

Annual Report 2018



The Mikron Group significantly increased order intake and sales in 2018 compared with the previous year, while improving profitability. Both business segments contributed to this positive performance. Overall, the Group achieved sales of CHF 314.7 million (prior year: 248.5 million, + 26.6%) together with order intake of CHF 362.3 million (prior year: CHF 278.9 million, + 29.9%). The order backlog reached a record CHF 195.7 million on December 31, 2018 (end of 2017: CHF 157.2 million, + 24.5%). With EBIT at CHF 13.9 million (prior year: CHF 2.8 million, + 396.4%) the Group improved its EBIT margin from 1.1% in 2017 to 4.4%.

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.

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. Mikron Corp. Denver
6. Mikron Industrial Equipment
(Shanghai) Co., Ltd.
7. Mikron Singapore Pte Ltd
8. Mikron Corp. Monroe

Content

3	Letter to the Shareholders
4	Key Figures
6	Interview with the Chairman of the Board of Directors and the CEO
10	Innovation at Mikron
20	Year of anniversaries
22	The Mikron Group
24	Highlights 2018
27	Management Report
41	Mikron Automation
47	Mikron Machining Solutions
53	Corporate Governance Report
73	Compensation Report
81	Mikron Group Financial Report 2018
117	Mikron Holding AG Financial Report 2018
129	Group Companies / Investments Mikron Holding AG

Dear Shareholders,

Although political and economic uncertainties increased during 2018, the Mikron Group enjoyed solid growth. Interest in Mikron's products and services remained strong over the past financial year as a whole, resulting in good capacity utilization at all operations and businesses. Some of our companies even reached their capacity limits.

Mikron Automation in particular was able to book some large and very important orders which prove the trust of globally leading, blue-chip pharmaceutical customers. The cutting tool business also continued to benefit from very well utilized customer operations. More and more customers rely on our cutting tools, which often outperform competitor products by far. Finally, the service business also benefited from digitalization trends and from customers with good capacity utilization who required various kinds of services and regular spare parts supplies. The innovation activities of Mikron Machining continued, while the release of the Mikron 6x6 machine at the AMB show attracted a great deal of attention and positive market feedback. However, the detailed work of testing and fine-tuning the new machine platforms will continue in 2019.

After a good first half of 2018, Mikron booked a record number of orders in the second half of the year, which gives us a positive outlook for the current business year. Market conditions and the global economy overall are quite fragile. Based on our customers' feedback, however, we assume that market conditions will not change significantly in the current year. Based on the overall good order backlog and our customers signaling a stable workload and service needs, we are expecting a further rise in sales and profitability.

We would like to thank all Mikron employees for their tireless dedication over the past year, our customers for their confidence, and you, our valued shareholders, for your loyalty.



Heinrich Spoerry,
Chairman of the Board of Directors



Bruno Cathomen,
Chief Executive Officer

Key Figures 2018

in CHF million, except productivity and number of employees

2018

2017

+/-

	2018		2017		+/-
Key performance data					
Order intake	362.3		278.9		83.4 29.9%
Machining Solutions	162.2		152.9		9.3 6.1%
Automation	200.9		126.0		74.9 59.4%
Net sales	314.7		248.5		66.2 26.6%
Machining Solutions	160.3		124.1		36.2 29.2%
Automation	155.2		124.6		30.6 24.6%
Order backlog	195.7		157.2		38.5 24.5%
Machining Solutions	68.0		75.2		-7.2 -9.6%
Automation	128.2		82.2		46.0 56.0%
Productivity (added value/personnel expenses)	1.53		1.40		0.13 9.3%
Research and development	11.6		8.8		2.8 31.8%
Number of employees (end of year)	1,398		1,275		123 9.6%
Machining Solutions	695		627		68 10.8%
Automation	679		622		57 9.2%
Earnings					
Earnings before interest, taxes, depreciation, amortization and impairment (EBITDA), as % of net sales	22.2	7.1%	11.2	4.5%	11.0
Earnings before interest and taxes (EBIT), as % of net sales	13.9	4.4%	2.8	1.1%	11.1
Machining Solutions	4.2	2.6%	-1.6	-1.3%	5.8
Automation	8.4	5.4%	3.1	2.5%	5.3
Operating result, as % of net sales	12.7	4.0%	1.3	0.5%	11.4
Profit for the year, as % of net sales	12.2	3.9%	1.2	0.5%	11.0
Cash flow					
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	20.1	6.4%	15.6	6.3%	4.5 28.8%
Balance sheet					
Balance sheet total	289.5		265.7		23.8 9.0%
Current assets	185.0		170.5		14.5 8.5%
Cash and current financial assets	44.6		57.6		-13.0 -22.6%
Non-current assets	104.5		95.2		9.3 9.8%
Current liabilities	110.0		95.7		14.3 14.9%
Long-term liabilities	15.2		12.7		2.5 19.7%
Shareholders' equity, as % of balance sheet total	164.3	56.8%	157.3	59.2%	7.0 4.5%

Mikron Group

2018

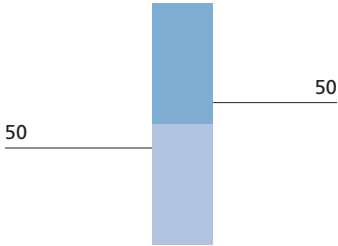
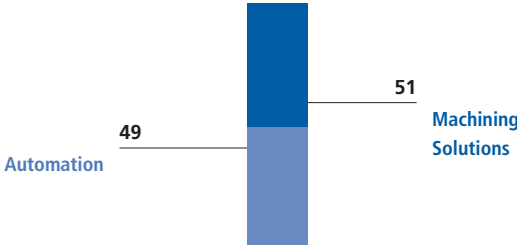
2017

Sales

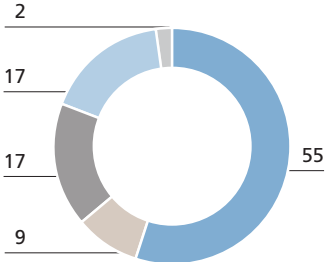
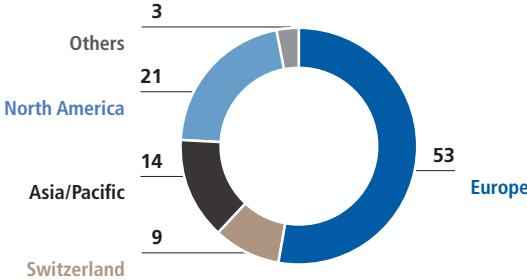
CHF 314.7 million

CHF 248.5 million

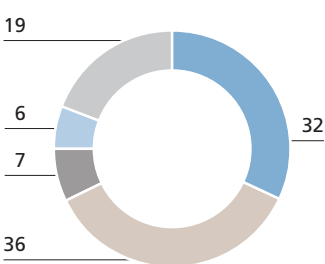
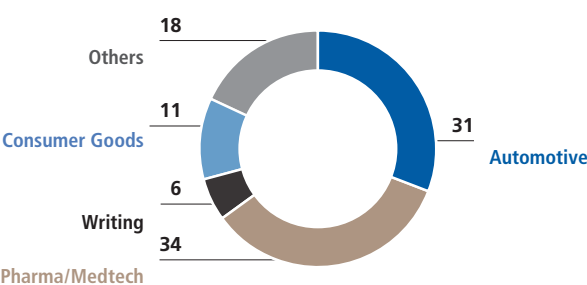
By segment in %



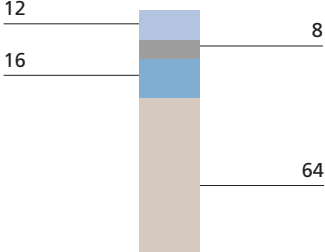
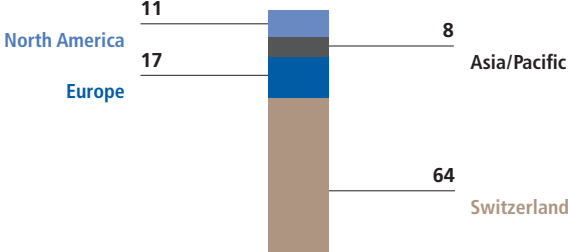
By region in %



By industry in %



Employees by region in %



Total 1,398

Total 1,275

“The excellent order intake at Mikron Automation and the outstanding performance of Mikron Tool were two of many highlights in 2018.”

Bruno Cathomen,
CEO

What were the personal highlights for you in the 2018 financial year?

BRUNO CATHOMEN: There were actually quite a few in 2018: The good order intake at Mikron Automation is certainly among them. It's not only the bare figures that are encouraging, but especially also the fact that they testify to the confidence that our customers have in us. I would also call the outstanding performance by our tool business a highlight. And then there were the various company anniversaries which we were privileged to celebrate in 2018 – all delightful and memorable experiences for me personally.

HEINRICH SPOERRY: I had an opportunity to visit our site in Denver in 2018. The professionalism of the team and the infrastructure in place there left a deep impression on me, as did the organization and processes. I also very much liked our attendance at the International Exhibition for Metal Working (AMB), the key fair on the Machining Solutions calendar. Trade visitors had a chance to experience first-hand our new Mikron 6x6 machine along with other innovations, and to see practical and impressive demonstrations of the digital services developed by Mikron.

Where are you now with your two major Mikron Machining innovation projects?

HEINRICH SPOERRY: We have achieved the modularity and versatility we are aiming for with Mikron 6x6 thanks to the six table types that can each be combined with six automation options. Now we have to test all aspects of the technical features, optimize the machine, and successively bring it to market in 2019. The new rotary transfer machine being developed in Agno is also taking shape. We plan to unveil it to the public for the first time at the EMO in fall 2019.

BRUNO CATHOMEN: Yes, both development projects are at an advanced stage. As is usually the case, preparing the market launch takes time because parallel to selling and constructing the first machines, we have to carry out testing and optimizations on concrete customer applications. That's why we progress in stages, systematically gathering experience and quickly applying it to subsequent projects. Incidentally, besides these two large Mikron Machining development projects, we have also brought various innovations to market at Mikron Automation and Mikron Tool.



Bruno Cathomen,
Chief Executive Officer

Heinrich Spoerry,
Chairman of the Board
of Directors

“With the two new platforms we want to expand our target markets over the medium term and streamline our product portfolio of Mikron Machining.”

Heinrich Spoerry,
Chairman of the Board of Directors

How do you plan to further improve the Group's profitability?

BRUNO CATHOMEN: In 2018, we took a step towards achieving our EBIT target margin of 5–7%. And given the current order backlog, we are also confident about the 2019 financial year. Solid general capacity levels are among the keys to achieving our profitability objectives. The prime goal at Mikron Automation and Mikron Machining Solutions is to complete existing orders on time and on budget. This not only translates into satisfied customers and follow-up orders, it ultimately also makes project business profitable. We aim to optimize our project management skills further. The successful launch of the new machine platforms mentioned is a crucial medium-term factor for the Machining Solutions business segment.

HEINRICH SPOERRY: With the two new platforms we want to expand our target markets over the medium term and streamline our product portfolio. Modularization and standardization within the individual new platforms mean investment security and fast response times for customers. At the same time, less complexity and fewer project risks allow Mikron to reach a broader customer base. In the final analysis, this also represents a sustainable improvement in profitability.

BRUNO CATHOMEN: In addition, we want to continue driving the profitable growth seen by our tool business as well as develop our service operations in all areas. Our investments are channeled not only into machines, infra-

structure and processes, but also into training new employees.

You have split the Machining Solutions business segment into two divisions. What are the objectives for the new division Mikron Tool?

BRUNO CATHOMEN: Our tool business has moved in a very encouraging direction over the last few years. Under the revised structure we aim to drive our strategy further forward and exploit any opportunities that arise within the Machining Solutions business segment even more aggressively. In concrete terms, this means that Mikron Tool is to continue profiting from the machine base installed by Mikron Machining and carry on developing specific tools for new Mikron machines. Concurrently, Mikron Tool will very actively promote its standard tools under the established brand name element “Crazy” (CrazyDrill, CrazyMill, etc.) and internationalize this business further. Thanks to the superior quality and performance of our tools and a continuing stream of new developments, we are convinced that we can grow worldwide with existing and new customers alike.

How have you advanced in terms of Industry 4.0?

HEINRICH SPOERRY: Mikron sells and builds complex customized assembly lines and machining systems. In addition to sophisticated precision mechanics, our core competencies have always included electronics and digital control. Seen in this context, Industry 4.0 is nothing new

at all for Mikron. We have been witnessing a trend in this direction for quite some time now.

BRUNO CATHOMEN: Current and future Industry 4.0 trends are fully integrated into the development of new product platforms. This is based on extensive discussions with our customers – from the machine operator to management – and the broad input they provide. We have also been continually upgrading our established platforms by adding new digital features in line with our customers' requirements. This is particularly true for our service products, for which new features have been established such as connectivity to monitor machines or remote support with smart glasses. It goes without saying that we have also digitalized and optimized our internal processes. That said, we still see plenty of scope here in the area of project management over the medium and long term.

What are your strategic goals for the next three years?

HEINRICH SPOERRY: We aim to increase sales profitably, based on our current operations. The main objective at Mikron Automation is to defend or even expand our top position in Europe and the United States. In Asia, we need to prove ourselves increasingly over the next three years. And via our site in Berlin we plan to build a dominant position in selected future automotive applications. This strategy will be supported by our new operations in Lithuania. We want to successfully bring the two new Mikron Machining product platforms onto the market and then gradually streamline our product portfolio there.

Our goal is for Mikron Tool to continually grow and also gain a foothold in China and elsewhere. The two production sites in Switzerland and Germany are also to be developed and expanded accordingly. In the Services area, we plan to achieve growth with established services and replacement parts business and new digital products, and to further cement customer retention.

What are the strategic and operational focal points for 2019?

BRUNO CATHOMEN: In addition to landing new orders, the top priority at almost all sites is to conclude complex, demanding and partially large customer projects. For Mikron Machining also 2019 will be a year of transformation in which we launch the newly developed machine platforms on the market. This is a task that is both extremely exciting and very challenging. Our sales teams, technical staff, procurement units and management will all be called on to give their utmost. Widescale investments in capacity expansion and new employee training are planned at Mikron Tool. We are giving priority to bringing long delivery times back down to a normal level and further expanding our market presence. At Mikron Automation the focus is on project management, as well as attracting new business in Asia and for select applications in the automotive area.



A&X gleichzeitig drücken.
und Arme bewegen.
Sie laufen immer in die
Richtung, die Sie schauen.



Breaking
down
boundaries.
Changing
perspectives.
Again
and again.



MIKRON

+++ WELTNEUHEIT +++

6

X

6

BELIEBIG
KOMBINIERBAR

SPANNMODULE

6 perfekt abgestimmte Spannmodule
4.5 Axis NC- Rundtisch, liegende
Achse 90° taktend nach oben



The future

Innovation at Mikron means shaping the future.

Innovation is the transformation of an idea into a product, service or process with a value.

We have been rolling out pioneering technologies for 100 years.

They have not only fundamentally changed our own industry, but also the world we live in.

We are thrilled to shine a spotlight on some of our most exciting stories of innovation:

the Mikron 6x6 modular product platform, the EcoLineMini automation system, and the CrazyMill P&S high-performance endmill. However, Mikron's mindset goes beyond purely technological aspects. Processes, tools, methods, and organizational procedures are constantly scrutinized and adapted. Every day from new.

begins today

Mikron Machining

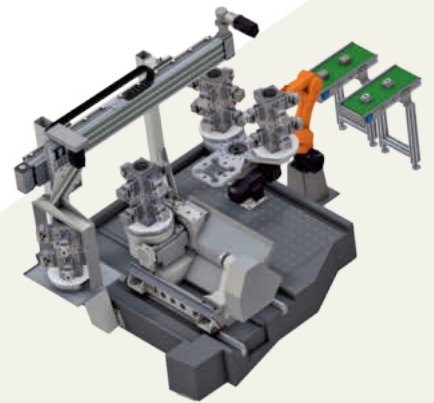
Reinventing machining solutions

The Mikron Machining division's latest innovation initiative yielded the Mikron 6x6 modular machine platform. Presented to the public for the first time in September, the modular Mikron 6x6 machine tool kit is a masterpiece: The product platform with fully integratable automation offers over 102 different combinations and can be perfectly assembled for numerous production situations.

