



Annual Report
2016

The Mikron Group succeeded in significantly increasing both sales and EBIT in the 2016 financial year, benefiting from a good order backlog at the start of the year and from rising demand in the service and tool business. The volatile demand for machining and automation systems was more challenging for the Machining business segment than the Automation business segment in the year under review. Overall, the Group achieved annual net sales of CHF 256.0 million (previous year: 228.6 million, +12%), order intake of CHF 243.6 million (previous year: 264.6 million, -8%) and EBIT of CHF 4.1 million (previous year: CHF 2.5 million, +64%). In the years ahead, the Mikron Group will intensify the innovation offensive it launched in 2016 while also continuing to develop existing products.

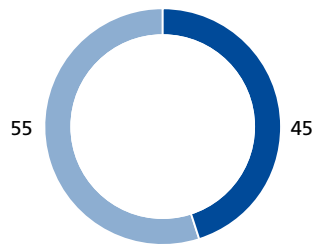
Key Figures 2016

in CHF million, except productivity and number of employees	2016		2015		+/-	
Key performance data						
Order intake	243.6		264.6		-21.0	-7.9%
Machining	114.8		120.2		-5.4	-4.5%
Automation	128.9		144.9		-16.0	-11.0%
Net sales	256.0		228.6		27.4	12.0%
Machining	116.4		113.8		2.6	2.3%
Automation	139.6		114.9		24.7	21.5%
Order backlog	122.9		142.9		-20.0	-14.0%
Machining	42.3		43.8		-1.5	-3.4%
Automation	80.8		99.5		-18.7	-18.8%
Productivity (added value/personnel expenses)	1.39		1.37		0.02	1.5%
Research and development	7.1		5.7		1.4	24.6%
Number of employees (end of year)	1,249		1,181		68	5.8%
Machining	590		598		-8	-1.3%
Automation	636		563		73	13.0%
Earnings						
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	12.6	4.9%	10.0	4.4%	2.6	26%
Earnings before interest and taxes (EBIT), as % of net sales	4.1	1.6%	2.5	1.1%	1.6	64%
Machining	-5.2	-4.5%	-4.3	-3.8%	-0.9	n.a.
Automation	7.5	5.4%	4.3	3.7%	3.2	74.4%
Operating result, as % of net sales	2.8	1.1%	1.1	0.5%	1.7	154.5%
Profit for the year, as % of net sales	2.3	0.9%	0.9	0.4%	1.4	155.6%
Cash flow						
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	12.8	5.0%	15.5	6.8%	-2.7	-17.4%
Balance sheet						
Balance sheet total	251.8		243.9		7.9	3.2%
Current assets	158.2		151.5		6.7	4.4%
Cash and current financial assets	52.3		48.8		3.5	7.2%
Non-current assets	93.6		92.4		1.2	1.3%
Current liabilities	68.6		63.4		5.2	8.2%
Long-term liabilities	26.8		25.9		0.9	3.5%
Shareholders' equity, as % of balance sheet total	156.3	62.1%	154.6	63.4%	1.7	1.1%

Sales by segment in %

Total CHF 256.0 million

- Machining
- Automation

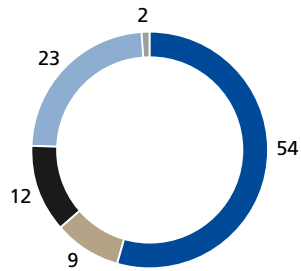


Mikron Group

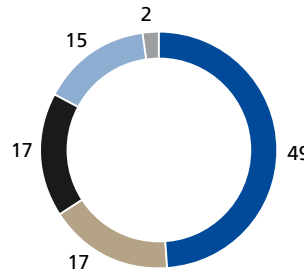
Sales by region in %

Total CHF 256.0 million

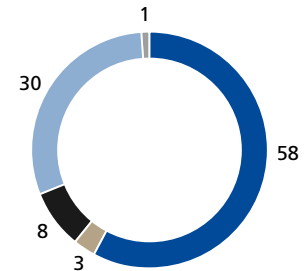
- Europe
- Switzerland
- Asia/Pacific
- North America
- Others



