

2020

Forward-looking statements

This Annual Report contains forward-looking statements in relation to the Mikron Group which are based on current assumption and expectations. Unforeseeable events and developments could cause actual results to differ materially from those anticipated.

The Mikron Annual Report 2020 is published in English only. An online version is available with excerpts in German: <https://report.mikron.com>

Mikron Holding AG
Mühlebrücke 2
CH-2502 Biel
Tel. +41 32 321 72 00
Fax +41 32 321 72 01
ir.mma@mikron.com

Published in English

Publisher: Mikron Holding AG, Biel
Concept, copy and design: Zoebeli Communications AG, Bern

Photography: Mikron archive
Printing: Ast & Fischer AG, Wabern

March 2021, © Copyright Mikron Holding AG

Mikron®, CrazyDrill™, CrazyMill™, CrazyReamer™, Flexcell™, G05™, Mikron 6x6™, Mikron EcoLine™, Mikron EcoPal™, Mikron MultiX™, Mikron NRG™, Mikron NRG-50™, Mikron Polyfeed™, Mikron Tool™, MiquDrill™, Multifactor™, Multifast™, Multistar™, Multistep™, Polyline™ are trademarks of Mikron Holding AG, Biel (Switzerland).

Content

6	Letter to Shareholders
8	Thinking and acting digital
10	The Mikron Group
12	Management Report
24	Mikron Automation
29	Mikron Machining Solutions
34	Corporate Governance Report
52	Compensation Report
60	Mikron Group Financial Report 2020
96	Alternative Performance Measures
100	Mikron Holding AG Financial Report 2020
112	Group Companies / Investments Mikron Holding AG

Key Figures

in CHF million, except number of employees

2020

2019

+/-

	2020		2019		+/-	
Key performance data						
Order intake ¹⁾	267.3		288.5		-21.2	-7.3%
Machining Solutions	96.0		119.4		-23.4	-19.6%
Automation	171.5		169.2		2.3	1.4%
Net sales	257.8		327.6		-69.8	-21.3%
Machining Solutions	96.3		151.5		-55.2	-36.4%
Automation	161.7		177.2		-15.5	-8.7%
Order backlog ¹⁾	161.6		157.4		4.2	2.7%
Machining Solutions	38.2		38.1		0.1	0.3%
Automation	123.4		119.4		4.0	3.4%
Research and development	6.5		10.4		-3.9	-37.5%
Number of employees (end of year) ¹⁾	1,331		1,486		-155	-10.4%
Machining Solutions	545		707		-162	-22.9%
Automation	759		750		9	1.2%
Earnings						
EBITDA ¹⁾ , as % of net sales	-8.9	-3.5%	22.9	7.0%	-31.8	n/a
EBIT ¹⁾ , as % of net sales, before restructuring costs	-4.7	-1.8%	14.1	4.3%	-18.8	n/a
Machining Solutions	-13.6	-14.1%	1.1	0.7%	-14.7	n/a
Automation	9.1	5.6%	12.9	7.3%	-3.8	-29.5%
EBIT ¹⁾ , as % of net sales	-20.8	-8.1%	14.1	4.3%	-34.9	n/a
Machining Solutions	-21.6	-22.4%	1.1	0.7%	-22.7	n/a
Automation	1.1	0.7%	12.9	7.3%	-11.8	-91.5%
Operating result, as % of net sales	-20.1	-7.8%	14.0	4.3%	-34.1	n/a
Loss/profit for the year, as % of net sales	-22.1	-8.6%	8.8	2.7%	-30.9	n/a
Cash flow						
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	9.2	3.6%	7.3	2.2%	1.9	26.0%
Balance sheet						
Balance sheet total	277.1		289.5		-12.4	-4.3%
Current assets	164.7		178.0		-13.3	-7.5%
Cash and current financial assets	40.4		44.1		-3.7	-8.4%
Non-current assets	112.4		111.5		0.9	0.8%
Current liabilities	115.6		103.6		12.0	11.6%
Long-term liabilities	16.0		16.6		-0.6	-3.6%
Shareholders' equity, as % of balance sheet total	145.5	52.5%	169.2	58.5%	-23.7	-14.0%

1) Alternative performance measures, see pages 96 to 98, or www.mikron.com/apm

Mikron Group

2020

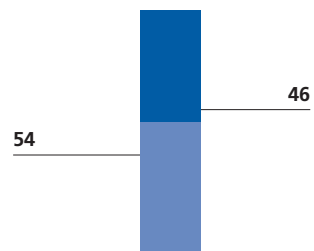
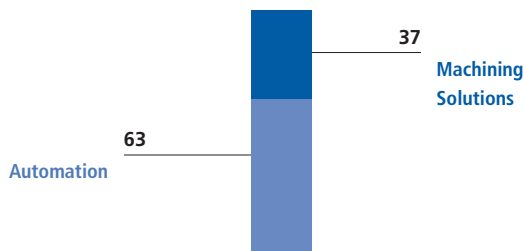
2019

Sales

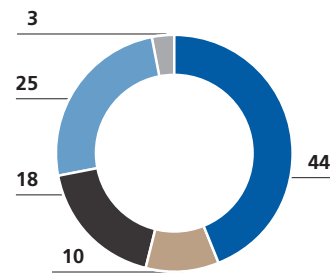
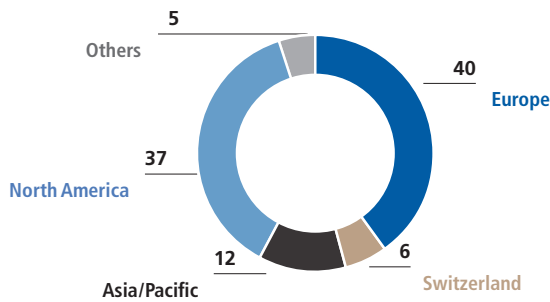
CHF 257.8 million

CHF 327.6 million

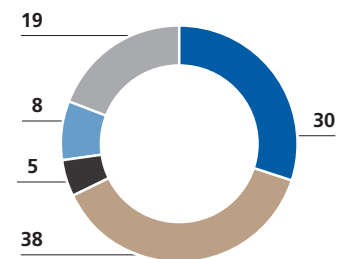
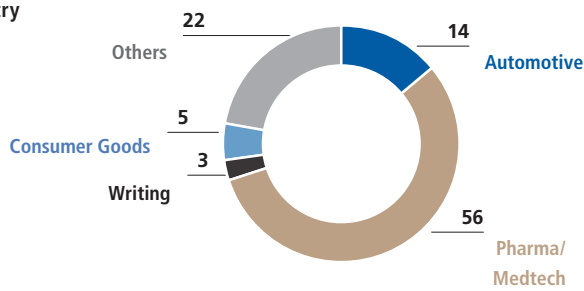
By segment
in %



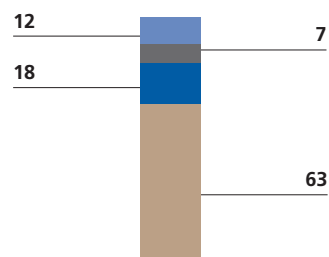
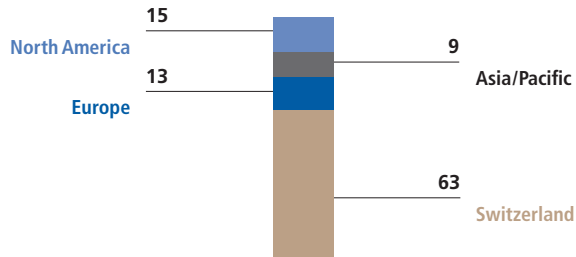
By region
in %



By industry
in %



Employees
by region
in %



Total 1,331

Total 1,486

Dear Shareholders,

Last year was in many respects a turbulent and exceptionally challenging year for the Mikron Group. The spread of the coronavirus has fundamentally reshaped our industrial and working world, and the structural change underway in the automotive industry continued at a faster pace. We look back on difficult decisions and some painful losses. Over the long term, however, 2020 will also be remembered by us as a year of tightening our structures and concentrating our resources. In a tough market environment, we reacted fast, adapted to the new circumstances, and invested in the future.

The coronavirus pandemic impacted our two business segments Mikron Automation and Mikron Machining Solutions to different degrees. The year was especially challenging for the Mikron Machining division, which operates primarily in the automotive industry. After suffering a slump even before the pandemic, this market ground almost to a complete halt at times during 2020. With the sector currently undergoing an extensive transformation, Mikron does not expect to see a significant increase in demand for machining systems on the part of established customers in the automotive industry over the medium term. The service and tools business was also severely impaired by the pandemic and the related company closures and travel restrictions.

Mikron Automation fared better: Remaining largely successful, the business segment profited from its solid positioning in the pharmaceutical and medtech sectors – its main market – where the pandemic also generated new demand.

In this difficult market environment, we had to institute some key changes: We significantly reduced our capacity and cost base in the Mikron Machining division and focused the production of machining systems on one location. Within the Mikron Automation business segment, we resized our Berlin site, which exclusively serves automotive customers. It will be closed in mid-2021 after all pending customer projects have been completed.

These major restructuring measures already began to show an impact in the second half of 2020. The widescale investments that we have made in digitalization also paid off to an unexpected degree in this unusual year. Our smart services and digitalized processes have never been more vital than during the coronavirus pandemic.

The numerous challenges faced over the past months impacted our sites in different ways. Whether on short-time work, working from home, carrying out digital commissioning of complex systems, dealing with supply bottlenecks or handling urgent large orders for coronavirus applications – Mikron Group employees have risen to the challenges superbly. Even employees required to seek new employment made a constructive contribution up to the very end. The majority of them have in the meantime already found new positions. On behalf of the Board of Directors and Group Management, we would like to take this opportunity to extend our sincere thanks to them all.

The coronavirus is still with us in March 2021. Uncertainty remains as to how the pandemic will continue to evolve, and the market environment is highly volatile. As the new financial year gets underway, we are nonetheless looking ahead with confidence. Going forward, we will also be ready to respond quickly and vigorously to unexpected events. We will harness potential for growth, leverage our culture of innovation and invest further in the digitalization of products, services and processes as well as in our employees. The Mikron Automation business segment began the new year with a solid order backlog, and prospects in the pharmaceutical and medtech industries remain promising. After the restructuring and with pioneering technologies and products, the Mikron Machining Solutions business segment is poised for a market recovery. Demand for tools from Mikron Tool has picked up substantially – and the division is optimally prepared for an upswing and to penetrate new markets. For the 2021 financial year, we generally expect a slight rise in sales and a return to profitability.



Bruno Cathomen, CEO
Heinrich Spoerry, Chairman

We would like to thank our customers for their trust and to extend our gratitude to you, our valued shareholders, for your loyalty.

Heinrich Spoerry,
Chairman of the Board of Directors

Bruno Cathomen,
Chief Executive Officer

After twelve years in management roles and nine years as CEO of the Mikron Group, Bruno Cathomen reached the decision in October 2020 to step down from his position as CEO effective mid-2021. The search for and evaluation of a successor is underway. Bruno Cathomen's leadership of the Mikron Group over the years has been characterized by his abundance of energy, expertise and foresight. The Board of Directors and Group Management would like to thank Bruno Cathomen for his great commitment and his services to Mikron.

At the Annual General Meeting in April 2021, I will be handing over the chairmanship to Paul Zumbühl and stepping down from the Board of Directors.

Having been a member of the Board since 2018, Paul Zumbühl is very familiar with Mikron and the challenges the company is facing. His personality as well as his experience and track record as the successful, long-standing CEO of the Interroll Group ideally equip Paul Zumbühl, together with his colleagues on the Board and in the management, to successfully lead our Mikron Group into the future.

I should also like to take this opportunity to extend my sincere thanks to the Board of Directors, the management and all employees for their huge commitment and excellent team spirit.

My thanks also go out to our customers and shareholders for their trust and loyalty in difficult times too.

Heinrich Spoerry,
Chairman of the Board of Directors

Thinking and acting digitally. Mikron is steering the change.



Connected manufacturing at Mikron Tool

Intelligent processes, smart platforms and networked service. Digitalization is not just a vision. At Mikron, it has long been reality.

Smart processes

Connected manufacturing has always been a key topic for Mikron: open interfaces, 360-degree thinking and the incorporation of the latest technologies enable it to develop its own innovations quickly and with an eye to the future.

Smart product platforms

Digitalization in all its facets offers almost unlimited potential and scalability. From low-volume to high-volume production. Mikron is on the way towards an intelligent future.

Smart production

A major benefit of the fourth industrial revolution is an increase in productivity. Mikron is taking advantage of the available opportunities and implementing them with its customary virtuosity.

Smart services

Factory 4.0 does not end at Mikron's gates. Beyond production, Mikron is also seizing all the opportunities offered by digitalization in its individual customer approach and in the versatile functions of sales and service.



Digitalization at Mikron Tool



Mikron Machining offers its customers powerful monitoring tools

Mikron Machining

Eye to eye with the technology of the future

A virtual visit to the new Mikron MultiX platform is a feast for all senses. Personal confrontation. Detailed examination. Customized configuration – all made possible by Mikron Machining's spectacular Virtual Reality Configuration Oculus. Without a trade show. Without travel. Without time pressure. Simply and conveniently wherever the customer happens to be. Mikron Machining's virtual reality applications are the source of a sensation far beyond the industry. A must-see for anyone involved in the machine tool industry. And a once-in-a-lifetime experience for every user.

Mikron miTool: The next level of tool monitoring

With Mikron miTool, Mikron Machining offers its customers an extremely powerful monitoring tool. Mikron miTool inspires with innovative features and ensures that customers increase the overall equipment effectiveness of Mikron high-performance systems. Initial investments pay off within a very short time.

Mikron Tool

Digitalization at every step: From the creative phase to the established processes

At Mikron Tool, even the first tool sketches are created on the iPad. This makes it easy to share, discuss and add to them with others, around the globe. Even if a team member is absent, the continuity of a project is guaranteed. All employees work with the same formats and documents. Thus, customer inquiries from all over the world can be handled and documents are accessible from anywhere at any time. Cycle definition and cost calculation for tool manufacturing have been automated too. A configurator now performs the calculations – from cycle definition and price calculation to the operation plan.

Mikron Automation

Mikron Robotic Cell – makes complex devices easy to handle

Market demand evolves rapidly and the need for flexible and fast delivery assembly solutions, even for complex devices, has increased. The Mikron Robotic Cell is perfectly suited to address this demand in the lower production volume range. The mix of a 4-axis cartesian robot enhanced with the new multiple vertical and rotation axes heads, the flexible feeding capability and specific processes integration permits a very high flexibility of assembly operations. The system is open for adding future variants or being retooled easily for new products. The cell is driven by the MOOS control system, which delivers all the power of data analytics to match customer needs.

Predictive maintenance data

As part of Mikron Automation's digital initiative for process optimization and for generating maintenance data, Mikron – together with an external partner – is developing a predictive model to further optimize the maintenance of the Mikron G05 Pick & Place belt tensioning system. The effects of vibrations on bearings and shafts in Mikron machines are continuously measured and analyzed. The process analytics and optimization data are displayed to both Mikron machines and customer systems.



Mikron Machining's spectacular Virtual Reality Configuration Oculus



Mikron miTool inspires with innovative features



Highlight at Mikron Automation: The new Mikron Robotic Cell

The Mikron Group

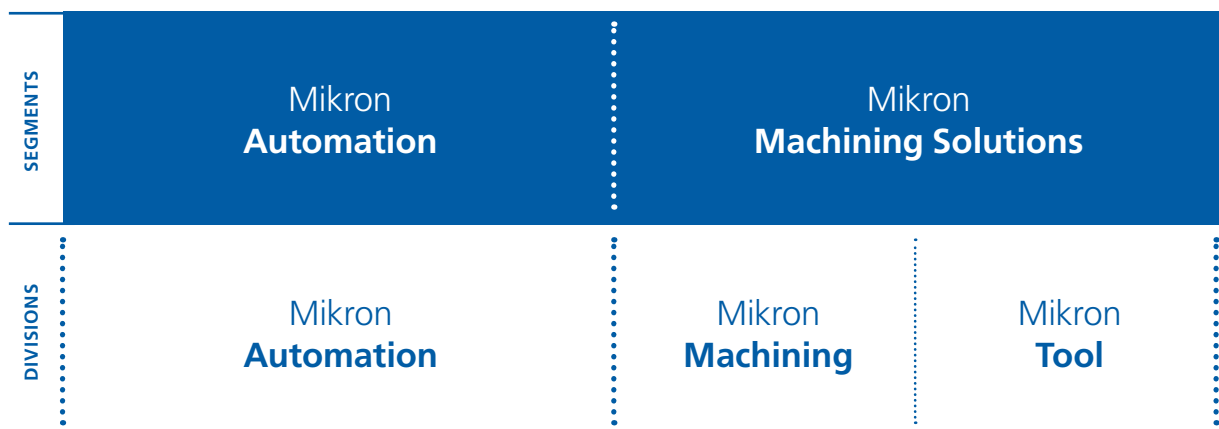
The Mikron Group develops, produces and markets highly precise, productive, and adaptable automation solutions, machining systems and cutting tools. Rooted in the Swiss culture of innovation, Mikron is a global partner to companies in the automotive, pharmaceutical, medtech, consumer goods, writing instruments 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 sites are located in the USA, Germany, Singapore, China and Lithuania. Mikron Holding AG shares are traded on SIX Swiss Exchange (MIKN). The Mikron Group employs a total workforce of around 1,350.