In a competitive market, pressure on costs is rising and the lead time for new products is getting shorter and shorter. So it's no wonder that demand for innovative, cost-optimized solutions has risen dramatically over the past few years. When developing the Mikron 6x6 machine tool platform kit, Mikron focused consistently on what customers need. The system satisfies these requirements with a combination of six perfectly aligned clamping modules and six automation levels in a single or dual-spindle version with high standardization. That means 36 basic assembly variants. It's like with Lego bricks. The customer benefits from a great deal of flexibility to configure his perfect production solution.

Thanks to the choice of single or dual-spindle and the single or multiple clamping options, the new product platform increases the theoretical number of possible combinations to more than 102. This means the Mikron 6x6 platform will always provide a solution for any application and automation requirement, whether for large volumes, small runs or even lot sizes 1.

**AUTOMATIC
PALLET CHANGER**



*6 Automation levels integrated in the same machine bed
No failure-prone interfaces*

THE AUTOMATION

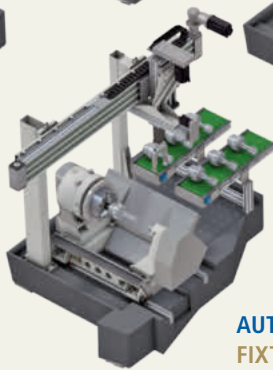
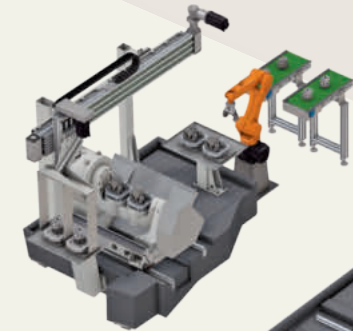
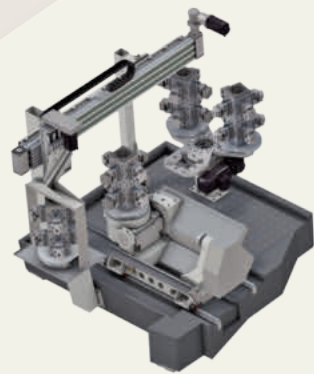
6x6

**Flexibly combinable with
1 or 2 working spindles**

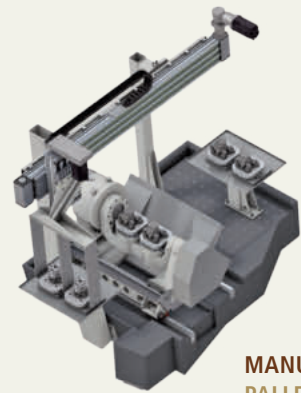
Mikron 6x6

MANUAL
PALLET CHANGER

AUTOMATICALLY
PALLETIZED

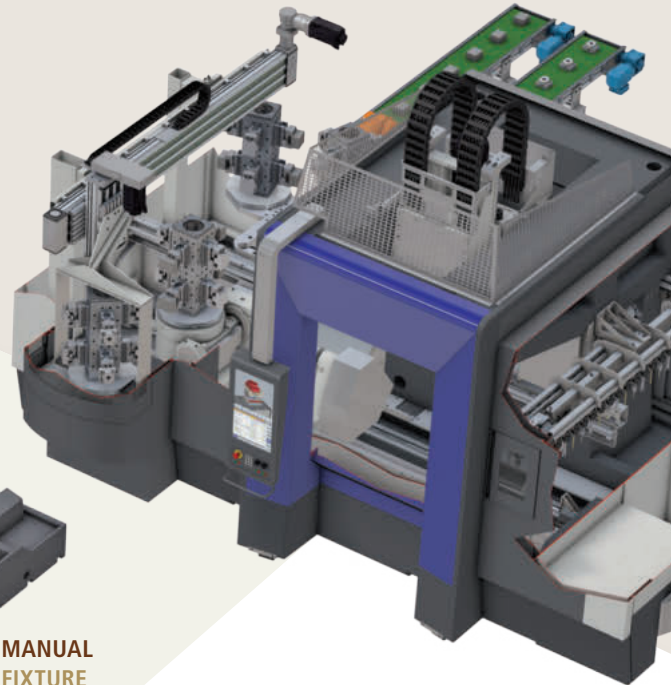


AUTOMATIC
FIXTURE



MANUALLY
PALLETIZED

MANUAL
FIXTURE



3 AXIS
Angle table



4 AXIS
Between centers or chuck
with counter top



4.5 AXIS
NC-round table, 90° clocking
upwards



5 AXIS
Swivel rotary table



5 AXIS
Double swivel rotary table



4 AXIS
Bridge Clamping

THE PART / THE TABLE VARIANTS
6 perfectly aligned clamping modules for highest
requirements and individual machining.

Mikron Tool

New top-class, high-performance endmills

Drills and endmills are two completely different tools: A drill cuts in the direction of the rotational axis, while an endmill is used perpendicularly or at an angle to the rotational axis. The latest cutting tool from Mikron Tool is the first to offer both applications. Process reliable and with a chip removal rate more than ten times higher than rival products.

Drilling vertically into the material, milling a groove, and finishing the mill operation in a single pass – the plunge and slot endmill CrazyMill P&S from Mikron Tool makes this all possible, simply and safely, for the first time in small diameters starting at 1 mm. This multitasking tool with integrated cooling, patented by Mikron Tool, is ideal for bore, ramp, groove, pocket and peripheral milling, especially for difficult to machine materials. This versatility and unmatched performance makes the CrazyMill P&S a unique tool. Customers can not only save time due to an extremely efficient milling high chip removal rate, the plunge mill also saves the need for a second or third tool. When the chips have to be efficiently removed from the machining

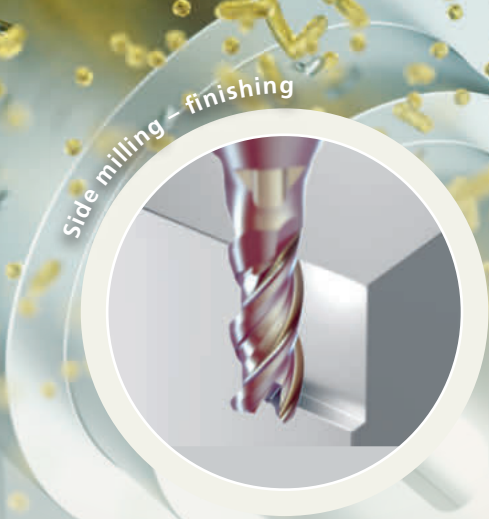
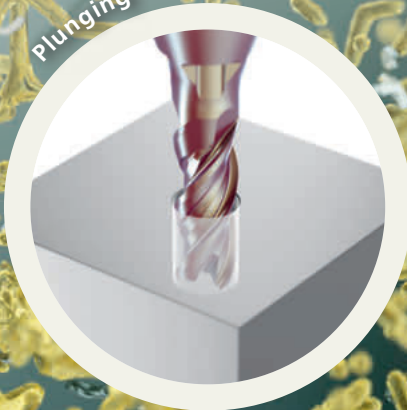
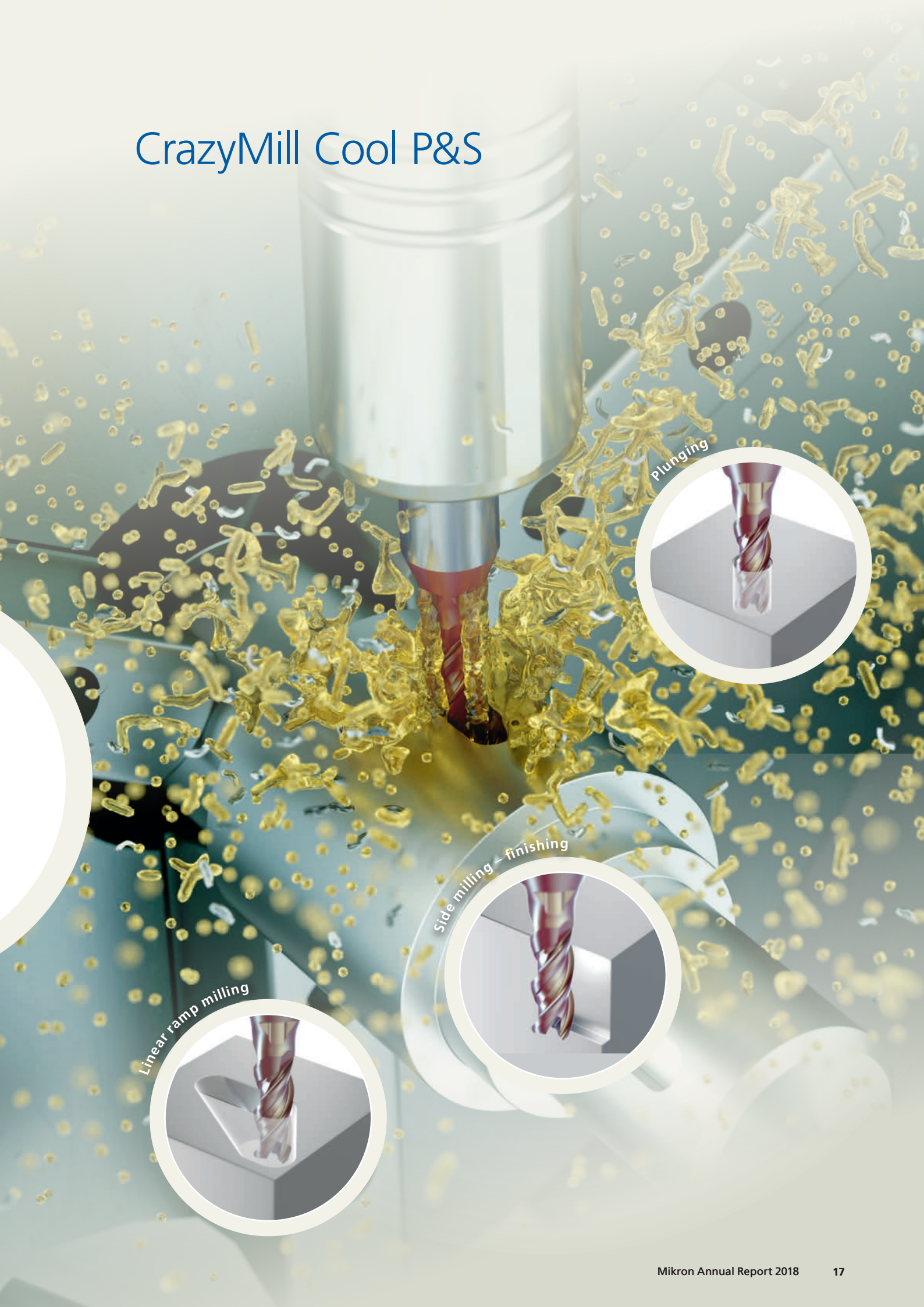
zone, the integrated coolant comes into play, flushing them out while keeping the cutting edges cool. These properties, combined with a heat and wear-resistant coating and the use of an ultrafine-grain carbide, are what make the high output of the new tool possible.

Thanks to their outstanding performance, the CrazyMill and CrazyDrill tools from Mikron Tool have been at the global technological cutting edge for years. Their drilling and milling tools frequently outperform competing products. When used on certain materials, they can even achieve levels ten times or more the state-of-the-art. The chip removal rate of the CrazyMill Cool P&S can be up to ten times and even more that of rival products.

Plunging and slotting thanks to a complex geometry and an efficient cooling.



CrazyMill Cool P&S



Mikron Automation

It takes more than technologies

Mikron Automation proves its commitment to innovation not only in the field of innovative assembly processes. The division is also breaking new ground in the design of scalable solutions to address evolving customer needs.

Listening to customers' needs and – especially – providing the right solution. That is the secret of Mikron Automation's success. And not just with groundbreaking technological developments such as the Mikron G05, the Mikron EcoLine, or robotic solutions, but also with innovative application engineering. In order to best meet customer needs, Mikron Automation has also invested in flexible, modular assembly solutions that are easy to evolve during the different stages of a product lifecycle: from small-scale production during the development phase through to fully automatic, highest-performance production.

In 2018 Mikron Automation demonstrated its comprehensive understanding of innovation also with the EcoLine Mini. It is not a high-performance assembly solution for high volumes, but a modular, adaptable solution for entering the market with newly developed products, for example to produce small volumes of pen injectors.

This goes beyond traditional technical innovation; rather, it is about putting user needs at the heart of the entire business model. Based on the proven EcoLine platform, the EcoLine Mini offers all the functionalities but with a limited number of process stations and on a compact footprint. This solution allows the assembly of, for example, small quantities of a medical device by automating the critical processes and manually feeding the components. What is more, validated processes can be transferred one-to-one to the next level of automation at a later time. Avoiding the revalidation of processes is a valuable advantage in the Medtech industry.

Over the whole process this considerably increases cost-efficiency and greatly shortens the time to market, which is crucial for the customer.

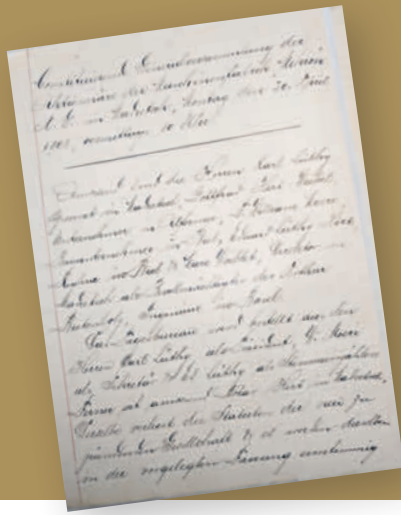


EcoLine Mini



1908

Founding document



1968

Meeting of former employees of Mikron SA Boudry



Year of anniversaries

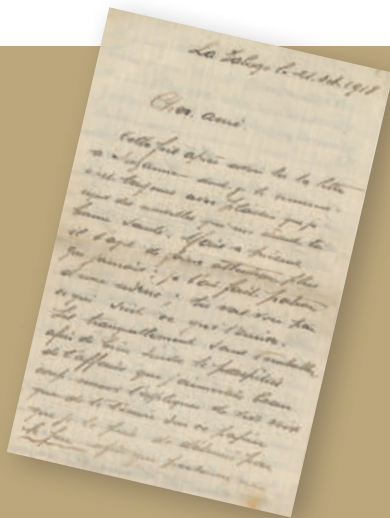
This year Mikron is celebrating no fewer than four anniversaries:

Maschinenfabrik Mikron AG was founded 110 years ago, Mikron SA Boudry a mere ten years later. Mikron Tool and Mikron Corporation Denver have also notched up an impressive 20 years each.

What were the issues at Mikron 100 years ago? What highs and lows have its employees experienced during the company's history? A review of the company's eventful history.

1918

Letter to Charles Léon Häsler from his business associate Jules-Henri Giauque



Around 1950

The founder of Giauque & Haesler: Charles Léon Häsler (1894–1954)

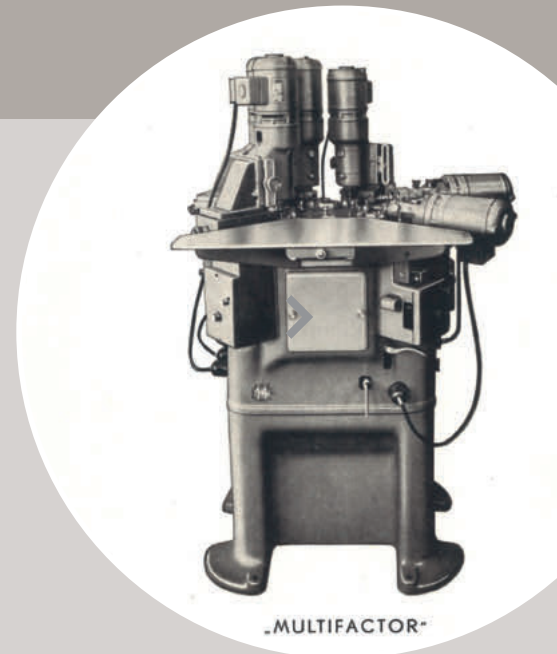
1936

The Swiss Federal Council thanks Maschinenfabrik Mikron AG in Biel for its help in defending the country.