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Machining

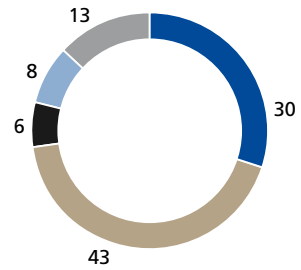


Automation

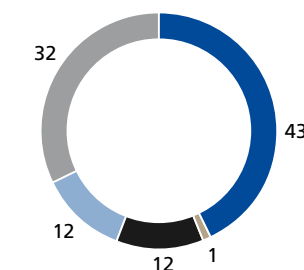
Sales by industry in %

Total CHF 256.0 million

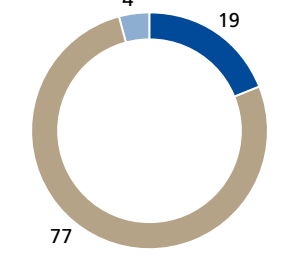
- Automotive
- Pharma/Medtech
- Writing
- Consumer Goods
- Others



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Machining

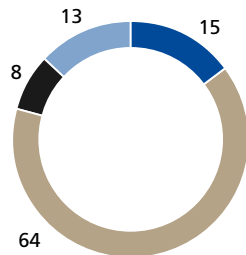


Automation

Employees by region in %

Total 1,249

- Europe
- Switzerland
- Asia/Pacific
- North America



Mikron Group

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Dear Shareholders,

The Mikron Group succeeded in significantly increasing both sales and EBIT in the 2016 financial year, benefiting from a good order backlog at the start of the year and from rising demand in the service and tool business. The volatile demand for machining and automation systems was more challenging for the Machining business segment than the Automation business segment in the year under review.

We were especially pleased about our positive performance in Asia in 2016. Our machining systems have long enjoyed an excellent reputation in the region, and last year our highly productive assembly systems began to attract more recognition too. We are also delighted about the growth of our tool business. The tool business line has once again very successfully brought some innovative hightech tools onto the market.

In the 2017 financial year, we plan to further invest in product development, mainly in Mikron Machining. At Mikron Automation, key investments are being directed at a new product data management software (PDM) and different investment requirements.

To formulate an outlook for 2017 is challenging. The Mikron Group expects ongoing positive stimuli to come from the service and tools business plus a volatile trend in order intake for machining and automation systems. Given that the order backlog is satisfactory overall – though unevenly distributed among the locations – the Mikron Group is anticipating modest sales growth in 2017. In view of the various measures being taken to cut material costs and raise efficiency, the Group is expecting a slight improvement in EBIT.

We would like to thank all of Mikron's employees for their tireless dedication, our customers for their confidence, and you, our valued shareholders, for your loyalty.



Heinrich Spoerry,
Chairman of the Board of Directors



Bruno Cathomen,
Chief Executive Officer



The tool business line has once again very successfully brought some innovative hightech tools onto the market.

Heinrich Spoerry,
Chairman of the Board of Directors

What were the personal highlights for you in the 2016 financial year?

HEINRICH SPOERRY: I was especially pleased about our positive performance in Asia. Our machining systems have long enjoyed an excellent reputation in the region, and last year our highly productive assembly systems began to attract more recognition too. I am also delighted about the growth of our tool business. The tool business line has once again very successfully brought some innovative hightech tools onto the market.

BRUNO CATHOMEN: Another highlight was the successful final acceptance of the first assembly system containing our new control software. We worked intensively on this software for a number of years – and suffered some setbacks as well. But ultimately, it was all the more heartening to receive positive feedback and also land further orders right way.

Which developments posed the biggest difficulties for you?

HEINRICH SPOERRY: The ongoing weak demand for machining systems at Mikron Machining was a source

of worry, as were the unsatisfactory results posted by Mikron Automation's Berlin site. The strong Swiss franc also continued to seriously weaken our competitive position compared with our rivals in the EU.

BRUNO CATHOMEN: Customers are being unsettled by political developments and individual incidents such as the diesel affair or the attacks in Turkey and other countries. In the automotive and watchmaking industries, for example, this prevailing mood of uncertainty has led to a fall-off in demand for capital goods. Our customers in these industries are investing only very hesitantly in our systems – numerous investment decisions keep getting postponed. As a result, we scaled back headcounts at several sites last year. This is not something we do lightly – also considering the know-how and experience that is always lost. It goes without saying that we still have some outstanding teams at these sites, and the situation can also quickly improve.

How do you plan to stimulate the Machining business?

BRUNO CATHOMEN: On the one hand, we aim to gear our organizational structures even more to customers and applications than has been the case so far. The individual

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



Heinrich Spoerry,
Chairman of the Board
of Directors

Bruno Cathomen,
Chief Executive Officer



We wish to continue offering our customers highly productive precision systems, but to make them more flexible than before.

Bruno Cathomen,
CEO

project teams are to be given more autonomy and greater responsibility. We want to become faster and more agile so we can handle the heavy fluctuations in demand and meet requests for shorter delivery times. At the same time, we are busy developing new machine platforms. We wish to continue offering our customers highly productive precision systems, but to make them more flexible than before. This should enable our customers to adapt more rapidly and readily to changing circumstances than up to now.

