



Annual Report  
2017

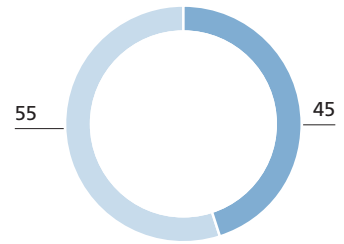
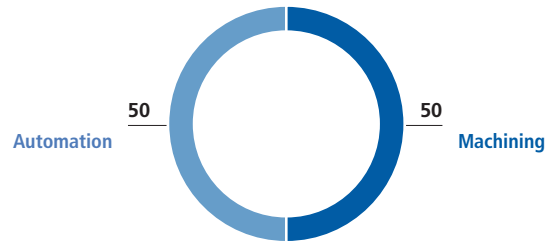
The Mikron Group succeeded in increasing order intake in the second half of the 2017 financial year. The volatile order intake for machining and automation systems caused unequally loaded capacities throughout the year. Overall, the Group achieved annual order intake of CHF 278.9 million (previous year: CHF 243.6 million, +15%), net sales of CHF 248.5 million (previous year: 256.0 million, -3%) and EBIT of CHF 2.8 million (previous year: CHF 4.1 million, -32%). The innovation initiatives launched in 2016 proceeded as planned. For 2018, the Mikron Group is anticipating a growth in sales and subsequently an improvement in EBIT.

Mikron Group 2017

Mikron Group 2016

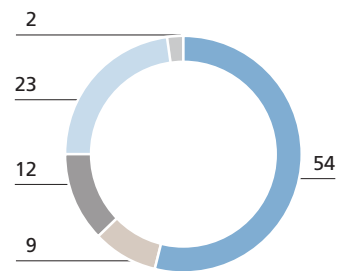
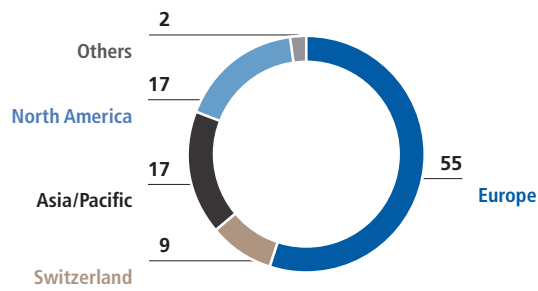
Sales by segment in %

Total CHF 248.5 million  
(2016: CHF 256.0 million)



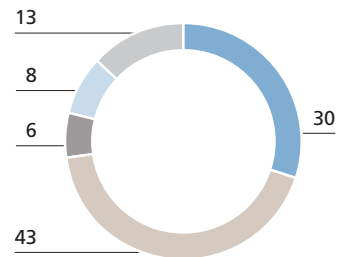
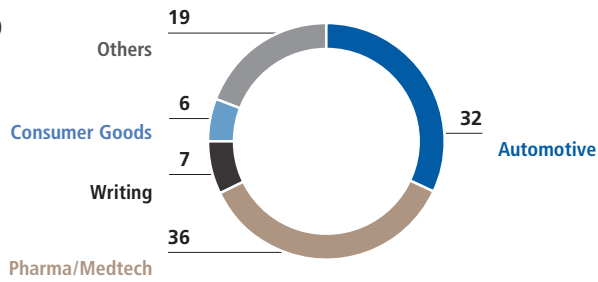
Sales by region in %

Total CHF 248.5 million  
(2016: CHF 256.0 million)



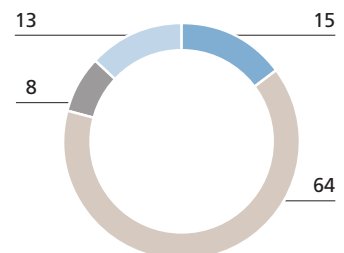
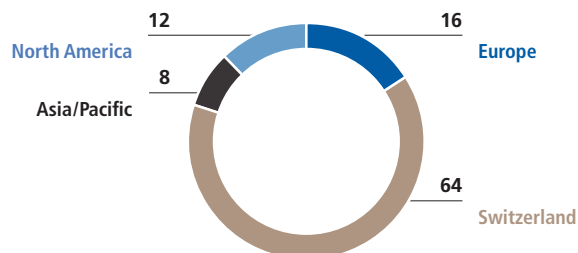
Sales by industry in %

Total CHF 248.5 million  
(2016: CHF 256.0 million)



Employees by region in %

Total 1,275  
(2016: 1,249)



# Key Figures 2017

in CHF million, except productivity and number of employees

2017

2016

+/-

	2017		2016		+/-
<b>Key performance data</b>					
Order intake	278.9		243.6		35.3 14.5%
Machining	152.9		114.8		38.1 33.2%
Automation	126.0		128.9		-2.9 -2.2%
Net sales	248.5		256.0		-7.5 -2.9%
Machining	124.1		116.4		7.7 6.6%
Automation	124.6		139.6		-15.0 -10.7%
Order backlog	157.2		122.9		34.3 27.9%
Machining	75.2		42.3		32.9 77.8%
Automation	82.2		80.8		1.4 1.7%
Productivity (added value/personnel expenses)	1.40		1.39		0.01 0.7%
Research and development	8.8		7.1		1.7 23.9%
Number of employees (end of year)	1,275		1,249		26 2.1%
Machining	627		590		37 6.3%
Automation	622		636		-14 -2.2%
<b>Earnings</b>					
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	11.2	4.5%	12.6	4.9%	-1.4 -11.1%
Earnings before interest and taxes (EBIT), as % of net sales	2.8	1.1%	4.1	1.6%	-1.3 -31.7%
Machining	-1.6	-1.3%	-5.2	-4.5%	3.6 n.a.
Automation	3.1	2.5%	7.5	5.4%	-4.4 -58.7%
Operating result, as % of net sales	1.3	0.5%	2.8	1.1%	-1.5 -53.6%
Profit for the year, as % of net sales	1.2	0.5%	2.3	0.9%	-1.1 -47.8%
<b>Cash flow</b>					
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	15.6	6.3%	12.8	5.0%	2.8 21.9%
<b>Balance sheet</b>					
Balance sheet total	265.7		251.8		13.9 5.5%
Current assets	170.5		158.2		12.3 7.8%
Cash and current financial assets	57.6		52.3		5.3 10.1%
Non-current assets	95.2		93.6		1.6 1.7%
Current liabilities	95.7		68.6		27.1 39.5%
Long-term liabilities	12.7		26.8		-14.1 -52.6%
Shareholders' equity, as % of balance sheet total	157.3	59.2%	156.3	62.1%	1.0 0.6%



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## Dear Shareholders,

The firming global economy and improved investment climate created more and more interest in the Mikron Group's products and services over the past financial year. The good capacity utilization of customers' production systems led to great demand for high-performance cutting tools and Mikron's range of services in particular. Numerous customers ordered retrofits for existing systems to be able to benefit from advances made in digitalization in the sense of Industry 4.0, and to increase the productivity of their machines.

As expected, the second half of 2017 was much better than the first for the Mikron Group, as shown by all the key figures, especially order intake. The fact that our Group was still unable to fully meet the expectations published mid-year is due to orders which our customers postponed to 2018.

We assume that market conditions will not change significantly in the current year, and that there will be good opportunities for all areas of the Mikron Group. Given the high order backlog – though still unevenly distributed across the different sites – we are expecting a rise in sales and improved profitability.

We would like to thank all of Mikron's employees for their tireless dedication over the past financial year, and our customers for our good working relationships. Our thanks also go to you, our valued shareholders, for your great confidence in us.



Heinrich Spoerry,  
Chairman of the Board of Directors



Bruno Cathomen,  
Chief Executive Officer



I was especially delighted about the progress made on the strategic development projects.

Heinrich Spoerry,  
Chairman of the Board of Directors

What were the personal highlights for you in the 2017 financial year?

**HEINRICH SPOERRY:** I was especially delighted about the progress made on the strategic development projects – the level of collaboration in these projects is very good, both in-house and with externals. On the negative side is the sluggish order intake in the first half of the year, which meant we were unable to meet our sales and earnings targets.

**BRUNO CATHOMEN:** A particular highlight was the sudden improvement in the machine order backlog at Mikron Machining in late summer 2017. Thanks to strong project management in the past and the confidence this created, we won a number of important repeat orders. The continuing positive performance by our tool business was also highly encouraging. When I look at Mikron Automation, I am extremely pleased about the technical expertise that we have built up over the last few years at the site in Denver (USA), as well as about the continued improvement in results in Switzerland.

What is the current status of your innovation projects?

**BRUNO CATHOMEN:** We are on track: Further headway has been made with the development of the new Mikron Machining product platforms. We are currently in the prototyping phase. In the tool business, we have been successfully advancing our innovation activities at the further expanded Technology Center in Agno. In Boudry and Denver, Mikron Automation developed a raft of new hardware as well as software components to supplement or improve existing machine controllers. However, we know from experience that it normally takes time for innovative concepts and technologies to gain acceptance with customers.

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

**BRUNO CATHOMEN:** For one thing, we are constantly optimizing our internal processes and procurement chains. While doing so, we repeatedly ask ourselves whether our structure is optimally geared to our customers' needs. On

Interview with the Chairman of the Board of Directors and the CEO



Bruno Cathomen,  
Chief Executive Officer

Heinrich Spoerry,  
Chairman of the Board  
of Directors



Thanks to strong project management in the past and the confidence this created, we won a number of important repeat orders.

Bruno Cathomen,  
CEO

the other hand, we try to ensure that our capacity utilization levels are stable. Innovations as well as outstanding products and services are the key here. Our tool business is proof that sales and margins can continually grow if we invest in productivity enhancements and launch new products. In the service sector, digitalization provides the main potential for innovation and generating fresh demand.

Your tool business has moved in a very encouraging direction over the past few years. Will you be focusing even more on this business line going forward?

**HEINRICH SPOERRY:** We still see huge potential for our tool business. Optimized special tools are always being sold together with our manufacturing solutions. We aim to exploit this potential in future too. At the same time, we also want our tool business to cover technically demanding special applications on other manufacturers' machines. It is in this context that we see our tool business remaining on an exceptionally strong growth path.

**BRUNO CATHOMEN:** In order to guarantee the quality of our high-performance tools, we are dependent on a qualified, experienced workforce. To find these specialists and train them in-house remains the greatest challenge facing the tool business. That being said, our global logistics system and our innovation-packed pipeline create a promising basis for further continuing growth.

How have you advanced in terms of Industry 4.0?

**BRUNO CATHOMEN:** We dedicated a lot of time and energy to this topic last year, motivating our employees to develop innovative out-of-the-box ideas. In addition, we addressed this topic in greater detail in workshops and during discussions with customers. We subsequently set the following three priorities:

1. *Smart services:* We offer various service packages based on new intelligent assembly and manufacturing concepts.
2. *Smart services processes:* We commit to digitalized processes and tools to ensure that we can support our international customers even faster, more conveniently



We aim to achieve disproportionately strong growth in our target markets and maintain our technology leadership.

Heinrich Spoerry,  
Chairman of the Board of Directors

and more transparently – by providing cost-effective handling and virtual collaboration.

3. *Smart product platforms*: We incorporate novel, forward-looking digital technologies into new developments and platform upgrades.

What are your strategic goals for the next three years?

**HEINRICH SPOERRY:** We aim to achieve disproportionately strong growth in our target markets and maintain our technology leadership. Relying on product and process innovations, we are also striving to generate significant productivity gains and so substantially improve our cost position relative to the competition. Strengthening our currently unsatisfactory earning power is a top priority.

What are the operational focal points for 2018?

**BRUNO CATHOMEN:** We are targeting appreciable sales growth for the Group in 2018. At Mikron Machining, we want to launch innovative machines to allow us to lock into new market segments, reduce the volatility of

order intake, and increase sales. With regard to Mikron Automation, we will defend and build on our leadership in Europe and the US; in Asia we will consolidate our market position. And last but not least, one of our goals for 2018 is to continue expanding the service and tool business.





“Using scalable systems,  
we support our customers  
from the first idea to the highest  
performance solutions.”

Jean-François Bauer, Head of Marketing & Business Development, Mikron Automation



# NO FEAR OF INJECTIONS

Simply position and press: it would be so easy if it weren't for the sharp needle. Fear of medical syringes is common. But it could soon become a thing of the past thanks to autoinjectors!

There is something threatening about the needle in a medical syringe. Many people are afraid of them, even in emergency situations when they absolutely need an injection. Take a person with allergies, for instance, for whom an injection of adrenaline is the only answer to a life-threatening allergic reaction. They would previously have had to ask another person for help. Nowadays they can calmly help themselves: with an autoinjector.

## Hidden needle

An autoinjector can be described as a semi-automatic syringe: pressing the device onto the skin enables the needle, which was hidden in a plastic tube, to enter the body. Depending on the type of autoinjector, the mechanism can be activated automatically or by pressing a button to inject the drug into the body. The patient does not require any great strength to activate the system and can even use it with one hand – a spring ensures that enough pressure is provided. Even viscous active ingredients can be injected effortlessly. It is therefore no wonder that worldwide demand for autoinjectors is increasing: by 15–20% a year over the last few years.

## Flexible production

The growing demand for autoinjectors is also increasing their diversity: the injectors

are being specially designed for more and more new applications. Manufacturers must therefore comply with the strict legal regulations in the medical industry. This means that the authorities require a small series of sample parts for each model. Once the validation process has been successfully completed, manufacturers can increase their production volumes step by step to meet market demand. To do this, they require flexible, scalable automation systems.

## Mikron every time

“We support the manufacturers through the entire lifecycle of their products”, says Jean-François Bauer, Head of Marketing & Business Development at Mikron Automation. During the validation phase, Mikron customers produce small quantities on manual assembly stations. Mass production starts after validation by the authorities. At this stage, customers rely on Mikron's semi-automatic and fully automatic assembly systems to produce millions of parts every year. “We offer the perfect system for every part of a product's lifecycle”, says Jean-François Bauer. “But our systems do not just consist of scalable, flexible hardware. The software installed also enables the utmost flexibility and data management in line with Industry 4.0.”

By

# 15–20%

a year over the last few years, worldwide demand for autoinjectors is increasing.



1



2

An autoinjector (1) is a semi-automatic syringe: a syringe is hidden in a plastic tube – only when applied to the skin can the needle enter the body. Then, when the button is pressed, the drug is automatically injected into the body. When the device is released, a system hides the needle to avoid needle stick injuries, and the injector is disabled to prevent re-utilization.

During the validation phase, Mikron customers produce small quantities on manual assembly stations (3). Mass production starts after validation by the authorities. At this stage, customers rely on Mikron's semi-automatic and fully automatic assembly systems (2) to produce millions of parts every year.



3

# PEAK PERFORMANCE IN EVERYDAY LIFE

From the moment it starts writing it can travel up to ten kilometers. Without stopping. With consistent quality. This is a truly amazing performance. An item that we use every day without thinking. The ballpoint pen deserves our attention.

It is a technical masterpiece from the last century. The first recorded mention of a pen with a color ink cartridge and rolling ball in its tip dates back to 1938. Six years later, in 1944, the first ballpoint pen factory opened. The first 30,000 ballpoint pens went to the British Royal Air Force, as the RAF realized that the ballpoint pen would be the ideal writing instrument for military aircraft crews. The first pens were sold over the counter in 1945 at a price of 8.50 US dollars. They took approx. 50 working hours to produce, and the quality of the pens left much to be desired – they were prone to blotting. Affordable, blot-free models did not become available until 1950 when the French company BIC resolved the quality issues and began mass production.

## Precise interaction

The ballpoint pen pulls off an amazing performance. It has a small ball in the tip which rotates when the pen glides across the paper. This picks up the ink on one side and transfers it to the paper on the other side. To prevent blotting, the ballpoint pen tip and ball have to be produced with extreme precision. The minute 0.2–1.6-millimeter ball must be perfectly spherical to an

accuracy of 0.5  $\mu\text{m}$ . This is 0.0005 mm, the diameter of a single hair that has been split a hundred times. The ink is just as important. It cannot be too fluid or too viscous, and has to dry quickly on the paper. Ultimately, only the perfect interaction between ink, ball and tip guarantees top quality for a whole ten kilometers.

## Mikron in your hands

A ballpoint pen tip consists of a single brass or steel wire which is shaped into a tip by a machine in 20 processing steps. This takes less than six seconds. "Around 95% of the world's ballpoint pen tips are made on Mikron machines," says Axel Warth, Head of Marketing & Business Development for Mikron Machining. This is an average of some 145,000,000 units per day. So when you hold a ballpoint pen in your hand, it is extremely likely that that its tip was made on a Mikron Machining transfer machine.

The tip of the ballpoint pen (1) contains a small ball which rotates when the pen glides across the paper. The ball picks up the ink on one side and transfers it to the paper on the other side.

Around 95% of the world's ballpoint pen tips are made on Mikron Multistar LX-24 transfer machines (2). This is an average of some 145,000,000 units per day.



1



2

Mikron produces  
an average of some

# 145,000,000

units per day.





“Around 95% of the world’s ballpoint pen tips are made on Mikron machines.”

Axel Warth, Head of Marketing & Business Development, Mikron Machining

# FOR THE ULTIMATE COFFEE EXPERIENCE

Every step is perfect: tapping out the coffee grounds, grinding, clamping, brewing, foaming, pouring. A hundred times a day. All day long. The barista at the coffee bar guarantees the ultimate coffee experience: perfectly brewed coffee with perfectly foamed milk. But they can only do a dependable job with a machine of the right quality.

Coffee is enjoying a revival. Whether in New York, Berlin, Shanghai or Zurich, coffee drinking is back in style. Coffee with foamed milk is the main drink of choice for younger connoisseurs. Latte macchiato for instance. This is why the reliability of the steam valve is extremely crucial.

### Withstanding exposure

The barista immerses the steam valve in milk countless times a day and then wipes it with a damp cloth. Every evening, or at the end of the week at the latest, the machine is thoroughly descaled. The valve is constantly in contact with water, lactic acid and other chemicals. To withstand this level of exposure, it needs to be made of high-quality stainless steel. This in turn makes machining a challenge: these kinds of steel are poor conductors of heat, they are viscoelastic and stick easily.

### Fast, faster, Mikron Tool

If they are to keep a handle on both quality and costs, manufacturers of steam valves are dependent on very safe production processes and short

manufacturing times. One major manufacturer, for example, faced the challenge of boring a 41 mm deep hole with a diameter of 2.75 mm in stainless steel as fast and precisely as possible. None of his conventional drills were up to the task. They were too slow to get the desired result. He wasn't satisfied until he tried CrazyDrill Cool SST-Inox from Mikron Tool. This drill has a unique internal cooling system. "Helicoidally arranged coolant ducts bring huge volumes of coolant right up to the drill tip and thus cool the drill's cutting edges. The drill is also designed to ensure that chips break off optimally and are safely flushed from the drill hole," explains Alberto Gotti, Head of Research and Development at Mikron Tool. "You can achieve exceptionally high drilling speeds and feed rates as well as very deep drilling depths." With conventional drills, the steam valve manufacturer used to produce only half as many valves as today and the manufacturing process took much longer.

The steam valve (1) in a professional coffee machine is constantly in contact with water, lactic acid and other chemicals. To withstand this level of exposure, it needs to be made of high-quality stainless steel.

Using CrazyDrill Cool SST-Inox (2) from Mikron Tool, a major steam valve manufacturer achieved a tool life of 105,000 bores – each in one single step up to a drilling depth of  $15 \times d$ , a rotation speed of 3900 rpm, a cutting speed of  $v_c=33$  m/min and a feed rate of  $f=0.04$  mm/rpm.



1



2

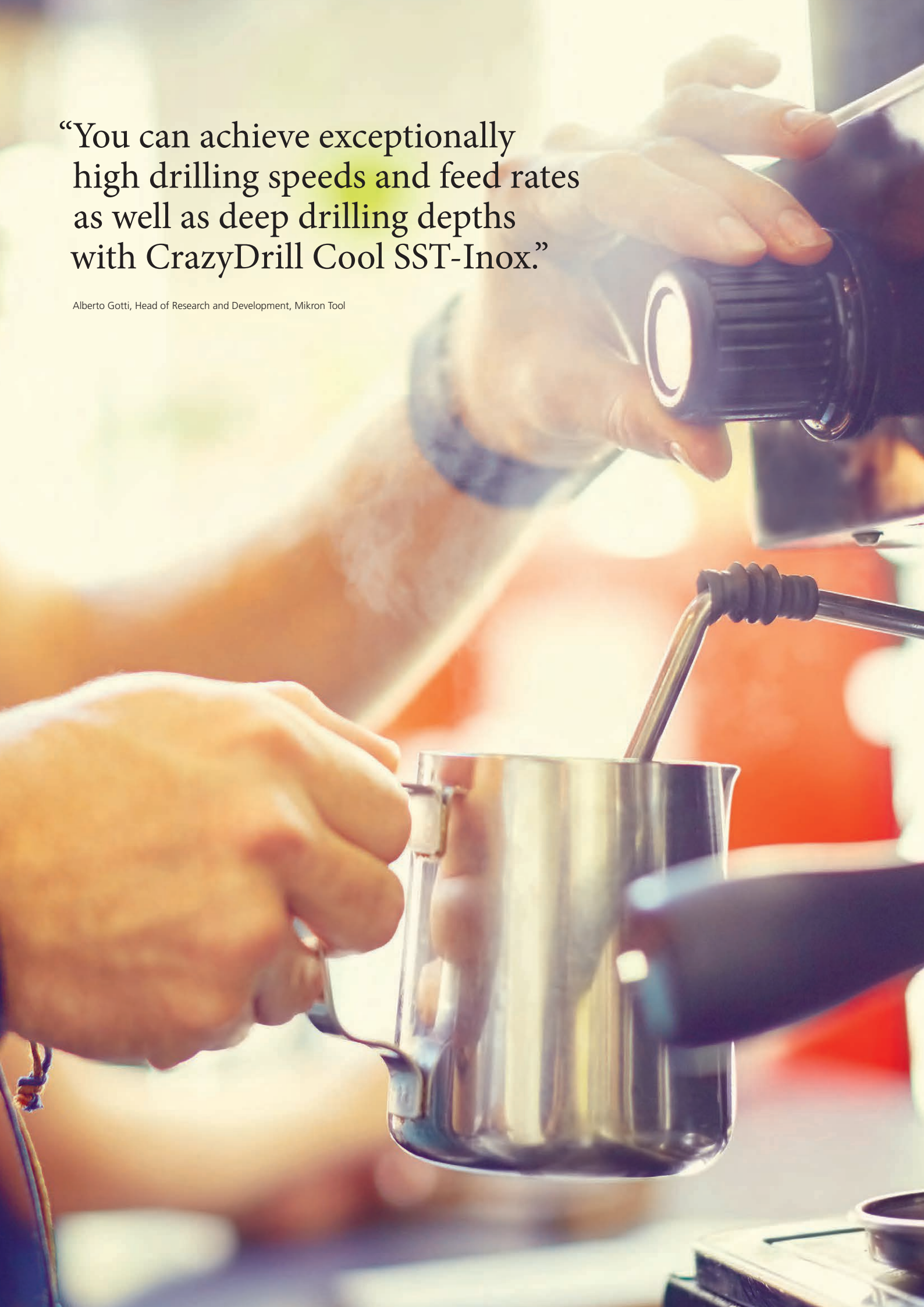
# 105,000

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“You can achieve exceptionally high drilling speeds and feed rates as well as deep drilling depths with CrazyDrill Cool SST-Inox.”