Corporate Story

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

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



Mikron Automation

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

- Number of employees: 759
- Systems installed worldwide: over 3,500
- Projects: more than 60 per year
- Project delivery times: 4 to 24 months
- Main markets: blue-chip pharma/medtech customers
- Number of facilities: 6 sites

Mikron Machining Solutions

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

Mikron Machining

- Number of employees: 332
- Systems installed worldwide: over 7,000
- Projects: between 80 and 150 per year
- Project delivery times: 4 to 18 months
- Main markets: blue-chip automotive and watchmaking customers, and many hidden champions in diverse industries
- Number of facilities: 2 sites and 2 sales and representation offices

Mikron Tool

- Number of employees: 213
- Product portfolio: 60 tool families
- Main markets: blue-chip automotive and watchmaking customers, and many hidden champions in diverse industries
- Number of facilities: 2 sites and 2 sales and representation offices

Management Report

Management Report

In the 2020 financial year, which was strongly impacted by the COVID-19 crisis, the Mikron Group's sales declined from CHF 327.6 million to CHF 257.8 million (-21.3%). While the Mikron Automation business segment held up well particularly in its main market – the pharmaceutical and medtech sectors, the Mikron Machining Solutions business segment suffered considerably owing to the general mood of uncertainty and low demand for machining systems especially in the automotive industry. Both business segments incurred substantial restructuring costs in the first half of 2020. The measures taken had a positive impact already in the course of the second half. Order intake, net sales and EBIT improved compared with the first half. At the end of 2020, the Mikron Group's order backlog of CHF 161.6 million was already higher than the corresponding figure at the end of 2019 (CHF 157.4 million, +2.7%). The Group's EBIT for 2020 amounts to CHF -4.7 million before restructuring costs and to CHF -20.8 million after restructuring costs (2019: CHF 14.1 million). Overall, Mikron is facing the current challenges in a stronger position, with a significantly improved cost structure and with secured liquidity.

Group business review

The two business segments Mikron Automation and Mikron Machining Solutions both look back on a difficult business year. While Mikron Automation held up well overall, due to the good positioning in its main sales market of pharmaceutical and medical technology, the Machining Solutions segment was more affected by the COVID-19 crisis. Demand for machining systems in the automotive industry, its main sales market had already fallen sharply before the outbreak of COVID-19. The pandemic further worsened the situation and also severely impacted the service and tooling business.

The extensive restructuring programs were implemented consistently and rapidly in both business segments. Restructuring cost of CHF 16.1 million burdened the results in 2020 while the reduced cost base showed positive effects already in the second half-year. In the Mikron Machining Solutions business segment, capacity was significantly reduced, and production of manufacturing systems concentrated at one site. In the Mikron Automation business segment, the Berlin site will be closed by mid-2021.

Both business segments have systematically continued digitalization at all levels and further increased data security. An external data attack was successfully repelled in the reporting year.

Annual sales

in CHF

257.8 million

2020

327.6 million

2019

The COVID-19 pandemic

The COVID-19 pandemic has affected the various Mikron locations in different ways. Measures Mikron has taken in response to the COVID-19 crisis include:

- An immediate travel stop from Europe and the US to Asia back in January 2020
- Protective measures for employees at all locations
- Working from home wherever possible from day one, thanks to functioning digital systems and processes
- No dividend distribution for the 2019 fiscal year
- Relocation of tool production from Agno (Switzerland) to Rottweil (Germany) during the officially imposed lockdown in Ticino.

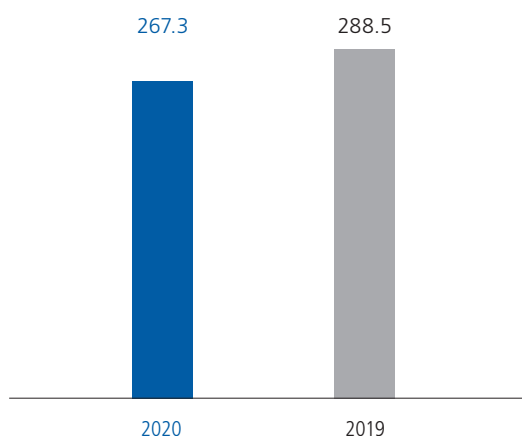
Segment review

Even in crisis-ridden 2020, Mikron Automation continued to establish itself as a leading technology and assembly solution supplier in the European, US, and Asian pharmaceutical and medtech industries. The business segment also succeeded, for example, in rapidly and efficiently implementing new automation solutions for the manufacture of COVID-19 test device systems. In contrast, order intake from the automotive industry remained significantly too low. As the medium-term outlook does not suggest any particular improvement in this respect, Mikron has decided to close the Berlin site, which works exclusively for the automotive industry, by mid-2021, after completion of the customer projects still in progress.

The Mikron Machining Solutions business segment operates as two divisions: Mikron Machining and Mikron Tool. The Mikron Machining division saw a decline in demand from the automotive industry already before the outbreak of the pandemic, which further worsened the situation and also severely impacted the service and tooling business. Encouragingly, sales increased again in these areas towards the end of the year. The tool business of Mikron is well positioned in all respects for an upturn in the market.

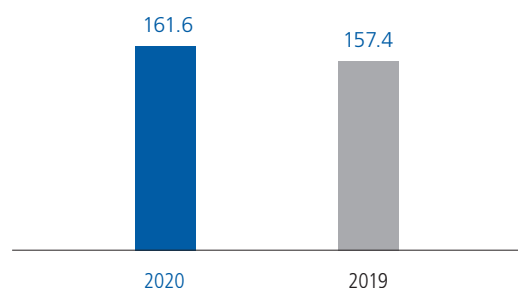
Order intake
in CHF million

-7%



Order backlog
in CHF million

+3%



Outlook

The Mikron Automation business segment started 2021 with a solid order backlog and is anticipating further encouraging developments in the pharmaceutical and medtech sectors.

In the Mikron Machining Solutions business segment, the restructuring in the machining division is essentially complete, with capacity reduced and concentrated on one site. The new platform is proving its worth with new customers. New digital services and products have already proved successful in practice. Concrete signs of recovery in demand for tools and services were noted at the end of 2020.

However, it is difficult to estimate how quickly demand will recover in the machine business. The unpredictable further development of the COVID-19 pandemic and the possible impact on customers' investment decisions do not allow any concrete forecasts to be made at present. Mikron is facing the current challenges in a stronger position and with a significantly improved cost structure compared to the beginning of 2020. For the entire Group, we expect a slight increase in sales and a return to profitability in the 2021 financial year.

Order intake and net sales

The Mikron Group reported order intake of CHF 267.3 million in 2020, representing a decrease of 7.3% compared with the prior year (CHF 288.5 million). The Mikron Automation business segment increased its order intake to CHF 171.5 million (previous year: CHF 169.2 million, +1.4%), while the Mikron Machining Solutions business segment saw a decline to CHF 96.0 million (previous year: CHF 119.4 million, -19.6%).

Posting annual net sales of CHF 257.8 million, the Mikron Group fell 21.3% short of the prior-year's result of CHF 327.6 million. While Mikron Automation's net sales of CHF 161.7 million were 8.7% behind the previous year's figure, Mikron Machining Solutions recorded net sales of CHF 96.3 million (2019: CHF 151.5 million, -36.4%). Europe remains Mikron's most important market, with approximately 46% of total net sales in 2020 (2019: 54%). With a share of 37%, North America is now quite close behind (previous year: 25%). The strongest market segment is by far the pharmaceutical and medtech sector with 56% (previous year: 38%). The automotive industry contributed 14% (prior year: 30%) to total net sales.

Capacity utilization and order backlog

While the Mikron Automation business segment enjoyed good capacity utilization – apart from the Berlin site – throughout the 2020 financial year, this was not the case for the Mikron Machining Solutions business segment. During the first half of the year, the Mikron Group decided to concentrate the machine manufacturing business in the Machining division at the Agno site in response to reduced demand from the automotive industry for metal cutting machines and implemented a comprehensive restructuring program. The Mikron Tool division was able to supply its customers in full from Rottweil (Germany) during the plant closure in Agno imposed by the authorities in Switzerland.

At CHF 161.6 million, the Mikron Group's order backlog at the end of 2020 was 2.7% higher than the prior-year figure. While the Machining Solutions business segment reported an order backlog at the level of the previous year (+0.3%), the Automation segment increased the same figure by 3.4%.

Profitability

EBIT for the 2020 business year was negatively impacted by one-off expenses in connection with the restructuring measures. In total, restructuring costs of CHF 16.1 million were booked. Due to the significant drop in sales in the Mikron Machining Solutions business segment and the lack of volume at the Berlin site in the Mikron Automation business segment, the Group's EBIT (before restructuring costs) of CHF -4.7 million in 2020 was significantly lower than in 2019 (CHF 14.1 million). The Automation business segment, whose results are strongly negatively impacted by the Berlin site, posted EBIT (before restructuring costs) of CHF 9.1 million (2019: CHF 12.9 million). EBIT before restructuring costs for the Mikron Machining Solutions business segment, at CHF -13.6 million, was also well below the prior-year figure of CHF 1.1 million. After restructuring costs, which include the redimensioning of the Berlin site and capacity adjustments in Agno and Rottweil, Group EBIT stands at CHF -20.8 million. The loss for the 2020 business year is CHF -22.1 million (2019: CHF 8.8 million).

Financial result, income taxes and profit

The financial result was lower than in the previous year and amounted to CHF -2.3 million (2019: CHF -0.5 million), CHF -1.1 million of which was related to net exchange rate losses (prior year: CHF -0.2 million). Interest on and valuation of bonds to optimize financial results were netted against other financial expenses such as fees for bank guarantees. Profit before taxes amounted to CHF -23.1 million (prior year: CHF 13.6 million), on which income taxes of CHF -1.0 million (prior year: CHF 4.9 million) were booked as expenses. The tax expense was significantly lower due to fewer one-time effects than in the prior year and according to the overall lower profitability of the Group. The income tax rate is also still distorted by tax losses not capitalized. Mikron's net earnings for 2020 were CHF -22.1 million, compared to CHF 8.8 million in the prior year. Net earnings per share for the year 2020 came to CHF -1.35 (prior year: CHF 0.54). At the General Meeting on 23 April 2021, the Board of Directors of the Mikron Group will propose no distribution to the shareholders.

Investment property

The investment property in Nidau (Switzerland) generated net income of CHF -0.7 million (prior year: CHF 0.2 million) including an impairment of CHF 0.5 million based on an update to the third-party market value assessment performed at the end of 2020. The non-operating result excludes the financing costs of the mortgage of CHF 9.0 million. Since August 2019, around 60% of the building has been vacant because one of the lessees moved out. Various development ideas for the property are currently under evaluation. The costs included for the planning and evaluation of the future development of the investment property amount to CHF 0.2 million for 2020 (prior year: CHF 0.6 million).

Balance sheet, financing and equity ratio

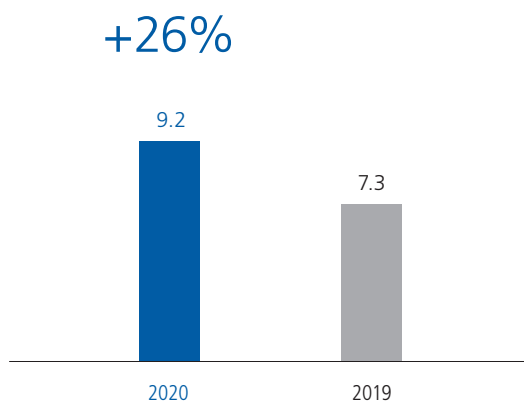
Overall, the Mikron Group's balance sheet remains strong. Mikron is free of net debt and reports a healthy equity ratio.

Cash and cash equivalents plus current financial assets of CHF 40.4 million significantly exceed interest-bearing liabilities of CHF 24.1 million. The current financial assets of CHF 2.0 million are mainly invested in Swiss franc bonds with a residual maturity of less than one year. The net cash position remained at a high CHF 16.3 million or 6% of net sales (prior year: 7%).

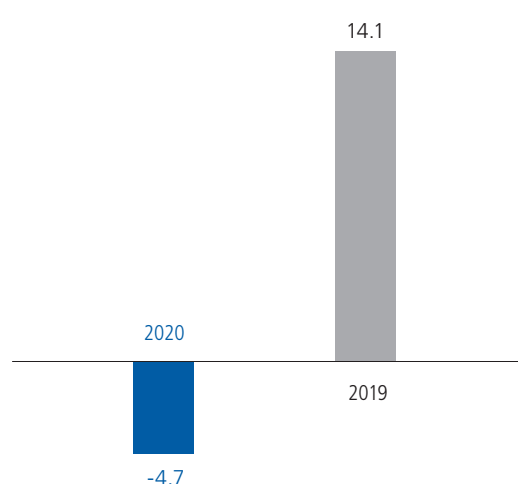
Net working capital amounts to CHF 22.8 million (prior year: CHF 41.8 million) or 9% (prior year: 13%) of net sales. The reduction was mainly supported by lower inventories and the increase of short-term provisions.

Totalling CHF 112.4 million, non-current assets increased by CHF 0.9 million. In line with strategy, investments of CHF 12.0 million (prior year: CHF 18.5 million) were made in production equipment and a building extension for the tool and automation business and a number of IT projects to improve efficiency and security. The total amount of expenditure for new product development and enhancements (capitalized and not capitalized) was about 2.5% of net sales. Amortization and depreciation totaled CHF 10.4 million (prior year: CHF 8.3 million). The long-term financial liabilities of CHF 10.1 million mainly relate to finance leases for production equipment and the mortgage for three production facilities.

Cash flow from operating activities
in CHF million



EBIT, before restructuring costs
in CHF million



Since June 2020, 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. An additional CHF 20.0 million of the mortgage can be drawn under this credit agreement for two production sites in Switzerland. The credit agreement will expire at the end of June 2024 and requires Mikron to achieve certain key financial figures (covenants). The Group met these by a comfortable margin. The renewal of the credit agreement has been secured with the existing partner banks. In 2020, a COVID-19 and a COVID-19 plus loan facility of up to aggregate CHF 8.3 million was established at one production site in Switzerland.

In 2020, shareholders' equity fell to CHF 145.5 million. This represents a solid equity ratio of 53% (prior year: 58%). The decrease of -5% is mostly attributable to the losses in the financial year.

Cash flow

Cash flow from operating activities reached CHF 9.2 million at the end of 2020 (prior year: CHF 7.3 million). A total of CHF 15.3 million (prior year: CHF 11.3 million) was used for investment in non-current assets.

A net loss led to an operating free cash flow (excl. changes in financial assets) of CHF -5.8 million (prior year: CHF -3.5 million). The Group is aiming to achieve positive operational free cash flows over the longer term. This goal was reached over the past five years in aggregate.

Cash flow from financing activities amounted to CHF 2.6 million in the year under review (prior year: CHF 3.4 million), mainly stemming from the draw-down of mortgages and repayment of financial leases.

Share performance and return

At the end of 2020, the share price stood at CHF 5.40 (prior year: CHF 6.76 per share). The precise share performance is available at all times on the Mikron Group website.

Based on the year-end share price, the Mikron Group is valued at CHF 90.2 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 -25.7 million (prior year: CHF -3.3 million), the trademark fees charged to the companies nearly covered the costs incurred. Other than in 2019 (none), a dividend income of CHF 4.5 million from subsidiaries was booked this year.

The financial statements of Mikron Holding AG show a solid equity ratio of above 62%.