1945

Multifactor



1970

Mikron SA Boudry



2016

New building in Denver



1977

Mikron SA Agno employee Carmine Ruotolo (left) in the Soviet Union



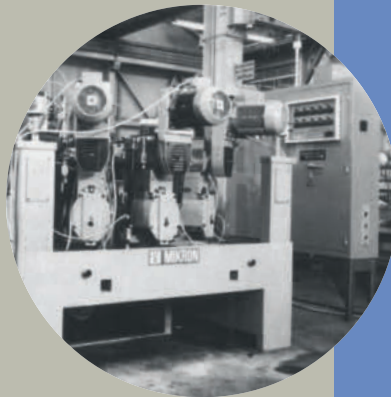
2009

VIP visit to Boudry: Federal Councillor Doris Leuthard



Around 1980

Multifactor 50



1999

Markus Schnyder, General Manager, Mikron Tool, on seeing the new CrazyDrill: "That's totally crazy!"



1986

Albe SA joins Mikron.



1989

A trainee from Boudry wins gold at the international vocational skills competition in England. Picture: Margaret Thatcher



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 Germany, Singapore, China and the USA. Mikron Holding AG shares are traded on SIX Swiss Exchange (MIKN). The Mikron Group employs a total workforce of around 1,400.

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. Pro-active and long-term customer services and the best-performing innovative cutting tools supplement the high-tech offering.

Segments	Mikron Automation	Mikron Machining Solutions	
Divisions	Mikron Automation	Mikron Machining	Mikron Tool

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 to assemble customer products at each stage of their lifecycle.

- Number of employees: 679
- Systems installed worldwide: over 3,500
- Projects: more than 60 per year
- Delivery times: 4 to 12 months
- Main markets: bluechip pharma / medtech customers
- Number of facilities: 5 sites

Mikron Machining Solutions

Mikron Machining Solutions 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 turbo-charger housings, injection nozzles and ballpoint pen tips. Mikron Tool develops and produces the therefore 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: 473
- Systems installed worldwide: over 7,000
- Projects: between 80 and 150 per year
- Delivery times: 4 to 18 months
- Main markets: bluechip automotive and watchmaker customers, and many hidden champions in diverse industries
- Number of facilities: 4 sites

Mikron Tool

- Number of employees: 222
- Tools formstock: 60 tool families
- Main markets: bluechip automotive and watchmaker customers, and many hidden champions in diverse industries
- Number of facilities: 4 sites

Highlights 2018

February

At the ATX West trade show (USA) in Anaheim, CA, Mikron Automation impresses a professional audience with a demonstration of the **G05 assembly platform** with new fully integrated features and technologies: a fully programmable pallet positioning and motion control system based on the Rockwell Automation MagneMotion solution, a 4-axis Gantry robot and a servo-driven pick & place module. Numerous visitors have the chance to experience this world-first close up, and see its flexibility and efficiency for themselves.

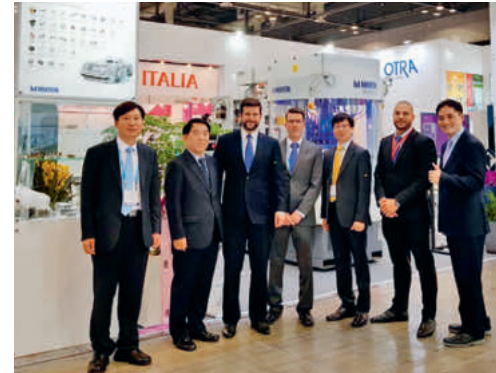


May

Cycling for a good cause: Mikron Tool organizes a four-day sponsored cycle ride from Rottweil to Agno, raising 5,000 Swiss francs for children with cancer. This sum is donated to not-for-profit organization Greenhope. The cycling challenge is held to mark the company's 20th anniversary.



April



Mikron Machining showcases several highlights in **Asia at the trade fairs SIMM 2018 in China and SIMTOS 2018 in South Korea**: Visitors have the opportunity to experience the **Mikron Multistar LX-24 in operation at first hand** and to see its high speed for themselves. The Multistar is well known for its wide range of applications. Parts for injection systems, connectors for the electronics and electrical industry, as well as components in communications and audio-video are some of the many ideal Multistar workpieces. The perfect interaction between all the elements guarantees excellent machining quality even at top speeds and after long running periods.

June



Showcasing its scalable customized platforms and services at **Automatica 2018 in Munich**, Mikron profiles itself as the partner for automation solutions. On the latest version of the G05 assembly platform, Mikron demonstrates a combination of different technologies: a high-performance gantry robot plus a servo-driven Pick and Place are integrated with the proven and robust cam-driven Pick & Place. This combination demonstrates the flexibility and scalability of the G05 platform. With a digital twin of the G05 presented, Mikron shows new methods of advanced simulation. Mikron attaches great importance to comprehensive and responsive customer service: once more, the customer service team makes this clear to the enthusiastic audience with an interactive presentation. Not only does the fair as a whole report record attendance, the Mikron Automation stand also attracts peak visitor numbers.

August



Training and continuing development is and will remain a key driver of long-term success: **Apprentices from Germany and Switzerland** exchange workplaces within the Mikron Group for a few weeks. And the ICL (Integrated Chinese Life) program provides a newly trained multi-skilled mechanic from Boudry with an opportunity to intern for several weeks at a Chinese high-tech company in Shanghai.

September

At the **AMB 2018**, Mikron Machining sets new standards once again. Presented to the public for the first time, the **Mikron 6x6**. The modular machine tool building platform with integratable automation wins over trade visitors. Further world premieres showcased by Mikron are the latest **Mikron Multistar CX-24 rotary transfer machine** and two entirely new pioneering service products. Visitor feedback is positive. Even the renowned trade journal "MM Maschinen Markt" will choose the Mikron 6x6 as one of the best products in 2018. The new modular machine tool building platform with integratable automation is ranked an excellent second place in the "Machining" category. Magazine readers voted via page views on the MM MaschinenMarkt Internet platform. The discerning view of the professional readership makes this award something special.



September

The trade audience is no less enthusiastic about the **CrazyMill P&S** presented by **Mikron Tool**. The large number of possible applications makes it a multitalent that is ideal for bore, ramp, groove, pocket and peripheral milling.

The crème de la crème of the medical technology industry once again meets at **MEDTEC in Shanghai** – the biggest trade show dedicated to design and manufacturing for medical devices. **Mikron Automation** key attractions is, the new **EcoLine Mini** performing live assembly of a final auto-injector and the latest version of the **EcoLine assembly platform** mounted with a strip-cutting process for diagnostic kits. As a further highlight, visitors have the opportunity to listen to Mikron experts talk about scalable solutions. A unique exchange of know-how at the highest level!



Year of anniversaries

This year Mikron celebrates no fewer than **four anniversaries**: **Mikron Tool** and **Mikron Corporation Denver** look back at 20 years of company history, **Mikron SA Boudry** celebrates its centenary, and **Maschinenfabrik Mikron AG** was founded exactly 110 years ago. The three sites celebrate their anniversaries with kith and kin.



Management Report

Management Report

The Mikron Group significantly increased order intake and sales in 2018 compared with the previous year, while improving profitability. Both business segments contributed to this positive performance. Overall, the Group achieved sales of CHF 314.7 million (prior year: 248.5 million, + 26.6%) together with order intake of CHF 362.3 million (prior year: CHF 278.9 million, + 29.9%). The order backlog reached a record CHF 195.7 million on December 31, 2018 (end of 2017: CHF 157.2 million, + 24.5%). With EBIT at CHF 13.9 million (prior year: CHF 2.8 million, + 396.4%) the Group improved its EBIT margin from 1.1% in 2017 to 4.4%.

CHF
195.7 million

The order backlog reached a record.

Group business review

Both business segments in the Mikron Group were able to strengthen their market positions in the year under review. The Group's capacity utilization across all the sites improved steadily over the year, with all operations working at full speed in the last few months. Both business segments had to deal with temporary supply bottlenecks in materials procurement. The high demand for its products meant that the Mikron Tool division reached its capacity limits, despite the continuous increase of capacity.

Mikron Automation established itself further as a leading technology supplier in the European and US pharmaceutical and medtech industries. Asian demand for Mikron Automation assembly systems remained significantly lower than the volumes from Europe and the US.

As in the previous year, Mikron Machining Solutions made good use of the growing demand in its tool and service business. Demand for transfer machines was also good overall, despite being very unevenly distributed over the year. The resurgence in interest in Mikron's larger systems was particularly pleasing.

Outlook

The Mikron Group started 2019 with a record order backlog, which is supporting its good capacity utilization and sales level particularly at Mikron Automation. Even though the general environment remains fragile, most of Mikron's key markets and, in particular, demand for services seem robust. The Group expects order intake to normalize on a somewhat lower level, however because certain large orders won in 2018 are not expected to be repeated in 2019. Overall, Mikron Group is expecting a further rise in sales and profitability.

Annual sales

in CHF

314.7 million

2018

248.5 million

2017

Order intake

The Mikron Group reported order intake of CHF 362.3 million in 2018, representing an increase of 29.9% against the prior year (CHF 278.9 million).

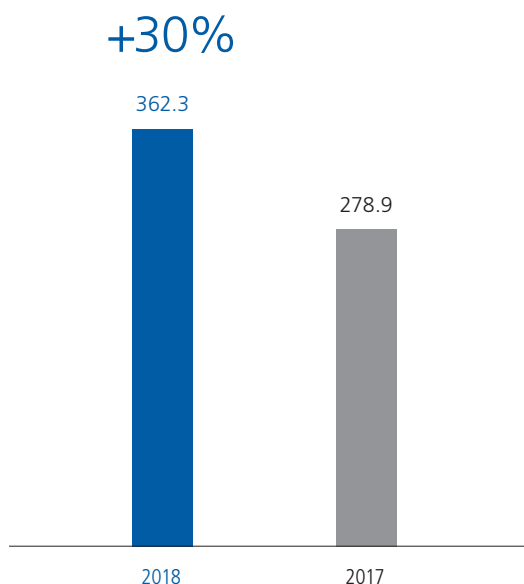
Europe (incl. Switzerland) remains Mikron's most important market, with approximately 49% of orders received in 2018 placed by European customers (previous year: 62%). The two strongest market segments are still the pharmaceutical/medtech industries with 40% and the automotive industry contributing 31% (prior year: both 31%) to the overall order intake. In North America, Mikron Automation made a significant contribution to the good order intake, while Mikron Machining Solutions remained below expectations with machine orders in this market. Compared with 2017, Mikron reported similar levels of order intake in Asia, mainly from the writing instruments and automotive industries.

Net sales, capacity utilization and order backlog

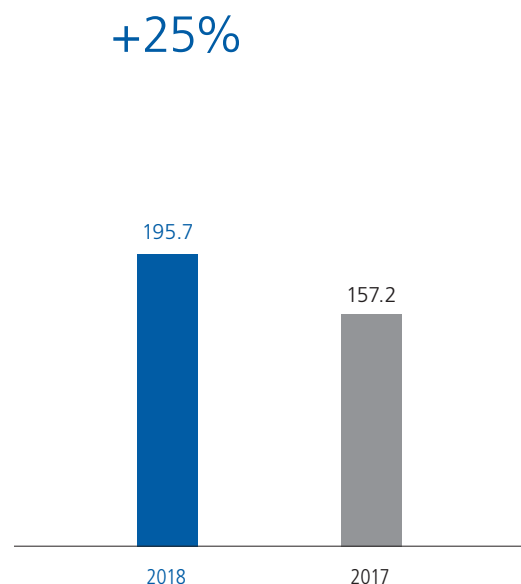
Posting annual net sales of CHF 314.7 million, the Mikron Group exceeded the prior-year result (CHF 248.5 million, +26.6%) markedly. While Mikron Machining Solutions succeeded in increasing sales by 29.2%, the Automation business segment posted an increase of 24.6%.

Some sites were still underutilized at the beginning of 2018. However, the situation improved steadily in the course of the year overall, with most companies reporting good capacity utilization by the end of 2018. The Tools and Services areas were experiencing overload, which is resulting in long delivery times. Mikron expects demand in this area to continue and has therefore increased the relevant capacity, and will continue to increase it.

Order intake
in CHF million



Order backlog
in CHF million



At CHF 195.7 million, the Mikron Group's order backlog at the end of 2018 was 24.5% higher than the prior-year figure, setting a new record. While the Machining Solutions business segment reported a year-on-year decline in order backlog of 9.6%, the Automation business segment increased the same figure by 56.0%.

Profitability

In the 2018 business year, the Mikron Group reported a significantly improved EBIT of CHF 13.9 million (previous year: CHF 2.8 million).

The EBIT profit of CHF 4.2 million (prior year: CHF -1.6 million) posted by the Machining Solutions business segment represents an improvement in profitability. The better profitability reflects the higher level of machine and service sales in 2018, absorbing the costs for the development projects, while the tool business was able to increase its contribution. Mikron Automation reported an improved EBIT of CHF 8.4 million after the prior year's EBIT of CHF 3.1 million. The EBIT margin increased to 5.4% (prior year: 2.5%).

Financial result, income taxes and profit

The financial result worsened compared to the previous year's figure and totaled CHF -1.0 million (prior year: CHF -0.5 million), CHF -0.2 million of which were related to net exchange rate losses (prior year: CHF -0.1 million). Profit before taxes amounted to CHF 12.9 million (prior year: CHF 2.3 million), on which income taxes of CHF 0.6 million (prior year: CHF 1.1 million) were expensed. The tax expense was significantly lowered due to improved outlooks regarding taxable profits for the US and 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 2018 were CHF 12.2 million, compared to CHF 1.2 million in the prior year. Net earnings per share for the year 2018 came to CHF 0.74 (prior year: CHF 0.07). At the General Meeting on 25 April 2019, the Board of Directors of the Mikron Group will propose a distribution from capital contribution reserves of CHF 0.20 per share.

Investment property

The investment property in Nidau (Switzerland) generated a net income of CHF 1.1 million (prior year: CHF 1.5 million) including an impairment of CHF 0.4 million based on an update to the third-party market value assessment performed at the end of 2018. With a pre-impairment net yield of 5.3% (prior year: 6.8%) this is an attractive investment of liquid assets not required for operational purposes. The non-operating result excludes the financing costs of the mortgage of CHF 11.5 million, which was repaid in August 2018. In 2015, Mikron was informed by one of the lessees (a company renting around 60% of the building) of its intention to move out by mid-2019 at the latest. Various courses of action were evaluated, the most promising of which are being pursued further. The costs included for the planning and evaluation of the future development of the investment property amount to CHF 0.5 million for 2018 (prior year: none).

Balance sheet, financing and equity ratio

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

Cash and cash equivalents plus current financial assets of CHF 44.6 million significantly exceed interest-bearing liabilities of CHF 10.6 million. The current financial assets of CHF 17.0 million are mainly invested in high-quality Swiss franc bonds with a residual maturity of less than three years. The net cash position remained at a high CHF 33.8 million or 11% of net sales (prior year: 14%).

Net working capital decreased by CHF 0.8 million to CHF 32.3 million. Overall net working capital compared to net sales amounts to 10%, which is a further decrease compared with the prior year (13%). This was driven by a solid level of prepayments received from projects sold just before year-end and continuously tight management of outstanding bills.

Totalling CHF 104.5 million, non-current assets increased by CHF 9.3 million. In line with strategy, investments of CHF 15.9 million (prior year: CHF 10.2 million) were made in production equipment and infrastructure. The total amount of expenditure for new product development and enhancements (capitalized and not capitalized) was about 3.7% of net sales. Total amortizations and depreciations came to CHF 7.9 million (prior year: CHF 7.9 million). The long-term financial liabilities of CHF 8.6 million mainly relate to finance leases for production equipment and the mortgage for one production facility. The fixed-term loan contract for the mortgage relating to the investment property and for one production facility, totaling CHF 13.8 million, was repaid in 2018.

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.

In 2018, shareholders' equity increased slightly to CHF 164.3 million. This represents a strong equity ratio of 57% (prior year: 59%). The decrease of 2% is fully attributable to the higher balance sheet total.