Alberto Gotti, Head of Research and Development, Mikron Tool



## 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 divisions, Mikron Automation and Mikron Machining, employ a total workforce of around 1,275. They are based in Switzerland (Boudry and Agno). Additional production sites are located in Germany, Singapore, China and the US. Mikron Holding AG shares are traded on SIX Swiss Exchange (MIKN).

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



## Mikron Automation

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

- Number of employees: 620
- Sales in 2017: CHF 125 million
- Experience: 40 years
- Systems installed worldwide: over 3,000
- Projects: more than 60 per year
- Delivery times: 4 to 12 months

## Mikron Machining

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. The business line Mikron Tool develops and produces the therefore necessary high-performance cutting tools itself. These are regarded as some of the best in the world and are also used on other manufacturers' machines.

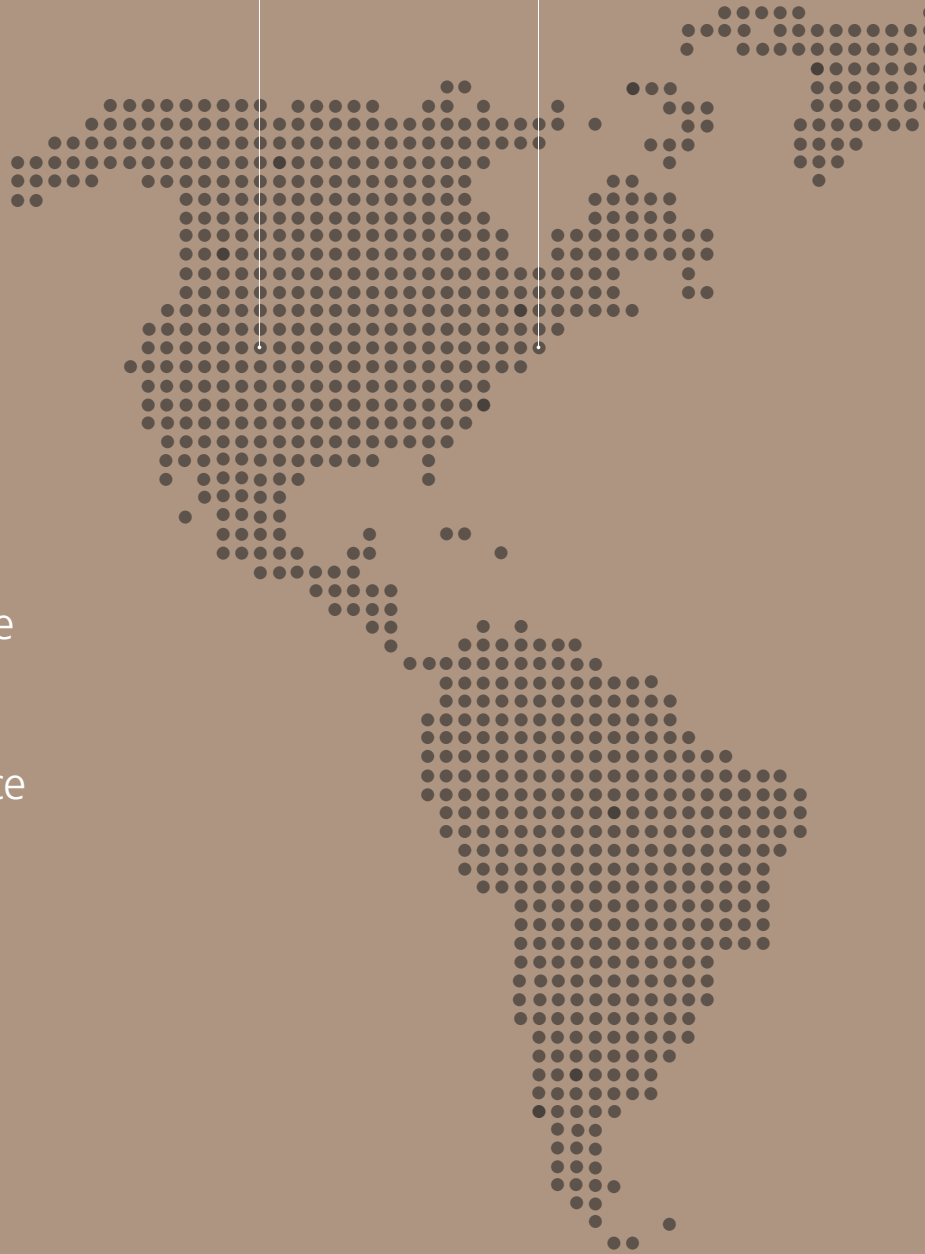
- Number of employees: 630
- Sales in 2017: CHF 124 million
- Experience: over 100 years
- Systems installed worldwide: over 7,000
- Projects: between 80 and 150 per year
- Delivery times: 4 to 18 months

The Mikron Group

Denver  
Colorado



Monroe  
Connecticut



In addition to eight production sites and service centers the Mikron Group also has an extensive network of sales and service representatives.

For more information go to: [www.mikron.com/contact](http://www.mikron.com/contact)



Headquarters  
Automation/Machining



Production site



Sales and service center



Mikron Automation



Mikron Machining



# Highlights 2017

## January

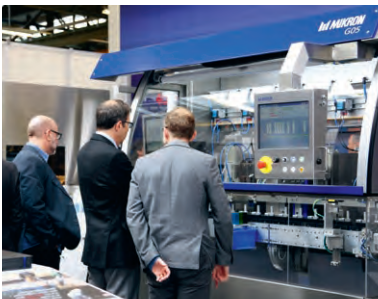


**Mikron Automation announces the expansion** of its US headquarters in Denver. The industrial facility will expand to include 19,000 square feet of space needed to help support the company's rapid growth, increasing the facility's total size to 82,000 square feet.

## February

**Mikron Machining files a patent** for a new and precise positioning system that allows repetitive positioning of the clamping systems for workpieces which have to be manufactured on milling and turning centers, and to allow the precise positioning of the electrodes in electric discharge machines.

## May



**At the Technology Days in Boudry, Mikron Automation** shows customers the future of the automation business and positions itself as the ideal partner for customized assembly solutions that create real added value.

## March

**An international consultancy firm** invites its customers to visit **Mikron Agno's** production facilities. Under the title "Learning from the best", the visitors are introduced to the shop floor management system that has been successfully implemented in Agno.

## June

**Together with ETH Lausanne, Mikron Automation** has developed new z and c axes for Cartesian robots. These are considerably smaller and lighter than the current axes on the market and are equipped with an optimized motor. This means they are much faster and more flexible in terms of use: Their small size even enables two z and c axes to be fitted in order to grab and turn two parts at once.

## June



**At this year's "Fraisa Tool Champions" competition**, five apprentice multi-skilled mechanics from **Mikron Agno and Boudry** make it onto the podium in their language regions. Sacha Polli (see picture), an apprentice at Mikron Machining in Agno, even takes third place in the national "Conventional Machining Switzerland" category.

**As stock availability and short delivery times** are important success factors for Tool customers, **Mikron Tool** has set up a new consignment stock in China of all "standard" products, totaling 8,000 pieces. Today it is possible to deliver to Chinese customers within 24 hours and invoice in RMB.

## July

# 10<sup>th</sup> anniversary

**Mikron Singapore celebrates its 10<sup>th</sup> anniversary.** Rolf Rihs, COO of Mikron Automation, the Senior Management Team of Mikron Shanghai and all employees are also delighted about the opening of their new site.

## August



**Dedicated to its educational responsibilities, Mikron Boudry** decides to expand its apprenticeship program by increasing the team from 16 to 40 apprentices.

## October



**At the EMO 2017 trade fair in Hanover, Mikron Machining** presents the new control software "Joblist" for the Mikron Multistep XT-200 machining system, as well as other innovations. This software allows various parts to be processed at the same time on the same system, which involves several CNC programs and clamping devices.

**Another highlight at the EMO 2017 in Hanover: Mikron Tool** presents small-sized drilling and milling tools to efficiently machine stainless and heat-resistant materials – for example the CrazyDrill Cool SST-Inox, which is a small drill especially suitable for drilling in the diameter range of 1 to 6 mm without pecking. In fact, just one feed stroke is necessary to reach the full depth of 20 x d.



## October

**At one customer's premises, Mikron Automation** upgrades several older assembly systems to the latest technology. It is the first time that the service team upgrades the PCs on a full line with several machines. The work was completed one week earlier than planned. Thanks to this great success, the customer will order four more upgrades for 2018.

### **Mikron Singapore develops a needle feeder** for the Mikron Ecoline system.

The needle feeder is based on the concept of using free pallets to transport needle bases for the needle assembly process. The prototype is designed to assemble up to 6up x 40 index/min.

## November

**Mikron Denver successfully completes the Final Acceptance Test** for the largest assembly line ever produced by Mikron. It manufactures a state-of-the-art medical device and the project consists of 15 Mikron G05 chassis with over 200 process steps.

## December

**Mikron delivers the first Mikron VX-12** a 12 Station vertical rotary transfer machine, based on the proven Mikron VX-10 (10 station concept). This system is used to produce the latest generation of high-pressure gasoline injection components in large quantities.

# 17%

**Throughout the year, Mikron Tool** has been confronted with a high growth in volume. In order to satisfy future market demand for quality, lead time, precision and innovation the company invests in a modern and innovative machine park and increases the overall staff by 17%.



# Mikron Management Report



## Management Report

The Mikron Group succeeded in increasing order intake in the second half of the 2017 financial year. The volatile order intake for machining and automation systems caused unequally loaded capacities throughout the year. Overall, the Group achieved annual order intake of CHF 278.9 million (previous year: CHF 243.6 million, +15%), net sales of CHF 248.5 million (previous year: 256.0 million, -3%) and EBIT of CHF 2.8 million (previous year: CHF 4.1 million, -32%). The innovation initiatives launched in 2016 proceeded as planned. For 2018, the Mikron Group is anticipating a growth in sales and subsequently an improvement in EBIT.

### Group business review

The general economic environment was stable overall in 2017. Demand for investment projects also picked up in the second half of the year. Mikron's customers reported high capacity utilization rates throughout the year, which led to solid demand for tools and the various services provided by Mikron. Numerous customers ordered retrofits for existing systems to be able to benefit from advances made in digitalization and to increase the productivity of their machines. As expected, the second half of the year proved much better for the Mikron Group than the first. This is reflected in all three key indicators: order intake, sales and EBIT. The fact that the expectations published mid-year were met later than hoped for, and altogether not entirely as predicted, is attributable to delays in order intake for a number of large-scale customer projects.

Mikron Automation began the business year with a solid order backlog. It was, however, spread very unevenly over the individual sites. While the Mikron companies in Europe also attracted larger new orders from the pharmaceutical and medtech industries, in particular Mikron Denver's order intake remained well below expectations into the third quarter. Uncertainty over America's health and tax policy clearly left its mark on the US pharmaceutical and medtech markets. In Asia, Mikron Automation succeeded in establishing further new customer relationships. Nevertheless, Asian demand for Mikron Automation assembly

systems remained significantly lower than the volumes from Europe and the US.

Mikron Machining responded to growing demand in its tool and service business by investing in additional production systems and hiring new staff. The encouraging increase in order intake in the extremely cyclical machinery business in the fourth quarter came from the watch-making, writing instruments and automotive industries.

### Outlook

The Mikron Group assumes there will be no fundamental change in market conditions with continuing well utilized customer operations. Services and Tool are expected to benefit further, if this trend is confirmed. The US market is expected to offer growth opportunities for Mikron Automation, once the uncertainties in the US health system are resolved, and the tools business. The ongoing good capacity utilization for the automotive industry could offer new opportunities for Mikron Machining, while the general trend towards self-medication and a generally ageing population is beneficial to Mikron Automation. For the Swiss companies, the recently weakened Swiss franc – though still strong – could be less of a handicap. Nevertheless, Mikron expects the fierce competition (prices as well as other terms and conditions) for machining and automation systems to continue.

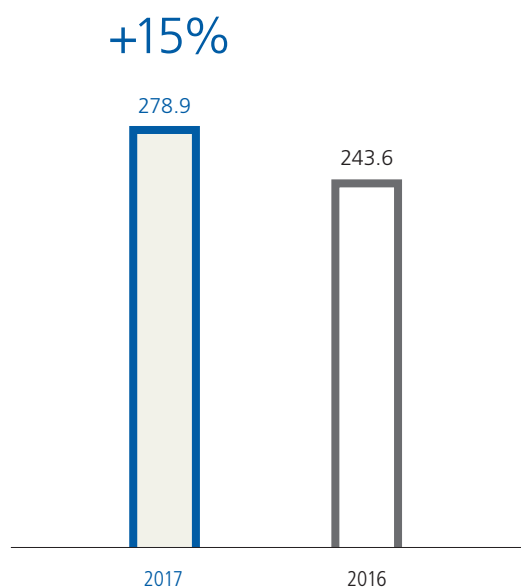
Net sales are expected to grow based on the relatively high but unequally distributed backlog. The level of sales growth will depend on the timely availability of resources and materials, as well as order intake in the first half of 2018. Higher net sales are expected to result in higher profitability. The Machining business segment continues to drive forward its innovation activities, which is having a considerable impact on the Group's short-term result. The EBIT Margin is targeted to improve significantly.

### Order intake

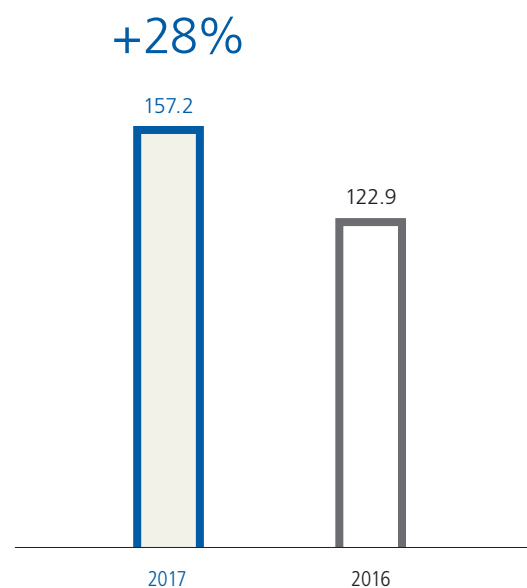
The Mikron Group reported order intake of CHF 278.9 million in 2017, representing an increase of 15% against the prior year (CHF 243.6 million). The increase in local currencies was slightly lower at 14%. Until the third quarter, order intake for Mikron Machining's machinery business was extremely volatile and generally too low. It was mainly in the fourth quarter that Mikron Machining was able to profit from the positive economic environment and surpass the very low prior-year figure by as much as 33% to report order intake of CHF 152.9 million for the year. Mikron Automation posted order intake of CHF 126.0 million, 2% lower than the corresponding prior-year figure (CHF 128.9 million). The decrease is due primarily to a large volume of customer orders being postponed until the new year.

Europe remains Mikron's most important market, with approximately 55% of orders received in 2017 placed by European customers (previous year: 52%). The two strongest market segments are still the automotive industry and the pharmaceutical/medtech industries, both contributing with 31% (prior year: 35%) to the overall order intake. Thanks to orders won in the fourth quarter, the German automotive industry's share in order intake rose considerably year-on-year. In North America, order intake was 18% lower despite the growth seen by the tool business, since a major order could only be partially booked in 2017. Mikron reported encouraging levels of order intake in Asia, mainly from the writing instruments and automotive industry as expected one year ago. However, demand from the pharmaceutical/medtech market segment was below expectations, as Asian customers rarely require the highest performance assembly solutions. Overall, order intake increased year-on-year by 65%. Following the encouraging figure reported in 2016, orders from customers in the electrical and electronic industries remained below expectations in 2017. Mikron was only able to deliver some systems toward the end of 2017, and repeat orders can only be expected when the newly installed machines are operating at full capacity.

**Order intake**  
in CHF million



**Order backlog**  
in CHF million



### Net sales, capacity utilization and order backlog

Posting annual sales of CHF 248.5 million, the Mikron Group fell short of the prior-year result (CHF 256.0 million, -3%) as previously announced. While Mikron Machining succeeded in increasing sales by 7% on the back of strong tool and service business, the Automation business segment posted a decrease of 11% after the solid growth in sales achieved in the previous year. Following a very weak first half in 2017, Mikron Automation was able to match prior-year sales in the second half.

Capacity utilization in the machines business of Mikron Machining was unsatisfactory for the first three quarters. The selective short-time working introduced at its Swiss site in early 2017 thus had to be continued until the third quarter, while machine building capacities had already been reduced during 2016 at its German site. In contrast, the Tools business enjoyed steady growth in sales and capacities. At Mikron Automation, the lower sales volume was managed by reducing staff through natural departures and the discontinuation of temporary working contracts, especially at the US site. Additional measures to increase efficiency continued in both business segments.

The Service business held up well in both segments in 2017. However, pressure on margins for spare parts and on hourly rates for service technicians remained strong. Besides continued pressure on prices, customers were very demanding regarding short delivery times. Adapting and further optimizing spare parts logistics and local stocks will remain one of the focus areas of Mikron Services in the years to come. 2017 was another successful year for Mikron Machining's tool business. Up 19%, tool sales accounted for over 30% of the business segment total. Both Tool sites scaled up their machining and people capacities in 2017.

At CHF 157.2 million, the Mikron Group's order backlog at the end of 2017 was around 28% higher than the prior-year figure. The backlog of orders at both business segments was, however, unevenly distributed across the companies. Mikron Automation's order backlog at the beginning of 2018 was equivalent to a good 66% of last year's sales, and the corresponding figure for Mikron Machining (without taking into account the Tools business) increased to a strong 82%. To support the expected growth in 2018, Mikron nevertheless needs to win some substantial new orders in early 2018 at Mikron Automation and a decent level of orders throughout the year for both business segments.

### Annual sales in CHF

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2017

248.5 million

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2016

256.0 million

### Profitability

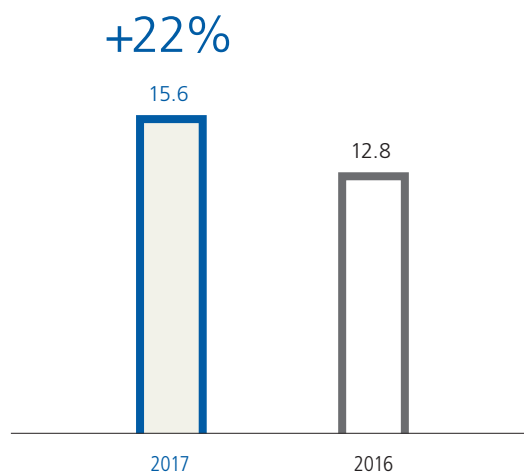
In the 2017 business year, the Mikron Group reported EBIT of CHF 2.8 million, falling short of the prior-year result (CHF 4.1 million).

The EBIT loss of CHF -1.6 million (prior year: CHF -5.2 million) posted by the Machining business segment represents an improvement in profitability. The loss reflects the low level of machine sales, especially in the first half of 2017, as well as the costs for the development projects. Excluding the latter, the EBIT margin would have been positive. Mikron Automation, after a good result in 2016, reported much lower EBIT of CHF 3.1 million (prior year: CHF 7.5 million). Considering that sales dropped by -11%, Mikron Automation achieved a decent 2.5% EBIT margin.

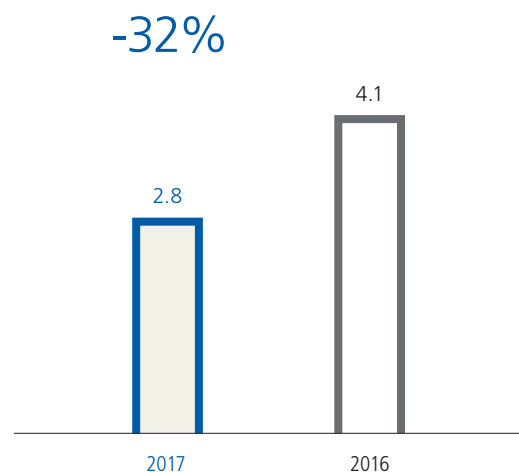
### Financial result, income taxes and profit

The financial result improved compared to the previous year's figure and totaled CHF -0.5 million (prior year: CHF -0.9 million), CHF -0.1 million of which were related to net exchange rate losses (prior year: CHF -0.6 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 2.3 million (prior year: CHF 3.2 million), on which income taxes of CHF 1.1 million (prior year: CHF 0.8 million) were expensed. The decision by the US government to reduce the tax rate shortly before the end of the year led to a reduction in capitalized tax loss carry forwards of

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



#### EBIT in CHF million



CHF 0.9 million. This was partially compensated by the positive outlook regarding taxable profits for the US companies. The income tax rate is furthermore still distorted by tax losses not capitalized due to uncertainty about the companies' future taxable profits. Mikron's net earnings for 2017 were CHF 1.2 million, compared to CHF 2.3 million in the prior year. Net earnings per share for the year 2017 came to CHF 0.07 (prior year: CHF 0.14).