Customer satisfaction

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

Employees

Mikron operates in a demanding, highly cyclical and global market, and is exposed to globally active and locally specialized competitors. The key to success is highly skilled and motivated employees who are willing to assume responsibility and work together constructively. This allows the Group to respond to the rapid changes, diverse customer requests and complexity inherent in the business. About every two years, an independent consultancy for personnel and organizational development assesses the level of employee satisfaction.

Mikron aims 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 – even if this was only possible to a very limited extent in 2020. Mikron continued to invest in training and education and conducted numerous virtual seminars. New apprentices and trainees were taken on, and the management and leadership training program as well as specific project managers' training continued. With very few exceptions, all employees were trained in the application of our Code of Conduct.

As at the end of the 2020 financial year, the Mikron Group overall numbered 1,331 employees (FTEs), representing a decrease of 10.4% (prior year: 1,486 employees). The reduction is due to the job cuts made in the Mikron Machining division and the redimensioning of the Berlin site. In parallel with the workforce reduction, short-time working was implemented to some extent in the Machining Solutions segment.

The number of apprentices decreased from 110 employees to 94 employees at the end of 2020. Around 63% of the workforce is employed at the companies in Switzerland, approximately 13% in the European Union, 15% in the US, and 9% in Asia.

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

Innovation and key investments

Several development projects continued in 2020. In the year under review, a total of CHF 6.5 million (prior year: CHF 10.4 million) was invested in the development or enhancement of new products or product platforms. These figures include personnel expenses, material costs and other operating expenses, and represent 2.5% of net sales (prior year: 3.2% of net sales). This does not include daily innovation activities which are triggered by customer projects and are required to develop new specific assembly or machining processes. Details of the main innovation projects in both business segments can be found on pages 8 to 9 and in the segment reports on pages 27 and 32.

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

Sustainability

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

Business model and strategy

Mikron Group

The Business model of the Mikron Group is described on pages 10 and 11 of this report. 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. Unchanged from the mid-term targets communicated in the last few years, the Board of Directors expects the Mikron Group to improve profitability in the medium-term 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 rotary transfer machining niche, expand the service business by introducing additional services and addressing the whole installed machine base, and grow the cutting tool business. The business segment consists of the two divisions Mikron Machining and Mikron Tool. As an innovative technology leader, the Machining Solutions business segment plans to introduce to the market at least one newly developed high-end cutting tool every year and to offer its customers the best performing solution for high-volume production. Delivering machines and cutting tools to different customer segments globally is an important driver for further development. In its niche, Mikron Machining competes mainly against other transfer machines, transfer center and multi-spindle machining center manufacturers. Over time, exposure to the European market will be reduced as newly developed products are rolled out. 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 and the US and to strengthen the footprint in Asia. Other customer segments such as 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 validation and obtaining all the required approvals (especially FDA) enable the Automation business segment to carry out projects across several sites and thus also deliver projects worth up to CHF 30 million.

Management principles

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

Risk management

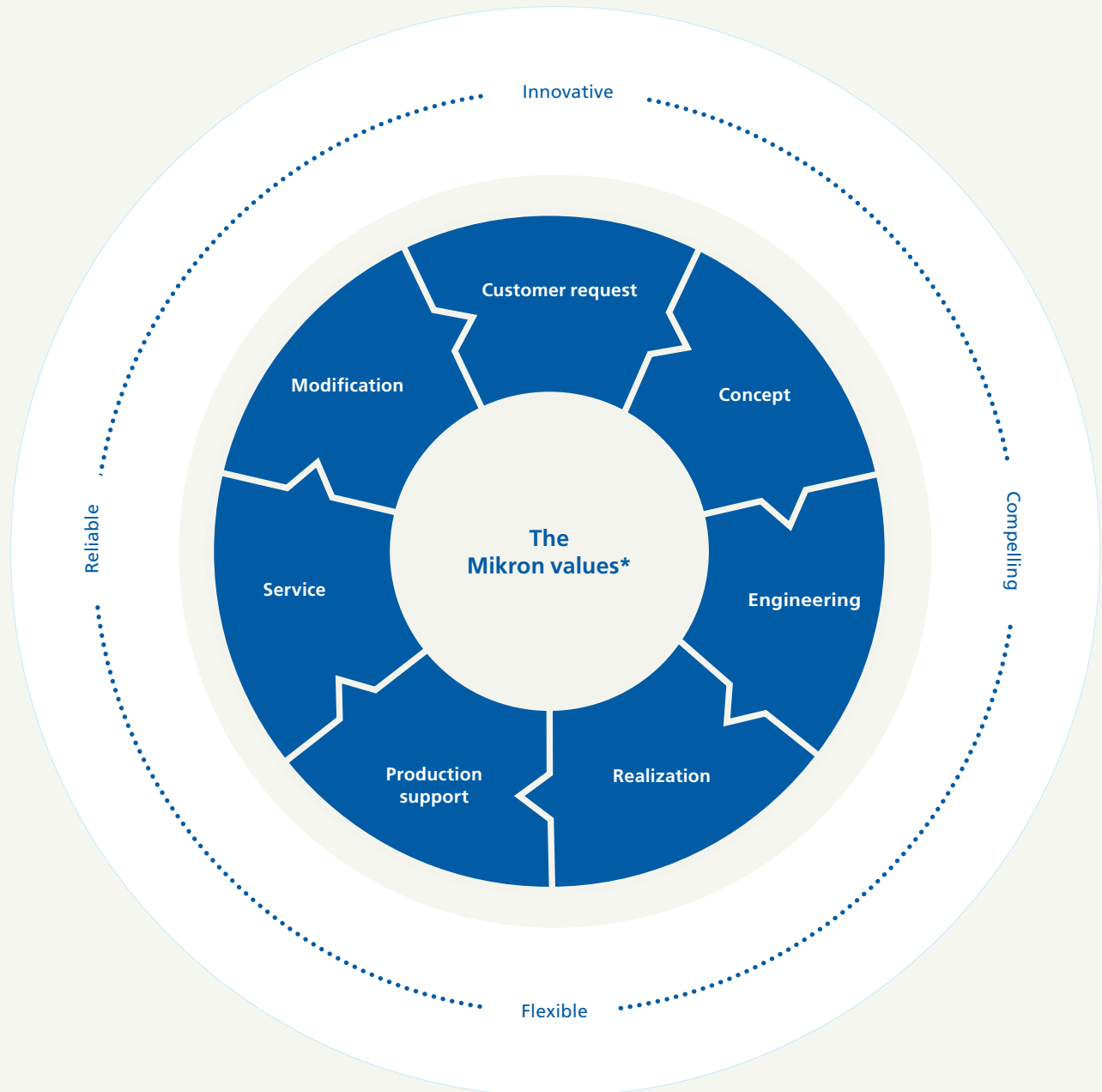
Mikron monitors and carefully evaluates the handling of strategic, financial and operational risks. Equally, the company accounts for risks related to compliance as well as political and regulatory changes.

A holistic risk management process under the lead of the Group CFO ensures that risks with a potentially relevant impact on the business and financial situation as well as mitigation actions to handle those risks are regularly reviewed and presented to the Group Management and Board of Directors. The functioning of the risk management process as well as the main risks are described in the Corporate Governance Report (page 44), while the financial risk management is outlined in the Financial Report (pages 71 to 73).

Brand management

The Mikron Group actively manages its umbrella brand and sub-brands. Both the Automation and Machining business segments usually attend trade fairs all over the world, where they present their range of systems, products and solutions. This was not possible in the 2020 financial year, which was dominated by the COVID-19 crisis. Mikron maintained customer contact in 2020 in both business segments primarily via digital channels and held various webinars, among other things. The Group also uses various brochures, a state-of-the-art website including videos, a YouTube channel and an iPhone/iPad application as brand management tools.

The Mikron business model



*The Mikron values

- 1 Skilled and motivated employees**

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

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

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

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

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

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

Mikron Automation

Mikron Automation

The Mikron Automation business segment held up well overall in the 2020 financial year despite the COVID-19 crisis. This was due in particular to its good positioning in the main sales market of pharmaceutical and medical technology. In terms of both order intake and order backlog at the end of the year, Mikron Automation succeeded in outperforming the previous year's figures and compensating for the lack of volume from the automotive industry.

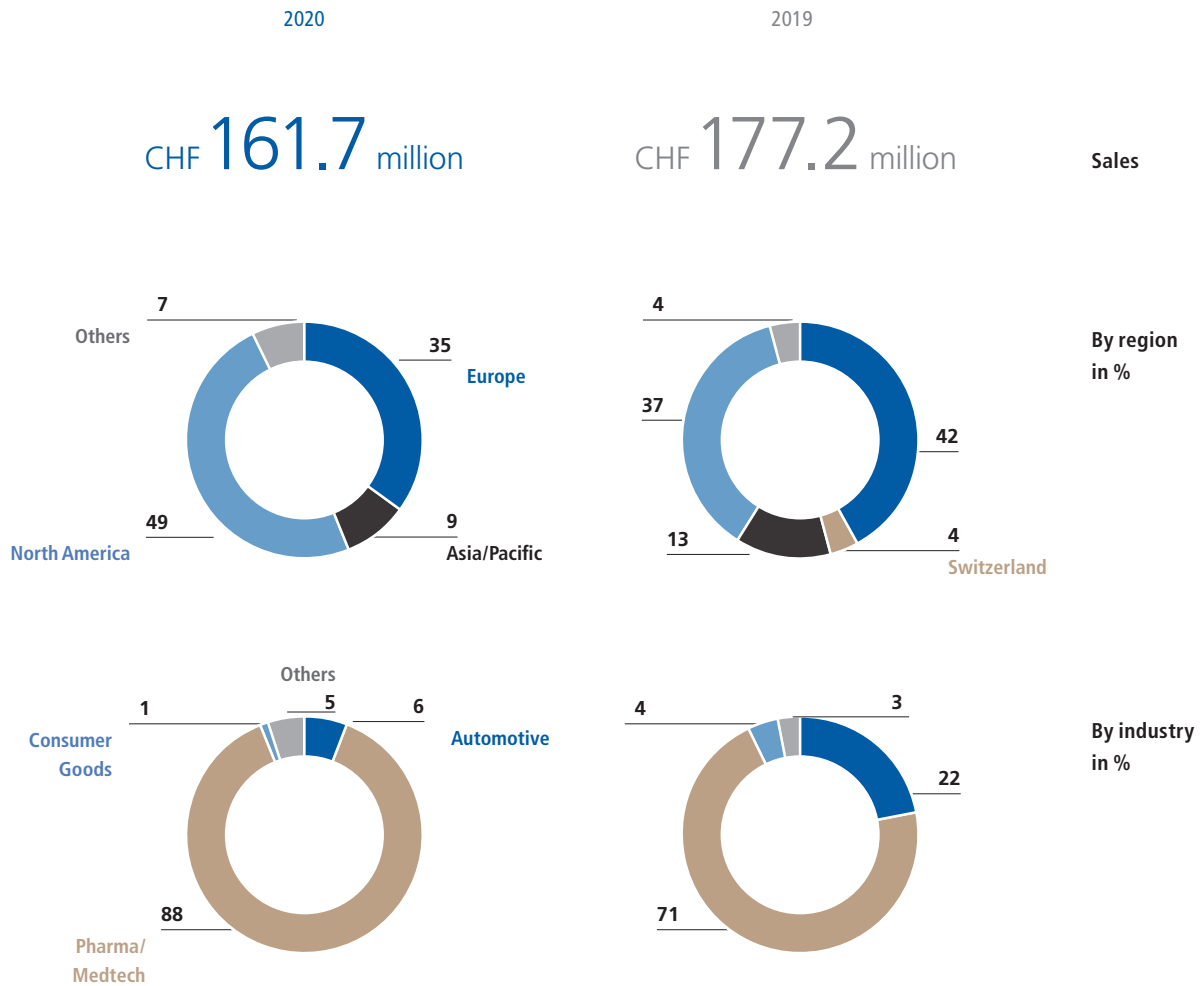
Business performance

Even in crisis-ridden 2020, Mikron Automation was able to win new customers in its core target market of pharmaceutical and medical technology. These include companies that manufacture COVID-19 test device systems. Thanks to the specific assembly and testing expertise in diagnostic products that it has built up over the past few years, Mikron Automation was able to complete these projects not only efficiently and to the high quality expected by the customer, but also in a very short time. All Mikron Automation's sites in Switzerland, the US and Asia were well utilized overall throughout the year. Only the Berlin site, which operates exclusively for the automotive industry and has already experienced highly volatile demand in the past, had significantly too few orders. Because the medium-term market outlook here is also comparatively poor, Mikron will close this plant by mid-2021 once the customer projects still in progress have been completed.

Order intake and order backlog

With an order intake of CHF 171.5 million, Mikron Automation succeeded overall in compensating for the lack of orders from the automotive industry in the year under review and slightly exceeded the previous year's high level (CHF 169.2 million, +1.4%). This was because the business segment was able to further expand its good market position in the pharmaceutical and medical technology sectors. In addition to repeat orders, Mikron Automation also won interesting orders from new customers and for new applications. In the US, Mikron Automation once again posted a significant increase in order intake. Western Europe and the US remain Mikron Automation's main geographical markets. But in Asia, too, Mikron was able to maintain its position in a fiercely competitive market and win new orders and customers in the second half of the year.

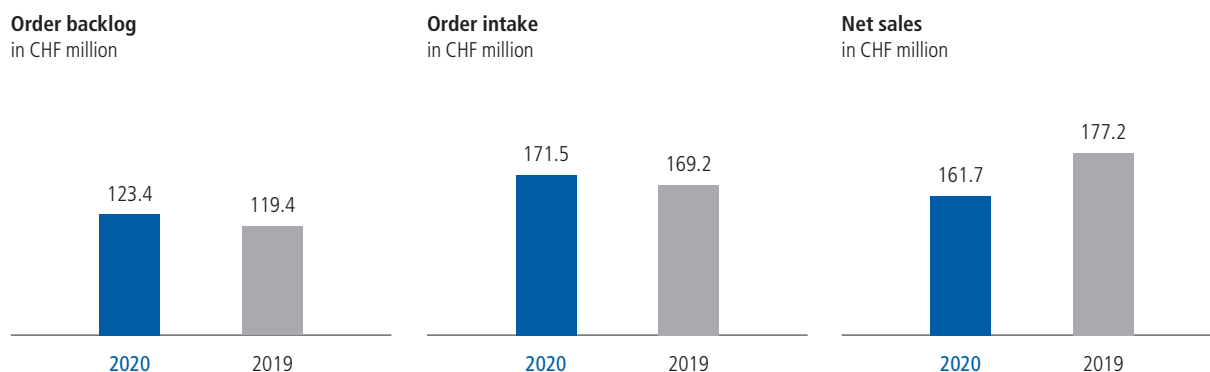
At CHF 123.4 million, the order backlog at the end of the year is also higher than a year ago (CHF 119.4 million, +3.4%) and - with the exception of the Berlin site - well distributed across the individual locations.



Sales and EBIT

At CHF 161.7 million (2019: CHF 177.2 million, -8.7%), Mikron Automation's sales decline remained modest in a year characterized by travel restrictions, delivery bottlenecks and lockdowns. 35% of Mikron Automation's sales came from Europe, 49% from North America and 9% from Asia.

The technology build-up that Mikron Automation has successfully completed at its sites in Asia over the past few years has paid off in particular: the project teams in the relevant countries were able to successfully handle even complex projects independently at all times. This includes the rapid delivery of several assembly lines to an international customer in China for the assembly of components for a COVID-19 test kit.



By contrast, the service business in Europe suffered from the COVID-19-related restrictions. Here, Mikron Automation's sales fell sharply year-on-year, while volumes in North America and Asia continued to increase.

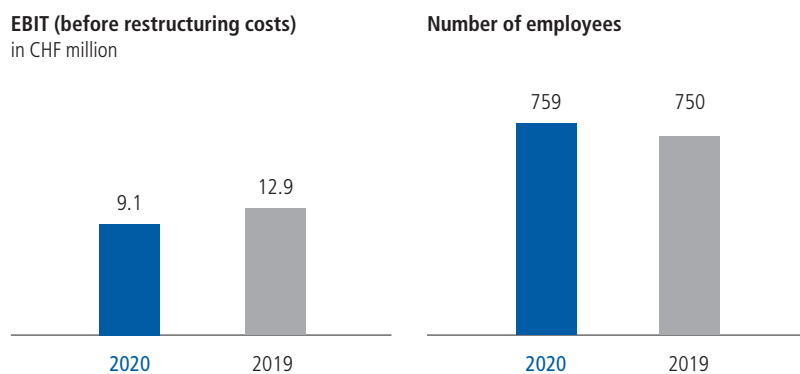
Low capacity utilization at the Berlin site had a severe impact on Mikron Automation's profitability in the year under review. Costs associated with the restructuring of this company also impacted the segment's operating results. Before restructuring costs, Mikron Automation posted EBIT of CHF 9.1 million (previous year: CHF 12.9 million) and an EBIT margin of 5.6% (previous year: 7.3%). Taking restructuring costs into account, EBIT still amounted to CHF 1.1 million.

