.

The Group's activities expose it to a variety of financial risks: market risks (primarily foreign exchange risks), credit risks and liquidity risks. The Group's financial risk management program focuses on reducing financial market risks with the potential to adversely affect its financial performance.

Financial risk management is carried out by the centralized Treasury department in close cooperation with the Group companies on the basis of guidelines issued by the Board of Directors.

#### 3.1 Foreign exchange risks

The Group is globally active and conducts transactions in a variety of currencies. Exchange rate fluctuations can therefore have a significant impact on the result. Exchange rate risks exist in future business transactions, in assets and liabilities recognized on the balance sheet and in net investments in foreign companies with a functional currency other than the Swiss franc.

The Group companies' currency risks stemming from future business transactions are consolidated by Group Treasury and hedged centrally. To neutralize the risk, income in a given foreign currency is offset against expenditure in the same currency. Group Treasury hedges economically between 25% and 100% of the net cash flows in prospect for the next 12 months for EUR and USD. Forward contracts are the main instrument used for hedging. Gains and losses arising from the valuation of forward contracts at fair value are recognized in the financial result. The Group does not apply hedge accounting.

The Group has investments in foreign operations, whose net assets are exposed to foreign currency translation risks. Currency exposure arising from the net assets of the Group's foreign operations is managed primarily through borrowings denominated in the relevant foreign currencies.

The table below shows the impact at the balance sheet date of a possible shift in the most relevant foreign currency rates against the Swiss franc on the valuation of financial instruments including intra-Group receivables and liabilities. The indicated impacts are based on the assumption that the Swiss franc increases in value against the listed currencies. In the event of a devaluation of the Swiss franc, an inverse impact applies.

CHF 1,000	Possible shift in currency rates	Impact on net earnings		Impact on shareholders' equity from translation adjustments	
		2019	2018	2019	2018
Euro (CHF/EUR)	-10%	-1,051	-492	-1,762	-1,777
US dollar (CHF/USD)	-10%	378	506	-2,684	-2,094

### 3.2 Interest rate risks

Interest rate risks result from changes in interest rates which could have a negative impact on the Group's financial position, cash flow and earnings situation. Interest rate exposure is basically limited, owing to the low level of external financing and the conservative investment policy. The interest rate exposure is managed centrally. As at 31 December 2019 and 2018 respectively, no derivative financial instruments were being held to hedge any interest rate risks.

### 3.3 Price risks

The consolidated financial statements report at year-end short-term financial assets mainly related to high-quality Swiss franc bonds with a maturity of up to five years, which are measured at fair value. As a result of the short duration, price changes are reduced but could nevertheless significantly impact the financial income of the Group at the balance sheet date. The Group currently has no financial instruments which are exposed to changes in commodity prices.

### 3.4 Credit risks

Credit risks arise from the possibility that the counterparty to a transaction may not be able or willing to discharge their obligations, thereby causing the Group to suffer a financial loss. Counterparty risks are minimized by only concluding contracts with reputable business partners and financial institutions.

Relationships with customers are subject to credit checks. In addition, Group Management monitors outstanding payments on accounts receivable through monthly reporting procedures. The necessary allowances are made locally.

### 3.5 Liquidity risks

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management includes maintaining sufficient cash and cash equivalents, the availability of funding from an adequate amount of committed credit facilities, and the ability to close out market positions.

The required flexibility in funding for the project business of the Group is primarily achieved via adequate liquidity reserves. As at the end of the year, significant headroom (cash and cash equivalents, current financial assets and unused credit facilities) is available to the Mikron Group. A credit agreement worth CHF 50.0 million with a bank consortium exists, which is available for bank guarantees to secure advance payments from customers and for fixed advances. At 31 December 2019, guarantees of CHF 18.5 million (prior year: CHF 30.4 million) were issued.

Group Management monitors the Group's liquidity status on the basis of three months' rolling cash flow forecasts.

The table below summarizes the maturity profile of the Group's financial liabilities at the balance sheet date based on contractual undiscounted cash outflows. The undiscounted cash outflows only consider the repayments of the principal of the bank borrowings and of the principal of the finance lease liabilities excluding any interest payment.

CHF 1,000	Note	Maturity			Total and interest rate by currency					
		Less than 1 year	Between 1 and 3 years	Over 3 years	CHF	%	EUR	%	USD	%
<b>At 31.12.2018</b>										
Bank borrowings	5.10	395	789	4,078					5,262	3.6
Finance lease liabilities	5.10	1,572	2,398	1,340	3,397	2.5	1,913	3.3		
Derivative financial instruments (notional amount)	6.1	34,222	0	0						
<b>Total</b>		<b>36,189</b>	<b>3,187</b>	<b>5,418</b>						
<b>At 31.12.2019</b>										
Bank borrowings	5.10	9,392	4,446	0	9,000	1.5			4,838	3.7
Finance lease liabilities	5.10	2,135	3,530	2,087	4,890	2.1	2,862	2.4		
Derivative financial instruments (notional amount)	6.1	5,413	0	0						
<b>Total</b>		<b>16,940</b>	<b>7,976</b>	<b>2,087</b>						

## 4. Details of the consolidated income statement

### 4.1 Net sales

CHF 1,000	2019	2018
Automation and machining systems (from customer projects)	227,332	220,944
Automation and machining systems (other)	227	279
Cutting tools	46,840	46,743
Service	53,154	46,726
<b>Total net sales</b>	<b>327,553</b>	<b>314,692</b>

### 4.2 Material costs and subcontractors

CHF 1,000	2019	2018
Raw materials and components	-113,173	-119,993
Subcontractors	-7,083	-7,343
<b>Total material costs and subcontractors</b>	<b>-120,256</b>	<b>-127,336</b>

### 4.3 Personnel expenses

CHF 1,000	2019	2018
Salaries and wages	-115,765	-110,308
Social charges	-12,798	-12,453
Pension expenses	-5,846	-5,510
<b>Total personnel expenses</b>	<b>-134,409</b>	<b>-128,271</b>

A performance-based number of shares, measured against the financial medium-term plan, are granted to Group Management. 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 an allocation of 26,935 shares to the members of Group Management as long-term-incentive compensation 2019. The share price for the valuation at year-end was CHF 6.76. An amount of CHF 0.2 million has been expensed.

#### 4.4 Other operating income and expenses

CHF 1,000	2019	2018
Gain on sale of non-current assets	196	110
Other income	1,364	1,925
<b>Total other operating income</b>	<b>1,560</b>	<b>2,035</b>
Production- and project-related expenses, including shipping	-17,093	-15,131
Marketing and sales	-9,086	-8,925
Real estate	-8,854	-7,945
Personnel-related expenses, including company cars	-5,832	-5,724
Information technology	-6,148	-5,502
Capital and other taxes (excl. income taxes)	-697	-1,279
Loss on sale of non-current assets	-40	-77
Other expenses	-6,472	-5,256
<b>Total other operating expenses</b>	<b>-54,222</b>	<b>-49,839</b>

The project-related expenses include the change in provision for future losses from customer projects (see note 5.4).