CHF
15.9 million

Investments were made in production equipment, acquisition of land, product development and IT projects.

CHF
20.1 million

Mikron was again able to cover investments from cash flow.

Cash flow

Cash flow from operating activities reached CHF 20.1 million at the end of 2018 (prior year: CHF 15.6 million). A total of CHF 11.9 million (prior year: CHF 8.7 million) was used for investment in non-current assets.

Strict management of net working capital and customer prepayments on orders signed before the end of the year led to a free cash flow of CHF 6.4 million (prior year: CHF 5.3 million). Mikron was thus again able to cover investments for the financial year completely from operational cash flow.

Cash flow from financing activities amounted to CHF -20.8 million in the year under review (prior year: CHF -2.0 million), mainly stemming from repayment of mortgages, purchase of treasury shares, repayment of financial leases, and the distribution to shareholders.

Share performance and return

At the end of 2018, the share price stood at CHF 6.76 (prior year: CHF 7.3 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 2.0 million (prior year: CHF -4.6 million), the trademark fees charged to the companies more than covered the costs incurred. As in 2017, no dividend income from subsidiaries was booked this year.

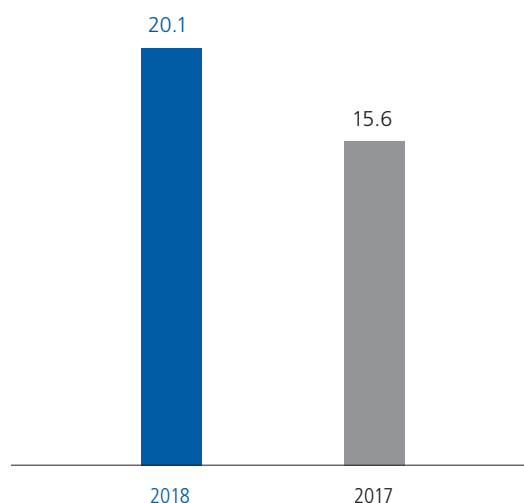
The financial statements of Mikron Holding AG show a very high equity ratio of above 70%.

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. As in previous years, this involved gathering customer feedback on an ongoing basis, and actively contacting customers to systematically ask for their opinion and feedback. Customer feedback conveys a very positive picture overall. The Mikron Group received particular praise for its project management skills. Mikron is offering its customers a broad range of after-sales services fostering long-term partnerships. In 2018 efforts were stepped up to add more proactive services to the highly appreciated responsive service offerings. Mikron takes suggestions for improvements and refinements on board in its strategic planning in the form of targeted initiatives, product and process enhancements, and investments in new product developments.

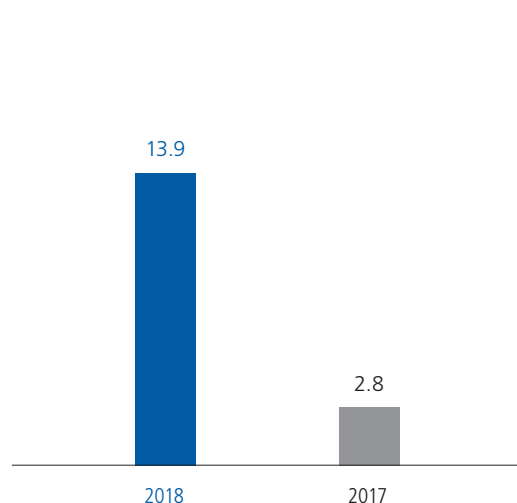
Cash flow from operating activities
in CHF million

+29%



EBIT
in CHF million

+11.1 million



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 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. 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. The anonymous detailed responses were analyzed on different levels by the management teams, and specific actions have been initiated. A similar survey is planned for 2020.

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. One way this has proved successful in the past is to make use of the opportunities offered by dual-track vocational education and training (VET). Additional apprentices were taken on at the Swiss and German sites, while the Denver site – as one of the leading companies in the initiatives launched by the US Government – also successfully continued its apprenticeship program. Developing employees in all functions and at all ages is another important element. Again this year the group held its proven management and leadership training program. Project managers also attended specific training tailored to their needs. Mikron intends to continue both programs in the future. In 2018 Mikron was able to fill several key management positions with former participants of the internal training program. As in past years, the Mikron Trainee Program, which focusses on enabling Bachelor's and Master's students to start their professional career in a technical and international environment, could again be filled with very promising young people. Some of them could enjoy three to six instructive months at one of Mikron's sites abroad. With very few exceptions, all employees were trained in the application of our Code of Conduct.

As at the end of the 2018 financial year, the Mikron Group numbered 1,398 employees (FTEs), representing an increase of 9.6% (prior year: 1,275 employees). Additional personnel were mainly taken on to respond to the higher sales volume. The number of apprentices increased from 84 to 96 at the end of 2018.

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 the same work. About 10% of Mikron staff are women. The economic performance and regional differences of the individual companies are also taken into account. In 2018 Mikron performed an external global grading of its key functions. It is Mikron's aim to compensate fairly and in a comparable way to similar internationally active companies.

Innovation and key investments

Given that innovation is a key to Mikron's success (see also pages 10 to 19), several projects were concluded and new ones started in 2018. In the year under review, a total of CHF 11.6 million (prior year: CHF 8.8 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 3.7% of net sales (prior year: 3.5% of net sales). This does not include daily and partially substantial innovation activities which are triggered by customer projects. Details of the main innovation projects in both business segments can be found on pages 10 to 19 and in the business segment reports on pages 41 to 45 and 47 to 51.

Many of the machines and systems built by the two business segments already feature a large amount of sensors and computing power that permit remote maintenance and various connected services. In collaboration with customers, Mikron is continually developing its service offering in this area, following the trend of connected devices and digitalization (Industry 4.0).

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.

Business model and strategy

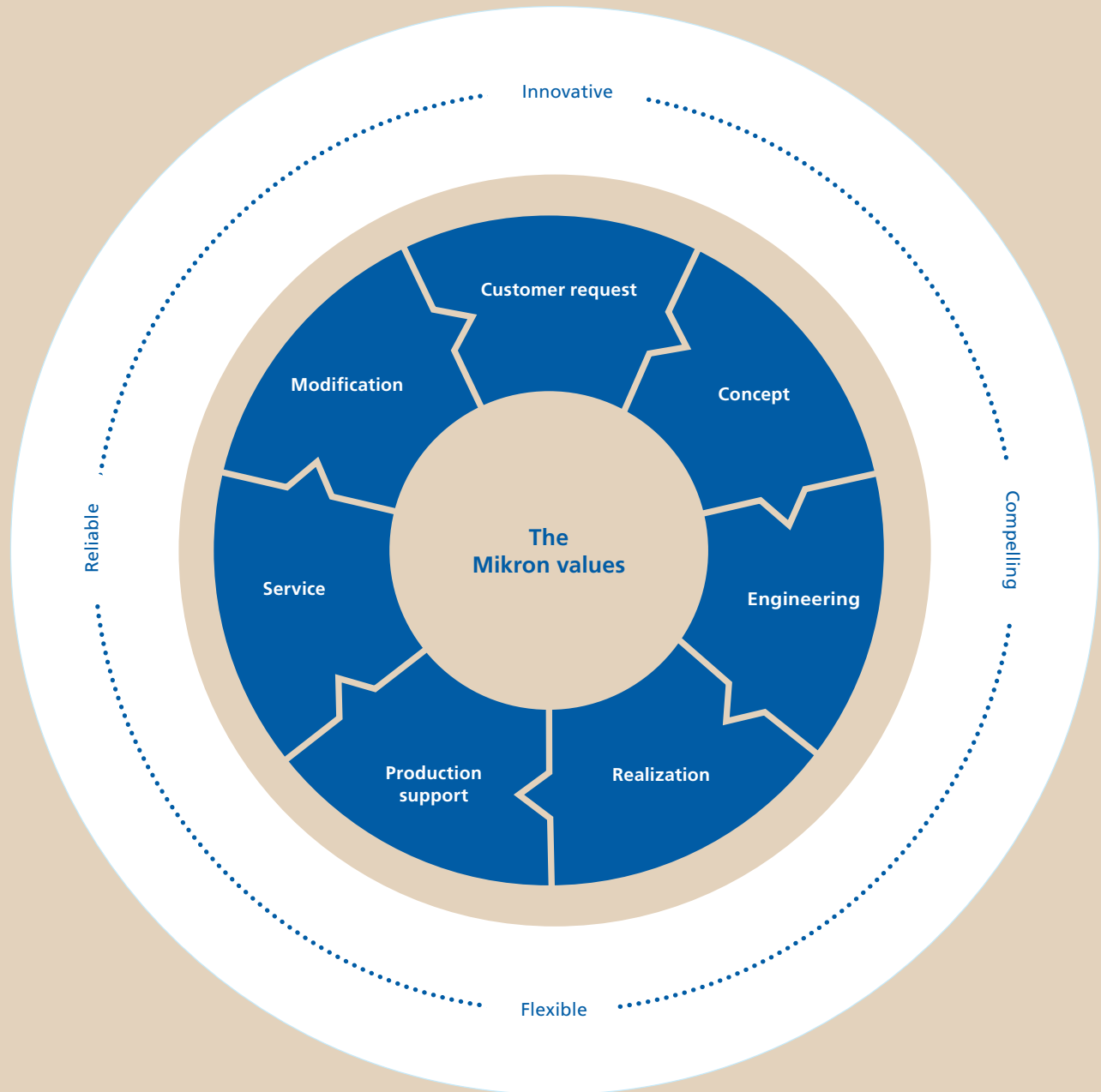
Mikron Group

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 the automotive, pharmaceutical, medtech, consumer goods, writing instruments and watchmaking industries. The two business segments, Mikron Automation and Mikron Machining Solutions with its two divisions, are based in Switzerland (Boudry and Agno). The Mikron Group has additional production facilities in Germany, Singapore, China and the US. The 1,400 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.

CHF
11.6 million

were invested in
new products.

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 informed of key developments regularly 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 the information.

“Creating value
with passion
for precision”

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 December 2018, the Board approved the budget for the year 2019 as well as a mid-term plan for the years 2020 and 2021. Unchanged from 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%, while growing sales in the magnitude of 5% annually on average.

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 successful 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 a new or significantly improved base machine every two to three years. Delivering machines and cutting tools to different customer segments globally is an important driver for further growth, while the automotive industry is expected to remain the dominant customer segment. 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 recognize its divisions Mikron Machining and Mikron Tool 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

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 the lifecycle. 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, to strengthen the footprint in Asia and grow at a disproportionately high rate in the US. Other customer segments such as the automotive industry, consumer goods and electronics are expected to contribute to its growth. Competing against a significant number of smaller and a few larger competitors, Mikron Automation is in pole position for 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. Aligned processes, world-class project execution and in-depth experience of getting 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

Risk management

The Mikron Group applies a consistent Group-wide risk assessment system which covers both strategic 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

- The Group operates in a highly cyclical market with strong upswings and significant downturns. Market fluctuations may result from numerous factors beyond the influence of the Group. The Group tries to mitigate these risks by means of a diversified range of products as well as activities in different regions and markets.
- Fluctuations in currencies may adversely affect the Group's financial situation and results of operations. The Group attempts to achieve natural hedges by costing its manufacturing processes and purchasing supplies in the same currency as those in which its sales are generated. To a limited extent the Group also makes use of derivative financial instruments, such as forward contracts to hedge anticipated receipts of payments.
- The Mikron Group operates in a challenging environment with customers that have very high and sometimes changing requirements with regard to product specifications, quality and timely delivery. 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. In some industries the trend to have less educated people running highly complex machines is increasing. This can be an opportunity in certain cases, but it must also be considered a potential risk as the agreed performance might be very 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.
- Customers, especially in the automotive industry, require suppliers to consent to very broad contractual obligations, a case in point being unlimited liability for consequential damages. Risk considerations mean that the Mikron Group cannot meet all demands. Our competitors, whose securities are usually not exchange-listed, are often prepared to take more of a risk in this regard. In Germany in particular, this could continue to have a negative effect on the Mikron Group's order intake.
- The Mikron Group depends on some strategic suppliers of certain key components and raw and base materials necessary to manufacture its products, and in certain cases depends on a single supplier. Failure to maintain existing relationships with these suppliers could negatively affect the Group's ability to manufacture its products.
- The Group seeks patent protection for those inventions and technologies it believes provide a competitive advantage and meet the preconditions for patent protection. The process of seeking patent protection can be time-consuming and there can be no assurance that the Group will be issued patents for currently pending or future applications. Due to the high number of processes implemented in Mikron's machining and automation solutions, the Group might infringe the intellectual property rights of others unknown to it.

- The Mikron Group’s remote maintenance activities give it access to confidential information and, where necessary, to internal customer systems. With the spread of digitalization, the threat of cyber-attacks grows. There is a risk that the safeguard mechanisms installed are not sufficient.
- The Group’s business and future development relies on the continued involvement and performance of its senior management and other key personnel, such as highly skilled and knowledgeable technical staff. Mikron may not be able to retain the current management team or other key employees, or to attract qualified and experienced personnel to fill vacant positions within a short period of time.
- The Mikron Group maintains a set of insurance policies. However, they may not be adequate to cover all the risks it faces, nor will they be sufficient to fully compensate the impact of any force majeure event.
- Environmental, health and safety laws and regulations impose increasingly stringent standards and operating conditions. Mikron has implemented thorough processes to meet these requirements. Changes in laws and regulations, or courts and competent authorities adopting a stricter stance in interpreting and applying these regulations, may nevertheless affect the Group’s activities.
- The Group currently owns an investment property in Switzerland. The fair value of the property is reviewed annually as per the balance sheet date and marked to market. Significant changes in the market conditions may impair the value of the property. In 2015, Mikron was informed by one of the lessees (a company renting around 60% of the building) of its intention to move out in 2019. All possible options are currently being investigated.
- The Group invests significantly in several new product developments. The development and market introduction of new production systems in particular take 2–4 years, during which customer needs and preferences might change or during which the general demand in such systems might change due to macro-economic developments or completely new technologies. 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.

Mikron was busy with several very large development projects and complex customer projects in 2018. Projects of this kind always involve risks. To deal with these as well as possible, Mikron has been investing heavily in the management skills of its project managers for many years. Another key factor is its close cooperation and transparent communication with customers, which enables problems to be identified quickly and resolved. Strategically, Mikron is continually expanding its lower-risk service and tool businesses.

The material procurement risks were also especially high for Mikron in the year under review. To avoid delivery delays and quality problems due to some overstretched suppliers, Mikron intensified discussions with its suppliers at a very early stage and also replaced some suppliers. Mikron will continue to prioritize this aspect in the future.

Brand management

The Mikron Group actively manages its umbrella brand and sub-brands. Both the Automation and Machining Solutions 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.

Mikron Automation

Mikron Automation

The Automation business segment saw a significant year-on-year improvement in many key business indicators in 2018. It reported an increase of some 60% in order intake, substantially higher sales, a marked improvement in profitability, and a record order backlog of CHF 128.2 million (end of 2017: CHF 82.2 million).