Innovations and strategic projects

In 2020, Mikron Automation continued to develop its platforms and further optimize their scalability to meet the specific needs of the pharmaceutical and medical technology sectors. In June, construction work began on the expansion of the plant in Boudry. The aim of this expansion is to provide the necessary space and optimal conditions for the further development of the successful automation business by the end of 2021 and to create optimal working conditions for both customers and employees. It will also enable production and assembly to take place under controlled climatic conditions - an increasingly common requirement for systems for the pharmaceutical and medical technology industries. It goes without saying that Mikron Automation is also paying close attention to ecological aspects in this building project, massively reducing energy requirements and CO₂ emissions thanks to the latest building technology.

Employees

At the end of December 2020, Mikron Automation employed 759 people (full-time equivalents). This is 1.2% more than in the previous year (750). The job cuts at the Berlin site were more than offset by growth elsewhere. Thanks to its attractive job profiles, Mikron Automation again succeeded in recruiting well-qualified new employees in this special year. In the year under review, Mikron Automation employed a total of 49 apprentices. Mikron Automation maintained its internal training program in a reduced form during the pandemic and conducted some of it virtually.



Outlook

In view of the high order backlog and the fundamental growth in demand for pharmaceutical and medical technology products, the Automation business segment is optimistic about the 2021 financial year. However, the yet unpredictable further development of the COVID-19 pandemic and the possible impact on customers' investment decisions do not allow any concrete forecasts to be made at present, even for Mikron Automation.

Mikron Machining Solutions

Mikron Machining Solutions

The Machining Solutions business segment looks back on an extremely difficult 2020 financial year that was heavily impacted by the COVID-19 crisis. In the main sales market of the automotive industry, demand for the Mikron Machining division's manufacturing systems had already reduced before the outbreak of the pandemic, which further worsened the situation and also severely impacted the service and tooling business for many months. One bright spot is the increase in sales in these areas towards the end of the year – including from the automotive industry.

Business performance

The Mikron Machining Solutions business segment operates as two divisions, Mikron Machining and Mikron Tool. Due to structural changes in the automotive industry and related shift towards electric vehicles, the Mikron Machining division began 2020 with a very low order backlog. The outbreak of the COVID-19 pandemic further slowed demand for Mikron's highly productive manufacturing machines in all sales markets. For example, the closure of schools in many countries even led to a freeze on investment in the writing instruments industry. During the first half of the year, the Mikron Group decided to concentrate the machine manufacturing business in the Mikron Machining division at the Agno site in response to reduced demand from the automotive industry for metal-cutting machines. Mikron Machining Solutions implemented the restructuring program initiated in the spring as planned. Throughout the year, short-time working was also implemented in many areas at most sites and included the phase out of the Mikron 6x6. At the Rottweil site, Mikron Machining Solutions continues to run the service business and the business of the Mikron Tool division.

As a supplier of industrial consumer goods, the Mikron Tool division is also relatively directly affected by global economic developments, although not as severely as the Machining division. In particular, the short-term closure of many plants in the automotive industry resulted in a significant drop in sales of special tools for Mikron Tool in the first half of the year. In the standard tools business, which is broadly diversified across markets, Mikron Tool was able to keep order intake stable throughout the year. During the pandemic, the division succeeded in maintaining delivery worldwide without interruption thanks to fully integrated digital production and logistics processes, a flawlessly functioning home office and two perfectly complementary production sites. During the plant closure imposed by the authorities in Switzerland, Mikron Tool was able to supply its customers in full from the German plant.

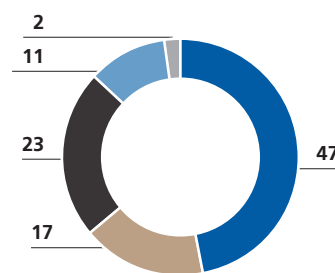
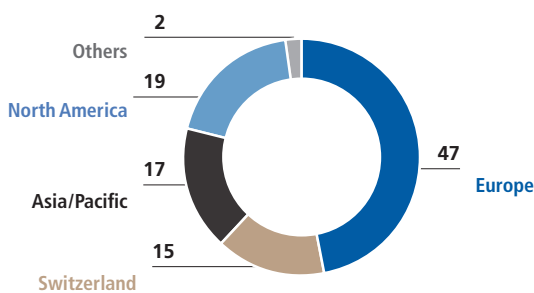
2020

2019

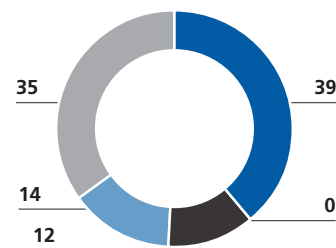
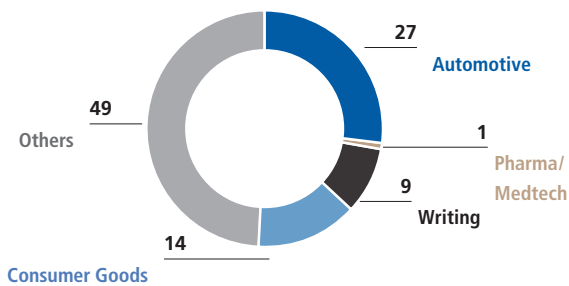
CHF 96.3 million

CHF 151.5 million

Sales



By region
in %

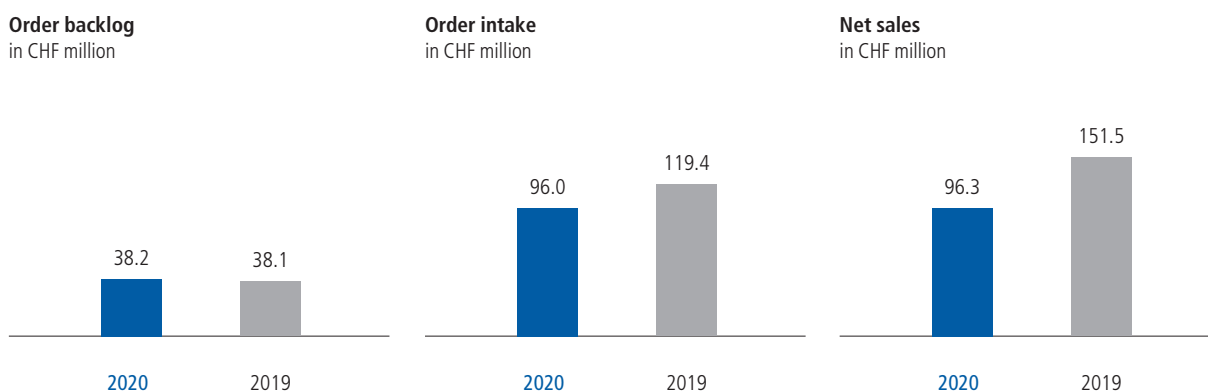


By industry
in %

Order intake and order backlog

In 2020, the business segment achieved an order intake of CHF 96.0 million (previous year: CHF 119.4 million, -19.6%). This significant decline is largely due to the lack of demand in the machinery business. Towards the end of the year, demand for tools and services began to pick up.

At CHF 38.2 million, the segment's order backlog at the end of 2020 was at the low level of 2019 (CHF 38.1 million, +0.3%). With its restructuring program, the Mikron Machining division significantly reduced its capacity and cost base in the year under review. At the Mikron Tool division, existing capacities were largely maintained in anticipation of a market recovery in the foreseeable future.



Sales and EBIT

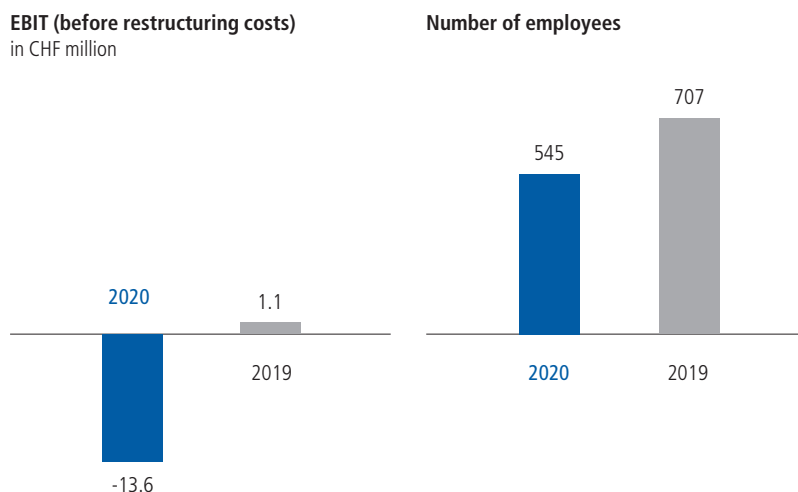
The business segment achieved sales of CHF 96.3 million in the year under review (previous year: CHF 151.5 million -36.4%). Of this, 15% came from Switzerland, 47% from Europe, 17% from Asia and 19% from North America.

The lack of sales in the machinery business severely impacted Mikron Machining Solutions' profitability in the year under review. Restructuring costs in the Machining division had an additional impact on the business segment's results. Before restructuring costs, Mikron Machining Solutions posted EBIT of CHF -13.6 million. Taking restructuring costs into account, EBIT came to CHF -21.6 million (previous year: CHF 1.1 million), with the tools business as a whole achieving a pleasingly positive operating result.

Innovations and strategic projects

The market launch, further development and completion of the new rotary transfer machine platform MultiX was driven forward despite the adverse conditions. The future-oriented platform offers customers completely new possibilities. After the MultiX had already won an innovation award at EMO 2019, Mikron also received the coveted "Best Industry Award 2020" for it in the production technology category. A first customer installation took place in 2020 and further machines will be delivered in early 2021. With the new Mikron miTool monitoring system, which can be installed both on new machines and on equipment already used by customers, Mikron Machining is also making technological progress in digitalization. The system, which has already been tested in practice, is another element that helps customers increase their productivity.

Mikron Tool continuously advanced its product development strategy in the 2020 financial year and launched further high-performance tools for stainless steels and difficult-to-machine alloys. In some cases, also for completely new applications. In addition, Mikron Tool intensified its cooperation with strategic partners in order to open up access



to new markets, for example in medical technology. At Mikron Tool, too, direct customer contact was severely hampered, and often even impossible, for virtually the entire year. Thanks to consistently functioning digital processes, all activities – from order discussions to worldwide deliveries to customers – were always possible from the home office. The newly offered webinars also gave customers a direct insight into the technology center. In this way, the performance of existing and new products could be impressively demonstrated to them despite contact prohibitions.

Employees

As a result of the restructuring measures implemented as planned in the Machining division, the number of employees in the Machining Solutions segment decreased from 707 employees (full-time equivalents) to 545 (-22.9%). On average, 20-30% of the segment's employees worked reduced hours. In the year under review, Mikron Machining Solutions employed a total of 45 apprentices and trainees.

Outlook

Despite initial signs of recovery in demand for tools and services at the end of 2020, the outlook for the segment at the beginning of 2021 remains uncertain. Mikron Tool is well positioned for the potential further increase in demand and will be able to benefit quickly from a market recovery. Restructuring in the Mikron Machining division is essentially complete, with capacity reduced and concentrated at one site. The new platform won major international innovation awards and is proving its capabilities with lead customers. New digital services and products are available and have already proved successful in practice. However, it is currently difficult to estimate how quickly demand will recover, particularly from the important sales market of the automotive industry, in the Machining division.

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 2020 had a market capitalization of CHF 90.2 million. The Mikron Group is organized by segments. For the purposes of reporting, two business segments and the Corporate Service organization have been identified.

The segments are structured according to market, product and service type and encompass all the functions required by an independent company, such as sales, development, production, logistics and administration. The centralized special departments, such as Accounting and Controlling, Treasury, Corporate Communications and Corporate IT Services, are part of the Corporate Service, which supports the individual companies as well as the Board of Directors and Group Management in their management and control functions. Among other things, the Corporate Service reports the income and expenditure related to an industrial property that is not required for operations and is rented out to third parties.

The Mikron Group consists of 13 active companies worldwide. The corporate structure and the companies are listed on page 112 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 2020, hold 3% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2020		31.12.2019	
	Number of shares of CHF 0.10 par value each		Number of shares of CHF 0.10 par value each	
Ammann Group Holding AG	6,996,335	41.9%	6,992,335	41.8%
Rudolf Maag	2,348,588	14.1%	2,348,588	14.1%
Public shareholders	7,128,731	42.6%	7,175,666	42.9%
Board of Directors and Group Management	239,090	1.4%	196,155	1.2%
Total	16,712,744	100.0%	16,712,744	100.0%

Further information on the corporate structure is given on page 112. Changes in significant shareholdings since 1 January 2020 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 2020

	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
2018	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40
2019	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40
2020	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40

Shares

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

Participation and dividend right certificates

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

Limits on transferability and nominee registrations

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

Nominees shall be entered in the share register with voting rights without further inquiry up to a maximum of 3% of the outstanding share capital available at the time. Above this limit, registered shares held by nominees shall be entered in the share register with voting rights only if the nominee in question at the application for registration, or thereafter upon request by the Company, makes known the names, addresses and shareholdings of the persons for whose account he is holding 0.3% or more of the outstanding share capital available at the time. The Board of Directors has the right to conclude agreements with nominees concerning their disclosure requirements.

Legal entities or partnerships or other associations or joint ownership arrangements which are linked through capital ownership or voting rights, through common management or in like manner, as well as individuals, legal entities or partnerships (especially syndicates) which act in concert with intent to evade the entry restriction are considered as one shareholder or nominee.

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

Convertible bonds and options

There are no convertible bonds or options outstanding.

Board of Directors

Members of the Board of Directors

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

The following table provides information on each of the members of the Board of Directors as at 31 December 2020:



Heinrich Spoerry
lic. oec., MBA.
Swiss, born in 1951.
Chairman, non-executive.
First elected 2001,
elected until 2021.

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



Eduard Rikli
Dipl. Ing. ETH,
Dr. sc. techn. ETH.
Swiss, born in 1951.
Vice-Chairman,
non-executive.
First elected 2010,
elected until 2021.

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 2021.

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 is a member of the Board of Directors of Transmission Technology Holding AG, Zug, selFrag AG, Kerzers and Landert Motoren AG, Bülach.



Andreas Casutt
Dr. iur., LL.M.
Swiss, born in 1963.
Member, non-executive.
First elected 2013,
elected until 2021.

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 international 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 2021.

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.



Paul Zumbühl
Dipl. Ing., MBA, AMP.
Swiss, born in 1957.
Member, non-executive.
First elected 2018,
elected until 2021.

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

Elections and terms of office

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

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

Duties

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

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 according to the Articles of Association:

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

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

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

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

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

Procedures

The Board of Directors convenes as often as business requires but at least once every quarter. During the 2020 business year, the Board held thirteen meetings which partially have been held virtually due to corona restriction. The physical meetings lasted between three and nine hours, and the virtual meetings between one and five hours. Except for one meeting held at short notice, where two members were not attending, all meetings of the Board of Directors in the year under review were attended by all members.

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

The members of Group Management attended all physical meetings.

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

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

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

Committees

Two committees were set up to support the Board of Directors: the Audit Committee and the Remuneration Committee. The committees meet regularly and are required to prepare minutes of their meetings and recommendations for perusal at the regular meetings of the Board of Directors. The committees notify the full Board of Directors of 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 2020 business year, each lasting two to five hours. All members attended the meetings. The Chairman as well as the CFO and CEO (if needed) on behalf of Group Management attended the meetings in a consultative capacity. Representatives of the internal auditors and of the external auditors were invited to the meetings as required. The external auditors were partially present at two meetings.

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

Remuneration Committee

The General Meeting elects individually at least two but no more than four members of the Board of Directors as members of the Remuneration Committee. The term of office of the members of the Remuneration Committee shall be one year and shall end at the next Annual General Meeting. Re-election is possible.