#### 4.5 Financial result

CHF 1,000	2019	2018
Financial income	4,990	6,789
Financial expenses	-5,464	-7,789
<b>Total financial result</b>	<b>-474</b>	<b>-1,000</b>
Interest income	339	264
Interest expenses	-418	-477
<b>Total interest result</b>	<b>-79</b>	<b>-213</b>
Exchange gains	4,067	5,731
Exchange losses	-4,270	-5,914
Other financial income	584	794
Other financial expenses	-776	-1,398
<b>Total other financial result</b>	<b>-395</b>	<b>-787</b>
<b>Total financial result</b>	<b>-474</b>	<b>-1,000</b>

#### 4.6 Non-operating result

CHF 1,000	2019	2018
Rental income	1,588	2,200
Income from property-related services	1,122	1,283
<b>Total non-operating income</b>	<b>2,710</b>	<b>3,483</b>
Owner-related expenses	-895	-746
Expenses for property-related services	-1,161	-1,219
<b>Total non-operating expenses</b>	<b>-2,056</b>	<b>-1,965</b>
Revaluation	-493	-386
<b>Total non-operating result</b>	<b>161</b>	<b>1,132</b>

#### 4.7 Income taxes

CHF 1,000	2019	2018
Current income tax	-2,499	-1,170
Deferred income tax	-2,378	544
<b>Total income taxes</b>	<b>-4,877</b>	<b>-626</b>
<b>Earnings before taxes</b>	<b>13,643</b>	<b>12,869</b>
Income tax at average tax rates	-2,865	-2,708
Impact of non-capitalized loss carry-forwards	-796	-116
Release of / capitalization of tax losses	-1,984	2,885
Tax credits	1,159	508
Change in tax rate	-474	-1,370
Other taxable effects	83	175
<b>Total income taxes</b>	<b>-4,877</b>	<b>-626</b>
	<b>36%</b>	<b>5%</b>

The applicable tax rate for the Group is 21% (prior year: 21%). This corresponds to the average income tax rates of the individual Group companies in each jurisdiction.

The reversal of capitalized tax losses become necessary in 2019 due to the reduced expectations originating from a lower level of orders from the automotive industry at one production site in Switzerland.

Due to the tax reform passed in 2019 in Switzerland and the cantons with a relevant impact on the tax expense (Neuchâtel and Ticino), the tax rate for 2020, assuming the weighting of the contributing companies remains unchanged, will be 19% instead of 21%, resulting in a CHF 0.4 million lower tax expense than in 2019. For Neuchâtel the maximum tax relief of 40% of the cantonal and communal tax is being considered, while for Ticino no relief (maximum of 90% on the cantonal and communal tax) was considered. The maximum relief in Ticino would lower the tax rate to 18% and result in a tax expense reduction of CHF 0.8 million compared to 2019. The tax relief can be utilized to the extent to which the criteria for the R&D deduction and the patent box are fulfilled.

## 5. Details of the consolidated balance sheet

### 5.1 Financial assets

CHF 1,000	Note	31.12.2019	31.12.2018
Bonds		6,119	16,847
Derivative financial instruments	6.1	33	186
<b>Total current financial assets</b>		<b>6,152</b>	<b>17,033</b>

The bonds of CHF 6.1 million (prior year: CHF 16.8 million) comprise Swiss franc (in 2018 also US dollar) bonds with a maturity of up to five years.

### 5.2 Accounts receivable

CHF 1,000	31.12.2019	31.12.2018
Accounts receivable	22,287	24,490
Allowance for doubtful accounts	-398	-380
<b>Total accounts receivable</b>	<b>21,889</b>	<b>24,110</b>

As at the balance sheet date, accounts receivable (including allowance for doubtful accounts) past due for 30 days and more amounted to CHF 2.1 million (prior year: CHF 2.0 million).

### 5.3 Inventories

CHF 1,000	31.12.2019	31.12.2018
Raw materials and components	23,357	29,947
Work in progress	17,645	19,773
Finished and trading goods	19,780	14,457
Prepayments to suppliers	1,828	4,261
Prepayments from customers	-1,439	-2,906
<b>Total inventories</b>	<b>61,171</b>	<b>65,532</b>

The provision for slow-moving inventories amounts to CHF 17.1 million (prior year: CHF 19.2 million).

## 5.4 Customer projects

CHF 1,000	31.12.2019	31.12.2018
Projects in progress – costs incurred	161,996	164,877
Recognized profits less recognized losses	48,301	53,223
Prepayments from customers	-209,154	-227,981
<b>Total net assets and liabilities from customer projects</b>	<b>1,143</b>	<b>-9,881</b>
Net assets from customer projects	40,764	41,460
Net liabilities from customer projects	-39,621	-51,341
<b>Total net assets and liabilities from customer projects</b>	<b>1,143</b>	<b>-9,881</b>

The stage of completion, determined by the costs incurred to date compared to the total estimated costs, was approximately 58% on 31 December 2019 (prior year: approximately 54%). At the balance sheet date, the Mikron Group had 186 projects in progress (prior year: 215 projects) with an average volume of CHF 1.9 million (prior year: CHF 1.9 million). As at 31 December 2019 there were no retentions by customers (prior year: none).

## 5.5 Tangible assets

CHF 1,000	Undeveloped real estate	Real estate	Machinery	Equipment and installations	Down pay- ments and assets under construction	Others	Total
<b>At cost</b>							
<b>Balance at 01.01.2018</b>	<b>3,199</b>	<b>87,898</b>	<b>68,564</b>	<b>20,273</b>	<b>2,345</b>	<b>3,287</b>	<b>185,566</b>
Additions	400	908	8,597	990	2,897	84	13,876
Transfers	0	490	1,049	3	-1,754	34	-178
Disposals	0	-213	-1,788	-143	-1	0	-2,145
Translation adjustments	4	-25	-426	-133	-4	-76	-660
<b>Balance at 31.12.2018</b>	<b>3,603</b>	<b>89,058</b>	<b>75,996</b>	<b>20,990</b>	<b>3,483</b>	<b>3,329</b>	<b>196,459</b>
Additions	0	176	8,482	1,249	7,299	158	17,364
Transfers	0	230	2,439	370	-3,039	0	0
Disposals	0	-546	-5,486	-777	0	0	-6,809
Translation adjustments	-2	-65	-595	-141	-8	-73	-884
<b>Balance at 31.12.2019</b>	<b>3,601</b>	<b>88,853</b>	<b>80,836</b>	<b>21,691</b>	<b>7,735</b>	<b>3,414</b>	<b>206,130</b>
<b>Accumulated depreciation</b>							
<b>Balance at 01.01.2018</b>	<b>0</b>	<b>-54,819</b>	<b>-54,551</b>	<b>-16,877</b>	<b>0</b>	<b>-2,242</b>	<b>-128,489</b>
Depreciation	0	-1,901	-2,772	-1,351	0	-218	-6,242
Disposals	0	181	1,739	134	0	0	2,054
Translation adjustments	0	-2	244	113	0	60	415
<b>Balance at 31.12.2018</b>	<b>0</b>	<b>-56,541</b>	<b>-55,340</b>	<b>-17,981</b>	<b>0</b>	<b>-2,400</b>	<b>-132,262</b>
Depreciation	0	-1,926	-3,401	-1,368	0	-190	-6,885
Disposals	0	507	5,152	652	0	0	6,311
Translation adjustments	0	11	291	123	0	62	487
<b>Balance at 31.12.2019</b>	<b>0</b>	<b>-57,949</b>	<b>-53,298</b>	<b>-18,574</b>	<b>0</b>	<b>-2,528</b>	<b>-132,349</b>
<b>Net book value</b>							
Balance at 31.12.2018	3,603	32,517	20,656	3,009	3,483	929	64,197
<b>Balance at 31.12.2019</b>	<b>3,601</b>	<b>30,904</b>	<b>27,538</b>	<b>3,117</b>	<b>7,735</b>	<b>886</b>	<b>73,781</b>
<b>Of which finance leases</b>							
Balance at 31.12.2018	0	0	7,618	0	0	0	7,618
<b>Balance at 31.12.2019</b>	<b>0</b>	<b>0</b>	<b>10,051</b>	<b>0</b>	<b>986</b>	<b>0</b>	<b>11,037</b>

At the balance sheet date, the Group had entered into CHF 4.3 million of capital commitments to purchase tangible assets (prior year: CHF 1.5 million).

In 2019, the Group acquired tangible assets of CHF 4.5 million (prior year: CHF 3.1 million) on a financial leasing basis.