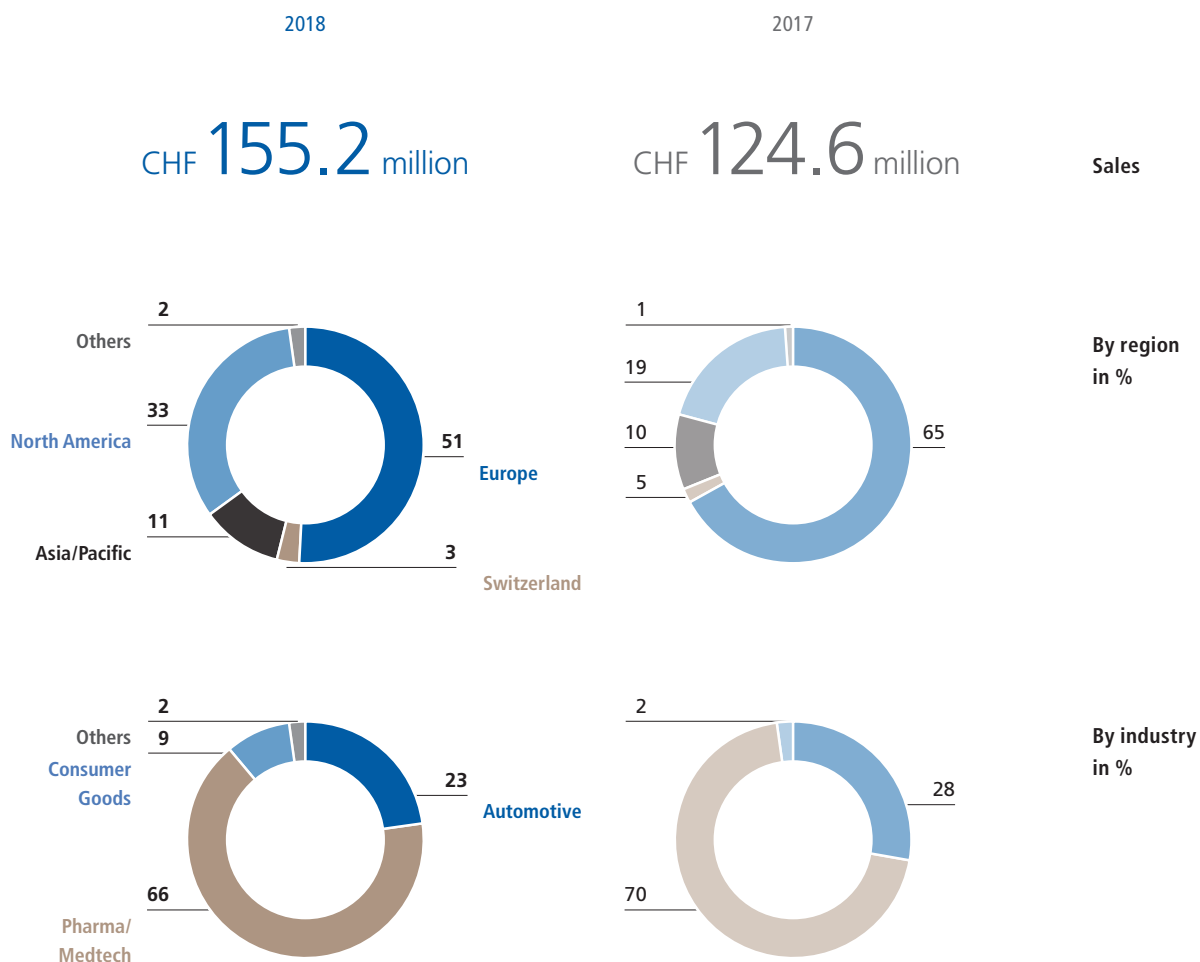
Business performance

Mikron Automation's sales markets in Europe and America witnessed a surge in investment in the year under review. This provided the impetus for the business segment to win new customers at all sites both in its main market, comprising the pharmaceutical and medtech industries, as well as in the automobile and consumer goods industries. In Asia, with investments in fully automated assembly systems still sparse in the market segments covered by Mikron Automation, the order volume from this region again remained modest in 2018.

Order intake and order backlog

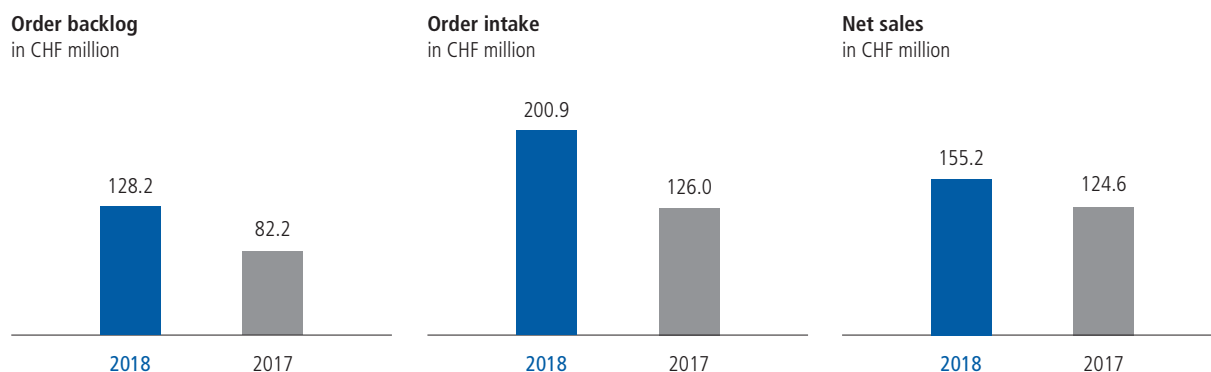
Except for Asia, all Mikron Automation sites reported considerably more orders in 2018 than in the prior year. The largest percentage increase was recorded by the Denver site – albeit compared with a somewhat modest prior-year baseline. In absolute terms, the highest order intake was posted by the business segment's headquarters in Switzerland. Overall, Mikron Automation achieved an order intake of CHF 200.9 million in 2018 (prior year: CHF 126.0 million, +59.4%). Mikron Automation won a number of larger projects for the Boudry and Denver sites. Mikron Automation Berlin landed contracts from strategic customers in the automotive industry for systems destined for use in groundbreaking products. This creates worldwide potential for Mikron to attract further similar orders.

The encouraging end-2018 order backlog of CHF 128.2 million (year-end 2017: CHF 82.2 million, +56.0%) corresponds to around 80% of annual sales for 2018. Part of the larger customer projects will, however, be delivered only in 2020.



Sales and EBIT

Mikron Automation also increased sales significantly to CHF 155.2 million (prior year: CHF 124.6 million, +24.6%), although this did not match the growth in order intake. Significant projects engineered and built in Switzerland were sold to US customers. As volumes were higher than expected, in-house resources were occasionally stretched to the limit, resulting in a large share of work being outsourced to subcontractors. The European sites in particular also faced supply chain bottlenecks.



With EBIT at CHF 8.4 million (prior year: CHF 3.1 million), the Automation business segment achieved an EBIT margin of 5.4% (prior year: 2.5%). This welcome development is due primarily to a solid performance by the Boudry and Denver sites, with both plants reporting a figure for 2018 in the upper range for the long-term margin target.

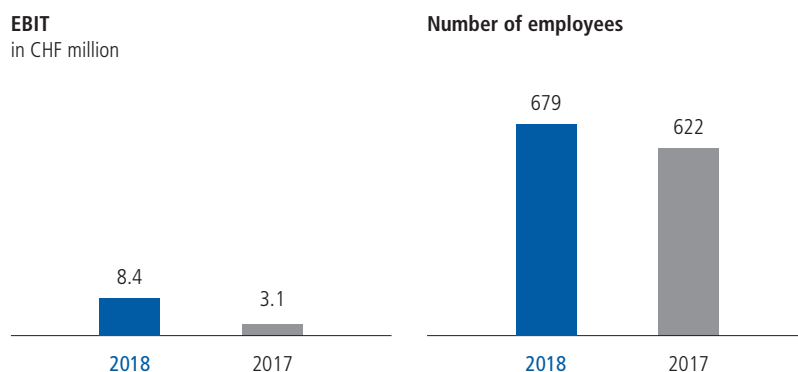
Technology and innovations

The Automation business segment is expanding the scalability and flexibility of its assembly systems. This entails developing new products at all its sites to supplement Mikron's tried-and-tested platforms. The EcoLine Mini developed in Asia is a good example. The first EcoLine Mini systems are already being successfully used by various customers. The intelligent, linear motor-driven workpiece transport system integrated by the Denver site into the G05 also met with an encouraging response. Available as an option, it increases the scope and flexibility of the proven assembly platform. The Berlin site has significantly expanded its robotics know-how – in particular in the area of movement and cycle time simulation. The plant is using a large number of robots on new customer projects.

At the biennial Munich Automatica, the world's largest automation trade fair, Mikron Automation made its mark showcasing the business segment's broad and extensive experience in the integration of a wide range of manufacturing processes into automation systems. The manufacturing process library was substantially expanded in 2018.

Strategic projects

Mikron Automation further upscaled its leading-edge MOOS control platform in the year under review. The majority of the newly sold assembly systems in Europe are now equipped with the high-performance, up-to-the-minute MOOS control system. The extensive library of parameterizable, tested and fully validated software modules facilitates efficient project creation and guarantees the customer a very high degree of reliability. MOOS substantially streamlines Industry 4.0 data management to give the customer entirely new options.



Demand for the broad range of customer services offered by Mikron Automation is continually rising, prompting the business segment to further expand capacity globally in this strategic area. Mikron Automation is successfully deploying new IT tools to shorten response times and enhance customer convenience. The longevity of Mikron Automation's systems also increasingly means that control components need to be replaced that are no longer offered by suppliers. Mikron's standardized platform concept enables it to bring these systems up to state-of-the-art standard with minimum downtime.

Employees

At the end of December 2018, Mikron Automation had a headcount of 679. This is 9% more than in the prior year (622). This overall disproportionately low increase in headcount compared to sales resulted in a year-on-year rise in the business segment's per capita added value.

To ensure that enough well-trained employees are available in future too, Mikron Automation rigorously continued its in-house training and personnel development in all areas. In response to the positive feedback received, the Group-wide project manager training program introduced in 2017 was also continued. Mikron Automation once again increased the number of apprentices in both Denver and Boudry, where a total of 45 multi-skilled mechanics are currently in training.

Mikron Machining Solutions

Mikron Machining Solutions

The Machining Solutions business segment posted a significant year-on-year improvement in sales and EBIT in 2018, starting the new year with decent order books. Both divisions contributed to the 29.2% increase in sales and the CHF 5.8 million improvement in EBIT.

Business performance

Since August 2018 the business segment has been operating as two divisions, Mikron Machining and Mikron Tool. This is intended to give both business areas a weightier presence in the market. In 2018, the Mikron Machining division profited from a generally solid demand in all key markets (automotive, electronics, watchmaking and writing instruments industries). In common with the sector as a whole, Mikron Machining also faced bottlenecks at various component suppliers. This called for a great deal of commitment and flexibility on the part of the procurement and project teams and in some instances resulted in unusually long delivery times. The same applies to the Mikron Tool division. Demand for Mikron's high-tech tools remained very high in all market segments (automotive, medtech and watchmaking industries) throughout the year. Mikron Tool saw an exceptionally strong increase in sales to customers in the medtech industry, where demand for Mikron's range of tools for hard-to-machine materials was particularly high.

Order intake and order backlog

The business segment posted order intake of CHF 162.2 million in 2018 (prior year: CHF 152.9 million, +6.1%). While levels of incoming orders for the Tool division's tool business and the Machining division's service and spare parts business were good to very good over the entire year, project business with machines proved typically volatile, but still reached a satisfying volume overall.

The business segment reported a year-end order backlog of CHF 68.0 million, which was slightly below the high figure for 2017 (CHF 75.2 million, -9.6%). A workload of this magnitude at the beginning of 2019 will ensure capacity utilization over a period of six months. Despite a substantial increase in production capacity and hiring additional staff, Mikron Tool's delivery times remained long. Consequently, further investments in capacity increases are planned going forward.

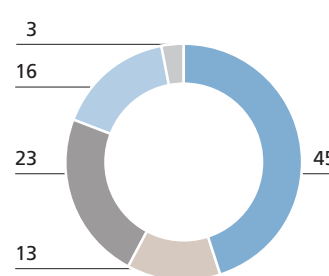
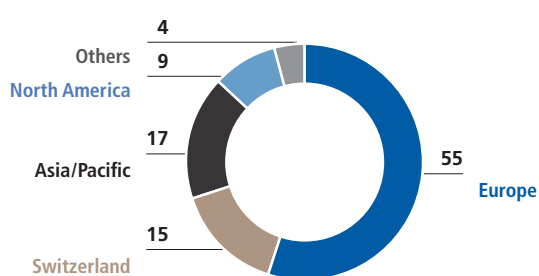
2018

2017

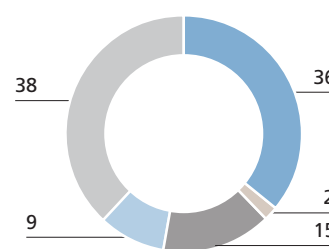
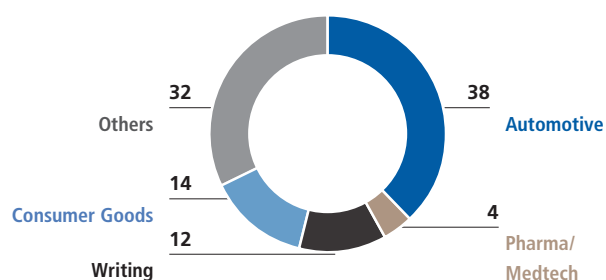
CHF 160.3 million

CHF 124.1 million

Sales



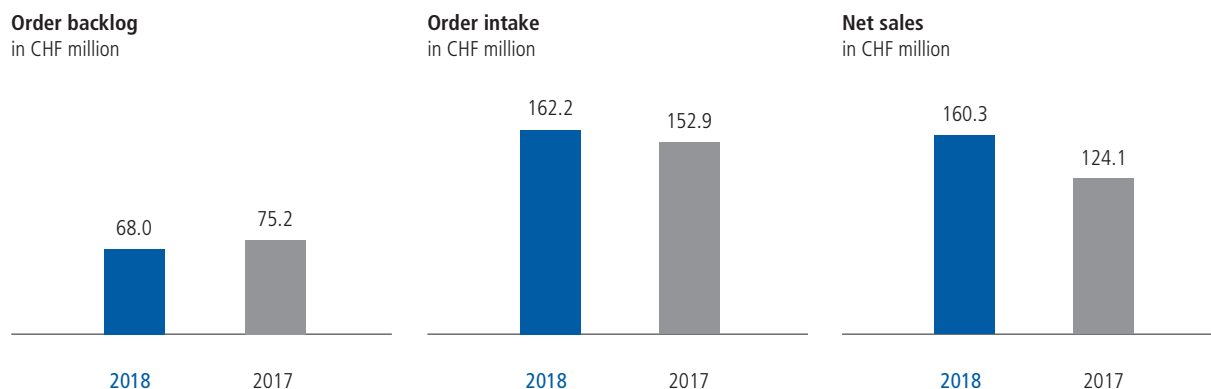
By region
in %



By industry
in %

Sales and EBIT

The business segment increased sales by 29.2% to CHF 160.3 million (prior year: CHF 124.1 million) in the year under review. Both divisions contributed to this improvement. Owing largely to the difficult procurement situation, the high demand resulted in long delivery times. While the sales in Asia/Pacific remained stable compared to the prior year, the sales in Europe benefited from the increased demand. The business segment nonetheless achieved a significant improvement in EBIT, up from CHF -1.6 million in 2017 to CHF 4.2 million in 2018. This resulted in an EBIT margin of 2.6%.

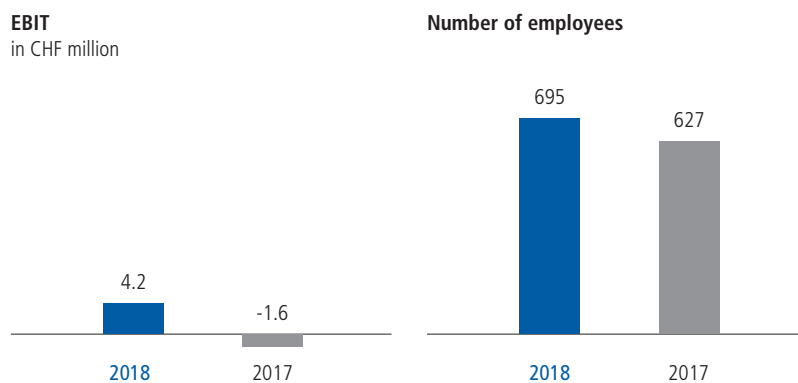


Technology and innovations

During the year under review, the Mikron Machining division pressed ahead with innovation projects in all three production areas – machining centers, rotary transfer machines, and services. At the AMB in Stuttgart in September, Mikron presented the Mikron 6x6 to the public for the first time. The new product platform with fully integrable automation offers theoretically 102 different combinations and can be custom-assembled for any production situation. The customers showed high interest and reactions were encouraging. In parallel to completing the first customer projects, Mikron Machining is now rigorously testing and optimizing the new technology. Existing rotary transfer machines were also systematically optimized and brought up to date with the latest technological advances. Work developing the new platform continued throughout the year. Mikron will be presenting the first MultiX to a trade audience at the EMO in Germany in fall 2019.