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

The Remuneration Committee has the following duties according to the Articles of Association:

- 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 53 to 58)
- 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), Andreas Casutt and Paul Zumbühl. The Remuneration Committee meets one to five times each year, usually in December and after the results for the financial year have been prepared. Two meetings were held in the 2020 business year and were attended by all 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.

Information and control instruments vis-à-vis Group Management

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

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

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

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

Risk management

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

Key risk factors

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

Group Management

Management philosophy

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

Management structure

The Board of Directors delegates the task of operational management to the members of Group Management. Group Management comprises the CEO, the CFO and the head of the Automation business segment.

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

Group Management

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

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

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

Chief Executive Officer (CEO)

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

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

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

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

Chief Financial Officer (CFO)

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

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

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

The Group's IT function reports to the CFO.

Business segment heads

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

The following table provides information on each of the members of Group Management as at 31 December 2020:



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

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



Rolf Rihs
Dipl. Ing. ETH
Swiss, born in 1963
COO Mikron Group
Joined 2002

Rolf Rihs took over as head of the Mikron Automation business segment in 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" and member of the Board of Directors of "Chambre de commerce de Neuchâtel".



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

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

Management contracts

There are no management contracts.

Compensation

Basic principles

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

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

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

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

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

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

Further information on the compensation paid to members of the Board of Directors and Group Management can be found in the Compensation Report on pages 53 to 58.

Additional amount of compensation for new members of Group Management

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

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

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

Resolutions

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

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

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

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

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

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

Permitted additional activities

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

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

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

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

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

Shareholders' participation rights

Shareholder legitimacy

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

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

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

Shareholders' rights

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

Voting-right restrictions and representation

Mikron does not impose any voting-right restrictions, except for nominees (see page 37).

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

Convocation of the General Meeting and agenda

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

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

Entries in the share register

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

Quorums at the General Meeting

The General Meeting passes its resolutions and carries out its elections with an absolute majority of the share votes represented unless the law or the Articles of Association (www.mikron.com/aoa) specify otherwise. Abstentions, empty votes or invalid votes will not be taken into account for the calculation of the required majority.

Changes of control and defence measures

Duty to make an offer

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

Clauses on changes of control

There are no clauses on changes of control in favor 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 2020 business year, fees of CHF 358,000 for services rendered by PwC in connection with auditing the 2020 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 11,000 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 41.

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 2020
Announcement of the annual results/Publication of the Annual Report	10 March 2021
Annual Media and Analyst Conference	10 March 2021
Annual General Meeting	23 April 2021
End of the first six months of the business year	30 June 2021
Announcement of the semi-annual results	22 July 2021

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 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 2020. The Compensation Report satisfies the transparency requirements set out in the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO).

Compensation Policy

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

The compensation policy applied to members of the Board of Directors is described in detail on pages 47 and 48 of the Corporate Governance Report. The table below sets out the principles of this compensation policy. There are no changes in the principles compared to the prior year.

Fair and transparent

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

Results- and performance-based

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

Long-term incentive

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

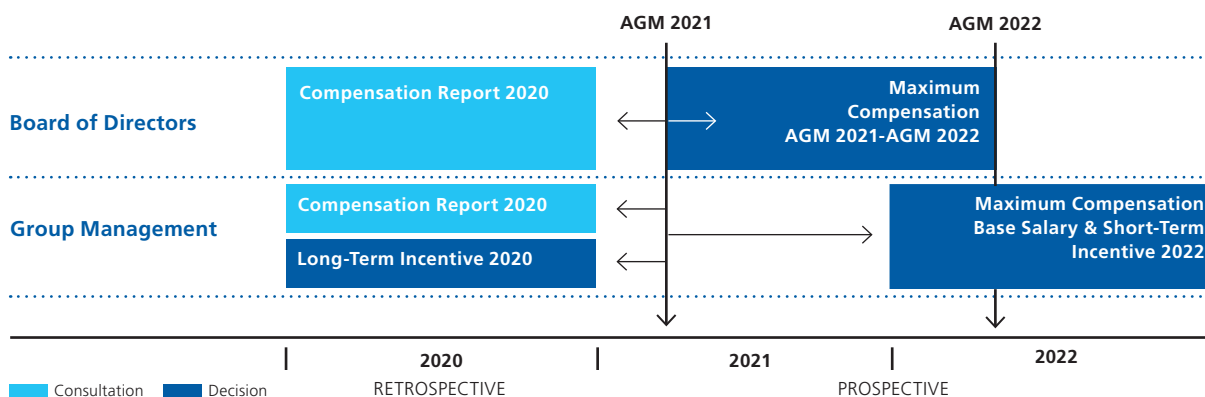
Geared to the labor market

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

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

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

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



Governance

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

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

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

Compensation for the year 2020

Compensation to members of the Board of Directors

In scope of audit opinion	CHF 1,000	Base compensation		Compensation in shares		Social security and other expenses		Total	
		2020	2019	2020	2019	2020	2019	2020	2019
	H. Spoerry, Chairman*	16	62	0	40	15	19	31	121
E. Rikli, Vice-Chairman	44	51	18	32	11	11	73	94	
P. Kilchmann, Member**	35	42	18	32	5	4	58	78	
A. Casutt, Member	38	46	18	32	9	9	65	87	
H-M. Hauser, Member	38	46	18	32	9	9	65	87	
P. Zumbühl, Member	38	46	18	32	9	9	65	87	
Total	209	293	90	200	58	61	357	554	

* Heinrich Spoerry waived his base compensation and the allocation of shares between the General Meetings 2020 and 2021.
 ** P. Kilchmann's compensation is settled through Ammann Group.

Members of the Board of Directors receive a fixed compensation in cash and a fixed number of shares blocked for at least 3 years. Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. In April 2020, the General Meeting approved a total remuneration payable to the Board of Directors for the period up to the next meeting of a maximum of CHF 540,000. The remuneration disclosed in the table above covers the respective fiscal year and is not equal to the period between the Annual General Meetings. In the period between the Annual General Meetings the total of CHF 540,000 was not exceeded.

Compensation to Group Management

In scope of audit opinion	CHF 1,000	B. Cathomen, CEO		Total compensation of Group Management	
		2020	2019	2020	2019
	Fixed compensation	399	399	993	993
Short-term incentive *	105	95	221	210	
Pension and benefits	148	150	362	362	
Total fixed compensation and short-term incentive	652	644	1,576	1,565	
Total approved by previous General Meetings			1,850	1,800	
Long-term incentive to be approved by General Meeting 2021	39	86	82	182	
Pension and benefits	3	6	6	14	
Total long-term incentive**	42	92	88	196	
Total compensation	694	736	1,664	1,761	

* Any difference between the variable compensation accrued in the previous year and the amount actually paid out is included in the current year's variable compensation disclosure.
 ** The LTI compensation related to 2020 is subject to approval by the General Meeting 2021, while the one related to 2019 was approved at the General Meeting in April 2020. The disclosed compensation 2019 is identical with the prior-year annual report. The value of the LTI compensation for the Group Management valued as per the share transfer date is CHF 130,000 (CHF 61,000 for the CEO) instead of the disclosed CHF 196,000 (CHF 92,000 for the CEO).

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

Members of Group Management receive a fixed compensation paid in 13 instalments and a short-term incentive. The short-term incentive is set by the Board of Directors within the boundaries approved by the General Meeting. The target incentive is significantly below the maximum allowed by the Articles of Association. The table below shows the short-term incentive as a percentage of the fixed compensation for 2020:

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

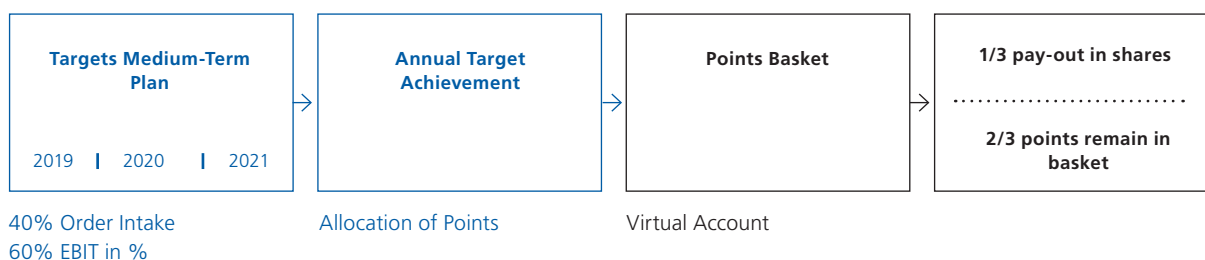
Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. Expenses that are not covered by the lump sum compensation for expenses pursuant to the expense regulations of the Company are reimbursed against presentation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

In April 2019, the General Meeting approved a total fixed compensation and short-term incentive which may be paid to Group Management during the 2020 financial year of maximum CHF 1,850,000, excluding the long-term incentive plan with separate approval. In April 2020, the amount of CHF 1,850,000, excluding the long-term incentive plan with separate approval, was approved and may be paid out during the 2021 financial year.

The individual targets of the short-term incentive plan for Group Management reflect the importance of the targets depending on the role of the individual. The achievement is measured against qualitative and quantitative targets. The targets are defined by the Board of Directors at the beginning of the performance period on an annual basis. In extraordinary circumstances, the targets may be modified within the period at the discretion of the Board of Directors or the Remuneration Committee. The targets for the year 2020 were as follows:

	B. Cathomen	J. Perez Freije	R. Rihs
Order intake (Group and/or segment)	10%	–	5%
Sales (Group and/or segment)	10%	10%	20%
EBIT (Group and/or segment)	40%	35%	30%
Strategic programs and internal initiatives	35%	25%	35%
Other Group financial targets	–	15%	–
Individual targets	–	15%	10%
Total	100%	100%	100%

An additional long-term incentive in the form of shares in the company may be provided to the members of Group Management. A total of 20,610 shares were distributed during the year 2020 as approved by the 2020 General Meeting. For the target achievement of the long-term incentive plan, the order intake and operating profit (EBIT excluding the investment property) as a percentage of the sales of the year are compared with the expectations as per the medium-term plan. In addition to the points carried forward from the prior year, a maximum of 150 bonus points are awarded to the points basket if the upper threshold is reached, and a maximum -50 points are deducted from the points basket, if the lower threshold is reached. A target achievement of 100% represents 100 bonus points. At the end of each year, after the allocation or deduction of the yearly points, one third of the total is converted into a corresponding number of shares. The shares are transferred to the members after approval by the General Meeting and are blocked for a period of at least three years. The Board of Directors will propose to the next General Meeting to approve an allocation of 15,228 shares to the members of Group Management as long-term incentive compensation for 2020. The share price for the valuation at year-end was CHF 5.40. The remaining two thirds of the total are carried forward to the next year.



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

	31.12.2020		31.12.2019	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry, Chairman	18,675	0.11%	18,675	0.11%
E. Rikli, Vice-Chairman	29,500	0.18%	25,500	0.15%
P. Zumbühl, Member	51,290	0.31%	47,290	0.28%
A. Casutt, Member	8,000	0.05%	4,000	0.02%
H.-M. Hauser, Member	8,000	0.05%	4,000	0.02%
Group Management				
B. Cathomen, CEO	62,867	0.38%	50,241	0.30%
R. Rihs, COO	44,858	0.27%	36,441	0.22%
J. Perez Freije, CFO	15,900	0.10%	10,008	0.06%

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 for the year ended 31 December 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables labeled 'in scope of audit opinion' on pages 55 and 58 of the compensation report.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the compensation report of Mikron Holding AG for the year ended 31 December 2020 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, 8 March 2021

PricewaterhouseCoopers AG, Bahnhofplatz 10, Postfach, CH-3001 Bern, Switzerland
Telefon: +41 58 792 75 00, Telefax: +41 58 792 75 10, www.pwc.ch

PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

Mikron Group

Financial Report 2020

61	Consolidated Financial Statements 2020 of the Mikron Group
65	Notes to the Consolidated Financial Statements 2020 of the Mikron Group
90	Report of the Statutory Auditor on the Consolidated Financial Statements
95	5-Year Financial Summary
96	Alternative Performance Measures
99	Information on Share Capital

Consolidated Financial Statements 2020 of the Mikron Group

Consolidated income statement

CHF 1,000	Note	2020		2019	
Net sales	4.1	257,819	100%	327,553	100%
Change in work in progress/finished goods		-2,684		984	
Capitalized own production		0		1,006	
Material costs and subcontractors	4.2	-94,473		-120,256	
Personnel expenses	4.3	-124,328		-134,409	
Other operating income	4.4	1,433		1,560	
Other operating expenses	4.4	-46,459		-54,222	
Depreciation of tangible assets	5.5	-8,304		-6,885	
Amortization of intangible assets	5.6	-2,127		-1,375	
Recycling of goodwill	6.4	-962		0	
Operating result		-20,085	-7.8%	13,956	4.3%
Financial result	4.5	-2,289		-474	
Ordinary result		-22,374	-8.7%	13,482	4.1%
Non-operating result	4.6	-687		161	
Loss/profit before taxes		-23,061	-8.9%	13,643	4.2%
Income taxes	4.7	986		-4,877	
Loss/profit		-22,075	-8.6%	8,766	2.7%
Net earnings per share – undiluted		-1.35		0.54	
Net earnings per share – diluted		-1.35		0.54	

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

Consolidated balance sheet

CHF 1,000	Note	31.12.2020		31.12.2019	
Current assets					
Cash and cash equivalents		38,420		37,992	
Current financial assets	5.1	2,021		6,152	
Accounts receivable	5.2	18,959		21,889	
Inventories	5.3	56,085		61,171	
Net assets from customer projects	5.4	38,514		40,764	
Other current receivables		4,917		4,800	
Prepaid expenses		5,770		5,276	
Total current assets		164,686	59.4%	178,044	61.5%
Non-current assets					
Tangible assets	5.5	75,644		73,781	
Intangible assets	5.6	3,758		5,224	
Investment property	5.7	27,912		28,415	
Deferred tax assets	5.9	5,126		4,048	
Total non-current assets		112,440	40.6%	111,468	38.5%
Total assets		277,126	100.0%	289,512	100.0%
Current liabilities					
Short-term financial liabilities	5.10	14,205		11,527	
Accounts payable		20,362		20,205	
Net liabilities from customer projects	5.4	41,625		39,621	
Short-term provisions	5.11	16,463		9,791	
Other current liabilities		3,360		3,536	
Accrued expenses	5.12	19,593		18,969	
Total current liabilities		115,608	41.7%	103,649	35.8%
Long-term liabilities					
Long-term financial liabilities	5.10	10,116		10,063	
Long-term provisions	5.11	818		509	
Deferred tax liabilities	5.9	5,065		6,071	
Total long-term liabilities		15,999	5.8%	16,643	5.7%
Shareholders' equity					
Share capital	5.13	1,671		1,671	
Treasury shares		-3,212		-3,658	
Capital reserves		95,595		95,830	
Retained earnings		51,465		75,377	
Total shareholders' equity		145,519	52.5%	169,220	58.5%
Total liabilities and shareholders' equity		277,126	100.0%	289,512	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 01.01.2019		1,671	-4,092	99,158	68,963	-962	-429	164,309
Profit 2019					8,766			8,766
Translation adjustments							-961	-961
Distribution to shareholders				-3,257				-3,257
Change in treasury shares	5.13		434	-71				363
Balance at 31.12.2019		1,671	-3,658	95,830	77,729	-962	-1,390	169,220
Loss 2020					-22,075			-22,075
Translation adjustments							-3,046	-3,046
Recycling in connection with the discontinuation of Mikron Berlin GmbH						962	247	1,209
Change in treasury shares	5.13		446	-235				211
Balance at 31.12.2020		1,671	-3,212	95,595	55,654	0	-4,189	145,519

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

Consolidated statement of cash flow

CHF 1,000	Note	2020	2019
Cash flow from operating activities			
Loss / profit		-22,075	8,766
Depreciation and amortization	5.5, 5.6	10,431	8,260
Recycling of goodwill	6.4	962	0
Revaluation of investment property	5.7	503	493
Net gain (-) / loss (+) on sale of non-current assets	4.4	115	-156
Changes in provisions	5.11	7,021	4,160
Changes in deferred taxes	4.7, 5.9	-2,442	2,378
Other non-cash items		434	1,033
Movement in accounts receivable		2,450	1,917
Movement in inventories		4,077	3,847
Movement in net assets/liabilities from customer projects		4,302	-11,383
Movement in accounts payable		3,203	-8,913
Movement in other receivables and prepaid expenses		-733	-837
Movement in other current liabilities and accrued expenses		927	-2,284
Cash flow from operating activities		9,175	7,281
Cash flow from investing activities			
Investments in tangible assets	5.5	-14,382	-9,349
Divestments of tangible assets	5.5	328	571
Investments in intangible assets	5.6	-946	-1,962
Divestments of financial assets	5.1	4,000	10,688
Cash flow from investing activities		-11,000	-52
Cash flow from financing activities			
Distribution to shareholders		0	-3,256
Increase (+)/repayment (-) of financial liabilities		5,125	8,603
Repayment (-) of finance lease liabilities		-2,136	-1,902
Interest received		101	339
Interest paid		-479	-418
Cash flow from financing activities		2,611	3,366
Effect of exchange rate changes on cash and cash equivalents		-358	-170
Net cash flow		428	10,425
Increase (+)/decrease (-) of cash and cash equivalents		428	10,425
Cash and cash equivalents at beginning of period		37,992	27,567
Cash and cash equivalents at end of period		38,420	37,992

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

Notes to the Consolidated Financial Statements 2020 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 company has additional production facilities in Germany, Singapore, Lithuania, China and the US. The 1,350 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 8 March 2021. The approval of the consolidated financial statements by the Annual General Meeting is scheduled for 23 April 2021.