## 5.6 Intangible assets

CHF 1,000	Capitalized development costs	Software	Assets under construction	Others	Total
<b>At cost</b>					
<b>Balance at 01.01.2018</b>	<b>3,657</b>	<b>19,432</b>	<b>1,297</b>	<b>689</b>	<b>25,075</b>
Additions	0	1,096	939	0	2,035
Transfers	0	1,383	-1,205	0	178
Disposals	0	-714	0	0	-714
Translation adjustments	-29	-92	0	0	-121
<b>Balance at 31.12.2018</b>	<b>3,628</b>	<b>21,105</b>	<b>1,031</b>	<b>689</b>	<b>26,453</b>
Additions	0	1,399	276	0	1,675
Transfers	0	588	-588	0	0
Disposals	0	-1,891	0	-325	-2,216
Translation adjustments	5	-94	0	0	-89
<b>Balance at 31.12.2019</b>	<b>3,633</b>	<b>21,107</b>	<b>719</b>	<b>364</b>	<b>25,823</b>
<b>Accumulated amortization</b>					
<b>Balance at 01.01.2018</b>	<b>-2,794</b>	<b>-17,177</b>	<b>0</b>	<b>-659</b>	<b>-20,630</b>
Amortization	-288	-1,406	0	-10	-1,704
Disposals	0	714	0	0	714
Translation adjustments	29	79	0	0	108
<b>Balance at 31.12.2018</b>	<b>-3,053</b>	<b>-17,790</b>	<b>0</b>	<b>-669</b>	<b>-21,512</b>
Amortization	-288	-1,077	0	-10	-1,375
Disposals	0	1,891	0	325	2,216
Translation adjustments	-5	77	0	0	72
<b>Balance at 31.12.2019</b>	<b>-3,346</b>	<b>-16,899</b>	<b>0</b>	<b>-354</b>	<b>-20,599</b>
<b>Net book value</b>					
Balance at 31.12.2018	575	3,315	1,031	20	4,941
<b>Balance at 31.12.2019</b>	<b>287</b>	<b>4,208</b>	<b>719</b>	<b>10</b>	<b>5,224</b>
<b>Of which finance leases</b>					
Balance at 31.12.2018	0	0	0	0	0
<b>Balance at 31.12.2019</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

At the balance sheet date, the Group had entered into CHF 0.1 million of capital commitments to purchase intangible assets (prior year: CHF 0.2 million).

## 5.7 Investment property

CHF 1,000	2019	2018
<b>Balance at 1 January</b>	<b>28,908</b>	<b>29,233</b>
Capitalized expenditures	0	61
Revaluation	-493	-386
<b>Balance at 31 December</b>	<b>28,415</b>	<b>28,908</b>
Original acquisition cost	43,374	43,374

The Mikron Group is the owner of a property in Switzerland (land and building) that is leased to third parties. Related income and expenses are reported in the non-operating result (see note 4.6). The property is reported at market value, last reviewed on 31 December 2019. The discounted cash flow method was used for the valuation. A discount rate of 5.0% was applied (prior year: 5.0%).

At the balance sheet date, the Group had no (prior year: none) capital commitment in relation to the investment property.

## 5.8 Employee benefits

All employees in Switzerland are insured through the Mikron pension fund, which is a foundation under Swiss law and legally independent of the Mikron Group. With a few exceptions, all employees in Switzerland are obliged to join the pension fund. The contributions are based on the annual salary and are accumulated in individual retirement accounts. Upon retirement (at age 65 for men and 64 for women), a lump-sum benefit may be drawn. Otherwise, a pension is paid out on the basis of a specified conversion factor.

### Economic benefit/economic obligation and pension expenses

CHF 1,000	Surplus/deficit 31.12.2018	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2018
		31.12.2018	31.12.2017			
Pension institutions without surplus/deficit	0	0	0	0	-4,742	-4,742
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4,742</b>	<b>-4,742</b>

CHF 1,000	Surplus/deficit 31.12.2019	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2019
		31.12.2019	31.12.2018			
Pension institutions without surplus/deficit	0	0	0	0	-4,973	-4,973
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4,973</b>	<b>-4,973</b>

The information on the economic benefit as at 31 December 2019 is based on the last annual financial statements of the Mikron pension fund preceding the balance sheet date, i.e. the financial statements as at 31 December 2018. As at 31 December 2018, the Mikron pension fund reported a coverage rate of 114.9% (prior year: 118.0%). According to the pension fund's provisional accounts, the coverage rate is expected to have increased by approximately 3% in the 2019 financial year. The number of active insureds increased in 2019 by about 7% (prior year: increase of about 7%). Contributions matched pension expenses during the relevant reporting period.

For the employees in countries other than Switzerland there are no material pension plans with an employer's obligation to contribute except for state-run social insurance.

## 5.9 Deferred taxes

CHF 1,000	2019	2018
<b>Statement of changes in deferred tax liabilities</b>		
<b>Balance at 1 January</b>	<b>6,165</b>	<b>4,704</b>
Set-up and reversal of temporary differences	-688	1,639
Change in tax rate	766	-157
Translation adjustments	-172	-21
<b>Balance at 31 December</b>	<b>6,071</b>	<b>6,165</b>
<b>Statement of changes in deferred tax assets</b>		
<b>Balance at 1 January</b>	<b>6,494</b>	<b>4,478</b>
Change in capitalized tax loss carry-forwards	-3,579	1,645
Other changes	1,159	382
Change in tax rate	-34	0
Translation adjustments	8	-11
<b>Balance at 31 December</b>	<b>4,048</b>	<b>6,494</b>

Deferred tax liabilities mainly result from temporary differences in the measurement of customer projects, the valuation of inventories and the market valuation of the investment property.

The deferred tax assets of CHF 4.0 million (prior year: CHF 6.5 million) result from accumulated tax loss carry-forwards that were capitalized, valuation differences and available tax credits. Due to uncertainties that future taxable profit will be available to offset against these assets, tax loss carry-forwards amounting to CHF 63.3 million (prior year: CHF 41.8 million) were not capitalized. Applying local tax rates results in a maximum potential tax benefit from non-capitalized tax loss carry-forwards of CHF 13.4 million (prior year: CHF 9.7 million).

## 5.10 Financial liabilities

CHF 1,000	31.12.2019	31.12.2018
<b>Short-term financial liabilities</b>		
Bank borrowings	9,392	395
Finance lease liabilities	2,135	1,572
<b>Total short-term financial liabilities</b>	<b>11,527</b>	<b>1,967</b>
<b>Long-term financial liabilities</b>		
Bank borrowings	4,446	4,867
Finance lease liabilities	5,617	3,738
<b>Total long-term financial liabilities</b>	<b>10,063</b>	<b>8,605</b>

The investment property and two of the production facilities were mortgaged for liquidity management purposes. The mortgage on the investment property has been drawn down, while the draw-down of the mortgage for one production facility is only expected during 2020. Details of the mortgages are given in note 6.2. The leasing liabilities relate to purchased machines used in production.

CHF 1,000	31.12.2019	31.12.2018
<b>Financial liabilities, expiring</b>		
– not later than 1 year	11,527	1,967
– later than 1 year but not later than 3 years	7,976	3,187
– later than 3 years	2,087	5,418
<b>Total financial liabilities</b>	<b>21,590</b>	<b>10,572</b>

The existing credit agreement with a bank consortium is valid until June 2020. The agreement secures financing for the Mikron Group in the form of bank guarantees (avals) and provides potentially required liquidity at standard market conditions. The contractual covenants have been met since the commencement of the agreement. Negotiations to renew the credit agreement are currently ongoing. The renewed agreement is expected to be signed by or shortly after the Annual General Meeting on the 15 April 2020.