At the General Meeting on April 12, 2018, the Board of Directors of the Mikron Group will propose an unchanged distribution from capital contribution reserves of CHF 0.05 per share.

#### Investment property

The investment property in Nidau (Switzerland) generated a net income of CHF 1.5 million (prior year: CHF 1.3 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 2016. With a pre-impairment net yield of 6.8% (prior year: 6.9%) this is an attractive investment of liquid assets not required for operational purposes. The non-operating result excludes the financing costs of the mortgage of CHF 11.5 million. In 2015, Mikron was informed by one of the lessees (a company renting around 60% of the building) of its intention to move out by mid-2019 at the latest. Various courses of action were evaluated over the past few months, the most promising of which are being pursued further.

#### Balance sheet, financing and equity ratio

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

Cash and cash equivalents plus current financial assets of CHF 57.6 million significantly exceed interest-bearing liabilities of CHF 23.3 million. The current financial assets of CHF 15.4 million are mainly invested in high-quality Swiss franc bonds with a residual maturity of less than three years. The net cash position increased to CHF 34.3 million or 14% of net sales (prior year: 11%).

Net working capital decreased by CHF 5.8 million to CHF 33.1 million. Overall net working capital compared to net sales amounts to 13%, which is a further decrease compared with the prior year (15%). This was driven by a solid level of prepayments received from projects sold just before year-end and continuously tight management of outstanding bills.

Totaling CHF 95.2 million, non-current assets increased by CHF 1.7 million. In line with strategy, investments of CHF 10.2 million (prior year: CHF 8.7 million) were made in production equipment for the tool business, extension of the building in Denver, capitalized product development and different IT projects to improve efficiency and security. The total amount of expenditure for new product development and enhancements (capitalized and not capitalized) was about 3.5% of net sales. Total amortiza-

tions and depreciations came to CHF 7.9 million (prior year: CHF 7.8 million). The long-term financial liabilities of CHF 7.9 million mainly relate to finance leases for production equipment and the mortgage for one production facility. The fixed-term loan contract for the mortgage relating to the investment property and for one production facility, totaling CHF 13.8 million, will end during 2018 and thus had to be reported as short-term. Its prolongation will be decided and negotiated in due time.

Since May 2015, Mikron has been able to draw on a CHF 50.0 million credit agreement with a bank consortium which is available for bank guarantees to secure advance payments from customers and for fixed advances that are currently not being used. This credit agreement was prolonged by one year in 2017 and will expire at the end of June 2020. The credit agreement requires Mikron to achieve certain key financial figures (covenants). The Group met these by a comfortable margin.

In 2017, shareholders' equity increased slightly to CHF 157.3 million. This represents a strong equity ratio of 59% (prior year: 62%). The decrease of 3% is fully attributable to the higher balance sheet total.

#### Cash flow

Cash flow from operating activities reached CHF 15.6 million at the end of 2017 (prior year: CHF 12.8 million). A total of CHF 8.7 million (prior year: CHF 7.5 million) was used for investment in non-current assets.

Strict management of net working capital and customer prepayments on orders signed before the end of the year led to an operational free cash flow (without changes in financial assets) of CHF 7.0 million (prior year: CHF 5.3 million). Mikron was thus again able to cover investments for the financial year completely from operational cash flow. The Group is aiming to achieve positive operational free cash flows over the longer term. This goal was reached over the past 5 years, with the exception of 2014.

Cash flow from financing activities amounted to CHF -2.0 million in the year under review (prior year: CHF -2.1 million), mainly stemming from repayment of financial leases and the distribution to shareholders. Apart from financial leases, no additional loans or mortgages were taken out.

#### Share performance and return

At the end of 2017, the share price stood at CHF 7.30 (prior year: CHF 6.10 per share). Factoring in the distribution of CHF 0.05 per share approved by the Annual General Meeting of shareholders, the total shareholder return amounts to CHF 1.25 or 20.5% (prior year: CHF 0.22 or 3.7%). 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 122.0 million.

#### 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 net finance result of CHF -4.6 million (prior year: CHF 1.5 million), the trademark fees charged to the companies nearly covered the costs incurred. No dividend income from subsidiaries was booked this year (prior year: CHF 3.4 million).

Owing to the accounting rules limiting the recognition of positive earnings but requiring the booking of losses of subsidiaries, an impairment of CHF 4.7 million had to be booked on participations (subsidiary companies). This technical adjustment had no impact on the Group's net asset value or cash position.

The financial statements of Mikron Holding AG show a very high equity ratio of above 80%.

#### Customer satisfaction

The Mikron Group focuses on the needs of its customers, with the aim of establishing and cultivating strong, long-term relationships with them. As in previous years, this involved gathering customer feedback on an ongoing basis, and actively contacting customers to systematically ask for their opinion and feedback. Customer feedback conveys a very positive picture overall. Mikron is offering its customers a broad range of after-sales services fostering long-term partnerships. In recent months efforts were stepped up to add more proactive services to the highly appreciated reactive and responsive service offerings. Since the majority of customer projects are confidential, Mikron is seldom permitted to divulge specific informa-

tion, particularly regarding major and newly developed product solutions. Mikron takes suggestions for improvements and refinements on board in its strategic planning in the form of targeted initiatives, product and process enhancements, and investments in new product developments.

### Employees

Mikron operates in a demanding, sometimes highly cyclical and global market, and is exposed to globally active and local specialized competitors. The key to success is skilled and motivated employees who are willing to assume responsibility and work together constructively. This allows the Group to respond to the rapid changes, to diverse customer requests and complexity inherent in the business. Every two years, an independent consultancy for personnel and organizational development assesses the level of employee satisfaction. In 2016, all Mikron companies participated in the survey. Altogether, 67% of the employees returned the survey, for which data was collected online and in paper format. Overall job satisfaction was rated at 67 points out of 100 (previous survey in 2014: 69 points), similar to other comparable industrial companies but below the average of all participating companies, many of them coming from very different industries. The anonymous detailed responses were analyzed on different levels by the management teams, and specific actions have been initiated. A similar survey is planned for 2018.

It is still highly challenging to attract and retain employees with the right level of technical qualifications, who are able to work in dynamic interdisciplinary teams, have a broad set of language skills and are willing to travel and work abroad. One way which has proved successful in the past is to make use of the opportunities offered by dual-track vocational education and training (VET). Additional apprentices were taken on at the Swiss and German sites, while the Denver site – as one of the leading companies in the initiatives launched by the US Government – also successfully continued its apprenticeship program. Developing employees in all functions and at all ages is another important element. In 2017, employees of the Swiss, German and US subsidiaries spent over 28,000 hours (previous year: 18,000 hours) in advanced training. Again this year the Group held its proven management and leadership training program. Project managers also attended specific training tailored to their needs. Mikron intends to continue both programs in the future. As in past years, the Mikron Trainee Program, which focusses

on enabling Bachelor's and Master's students to start their professional career in a technical and international environment could again be filled with very promising young people. Some of them could enjoy three to six instructive months at one of Mikron's sites abroad. With very few exceptions, all employees were trained in the application of our Code of Conduct.

As at the end of the 2017 financial year, the Mikron Group numbered 1,275 employees (FTE), representing an increase of 2.1% (prior year: 1,249 employees). Additional personnel were mainly taken on to support the growing Tools business and the new product developments launched at Mikron Machining. At Mikron Automation, the lower sales volume was managed by reducing staff through natural departures and the discontinuation of temporary working contracts. The number of apprentices increased from 74 employees to 84 employees at the end of 2017. Around 65% of the workforce are employed with the companies in Switzerland, approximately 15% each in Germany and the US, and more than 5% in Asia.

Employees' remuneration is based on their role, performance, specific knowledge of value to Mikron (languages, special technological expertise) and experience. Men and women are paid equally for performing the same work. About 10% of Mikron staff are women, most of whom perform important tasks in internal service functions. The economic performance and regional differences of the individual companies are also taken into account. During 2017 Mikron performed an external salary benchmark of its key functions. It is our aim to compensate fairly and in a comparable way to similar internationally active companies.

### Innovation and key investments

Given that innovation is a key to Mikron's success, several projects were concluded and new ones started in 2017. In the year under review a total of CHF 8.8 million (prior year: CHF 7.1 million) was invested in the development or enhancement of new products or product platforms. These figures include capitalized research and development expenses, personnel expenses, material costs and other operating expenses, and represent 3.5% of net sales (prior year: 2.8% of net sales). This does not include daily innovation activities which are regularly triggered by customer projects and are required to develop particular assembly or machining processes.

At the EMO 2017 trade fair in Hanover, Mikron Machining presented the new control software “Joblist” for the Mikron Multistep XT-200 machining system, as well as other innovations. This software allows various parts to be processed at the same time on the same system, which involves several CNC programs and clamping devices. On the same occasion, Mikron Tool presented its range of drilling and milling tools in small dimensions to efficiently machine stainless and heat resistant materials. A highlight was the CrazyDrill Cool SST-Inox, a small drill especially suitable for drilling in the diameter range of 1 to 6 mm without pecking. In fact, just one feed stroke is necessary to reach the full depth of  $20 \times d$ . Other new developments will be launched in 2018.

Last year the Automation business segment focused on extending the production process modules in its control software launched in 2016. The control system is based on robust, tried-and-tested industrial computers and open-architecture, future-proof programming technology. Together with the École polytechnique fédérale de Lausanne (EPFL), Mikron Automation has developed new z and c axes for Cartesian robots. These are considerably smaller and lighter than the current axes on the market and are equipped with an optimized motor. Furthermore, new product data management software (PDM) was successfully implemented allowing further efficiency gains throughout the business segment.

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

In the 2018 financial year, Mikron plans to further invest in product development, mainly in Mikron Machining, where the launch of two new machining platforms is planned. The business segment plans to invest a total of more than CHF 10 million (2016-2018) in modernizing and streamlining its machine portfolio in line with the changed market conditions. In 2017 the division applied for several patents. Only prototypes are to be capitalized. All other investments will be charged to the income statement. In order to support the growth of the cutting tools business, the Group will continue to invest in replacement and additional equipment and infrastructure improvements to secure the highest product quality. At Mikron

Automation, key investments are being directed into a shop floor upgrade in one company and some replacements and additional production equipment. In summary, together with infrastructure and IT equipment investments, the Mikron Group is again planning to invest more than CHF 15 million in total. This does not include any investments in the non-operating industrial property.

## Business model and strategy

### 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 divisions, Mikron Automation and Mikron Machining, employ a total workforce of around 1,275. They are based in Switzerland (Boudry and Agno). Additional production sites are located in Germany, Singapore, China and the US.

Led by the vision of “creating value with passion for precision” and Mikron’s mission statement, the Board of Directors periodically reviews the Group’s strategy. In December 2017, the Board approved the budget for the year 2018 as well as a mid-term plan for the years 2019 and 2020. Unchanged from the targets communicated in the last few years, the Board of Directors expects the Mikron Group to improve profitability to an EBIT margin of 5–7%, while growing sales in the magnitude of 5% annually on average.

### Mikron Machining

Mikron Machining’s strategic objectives are to strengthen its leadership position in the transfer machining niche, expand the service business by introducing additional services and addressing the whole installed machine base, and grow the successful cutting tool business. As an innovative technology leader, the Machining business segment plans to introduce to the market at least one newly developed high-end cutting tool every year and a new or significantly improved base machine every two to three years. Delivering machining solutions and cutting tools to different customer segments globally is an important



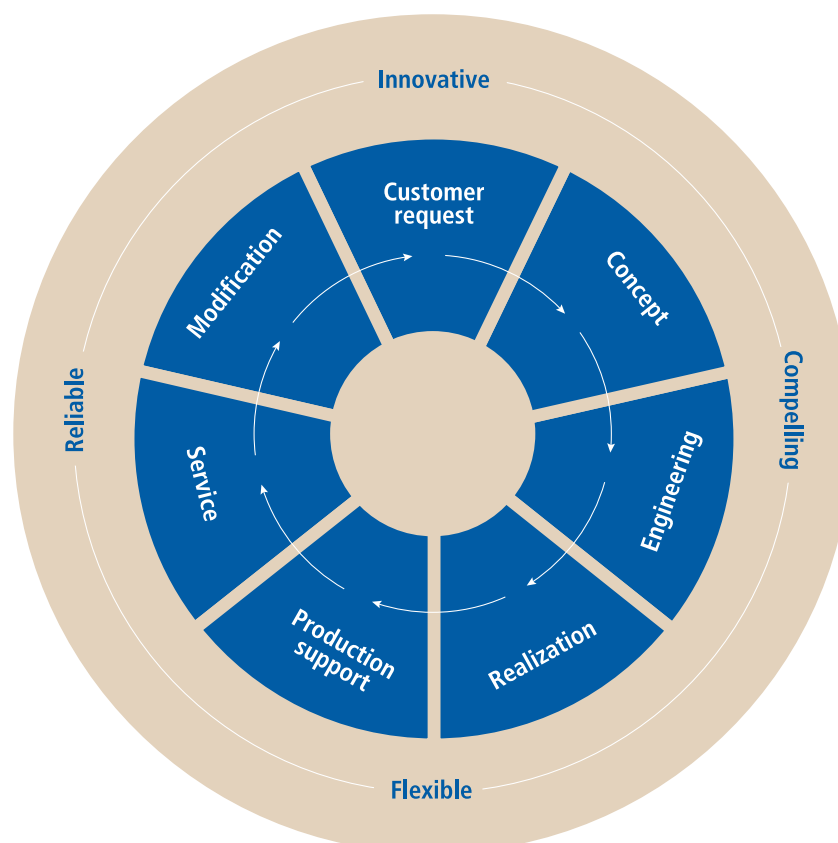
driver for further growth, while the automotive industry is expected to remain the dominant customer segment. In its niche, Mikron Machining competes mainly against other transfer machine, transfer center and multispindle machining center manufacturers. Over time, exposure to the European market will be reduced as newly developed products are rolled out. We want our customers to recognize Mikron Machining as an international solution provider with the capability to adapt its innovative products quickly to specific needs and to execute projects efficiently with globally aligned key processes.

### Mikron Automation

Mikron Automation's strategy aims to provide customers with scalable and customized assembly systems – from the first idea to the highest-performance solutions.

Mikron's expertise and proven track record guarantee the best productivity for assembling customers' products throughout the lifecycle. As the partner of choice for global blue-chip customers from the pharmaceutical and medtech industries, it aims to maintain its leadership position in Europe, to strengthen the footprint in Asia and grow at a disproportionately high rate in the US. Other customer segments such as the automotive industry, consumer goods and electronics are expected to contribute to the 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

### The Mikron business model



## The six Mikron values

### 1 Skilled and motivated employees

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

### 2 Market and customer focus

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

### 3 Focus on targets and results

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

### 4 Responsibility and role model function

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

### 5 Quality

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

### 6 Confidentiality

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

project execution and in-depth experience of getting all the required approvals (esp. 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

### Value-guided

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, quality and confidentiality. These values guide their daily behavior and serve as a common basis on which management and staff do business and develop the company.

### Value-based management

The financial performance of the Mikron Group and its business segments is monitored by Group Management on a monthly basis. The focus lies on evaluating order intake and net sales (book-to-bill), the productivity defined as added value (net sales plus/minus changes in inventories, plus capitalized own production, minus material costs) divided by personnel expenses, earnings before interest and taxes (EBIT) and net working capital trade. As a measure of value-based management, Mikron applies the concept of return on invested capital (ROIC), with EBIT as the basis for the return. In the year under review, ROIC decreased to 1.8% from 2.6% in the previous year.

### Leadership principles

The quality of leadership is decisive both for the success of the company and for the satisfaction of its employees. The two management principles of Mikron are "management by objectives" and "personnel development". Mikron empowers employees with management responsibility to adopt a participative and target-oriented style of leadership, guided by Mikron's values. The conduct of Mikron's managers and senior staff members has to be exemplary and be guided by Mikron's values and the requirements of the customers. These principles and our Mikron values are an integral part of the Mikron Leadership & Management program.

Management responsibility always remains with the line manager and cannot be delegated. The HR department of each company, which regularly exchange and share best practices, support and coordinate the local management and development of personnel, ensures that appro-

appropriate processes are in place, makes tools (checklists, forms, documents) available, and provides support and coaching in difficult and exceptional situations.

## Risk management

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

### Key risk factors

- The Group operates in a cyclical market with strong upswings and significant downturns. Market fluctuations may result from numerous factors beyond the influence of the Group. The Group tries to mitigate these risks by means of a diversified range of products as well as activities in different regions and markets.
- Fluctuations in currencies may adversely affect the Group's financial situation and results of operations. The Group attempts to achieve natural hedges by costing its manufacturing processes and purchasing supplies in the same currency as those in which its sales are generated. To a limited extent the Group also makes use of derivative financial instruments, such as forward contracts to hedge anticipated receipts of payments.
- The Group markets its machining and automation solutions in competitive markets and its success depends on its ability to compete successfully with other companies that have similar products and service offerings or offer technological alternatives. Each of the industries in which the Group operates is characterized by ongoing technological change, as well as by enhancements and new product developments. Furthermore, competitors may be able to copy the Group's technology or use its manufacturing know-how. The Group's economic success is therefore dependent upon its ability to enhance and develop new products and services on a timely basis and at competitive conditions. This is addressed by maintaining an appropriate degree of innovation as well as close relationships with customers, and continuously investing in the development of our staff.
- The Mikron Group operates in a challenging environment with customers that have very high and sometimes changing requirements with regard to product specifications, quality and timely delivery. Mikron is committed to engineering and delivering highly productive and precise machining and automation solutions which usually include a combination of complex technologies and processes. In some industries the trend to have less educated people running highly complex machines is increasing. This can be an opportunity in certain cases, but it must also be considered a potential risk as the agreed performance might be very difficult to achieve in certain cases. Non-compliance with contractual requirements or specifications may amount to a material breach of contractual obligations which may lead to payment of damages or contractual penalties or, in some cases, even the termination of the contract. Strong sales processes and project management are the key to mitigating this risk.
- Customers, especially in the automotive industry, require suppliers to consent to very broad contractual obligations, a case in point being unlimited liability for consequential damages. Risk considerations mean that the Mikron Group cannot meet all demands. Our competitors, whose securities are usually not exchange-listed, are often prepared to take more of a risk in this regard. In Germany in particular, this could continue to have a negative effect on the Mikron Group's order intake.
- The Mikron Group depends on some strategic suppliers of certain key components and raw and base materials necessary to manufacture its products, and in certain cases depends on a single supplier. Failure to maintain existing relationships with these suppliers could negatively affect the Group's ability to manufacture its products.
- The Group seeks patent protection for those inventions and technologies it believes provide a competitive advantage and meet the preconditions for patent protection. The process of seeking patent protection can be time-consuming and there can be no assurance that

the Group will be issued patents for currently pending or future applications. Due to the high number of processes implemented in Mikron's machining and automation solutions, the Group might infringe the intellectual property rights of others unknown to it.

- The Mikron Group's remote maintenance activities give it access to confidential information and, where necessary, to internal customer systems. With the spread of digitalization, the threat of cyber attacks grows. There is a risk that the safeguard mechanisms installed are not sufficient.
- The Group's business and future development relies on the continued involvement and performance of its senior management and other key personnel, such as highly skilled and knowledgeable technical staff. Mikron may not be able to retain the current management team or other key employees or to attract qualified and experienced personnel to fill vacant positions within a short period of time.
- The Mikron Group maintains a set of insurance policies. However, they may not be adequate to cover all the risks it faces, nor will they be sufficient to fully compensate the impact of any force majeure event.
- Environmental, health and safety laws and regulations impose increasingly stringent standards and operating conditions. Mikron has implemented thorough processes to meet these requirements. Changes in laws and regulations, or courts and competent authorities adopting a stricter stance in interpreting and applying these regulations, may nevertheless affect the Group's activities.
- The Group currently owns an investment property in Switzerland. The fair value of the property is reviewed annually as per the balance sheet date and marked to market. Significant changes in the market conditions may impair the value of the property. In 2015, Mikron was informed by one of the lessees (a company renting around 60% of the building) of its intention to move out at the end of 2018. All possible options are currently being investigated.
- The Group invests significantly in several new product developments. The development of new production systems in particular takes several months, during which customer needs and preferences might change

or during which the general demand in such systems might change due to macro-economic developments or completely new technologies. The Group systematically assesses long-term economical and technical trends in all its relevant markets and takes these into consideration when approving innovation and investment programs.

### Brand management

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





# Mikron Automation



# Mikron Automation

The generally positive economic environment has not been comprehensively reflected in the Automation business segment’s financial figures for 2017. For a number of projects with considerable sales values, definitive orders did not come in until the beginning of 2018. In Switzerland, the business segment succeeded in maintaining its solid prior-year level of orders and in defending its leading market position.