Within the service business line, Mikron Machining developed new products capable of integrating Industry 4.0 technologies. They are to be installed in new machines as well as machines already in use.

As in previous years, the Mikron Tool division made very active headway with its innovation projects. The division expanded its offering of tools for machining stainless steels and heat-resistant alloys. Presented at key industry fairs in Stuttgart and Chicago, new products for drilling and milling special alloys, small dimensions and challenging applications instantly met with a positive response from the market. This, in combination with the general increase in demand for tools, caused longer than intended delivery times despite a significant increase in capacity.



Employees

At the end of 2018, Mikron Machining Solutions employed a total of 695 people (prior year: 627). The growth in headcount was primarily driven by the development of the tool business.

The business segment attaches 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 71 apprentices and trainees overall. Mikron Machining Solutions continues to provide comprehensive advanced training for its specialist and managerial staff.

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 2018 had a market capitalization of CHF 113.0 million. The Mikron Group is organized by business segments. For the purposes of reporting, two business segments and the Corporate Service organization have been identified.

The business segments are structured according to product and service type and encompass all the functions required by an independent company, such as sales, development, production, logistics and administration. The centralized special departments, such as Accounting and Controlling, Treasury, Corporate Communications and Corporate IT Services, are part of the Corporate Service, which supports the individual companies as well as the Board of Directors and Group Management in their management and control functions. 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 11 active companies worldwide. The corporate structure and the companies are listed on page 129 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 2018, hold 3% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2018		31.12.2017	
	Number of shares of CHF 0.10 par value each		Number of shares of CHF 0.10 par value each	
Ammann Group Holding AG	6,958,335	41.6%	6,958,335	41.6%
Rudolf Maag	2,348,588	14.1%	2,348,588	14.1%
Veraison SICAV	1,199,048	7.2%	1,674,897	10.0%
Public shareholders	6,052,228	36.2%	5,605,169	33.5%
Board of Directors and Group Management	154,545	0.9%	125,755	0.8%
Total	16,712,744	100.0%	16,712,744	100.0%

Further information on the corporate structure is given on page 129. Changes in significant shareholdings since 1 January 2018 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 2018

	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
2016	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
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

Shares

The issued registered shares are fully paid in. Each registered share carries one vote at Mikron Holding AG's Annual General Meetings. Voting rights may be exercised only after the shareholder has been entered as a shareholder with voting rights in Mikron Holding AG's share register. 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 or she 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 2018:



Heinrich Spoerry
lic. oec., MBA.
Swiss, born in 1951.
Chairman, non-executive.
First elected 2001,
elected until 2019.

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. tech. ETH.
Swiss, born in 1951.
Vice-Chairman,
non-executive.
First elected 2010,
elected until 2019.

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 2019.

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, selfFrag 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 2019.

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 2019.

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 2019.

From 1988 to 1994 Paul Zumbühl held several management positions and was Managing Director of Sarna Group, Switzerland. From 1994 until 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 ordinary 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 ordinary 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) and the Organizational Rules. The procedures of the committees are also set out in the Organizational Rules. The Organizational Rules are reviewed annually after the Annual General Meeting.

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:

- Decisions on the annual budget and the mid-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 2018 business year, the Board held six meetings as well as one teleconference. The physical meetings lasted between three and nine hours, and the teleconference about one hour. The 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 mid-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 2018 business year, each lasting one 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 ordinary 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 74 to 77)
- 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 2018 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 members of the Innovation Committee in the year under review were the Board Members Heinrich Spoerry, Hans-Michael Hauser and Eduard Rikli (Chairman). The Innovation Committee meets at least twice each year. Two meetings were held in the 2018 business year, each lasting three to five hours. All members attended the meetings. The CEO was present at all the meetings, supported by selected members of his and the divisional staff teams.

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 mid-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.

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 segment head Automation.

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 mid-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 to prepare the meetings of the Board of Directors. 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 mid-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 2018:



Bruno Cathomen
Dipl. Ing. ETH
Swiss, born in 1967
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" and a delegate of Swissmem 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
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 most recently CFO of Netstal-Maschinen AG.

Management contracts

There are no management contracts.

Compensations

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 and a lump sum compensation for expenses 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, which amounts for the CEO to a maximum of 100% and for the remaining members of Group Management to a maximum of 75% of the fixed compensation dependent on the achievement of qualitative or quantitative targets. The financial targets are based on order intake, net sales, EBIT and cash flow of the business segments or the Group (CEO and CFO). 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.

An additional variable compensation in the form of shares in the Company may be provided to the members of Group Management in the context of the long-term incentive plan. The number of shares is determined based on the achievement level of the targets set out in the mid-term plan. The shares are transferred to the member after approval by the General Meeting and are blocked for a period of at least three years.

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. Furthermore, members of Group Management are provided with company vehicles which may also be used for private travel.

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 74 to 77.

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 ordinary 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 ordinary 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 ordinary 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 superior 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 superior 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 superior 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 superior 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 superior 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 superior 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 superior 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 superior 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 Annual 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 56).

Shareholders who are unable to attend the Annual 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 Annual 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 Annual General Meeting, up to and including the day of the General Meeting, no entries will be made in the share register.

Quorums at the Annual General Meeting

The Annual General Meeting passes its resolutions and carries out its elections with an absolute majority of the share votes represented unless the law or the Articles of Association (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. 135 of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA) 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 2018 business year, fees of CHF 341,000 for services rendered by PwC in connection with auditing the 2018 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 12,000 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 60.

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 2018
Announcement of the annual results/Publication of the Annual Report	20 March 2019
Annual Media and Analyst Conference	20 March 2019
Annual General Meeting	25 April 2019
End of the first six months of the business year	30 June 2019
Announcement of the semi-annual results	25 July 2019

The dates are also published on the Mikron Group's website at 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).

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 2018. 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 Annual 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 and Group Management is described in detail on pages 65 to 66 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.

Geared to the labor market

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

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

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

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 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.

Compensations for the year 2018

Compensation to members of the Board of Directors

CHF 1,000	Base compensation		Social security and other expenses			Total
	2018	2017	2018	2017	2018	2017
H. Spoerry, Chairman	71	91	20	20	91	111
E. Rikli, Vice-Chairman	62	64	11	11	73	75
P. Kilchmann, Member	55	55	5	5	60	60
A. Casutt, Member	59	59	10	10	69	69
H-M. Hauser, Member	67	59	11	10	78	69
P. Zumbühl, Member ¹⁾	59	n.a.	10	n.a.	69	n.a.
Total	373	328	67	56	440	384

1) P. Zumbühl received a consulting fee equal to the compensation of the members of the Board of Directors for the first four months of 2018 prior to his election as member of the Board.

Members of the Board of Directors receive a fixed remuneration. The remuneration is booked applying the accrual principle. 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 2018, 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 460,000.

Compensation to Group Management

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.

CHF 1,000	B. Cathomen, CEO		Total compensation of Group Management	
	2018	2017	2018	2017
Base compensation	399	399	949	993
Variable compensation in cash	115	125	240	300
Share-based compensation	27	29	59	52
Pension, social security and benefits	146	129	381	359
Total approved by previous General Meetings	687	682	1,629	1,704
Share-based compensation to be approved by General Meeting 2019	65	0	139	0
Social security	4	0	10	0
Total to be approved by General Meeting	69	0	149	0
Total compensation	756	682	1,778	1,704

Members of Group Management receive a fixed remuneration paid in 13 instalments and a performance-related variable remuneration. The variable remuneration is set by the Board of Directors within the boundaries approved by the Annual General Meeting. The table below shows the figures as a percentage of the fixed compensation:

	Effective	Maximum set by Board of Directors	Maximum allowed as per Articles of Association
B. Cathomen, CEO			
Variable compensation in cash	40%	44%	
Share-based compensation	16%	56%	
Total	56%	100%	100%
Other members			
Variable compensation in cash	26%	28%	
Share-based compensation	12%	41%	
Total	38%	69%	75%

Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. Payments are made in cash. Expenditure for social security and pension includes employer contributions to social insurance and to the pension fund and senior management pension fund.

In April 2017, the Annual General Meeting approved a total fixed and performance-related remuneration which may be paid to the Group Management during the 2018 financial year of maximum CHF 2,100,000. In April 2018, the amount of CHF 1,800,000, excluding the long-term incentive plan with separate approval, was approved, which may be paid out during the 2019 financial year.

An additional variable compensation in the form of shares in the company may be provided to the members of Group Management. A total of 10,000 shares were distributed during the year 2018 as approved by the Shareholders Meeting. From 2018 on, a long-term-incentive plan has been established. This replaces the fixed numbers of shares to be distributed with a performance-based quantity, measured against the financial mid-term financial plan. 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 20,610 shares to the members of Group Management (of which 9,661 shares to the CEO) as long-term-incentive compensation 2018. The share price for the valuation at year-end was CHF 6.76.

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

	31.12.2018		31.12.2017	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry, Chairman	13,675	0.08%	13,675	0.08%
E. Rikli, Vice-Chairman	21,500	0.13%	21,500	0.13%
P. Zumbühl, Member	43,290	0.26%	n.a.	n.a.
Group Management				
B. Cathomen, CEO	40,580	0.24%	35,580	0.21%
R. Rihs, COO	30,000	0.18%	33,000	0.20%
J. Perez Freije, CFO	5,500	0.03%	n.a.	n.a.
M. Blom, CFO (until 12 April 2018)	n.a.	n.a.	22,000	0.13%

These figures include shares held by related parties of 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 (pages 74 to 78) for the year ended 31 December 2018.

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 compensation system and defining individual compensation 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 2018 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, 18 March 2019

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Mikron Group

Financial Report 2018

82	Consolidated Financial Statements 2018 of the Mikron Group
86	Notes to the Consolidated Financial Statements 2018 of the Mikron Group
109	Report of the Statutory Auditor on the Consolidated Financial Statements
114	5-Year Financial Summary
115	Information on Share Capital
129	Group Companies

Consolidated Financial Statements 2018 of the Mikron Group

Consolidated income statement

CHF 1,000	Note	2018		2017	
Net sales	4.1	314,692	100%	248,510	100%
Change in work in progress/finished goods		8,384		-292	
Capitalized own production		1,018		952	
Material costs and subcontractors	4.2	-127,336		-87,928	
Personnel expenses	4.3	-128,271		-114,906	
Other operating income	4.4	2,035		1,740	
Other operating expenses	4.4	-49,839		-38,894	
Depreciation of tangible assets	5.5	-6,242		-6,255	
Amortization of intangible assets	5.6	-1,704		-1,595	
Operating result		12,737	4.0%	1,332	0.5%
Financial result	4.5	-1,000		-536	
Ordinary result		11,737	3.7%	796	0.3%
Non-operating result	4.6	1,132		1,470	
Profit before taxes		12,869	4.1%	2,266	0.9%
Income taxes	4.7	-626		-1,110	
Profit		12,243	3.9%	1,156	0.5%
Net earnings per share – undiluted		0.74		0.07	
Net earnings per share – diluted		0.74		0.07	

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

Consolidated balance sheet

CHF 1,000	Note	31.12.2018		31.12.2017	
Current assets					
Cash and cash equivalents		27,567		42,161	
Current financial assets	5.1	17,033		15,399	
Accounts receivable	5.2	24,110		18,958	
Inventories	5.3	65,532		47,651	
Net assets from customer projects	5.4	41,460		38,592	
Other current receivables		5,302		3,755	
Prepaid expenses		3,977		3,950	
Total current assets		184,981	63.9%	170,466	64.2%
Non-current assets					
Tangible assets	5.5	64,197		57,077	
Intangible assets	5.6	4,941		4,445	
Investment property	5.7	28,908		29,233	
Deferred tax assets	5.9	6,494		4,478	
Total non-current assets		104,540	36.1%	95,233	35.8%
Total assets		289,521	100.0%	265,699	100.0%
Current liabilities					
Short-term financial liabilities	5.10	1,967		15,913	
Accounts payable		25,971		22,135	
Net liabilities from customer projects	5.4	51,341		32,316	
Short-term provisions	5.11	5,805		4,297	
Other current liabilities		4,316		3,453	
Accrued expenses	5.12	20,629		17,588	
Total current liabilities		110,029	38.0%	95,702	36.0%
Long-term liabilities					
Long-term financial liabilities	5.10	8,605		7,948	
Long-term provisions	5.11	413		0	
Deferred tax liabilities	5.9	6,165		4,704	
Total long-term liabilities		15,183	5.2%	12,652	4.8%
Shareholders' equity					
Share capital	5.13	1,671		1,671	
Treasury shares		-4,092		-68	
Capital reserves		99,158		99,993	
Retained earnings		67,572		55,749	
Total shareholders' equity		164,309	56.8%	157,345	59.2%
Total liabilities and shareholders' equity		289,521	100.0%	265,699	100.0%

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	
Balance at 01.01.2017		1,671	-68	100,828	55,552	-962	-673	156,348
Profit 2017					1,156			1,156
Translation adjustments							679	679
Distribution to shareholders				-835				-835
Change in treasury shares	5.13		0		-3			-3
Balance at 31.12.2017		1,671	-68	99,993	56,705	-962	6	157,345
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
Balance at 31.12.2018		1,671	-4,092	99,158	68,963	-962	-429	164,309

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

Consolidated statement of cash flow

CHF 1,000	Note	2018	2017
Cash flow from operating activities			
Profit		12,243	1,156
Depreciation and amortization	5.5, 5.6	7,946	7,850
Revaluation of investment property	5.7	386	508
Net gain (-)/loss (+) on sale of non-current assets	4.4	-33	-37
Changes in provisions	5.11	1,965	697
Changes in deferred taxes	4.7, 5.9	-544	-46
Other non-cash items		495	-68
Movement in accounts receivable		-5,413	-3,314
Movement in inventories		-18,283	-1,808
Movement in net assets/liabilities from customer projects		15,907	5,077
Movement in accounts payable		2,996	4,666
Movement in other receivables and prepaid expenses		-1,586	-1,342
Movement in other current liabilities and accrued expenses		4,028	2,309
Cash flow from operating activities		20,107	15,648
Cash flow from investing activities			
Investments in tangible assets	5.5	-10,376	-7,151
Divestments of tangible assets	5.5	124	59
Investments in intangible assets	5.6	-1,572	-1,415
Investments in investment property	5.7	-61	-176
Investments in financial assets	5.1	-9,336	-6,878
Divestments of financial assets	5.1	7,542	5,172
Cash flow from investing activities		-13,679	-10,389
Cash flow from financing activities			
Purchase of treasury shares	5.13	-4,092	-61
Sale of treasury shares	5.13	0	58
Distribution to shareholders		-835	-835
Increase (+)/repayment (-) of financial liabilities		-14,186	173
Repayment (-) of finance lease liabilities		-1,512	-1,085
Interest received		264	272
Interest paid		-477	-494
Cash flow from financing activities		-20,838	-1,972
Effect of exchange rate changes on cash and cash equivalents		-184	151
Net cash flow		-14,594	3,438
Increase (+)/decrease (-) of cash and cash equivalents		-14,594	3,438
Cash and cash equivalents at beginning of period		42,161	38,723
Cash and cash equivalents at end of period		27,567	42,161

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

Notes to the Consolidated Financial Statements 2018 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 Solutions, are based in Switzerland (Boudry and Agno). The Mikron Group has additional production facilities in Germany, Singapore, China and the US. The 1,400 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 18 March 2019. The approval of the consolidated financial statements by the Annual General Meeting is scheduled for 25 April 2019.

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 129. In the year under review there were no changes (prior year: none) in the group of consolidated companies.

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 therefore 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 first 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 680 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), 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 on 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 the 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 2018	Average rate 2017	Closing rate 31.12.2018	Closing rate 31.12.2017
1 EUR	1.15	1.11	1.13	1.17
1 USD	0.98	0.98	0.99	0.99
1 SGD	0.72	0.71	0.72	0.74
1 CNY	0.15	0.15	0.14	0.15

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, down-payments 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 28.9 million as at 31 December 2018. 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. The newly implemented long-term incentive plan foresees granting shares to Group Management in the extent of achieving certain financial targets as per the financial mid-term plan, refer to note 4.3.