## 5.11 Provisions

CHF 1,000	Warranties	Employee incentive	Future costs for projects	Restructuring	Others	Total
<b>Short-term provisions</b>						
<b>Balance at 01.01.2018</b>	<b>1,721</b>	<b>0</b>	<b>2,027</b>	<b>0</b>	<b>549</b>	<b>4,297</b>
Additions	2,213	371	3,164	0	580	6,328
Utilization	-871	0	-1,634	0	-355	-2,860
Reversal	-1,195	0	-721	0	0	-1,916
Translation adjustments	-19	0	-25	0	0	-44
<b>Balance at 31.12.2018</b>	<b>1,849</b>	<b>371</b>	<b>2,811</b>	<b>0</b>	<b>774</b>	<b>5,805</b>
Additions	3,620	206	6,375	126	705	11,032
Utilization	-1,663	-337	-2,712	0	-580	-5,292
Reversal	-1,111	0	-782	0	-5	-1,898
Reclassification long-/short-term	0	220	0	0	0	220
Translation adjustments	-22	-2	-50	0	-2	-76
<b>Balance at 31.12.2019</b>	<b>2,673</b>	<b>458</b>	<b>5,642</b>	<b>126</b>	<b>892</b>	<b>9,791</b>
<b>Long-term provisions</b>						
<b>Balance at 01.01.2018</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Additions	0	413	0	0	0	413
<b>Balance at 31.12.2018</b>	<b>0</b>	<b>413</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>413</b>
Additions	0	318	0	0	0	318
Reclassification long-/short-term	0	-220	0	0	0	-220
Translation adjustments	0	-2	0	0	0	-2
<b>Balance at 31.12.2019</b>	<b>0</b>	<b>509</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>509</b>

Warranty provisions are related to sales of products and services and are based on experience. The employee incentive provision is related to the long-term incentive plan. Future costs relate to customer projects with final acceptance where remaining work is outstanding before the warranty period starts.

## 5.12 Accruals

CHF 1,000	31.12.2019	31.12.2018
Accrued expenses	18,931	20,576
Current income tax payables	38	53
<b>Total accrued expenses</b>	<b>18,969</b>	<b>20,629</b>

The accrued expenses of CHF 19.0 million (prior year: CHF 20.6 million) mainly consist of accruals in relation to employees' annual leave entitlements, overtime and bonus totaling CHF 10.6 million (prior year: CHF 11.7 million). Additionally, there were outstanding trade payables, and accrued income taxes of CHF 1.0 million (prior year: CHF 0.8 million).

## 5.13 Shareholders' equity

### Share capital

The share capital as at 31 December 2019 amounts to CHF 1.7 million (prior year: CHF 1.7 million) and consists of 16,712,744 registered shares with a par value of CHF 0.10 per share.

As of 31 December 2019, there are two shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne 41.8%; Mr. Rudolf Maag, Binningen, 14.1%). No other single shareholder holds 5% or more of the voting rights.

### Treasury shares

In 2019 the company granted 20,610 treasury shares to Group Management (prior year: 10,000) and 25,000 treasury shares to the Board of Directors (prior year: none) at no consideration, sold no shares (prior year: none) and acquired no treasury shares (prior year: 430,420 shares). At 31 December 2019 Mikron Holding AG, Biel owned 384,810 treasury shares (prior year: 430,420 shares).

### Reserves

The statutory or legal reserves which may not be distributed amount to CHF 0.9 million (prior year: CHF 0.9 million). In the year under review, foreign currency translation adjustments of CHF -0.6 million (prior year: CHF -0.5 million) on loans with equity character in foreign currencies (EUR and SGD) were posted directly to shareholders' equity.

## 6. Other notes

### 6.1 Derivative financial instruments

For economically hedged future business transactions in foreign currencies, the Group uses financial instruments. As at the balance sheet date, the Group held the following forward exchange contracts:

CHF 1,000	Replacement value		Contract equivalent	Contract equivalent by due date			
	positive	negative		0–3 months	3–12 months	1–5 years	over 5 years
Balance at 31.12.2018	186	0	34,222	23,809	10,413	0	0
<b>Balance at 31.12.2019</b>	<b>33</b>	<b>0</b>	<b>5,413</b>	<b>3,772</b>	<b>1,641</b>	<b>0</b>	<b>0</b>

All instruments are mainly denominated in euros and US dollars.

The replacement values are disclosed as financial assets (Note 5.1) or short-term financial liabilities (Note 5.10).

## 6.2 Assets pledged as security for liabilities

CHF 1,000	31.12.2019	31.12.2018
Real estate (including investment property) pledged as security for liabilities	62,875	29,203
Collateral securities – nominal	98,335	57,515
Loans and mortgages utilized	13,838	5,262
Other assets pledged as security for liabilities	66,037	62,618
Finance lease liabilities (machinery, licenses)	7,752	5,310

As part of the financing arrangements, the existing borrower note was deposited as collateral for the mortgage on one production facility in the United States. The borrower notes for the investment property and one production facility in Switzerland have again been deposited as collateral as the underlying mortgage agreements were signed and the mortgage partially called off.

The credit limits made available by the bank consortium were secured by guarantees of CHF 55.0 million. Additionally, the existing borrower notes were deposited as collateral for two production facilities in Switzerland.

In addition, machines and licenses acquired under the terms of leasing agreements were pledged.

## 6.3 Off-balance sheet lease commitments

CHF 1,000	31.12.2019	31.12.2018
<b>Off-balance sheet lease commitments, payable</b>		
– not later than 1 year	2,982	3,200
– later than 1 year but not later than 3 years	3,769	3,272
– later than 3 years but not later than 5 years	1,286	448
– later than 5 years	3,672	0
<b>Total off-balance sheet lease commitments</b>	<b>11,709</b>	<b>6,920</b>

The future lease payments are mainly related to non-cancelable operating leases for office and production facilities and office equipment. The leases have varying terms and renewal rights.

#### 6.4 Goodwill offset against shareholders' capital

CHF 1,000	2019	2018
<b>At cost</b>		
Balance at 1 January	962	962
Balance at 31 December	962	962
<b>Accumulated amortization</b>		
Balance at 1 January	-962	-962
Balance at 31 December	-962	-962
<b>Theoretical value 31 December</b>	<b>0</b>	<b>0</b>

The goodwill results from the acquisition of IMA Automation Berlin GmbH (now: Mikron Berlin GmbH) on 1 March 2012. The disclosure is based on a straight-line amortization of 5 years.

#### 6.5 Related party transactions

The transactions with related parties and companies consist of commercial business transactions conducted at standard market conditions. These mainly concern relationships with a small number of customers and suppliers.

CHF 1,000	2019	2018
Other operating expenses	-27	-27

CHF 1,000	31.12.2019	31.12.2018
Other current receivables and prepaid expenses	6	6
Accounts payable	5	5

The Mikron pension fund owns no shares (prior year: none) of Mikron Holding AG.

#### 6.6 Impairment test on Group level

The Group's equity of CHF 169.2 million exceeded the Group's market capitalization of CHF 113.0 million at 31 December 2019 (prior year: CHF 113.0 million). An impairment test was performed using a discounted cash flow model with assumptions approved by the Group's Board of Directors. The impairment test supported the equity both of the Group as a whole and of the business segments individually.