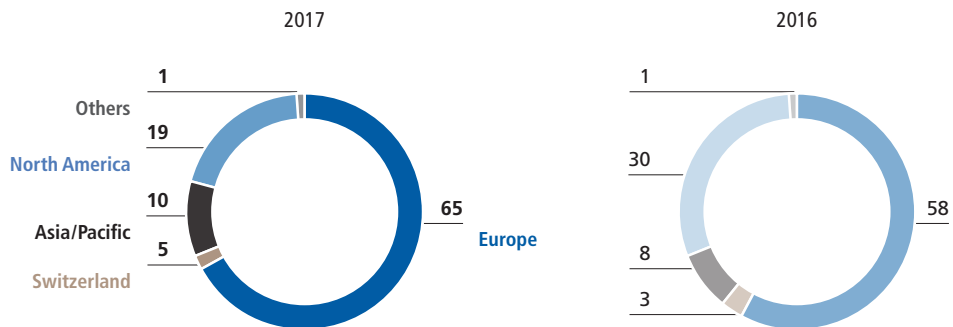
## Business performance

The pharmaceutical and medtech industries remained Mikron Automation’s most important market segment in 2017 as well. In the year under review, the business segment attracted new key customers from these two industries in all the regions it serves. The solid order intake from Europe translated into high capacity utilization rates at the Boudry site in particular. With some US customers choosing to wait, several orders planned for 2017 were not placed until early 2018. In Asia, investments in fully

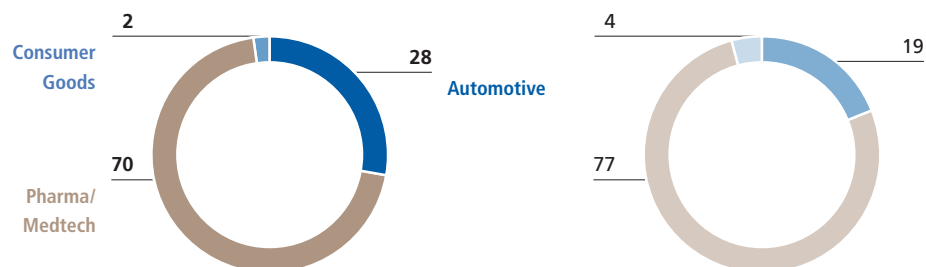
automated systems continue to be relatively sparse in the market segments covered by Mikron. Accordingly, Mikron Automation’s order volume from this region was still modest in 2017.

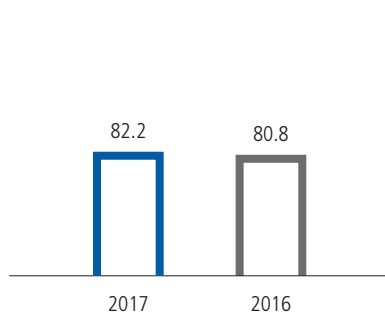
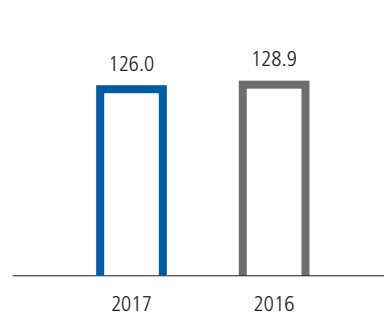
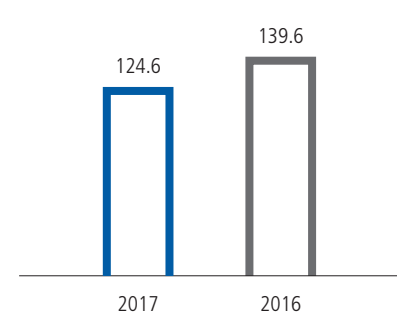
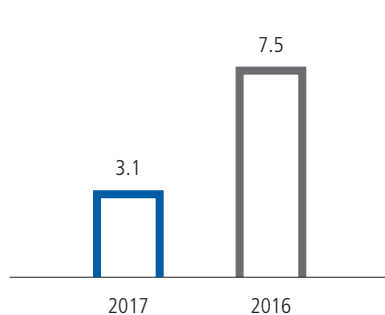
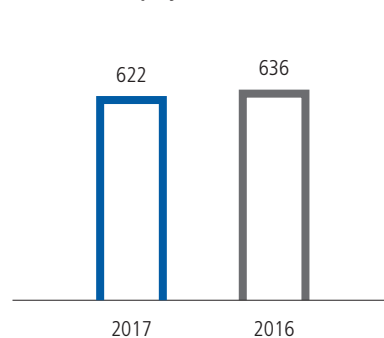
The business segment reported an increase in the share of orders from the European automotive industry. New orders were placed by various customers from this segment with whom Mikron Automation has enjoyed a long-standing partnership.

**Sales by region in %**  
Total CHF 124.6 million  
(2016: CHF 139.6 million)



**Sales by industry in %**  
Total CHF 124.6 million  
(2016: CHF 139.6 million)



**Order backlog**  
Total CHF million**Order intake**  
Total CHF million**Net sales**  
Total CHF million**EBIT**  
Total CHF million**Number of employees**

## Order intake and order backlog

Mikron Automation's order intake was very unevenly spread among the various sites in 2017 too. While Mikron Boudry achieved order intake at the prior-year level and acquired a number of new high-potential customers, the Berlin site was unable to meet expectations despite an encouraging new order with the prospect of repeat business. The Denver site and the two locations in Asia posted decreases, in some instances substantial. It is encouraging to report that several smaller projects were awarded by new customers in China. Overall, Mikron Automation achieved an order intake of CHF 126.0 million (prior year: CHF 128.9 million).

Taking into account the significant volume of orders received in January 2018, the end-2017 order backlog of CHF 82.2 million (prior year: CHF 80.8 million) was at a solid level and higher than at the start of 2017.

## Sales

Posting sales of CHF 124.6 million (prior year: CHF 139.6 million), Mikron Automation fell short of the target for 2017. This is attributable to the volatile order intake, espe-

cially in the first half of the year. Mikron Automation once again reported an increase in sales in the service business.

## EBIT

With EBIT at CHF 3.1 million (prior year: CHF 7.5 million), the Automation business segment achieved an EBIT margin of 2.5% (prior year: 5.4%). In addition to underutilized capacity at several sites, additional expenditure on innovative customer solutions also squeezed the result. On balance, the second half of the year was considerably more profitable for Mikron Automation than the first.

## Technology and innovation

The numerous new developments presented to an interested specialist audience at the Technology Days event held by Mikron Automation at its Boudry headquarters in May 2017 attracted a great deal of attention from customers. Wide-scale innovation is likewise the main thrust of Mikron Automation's strategy plan through to 2020. Priority is being given to the scalability of the assembly solutions offered by Mikron Automation.



Mikron Automation's management team; from left to right: Alex Wyss, Félix Arrieta, Rolf Rhis, Mike Gunner, Nils Rödel

This is why Mikron Automation is also focusing on expandable manual and semi-automatic subsystems which can be used by customers above all in pre-production runs and which also allow much greater flexibility in terms of manufacturing stages. Multi-purpose robotic cells that can readily be integrated into Mikron system solutions also offer customers fully new options in the context of automation and increased flexibilization. Through effective deployment of innovations Mikron Automation is constantly broadening the scope of production processes which can be integrated into Mikron's assembly solutions. Recently, for example, Mikron developed its own cost-effective solution for a customer to successfully integrate the positioning and affixing of labels onto medical devices directly into the assembly process.

Mikron Automation also further expanded its customer service activities in the year under review, including a comprehensive upgrade of control systems in installations older than ten years. Mikron Automation's new machine control system software MOOS has opened the gateway to Industry 4.0 for its customers.

### IT tools and infrastructure

Mikron Automation is continually optimizing its project handling processes. Part of the 2017 investment resources were channeled into more efficient IT systems to bring product data management (for the administration and version control of technical drawings) up to date. In the year under review, Mikron Automation also successfully completed the building extension at the Denver site, and the Singapore team moved into a modern, more suitable and better located site.

### Employees

At the end of December 2017, Mikron Automation had a headcount of 622. This is 2.2% fewer than in the prior year (636). The decrease is attributable to the reduction mainly in temporary staff in the US.

To ensure that enough well-trained employees are also available in the future, Mikron Automation rigorously continued in-house training and personnel development in all areas. Mikron also carried out its first Group-wide training and experience-sharing program for project managers in 2017.

At the end of 2017, a total of 37 apprentices worked at different Mikron Automation sites. Mikron Automation relies on apprentice training to secure sufficient specialists for the business segment going forward. Over 1,200 budding multi-skilled mechanics, micromechanics and production mechanics from all over Switzerland took part in the "Frais Tool Champions 2017" competition, and five apprentice multi-skilled mechanics from Mikron Agno and Boudry made it onto the podium in their language regions.

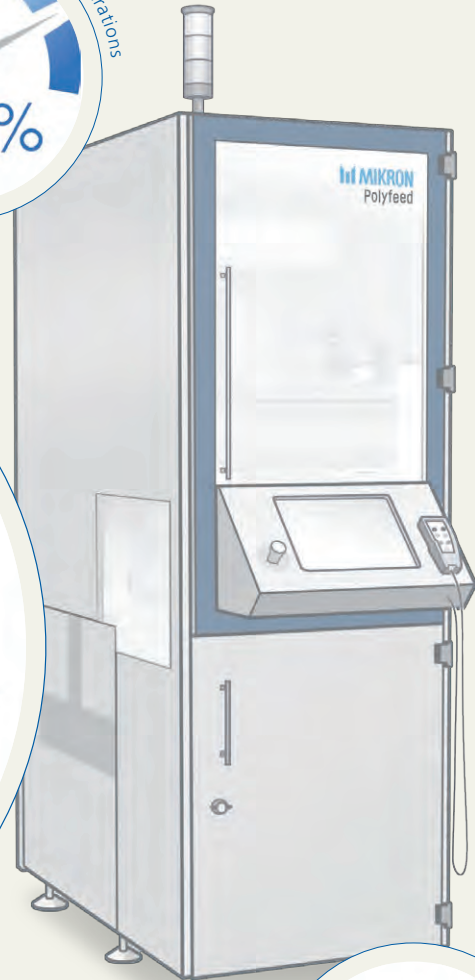
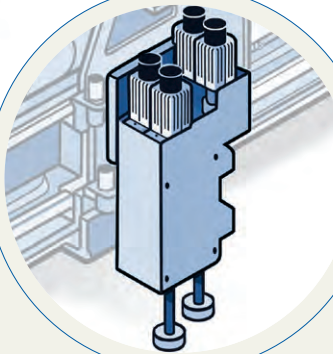
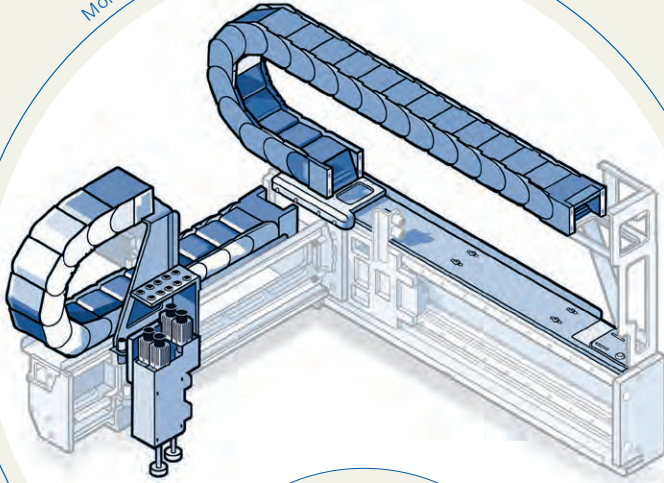
### Outlook

Mikron Automation is not expecting any significant changes in economic conditions in its key markets in 2018. The solid order intake witnessed at the beginning of the year leaves the business segment confident about the immediate future. Overall, Mikron Automation is looking to see an increase in sales and an improvement in the operating result for the 2018 financial year.

Parts per minute: +60% in two-axis operations

+60%

More flexible applications with two z and c axes



-50%

Weight reduction: -50%



## Axle tuning with ETH Lausanne

**Mikron Automation has been using Cartesian robots in assembly systems for around 20 years. Up to now, standard z and c axes from the market have been used. In cooperation with ETH Lausanne, Mikron Automation has now developed its own z and c axes, resulting in significantly improved robot performance.**

In the Mikron Polyfeed feeding system, the Cartesian robot grabs parts and feeds them into the connected assembly system. In the process, it moves the parts from left to right (x axis), from back to front (y axis) and from top to bottom (z axis) as well as around their own axis, i.e. rotating (c axis). Mikron developed its own faster and more reliable x and y axes back in 2015. However, there was still

scope to increase the overall efficiency of the robot, especially with regard to the size and weight of the axes.

### **Faster and more flexible**

Together with ETH Lausanne, Mikron Automation has now developed new z and c axes for Cartesian robots. These are considerably smaller and lighter than the current axes

on the market and are equipped with an optimized motor. This means they are much faster and more flexible in terms of use: Their small size even enables two z and c axes to be fitted in order to grab and turn two parts at once. This not only benefits Mikron feeder or palletizing systems. Mikron Automation can also use the new z axes in Mikron G05 assembly systems, thus

considerably reducing the cycle times for some processing steps.



# Mikron Machining

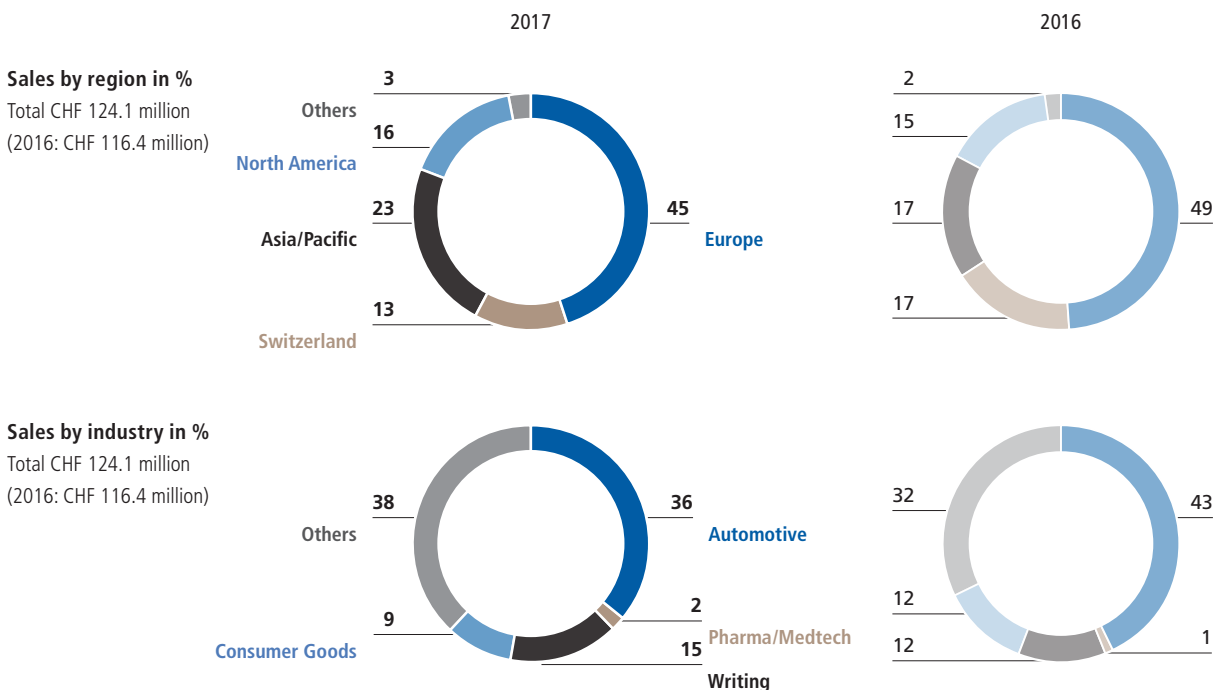
# Mikron Machining

Substantial reticence on the part of customers in building up new production capacities had an impact on the Machining business segment up until summer 2017. However, in the last few months of the year, Mikron Machining was able to secure orders expected from various regions and markets, allowing the business segment to significantly improve both sales and EBIT compared with the previous year and to start the new year with full order books. The service and tool business continued to perform well.

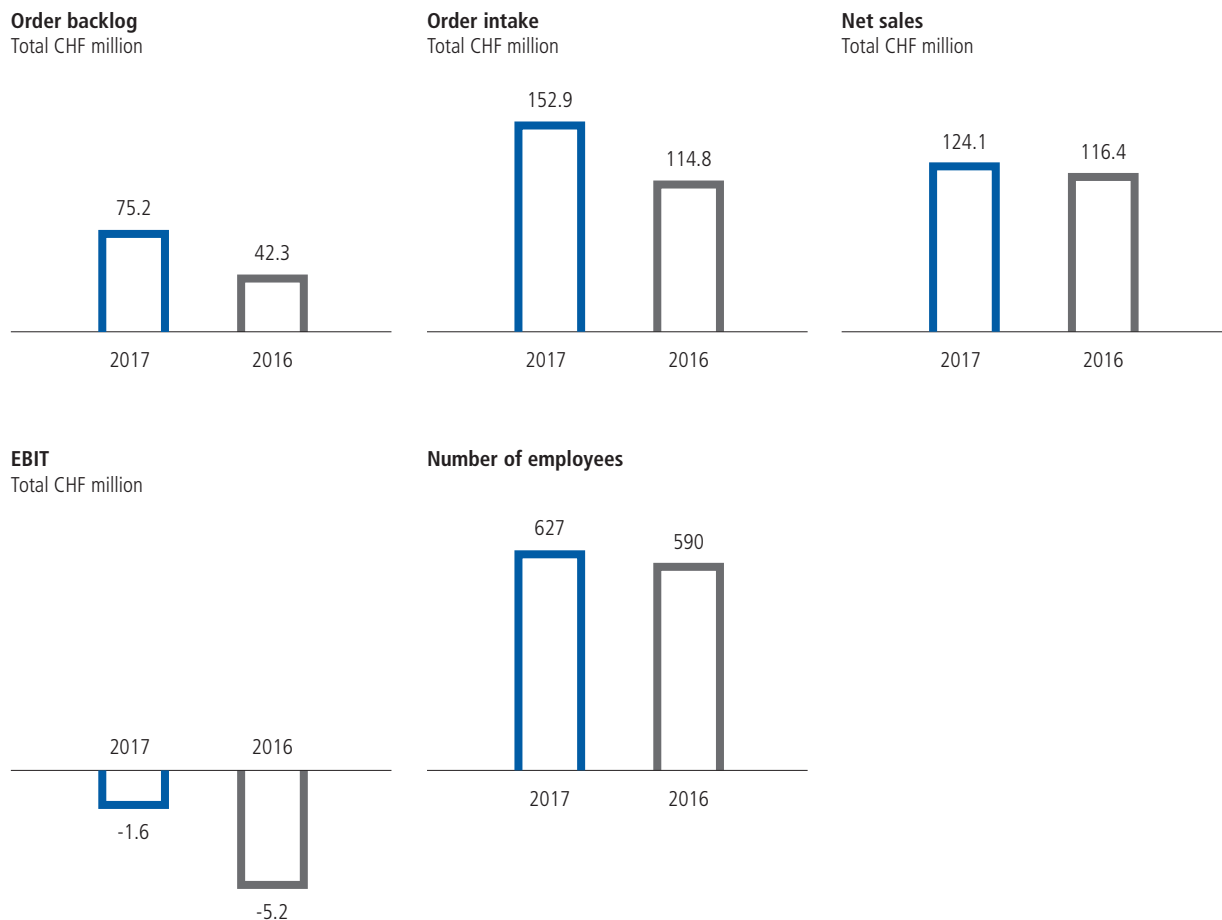
## Business performance

Mikron Machining’s machines business was again mainly focused on Europe in 2017. However, Mikron Machining was also able to realize important sales successes in China and other regions of Asia. The development of the US market remained below expectations for Mikron in the machines business, despite a considerable sales drive. Mikron Machining has established itself very well in the service and tool business in the USA, and the business segment can report initial successes with direct sales of tools in China.

As expected, Mikron Machining received further orders from the electronics market segment, though not quite to the extent of the previous year. In the second half of the year, demand for machines from the writing instruments industry increased significantly, and towards the end of the year Mikron Machining was once again able to acquire large-scale and challenging projects from the automotive and watchmaking industries.







### Order intake and order backlog

Compared to the previous year, Mikron Machining significantly increased its order intake with orders totaling CHF 152.9 million (prior year: CHF 114.8 million). While both the tool business and the service and spare parts business continuously grew, order intake in the machines business only improved in late summer. In the first half of the year, the sites in Switzerland and Germany faced substantial capacity problems. As a consequence, approximately 15% of employees in Agno were placed on short-time working until September.

The significant lift in order intake in the second half of the year resulted in a marked increase in the order backlog at the end of 2017: Mikron Machining had a good start to the 2018 financial year with CHF 75.2 million (previous year: CHF 42.3 million).

### Sales and EBIT

Thanks to the significant uplift in order intake (even though this was towards the end of the year), Mikron Machining was able to increase sales to CHF 124.1 million in the year under review (prior year: CHF 116.4 million).

Despite the good performance of the tool and service business and the significant upturn in the order situation in the machines business in the last few months of the year, however, Mikron Machining was not able to offset its struggle with capacity utilization in the first half of the year. The EBIT still improved considerably: from CHF -5.2 million to CHF -1.6 million. In addition to the low level of capacity utilization, the business segment's comprehensive innovation initiatives have depressed the annual results.

### Technology and innovation

In the year under review, Mikron Machining forged ahead with various innovation projects in the machines, tools, and service businesses. Corresponding investments in the machines business are particularly intensive, where two new production platforms are being developed. These will continue to live up to Mikron's high standards in terms of quality, productivity, precision and longevity, while also offering customers more flexibility thanks to their modular structure and extensive use of digital technologies. In the medium term, Mikron Machining's aim is to address new customer segments with somewhat smaller production volumes. Furthermore, the new pro-



Mikron Machining's management team; from left to right: Walter Sayer, Elio Lupica, Axel Warth, Dominique Meneghelli, Laurent Vuille, Bruno Cathomen, Willi Nef, Enrico Tumminaro, Peter Sauter

duction platforms will also lay the foundations for variant manufacturing.

Among other innovations, Mikron Machining presented the new control software "Joblist" for the Mikron Multistep XT-200 machining system at EMO 2017 in Hanover. This software allows various parts to be processed at the same time on the same system, which involves several CNC programs and clamping devices. Joblist enables maximum flexibility and efficiency for even the smallest batch sizes. In addition to the Mikron Multistep XT-200, Mikron Machining also presented an actual working example of the world's fastest and most productive rotary transfer machine: the Mikron Multistar LX-24. In a single-cycle operation it can produce up to 150 parts a minute, and in a four-cycle operation up to 600 parts.