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 112. In the year under review there were no changes (prior year: two) 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 550 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 750 people and is headquartered in Boudry (Neuchâtel), a region that is regarded as the heart of the Swiss watchmaking industry. It also has sites in Berlin (Germany), Kaunas (Lithuania), Denver (USA), Singapore and Shanghai (China).
- The Corporate Service segment reports information on Mikron's holding, management and finance companies. The Corporate Service supports the individual Group companies as well as the Board of Directors and Group Management in their management and control functions. It also reports income and expenses related to a non-operating industrial property, which is fully leased to third parties. Eliminations 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 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 2020	Average rate 2019	Closing rate 31.12.2020	Closing rate 31.12.2019
1 EUR	1.07	1.11	1.08	1.09
1 USD	0.94	0.99	0.89	0.98
1 SGD	0.68	0.73	0.67	0.72
1 CNY	0.14	0.14	0.14	0.14

2.4 Disclosure of related party transactions

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

2.5 Assets and liabilities

2.5.1 Cash and cash equivalents

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

2.5.2 Financial assets

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

2.5.3 Receivables

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

2.5.4 Inventories

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

2.5.5 Customer projects

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

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

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

2.5.6 Tangible assets

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

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

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

2.5.7 Intangible assets

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

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

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

2.5.8 Investment property

Property held as a financial investment includes production and office buildings which are rented out to third parties. Investment properties are reported at market value. The Mikron Group currently owns a property in Nidau, Switzerland, with a market value of CHF 27.9 million as at 31 December 2020. The fair value of the property is reviewed annually as per the balance sheet date and adjusted if necessary. Revaluations are recognized in the income statement.

2.5.9 Impairment of non-current assets

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

2.5.10 Lease contracts

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

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

2.5.11 Payables

Payables are measured at nominal values.

2.5.12 Financial liabilities

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

2.5.13 Provisions

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

2.5.14 Deferred taxes

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

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

2.5.15 Employee benefits

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

2.6 Income statement

2.6.1 Revenue recognition

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

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

Service sales are recognized when the intervention has been completed.

2.7 Share-based payments

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

3. Risk management

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

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

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

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

3.1 Foreign exchange risks

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

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

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

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

CHF 1,000	Possible shift in currency rates	Impact on net earnings		Impact on shareholders' equity from translation adjustments	
		2020	2019	2020	2019
Euro (CHF/EUR)	-10%	-529	-1,051	302	-1,762
US dollar (CHF/USD)	-10%	-1,139	378	-3,118	-2,684

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 2020 and 2019 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. Under the new credit agreement, it is also possible to additionally draw mortgage on two production facilities of up to CHF 20.0 million, of which none was drawn as of 31 December 2020. At 31 December 2020, guarantees of CHF 28.2 million (prior year: CHF 18.5 million) were issued. At one production site in Switzerland, a COVID-19 loan and a COVID-19 plus loan were secured for potential cash-needs of up to CHF 8.3 million, of which CHF 3.0 million were drawn as of 31 December 2020.

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.

	Note	Maturity				Total and interest rate by currency					
		Less than 1 year	1–3 years	3–5 years	Over 5 years	CHF	%	EUR	%	USD	%
CHF 1,000											
At 31.12.2019											
Bank borrowings	5.10	9,392	4,446	0	0	9,000	1.5			4,838	3.7
Finance lease liabilities	5.10	2,135	3,530	2,087	0	4,890	2.1	2,862	2.4		
Derivative financial instruments (notional amount)	6.1	5,413	0	0	0						
Total		16,940	7,976	2,087	0						
At 31.12.2020											
Bank borrowings	5.10	12,156	4,474	1,300	600	14,500	1.2			4,030	3.7
Finance lease liabilities	5.10	1,854	2,967	775	0	3,621	2.0	1,975	2.1		
Derivative financial instruments (notional amount)	6.1	18,046	0	0	0						
Total		32,056	7,441	2,075	600						

4. Details of the consolidated income statement

4.1 Net sales

CHF 1,000	2020	2019
Automation and machining systems (from customer projects)	181,005	227,332
Automation and machining systems (other)	216	227
Cutting tools	39,973	46,840
Service	36,625	53,154
Total net sales	257,819	327,553

4.2 Material costs and subcontractors

CHF 1,000	2020	2019
Raw materials and components	-89,975	-113,173
Subcontractors	-4,498	-7,083
Total material costs and subcontractors	-94,473	-120,256

4.3 Personnel expenses

CHF 1,000	2020	2019
Salaries and wages	-105,524	-115,765
Social charges	-12,781	-12,798
Pension expenses	-6,023	-5,846
Total personnel expenses	-124,328	-134,409

A performance-based number of shares, measured against the financial medium-term plan, are granted to Group Management. The shares are transferred to the members after approval by the General Meeting and are blocked for a period of at least three years. The Board of Directors will propose to the next General Meeting an allocation of 15,228 shares to the members of Group Management as long-term incentive compensation 2020. The share price for the valuation at year-end was CHF 5.40. An amount of CHF 0.1 million has been expensed.

In 2020, a total of CHF 9.8 million of short-time work compensation and government support was received.

4.4 Other operating income and expenses

CHF 1,000	2020	2019
Gain on sale of non-current assets	120	196
Other income	1,313	1,364
Total other operating income	1,433	1,560
Production- and project-related expenses, including shipping	-11,984	-17,093
Marketing and sales	-3,854	-9,086
Real estate	-8,875	-8,854
Personnel-related expenses, including company cars	-4,393	-5,832
Information technology	-6,046	-6,148
Capital and other taxes (excl. income taxes)	-672	-697
Loss on sale of non-current assets	-235	-40
Other expenses	-10,400	-6,472
Total other operating expenses	-46,459	-54,222

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	2020	2019
Financial income	2,709	4,990
Financial expenses	-4,998	-5,464
Total financial result	-2,289	-474
Interest income	101	339
Interest expenses	-479	-418
Total interest result	-378	-79
Exchange gains	2,602	4,067
Exchange losses	-3,745	-4,270
Other financial income	6	584
Other financial expenses	-774	-776
Total other financial result	-1,911	-395
Total financial result	-2,289	-474

4.6 Non-operating result

CHF 1,000	2020	2019
Rental income	694	1,588
Income from property-related services	529	1,122
Total non-operating income	1,223	2,710
Owner-related expenses	-613	-895
Expenses for property-related services	-794	-1,161
Total non-operating expenses	-1,407	-2,056
Revaluation	-503	-493
Total non-operating result	-687	161

4.7 Income taxes

CHF 1,000	2020		2019	
Current income tax	-1,456		-2,499	
Deferred income tax	2,442		-2,378	
Total income taxes	986		-4,877	
Earnings before taxes	-23,061		13,643	
Income tax at average tax rates	4,381	19%	-2,865	21%
Income tax at other rates	1,842		111	
Impact of non-capitalized loss carry-forwards	-7,380		-796	
Release of / capitalization of tax losses	-54		-1,984	
Tax credits	1,948		1,159	
Change in tax rate	-64		-474	
Other taxable effects	313		-28	
Total income taxes	986	4%	-4,877	36%

The applicable tax rate for the Group is 19% (prior year: 21%). This corresponds to the average income tax rates of the individual Group companies in each jurisdiction.

4.8 Restructuring costs

Mikron Group's Board of Directors has decided in the second quarter of 2020 to discontinue the machine business in Rottweil and to redimension the machine business in Agno in the Mikron Machining Solutions business segment as well as to discontinue the automotive industry related operations in Berlin and Lithuania in the Mikron Automation business segment. Subsequent to the half-year disclosure 2020, the sale of the subsidiaries in Berlin and Lithuania was reversed. While the Board of Directors has decided to continue the operations in Lithuania, the operations in Berlin had materially been seized by the end of 2020. Therefore, the items previously offset in equity were recycled through the income statement even though formally the company is still in existence and part of the consolidation. The one-time impact on the Mikron Group's income statement from the restructuring is summarized below.

CHF 1,000	2020	2019
Inventory write-off	-2,559	0
Work in progress write-off	-1,519	0
Termination benefits	-5,953	0
Operating expenses	-4,262	0
Additional depreciation and amortization of fixed assets	-802	0
Recycling of goodwill	-962	0
Restructuring costs impacting the operating result	-16,057	0
Recycling of translation adjustments	-247	0
Restructuring costs impacting the financial result	-247	0

5. Details of the consolidated balance sheet

5.1 Financial assets

CHF 1,000	31.12.2020	31.12.2019
Bonds	2,021	6,119
Derivative financial instruments 6.1	0	33
Total current financial assets	2,021	6,152

The bonds of CHF 2.0 million (prior year: CHF 6.1 million) comprise Swiss franc bonds with a maturity of less than one year.

5.2 Accounts receivable

CHF 1,000	31.12.2020	31.12.2019
Accounts receivable	19,638	22,287
Allowance for doubtful accounts	-679	-398
Total accounts receivable	18,959	21,889

As at the balance sheet date, accounts receivable (including allowance for doubtful accounts) past due for 30 days and more amounted to CHF 2.2 million (prior year: CHF 2.1 million).

5.3 Inventories

CHF 1,000	31.12.2020	31.12.2019
Raw materials and components	21,575	23,357
Work in progress	17,924	17,645
Finished and trading goods	16,968	19,780
Prepayments to suppliers	3,661	1,828
Prepayments from customers	-4,043	-1,439
Total inventories	56,085	61,171

The provision for slow-moving inventories amounts to CHF 20.2 million (prior year: CHF 17.1 million).

5.4 Customer projects

CHF 1,000	31.12.2020	31.12.2019
Projects in progress – costs incurred	165,733	161,996
Recognized profits less recognized losses	42,627	48,301
Prepayments from customers	-211,471	-209,154
Total net assets and liabilities from customer projects	-3,111	1,143
Net assets from customer projects	38,514	40,764
Net liabilities from customer projects	-41,625	-39,621
Total net assets and liabilities from customer projects	-3,111	1,143

The stage of completion, determined by the costs incurred to date compared to the total estimated costs, was approximately 57% on 31 December 2020 (prior year: approximately 58%). At the balance sheet date, the Mikron Group had 192 projects in progress (prior year: 186 projects) with an average volume of CHF 1.9 million (prior year: CHF 1.9 million). As at 31 December 2020 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 01.01.2019	3,603	89,058	75,996	20,990	3,483	3,329	196,459
Additions	0	176	8,482	1,249	7,299	158	17,364
Transfers	0	230	2,439	370	-3,039	0	0
Disposals	0	-546	-5,486	-777	0	0	-6,809
Translation adjustments	-2	-65	-595	-141	-8	-73	-884
Balance at 31.12.2019	3,601	88,853	80,836	21,691	7,735	3,414	206,130
Additions	0	161	-74	343	11,173	27	11,630
Transfers	0	0	4,640	1,343	-5,877	0	106
Disposals	0	-29	-2,895	-2,645	0	-36	-5,605
Translation adjustments	-38	-1,030	-231	-230	-38	-57	-1,624
Balance at 31.12.2020	3,563	87,955	82,276	20,502	12,993	3,348	210,637
Accumulated depreciation							
Balance at 01.01.2019	0	-56,541	-55,340	-17,981	0	-2,400	-132,262
Depreciation	0	-1,926	-3,401	-1,368	0	-190	-6,885
Disposals	0	507	5,152	652	0	0	6,311
Translation adjustments	0	11	291	123	0	62	487
Balance at 31.12.2019	0	-57,949	-53,298	-18,574	0	-2,528	-132,349
Depreciation	0	-1,896	-4,874	-1,352	0	-182	-8,304
Disposals	0	28	2,555	2,553	0	27	5,163
Translation adjustments	0	148	135	175	0	39	497
Balance at 31.12.2020	0	-59,669	-55,482	-17,198	0	-2,644	-134,993
Net book value							
Balance at 31.12.2019	3,601	30,904	27,538	3,117	7,735	886	73,781
Balance at 31.12.2020	3,563	28,286	26,794	3,304	12,993	704	75,644
Of which finance leases							
Balance at 31.12.2019	0	0	10,051	0	986	0	11,037
Balance at 31.12.2020	0	0	8,548	0	0	0	8,548

At the balance sheet date, the Group had entered into CHF 2.8 million of capital commitments to purchase tangible assets (prior year: CHF 4.3 million). In the depreciation of the financial year 2020, depreciation of CHF 0.4 million were included from the restructuring measures taken.

In 2020, the Group acquired no tangible assets (prior year: CHF 4.5 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 01.01.2019	3,628	21,105	1,031	689	26,453
Additions	0	1,399	276	0	1,675
Transfers	0	588	-588	0	0
Disposals	0	-1,891	0	-325	-2,216
Translation adjustments	5	-94	0	0	-89
Balance at 31.12.2019	3,633	21,107	719	364	25,823
Additions	0	422	363	0	785
Transfers	0	38	-144	0	-106
Disposals	0	-721	0	0	-721
Translation adjustments	-111	-117	0	0	-228
Balance at 31.12.2020	3,522	20,729	938	364	25,553
Accumulated amortization					
Balance at 01.01.2019	-3,053	-17,790	0	-669	-21,512
Amortization	-288	-1,077	0	-10	-1,375
Disposals	0	1,891	0	325	2,216
Translation adjustments	-5	77	0	0	72
Balance at 31.12.2019	-3,346	-16,899	0	-354	-20,599
Amortization	-287	-1,830	0	-10	-2,127
Disposals	0	721	0	0	721
Translation adjustments	111	99	0	0	210
Balance at 31.12.2020	-3,522	-17,909	0	-364	-21,795
Net book value					
Balance at 31.12.2019	287	4,208	719	10	5,224
Balance at 31.12.2020	0	2,820	938	0	3,758
Of which finance leases					
Balance at 31.12.2019	0	0	0	0	0
Balance at 31.12.2020	0	0	0	0	0

At the balance sheet date, the Group had not entered into capital commitments to purchase intangible assets (prior year: CHF 0.1 million). In the amortization of the financial year 2020, amortization of CHF 0.4 million were included from the restructuring measures taken.

5.7 Investment property

CHF 1,000	2020	2019
Balance at 1 January	28,415	28,908
Capitalized expenditures	0	0
Revaluation	-503	-493
Balance at 31 December	27,912	28,415
Original acquisition cost	43,374	43,374

The Mikron Group is the owner of a property in Switzerland (land and building) that is leased to third parties. Related income and expenses are reported in the non-operating result (see note 4.6). The property is reported at market value, last reviewed on 31 December 2020. The discounted cash flow method was used for the valuation. The valuation with the discounted cash flow method was supported by an additional valuation of the ongoing development project. A discount rate of 5.0% was applied (prior year: 5.0%).

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

5.8 Employee benefits

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

Economic benefit/economic obligation and pension expenses

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

CHF 1,000	Surplus/deficit 31.12.2020	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2020
		31.12.2020	31.12.2019			
Pension institutions without surplus/deficit	0	0	0	0	-4,890	-4,890
Total	0	0	0	0	-4,890	-4,890

The information on the economic benefit as at 31 December 2020 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 2019. As at 31 December 2019, the Mikron pension fund reported a coverage rate of 117.1% (prior year: 114.9%). According to the pension fund's provisional accounts, the coverage rate is expected to have increased by about 0.5% in the 2020 financial year. The number of active insureds decreased in 2020 by about -10% (prior year: increase of about 7%). Contributions matched pension expenses during the relevant reporting period.