## 7. Information by segment

### 7.1 Information by business segment

CHF 1,000	Machining Solutions		Automation		Corporate / Eliminations		Total Group	
	2019	2018	2019	2018	2019	2018	2019	2018
Net sales – third party	151,401	160,238	176,641	154,859	-489	-405	327,553	314,692
Net sales – Group	62	37	529	295	-591	-332	0	0
<b>Total net sales</b>	<b>151,463</b>	<b>160,275</b>	<b>177,170</b>	<b>155,154</b>	<b>-1,080</b>	<b>-737</b>	<b>327,553</b>	<b>314,692</b>
<b>Operating result</b>	<b>1,109</b>	<b>4,211</b>	<b>12,917</b>	<b>8,416</b>	<b>-70</b>	<b>110</b>	<b>13,956</b>	<b>12,737</b>
<b>Earnings before interest and taxes (EBIT)</b>	<b>1,109</b>	<b>4,211</b>	<b>12,917</b>	<b>8,416</b>	<b>91</b>	<b>1,242</b>	<b>14,117</b>	<b>13,869</b>

CHF 1,000	Machining Solutions		Automation		Corporate / Eliminations		Total Group	
	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Assets excluding cash and cash equivalents and current financial assets	140,497	137,505	116,669	123,444	-11,798	-16,028	245,368	244,921
Cash and cash equivalents	3,435	4,647	14,376	3,444	20,181	19,476	37,992	27,567
Current financial assets	0	0	106	0	6,046	17,033	6,152	17,033
<b>Total assets</b>	<b>143,932</b>	<b>142,152</b>	<b>131,151</b>	<b>126,888</b>	<b>14,429</b>	<b>20,481</b>	<b>289,512</b>	<b>289,521</b>

### 7.2 Information by geographical segment

CHF 1,000	Net sales	
	2019	2018
Switzerland	32,760	28,186
Europe	145,657	167,058
North America	80,799	65,887
Asia/Pacific	57,497	45,472
Others	10,840	8,089
<b>Total net sales</b>	<b>327,553</b>	<b>314,692</b>

## 8. Net earnings per share

### 8.1 Weighted average number of shares

Number	2019	2018
Issued shares at 1 January	16,712,744	16,712,744
Issued shares at 31 December	16,712,744	16,712,744
of which treasury shares	-384,810	-430,420
Adjusted for weighted average	-14,870	310,623
<b>Weighted average number of shares – basic</b>	<b>16,313,064</b>	<b>16,592,947</b>
Effect of dilution	0	0
<b>Weighted average number of shares – diluted</b>	<b>16,313,064</b>	<b>16,592,947</b>

### 8.2 Computation of earnings per share

CHF 1,000, except for per share information	2019	2018
Net earnings	8,766	12,243
Weighted average number of shares – basic	16,313,064	16,592,947
<b>Net earnings per share – undiluted</b>	<b>0.54</b>	<b>0.74</b>
Weighted average number of shares – diluted	16,313,064	16,592,947
<b>Net earnings per share – diluted</b>	<b>0.54</b>	<b>0.74</b>

## Report of the statutory auditor

to the General Meeting of Mikron Holding AG

Biel

### Report on the audit of the consolidated financial statements

#### Opinion

We have audited the consolidated financial statements of Mikron Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2019 and the consolidated income statement, consolidated statement of shareholders' equity and consolidated statement of cash flow 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 68 to 95 and 119) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession 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.

#### Our audit approach

##### Overview



Overall Group materiality: CHF 1'350'000

We performed full scope audits at five reporting units and conducted review procedures at further two reporting units. These reporting units are located across three countries.

Collectively, the components at which audit work was performed accounted for 85% of consolidated revenue.

As key audit matters the following areas of focus have been identified:

- Application of percentage-of-completion method to customer projects
- Impairment assessment of long-lived assets

#### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due

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to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<b>Overall Group materiality</b>	CHF 1'350'000
<b>How we determined it</b>	0.41% of consolidated net revenue
<b>Rationale for the materiality benchmark applied</b>	We chose consolidated net revenue as benchmark to determine our overall group audit materiality, because, in our view, net revenue is an important key performance indicator for a business that was operating near break-even.

We agreed with the Audit Committee that we would report to them misstatements above CHF 100'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

#### Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the legal and divisional structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The Group is structured along two divisional lines, Mikron Machining and Mikron Automation, operating in Switzerland, Germany, North America and Asia. The Group financial statements are a consolidation of 13 reporting units, comprising the Group's businesses and centralised functions.

We conducted full scope audit work at five reporting units. Our full scope audit scope addressed over 80% of the Group's revenue. Additionally, review procedures (mainly based on interviews and analytics) were conducted at two reporting units, representing another 5% of the Group's revenue. Supplemental audit procedures were performed at Group level.

#### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, 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.

#### Application of percentage-of-completion method to customer projects

Key audit matter	How our audit addressed the key audit matter
In 2019, Mikron Group realized revenues of CHF 227 million arising from customer projects in both its Machining and Automation divisions.	We tested the customer projects and their treatment in the consolidated financial statements as follows:
The recognition of profits on such contracts in accordance with Swiss GAAP FER 22 "Long term contracts" is based on the stage of completion under the contract activity. This is measured by reference to the proportion of actual contract costs incurred at balance sheet date relative to the estimated total cost of the contract at completion.	<ul style="list-style-type: none"> <li>We obtained an understanding of the relevant processes and control activities (including budgeting, monitoring of projects and month-end procedures), and tested selected controls for effectiveness;</li> <li>We reconciled estimated total revenues to contractual arrangements;</li> <li>We tested significant projects (high value or high risk projects) completed in 2019 to compare the</li> </ul>
The measurement of profits on customer projects recognized at the balance sheet date is a key audit matter because of the value of revenue and costs impacted and the	



<p>level of judgment involved in estimating the forecasted costs and revenues under these contracts.</p>	<p>total cost incurred with previous estimates to assess accuracy of estimates;</p>
<p>An inappropriate application of the percentage-of-completion method could result in a material variance in the amount of profit or loss recognized at the balance sheet date and thus also in the current period.</p>	<ul style="list-style-type: none"> <li>• We performed procedures to test the allocation of personnel, machining and material costs to individual projects;</li> <li>• We tested prepayments and payments received from customers and the allocation to the correct projects;</li> <li>• We tested the project valuation calculations and reconciled information to the general ledgers;</li> <li>• We inquired project managers to gain a more in-depth understanding of the portfolio of projects and related risks, and to challenge management's assumptions and estimates applied in the valuation of these projects.</li> </ul>
<p>Refer to notes 2.5.5 "accounting policy for customer projects", note 4.1 "net sales" and note 5.4 "customer projects" of the Consolidated Financial Statements 2019.</p>	<p>We were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently reasonable and supportable with reference to historical data to justify the recognition and measurement of the profits associated with customer projects.</p>

#### Impairment assessment of long-lived assets

Key audit matter	How our audit addressed the key audit matter
<p>We focused on this area because the carrying amount of consolidated equity at 31 December 2019 exceeds Mikron Group's stock market capitalization.</p>	<p>We assessed management's impairment test as follows:</p>
<p>Responding to this impairment indicator, management tested the Group's long-lived assets for impairment at group and division level by preparing a discounted cash flow forecast.</p>	<ul style="list-style-type: none"> <li>• We assessed management's medium-term cash flow forecasts, as derived from its business plans and approved by the Board of Directors while considering accuracy of past management forecasts. We further assessed the determination of the long-term sales and cost growth rates applied underlying the impairment test by comparison to economic and industry forecasts</li> </ul>
<p>We focused on this area because the impairment assessment involves significant judgments and estimates to be made in respect of the cash flow forecast and in particular, the determination of significant assumptions, including discount rates and rates of long-term sales and cost growth.</p>	<ul style="list-style-type: none"> <li>• We analyzed and challenged management's assessment of the Group's future results by performing sensitivity analyses;</li> </ul>
<p>Refer to the Group's accounting policy summarized in note 2.5.9, "impairment of non-current assets", and note 6.6 "impairment test on group level" of the Consolidated Financial Statements 2019.</p>	<ul style="list-style-type: none"> <li>• We assessed management's rate to reflect weighted average cost of capital applied in the calculation, based on a comparison with observable data where readily available;</li> <li>• We re-performed the mathematical accuracy of the impairment tests.</li> </ul>
<p>.</p>	<p>Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations and we are of the view that these are a reasonable basis for impairment testing purposes.</p>



#### Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER 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 and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