In the technology center in Agno, Mikron Tool developed additional high-tech tools which set new standards in the drilling and milling of special alloys, small dimensions and challenging applications. In addition, Mikron Machining developed new service packages to equip systems in use around the world with digital technologies and thus bring them up to date.

## Employees

At the end of 2017, Mikron Machining employed a total of 627 people (prior year: 590). While the tool business continued to increase its headcount at both production sites to cover the increase in volume, the machines business reduced the number of employees owing to the low volumes in the first half of 2017. In Asia and the USA, Mikron Machining strengthened its operational capacities and sales resources.

The Machining business segment places great importance on allowing young people access to careers in industrial production so that the required knowledge can be safeguarded from within the company, both globally and in the long term. In the year under review, Mikron Machining took on an additional 20 apprentices and trainees overall. Moreover, Mikron Machining provided comprehensive advanced training for its specialist and managerial staff.

Over 1,200 budding multi-skilled mechanics, micromechanics and production mechanics from all over Switzerland took part in the "Frais Tool Champions 2017" competition, and five apprentice multi-skilled mechanics from Mikron Agno and Boudry made it onto the podium in their language regions.

## Outlook

Mikron Machining has begun the 2018 financial year with a good order backlog. All of the economic indicators are showing an upward trend in Europe and especially in Germany. Mikron's late cyclical machines business should benefit from this. The business segment is expecting generally stable demand in the automotive and electronics market segments. With regard to the watchmaking and writing instruments industries, Mikron Machining is also confident. In general, unforeseeable events and temporary project interruptions can very quickly influence the course of business for capital goods. In the tool and service business, fluctuations are much less pronounced. Here, Mikron Machining is expecting a further improvement in sales and earnings in the 2018 financial year.

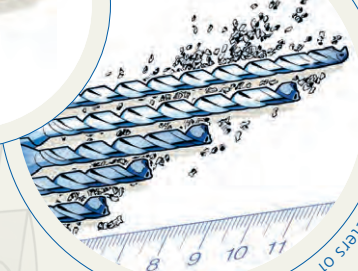
Integrated drop-shaped cooling channels



Polished helicoidal flutes



Five versions for drilling depths of 3 x d to 20 x d and diameters of 1 to 6 mm



Short, curved chips



## Drilling deep into stainless steel

**They are viscoelastic, poor heat conductors, and stick easily: stainless steels are extremely difficult to machine. Especially when deep drill holes are required. The solid carbide CrazyDrill Cool SST-Inox from Mikron Tool is up to the challenge.**

It is a long-known fact that CrazyDrill Cool SST-Inox can efficiently and flawlessly drill stainless steels. For years it has been successfully used to drill depths of 6 x d to 10 x d. Now Mikron Tool has enhanced the drill to handle depths of 15 x d to 20 x d. The development engineers at Mikron Tool

were able to take over the geometry used in the short version – the “chip breaker profile” at the tip – to create short, curved chips, and the expanded rear flute profile providing strong and consistent cooling lubrication to facilitate chip removal. However, to ensure a reliable and fast drilling operation for holes in stainless steel of over 10 x d, Mikron Tool made one significant modification:

### **Polished helicoidal flutes**

*The extremely smooth surface of the helicoidal flutes ensures that even at deep drilling depths the chips are optimally re-*

*moved from the drill hole without the need for increased force. One single step is sufficient to reach the full drilling depth, even at high cutting speeds and feed rates.*

Efficient cooling is equally crucial for the fast and reliable machining of stainless steels. As a feature of all versions of the Inox drill from Mikron Tool, helicoidal cooling channels integrated in the drill bring the coolant to the drill tip. Shaped like a water drop, the special cross section of these channels allows up to four times more coolant to flow than with a round cross section. And to be

able to optimally cool the drill when operating with drill diameters of less than 3 mm, the drill shank features a hollow section known as a power chamber.

Initial tests show: With CrazyDrill Cool SST-Inox

the tool life is up to three times longer and stainless steel drilling is ten times faster. The drill can perform deep and short bores at the same speed and feed rates – regardless of whether 6 x d or 20 x d.

### **Proven in practice**

Using the CrazyDrill Cool SST-Inox, a major manufacturer of steam valves for coffee machines achieved a tool life of over 100,000 bores – each in one single step up to a drilling depth of 15 x d, a rotation speed of 3900 rpm, a cutting speed of  $v_c=33$  m/min and a feed rate of  $f=0.04$  mm/rpm.

Thanks to Mikron Tool he has doubled his production volume and significantly reduced manufacturing time.

Experts in their element: Paolo Ruggia (left) and Claudio Libotte (right) inspect the pipes underneath the assembly hall. In a closed circuit, water cooled by groundwater flows through these pipes in a total of four rows with three to four junctions per row into the assembly hall above, where it cools the cooling circuits of the connected machines.



# 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.





COOLING SYSTEM

## Saving energy naturally

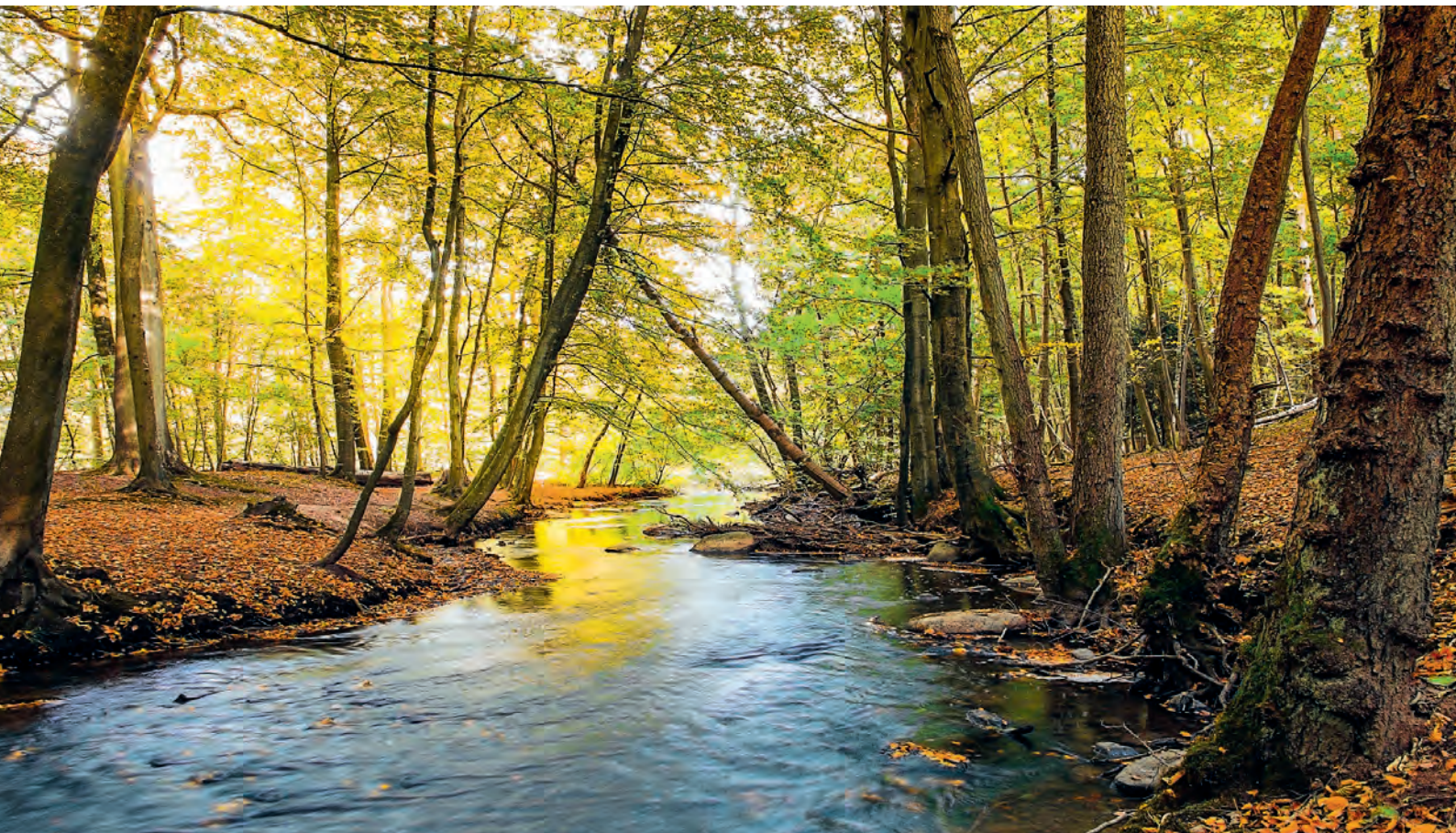


The machining modules, electrical installations and interior air must be continuously cooled to enable them to provide top-class performance when they are in operation.

Mikron Machining's high-tech machining systems deliver top-class performance. This can only be achieved if the machine temperature remains constant, so electrical cooling units are generally used. During commissioning through to acceptance testing by the customer, up to 14 machines can be running at once in the assembly hall in Agno, which quickly results in high electricity costs. The environmental experts at Mikron Machining realized this over 10 years ago and began developing an alternative cooling system which is intended to reduce energy consumption in Agno by up to 40%, thanks to the use of groundwater.

The system is based on a natural supplier of coldness-groundwater. A pump situated directly underneath the hall transports groundwater from a depth of 17 meters into the basement of the hall. Here, groundwater at a temperature of around 11°C flows through a heat exchanger and

cools down the water circuit connected to it. Finally, the cold groundwater, now at a temperature of around 13°C, flows out of the building and into a small stream back into nature-while complying with all environmental regulations. The liquids in the different circuits never come







Natural coolant: Under the assembly hall, a pump transports groundwater into the self-developed cooling system. Mikron has government approval for this.



The used ground-water flows out from the assembly hall into a small stream – unchanged in quality, and in compliance with legal provisions.

intodirect contact with one another. “We made a conscious decision to use closed circuits”, emphasizes Paolo Ruggia, Head of Properties and Infrastructure at Mikron SA Agno. “This way, we ensure that the water is not contaminated. We conduct periodic checks of the entire cooling system to safeguard the quality of the groundwater that we release back into nature.”

#### Inspiring customers

The Environment and Infrastructure team at Mikron SA Agno devised the new cooling system in 2008, and realized it in stages from 2011 onwards. The team completed the system in 2017 with the last four of a total of 14 machine connection stations. “We have invested around

CHF 210,000 in about six years”, says Claudio Libotte. “These costs equate to future annual savings of around CHF 20,000.” The self-developed alternative, natural cooling system has already inspired customers of Mikron Machining to adopt the Mikron system. Claudio Libotte and Paolo Ruggia are considering expanding the system: “In future, we not only want to cool the machines, but also use the groundwater for the building as part of a planned new, energy-optimized cooling and heating system, thus further increasing our energy efficiency.”



**Paolo Ruggia,**  
Head of Properties and  
Infrastructure at Mikron SA Agno

#### Why is it important for Mikron Machining to have a working cooling system?

Mikron machining systems are renowned for their high level of stability and precision, both of which can be put down to Mikron's technological expertise. But these qualities can only be guaranteed if the machines run at the correct temperature.

#### How are the machines usually cooled?

In conventional production, electrical cooling units are used to ensure machine temperatures remain consistently low. If several machines are running at the same time, these units consume a large amount of electricity. Mikron Machining also recognized this in its assembly hall in Agno, where up to 14 assembly machines are cooled at peak times.

#### Why did you decide to look for alternative solutions?

So for us, it was clear long before the electricity debate arose that we needed to bring our energy consumption under control. We therefore developed an alternative cooling system ourselves.

CARBON FOOTPRINT

## Waste separation pays off

Mikron Denver now separates its waste cardboard. Waste metal is separated, collected in three containers, and taken for disposal.



Mikron Denver reduces its carbon footprint and modernizes waste separation: In the year under review, employees were given initial training in environmentally sound disposal. Waste metal and cardboard have been collected separately since 2017.

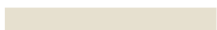
Mikron Denver aims to improve its carbon footprint with a whole host of measures. The first step is to raise awareness and train the employees. One focus area in the year under review was controlled waste separation. Mikron Denver started to sort waste aluminum, stainless steel and other metal into three separate containers – and even received money for doing so. To reduce waste even more, the site has also been separating cardboard from other paper waste since 2017. And the company

has replaced the plastic plates in the canteen with recycling china tableware.

Mikron Denver intends to reduce the amount of waste further in 2018 by separating waste metal even more consistently – including metal chips for the first time. The site also wants to lower its electricity consumption: Employees are asked to switch off their computers and machines over night and on days off. Everyone can help to save energy in small ways.



Mikron Denver



Mikron makes every effort to ensure that waste is dealt with an environmentally compatible way.



## PROFESSIONAL TRAINING

## Advanced management training

At the 2017 Management and Leadership Training (M&L Training), selected Mikron managers got to know the Mikron values better, broadened their knowledge of team management methods, and developed decision-making and problem-solving techniques.



Mikron employees worked together on methods to improve efficiency at work.

In 2017, employees from sites all over the world came together for the Management and Leadership Training events in Öhningen, southern Germany, and Boudry, Switzerland. The seminars focused on issues such as team leadership, management methods, and business-oriented thinking and action. The managers had an opportunity to consider the Mikron val-

ues in more depth and to exchange experiences with colleagues from other areas. The training modules on communication techniques, conflict solving and management methods attracted a great deal of interest. The Management and Leadership Training program will continue in 2018.

### World of Mikron

- Passion
- Productivity
- Precision



You will find the full sustainability report on our website at [www.mikron.com](http://www.mikron.com)

APPRENTICESHIP

## Pioneering work on a US apprenticeship program

Mikron Denver is one of the first companies in Colorado to offer an apprenticeship training program for high school graduates. Since it was launched in 2016, experiences have been consistently positive.



by two further apprentices in 2017. After graduating from high school, they attend Community College of Denver alongside their training at Mikron.

### Other companies follow suit

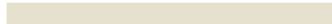
After two years, Mikron Denver's opinion is positive: The trainees have settled into the Mikron family very well, are learning quickly and enjoying their work. The education authorities in Cherry Creek School District are so impressed by the new model that they have attracted further companies for similar training programs. Mikron Denver's plans for 2018 include a new college course at Metro State University: the training program is to be more closely aligned with the dual system in Switzerland. The state of Colorado is fully behind the concept and is supporting Mikron Denver in its efforts.

”

It's like sport: You can either poach good people from other clubs – or invest in the next generation.

Mike Gunner, General Manager, Mikron Denver

Working in a company while also attending a vocational college – the Swiss dual education and vocational training system is still highly unusual in the USA. In 2016, Mikron Denver launched a training program for apprentices based on the Swiss model. Working closely with the local education authorities, Mikron Denver selected three high school students for the program. They were joined

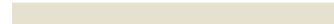


2017

84

Total apprentices

2016  
74



2017

1,275

Total employees

2016  
1,249

## EUROPEAN TRAINEES

## Trainees establish networks

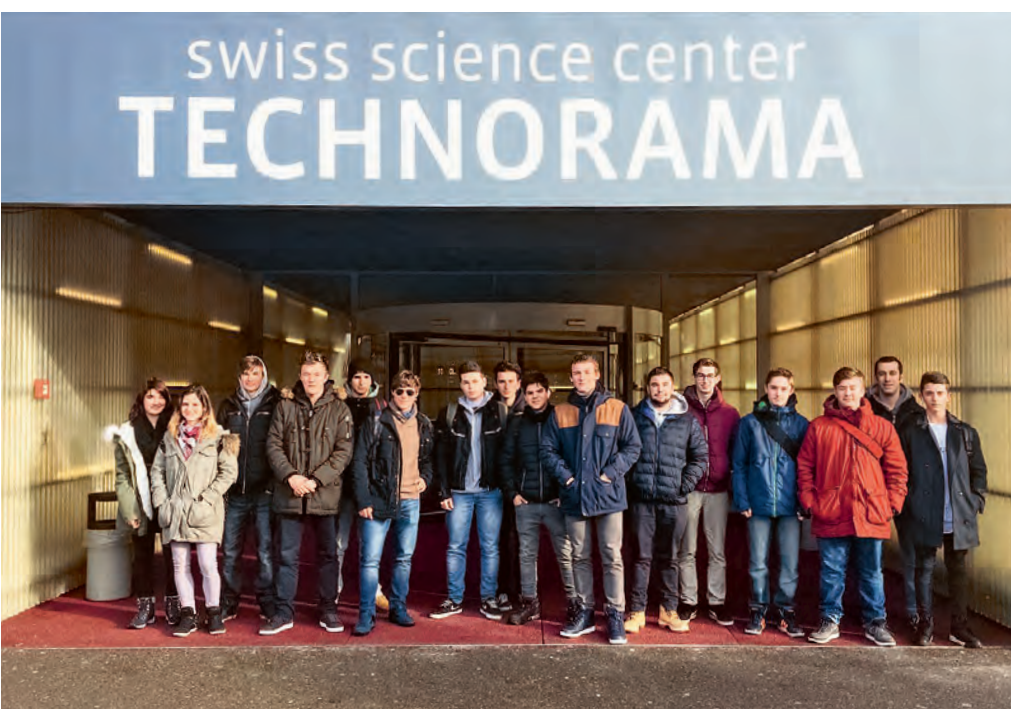
Mikron encourages its apprentices to get to know the Group, their colleagues and the products and processes across borders. In 2016, Mikron launched a new event program for the European sites.

With a new Europe-wide program, Mikron aims to strengthen communication between its apprentices. The young people are able to familiarize themselves with the different professions within the Group and improve their English. They can also develop their intercultural skills and collaborate with people from other cultures.

Each year of their apprenticeships, the European trainees take part in a joint event. In 2017, the first-year apprentices visited Technorama, the Swiss Science Center in Winterthur, and had an opportunity to broaden

their basic technical knowledge with a range of experiments. In November 2016, Mikron's second-year trainees took a tour of the Boudry site and attended a trade fair in Basel. Apprentices in their third year worked together in summer 2017 to produce short films under the slogan "For apprentices by apprentices".

The networking program was so well received by the apprentices that Mikron decided to continue it in the future. Another trip to Technorama is already planned.



First-year apprentices visited Technorama in Winterthur.



### Thinking about the future

Our culture is embodied in our apprenticeship program. Mikron is dedicated to training and developing the next generation of technical experts.



Mikron  
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 & shareholders

#### Corporate structure

Based in Biel, Mikron Holding AG is organized as a holding company under Swiss law and directly or indirectly holds all Mikron companies worldwide. Mikron Holding AG is listed on SIX Swiss Exchange in Zurich (Security Symbol MIKN/ISIN CH0003390066) and on 31 December 2017 had a market capitalization of CHF 122.0 million. The Mikron Group is organized by divisions. For the purposes of reporting, two business segments and the Corporate Service organization have been identified.

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

The Mikron Group consists of eleven active companies worldwide. The corporate structure and the companies are listed on page 129 of the Annual Report. The Mikron Group's management structure is independent of its legal structure.

### Significant shareholders

The following table illustrates the shareholder structure of Mikron Holding AG. It also lists and names those shareholders who, as at 31 December 2017, hold 3% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2017		31.12.2016	
	Number of shares of CHF 0.10 par value each		Number of shares of CHF 0.10 par value each	
Ammann Group Holding AG	6,958,335	41.6%	6,958,335	41.6%
Rudolf Maag	2,348,588	14.1%	2,348,588	14.1%
Veraison SICAV	1,674,897	10.0%	1,674,897	10.0%
Public shareholders	5,605,169	33.5%	5,605,169	33.5%
Board of Directors and Group Management	125,755	0.8%	125,755	0.8%
<b>Total</b>	<b>16,712,744</b>	<b>100.0%</b>	<b>16,712,744</b>	<b>100.0%</b>

Further information on the corporate structure is given on page 129. Changes in significant shareholdings since 1 January 2017 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 2017

	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
2015	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
2016	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40
2017	As at 1 January	16,712,744	0.10	1,671,274.40
	Change	0	0.10	0.00
	As at 31 December	16,712,744	0.10	1,671,274.40

### **Shares**

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

### **Participation and dividend right certificates**

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

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

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

Nominees shall be entered in the share register with voting rights without further inquiry up to a maximum of 3% of the outstanding share capital available at the time. Above this limit, registered shares held by nominees shall be entered in the share register with voting rights only if the nominee in question at the application for registration or thereafter upon request by the Company makes known the names, addresses and shareholdings of the persons for whose account he 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 2017:



**Heinrich Spoerry**  
lic. oec., MBA.  
Swiss, born in 1951.  
Chairman, non-executive.  
First elected 2001,  
elected until 2018.

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. Heinrich Spoerry then became Chairman of the Board of Directors and CEO (until 31 December 2015) of the SFS Group in Heerbrugg. He is a member of the Board of Directors of Bucher Industries AG and of Frutiger AG. Heinrich Spoerry has been a member of Mikron's Board of Directors since 2001 and its Chairman since 2010.



**Eduard Rikli**  
Dipl. Ing. ETH,  
Dr. sc. tech. ETH.  
Swiss, born in 1951.  
Vice-Chairman,  
non-executive.  
First elected 2010,  
elected until 2018.

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 2018.

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



**Andreas Casutt**  
Dr. iur., LL.M.  
Swiss, born in 1963.  
Member, non-executive.  
First elected 2013,  
elected until 2018.

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



**Hans-Michael Hauser**  
MSc Physics, MSc Mathematics, Engineer, MBA.  
German, born in 1970.  
Member, non-executive.  
First elected 2016,  
elected until 2018.

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

As announced on 1 September 2017, the Board of Directors proposes that Paul Zumbühl be elected to the Board at the next ordinary Annual General Meeting. Paul Zumbühl (born 1957, Swiss national) has been CEO of the Interroll Group since 2000. Prior to this, he held various management positions with international corporate groups.