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 the 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	
		2018	2017	2018	2017
Euro (CHF/EUR)	-10%	-492	-687	-1,777	-1,081
US dollar (CHF/USD)	-10%	506	-390	-2,094	-1,532

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 2018 and 2017 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 2018, guarantees of CHF 30.4 million (prior year: CHF 33.5 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	%
At 31.12.2017										
Bank borrowings	5.10	14,191	791	4,483	13,795	1.2			5,670	3.7
Finance lease liabilities	5.10	1,143	1,926	748	2,605	2.5	1,212	3.7		
Derivative financial instruments (notional amount)	6.1	21,285	0	0						
Total		36,619	2,717	5,231						
At 31.12.2018										
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						
Total		36,189	3,187	5,418						

4. Details of the consolidated income statement

4.1 Net sales

CHF 1,000	2018	2017
Automation and machining systems (from customer projects)	220,944	167,863
Automation and machining systems (other)	279	367
Cutting tools	46,743	39,399
Service	46,726	40,881
Total net sales	314,692	248,510

4.2 Material costs and subcontractors

CHF 1,000	2018	2017
Raw materials and components	-119,993	-81,207
Subcontractors	-7,343	-6,721
Total material costs and subcontractors	-127,336	-87,928

4.3 Personnel expenses

CHF 1,000	2018	2017
Salaries and wages	-110,308	-98,447
Social charges	-12,453	-11,148
Pension expenses	-5,510	-5,311
Total personnel expenses	-128,271	-114,906

Starting 2018, a long-term-incentive plan has been established. This replaces the fixed numbers of shares to be distributed with a performance-based quantity, measured against the financial mid-term plan. 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 20,610 shares to the members of Group Management as long-term-incentive compensation 2018. The share price for the valuation at year-end was CHF 6.76. An amount of CHF 149,000 has been expensed.

4.4 Other operating income and expenses

CHF 1,000	2018	2017
Gain on sale of non-current assets	110	58
Other income	1,925	1,682
Total other operating income	2,035	1,740
Production and project related expenses, including shipping	-15,131	-9,181
Marketing and sales	-8,925	-8,187
Real estate	-7,945	-6,825
Personnel related expenses, including company cars	-5,724	-4,505
Information technology	-5,502	-4,140
Capital and other taxes (excl. income taxes)	-1,279	-958
Loss on sale of non-current assets	-77	-21
Other expenses	-5,256	-5,077
Total other operating expenses	-49,839	-38,894

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	2018	2017
Financial income	6,789	4,735
Financial expenses	-7,789	-5,271
Total financial result	-1,000	-536
Interest income	264	272
Interest expenses	-477	-494
Total interest result	-213	-222
Exchange gains	5,731	3,642
Exchange losses	-5,914	-3,720
Other financial income	794	821
Other financial expenses	-1,398	-1,057
Total other financial result	-787	-314
Total financial result	-1,000	-536

4.6 Non-operating result

CHF 1,000	2018	2017
Rental income	2,200	2,200
Income from property-related services	1,283	1,022
Total non-operating income	3,483	3,222
Owner-related expenses	-746	-264
Expenses for property-related services	-1,219	-980
Total non-operating expenses	-1,965	-1,244
Revaluation	-386	-508
Total non-operating result	1,132	1,470

4.7 Income taxes

CHF 1,000	2018	2017
Current income tax	-1,170	-1,156
Deferred income tax	544	46
Total income taxes	-626	-1,110
Earnings before taxes	12,869	2,266
Income tax at average tax rates	-2,708	-453
Impact of non-capitalized loss carry-forwards	-116	-2,415
Capitalization of tax losses previously not recognized	2,885	1,880
Other taxable effects	-687	-122
Total income taxes	-626	-1,110
	5%	49%

The applicable tax rate for the Group is 21% (prior year: 20%). This corresponds to the average income tax rates of the individual Group companies in each jurisdiction. The increase in the Group tax rate is mainly the result of expected profits of companies in jurisdictions with higher tax rates.

5. Details of the consolidated balance sheet

5.1 Financial assets

CHF 1,000	Note	31.12.2018	31.12.2017
Bonds		16,847	11,033
Investment funds		0	4,366
Derivative financial instruments	6.1	186	0
Total current financial assets		17,033	15,399

The bonds of CHF 16.8 million (prior year: CHF 11.0 million) comprise high-quality Swiss franc and US dollar bonds with a maturity of up to five years. All investment funds have been disposed of (prior year: 4.4 million).

5.2 Accounts receivable

CHF 1,000	31.12.2018	31.12.2017
Accounts receivable	24,490	19,366
Allowance for doubtful accounts	-380	-408
Total accounts receivable	24,110	18,958

As at the balance sheet date, accounts receivable (including allowance for doubtful accounts) past due for 30 days and more amounted to CHF 2.0 million (prior year: CHF 1.7 million).

5.3 Inventories

CHF 1,000	31.12.2018	31.12.2017
Raw materials and components	29,947	21,747
Work in progress	19,773	12,684
Finished and trading goods	14,457	11,957
Prepayments to suppliers	4,261	1,968
Prepayments from customers	-2,906	-705
Total inventories	65,532	47,651

The provision for slow-moving inventories amounts to CHF 19.2 million (prior year: CHF 18.7 million).

5.4 Customer projects

CHF 1,000	31.12.2018	31.12.2017
Projects in progress – costs incurred	164,877	165,991
Recognized profits less recognized losses	53,223	37,580
Prepayments from customers	-227,981	-197,295
Total net assets and liabilities from customer projects	-9,881	6,276
Net assets from customer projects	41,460	38,592
Net liabilities from customer projects	-51,341	-32,316
Total net assets and liabilities from customer projects	-9,881	6,276

The stage of completion, determined by the costs incurred to date compared to the total estimated costs, was approximately 54% on 31 December 2018 (prior year: approximately 58%). At the balance sheet date, the Mikron Group had 215 projects in progress (prior year: 187 projects) with an average volume of CHF 1.9 million (prior year: CHF 1.9 million). As at 31 December 2018 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
At cost							
Balance at 01.01.2017	3,199	84,365	66,269	18,569	1,688	3,028	177,118
Additions	0	2,358	2,078	1,654	2,264	437	8,791
Transfers	0	1,463	35	55	-1,557	0	-4
Disposals	0	0	-602	-213	0	-328	-1,143
Translation adjustments	0	-288	784	208	-50	150	804
Balance at 31.12.2017	3,199	87,898	68,564	20,273	2,345	3,287	185,566
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
Balance at 31.12.2018	3,603	89,058	75,996	20,990	3,483	3,329	196,459
Accumulated depreciation							
Balance at 01.01.2017	0	-52,952	-51,965	-15,334	0	-2,224	-122,475
Depreciation	0	-1,878	-2,632	-1,519	0	-226	-6,255
Disposals	0	0	568	202	0	328	1,098
Translation adjustments	0	11	-522	-226	0	-120	-857
Balance at 31.12.2017	0	-54,819	-54,551	-16,877	0	-2,242	-128,489
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
Balance at 31.12.2018	0	-56,541	-55,340	-17,981	0	-2,400	-132,262
Net book value							
Balance at 31.12.2017	3,199	33,079	14,013	3,396	2,345	1,045	57,077
Balance at 31.12.2018	3,603	32,517	20,656	3,009	3,483	929	64,197
Of which finance leases							
Balance at 31.12.2017	0	0	5,292	0	0	0	5,292
Balance at 31.12.2018	0	0	7,618	0	0	0	7,618

At the balance sheet date, the Group had entered into CHF 1.5 million of capital commitments to purchase tangible assets (prior year: CHF 0.8 million).

In 2018, the Group acquired tangible assets of CHF 3.1 million (prior year: CHF 0.8 million) on a financial leasing basis.

5.6 Intangible assets

CHF 1,000	Capitalized development costs	Software	Assets under construction	Others	Total
At cost					
Balance at 01.01.2017	3,603	18,222	689	689	23,203
Additions	0	722	621	0	1,343
Transfers	0	17	-13	0	4
Disposals	0	291	0	0	291
Translation adjustments	54	180	0	0	234
Balance at 31.12.2017	3,657	19,432	1,297	689	25,075
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
Balance at 31.12.2018	3,628	21,105	1,031	689	26,453
Accumulated amortization					
Balance at 01.01.2017	-2,358	-15,523	0	-649	-18,530
Amortization	-383	-1,202	0	-10	-1,595
Disposals	0	-291	0	0	-291
Translation adjustments	-53	-161	0	0	-214
Balance at 31.12.2017	-2,794	-17,177	0	-659	-20,630
Amortization	-288	-1,406	0	-10	-1,704
Disposals	0	714	0	0	714
Translation adjustments	29	79	0	0	108
Balance at 31.12.2018	-3,053	-17,790	0	-669	-21,512
Net book value					
Balance at 31.12.2017	863	2,255	1,297	30	4,445
Balance at 31.12.2018	575	3,315	1,031	20	4,941
Of which finance leases					
Balance at 31.12.2017	0	0	0	0	0
Balance at 31.12.2018	0	0	0	0	0

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

5.7 Investment property

CHF 1,000	2018	2017
Balance at 1 January	29,233	29,604
Capitalized expenditures	61	137
Revaluation	-386	-508
Balance at 31 December	28,908	29,233
Original acquisition cost	43,374	43,313

The Mikron Group is the owner of a property in Switzerland (land and building) that is fully 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 2018. The discounted cash flow method was used for the valuation. A discount rate of 5.0% was applied (prior year: 5.3%).

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 31.12.2017	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2017
		31.12.2017	31.12.2016			
Pension institutions without surplus/deficit	0	0	0	0	-4,656	-4,656
Total	0	0	0	0	-4,656	-4,656

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
Total	0	0	0	0	-4,742	-4,742

The information on the economic benefit as at 31 December 2018 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 2017. As at 31 December 2017, the Mikron pension fund reported a coverage rate of 118.0% (prior year: 114.6%). According to the pension fund's provisional accounts, the coverage rate is expected to have decreased by approximately 3% in the 2018 financial year. The number of active insureds increased in 2018 by about 7% (prior year: increase of 1%). 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	2018	2017
Statement of changes in deferred tax liabilities		
Balance at 1 January	4,704	4,784
Set-up and reversal of temporary differences	1,639	-150
Change in tax rate	-157	0
Translation adjustments	-21	70
Balance at 31 December	6,165	4,704
Statement of changes in deferred tax assets		
Balance at 1 January	4,478	4,652
Change in capitalized tax loss carry-forwards	1,645	550
Other changes	382	295
Change in tax rate	0	-919
Translation adjustments	-11	-100
Balance at 31 December	6,494	4,478

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 6.5 million (prior year: CHF 4.5 million) result from accumulated tax loss carry-forwards that were capitalized and valuation differences. Due to uncertainties that future taxable profit will be available to offset against these assets, tax loss carry-forwards amounting to CHF 41.8 million (prior year: CHF 64.0 million) were not capitalized. Applying local tax rates results in a maximum potential tax benefit from non-capitalized tax loss carry-forwards of CHF 9.7 million (prior year: CHF 12.2 million).

5.10 Financial liabilities

CHF 1,000	Note	31.12.2018	31.12.2017
Short-term financial liabilities			
Bank borrowings		395	14,191
Finance lease liabilities		1,572	1,143
Derivative financial instruments	6.1	0	579
Total short-term financial liabilities		1,967	15,913
Long-term financial liabilities			
Bank borrowings		4,867	5,274
Finance lease liabilities		3,738	2,674
Total long-term financial liabilities		8,605	7,948

The investment property and two of the production facilities were mortgaged for liquidity management purposes. Thereof, the mortgage related to the investment property as well as for one production facility have been repaid in 2018. Details of the mortgages are given in note 6.2. The leasing liabilities relate to purchased machines used in production.

CHF 1,000	31.12.2018	31.12.2017
Financial liabilities, expiring		
– not later than 1 year	1,967	15,913
– later than 1 year but not later than 3 years	3,187	2,717
– later than 3 years	5,418	5,231
Total financial liabilities	10,572	23,861

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.

5.11 Provisions

CHF 1,000	Warranties	Employee incentive	Future costs for projects	Others	Total
Short-term provisions					
Balance at 01.01.2017	2,317	0	0	1,211	3,528
Additions	1,002	0	3,099	0	4,101
Utilization	-1,213	0	-530	0	-1,743
Reversal	-428	0	-570	-663	-1,661
Translation adjustments	43	0	28	1	72
Balance at 31.12.2017	1,721	0	2,027	549	4,297
Additions	2,213	371	3,164	580	6,328
Utilization	-871	0	-1,634	-355	-2,860
Reversal	-1,195	0	-721	0	-1,916
Translation adjustments	-19	0	-25	0	-44
Balance at 31.12.2018	1,849	371	2,811	774	5,805
Long-term provisions					
Balance at 01.01.2017	0	0	0	0	0
Balance at 31.12.2017	0	0	0	0	0
Additions	0	413	0	0	413
Balance at 31.12.2018	0	413	0	0	413

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	31.12.2018	31.12.2017
Accrued expenses	20,576	17,561
Current income tax payables	53	27
Total accrued expenses	20,629	17,588

The accrued expenses of CHF 20.6 million (prior year: CHF 17.6 million) mainly consist of accruals in relation to employees' annual leave entitlements, overtime and bonus totaling CHF 11.7 million (prior year: CHF 9.9 million). Additionally, there were outstanding trade payables, and accrued income taxes of CHF 0.8 million (prior year: CHF 0.7 million).

5.13 Shareholders' equity

Share capital

The share capital as at 31 December 2018 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 2018, there are three shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne 41.6%; Mr. Rudolf Maag, Binningen, 14.1%; Veraison SICAV, Zurich, 7.2%). No other single shareholder holds 5% or more of the voting rights.

Treasury shares

In 2018 the company granted 10,000 treasury shares to Group Management (prior year: 10,000) at no consideration, sold no shares (prior year: none) and acquired 430,420 treasury shares (prior year: 8,910 shares). At 31 December 2018 Mikron Holding AG, Biel owned 430,420 treasury shares (prior year: 10,000 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 -0.5 million (prior year: CHF 1.1 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 31.12.2017	0	579	21,285	9,794	11,491	0	0
Balance at 31.12.2018	186	0	34,222	23,809	10,413	0	0

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	31.12.2018	31.12.2017
Real estate (including investment property) pledged as security for liabilities	29,203	65,511
Collateral securities – nominal	57,515	99,141
Loans and mortgages utilized	5,262	19,465
Other assets pledged as security for liabilities	62,618	60,292
Finance lease liabilities (machinery, licenses)	5,310	3,817

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 are no longer deposited as collateral as the underlying mortgages were repaid in 2018.

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	31.12.2018	31.12.2017
Off-balance sheet lease commitments, payable		
– not later than 1 year	3,200	3,287
– later than 1 year but not later than 3 years	3,272	4,214
– later than 3 years but not later than 5 years	448	1,249
– later than 5 years	0	9
Total off-balance sheet lease commitments	6,920	8,759

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	2018	2017
At cost		
Balance at 1 January	962	962
Balance at 31 December	962	962
Accumulated amortization		
Balance at 1 January	-962	-929
Amortizations	0	-33
Balance at 31 December	-962	-962
Theoretical value 31 December	0	0

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.

The impact of a theoretical capitalization of goodwill on the income statement and balance sheet is presented in the following tables:

CHF 1,000	2018	2017
Profit	12,243	1,156
Amortization of goodwill	0	-33
Theoretical profit	12,243	1,123

CHF 1,000	31.12.2018	31.12.2017
Shareholders' equity	164,309	157,345
Theoretical value of goodwill	0	0
Theoretical shareholders' equity	164,309	157,345

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	2018	2017
Other operating expenses	-27	-27

CHF 1,000	31.12.2018	31.12.2017
Other current receivables and prepaid expenses	6	8
Accounts payable	5	7

The Mikron pension fund owns no shares (prior year: no shares) of Mikron Holding AG.