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

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

PricewaterhouseCoopers AG



Norbert Kühnis  
Audit expert  
Auditor in charge



René Jenni  
Audit expert

Bern, 13 March 2020



## 5-Year Financial Summary

in CHF million, except number of employees	2019		2018		2017		2016		2015	
<b>Key performance data</b>										
Order intake	288.5		362.3		278.9		243.6		264.6	
Net sales	327.6		314.7		248.5		256.0		228.6	
Order backlog	157.4		195.7		157.2		122.9		142.9	
Research and development	10.4		11.6		8.8		7.1		5.7	
Number of employees (end of year, in full-time equivalents)	1,486		1,398		1,275		1,249		1,181	
Investments incl. acquisitions of subsidiaries – net	18.5		15.9		10.2		8.7		16.7	
<b>Earnings</b>										
Earnings before interest, taxes, depreciation and amortization (EBITDA), as % of net sales	22.9	7.0%	22.2	7.1%	11.2	4.5%	12.6	4.9%	10.0	4.4%
Earnings before interest and taxes (EBIT), as % of net sales	14.1	4.3%	13.9	4.4%	2.8	1.1%	4.1	1.6%	2.5	1.1%
Operating result, as % of net sales	14.0	4.3%	12.7	4.0%	1.3	0.5%	2.8	1.1%	1.1	0.5%
Ordinary result, as % of net sales	13.5	4.1%	11.7	3.7%	0.8	0.3%	1.8	0.7%	-0.1	-0.0%
Profit for the year, as % of net sales	8.8	2.7%	12.2	3.9%	1.2	0.5%	2.3	0.9%	0.9	0.4%
<b>Cash flow</b>										
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	7.3	2.2%	20.1	6.4%	15.6	6.3%	12.8	5.0%	15.5	6.8%
Operating free cash flow (prior to acquisitions and changes in current financial assets)	-3.5		8.2		7.0		5.3		2.3	
<b>Balance sheet</b>										
Balance sheet total	289.5		289.5		265.7		251.8		243.9	
Current assets	178.0		185.0		170.5		158.2		151.5	
Non-current assets	111.5		104.5		95.2		93.6		92.4	
Current liabilities	103.6		110.0		95.7		68.6		63.4	
Long-term liabilities	16.6		15.2		12.7		26.8		25.9	
Shareholders' equity, as % of balance sheet total	169.2	58.5%	164.3	56.8%	157.3	59.2%	156.3	62.1%	154.6	63.4%

# Alternative Performance Measures

In external communications, Mikron discloses performance measures that are not defined in Swiss GAAP FER. The description and, where applicable, the calculation from performance measures as per Swiss GAAP FER are listed below.

## Order intake

Order intake includes all customer orders for goods and services received from customers, irrespective of whether the goods and services have been delivered or not. Blanket orders are only recognized as order intake when the goods are being called off.

## Order backlog

The order backlog represents that part of the cumulative past order intake that has not yet been recognized as sales at the current balance sheet date. The order backlog equals the amount of sales that will, applying the current exchange rates of the orders, be realized when all open customer orders are concluded. The order backlog of customer projects managed applying the percentage of completion method corresponds to the order intake less the accrued sales according to the stage of completion of each project.

## EBITDA

The earnings before interest, taxes, depreciation and amortization (EBITDA) represent the total of the operating and non-operating result, adding back the depreciation for tangible assets, the amortization for intangible assets and the revaluation of the investment property.

EBITDA	2019	2018	Reference
Operating result	13,956	12,737	Consolidated income statement
+ Non-operating result	161	1,132	Consolidated income statement
+ Depreciation of tangible assets	6,885	6,242	Consolidated income statement
+ Amortization of intangible assets	1,375	1,704	Consolidated income statement
+ Revaluation investment property	493	386	Note 5.7
<b>EBITDA</b>	<b>22,870</b>	<b>22,201</b>	

## EBIT

The earnings before interest and taxes (EBIT) represent the total of the operating and non-operating result.

EBIT	2019	2018	Reference
Operating result	13,956	12,737	Consolidated income statement
+ Non-operating result	161	1,132	Consolidated income statement
<b>EBIT</b>	<b>14,117</b>	<b>13,869</b>	

## Operating free cash flow

The operating free cash flow represents the total of the cash flow from operating activities and the cash flow from investing activities, the latter excluding the investments in and divestments of financial assets.

Operating free cash flow	2019	2018	Reference
Cash flow from operating activities	7,281	20,107	Consolidated statement of cash flow
+ Cash flow from investing activities	-52	-13,679	Consolidated statement of cash flow
– Investments in financial assets	0	-9,336	Consolidated statement of cash flow
– Divestments of financial assets	10,688	7,542	Consolidated statement of cash flow
<b>Operating free cash flow</b>	<b>-3,459</b>	<b>8,222</b>	

## Free cash flow

The free cash flow represents the total of the cash flow from operating activities and the cash flow from investing activities.

Free cash flow	2019	2018	Reference
Cash flow from operating activities	7,281	20,107	Consolidated statement of cash flow
+ Cash flow from investing activities	-52	-13,679	Consolidated statement of cash flow
<b>Free cash flow</b>	<b>7,229</b>	<b>6,428</b>	

## Net working capital

The net working capital is the net amount of the current assets and the current liabilities that stand in relation to the business activities.

Net working capital	2019	2018	Reference
Accounts receivable	21,889	24,110	Consolidated balance sheet
+ Inventories	61,171	65,532	Consolidated balance sheet
+ Net assets from customer projects	40,764	41,460	Consolidated balance sheet
+ Other current receivables	4,800	5,302	Consolidated balance sheet
+ Prepaid expenses	5,276	3,977	Consolidated balance sheet
– Accounts payable	20,205	25,971	Consolidated balance sheet
– Net liabilities from customer projects	39,621	51,341	Consolidated balance sheet
– Short-term provisions	9,791	5,805	Consolidated balance sheet
– Other current liabilities	3,536	4,316	Consolidated balance sheet
– Accrued expenses	18,969	20,629	Consolidated balance sheet
<b>Net working capital</b>	<b>41,778</b>	<b>32,319</b>	

## Net debt

The net debt compares financial assets and financial liabilities.

Net debt	2019	2018	Reference
– Cash and cash equivalents	37,992	27,567	Consolidated balance sheet
– Current financial assets	6,152	17,033	Consolidated balance sheet
+ Derivative financial instruments	33	186	Note 5.1
+ Short-term financial liabilities	11,527	1,967	Consolidated balance sheet
+ Long-term financial liabilities	10,063	8,605	Consolidated balance sheet
<b>Net debt</b>	<b>-22,521</b>	<b>-33,842</b>	

## Equity ratio

The equity ratio corresponds to the Group's total equity divided by the balance sheet total.

Equity ratio	2019	2018	Reference
Total shareholders' equity	169,220	164,309	Consolidated balance sheet
Total assets	289,512	289,521	Consolidated balance sheet
<b>Equity ratio</b>	<b>58.5%</b>	<b>56.8%</b>	

## Number of employees

The number of employees is the total of the full-time equivalent of all employees. The total headcount is higher than the Group's full-time equivalent as not all employees are working full-time.

## Information on Share Capital

	2019	2018	2017	2016	2015
<b>Number of shares<sup>1)</sup></b>					
Registered shares	16,712,744	16,712,744	16,712,744	16,712,744	16,712,744
<b>Total</b>	<b>16,712,744</b>	<b>16,712,744</b>	<b>16,712,744</b>	<b>16,712,744</b>	<b>16,712,744</b>
<b>Key figures per share in CHF<sup>2)</sup></b>					
Profit	0.54	0.74	0.07	0.14	0.06
Cash flow from operating activities	0.45	1.21	0.94	0.77	0.93
Shareholders' equity	10.37	9.90	9.41	9.36	9.25
Distribution to shareholders	0.20	0.05	0.05	0.05	0.05
<b>Share price SIX Swiss Exchange</b>					
At 31 December	6.76	6.76	7.30	6.10	5.93
High/low close during business year	9.26–6.02	10.45–6.40	7.61–5.80	6.80–5.34	7.72–5.19

1) All shares are entitled to dividends/distributions.