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

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

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

### **Duties**

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

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

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

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



In addition, the Board of Directors is assigned the following significant duties and competencies under the Organizational Rules:

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

The duties of the two 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 2017 business year, the Board held six meetings as well as one teleconference. The physical meetings lasted between three and nine hours, and the teleconference about one hour. The meetings of the Board of Directors in the year under review were attended by all members.

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

The members of Group Management attended all physical meetings.

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

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

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

## Committees

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

### Audit Committee

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

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

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

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

The members of the Audit Committee in the year under review were the Board members Andreas Casutt (Chairman) and Eduard Rikli. The Audit Committee meets two to five times each year. Three meetings were held in the 2017 business year, each lasting one to five hours. All members attended the meetings. The Chairman as well as the CFO and CEO (if needed) on behalf of Group Management attended the meetings in a consultative capacity. Representatives of the internal auditors and of the external auditors were invited to the meetings as required. The external auditors were partially present at three meetings and the internal auditors at one meeting.

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

**Remuneration Committee**

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

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

The Remuneration Committee has the following duties:

- To submit proposals to the Board of Directors regarding the compensation scheme of the Mikron Group and to issue corresponding regulations (details are given on pages 74–77)
- To propose to the full Board of Directors targets for Group Management
- To submit proposals to the full Board of Directors regarding the approval of the individual compensation of the Chairman of the Board of Directors, the other members of the Board of Directors as well as the maximum individual aggregate compensation of the CEO
- To determine, subject to and within the scope of the overall compensation approved by the General Meeting, the individual compensation (fixed and variable compensation) of the other members of the Executive Management as well as their further terms of employment and titles
- To propose to the full Board of Directors amendments to the Articles of Association with respect to the compensation scheme for members of Group Management.

The members of the Remuneration Committee in the year under review were the Board members Patrick Kilchmann (Chairman) and Andreas Casutt. The Remuneration Committee meets one to five times each year, usually in December and after the results for the financial year have been prepared. Four meetings were held in the 2017 business year and were attended by both members. The meetings lasted about two hours. The members of Group Management may be invited, but have no right of participation or co-determination on this Committee.

**Innovation Committee**

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

The members of the Innovation Committee in the year under review were the Board Members Heinrich Spoerry, Hans-Michael Hauser and Eduard Rikli (Chairman). The Innovation Committee meets at least twice each year. Two meetings were held in the 2017 business year, each lasting three to five hours. All members attended the meetings. The CEO was present at all the meetings, supported by selected members of his and the divisional staff teams.

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

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

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

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

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

## Group Management

### Management philosophy

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

### Management structure

The Board of Directors delegates the task of operational management to the members of Group Management. Group Management comprises the CEO, the CFO and the division heads (COO).

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

### Group Management

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

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

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

### Chief Executive Officer (CEO)

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

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

The CEO assists the Chairman of the Board of Directors to prepare the meetings of the Board of Directors 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 mid-term planning, budgeting and forecasting process, and is responsible for internal and external financial reporting.



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

The Group's IT function reports to the CFO.

### Chief Operating Officers (COOs)

The Chief Operating Officers manage their respective divisions 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 division achieves its operational and strategic targets. Purchasing, Production and Sales are organized along divisional lines and report to the COOs.

The following table provides information on each of the members of Group Management as at 31 December 2017:



#### **Bruno Cathomen**

Dipl. Ing. ETH  
Swiss, born in 1967  
CEO, COO Mikron Machining  
Joined 2009

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



#### **Rolf Rihs**

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

Rolf Rihs took over as COO of the Mikron Automation division in mid-2002, prior to which he worked for the Sulzer Group for eight years in various regions and functions. He was previously a consultant at Helbling Management Consulting working on numerous projects for well-known Swiss companies. Rolf Rihs is a member of the Swissmem specialist group "Assembly and factory automation".



#### **Martin Blom**

Dipl. Wirtschaftsprüfer,  
Betriebsökonom FH  
Swiss, born in 1971  
CFO  
Joined 2005

Martin Blom became CFO of the Mikron Group on 1 May 2011. He has been with Mikron since 2005, latterly as Head of Group Finance & Controlling. From 2004 to 2005 Martin Blom was employed by the Bernese Energy Group BKW FMB. Prior to that, he served and advised national and international companies as lead auditor at PricewaterhouseCoopers (PwC).

Martin Blom has resigned from his position and will leave the Group as of April 2018.

### Management contracts

There are no management contracts.

## Compensations

### Basic principles

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

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

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

The members of Group Management receive a fixed compensation, a lump sum for expenses as well as a short-term incentive bonus in cash, which amounts for the CEO to a maximum of 100% and for the remaining members of Group Management to a maximum of 75% of the fixed compensation dependent on the achievement of qualitative or quantitative targets. The financial targets are based on order intake, net sales, EBIT and cash flow of the divisions (COOs) or the Group (CEO and CFO). The targets are defined by the Board of Directors at the beginning of the performance period on an annual basis. In extraordinary circumstances, the targets may be modified within the period at the discretion of the Board of Directors or the Remuneration Committee.

An additional variable compensation in the form of shares in the Company may be provided to the members of Group Management. The number of shares is determined at the discretion of the Board of Directors on an annual basis with regard to the position, responsibility, duties and performance of each member. The shares are transferred to the member after approval by the General Meeting and are blocked for a period of at least three years.

Expenses that are not covered by the lump sum compensation for expenses pursuant to the expense regulations of the Company are reimbursed against presentation of the relevant receipts. This additional compensation for expenses actually incurred does not need to be approved by the General Meeting. Furthermore, members of Group Management are provided with company vehicles which may also be used for private travel.

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

No loans may be granted to members of governing bodies.

Individuals have no right to say when the Remuneration Committee and/or the Board of Directors are to address the matter of their compensation.

Further information on the compensation paid to members of the Board of Directors and Group Management can be found in the Compensation Report on pages 74–77.

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

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

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

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

### Resolutions

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

1. the compensation of the Board of Directors for the term of office until the next ordinary General Meeting;
2. an additional compensation of the Board of Directors for the preceding business year;
3. the maximum overall compensation of Group Management (fixed and performance-based components) that may be paid in the subsequent business year;
4. the allocation of a number of shares to the members of Group Management for the subsequent business year;
5. possible additional compensation payable to the members of Group Management for the preceding business year.

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

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

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

### Permitted additional activities

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

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

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

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

With respect to the additional activities of both the members of the Board of Directors and of the 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 person or his entitlement to the shares or if he supplies no information or false information regarding the person of the trustor, when acting in a fiduciary capacity.

### Shareholders' rights

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

### Voting-right restrictions and representation

Mikron does not impose any voting-right restrictions, except for nominees (see page 58).

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

### Convocation of the Annual General Meeting and agenda

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

The notice in the Swiss Official Gazette of Commerce shall state at least the day, time and location and also where the agenda and items can be inspected.

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

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

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

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

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

### **Changes of control and defence measures**

#### **Duty to make an offer**

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

#### **Clauses on changes of control**

There are no clauses on changes of control in 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 2017 business year, fees of CHF 341,000 for services rendered by PricewaterhouseCoopers in connection with auditing the 2017 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 39,000 were paid to the auditors in the year under review for non-audit-related services. Of these, CHF 31,000 was for tax consulting and CHF 8,000 for other advisory services.

### 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 62.

### Information policy

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

### Key dates

End of the business year	31 December 2017
Announcement of the annual results / Publication of the Annual Report	12 March 2018
Annual Media and Analyst Conference	12 March 2018
Annual General Meeting	12 April 2018
End of the first six months of the business year	30 June 2018
Announcement of the semi-annual results	24 July 2018

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

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

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

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



Mikron  
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 2017. The Compensation Report satisfies the transparency requirements set out in the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO).

### Compensation Policy

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

The compensation policy applied to members of the Board of Directors and the Group Management is described in detail on pages 67 to 68 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 lockup period. This gives recipients a share in the company's long-term performance and ensures alignment with shareholder interests.

#### Geared to the labor market

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

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

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

## Governance

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

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

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

## Compensations for the year 2017

### Compensation to members of the Board of Directors

CHF 1,000	Base compensation		Social Security and other expenses		Total	
	2017	2016	2017	2016	2017	2016
H. Spoerry, Chairman	91	86	20	20	111	106
E. Rikli, Vice-Chairman	64	61	11	12	75	73
P. Kilchmann, Member	55	52	5	5	60	57
A. Casutt, Member	59	56	10	9	69	65
H-M. Hauser, Member	59	39	10	6	69	45
<b>Total</b>	<b>328</b>	<b>294</b>	<b>56</b>	<b>52</b>	<b>384</b>	<b>346</b>



## Compensation Report

Members of the Board of Directors receive a fixed remuneration. The remuneration is booked applying the accrual principle. Furthermore, a lump sum is paid out as compensation for expenses in accordance with the regulations, which have been approved by the tax authorities. In April 2017, the General Meeting approved a total remuneration payable to the Board of Directors for the period up to the next meeting of a maximum CHF 390,000.

### Compensation to Group Management

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

CHF 1,000	B. Cathomen, CEO		Total compensation of Group Management	
	2017	2016	2017	2016
Base compensation	399	399	993	993
Variable compensation in cash	125	103	300	303
Share-based compensation	29	28	52	51
Other compensations	129	144	359	370
<b>TOTAL</b>	<b>682</b>	<b>674</b>	<b>1,704</b>	<b>1,717</b>

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

	Effective	Maximum set by Board of Directors	Maximum allowed as per Articles of Association
B. Cathomen, CEO	31%	50%	100%
Other members	29%	45%	75%

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

An additional variable compensation in the form of shares in the company may be provided to the members of Group Management. A total of 10,000 shares were distributed during the year 2017 as approved by the Shareholders Meeting. In addition, the Board of Directors will propose to the next General Meeting the same number of shares to be distributed. Accordingly, this amount has been accrued for.

In April 2016, the Annual General Meeting approved a total fixed and performance-related remuneration which may be paid to the Group Management during the 2017 financial year of maximum CHF 2,100,000. In April 2017, the same amount of CHF 2,100,000 was approved, which may be paid out during the 2018 financial year.

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

	31.12.2017		31.12.2016	
	Number of shares	Voting power	Number of shares	Voting power
<b>Board of Directors</b>				
H. Spoerry, Chairman	13,675	0.08%	13,675	0.08%
E. Rikli, Vice-Chairman	21,500	0.13%	21,500	0.13%
<b>Group Management</b>				
B. Cathomen, CEO	35,580	0.21%	30,580	0.18%
R. Rihs, COO	33,000	0.20%	40,000	0.24%
M. Blom, CFO	22,000	0.13%	20,000	0.12%

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

# Report of the Statutory Auditor



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

### **Biel**

We have audited the compensation report of Mikron Holding AG (pages 74 to 77) for the year ended 31 December 2017.

#### **Board of Directors' responsibility**

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

#### **Auditor's responsibility**

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

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

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

#### **Opinion**

In our opinion, the compensation report of Mikron Holding AG for the year ended 31 December 2017 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 2018

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# Mikron Group

# Financial Report 2017

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# Consolidated Financial Statements 2017 of the Mikron Group

## Consolidated income statement

CHF 1,000	Note	2017		2016	
<b>Net sales</b>	<b>4.1</b>	<b>248,510</b>	<b>100%</b>	<b>255,986</b>	<b>100%</b>
Change in work in progress/finished goods		-292		-2,203	
Capitalized own production		952		0	
Material costs and subcontractors	4.2	-87,928		-89,055	
Personnel expenses	4.3	-114,906		-113,610	
Other operating income	4.4	1,740		1,253	
Other operating expenses	4.4	-38,894		-41,768	
Depreciation of tangible assets	5.5	-6,255		-5,983	
Amortization of intangible assets	5.6	-1,595		-1,847	
<b>Operating result</b>		<b>1,332</b>	<b>0.5%</b>	<b>2,773</b>	<b>1.1%</b>
Financial result	4.5	-536		-948	
<b>Ordinary result</b>		<b>796</b>	<b>0.3%</b>	<b>1,825</b>	<b>0.7%</b>
Non-operating result	4.6	1,470		1,341	
<b>Profit before taxes</b>		<b>2,266</b>	<b>0.9%</b>	<b>3,166</b>	<b>1.2%</b>
Income taxes	4.7	-1,110		-829	
<b>Profit</b>		<b>1,156</b>	<b>0.5%</b>	<b>2,337</b>	<b>0.9%</b>
Net earnings per share – undiluted		0.07		0.14	
Net earnings per share – diluted		0.07		0.14	

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

## Consolidated balance sheet

CHF 1,000	Note	31.12.2017		31.12.2016	
<b>Current assets</b>					
Cash and cash equivalents		42,161		38,723	
Current financial assets	5.1	15,399		13,530	
Accounts receivable	5.2	18,958		15,445	
Inventories	5.3	47,651		45,313	
Net assets from customer projects	5.4	38,592		38,929	
Other current receivables		3,755		2,918	
Prepaid expenses		3,950		3,325	
<b>Total current assets</b>		<b>170,466</b>	<b>64.2%</b>	<b>158,183</b>	<b>62.8%</b>
<b>Non-current assets</b>					
Tangible assets	5.5	57,077		54,643	
Intangible assets	5.6	4,445		4,673	
Investment property	5.7	29,233		29,604	
Deferred tax assets	5.9	4,478		4,652	
<b>Total non-current assets</b>		<b>95,233</b>	<b>35.8%</b>	<b>93,572</b>	<b>37.2%</b>
<b>Total assets</b>		<b>265,699</b>	<b>100.0%</b>	<b>251,755</b>	<b>100.0%</b>
<b>Current liabilities</b>					
Short-term financial liabilities	5.10	15,913		1,576	
Accounts payable		22,135		16,655	
Net liabilities from customer projects	5.4	32,316		28,054	
Short-term provisions	5.11	4,297		3,528	
Other current liabilities		3,453		2,892	
Accrued expenses	5.12	17,588		15,930	
<b>Total current liabilities</b>		<b>95,702</b>	<b>36.0%</b>	<b>68,635</b>	<b>27.3%</b>
<b>Long-term liabilities</b>					
Long-term financial liabilities	5.10	7,948		21,988	
Deferred tax liabilities	5.9	4,704		4,784	
<b>Total long-term liabilities</b>		<b>12,652</b>	<b>4.8%</b>	<b>26,772</b>	<b>10.6%</b>
<b>Shareholders' equity</b>					
Share capital	5.13	1,671		1,671	
Treasury shares		-68		-68	
Capital reserves		99,993		100,828	
Retained earnings		55,749		53,917	
<b>Total shareholders' equity</b>		<b>157,345</b>	<b>59.2%</b>	<b>156,348</b>	<b>62.1%</b>
<b>Total liabilities and shareholders' equity</b>		<b>265,699</b>	<b>100.0%</b>	<b>251,755</b>	<b>100.0%</b>

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

**Consolidated statement of shareholders' equity**

CHF 1,000	Note	Share capital	Treasury shares	Capital reserves	Retained earnings			Total shareholders' equity
					Accumulated profits	Goodwill recognized	Translation adjustments	
<b>Balance at 01.01.2016</b>		<b>1,671</b>	<b>-52</b>	<b>101,663</b>	<b>53,213</b>	<b>-962</b>	<b>-962</b>	<b>154,571</b>
Profit 2016					2,337			2,337
Translation adjustments							289	289
Distribution to shareholders				-835				-835
Change in treasury shares	5.13		-16		2			-14
<b>Balance at 31.12.2016</b>		<b>1,671</b>	<b>-68</b>	<b>100,828</b>	<b>55,552</b>	<b>-962</b>	<b>-673</b>	<b>156,348</b>
Profit 2017					1,156			1,156
Translation adjustments							679	679
Distribution to shareholders				-835				-835
Change in treasury shares	5.13		0		-3			-3
<b>Balance at 31.12.2017</b>		<b>1,671</b>	<b>-68</b>	<b>99,993</b>	<b>56,705</b>	<b>-962</b>	<b>6</b>	<b>157,345</b>

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

**Consolidated statement of cash flow**

CHF 1,000	Note	2017	2016
<b>Cash flow from operating activities</b>			
Profit		1,156	2,337
Depreciation and amortization	5.5, 5.6	7,850	7,830
Revaluation of investment property	5.7	508	702
Net gain (-)/loss (+) on sale of non-current assets	4.4	-37	-7
Changes in provisions	5.11	697	360
Changes in deferred taxes	4.7, 5.9	-46	-164
Other non-cash items		-68	86
Movement in accounts receivable		-3,314	2,408
Movement in inventories		-1,808	780
Movement in net assets/liabilities from customer projects		5,077	-5,709
Movement in accounts payable		4,666	2,296
Movement in other receivables and prepaid expenses		-1,342	1,200
Movement in other current liabilities and accrued expenses		2,309	680
<b>Cash flow from operating activities</b>		<b>15,648</b>	<b>12,799</b>
<b>Cash flow from investing activities</b>			
Investments in tangible assets	5.5	-7,151	-5,379
Divestments of tangible assets	5.5	59	9
Investments in intangible assets	5.6	-1,415	-1,473
Divestments of intangible assets	5.6	0	10
Investments in investment property	5.7	-176	-618
Investments in financial assets	5.1	-6,878	-9,050
Divestments of financial assets	5.1	5,172	10,261
<b>Cash flow from investing activities</b>		<b>-10,389</b>	<b>-6,240</b>
<b>Cash flow from financing activities</b>			
Purchase of treasury shares	5.13	-61	-77
Sale of treasury shares	5.13	58	63
Distribution to shareholders		-835	-835
Increase (+)/repayment (-) of financial liabilities		173	-431
Repayment (-) of finance lease liabilities		-1,085	-782
Interest received		272	400
Interest paid		-494	-446
<b>Cash flow from financing activities</b>		<b>-1,972</b>	<b>-2,108</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>151</b>	<b>35</b>
<b>Net cash flow</b>		<b>3,438</b>	<b>4,486</b>
<b>Increase (+)/decrease (-) of cash and cash equivalents</b>		<b>3,438</b>	<b>4,486</b>
Cash and cash equivalents at beginning of period		38,723	34,237
Cash and cash equivalents at end of period		42,161	38,723

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



# Notes to the Consolidated Financial Statements 2017 of the Mikron Group

## 1. General information

### 1.1 Business operations

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

The two business segments, Mikron Automation and Mikron Machining, are based in Switzerland (Boudry and Agno). The company has additional production facilities in Germany, Singapore, China and the US. The 1,275 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 2018. The approval of the consolidated financial statements by the Annual General Meeting is scheduled for 12 April 2018.

## 2. Significant accounting policies

### 2.1 Consolidation

#### 2.1.1 Scope and method of consolidation

The consolidated financial statements include Mikron Holding AG, Biel, and all Swiss and foreign subsidiaries which the parent company, directly or indirectly, controls either by holding more than 50% of the voting rights or by some other form of control. These entities are fully consolidated. All intercompany transactions and relations between the consolidated companies are offset against each other and eliminated. Profits on intercompany transactions are eliminated. Capital consolidation is based on the purchase method applied to the annual financial statements of all consolidated entities, prepared as at December 31 and determined according to uniform accounting policies. The Mikron Group does not have any shareholdings with voting power of less than 50%. The list of Group companies can be found on page 129. In the year under review there were no changes (prior year: none) in the group of consolidated companies.

### 2.1.2 Acquisition of Group companies

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

### 2.2 Segment reporting

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

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

- Mikron Machining is the leading supplier of customized, highly productive machining systems for the manufacturing of complex high-precision components made of metal such as turbo-charger housings, injection nozzles and ballpoint pen tips. The business line Mikron Tool develops and produces the therefore necessary high-performance cutting tools itself. These are regarded as some of the best in the world and are also used on other manufacturers' machines. To date, Mikron Machining 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 employs around 630 people. Mikron Machining is headquartered in Agno (Switzerland). It also has the production sites Mikron Tool SA Agno (Switzerland) and Mikron GmbH Rottweil (Germany) and its sales and service companies Mikron Corp. Monroe (USA) and Mikron Industrial Equipment 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 best productivity to assemble customer's products at each stage of its lifecycle. To date, Mikron Automation has installed more than 3,000 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 620 people. Mikron Automation is headquartered in Boudry (Neuchâtel), a region that is regarded as the heart of the Swiss watchmaking industry. It also has sites in Berlin (Germany), Denver (USA), Singapore and Shanghai (China).
- The Corporate Service segment reports information on Mikron's holding, management and finance companies. The Corporate Service supports the individual Group companies as well as the Board of Directors and Group Management in their management and control functions. It also reports income and expenses related to a non-operating industrial property, which is fully leased to third parties. Eliminations on Group level are presented together with the Corporate Service.

### 2.3 Foreign currency translation

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

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

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

Currency	Average rate 2017	Average rate 2016	Closing rate 31.12.2017	Closing rate 31.12.2016
1 EUR	1.115	1.088	1.172	1.071
1 USD	0.983	0.991	0.989	1.025
1 SGD	0.713	0.715	0.736	0.709
1 CNY	0.145	0.149	0.150	0.147

### 2.4 Disclosure of related party transactions

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

### 2.5 Assets and liabilities

#### 2.5.1 Cash and cash equivalents

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

#### 2.5.2 Financial assets

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

### 2.5.3 Receivables

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

### 2.5.4 Inventories

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

### 2.5.5 Customer projects

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

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

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

### 2.5.6 Tangible assets

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

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

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

### **2.5.7 Intangible assets**

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

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

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

### **2.5.8 Investment property**

Property held as a financial investment includes production and office buildings which are rented out to third parties. Investment properties are reported at market value. The Mikron Group currently owns a property in Nidau, Switzerland, with a market value of CHF 29.2 million as at 31 December 2017. 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.

### 3. Risk management

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

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

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

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

#### 3.1 Foreign exchange risks

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

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

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

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

CHF 1,000	Possible shift in currency rates	Impact on net earnings		Impact on shareholders' equity from translation adjustments	
		2017	2016	2017	2016
Euro (CHF/EUR)	-10%	-687	-1,685	-1,081	-1,028
US dollar (CHF/USD)	-10%	-390	839	-1,532	-1,199

### 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 2017 and 2016 respectively, no derivative financial instruments were being held to hedge any interest rate risks.