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

5.9 Deferred taxes

CHF 1,000	2020	2019
Statement of changes in deferred tax liabilities		
Balance at 1 January	6,071	6,165
Set-up and reversal of temporary differences	-1,056	-688
Change in tax rate	64	766
Translation adjustments	-14	-172
Balance at 31 December	5,065	6,071
Statement of changes in deferred tax assets		
Balance at 1 January	4,048	6,494
Change in capitalized tax loss carry-forwards	-505	-3,579
Set-up and reversal of temporary differences and change in tax credits	1,874	1,159
Change in tax rate	0	-34
Translation adjustments	-291	8
Balance at 31 December	5,126	4,048

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 5.1 million (prior year: CHF 4.0 million) result from accumulated tax loss carry-forwards that were capitalized, valuation differences and available tax credits. Due to uncertainties that future taxable profit will be available to offset against these assets, tax loss carry-forwards amounting to CHF 110.5 million (prior year: CHF 63.3 million) were not capitalized. Applying local tax rates results in a maximum potential tax benefit from non-capitalized tax loss carry-forwards of CHF 24.0 million (prior year: CHF 13.4 million).

5.10 Financial liabilities

CHF 1,000	Note	31.12.2020	31.12.2019
Short-term financial liabilities			
Bank borrowings		12,156	9,392
Finance lease liabilities		1,854	2,135
Derivative financial instruments	6.1	195	0
Total short-term financial liabilities		14,205	11,527
Long-term financial liabilities			
Bank borrowings		6,374	4,446
Finance lease liabilities		3,742	5,617
Total long-term financial liabilities		10,116	10,063

The investment property and four of the production facilities were mortgaged for liquidity management purposes. The mortgage on the investment property and two production facilities have been drawn down, while the draw-down of the mortgage for two further production facilities is only expected during 2021. Details of the mortgages are given in note 6.2. The leasing liabilities relate to purchased machines used in production.

CHF 1,000	31.12.2020	31.12.2019
Financial liabilities, expiring		
– not later than 1 year	14,205	11,527
– later than 1 year but not later than 3 years	7,441	7,976
– later than 3 years	2,675	2,087
Total financial liabilities	24,321	21,590

The new credit agreement with a bank consortium (refer to note 3.5) was signed in June 2020 and is valid until June 2024. The agreement secures financing 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	Restructuring	Others	Total
Short-term provisions						
Balance at 01.01.2019	1,849	371	2,811	0	774	5,805
Additions	3,620	206	6,375	126	705	11,032
Utilization	-1,663	-337	-2,712	0	-580	-5,292
Reversal	-1,111	0	-782	0	-5	-1,898
Reclassification long-/short-term	0	220	0	0	0	220
Translation adjustments	-22	-2	-50	0	-2	-76
Balance at 31.12.2019	2,673	458	5,642	126	892	9,791
Additions	3,263	157	1,308	7,909	1,563	14,200
Utilization	-1,359	-411	-557	-2,059	0	-4,386
Reversal	-1,067	-38	-1,991	0	-179	-3,275
Reclassification long-/short-term	0	178	0	0	0	178
Translation adjustments	-16	-2	-100	74	-1	-45
Balance at 31.12.2020	3,494	342	4,302	6,050	2,275	16,463
Long-term provisions						
Balance at 01.01.2019	0	413	0	0	0	413
Additions	0	318	0	0	0	318
Reclassification long-/short-term	0	-220	0	0	0	-220
Translation adjustments	0	-2	0	0	0	-2
Balance at 31.12.2019	0	509	0	0	0	509
Additions	0	11	0	630	0	641
Reversal	0	-159	0	0	0	-159
Reclassification long-/short-term	0	-178	0	0	0	-178
Translation adjustments	0	-3	0	8	0	5
Balance at 31.12.2020	0	180	0	638	0	818

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. The restructuring provision is related to expected costs until the end of the settlement of the obligations from employments and other contracts. The other provision is materially related to expected costs from legal risks of projects.

5.12 Accruals

CHF 1,000	31.12.2020	31.12.2019
Accrued expenses	19,552	18,931
Current income tax payables	41	38
Total accrued expenses	19,593	18,969

The accrued expenses of CHF 20.0 million (prior year: CHF 19.0 million) mainly consist of accruals in relation to employees' annual leave entitlements, overtime and bonus totaling CHF 11.8 million (prior year: CHF 10.6 million). Additionally, there were outstanding trade payables, and accrued income taxes of CHF 0.3 million (prior year: CHF 1.0 million).

5.13 Shareholders' equity

Share capital

The share capital as at 31 December 2020 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 2020, there are two shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne 41.9%; Mr. Rudolf Maag, Binningen, 14.1%). No other single shareholder holds 5% or more of the voting rights.

Treasury shares

In 2020 the company granted 26,935 treasury shares to Group Management (prior year: 20,610) and 20,000 treasury shares to the Board of Directors (prior year: 25,000) at no consideration, sold no shares (prior year: none) and acquired no treasury shares (prior year: none). At 31 December 2020 Mikron Holding AG, Biel owned 337,875 treasury shares (prior year: 384,810 shares). The valuation difference of granted treasury shares was booked to capital reserves instead of retained earnings. The previous year was restated accordingly.

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 -0.8 million (prior year: CHF -0.6 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 31.12.2019	33	0	5,413	3,772	1,641	0	0
Balance at 31.12.2020	0	195	18,046	16,381	1,665	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	31.12.2020	31.12.2019
Real estate (including investment property) pledged as security for liabilities	59,397	62,875
Collateral securities – nominal	97,114	98,335
Loans and mortgages utilized	18,530	13,838
Other assets pledged as security for liabilities	63,548	66,037
Finance lease liabilities (machinery, licenses)	5,596	7,752

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 were deposited as collateral as the underlying mortgage agreements were signed and the mortgage partially called off.

The credit limits made available by the bank consortium were secured by guarantees of CHF 77.0 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	31.12.2020	31.12.2019
Off-balance sheet lease commitments, payable		
– not later than 1 year	3,714	2,982
– later than 1 year but not later than 3 years	3,496	3,769
– later than 3 years but not later than 5 years	1,718	1,286
– later than 5 years	3,138	3,672
Total off-balance sheet lease commitments	12,066	11,709

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	2020	2019
At cost		
Balance at 1 January	962	962
Disposals	-962	0
Balance at 31 December	0	962
Accumulated amortization		
Balance at 1 January	-962	-962
Disposals	962	0
Balance at 31 December	0	-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 operations at Mikron Berlin GmbH materially ceased as of 31 December 2020 and the company will be discontinued. The related goodwill amortization was recycled into the income statement in 2020.

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	2020	2019
Other operating expenses	-26	-27
CHF 1,000		
	31.12.2020	31.12.2019
Other current receivables and prepaid expenses	6	6
Accounts payable	6	5

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

6.6 Impairment test on Group level

The Group's equity of CHF 145.5 million exceeded the Group's market capitalization of CHF 90.2 million at 31 December 2020 (prior year: CHF 113.0 million). An impairment test was performed using a discounted cash flow model with assumptions approved by the Group's Board of Directors. The impairment test supported the equity of the Group as a whole. An additional impairment test was performed for the Mikron Machining division. The test showed that the value of the divisions fixed assets is covered by its recoverable amount.

7. Information by segment

7.1 Information by business segment

CHF 1,000	Machining Solutions		Automation		Corporate / Eliminations		Total Group	
	2020	2019	2020	2019	2020	2019	2020	2019
Net sales – third party	96,188	151,401	161,631	176,641	0	-489	257,819	327,553
Net sales – Group	134	62	20	529	-154	-591	0	0
Total net sales	96,322	151,463	161,651	177,170	-154	-1,080	257,819	327,553
Operating result	-21,556	1,109	1,109	12,917	362	-70	-20,085	13,956
Earnings before interest and taxes (EBIT)	-21,556	1,109	1,109	12,917	-325	91	-20,772	14,117

CHF 1,000	Machining Solutions		Automation		Corporate / Eliminations		Total Group	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Assets excluding cash and cash equivalents and current financial assets	117,010	140,497	136,759	116,669	-17,084	-11,798	236,685	245,368
Cash and cash equivalents	5,461	3,435	13,950	14,376	19,009	20,181	38,420	37,992
Current financial assets	0	0	0	106	2,021	6,046	2,021	6,152
Total assets	122,471	143,932	150,709	131,151	3,946	14,429	277,126	289,512

7.2 Information by geographical segment

CHF 1,000	Net sales	
	2020	2019
Switzerland	14,969	32,760
Europe	102,360	145,657
North America	96,117	80,799
Asia/Pacific	31,228	57,497
Others	13,145	10,840
Total net sales	257,819	327,553

8. Net earnings per share

8.1 Weighted average number of shares

Number	2020	2019
Issued shares at 1 January	16,712,744	16,712,744
Issued shares at 31 December	16,712,744	16,712,744
of which treasury shares	-337,875	-384,810
Adjusted for weighted average	-13,850	-14,870
Weighted average number of shares – basic	16,361,019	16,313,064
Effect of dilution	0	0
Weighted average number of shares – diluted	16,361,019	16,313,064

8.2 Computation of earnings per share

CHF 1,000, except for per share information	2020	2019
Net earnings	-22,075	8,766
Weighted average number of shares – basic	16,361,019	16,313,064
Net earnings per share – undiluted	-1.35	0.54
Weighted average number of shares – diluted	16,361,019	16,313,064
Net earnings per share – diluted	-1.35	0.54

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 income statement and the consolidated balance sheet as at 31 December 2020, consolidated statement of shareholders' equity and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 61 to 89) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 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 1'250'000

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

Collectively, the components at which full scope audit work was performed accounted for 78% of consolidated net sales.

In addition, review procedures were performed on a further 2 reporting units in one country representing a further 6% of the Group's revenue.

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

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

Materiality

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

*PricewaterhouseCoopers AG, Bahnhofplatz 10, Postfach, CH-3001 Bern, Switzerland
Telefon: +41 58 792 75 00, Telefax: +41 58 792 75 10, www.pwc.ch*

PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

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.

Overall Group materiality	CHF 1'250'000
How we determined it	0.48% of consolidated net sales
Rationale for the materiality benchmark applied	We chose consolidated net sales as benchmark to determine our overall group audit materiality, because, in our view, net sales is an important key performance indicator for a business that has had volatile results in the past.

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 structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

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

We conducted full scope audit work at five reporting units. Our full scope audit scope addressed 78% of the Group's net sales. Additionally, review procedures (mainly based on inter-views and analytics) were conducted at two reporting units, representing another 6% of the Group's net sales. Supplemental audit procedures were performed at Group level.

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

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



Application of percentage-of-completion method to customer projects

Key audit matter	How our audit addressed the key audit matter
<p>In 2020, Mikron Group realized net sales of CHF 181 million arising from customer projects in both its Machining and Automation divisions.</p> <p>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 significance of net sales and costs impacted and the level of judgment involved in estimating the forecasted costs and net sales 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" of the consolidated financial statements 2020.</p>	<p>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.</p> <p>On a sample base, we tested the customer projects and their treatment in the consolidated financial statements as follows:</p> <ul style="list-style-type: none">• We reconciled estimated total net sales to contractual arrangements;• We tested significant projects (high value or high risk projects) completed in 2020 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 corresponding projects;• We tested prepayments and payments received from customers and the allocation to the corresponding projects;• We tested the project valuation calculations and reconciled applicable information to the general ledgers;• We inquired of 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 to justify the recognition and measurement of the profits associated with customer projects.</p>

Impairment assessment of long-lived assets

Key audit matter	How our audit addressed the key audit matter
<p>We focused on this area because the carrying amount of consolidated equity at 31 December 2020 exceeds Mikron Group's stock market capitalization.</p> <p>Responding to this impairment indicator, management assessed the Group's long-lived assets for impairment at group and Cash-Generating Unit Level.</p> <p>We focused on this area because the impairment assessment involves significant judgments and estimates to be</p>	<p>We assessed management's impairment test based on recoverable amount as follows:</p> <ul style="list-style-type: none">• We assessed management's medium-term cash flow forecasts, as derived from its business plans and approved by the Board of Directors while considering accuracy of past management forecasts. We further assessed the determination of the long-



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 and by determining the net selling price of long-lived assets.

Refer to the Group's accounting policy summarized in note 2.5.9, "Impairment of non-current assets", and note 6.6 "Impairment test on Group level" of the consolidated financial statements 2020.

term sales and cost growth rates applied underlying the impairment test by comparison to economic and industry forecasts

- We analyzed and challenged management's assessment of the Group's future results by performing sensitivity analyses;
- We assessed 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;
- We assessed the key assumptions used to determine net selling price of long-lived assets by involving our internal specialists.

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, 8 March 2021



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

5-Year Financial Summary

in CHF million, except number of employees	2020		2019		2018		2017		2016	
Key performance data										
Order intake ¹⁾	267.3		288.5		362.3		278.9		243.6	
Net sales	257.8		327.6		314.7		248.5		256.0	
Order backlog ¹⁾	161.6		157.4		195.7		157.2		122.9	
Research and development	6.5		10.4		11.6		8.8		7.1	
Number of employees (end of year) ¹⁾	1,331		1,486		1,398		1,275		1,249	
Investments incl. acquisitions of subsidiaries – net	12.0		18.5		15.9		10.2		8.7	
Earnings										
EBITDA ¹⁾ , as % of net sales	-8.9	-3.5%	22.9	7.0%	22.2	7.1%	11.2	4.5%	12.6	4.9%
EBIT ¹⁾ , as % of net sales	-20.8	-8.1%	14.1	4.3%	13.9	4.4%	2.8	1.1%	4.1	1.6%
Operating result, as % of net sales	-20.1	-7.8%	14.0	4.3%	12.7	4.0%	1.3	0.5%	2.8	1.1%
Ordinary result, as % of net sales	-22.4	-8.7%	13.5	4.1%	11.7	3.7%	0.8	0.3%	1.8	0.7%
Loss/profit for the year, as % of net sales	-22.1	-8.6%	8.8	2.7%	12.2	3.9%	1.2	0.5%	2.3	0.9%
Cash flow										
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	9.2	3.6%	7.3	2.2%	20.1	6.4%	15.6	6.3%	12.8	5.0%
Operating free cash flow (prior to acquisitions and changes in current financial assets) ¹⁾	-5.8		-3.5		8.2		7.0		5.3	
Balance sheet										
Balance sheet total	277.1		289.5		289.5		265.7		251.8	
Current assets	164.7		178.0		185.0		170.5		158.2	
Non-current assets	112.4		111.5		104.5		95.2		93.6	
Current liabilities	115.6		103.6		110.0		95.7		68.6	
Long-term liabilities	16.0		16.6		15.2		12.7		26.8	
Shareholders' equity, as % of balance sheet total	145.5	52.5%	169.2	58.5%	164.3	56.8%	157.3	59.2%	156.3	62.1%

1) Alternative performance measures, see pages 96 to 98, or www.mikron.com/apm

Alternative Performance Measures

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

Order intake

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

Order backlog

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

EBITDA

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

EBITDA	2020	2019	Reference
Operating result	-20,085	13,956	Consolidated income statement
+ Non-operating result	-687	161	Consolidated income statement
+ Depreciation of tangible assets	8,304	6,885	Consolidated income statement
+ Amortization of intangible assets	2,127	1,375	Consolidated income statement
+ Recycling of goodwill	962	0	Consolidated income statement
+ Revaluation investment property	503	493	Note 5.7
EBITDA	-8,876	22,870	

EBIT

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

EBIT	2020	2019	Reference
Operating result	-20,085	13,956	Consolidated income statement
+ Non-operating result	-687	161	Consolidated income statement
EBIT	-20,772	14,117	
+ Restructuring costs	16,057	0	Note 4.8
Adjusted EBIT	-4,715	14,117	

Operating free cash flow

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

Operating free cash flow	2020	2019	Reference
Cash flow from operating activities	9,175	7,281	Consolidated statement of cash flow
+ Cash flow from investing activities	-11,000	-52	Consolidated statement of cash flow
– Investments in financial assets	0	0	Consolidated statement of cash flow
– Divestments of financial assets	4,000	10,688	Consolidated statement of cash flow
Operating free cash flow	-5,825	-3,459	

Free cash flow

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

Free cash flow	2020	2019	Reference
Cash flow from operating activities	9,175	7,281	Consolidated statement of cash flow
+ Cash flow from investing activities	-11,000	-52	Consolidated statement of cash flow
Free cash flow	-1,825	7,229	

Net working capital

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

Net working capital	2020	2019	Reference
Accounts receivable	18,959	21,889	Consolidated balance sheet
+ Inventories	56,085	61,171	Consolidated balance sheet
+ Net assets from customer projects	38,514	40,764	Consolidated balance sheet
+ Other current receivables	4,917	4,800	Consolidated balance sheet
+ Prepaid expenses	5,770	5,276	Consolidated balance sheet
– Accounts payable	20,362	20,205	Consolidated balance sheet
– Net liabilities from customer projects	41,625	39,621	Consolidated balance sheet
– Short-term provisions	16,463	9,791	Consolidated balance sheet
– Other current liabilities	3,360	3,536	Consolidated balance sheet
– Accrued expenses	19,593	18,969	Consolidated balance sheet
Net working capital	22,842	41,778	

Net debt

The net debt compares financial assets and financial liabilities.