2) Based on the weighted average number of shares

### Trading volume (daily average)

In the 2019 fiscal year the average daily trade volume was 10,765 shares (prior year: 10,664 shares).

### Share performance

as %





# Mikron Holding AG

# Financial Report 2019

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# Financial Statements 2019 of Mikron Holding AG

## Profit and loss statement

CHF 1,000	Note	2019	2018
Services and other income		3,340	3,186
Other operating expenses		-3,347	-2,531
<b>Earnings before interest and taxes</b>		<b>-7</b>	<b>655</b>
Income from revaluation of investments and loans	2	3,488	7,084
Other financial income	3	4,353	4,090
<b>Total financial income</b>		<b>7,841</b>	<b>11,174</b>
Expenses from revaluation of investments and loans	2	-7,881	-5,431
Other financial expenses	3	-3,212	-3,776
<b>Total financial expenses</b>		<b>-11,093</b>	<b>-9,207</b>
<b>Loss/profit for the year</b>		<b>-3,259</b>	<b>2,622</b>

## Balance sheet

CHF 1,000	Note	31.12.2019	31.12.2018
<b>Current assets</b>			
Cash and cash equivalents and short-term investments with a quoted market price		26,187	36,112
Short-term interest-bearing receivables		18,744	10,171
<i>Due from Group companies</i>		18,744	10,171
Other current receivables		654	812
<i>Due from third parties</i>		169	332
<i>Due from Group companies</i>		485	480
Accrued income and prepaid expenses		472	320
<b>Total current assets</b>		<b>46,057</b>	<b>47,415</b>
<b>Non-current assets</b>			
Investments	2, 4	63,343	56,318
Financial assets		61,902	71,231
<i>Loans to Group companies</i>	2, 5	61,902	71,231
<b>Total non-current assets</b>		<b>125,245</b>	<b>127,549</b>
<b>Total assets</b>		<b>171,302</b>	<b>174,964</b>
<b>Current liabilities</b>			
Short-term interest-bearing liabilities		46,351	43,393
<i>Due to Group companies</i>		46,351	43,393
Other short-term liabilities		306	274
<i>Due to third parties</i>		75	98
<i>Due to Group companies</i>		231	176
Accrued expenses and deferred income		524	598
<b>Total current liabilities</b>		<b>47,181</b>	<b>44,265</b>
<b>Long-term liabilities</b>			
Long-term interest-bearing liabilities		4,839	5,262
<i>Due to Group companies</i>		4,839	5,262
<b>Total long-term liabilities</b>		<b>4,839</b>	<b>5,262</b>
<b>Total liabilities</b>		<b>52,020</b>	<b>49,527</b>
<b>Shareholders' equity</b>			
Share capital		1,671	1,671
Legal reserves		95,901	99,158
<i>Reserves from capital contribution</i>		95,901	99,158
Profit carried forward		28,627	26,078
Loss/profit for the year		-3,259	2,622
Treasury shares		-3,658	-4,092
<b>Total shareholders' equity</b>	6	<b>119,282</b>	<b>125,437</b>
<b>Total liabilities and shareholders' equity</b>		<b>171,302</b>	<b>174,964</b>

# Notes to the Financial Statements 2019 of Mikron Holding AG

## 1. Accounting principles applied in the preparation of the financial statements

These financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b CO, effective since 1 January 2013). Significant financial statement items are accounted for as follows:

### Recognition of revenue

Revenues comprise all proceeds from services rendered by Mikron Holding AG. These revenues are recognized if the amount of revenue can be reliably measured and it is sufficiently probable that the economic benefits will flow to Mikron Holding AG.

### Services and other income

The services and other income materially only include a fee charged to Group companies for the use of the Mikron trademark.

### Other operating expenses

The other operating expenses include the costs for the administration of the Group, costs for maintenance of the trademarks and their protection as well as the compensation of the Board of Directors.

### Cash and cash equivalents and short-term investments with a quoted market price

Cash and cash equivalents are stated at their nominal value. Excessive cash is partially invested in marketable securities that are stated at market value.

### Loans to and loans from Group companies

Loans to Group companies are stated at cost less impairment and loans from Group companies at their nominal value. For entities with negative equity as per the valuation of the investment a corresponding impairment is recognized on the respective loans to those Group companies. The short-/long-term classification is assessed based on the expected cash flows of the individual companies. Maturities of third-party financing contracts in the individual Group companies are taken into consideration.

### Investments

Investments exclusively comprise investments in Group companies and are reported at cost less impairments. The assessment of the recoverable amount of these investments is based on the individual equity value of the subsidiaries measured in accordance with Swiss GAAP FER.

### Foreign currencies

Monetary and non-monetary items in foreign currency are translated into Swiss francs at the following exchange rates:

Currency	Average rate 2019	Closing rate 31.12.2019
1 EUR	1.11	1.09
1 USD	0.99	0.98
1 SGD	0.73	0.72
1 CNY	0.14	0.14

The exchange rates used for balance sheet items are the rates prevailing on 31 December; the exchange rates used for transactions conducted during the course of the year and for items in the profit and loss statement are set on a monthly basis. As an indication the unweighted average rates for the 2019 financial year are disclosed.

## 2. Financial income and expenses from investments and revaluation of loans

CHF 1,000	2019	2018
Revaluation of investments and loans	3,488	7,084
<b>Total financial income from investments and loans</b>	<b>3,488</b>	<b>7,084</b>
Revaluation of investments and loans	-7,881	-5,431
<b>Total financial expenses from investments and loans</b>	<b>-7,881</b>	<b>-5,431</b>
<b>Net financial expenses/income from investments and revaluation of loans</b>	<b>-4,393</b>	<b>1,653</b>

## 3. Other financial income and expenses

CHF 1,000	2019	2018
Interest income from Group companies	2,685	2,054
Interest income from third parties	290	249
Foreign exchange gains	1,350	1,703
Other financial income	28	84
<b>Total other financial income</b>	<b>4,353</b>	<b>4,090</b>
Interest expense to Group companies	-403	-389
Interest expense to third parties	-1	0
Foreign exchange losses	-2,298	-2,392
Other financial expenses	-510	-995
<b>Total other financial expenses</b>	<b>-3,212</b>	<b>-3,776</b>
<b>Net other financial income</b>	<b>1,141</b>	<b>314</b>

## 4. Major investments

Please refer to page 119.

## 5. Subordinated loan

Loans to Group companies include subordinated loans amounting to CHF 21.5 million (prior year: CHF 21.5 million).

## 6. Statement of shareholders' equity

CHF 1,000	Share capital	Reserves from capital contribution	Treasury shares	Profit carried forward	Shareholders' equity
<b>Balance at 31.12.2017</b>	<b>1,671</b>	<b>99,993</b>	<b>-68</b>	<b>26,063</b>	<b>127,659</b>
Profit 2018				2,622	2,622
Proceeds/payments for change in treasury shares			-4,024	15	-4,009
Distribution to shareholders		-835			-835
<b>Balance at 31.12.2018</b>	<b>1,671</b>	<b>99,158</b>	<b>-4,092</b>	<b>28,700</b>	<b>125,437</b>
Loss 2019				-3,259	-3,259
Proceeds/payments for change in treasury shares			434	-73	361
Distribution to shareholders		-3,257			-3,257
<b>Balance at 31.12.2019</b>	<b>1,671</b>	<b>95,901</b>	<b>-3,658</b>	<b>25,368</b>	<b>119,282</b>

In 2019 the company granted 20,610 treasury shares to Group Management (prior year: 10,000) and 25,000 treasury shares to the Board of Directors (prior year: none) at no consideration, sold no shares (prior year: none) and acquired no treasury shares (prior year: 430,420 shares). At 31 December 2019 Mikron Holding AG, Biel, owned 384,810 treasury shares (prior year: 430,420 shares).