### 3.3 Price risks

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

### 3.4 Credit risks

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

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

### 3.5 Liquidity risks

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

The required flexibility in funding for the project business of the Group is primarily achieved via adequate liquidity reserves. As at the end of the year, significant headroom (cash and cash equivalents, current financial assets and unused credit facilities) is available to the Mikron Group. A credit agreement worth CHF 50.0 million with a bank consortium exists, which is available for bank guarantees to secure advance payments from customers and for fixed advances. At 31 December 2017, guarantees of CHF 33.5 million (prior year: CHF 29.2 million) were issued.

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

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

CHF 1,000	Note	Maturity			Total and interest rate by currency					
		Less than 1 year	Between 1 and 3 years	Over 3 years	CHF	%	EUR	%	USD	%
<b>At 31.12.2016</b>										
Bank borrowings	5.10	410	14,615	4,466	13,795	1.2			5,696	2.8
Finance lease liabilities	5.10	1,081	1,859	1,048	2,878	2.6	1,110	3.8		
Derivative financial instruments (notional amount)	6.1	26,640	0	0						
<b>Total</b>		<b>28,131</b>	<b>16,474</b>	<b>5,514</b>						
<b>At 31.12.2017</b>										
Bank borrowings	5.10	14,191	791	4,483	13,795	1.2			5,670	3.7
Finance lease liabilities	5.10	1,143	1,926	748	2,605	2.5	1,212	3.7		
Derivative financial instruments (notional amount)	6.1	21,285	0	0						
<b>Total</b>		<b>36,619</b>	<b>2,717</b>	<b>5,231</b>						

## 4. Details of the consolidated income statement

### 4.1 Net sales

CHF 1,000	2017	2016
Automation and machining systems (from customer projects)	167,863	184,031
Automation and machining systems (other)	367	406
Cutting tools	39,399	33,174
Service	40,881	38,375
<b>Total net sales</b>	<b>248,510</b>	<b>255,986</b>

### 4.2 Material costs and subcontractors

CHF 1,000	2017	2016
Raw materials and components	-81,207	-84,007
Subcontractors	-6,721	-5,048
<b>Total material costs and subcontractors</b>	<b>-87,928</b>	<b>-89,055</b>

Refer to note 4.4 for the reclassification of costs to the other operating expenses.

### 4.3 Personnel expenses

CHF 1,000	2017	2016
Salaries and wages	-98,447	-98,102
Social charges	-11,148	-10,625
Pension expenses	-5,311	-4,883
<b>Total personnel expenses</b>	<b>-114,906</b>	<b>-113,610</b>

**4.4 Other operating income and expenses**

CHF 1,000	2017	2016
Gain on sale of non-current assets	58	21
Other income	1,682	1,232
<b>Total other operating income</b>	<b>1,740</b>	<b>1,253</b>
Production and project related expenses, including shipping	-9,181	-12,938
Marketing and sales	-8,187	-7,847
Real estate	-6,825	-6,474
Personnel related expenses, including company cars	-4,505	-4,736
Information technology	-4,140	-3,731
Capital and other taxes (excl. income taxes)	-958	-779
Loss on sale of non-current assets	-21	-14
Other expenses	-5,077	-5,249
<b>Total other operating expenses</b>	<b>-38,894</b>	<b>-41,768</b>

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

In 2016, some Group entities reported project related costs for travel, freight and custom charges amounting to CHF 7.3 million as "Raw material and components" rather than "Production and project related expenses" according to the Group accounting policy. In 2017 the treatment for these costs has been aligned to the Group accounting policy and comparative information has been reclassified accordingly. This adjustment did neither affected the Group's income nor the Group's equity.

**4.5 Financial result**

CHF 1,000	2017	2016
Financial income	4,735	4,130
Financial expenses	-5,271	-5,078
<b>Total financial result</b>	<b>-536</b>	<b>-948</b>
Interest income	272	400
Interest expenses	-494	-438
<b>Total interest result</b>	<b>-222</b>	<b>-38</b>
Exchange gains	3,642	2,754
Exchange losses	-3,720	-3,327
Other financial income	821	976
Other financial expenses	-1,057	-1,313
<b>Total other financial result</b>	<b>-314</b>	<b>-910</b>
<b>Total financial result</b>	<b>-536</b>	<b>-948</b>



#### 4.6 Non-operating result

CHF 1,000	2017	2016
Rental income	2,200	2,199
Income from property-related services	1,022	939
<b>Total non-operating income</b>	<b>3,222</b>	<b>3,138</b>
Owner-related expenses	-142	-109
Expenses for property-related services	-1,102	-986
<b>Total non-operating expenses</b>	<b>-1,244</b>	<b>-1,095</b>
Revaluation	-508	-702
<b>Total non-operating result</b>	<b>1,470</b>	<b>1,341</b>

#### 4.7 Income taxes

CHF 1,000	2017	2016
Current income tax	-1,156	-993
Deferred income tax	46	164
<b>Total income taxes</b>	<b>-1,110</b>	<b>-829</b>
<b>Earnings before taxes</b>	<b>2,266</b>	<b>3,166</b>
Income tax at average tax rates	-453	-791
Impact of non-capitalized loss carry-forwards	-2,415	-785
Capitalization of tax losses previously not recognized	1,880	2,631
Other taxable effects	-122	-1,884
<b>Total income taxes</b>	<b>-1,110</b>	<b>-829</b>
	<b>49%</b>	<b>26%</b>

The applicable tax rate for the Group is 20% (prior year: 25%). This corresponds to the average income tax rates of the individual Group companies in each jurisdiction. The decrease in the Group tax rate is mainly the result from the reduced federal tax rate in the USA.

### 5. Details of the consolidated balance sheet

#### 5.1 Financial assets

CHF 1,000	31.12.2017	31.12.2016
Bonds	11,033	8,289
Investment funds	4,366	5,241
<b>Total current financial assets</b>	<b>15,399</b>	<b>13,530</b>

The bonds of CHF 11.0 million (prior year: CHF 8.3 million) comprise high-quality Swiss franc and US dollar bonds with a maturity of up to five years. The investment funds of CHF 4.4 million (prior year: 5.2 million) comprise of high-quality real estate and dividend yield funds.

## 5.2 Accounts receivable

CHF 1,000	31.12.2017	31.12.2016
Accounts receivable	19,366	15,856
Allowance for doubtful accounts	-408	-411
<b>Total accounts receivable</b>	<b>18,958</b>	<b>15,445</b>

As at the balance sheet date, accounts receivable (including allowance for doubtful accounts) past due for 30 days and more amounted to CHF 1.7 million (prior year: CHF 2.2 million).

## 5.3 Inventories

CHF 1,000	31.12.2017	31.12.2016
Raw materials and components	21,747	20,590
Work in progress	12,684	10,596
Finished and trading goods	11,957	12,921
Prepayments to suppliers	1,968	2,053
Prepayments from customers	-705	-847
<b>Total inventories</b>	<b>47,651</b>	<b>45,313</b>

The provision for slow-moving inventories amounts to CHF 18.7 million (prior year: CHF 16.3 million).

## 5.4 Customer projects

CHF 1,000	31.12.2017	31.12.2016
Projects in progress – costs incurred	165,991	142,092
Recognized profits less recognized losses	37,580	35,233
Prepayments from customers	-197,295	-166,450
<b>Total net assets and liabilities from customer projects</b>	<b>6,276</b>	<b>10,875</b>
Net assets from customer projects	38,592	38,929
Net liabilities from customer projects	-32,316	-28,054
<b>Total net assets and liabilities from customer projects</b>	<b>6,276</b>	<b>10,875</b>

The stage of completion, determined by the costs incurred to date compared to the total estimated costs, was approximately 58% on 31 December 2017 (prior year: approximately 61%). At the balance sheet date, the Mikron Group had 187 projects in progress (prior year: 136 projects) with an average volume of CHF 1.9 million (prior year: CHF 2.2 million). As at 31 December 2017 there were no retentions by customers (prior year: none).

## 5.5 Tangible assets

CHF 1,000	Undeveloped real estate	Real estate	Machinery	Equipment and installations	Down pay- ments and assets under construction	Others	Total
<b>At cost</b>							
<b>Balance at 01.01.2016</b>	<b>3,199</b>	<b>83,636</b>	<b>62,430</b>	<b>21,208</b>	<b>1,190</b>	<b>2,987</b>	<b>174,650</b>
Additions	0	267	4,035	948	1,649	25	6,924
Transfers	0	164	957	-20	-1,198	31	-66
Disposals	0	-4	-1,108	-3,610	0	0	-4,722
Translation adjustments	0	302	-45	43	47	-15	332
<b>Balance at 31.12.2016</b>	<b>3,199</b>	<b>84,365</b>	<b>66,269</b>	<b>18,569</b>	<b>1,688</b>	<b>3,028</b>	<b>177,118</b>
Additions	0	2,358	2,078	1,654	2,264	437	8,791
Transfers	0	1,463	35	55	-1,557	0	-4
Disposals	0	0	-602	-213	0	-328	-1,143
Translation adjustments	0	-288	784	208	-50	150	804
<b>Balance at 31.12.2017</b>	<b>3,199</b>	<b>87,898</b>	<b>68,564</b>	<b>20,273</b>	<b>2,345</b>	<b>3,287</b>	<b>185,566</b>
<b>Accumulated depreciation</b>							
<b>Balance at 01.01.2016</b>	<b>0</b>	<b>-51,096</b>	<b>-50,314</b>	<b>-17,564</b>	<b>0</b>	<b>-2,031</b>	<b>-121,005</b>
Depreciation	0	-1,848	-2,483	-1,448	0	-204	-5,983
Transfers	0	0	0	0	0	0	73
Disposals	0	4	801	3,610	0	0	4,415
Translation adjustments	0	-12	31	-5	0	11	25
<b>Balance at 31.12.2016</b>	<b>0</b>	<b>-52,952</b>	<b>-51,965</b>	<b>-15,334</b>	<b>0</b>	<b>-2,224</b>	<b>-122,475</b>
Depreciation	0	-1,878	-2,632	-1,519	0	-226	-6,255
Disposals	0	0	568	202	0	328	1,098
Translation adjustments	0	11	-522	-226	0	-120	-857
<b>Balance at 31.12.2017</b>	<b>0</b>	<b>-54,819</b>	<b>-54,551</b>	<b>-16,877</b>	<b>0</b>	<b>-2,242</b>	<b>-128,489</b>
<b>Net book value</b>							
Balance at 31.12.2016	3,199	31,413	14,304	3,235	1,688	804	54,643
<b>Balance at 31.12.2017</b>	<b>3,199</b>	<b>33,079</b>	<b>14,013</b>	<b>3,396</b>	<b>2,345</b>	<b>1,045</b>	<b>57,077</b>
<b>Of which finance leases</b>							
Balance at 31.12.2016	0	0	3,592	0	0	0	3,592
<b>Balance at 31.12.2017</b>	<b>0</b>	<b>0</b>	<b>5,292</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>5,292</b>

At the balance sheet date, the Group had entered into CHF 0.8 million of capital commitments to purchase tangible assets (prior year: CHF 0.2 million).

In 2017, the Group acquired tangible assets of CHF 0.8 million (prior year: CHF 2.0 million) on a financial leasing basis.

## 5.6 Intangible assets

CHF 1,000	Capitalized development costs	Software	Assets under construction	Others	Total
<b>At cost</b>					
<b>Balance at 01.01.2016</b>	<b>2,154</b>	<b>17,554</b>	<b>1,810</b>	<b>689</b>	<b>22,207</b>
Additions	0	610	815	0	1,425
Transfers	1,439	563	-1,936	0	66
Disposals	0	-488	0	0	-488
Translation adjustments	10	-17	0	0	-7
<b>Balance at 31.12.2016</b>	<b>3,603</b>	<b>18,222</b>	<b>689</b>	<b>689</b>	<b>23,203</b>
Additions	0	722	621	0	1,343
Transfers	0	17	-13	0	4
Disposals	0	291	0	0	291
Translation adjustments	54	180	0	0	234
<b>Balance at 31.12.2017</b>	<b>3,657</b>	<b>19,432</b>	<b>1,297</b>	<b>689</b>	<b>25,075</b>
<b>Accumulated amortization</b>					
<b>Balance at 01.01.2016</b>	<b>-1,876</b>	<b>-14,573</b>	<b>0</b>	<b>-639</b>	<b>-17,088</b>
Amortization	-476	-1,361	0	-10	-1,847
Transfers	0	-73	0	0	-73
Disposals	0	469	0	0	469
Translation adjustments	-6	15	0	0	9
<b>Balance at 31.12.2016</b>	<b>-2,358</b>	<b>-15,523</b>	<b>0</b>	<b>-649</b>	<b>-18,530</b>
Amortization	-383	-1,202	0	-10	-1,595
Disposals	0	-291	0	0	-291
Translation adjustments	-53	-161	0	0	-214
<b>Balance at 31.12.2017</b>	<b>-2,794</b>	<b>-17,177</b>	<b>0</b>	<b>-659</b>	<b>-20,630</b>
<b>Net book value</b>					
Balance at 31.12.2016	1,245	2,699	689	40	4,673
<b>Balance at 31.12.2017</b>	<b>863</b>	<b>2,255</b>	<b>1,297</b>	<b>30</b>	<b>4,445</b>
<b>Of which finance leases</b>					
Balance at 31.12.2016	0	0	0	0	0
<b>Balance at 31.12.2017</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

At the balance sheet date, the Group had entered into CHF 0.2 million of capital commitments to purchase intangible assets (prior year: CHF 0.0 million).

**5.7 Investment property**

CHF 1,000	2017	2016
<b>Balance at 1 January</b>	<b>29,604</b>	<b>29,650</b>
Capitalized expenditures	137	656
Revaluation	-508	-702
<b>Balance at 31 December</b>	<b>29,233</b>	<b>29,604</b>
Original acquisition cost	43,313	43,176

The Mikron Group is the owner of a property in Switzerland (land and building) that is fully leased to third parties. Related income and expenses are reported in the non-operating result (see note 4.6). The property is reported at market value, last reviewed on 31 December 2017. The discounted cash flow method was used for the valuation. A discount rate of 5.3% was applied (prior year: 6.4%).

At the balance sheet date, the Group had no (prior year: CHF 0.1 million) 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 31.12.2016	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2016
		31.12.2016	31.12.2015			
Pension institutions without surplus/deficit	0	0	0	0	-4,295	-4,295
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4,295</b>	<b>-4,295</b>

CHF 1,000	Surplus/deficit 31.12.2017	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2017
		31.12.2017	31.12.2016			
Pension institutions without surplus/deficit	0	0	0	0	-4,656	-4,656
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-4,656</b>	<b>-4,656</b>

The information on the economic benefit as at 31 December 2017 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 2016. As at 31 December 2016, the Mikron pension fund reported a coverage rate of 114.6% (prior year: 116.9%). According to the pension fund's provisional accounts, the coverage rate is expected to have increased by approximately 3% in the 2017 financial year. The number of active insureds increased in 2017 by about 1% (prior year: increase of 4%). 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	2017	2016
<b>Statement of changes in deferred tax liabilities</b>		
<b>Balance at 1 January</b>	<b>4,784</b>	<b>4,362</b>
Set-up and reversal of temporary differences	-150	177
Change in tax rate	0	-219
Translation adjustments	70	464
<b>Balance at 31 December</b>	<b>4,704</b>	<b>4,784</b>
<b>Statement of changes in deferred tax assets</b>		
<b>Balance at 1 January</b>	<b>4,652</b>	<b>3,936</b>
Change in capitalized tax loss carry-forwards	550	293
Other changes	295	525
Change in tax rate	-919	-206
Translation adjustments	-100	104
<b>Balance at 31 December</b>	<b>4,478</b>	<b>4,652</b>

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

The deferred tax assets of CHF 4.5 million (prior year: CHF 4.7 million) result from accumulated tax loss carry-forwards that were capitalized and valuation differences. Due to uncertainties that future taxable profit will be available to offset against these assets, tax loss carry-forwards amounting to CHF 64.0 million (prior year: CHF 50.7 million) were not capitalized. Applying local tax rates results in a maximum potential tax benefit from non-capitalized tax loss carry-forwards of CHF 12.2 million (prior year: CHF 11.2 million).



**5.10 Financial liabilities**

CHF 1,000	Note	31.12.2017	31.12.2016
<b>Short-term financial liabilities</b>			
Bank borrowings		14,191	410
Finance lease liabilities		1,143	1,081
Derivative financial instruments	6.1	579	85
<b>Total short-term financial liabilities</b>		<b>15,913</b>	<b>1,576</b>
<b>Long-term financial liabilities</b>			
Bank borrowings		5,274	19,081
Finance lease liabilities		2,674	2,907
<b>Total long-term financial liabilities</b>		<b>7,948</b>	<b>21,988</b>

The investment property and two of the production facilities were mortgaged for liquidity management purposes. The fixed-term loan contract for the mortgage related to the investment property as well as for one production facility, totaling CHF 13.8 million will end during 2018 and had thus to be reported short-term. Prolongation will timely be decided and negotiated. Details of the mortgages are given in note 6.2. The leasing liabilities relate to purchased machines that are being put into production.

CHF 1,000	31.12.2017	31.12.2016
<b>Financial liabilities, expiring</b>		
– not later than 1 year	15,913	1,576
– later than 1 year but not later than 3 years	2,717	16,474
– later than 3 years	5,231	5,514
<b>Total financial liabilities</b>	<b>23,861</b>	<b>23,564</b>

The existing credit agreement with a bank consortium has been prolonged during 2017 for additional 12 months and is valid until June 2020. The agreement secures financing for the Mikron Group in the form of bank guarantees (avals) and provides potentially required liquidity at standard market conditions. The contractual covenants have been met since the commencement of the agreement.

## 5.11 Provisions

CHF 1,000	Warranties	Future costs for projects	Restructuring	Others	Total
<b>Short-term provisions</b>					
<b>Balance at 01.01.2016</b>	<b>2,453</b>	<b>0</b>	<b>6</b>	<b>713</b>	<b>3,172</b>
Additions	1,918	0	0	750	2,668
Utilization	-1,248	0	-8	-78	-1,334
Reversal	-802	0	0	-172	-974
Translation adjustments	-4	0	2	-2	-4
<b>Balance at 31.12.2016</b>	<b>2,317</b>	<b>0</b>	<b>0</b>	<b>1,211</b>	<b>3,528</b>
Additions	1,002	3,099	0	0	4,101
Utilization	-1,213	-530	0	0	-1,743
Reversal	-428	-570	0	-663	-1,661
Translation adjustments	43	28	0	1	72
<b>Balance at 31.12.2017</b>	<b>1,721</b>	<b>2,027</b>	<b>0</b>	<b>549</b>	<b>4,297</b>

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

## 5.12 Accruals

CHF 1,000	31.12.2017	31.12.2016
Accrued expenses	17,561	15,679
Current income tax payables	27	251
<b>Total accrued expenses</b>	<b>17,588</b>	<b>15,930</b>

The accrued expenses of CHF 17.6 million (prior year: CHF 15.9 million) mainly consist of accruals in relation to employees' annual leave entitlements, overtime and bonus totaling CHF 9.9 million (prior year: CHF 8.1 million). Additionally, there were outstanding trade payables, accrued income taxes of CHF 0.7 million (prior year: CHF 0.4 million).

## 5.13 Shareholders' equity

### Share capital

The share capital as at 31 December 2017 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 2017, there are three shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne, 41.6%; Mr. Rudolf Maag, Binningen, 14.1%; Veraison SICAV, Zurich, 10.0%). No other single shareholder holds 5% or more of the voting rights.

### Treasury shares

In 2017 the company granted 10,000 treasury shares to Group Management (prior year: 10,000) at no consideration, sold no shares (prior year: none) and acquired 8,910 treasury shares (prior year: 12,490 shares). At 31 December 2017 Mikron Holding AG, Biel owned 10,000 treasury shares (prior year: 11,090 shares).

**Reserves**

The statutory or legal reserves which may not be distributed amount to CHF 0.9 million (prior year: CHF 0.9 million). In the year under review, foreign currency translation adjustments of CHF 1.1 million (prior year: CHF -0.1 million) on loans with equity character in foreign currencies (EUR and SGD) were posted directly to shareholders' equity.

**6. Other notes****6.1 Derivative financial instruments**

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

CHF 1,000	Replacement value		Contract equivalent	Contract equivalent by due date			
	positive	negative		0–3 months	3–12 months	1–5 years	over 5 years
Balance at 31.12.2016	0	85	26,640	9,873	16,767	0	0
<b>Balance at 31.12.2017</b>	<b>0</b>	<b>579</b>	<b>21,285</b>	<b>9,794</b>	<b>11,491</b>	<b>0</b>	<b>0</b>

All instruments are mainly denominated in euros and US dollars.

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

**6.2 Assets pledged as security for liabilities**

CHF 1,000	31.12.2017	31.12.2016
Real estate (including investment property) pledged as security for liabilities	65,511	64,216
Collateral securities – nominal	99,141	97,054
Loans and mortgages utilized	19,465	19,491
Other assets pledged as security for liabilities	60,292	58,592
Finance lease liability (machinery, licenses)	3,817	3,988

As part of the financing arrangements, the existing borrower notes were deposited as collateral for the mortgages on the investment property, one production facility in Switzerland and one in the United States.

The credit limits made available by the bank consortium were secured by guarantees of CHF 55.0 million.