6.6 Impairment test on Group level

The Group's equity of CHF 164.3 million exceeded the Group's market capitalization of CHF 113.0 million at 31 December 2018 (prior year: CHF 122.0 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	
	2018	2017	2018	2017	2018	2017	2018	2017
Net sales – third party	160,238	124,059	154,859	124,578	-405	-127	314,692	248,510
Net sales – Group	37	32	295	14	-332	-46	0	0
Total net sales	160,275	124,091	155,154	124,592	-737	-173	314,692	248,510
Operating result	4,211	-1,616	8,416	3,058	110	-110	12,737	1,332
Earnings before interest and taxes (EBIT)	4,211	-1,616	8,416	3,058	1,242	1,360	13,869	2,802

CHF 1,000	Machining Solutions		Automation		Corporate / Eliminations		Total Group	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Assets excluding cash and cash equivalents and current financial assets	137,505	113,633	123,444	83,996	-16,028	10,510	244,921	208,139
Cash and cash equivalents	4,647	3,605	3,444	5,013	19,476	33,543	27,567	42,161
Current financial assets	0	0	0	0	17,033	15,399	17,033	15,399
Total assets	142,152	117,238	126,888	89,009	20,481	59,452	289,521	265,699

7.2 Information by geographical segment

CHF 1,000	Net sales	
	2018	2017
Switzerland	28,186	21,558
Europe	167,058	136,923
North America	65,887	43,545
Asia/Pacific	45,472	41,274
Others	8,089	5,210
Total net sales	314,692	248,510

8. Net earnings per share

8.1 Weighted average number of shares

Number	2018	2017
Issued shares at 1 January	16,712,744	16,712,744
Issued shares at 31 December	16,712,744	16,712,744
thereof treasury shares	-430,420	-10,000
Adjusted for weighted average	310,623	4,958
Weighted average number of shares – basic	16,592,947	16,707,702
Effect of dilution	0	0
Weighted average number of shares – diluted	16,592,947	16,707,702

8.2 Computation of earnings per share

CHF 1,000, except for per share information	2018	2017
Net earnings	12,243	1,156
Weighted average number of shares – basic	16,592,947	16,707,702
Net earnings per share – undiluted	0.74	0.07
Weighted average number of shares – diluted	16,592,947	16,707,702
Net earnings per share – diluted	0.74	0.07

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 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 2018 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement 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 82 to 108 and 129) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 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, with specified audit procedures performed at one further reporting unit and Review procedures conducted at a further three reporting units. These reporting units are located across four countries.

Collectively, the components at which audit work was performed accounted for 93% 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

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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 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.

<i>Overall Group materiality</i>	CHF 1'350'000
<i>How we determined it</i>	0.43% of consolidated net revenue
<i>Rationale for the materiality benchmark applied</i>	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 11 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 67% of the Group's revenue. Specified audit procedures were performed on one further reporting unit, representing a further 15% of the Group's revenue. Additionally, review procedures (mainly based on interviews and analytics) were conducted at four reporting units, representing another 11% 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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>In 2018, Mikron Group realized revenues of CHF 221 million arising from customer projects in both its Machining and Automation divisions. 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.</p> <p>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 level of judgment involved in estimating the forecasted costs and revenues under these contracts.</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> <p>Refer to notes 2.5.5 “accounting policy for customer projects”, note 4.1 “net sales” and note 5.4 “customer projects”.</p>	<p>We tested the customer projects and their treatment in the consolidated financial statements as follows:</p> <ul style="list-style-type: none"> • 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; • We reconciled estimated total revenues to contractual arrangements; • We tested significant projects (high value or high risk projects) completed in 2018 to compare the total cost incurred with previous estimates to assess accuracy of estimates; • We performed procedures to test the allocation of personnel, machining and material costs to individual projects; • We tested prepayments and payments received from customers and the allocation to the correct projects; • We tested the project valuation calculations and reconciled information to the general ledgers; • 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. <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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>We focused on this area because in recent years, Mikron Group has been operating at or near breakeven. In particular, the Group’s Machining division has reported losses. Furthermore, the car-</p>	<p>We assessed management’s impairment test as follows:</p> <ul style="list-style-type: none"> • We assessed management’s medium-term cash flow forecasts, as derived from its busi-



rying amount of consolidated equity at 31 December 2018 exceeds Mikron Group's stock market capitalization.

Responding to these impairment indicators, Management tested the Group's long-lived assets for impairment at the cash generating unit level by preparing a discounted cash flow forecast.

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.

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".

ness 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;

- We analysed and challenged management's assessment of the Group's future results by performing sensitivity analyses;
- 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;
- We re-performed the mathematical accuracy of the impairment tests.

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.

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, 18 March 2019

5-Year Financial Summary

in CHF million, except productivity and number of employees

	2018		2017		2016		2015		2014	
Key performance data										
Order intake	362.3		278.9		243.6		264.6		244.8	
Net sales	314.7		248.5		256.0		228.6		249.1	
Order backlog	195.7		157.2		122.9		142.9		117.4	
Productivity (added value/personnel expenses)	1.53		1.40		1.39		1.37		1.37	
Research and development	11.6		8.8		7.1		5.7		5.8	
Number of employees (end of year)	1,398		1,275		1,249		1,181		1,162	
Investments incl. acquisitions of subsidiaries – net	15.9		10.2		8.7		16.7		9.8	
Earnings										
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	22.2	7.1%	11.2	4.5%	12.6	4.9%	10.0	4.4%	12.0	4.8%
Earnings before interest and taxes (EBIT), as % of net sales	13.9	4.4%	2.8	1.1%	4.1	1.6%	2.5	1.1%	4.6	1.8%
Operating result, as % of net sales	12.7	4.0%	1.3	0.5%	2.8	1.1%	1.1	0.5%	2.7	1.1%
Ordinary result, as % of net sales	11.7	3.7%	0.8	0.3%	1.8	0.7%	-0.1	-0.0%	1.0	0.4%
Profit for the year, as % of net sales	12.2	3.9%	1.2	0.5%	2.3	0.9%	0.9	0.4%	2.2	0.9%
Cash flow										
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	20.1	6.4%	15.6	6.3%	12.8	5.0%	15.5	6.8%	6.7	2.7%
Operational free cash flow (prior to acquisitions and changes in current financial assets)	8.2		7.0		5.3		2.3		-2.6	
Balance sheet										
Balance sheet total	289.5		265.7		251.8		243.9		237.3	
Current assets	185.0		170.5		158.2		151.5		154.4	
Non-current assets	104.5		95.2		93.6		92.4		82.9	
Current liabilities	110.0		95.7		68.6		63.4		62.7	
Long-term liabilities	15.2		12.7		26.8		25.9		19.2	
Shareholders' equity, as % of balance sheet total	164.3	56.8%	157.3	59.2%	156.3	62.1%	154.6	63.4%	155.3	65.5%

Information on Share Capital

	2018	2017	2016	2015	2014
Number of shares¹⁾					
Registered shares	16,712,744	16,712,744	16,712,744	16,712,744	16,712,744
Total	16,712,744	16,712,744	16,712,744	16,712,744	16,712,744
Key figures per share in CHF²⁾					
Profit	0.74	0.07	0.14	0.06	0.13
Cash flow from operating activities	1.21	0.94	0.77	0.93	0.40
Shareholders' equity	9.90	9.41	9.36	9.25	9.29
Distribution to shareholders	0.05	0.05	0.05	0.05	0.10
Share price SIX Swiss Exchange					
At 31 December	6.76	7.30	6.10	5.93	7.05
High/low close during business year	10.45–6.40	7.61–5.80	6.80–5.34	7.72–5.19	9.90–6.26

1) All shares are entitled to dividends/distributions.

2) Based on the weighted average number of shares

Trading volume (daily average)

In the 2018 fiscal year the average daily trade volume was 10,664 shares (prior year: 6,456 shares).

Mikron Holding AG

Financial Report 2018

118	Financial Statements 2018 of Mikron Holding AG
120	Notes to the Financial Statements 2018 of Mikron Holding AG
124	Appropriation of retained earnings and capital reserves
125	Report of the Statutory Auditor on the Financial Statements
129	Investments Mikron Holding AG

Financial Statements 2018 of Mikron Holding AG

Profit and loss statement

CHF 1,000	Note	2018	2017
Services and other income		3,186	2,706
Other operating expenses		-2,531	-2,784
Earnings before interest and taxes		655	-78
Income from revaluation of investments and loans	2	7,084	3,066
Other financial income	3	4,090	5,528
Total financial income		11,174	8,594
Expenses from revaluation of investments and loans	2	-5,431	-11,409
Other financial expenses	3	-3,776	-1,750
Total financial expenses		-9,207	-13,159
Profit/loss for the year		2,622	-4,643

Balance sheet

CHF 1,000	Note	31.12.2018	31.12.2017
Current assets			
Cash and cash equivalents and short-term investments with a quoted market price		36,112	48,722
Short-term interest-bearing receivables		10,171	9,406
<i>Due from third parties</i>		0	41
<i>Due from Group companies</i>		10,171	9,365
Other current receivables		812	1,122
<i>Due from third parties</i>		332	83
<i>Due from Group companies</i>		480	1,039
Accrued income and prepaid expenses		320	575
Total current assets		47,415	59,825
Non-current assets			
Investments	2, 4	56,318	48,252
Financial assets		71,231	52,451
<i>Loans to Group companies</i>	2, 5	71,231	52,451
Total non-current assets		127,549	100,703
Total assets		174,964	160,528
Current liabilities			
Short-term interest-bearing liabilities		43,393	17,034
<i>Due to Group companies</i>		43,393	17,034
Other short-term liabilities		274	882
<i>Due to third parties</i>		98	840
<i>Due to Group companies</i>		176	42
Accrued expenses and deferred income		598	520
Total current liabilities		44,265	18,436
Long-term liabilities			
Long-term interest-bearing liabilities		5,262	14,433
<i>Due to Group companies</i>		5,262	14,433
Total long-term liabilities		5,262	14,433
Total liabilities		49,527	32,869
Shareholders' equity			
Share capital		1,671	1,671
Legal reserves		99,158	99,993
<i>Reserves from capital contribution</i>		99,158	99,993
Profit carried forward		26,078	30,706
Profit/loss for the year		2,622	-4,643
Treasury shares		-4,092	-68
Total shareholders' equity	6	125,437	127,659
Total liabilities and shareholders' equity		174,964	160,528

Notes to the Financial Statements 2018 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 valued at their nominal value. Excessive cash is partially invested in marketable securities that are valued at market value.

Loans to and loans from Group companies

Loans to Group companies are valued 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 an impairment in the same extent is recognized on the respective loans to those Group companies. The short-/long-term classification is evaluated 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 2018	Closing rate 31.12.2018
1 EUR	1.15	1.13
1 USD	0.98	0.99
1 SGD	0.72	0.72
1 CNY	0.15	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 2018 financial year are disclosed.

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

CHF 1,000	2018	2017
Revaluation of investments and loans	7,084	3,066
Total financial income from investments and loans	7,084	3,066
Revaluation of investments and loans	-5,431	-11,409
Total financial expenses from investments and loans	-5,431	-11,409
Net financial income/expenses from investments and revaluation of loans	1,653	-8,343

3. Other financial income and expenses

CHF 1,000	2018	2017
Interest income from Group companies	2,054	2,261
Interest income from third parties	249	264
Foreign exchange gains	1,703	2,611
Other financial income	84	392
Total other financial income	4,090	5,528
Interest expense to Group companies	-389	-203
Foreign exchange losses	-2,392	-761
Other financial expenses	-995	-786
Total other financial expenses	-3,776	-1,750
Net other financial income	314	3,778

4. Major investments

Please refer to page 129.

5. Subordinated loan

Loans to Group companies include subordinated loans amounting to CHF 21.5 million (prior year: CHF 20.2 million).

6. Statement of shareholders' equity

CHF 1,000	Share capital	Reserves from capital contribution	Treasury shares	Profit carried forward	Shareholders' equity
Balance at 31.12.2016	1,671	100,828	-68	30,709	133,140
Loss 2017				-4,643	-4,643
Proceeds/payments for change in treasury shares				-3	-3
Distribution to shareholders		-835			-835
Balance at 31.12.2017	1,671	99,993	-68	26,063	127,659
Profit 2018				2,622	2,622
Proceeds/payments for change in treasury shares			-4,024	15	-4,009
Distribution to shareholders		-835			-835
Balance at 31.12.2018	1,671	99,158	-4,092	28,700	125,437

In 2018 the company granted 10,000 treasury shares to Group Management (prior year: 10,000) at no consideration, sold no shares (prior year: none) and acquired 430,420 treasury shares (prior year: 8,910 shares). At 31 December 2018 Mikron Holding AG, Biel owned 430,420 treasury shares (prior year: 10,000 shares).

7. Significant shareholders and their investment

As of 31 December 2018, there are three shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne 41.6%; Mr. Rudolf Maag, Binningen, 14.1%; Veraison SICAV, Zurich, 7.2%). 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

	31.12.2018		31.12.2017	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry, Chairman	13,675	0.08%	13,675	0.08%
E. Rikli, Vice-Chairman	21,500	0.13%	21,500	0.13%
P. Zumbühl, Member	43,290	0.26%	n.a.	n.a.
Group Management				
B. Cathomen, CEO	40,580	0.24%	35,580	0.21%
R. Rihs, COO	30,000	0.18%	33,000	0.20%
J. Perez Freije, CFO	5,500	0.03%	n.a.	n.a.
M. Blom, CFO (until 12 April 2018)	n.a.	n.a.	22,000	0.13%

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

Collateral for third-party liabilities

CHF 1,000	31.12.2018	31.12.2017
Guarantees in favor of bank syndicate	55,000	55,000
Guarantees for Group companies	24'221	15,284

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

CHF 1,000	31.12.2018	31.12.2017
Assets pledged as securities for liabilities	36'923	49,844

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	2018	2017
Profit carried forward at the beginning of the period	26,063	30,709
Proceeds/payments for change in treasury shares	15	-3
Profit/loss for the year	2,622	-4,643
Profit carried forward available to the General Meeting	28,700	26,063

The Board of Directors proposes to the Annual General Meeting of Shareholders that the profit carried forward of CHF 28.7 million for the year ended 31 December 2018 be appropriated as follows:

CHF 1,000	2018 Motion of the Board of Directors	2017 Resolution of the General Meeting
Profit carried forward available to the General Meeting	28,700	26,063
Carried forward	28,700	26,063

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	2018 Motion of the Board of Directors	2017 Resolution of the General Meeting
Reserves from capital contribution	99,158	99,993
Allocation to voluntary retained earnings and distribution to shareholders	-3,343	-835
Carried forward	95,815	99,158

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 balance sheet as at 31 December 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 118 to 124 and 129) as at 31 December 2018 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



Overall materiality: CHF 1'350'000

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.

As key audit matter the following area of focus has been identified:

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

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

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may arise due 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 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.

<i>Overall materiality</i>	CHF 1'350'000
<i>How we determined it</i>	0.77% of total assets
<i>Rationale for the materiality benchmark applied</i>	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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
At 31 December 2018, the carrying values of the company's investments, and loans to group companies amount to CHF 56.3 million and CHF 71.2 million, respectively. We focussed 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	<p>We tested management's assessment of the recoverability of these investments and loans as follows:</p> <ul style="list-style-type: none"> • We analyzed and challenged managements' assessment of the businesses' future results, as reflected in the corresponding budgets and business forecasts of Mikron Group; • We re-performed management's calculation of recoverable values to assess the recoverability of loans to and investments in subsidiaries;



carrying amount of consolidated equity at 31 December 2018 exceeds Mikron Holding's stock market capitalization.

Responding to these impairment indicators, Management has assessed the recoverability of the company's loans to group companies and investments in subsidiaries.

This impairment assessment, which was approved by the Board of Directors, involves significant judgment. It is based on an analysis of the respective equity of the subsidiary at balance sheet date, their past results and medium-term business forecasts.

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

- We reconciled the information used in the tests to underlying data records and accounting systems.
- We obtained evidence of the approval by the Board of Directors.

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

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 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, 18 March 2019

Group Companies/ Investments Mikron Holding AG

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

Activity

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

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