Net debt	2020	2019	Reference
– Cash and cash equivalents	38,420	37,992	Consolidated balance sheet
– Current financial assets	2,021	6,152	Consolidated balance sheet
+ Derivative financial instruments	0	33	Note 5.1
+ Short-term financial liabilities	14,205	11,527	Consolidated balance sheet
– Derivative financial instruments	195	0	Note 5.10
+ Long-term financial liabilities	10,116	10,063	Consolidated balance sheet
Net debt	-16,315	-22,521	

Equity ratio

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

Equity ratio	2020	2019	Reference
Total shareholders' equity	145,519	169,220	Consolidated balance sheet
Total assets	277,126	289,512	Consolidated balance sheet
Equity ratio	52.5%	58.5%	

Number of employees

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

Information on Share Capital

	2020	2019	2018	2017	2016
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⁾					
Loss/profit	-1.35	0.54	0.74	0.07	0.14
Cash flow from operating activities	0.56	0.45	1.21	0.94	0.77
Shareholders' equity	8.89	10.37	9.90	9.41	9.36
Distribution to shareholders	0.00	0.20	0.05	0.05	0.05
Share price SIX Swiss Exchange					
At 31 December	5.40	6.76	6.76	7.30	6.10
High/low close during business year	6.58–4.20	9.26–6.02	10.45–6.40	7.61–5.80	6.80–5.34

1) All shares are entitled to dividends/distributions.

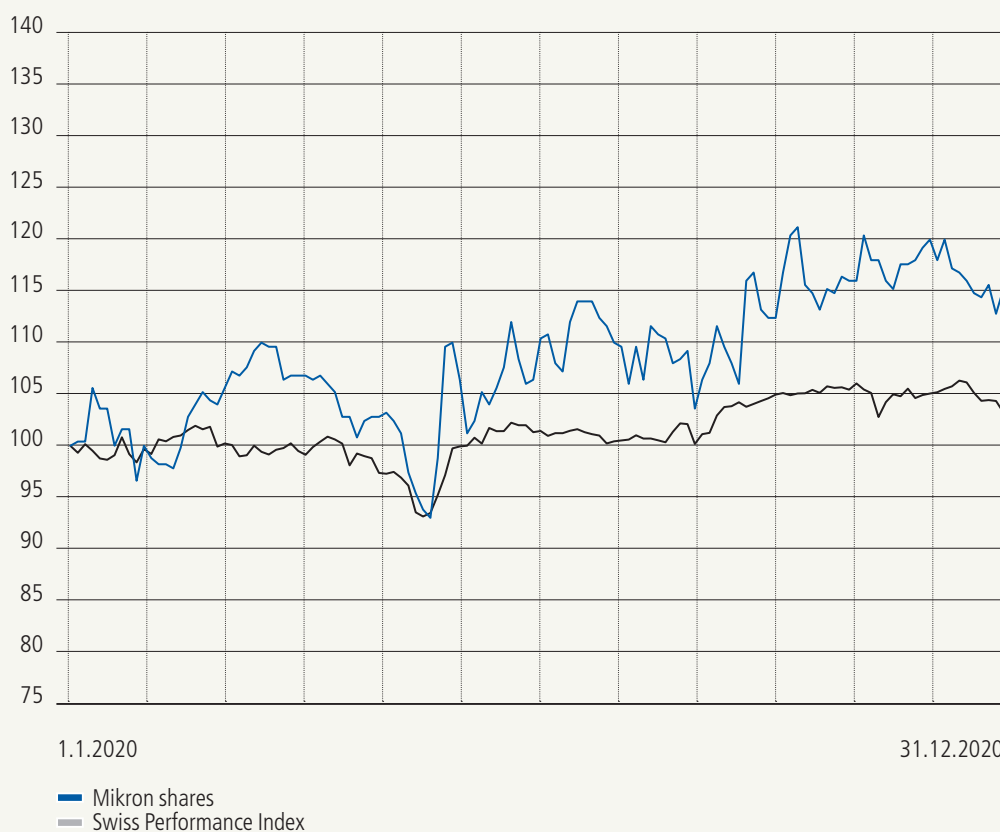
2) Based on the weighted average number of shares

Trading volume (daily average)

In the 2020 fiscal year the average daily trade volume was 5,537 shares (prior year: 10,765 shares).

Share performance

as %



Mikron Holding AG

Financial Report 2020

- 101 Financial Statements 2020 of Mikron Holding AG
- 103 Notes to the Financial Statements 2020 of Mikron Holding AG
- 107 Appropriation of Retained Earnings
- 108 Report of the Statutory Auditor on the Financial Statements
- 112 Investments Mikron Holding AG

Financial Statements 2020 of Mikron Holding AG

Profit and loss statement

CHF 1,000	Note	2020	2019
Services and other income		2,621	3,340
Other operating expenses		-3,315	-3,347
Earnings before interest and taxes		-694	-7
Income from revaluation of investments and loans	2	0	3,488
Other financial income	3	7,839	4,353
Total financial income		7,839	7,841
Expenses from revaluation of investments and loans	2	-30,218	-7,881
Other financial expenses	3	-3,363	-3,212
Total financial expenses		-33,581	-11,093
Loss before taxes		-26,436	-3,259
Direct taxes		-23	0
Loss for the year		-26,459	-3,259

Balance sheet

CHF 1,000	Note	31.12.2020	31.12.2019
Current assets			
Cash and cash equivalents and short-term investments with a quoted market price		20,657	26,187
Short-term interest-bearing receivables		9,271	18,744
<i>Due from Group companies</i>		9,271	18,744
Other current receivables		497	654
<i>Due from third parties</i>		51	169
<i>Due from Group companies</i>		446	485
Accrued income and prepaid expenses		988	472
Total current assets		31,413	46,057
Non-current assets			
Investments	2, 4	63,390	63,343
Financial assets		53,444	61,902
<i>Loans to Group companies</i>	2, 5	53,444	61,902
Total non-current assets		116,834	125,245
Total assets		148,247	171,302
Current liabilities			
Short-term interest-bearing liabilities		49,893	46,351
<i>Due to Group companies</i>		49,893	46,351
Other short-term liabilities		254	306
<i>Due to third parties</i>		229	75
<i>Due to Group companies</i>		25	231
Accrued expenses and deferred income		1,036	524
Total current liabilities		51,183	47,181
Long-term liabilities			
Long-term interest-bearing liabilities		4,029	4,839
<i>Due to Group companies</i>		4,029	4,839
Total long-term liabilities		4,029	4,839
Total liabilities		55,212	52,020
Shareholders' equity			
Share capital		1,671	1,671
Legal reserves		95,901	95,901
<i>Reserves from capital contribution</i>		95,901	95,901
Profit carried forward		25,134	28,627
Loss for the year		-26,459	-3,259
Treasury shares		-3,212	-3,658
Total shareholders' equity	6	93,035	119,282
Total liabilities and shareholders' equity		148,247	171,302

Notes to the Financial Statements 2020 of Mikron Holding AG

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

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

Recognition of revenue

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

Services and other income

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

Other operating expenses

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

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

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

Loans to and loans from Group companies

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

Investments

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

Foreign currencies

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

Currency	Average rate 2020	Closing rate 31.12.2020
1 EUR	1.07	1.08
1 USD	0.94	0.89
1 SGD	0.68	0.67
1 CNY	0.14	0.14

The exchange rates used for balance sheet items are the rates prevailing on 31 December; the exchange rates used for transactions conducted during the course of the year and for items in the profit and loss statement are set on a monthly basis. As an indication the unweighted average rates for the 2020 financial year are disclosed.

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

CHF 1,000	2020	2019
Revaluation of investments and loans	0	3,488
Total financial income from investments and loans	0	3,488
Revaluation of investments and loans	-30,218	-7,881
Total financial expenses from investments and loans	-30,218	-7,881
Net financial expenses from investments and revaluation of loans	-30,218	-4,393

3. Other financial income and expenses

CHF 1,000	2020	2019
Interest income from Group companies	2,626	2,685
Interest income from third parties	97	290
Foreign exchange gains	649	1,350
Other financial income	4,467	28
Total other financial income	7,839	4,353
Interest expense to Group companies	-243	-403
Interest expense to third parties	-7	-1
Foreign exchange losses	-2,416	-2,298
Other financial expenses	-697	-510
Total other financial expenses	-3,363	-3,212
Net other financial income	4,476	1,141

4. Major investments

Please refer to page 112.

5. Subordinated loan

Loans to Group companies include subordinated loans amounting to CHF 39.0 million (prior year: CHF 21.5 million), of which CHF 25.7 million were provisioned for.

6. Statement of shareholders' equity

CHF 1,000	Share capital	Reserves from capital contribution	Treasury shares	Profit carried forward	Shareholders' equity
Balance at 31.12.2018	1,671	99,158	-4,092	28,700	125,437
Loss 2019				-3,259	-3,259
Proceeds/payments for change in treasury shares			434	-73	361
Distribution to shareholders		-3,257			-3,257
Balance at 31.12.2019	1,671	95,901	-3,658	25,368	119,282
Loss 2020				-26,459	-26,459
Proceeds/payments for change in treasury shares			446	-234	212
Balance at 31.12.2020	1,671	95,901	-3,212	-1,325	93,035

In 2020 the company granted 26,935 treasury shares to Group Management (prior year: 20,610) and 20,000 treasury shares to the Board of Directors (prior year: 25,000) at no consideration, sold no shares (prior year: none) and acquired no treasury shares (prior year: none). At 31 December 2020 Mikron Holding AG, Biel owned 337,875 treasury shares (prior year: 384,810 shares).

7. Significant shareholders and their investment

As of 31 December 2020, there are two shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne 41.9%; Mr. Rudolf Maag, Binningen 14.1%). No other single shareholder holds 5% or more of the voting rights. Ammann Group Holding AG is represented on the Board of Directors by Mr. Kilchmann.

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

	31.12.2020		31.12.2019	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry, Chairman	18,675	0.11%	18,675	0.11%
E. Rikli, Vice-Chairman	29,500	0.18%	25,500	0.15%
P. Zumbühl, Member	51,290	0.31%	47,290	0.28%
A. Casutt, Member	8,000	0.05%	4,000	0.02%
H.-M. Hauser, Member	8,000	0.05%	4,000	0.02%
Group Management				
B. Cathomen, CEO	62,867	0.38%	50,241	0.30%
R. Rihs, COO	44,858	0.27%	36,441	0.22%
J. Perez Freije, CFO	15,900	0.10%	10,008	0.06%

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

Collateral for third-party liabilities

CHF 1,000	31.12.2020	31.12.2019
Guarantees in favor of bank syndicate	77,000	55,000
Guarantees for Group companies	20,763	22,081

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

CHF 1,000	31.12.2020	31.12.2019
Assets pledged as securities for liabilities	0	26,841

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	2020	2019
Profit carried forward at the beginning of the period	25,368	28,700
Shortfall in proceeds from sale of treasury shares	-234	-73
Loss for the year	-26,459	-3,259
Loss/profit carried forward available to the General Meeting	-1,325	25,368

As there is a loss carried forward as of 31 December 2020 the balance is carried forward.

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	2020 Motion of the Board of Directors	2019 Resolution of the General Meeting
Reserves from capital contribution	95,901	95,901
Allocation to voluntary retained earnings and distribution to shareholders	0	0
Carried forward	95,901	95,901

Report of the Statutory Auditor

Report of the statutory auditor

to the General Meeting of Mikron Holding AG

Biel

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Mikron Holding AG, which comprise the profit and loss statement, the balance sheet as at 31 December 2020 and notes for the year then ended, including a summary of significant accounting policies.


In our opinion, the financial statements (pages 101 to 107 and 112) as at 31 December 2020 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

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

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

Our audit approach

Overview	
	<p>Overall materiality: CHF 1'250'000</p> <p>We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.</p> <p>As key audit matter the following area of focus has been identified:</p> <p>Risk of impairment of investments in subsidiaries and loans to group companies.</p>

Materiality

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

PricewaterhouseCoopers AG, Bahnhofplatz 10, Postfach, CH-3001 Bern, Switzerland
Telefon: +41 58 792 75 00, Telefax: +41 58 792 75 10, www.pwc.ch

PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

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.

Overall materiality	CHF 1'250'000
How we determined it	0.84% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark to determine our overall audit materiality, because, in our view, this metric is the most relevant factor when assessing a holding company which has limited operating activities, and which holds mainly investments in subsidiaries and loans to group companies.

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

Audit scope

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

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

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

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

Key audit matter	How our audit addressed the key audit matter
<p>At 31 December 2020, the carrying values of the company's investments and loans to group companies amount to CHF63.4 million and CHF 53.4 million, respectively. We focused our audit on these assets because of the materiality of the account balances, the judgment involved in the assessment of recoverability of these assets and in light of the financial performance of certain subsidiaries pertaining to Mikron's Machining division that has been performing below management's expectations in recent years. Further, the carrying amount of equity at 31 December 2020 exceeds Mikron Holding's stock market capitalization.</p> <p>Responding to these impairment indicators, management has assessed the recoverability of the company's loans to group companies and investments in subsidiaries.</p> <p>This impairment assessment, which was approved by the Board of Directors, involves significant judgment. It is</p>	<p>Based on materiality and our risk assessment, we tested management's assessment of the recoverability of selected investments and loans as follows:</p> <ul style="list-style-type: none"> • We analyzed and challenged management's assessment of the businesses' future results, as reflected in the corresponding budgets and business forecasts; • We obtained evidence of the approval of the mid-term plan by the Board of Directors; • We re-performed management's assessment of recoverability of loans to and investments in subsidiaries; • We reconciled the information used in the tests to underlying data records and accounting systems.



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

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

Refer to the company's accounting policy summarized in note 1 of the Financial Statements 2020.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.



From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a 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 recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Norbert Kühnis
Audit expert
Auditor in charge



René Jenni
Audit expert

Bern, 8 March 2021



Group Companies/ Investments Mikron Holding AG

Local Currency 1,000	Activity	Currency	Share capital		Shareholding direct		Shareholding indirect	
			2020	2019	2020	2019	2020	2019
Switzerland								
Mikron Holding AG, Biel	1	CHF	1,671	1,671				
Mikron Management AG, Langenthal	1	CHF	12,000	12,000	100%	100%		
Mikron SA Agno, Agno	2, 3	CHF	13,500	13,500	100%	100%		
Mikron SA Boudry, Boudry	2, 3	CHF	2,000	2,000	100%	100%		
Mikron Tool SA Agno, Agno	2, 3	CHF	300	300	100%	100%		
Germany								
Mikron GmbH Rottweil, Rottweil	2, 3	EUR	383	383	100%	100%		
Mikron Berlin GmbH, Berlin	2, 3	EUR	515	515	100%	100%		
Lithuania								
UAB Mikron Kaunas, Kaunas	2, 3	EUR	400	400	100%	100%		
Singapore								
Mikron Singapore Pte. Ltd., Singapore	2, 3	SGD	6,781	6,781	100%	100%		
P.R. China								
Mikron Industrial Equipment (Shanghai) Co., Ltd., Shanghai	2, 3	CNY	26,238	26,238			100%	100%
Mikron Tool (Shanghai) Co., Ltd., Shanghai	2, 3	CNY	403	403	100%	100%		
USA								
Mikron Corp. Denver, Englewood	2, 3	USD	10	10			100%	100%
Mikron Corp. Monroe, Monroe	3	USD	3,500	3,500	100%	100%		

Activity

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