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

**6.3 Off-balance sheet lease commitments**

CHF 1,000	31.12.2017	31.12.2016
<b>Off-balance sheet lease commitments, payable</b>		
– not later than 1 year	3,287	3,095
– later than 1 year but not later than 3 years	4,214	4,290
– later than 3 years but not later than 5 years	1,249	2,165
– later than 5 years	9	240
<b>Total off-balance sheet lease commitments</b>	<b>8,759</b>	<b>9,790</b>

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

**6.4 Goodwill offset against shareholders' capital**

CHF 1,000	2017	2016
<b>At cost</b>		
<b>Balance at 1 January</b>	<b>962</b>	<b>962</b>
<b>Balance at 31 December</b>	<b>962</b>	<b>962</b>
<b>Accumulated amortization</b>		
<b>Balance at 1 January</b>	<b>-929</b>	<b>-737</b>
Amortizations	-33	-192
<b>Balance at 31 December</b>	<b>-962</b>	<b>-929</b>
<b>Theoretical value 31 December</b>	<b>0</b>	<b>33</b>

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

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

CHF 1,000	2017	2016
Profit	1,156	2,337
Amortization of goodwill	-33	-192
<b>Theoretical profit</b>	<b>1,123</b>	<b>2,145</b>

CHF 1,000	31.12.2017	31.12.2016
Shareholders' equity	157,345	156,348
Theoretical value of goodwill	0	33
<b>Theoretical shareholders' equity</b>	<b>157,345</b>	<b>156,381</b>

## 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	2017	2016
Other operating expenses	-27	-25

CHF 1,000	31.12.2017	31.12.2016
Accounts payable	7	5
Other current liabilities and accrued expenses	8	6

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

## 6.6 Impairment test on Group level

The Group's equity of CHF 157.3 million exceeded the Group's market capitalization of CHF 122.0 million at 31 December 2017 (prior year: CHF 101.9 million). An impairment test was performed using a discounted cash flow model with assumptions approved by the Group's Board of Directors. The impairment test supported the equity both of the Group as a whole and of the business segments individually.

## 7. Information by segment

### 7.1 Information by business segment

CHF 1,000	Machining		Automation		Corporate / Eliminations		Total Group	
	2017	2016	2017	2016	2017	2016	2017	2016
Net sales – third party	124,059	116,279	124,578	139,563	-127	144	248,510	255,986
Net sales – Group	32	124	14	20	-46	-144	0	0
<b>Total net sales</b>	<b>124,091</b>	<b>116,403</b>	<b>124,592</b>	<b>139,583</b>	<b>-173</b>	<b>0</b>	<b>248,510</b>	<b>255,986</b>
<b>Operating result</b>	<b>-1,616</b>	<b>-5,240</b>	<b>3,058</b>	<b>7,523</b>	<b>-110</b>	<b>490</b>	<b>1,332</b>	<b>2,773</b>
<b>Earnings before interest and taxes (EBIT)</b>	<b>-1,616</b>	<b>-5,240</b>	<b>3,058</b>	<b>7,523</b>	<b>1,360</b>	<b>1,831</b>	<b>2,802</b>	<b>4,114</b>

CHF 1,000	Machining		Automation		Corporate / Eliminations		Total Group	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Assets excluding cash and cash equivalents and current financial assets	113,633	104,013	83,996	85,698	10,510	9,791	208,139	199,502
Cash and cash equivalents	3,605	2,711	5,013	2,545	33,543	33,467	42,161	38,723
Current financial assets	0	0	0	0	15,399	13,530	15,399	13,530
<b>Total assets</b>	<b>117,238</b>	<b>106,724</b>	<b>89,009</b>	<b>88,243</b>	<b>59,452</b>	<b>56,788</b>	<b>265,699</b>	<b>251,755</b>

## 7.2 Information by geographical segment

CHF 1,000	Net sales	
	2017	2016
Switzerland	21,558	23,450
Europe	136,923	137,889
North America	43,545	60,008
Asia/Pacific	41,274	31,292
Others	5,210	3,347
<b>Total net sales</b>	<b>248,510</b>	<b>255,986</b>

## 8. Net earnings per share

### 8.1 Weighted average number of shares

Number	2017	2016
Issued shares at 1 January	16,712,744	16,712,744
Issued shares at 31 December	16,712,744	16,712,744
thereof treasury shares	-10,000	-11,090
Adjusted for weighted average	4,958	5,628
<b>Weighted average number of shares – basic</b>	<b>16,707,702</b>	<b>16,707,282</b>
Effect of dilution	0	0
<b>Weighted average number of shares – diluted</b>	<b>16,707,702</b>	<b>16,707,282</b>

### 8.2 Computation of earnings per share

CHF 1,000, except for per share information	2017	2016
Net earnings	1,156	2,337
Weighted average number of shares – basic	16,707,702	16,707,282
<b>Net earnings per share – undiluted</b>	<b>0.07</b>	<b>0.14</b>
Weighted average number of shares – diluted	16,707,702	16,707,282
<b>Net earnings per share – diluted</b>	<b>0.07</b>	<b>0.14</b>





# Report of the Statutory Auditor



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

**Biel**

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

#### **Opinion**

We have audited the consolidated financial statements of Mikron Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 82 to 107 and 129) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 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 million

We performed full scope audits at five reporting units, with specified audit procedures performed at one further reporting unit and Review procedures conducted at a further four reporting units. These reporting units are located across four countries.

Taken together, the components at which audit work was performed accounted for 91% of consolidated Revenue.

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

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

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### **Audit scope**

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the legal and divisional structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group is structured along two divisional lines, Mikron Machining and Mikron Automation, operating in Switzerland, Germany, North America and Asia. The Group financial statements are a consolidation of 11 reporting units, comprising the Group's businesses and centralised functions.

We conducted full scope audit work at five reporting units. Our full scope audit scope addressed over 68% of the Group's revenue. Specified audit procedures were performed on one further reporting unit, representing a further 13% of the Group's revenue. Additionally, review procedures (mainly based on interviews and analytics) were conducted at four reporting units, representing another 9% of the Group's revenue. Supplemental audit procedures were performed at Group level.

### **Materiality**

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

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

<i>Overall Group materiality</i>	CHF 1 million
<i>How we determined it</i>	0.4% of consolidated net revenue
<i>Rationale for the materiality benchmark applied</i>	We chose consolidated net revenue as benchmark to determine our overall group audit materiality, because, in our view, net revenue is an important key performance indicator for a business that is operating at or near break-even.

We agreed with the Audit Committee that we would report to them misstatements above CHF 50'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

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



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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>In 2017, Mikron Group realized revenues of CHF 168 million arising from customer Projects in both its Machining and Automation divisions. The recognition of profits on such contracts in accordance with Swiss GAAP FER 22 “Long term contracts” is based on the stage of completion under the contract activity. This is measured by reference to the proportion of actual contract costs incurred at balance sheet date relative to the estimated total cost of the contract at completion.</p> <p>The measurement of profits on customer projects recognized at the balance sheet date is a key audit matter because of the value of revenue and costs impacted and the level of judgment involved in estimating the forecasted costs and revenues under these contracts.</p> <p>An inappropriate application of the percentage-of-completion method could result in a material variance in the amount of profit or loss recognized at the balance sheet date and thus also in the current period.</p> <p>Refer to notes 2.5.5 “accounting policy for customer projects”, note 4.1 “net sales” and note 5.4 “customer projects”.</p>	<p>We tested the customer projects and their treatment in the consolidated financial statements as follows:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the relevant processes and control activities (including budgeting, monitoring of projects and month-end procedures), and tested selected controls for effectiveness;</li> <li>• We reconciled estimated total revenues to contractual arrangements;</li> <li>• We tested significant projects (high value or high risk projects) completed in 2017 to compare the total cost incurred with previous estimates to assess accuracy of estimates;</li> <li>• We performed procedures to test the allocation of personnel, machining and material costs to individual projects;</li> <li>• We tested prepayments and payments received from customers and the allocation to the correct projects;</li> <li>• We tested the project valuation calculations and reconciled information to the general ledgers;</li> <li>• We inquired 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.</li> </ul> <p>We were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently reasonable and supportable with reference to historical data to justify the recognition and measurement of the profits associated with customer projects.</p>

### Impairment assessment of long-lived assets

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



rying amount of consolidated equity at 31 December 2017 exceeds Mikron Group's stock market capitalization.

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

We focused on this area because the impairment assessment involves significant judgments and estimates to be made in respect of the cash flow forecast and in particular, the determination of significant assumptions, including discount rates and rates of long-term sales and cost growth.

Refer to the Group's accounting policy summarized in note 2.5.9, "impairment of non-current assets", and note 6.6 "impairment test on group level".

management forecasts. We further assessed the determination of the long-term sales and cost growth rates applied underlying the impairment test by comparison to economic and industry forecasts

- We analyzed and challenged management's assessment of the Group's future results by performing sensitivity analyses;
- We assessed management's rate to reflect weighted average cost of capital applied in the calculation, based on a comparison with observable data where readily available;
- We re-performed the mathematical accuracy of the impairment tests.

Overall, we consider the measurement inputs and assumptions used by Management to be in line with our expectations and we are of the view that these are a reasonable basis for impairment testing purposes.

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

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.



- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

### **Report on other legal and regulatory requirements**

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

Norbert Kühnis  
Audit expert  
Auditor in charge

René Jenni  
Audit expert

Bern, 8 March 2018



## 5-Year Financial Summary

CHF million, except productivity and number of employees	2017		2016		2015		2014		2013	
<b>Key performance data</b>										
Order intake	278.9		243.6		264.6		244.8		246.4	
Net sales	248.5		256.0		228.6		249.1		241.1	
Order backlog	157.2		122.9		142.9		117.4		122.4	
Productivity (added value/personnel expenses)	1.40		1.39		1.37		1.37		1.40	
Research and development	8.8		7.1		5.7		5.8		4.6	
Number of employees (end of year)	1,275		1,249		1,181		1,162		1,109	
Investments incl. acquisitions of subsidiaries – net	10.2		8.7		16.7		9.8		5.0	
<b>Earnings</b>										
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	11.2	4.5%	12.6	4.9%	10.0	4.4%	12.0	4.8%	15.2	6.3%
Earnings before interest and taxes (EBIT), as % of net sales	2.8	1.1%	4.1	1.6%	2.5	1.1%	4.6	1.8%	5.2	2.2%
Operating result, as % of net sales	1.3	0.5%	2.8	1.1%	1.1	0.5%	2.7	1.1%	3.0	1.2%
Ordinary result, as % of net sales	0.8	0.3%	1.8	0.7%	-0.1	-0.0%	1.0	0.4%	1.3	0.5%
Profit for the year, as % of net sales	1.2	0.5%	2.3	0.9%	0.9	0.4%	2.2	0.9%	2.4	1.0%
<b>Cash flow</b>										
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	15.6	6.3%	12.8	5.0%	15.5	6.8%	6.7	2.7%	10.6	4.4%
Operational free cash flow (prior to acquisitions and changes in current financial assets)	7.0		5.3		2.3		-2.6		5.2	
<b>Balance sheet</b>										
Balance sheet total	265.7		251.8		243.9		237.3		232.1	
Current assets	170.5		158.2		151.5		154.4		152.8	
Non-current assets	95.2		93.6		92.4		82.9		79.3	
Current liabilities	95.7		68.6		63.4		62.7		61.1	
Long-term liabilities	12.7		26.8		25.9		19.2		17.6	
Shareholders' equity, as % of balance sheet total	157.3	59.2%	156.3	62.1%	154.6	63.4%	155.3	65.5%	153.5	66.1%

## Information on Share Capital

	2017	2016	2015	2014	2013
<b>Number of shares<sup>1)</sup></b>					
Registered shares	16,712,744	16,712,744	16,712,744	16,712,744	16,712,744
<b>Total</b>	<b>16,712,744</b>	<b>16,712,744</b>	<b>16,712,744</b>	<b>16,712,744</b>	<b>16,712,744</b>
<b>Key figures per share in CHF<sup>2)</sup></b>					
Profit	0.07	0.14	0.06	0.13	0.14
Cash flow from operating activities	0.94	0.77	0.93	0.40	0.63
Shareholders' equity	9.41	9.36	9.25	9.29	9.18
Distribution to shareholders	0.05	0.05	0.05	0.10	0.15
<b>Share price SIX Swiss Exchange</b>					
At 31 December	7.30	6.10	5.93	7.05	6.20
High/low close during business year	7.61–5.80	6.80–5.34	7.72–5.19	9.90–6.26	6.31–5.07

1) All shares are entitled to dividends/distributions.

2) Based on the average number of outstanding shares.

### Trading volume (daily average)

In the 2017 fiscal year the average daily trade volume was 6,456 shares (prior year: 3,999 shares).



# Mikron Holding Financial Report 2017

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# Financial Statements 2017 of Mikron Holding AG

## Profit and loss statement

CHF 1,000	Note	2017	2016
Services and other income		2,706	2,625
Other operating expenses		-2,784	-2,251
<b>Earnings before interest and taxes</b>		<b>-78</b>	<b>374</b>
Dividend income	2	0	3,400
Income from revaluation of investments and loans	2	3,066	2,096
Other financial income	3	5,528	3,443
<b>Total financial income</b>		<b>8,594</b>	<b>8,939</b>
Expenses from revaluation of investments and loans	2	-11,409	-6,074
Other financial expenses	3	-1,750	-1,378
<b>Total financial expenses</b>		<b>-13,159</b>	<b>-7,452</b>
<b>Loss/profit for the year</b>		<b>-4,643</b>	<b>1,861</b>

## Balance sheet

CHF 1,000	Note	31.12.2017	31.12.2016
<b>Current assets</b>			
Cash and cash equivalents and short-term investments with a quoted market price		48,722	46,844
Short-term interest-bearing receivables		9,406	10,150
<i>Due from third parties</i>		41	0
<i>Due from Group companies</i>		9,365	10,150
Other current receivables		1,122	596
<i>Due from third parties</i>		83	129
<i>Due from Group companies</i>		1,039	467
Accrued income and prepaid expenses		575	360
<b>Total current assets</b>		<b>59,825</b>	<b>57,950</b>
<b>Non-current assets</b>			
Investments	2, 4	48,252	45,187
Financial assets		52,451	61,335
<i>Loans to Group companies</i>	2, 5	52,451	61,335
<b>Total non-current assets</b>		<b>100,703</b>	<b>106,522</b>
<b>Total assets</b>		<b>160,528</b>	<b>164,472</b>
<b>Current liabilities</b>			
Short-term interest-bearing liabilities		17,034	15,555
<i>Due to Group companies</i>		17,034	15,555
Other short-term liabilities		882	336
<i>Due to third parties</i>		840	260
<i>Due to Group companies</i>		42	76
Accrued expenses and deferred income		520	291
<b>Total current liabilities</b>		<b>18,436</b>	<b>16,182</b>
<b>Long-term liabilities</b>			
Long-term interest-bearing liabilities		14,433	15,150
<i>Due to Group companies</i>		14,433	15,150
<b>Total long-term liabilities</b>		<b>14,433</b>	<b>15,150</b>
<b>Total liabilities</b>		<b>32,869</b>	<b>31,332</b>
<b>Shareholders' equity</b>			
Share capital		1,671	1,671
Legal reserves		99,993	100,828
<i>Reserves from capital contribution</i>		99,993	100,828
Profit carried forward		30,706	28,848
Loss/profit for the year		-4,643	1,861
Treasury shares		-68	-68
<b>Total shareholders' equity</b>	6	<b>127,659</b>	<b>133,140</b>
<b>Total liabilities and shareholders' equity</b>		<b>160,528</b>	<b>164,472</b>



# Notes to the Financial Statements 2017 of Mikron Holding AG

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

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

### Recognition of revenue

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

### Services and other income

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

### Other operating expenses

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

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

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

### Loans to and loans from Group companies

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

### Investments

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

### Foreign currencies

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

Currency	Average rate 2017	Closing rate 31.12.2017
1 EUR	1.115	1.172
1 USD	0.983	0.989
1 SGD	0.713	0.736
1 CNY	0.145	0.150

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 2017 financial year are disclosed.

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

CHF 1,000	2017	2016
Dividend income	0	3,400
Revaluation of investments and loans	3,066	2,096
<b>Total financial income from investments and loans</b>	<b>3,066</b>	<b>5,496</b>
Revaluation of investments and loans	-11,409	-6,074
<b>Total financial expenses from investments and loans</b>	<b>-11,409</b>	<b>-6,074</b>
<b>Net financial expenses from investments and revaluation of loans</b>	<b>-8,343</b>	<b>-578</b>

## 3. Other financial income and expenses

CHF 1,000	2017	2016
Interest income from Group companies	2,261	2,242
Interest income from third parties	264	391
Foreign exchange gains	2,611	354
Other financial income	392	456
<b>Total other financial income</b>	<b>5,528</b>	<b>3,443</b>
Interest expense to Group companies	-203	-131
Foreign exchange losses	-761	-342
Other financial expenses	-786	-905
<b>Total other financial expenses</b>	<b>-1,750</b>	<b>-1,378</b>
<b>Net other financial income</b>	<b>3,778</b>	<b>2,065</b>

## 4. Major investments

Please refer to page 129.

## 5. Subordinated loan

Loans to Group companies include subordinated loans amounting to CHF 20.2 million (prior year: CHF 14.1 million).

## 6. Statement of shareholders' equity

CHF 1,000	Share capital	Reserves from capital contribution	Treasury shares	Profit carried forward	Shareholders' equity
<b>Balance at 31.12.2015</b>	<b>1,671</b>	<b>101,663</b>	<b>-52</b>	<b>28,846</b>	<b>132,128</b>
Profit 2016				1,861	1,861
Proceeds/payments for change in treasury shares			-16	2	-14
Distribution to shareholders		-835			-835
<b>Balance at 31.12.2016</b>	<b>1,671</b>	<b>100,828</b>	<b>-68</b>	<b>30,709</b>	<b>133,140</b>
Loss 2017				-4,643	-4,643
Proceeds/payments for change in treasury shares			0	-3	-3
Distribution to shareholders		-835			-835
<b>Balance at 31.12.2017</b>	<b>1,671</b>	<b>99,993</b>	<b>-68</b>	<b>26,063</b>	<b>127,659</b>

In 2017 the company granted 10,000 treasury shares to Group Management (prior year: 10,000) at no consideration, sold no shares (prior year: none) and acquired 8,910 treasury shares (prior year: 12,490 shares). At 31 December 2017 Mikron Holding AG, Biel owned 10,000 treasury shares (prior year: 11,090 shares).

## 7. Significant shareholders and their investment

As of 31 December 2017 there are three shareholders with investments of more than 5% in voting rights (Ammann Group Holding AG, Berne, 41.6%; Mr. Rudolf Maag, Binningen, 14.1%; Veraison SICAV, Zurich, 10.0%). 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

	31.12.2017		31.12.2016	
	Number of shares	Voting power	Number of shares	Voting power
<b>Board of Directors</b>				
H. Spoerry, Chairman	13,675	0.08%	13,675	0.08%
E. Rikli, Vice-Chairman	21,500	0.13%	21,500	0.13%
<b>Group Management</b>				
B. Cathomen, CEO	35,580	0.21%	30,580	0.18%
R. Rihs, COO	33,000	0.20%	40,000	0.24%
M. Blom, CFO	22,000	0.13%	20,000	0.12%

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

### Collateral for third-party liabilities

CHF 1,000	31.12.2017	31.12.2016
Guarantees in favor of bank syndicate	55,000	55,000
Guarantees for Group companies	15,284	18,427

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

CHF 1,000	31.12.2017	31.12.2016
Assets pledged as securities for liabilities	49,844	47,440

## 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	2017	2016
Profit carried forward at the beginning of the period	30,709	28,846
Proceeds/payments for change in treasury shares	-3	2
Loss/profit for the year	-4,643	1,861
<b>Profit carried forward available to the General Meeting</b>	<b>26,063</b>	<b>30,709</b>

The Board of Directors proposes to the Annual General Meeting of Shareholders that the profit carried forward of CHF 26.1 million for the year ended 31 December 2017 be appropriated as follows:

CHF 1,000	2017 Motion of the Board of Directors	2016 Resolution of the General Meeting
Profit carried forward available to the General Meeting	26,063	30,709
<b>Carried forward</b>	<b>26,063</b>	<b>30,709</b>

### Reserves from capital contribution

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

CHF 1,000	2017 Motion of the Board of Directors	2016 Resolution of the General Meeting
Reserves from capital contribution	99,993	100,828
Allocation to voluntary retained earnings and distribution to shareholders	-836	-835
<b>Carried forward</b>	<b>99,157</b>	<b>99,993</b>

# Report of the Statutory Auditor



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

**Biel**

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

#### **Opinion**

We have audited the financial statements of Mikron Holding AG, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 118 to 123 and 129) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

#### **Basis for opinion**

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

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

#### **Our audit approach**

##### **Overview**



Overall materiality: CHF 1 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

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

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

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### **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.

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

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

<i>Overall materiality</i>	CHF 1 million
<i>How we determined it</i>	0.6% of total assets
<i>Rationale for the materiality benchmark applied</i>	We chose total assets as the benchmark to determine our overall audit materiality, because, in our view, this metric is the most relevant factor when assessing a holding company which has limited operating activities and which holds mainly investments in subsidiaries and loans to group companies.

We agreed with the Audit Committee that we would report to them misstatements above CHF 50'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

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

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

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
At 31 December 2017, the carrying values of the company's investments, and loans to group companies amount to CHF 48.2 million and CHF 52.4 million, respectively. We focussed our audit on	<p>We tested management's assessment of the recoverability of these investments and loans as follows:</p> <ul style="list-style-type: none"> <li>We analyzed and challenged managements' assessment of the businesses' future results,</li> </ul>





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 consolidated equity at 31 December 2017 exceeds Mikron Holding's stock market capitalization.

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

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

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

as reflected in the corresponding budgets and business forecasts of Mikron Group;

- We re-performed management's calculation of recoverable values to assess the recoverability of loans to and investments in subsidiaries;
- We reconciled the information used in the tests to underlying data records and accounting systems.
- We obtained evidence of the approval by the Board of Directors.

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

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

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

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

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

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

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

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

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

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

### ***Report on other legal and regulatory requirements***

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

A handwritten signature in blue ink, appearing to read 'N.Kühnis'.

Norbert Kühnis  
Audit expert  
Auditor in charge

A handwritten signature in blue ink, appearing to read 'René Jenni'.

René Jenni  
Audit expert

Bern, 8 March 2018

# Group Companies/ Investments Mikron Holding AG

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

**Activity**

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

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