## 7. Significant shareholders and their investment

As of 31 December 2019, there are two shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Bern, 41.8%; Mr. Rudolf Maag, Binningen, 14.1%). No other single shareholder holds 5% or more of the voting rights. Ammann Group Holding AG is represented on the Board of Directors by Mr. Kilchmann.

## 8. Shares held by members of the Board of Directors and Group Management

	31.12.2019		31.12.2018	
	Number of shares	Voting power	Number of shares	Voting power
<b>Board of Directors</b>				
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	0.00%
H.-M. Hauser, Member	4,000	0.02%	0	0.00%
<b>Group Management</b>				
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%

## 9. Debt guarantees, guarantee obligations and liens in favor of third parties

### Collateral for third-party liabilities

CHF 1,000	31.12.2019	31.12.2018
Guarantees in favor of bank syndicate	55,000	55,000
Guarantees for Group companies	22,081	24,221

### Assets used to secure own liabilities and assets under reservation of ownership

CHF 1,000	31.12.2019	31.12.2018
Assets pledged as securities for liabilities	26,841	36,923

## 10. Number of employees

The number of full-time equivalents did not exceed 10 on an annual average basis.

# Proposed appropriation of retained earnings and capital reserves

## Retained earnings

CHF 1,000	2019	2018
Profit carried forward at the beginning of the period	28,700	26,063
Shortfall in / excess proceeds from sale of treasury shares	-73	15
Loss/profit for the year	-3,259	2,622
<b>Profit carried forward available to the General Meeting</b>	<b>25,368</b>	<b>28,700</b>

The Board of Directors proposes to the Annual General Meeting of Shareholders that the profit carried forward of CHF 25.4 million for the year ended 31 December 2019 be appropriated as follows:

CHF 1,000	2019 Motion of the Board of Directors	2018 Resolution of the General Meeting
Profit carried forward available to the General Meeting	25,368	28,700
Distribution to shareholders	-501	
<b>Carried forward</b>	<b>24,867</b>	<b>28,700</b>

## Reserves from capital contribution

The Board of Directors also proposes to the Annual General Meeting of Shareholders that a portion of the reserves from capital contribution be allocated as follows:

CHF 1,000	2019 Motion of the Board of Directors	2018 Resolution of the General Meeting
Reserves from capital contribution	95,901	99,158
Allocation to voluntary retained earnings and distribution to shareholders	-501	-3,257
<b>Carried forward</b>	<b>95,400</b>	<b>95,901</b>

# Report of the Statutory Auditor

## Report of the statutory auditor

to the General Meeting of Mikron Holding AG

Biel

### Report on the audit of the financial statements

#### Opinion

We have audited the financial statements of Mikron Holding AG, which comprise the profit and loss statement, the balance sheet as at 31 December 2019 and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 108 to 114 and 119) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

#### Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Our audit approach

Overview	
	<p>Overall materiality: CHF 1'350'000</p> <p>We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.</p> <p>As key audit matter the following area of focus has been identified:</p> <p>Risk of impairment of investments in subsidiaries and loans to group companies</p>

#### Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or

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error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

<b>Overall materiality</b>	CHF 1'350'000
<b>How we determined it</b>	0.79% of total assets
<b>Rationale for the materiality benchmark applied</b>	We chose total assets as the benchmark to determine our overall audit materiality, because, in our view, this metric is the most relevant factor when assessing a holding company which has limited operating activities, and which holds mainly investments in subsidiaries and loans to group companies.

We agreed with the Audit Committee that we would report to them misstatements above CHF 100'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

#### Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

#### Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

#### Risk of impairment of investments in subsidiaries and loans to group companies

Key audit matter	How our audit addressed the key audit matter
<p>At 31 December 2019, the carrying values of the company's investments, and loans to group companies amount to CHF 63.3 million and CHF 61.9 million, respectively. We focused our audit on these assets because of the materiality of the account balances, the judgment involved in the assessment of recoverability of these assets and in light of the financial performance of certain subsidiaries pertaining to Mikron's Machining division that has been performing below management's expectations in recent years. Further, the carrying amount of equity at 31 December 2019 exceeds Mikron Holding's stock market capitalization.</p> <p>Responding to these impairment indicators, Management has assessed the recoverability of the company's loans to group companies and investments in subsidiaries.</p> <p>This impairment assessment, which was approved by the Board of Directors, involves significant judgment. It is</p>	<p>We tested management's assessment of the recoverability of these investments and loans as follows:</p> <ul style="list-style-type: none"> <li>• We analyzed and challenged managements' assessment of the businesses' future results, as reflected in the corresponding budgets and business forecasts of Mikron Group;</li> <li>• We re-performed management's calculation of recoverable values to assess the recoverability of loans to and investments in subsidiaries;</li> <li>• We reconciled the information used in the tests to underlying data records and accounting systems.</li> <li>• We obtained evidence of the approval by the Board of Directors.</li> </ul>



based on an analysis of the respective equity of the subsidiary at balance sheet date, their past results and medium-term business forecasts.

Based on our audit work we assess management's impairment test as adequate considering the relevant facts and circumstances.

Refer to the company's accounting policy summarized in note 1.

#### Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism 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 entity'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 entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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



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 paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings and reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Norbert Kühnis  
Audit expert  
Auditor in charge



René Jenni  
Audit expert

Bern, 13 March 2020



# Group Companies/ Investments Mikron Holding AG

Local Currency 1,000	Activity	Currency	Share capital		Shareholding direct		Shareholding indirect	
			2019	2018	2019	2018	2019	2018
<b>Switzerland</b>								
Mikron Holding AG, Biel	1	CHF	1,671	1,671				
Mikron Management AG, Langenthal	1	CHF	12,000	12,000	100%	100%		
Mikron SA Agno, Agno	2, 3	CHF	13,500	13,500	100%	100%		
Mikron SA Boudry, Boudry	2, 3	CHF	2,000	2,000	100%	100%		
Mikron Tool SA Agno, Agno	2, 3	CHF	300	300	100%	100%		
<b>Germany</b>								
Mikron GmbH Rottweil, Rottweil	2, 3	EUR	383	383	100%	100%		
Mikron Berlin GmbH, Berlin	2, 3	EUR	515	515	100%	100%		
<b>Lithuania</b>								
UAB Mikron Kaunas, Kaunas	2, 3	EUR	400		100%			
<b>Singapore</b>								
Mikron Singapore Pte. Ltd., Singapore	2, 3	SGD	6,781	6,781	100%	100%		
<b>P.R. China</b>								
Mikron Industrial Equipment (Shanghai) Co., Ltd., Shanghai	2, 3	CNY	26,238	12,474			100%	100%
Mikron Tool (Shanghai) Co., Ltd., Shanghai	2, 3	CNY	403		100%			
<b>USA</b>								
Mikron Corp. Denver, Englewood	2, 3	USD	10	10			100%	100%
Mikron Corp. Monroe, Monroe	3	USD	3,500	3,500	100%	100%		

#### Activity

- 1 = Management/service
- 2 = Production/development
- 3 = Sales/service

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The Mikron Group develops, produces and markets highly precise, productive, and adaptable automation solutions, machining systems and cutting tools. Rooted in the Swiss culture of innovation, Mikron is a global partner to companies in the automotive, pharmaceutical, medtech, consumer goods, writing instruments and watchmaking industries.

## Production sites and service centers

1. Mikron SA Boudry
2. Mikron SA Agno  
Mikron Tool SA Agno
3. Mikron GmbH Rottweil
4. Mikron Berlin GmbH
5. UAB Mikron Kaunas
6. Mikron Corp. Denver
7. Mikron Corp. Monroe
8. Mikron Industrial Equipment  
(Shanghai) Co., Ltd.
9. Mikron Singapore Pte Ltd