What strategic role does the tool business play?

BRUNO CATHOMEN: Our high-performance tools enjoy an excellent reputation worldwide. We pursue a dual strategy with our tool business. First, we regularly sell complex manufacturing systems with customized tools. In this case, the tool technology is an integral component. The customer receives a unique complete package. But second, Mikron also develops what are known as standardized tools. We sell an attractive selection of high-performance drills and end mills worldwide directly through a global tool distribution network, and also indirectly via third parties. Our focus here is on very small dimensions and challenging applications. More and more

tool customers are requesting services such as regrinding, consultancy, and development support.

How do you envisage the challenges posed by increasing digitization as a result of Industry 4.0.?

HEINRICH SPOERRY: Already today, many of our automation and machining systems contain numerous sensors and electronic controls. And various customers are increasingly integrating our systems digitally into their complex production control systems. That being said, our customers have very different requirements in this respect.

BRUNO CATHOMEN: Digitization is nothing new for us. But much of what is feasible and has for years been successfully proven and used by some of our customers is not required by other customers. For reasons of data security and confidentiality, many customers are relatively cautious when it comes to networking their systems and allowing access from outside. But we nonetheless continue to develop our Industry 4.0 capabilities to ensure that we are always up to date. If our customers so wish, we also offer various service packages designed to bring old systems up to state-of-the-art level.



Over the next few years, we aim to achieve a turnaround also in those areas that have so far delivered unsatisfactory results.

Heinrich Spoerry,
Chairman of the Board of Directors

What are your strategic goals and operational priorities for next year?

HEINRICH SPOERRY: Over the next few years, we aim to achieve a turnaround also in those areas that have so far delivered unsatisfactory results. This applies in particular to the machines business at Mikron Machining. Here we plan to launch new machine platforms in two to three years. At Mikron Automation we already have highly successful, tried-and-tested platforms to build on. Our objective here is to use the new control software as broadly as possible and to optimize it further.

BRUNO CATHOMEN: In operational terms, we obviously wish to improve our financial results in 2017. In order to do so, the Automation business segment needs to leverage its very good prior-year results and lock into the trend of rising demand from the pharmaceutical and medtech industries. We provide the fastest and most productive assembly systems in this area, and will increase the relevant capacity in the US. In addition, we are going to hone our capabilities for new applications at all sites. The new financial year is certainly going to be another difficult one for Mikron Machining – for the reasons already outlined, demand for machining systems will most likely remain vol-

atile and unpredictable. The newly launched innovation projects will also squeeze profitability over the short and medium term. The tool and service business should profit in the new financial year from the investments made and grow accordingly.

”We supply our customers with machines that can produce several thousand ready-to-install contact pins per hour — with extreme precision, in one work cycle if possible, direct from wire and without taking up too much space or requiring a large workforce.“

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



ALWAYS WELL-CONNECTED

Cars, planes, cameras, computers, pacemakers, and industrial machinery – all of these depend on an uninterrupted flow of electricity and a clear path for digital signals from A to B. None of them work without high-quality connectors.

We drive the car to the airport, use a hands-free kit to make calls on the way, pass by numerous surveillance cameras once we're there and get our carry-on luggage X-rayed after checking in. On board the plane, the captain welcomes us on the P.A. system, and once in the air we lean back and turn our eyes to the onboard screens for the in-flight movie. Without connectors, our trip would have been over before it started.

Everywhere

Plug connectors enable electricity as well as optical and digital signals to move uninterrupted from one wire to another. As the examples above show, the range of applications for connectors is extremely varied, and the requirements they must meet are equally diverse. In airplanes, for example, they need to be extremely lightweight and robust. In microphones, by contrast, connectors need to be small, lightweight, easy to screw in and shielded against external interference. In vehicles, built-in connectors must be protected from water splashes and dust.

Two parts

Plug connectors consist of two parts, one bearing contact pins and a counterpart holding the contact openings. As electrical conductors, the

contact pins are generally made of brass, an alloy which guarantees both good electrical conductivity and mechanical stability. Depending on the application area, for example in fiber-optic communications, connectors may carry optical or digital signals. In these cases the pins are made of materials other than brass.

Precise, productive and efficient

The world's leading connector manufacturers are continually striving to improve their industrial productivity and quality. "To do that they need machines that can produce several thousand ready-to-install contact pins per hour — with extreme precision, in one work cycle if possible, direct from wire and without taking up too much space or requiring a large workforce," says Axel Warth, Head of Marketing & Business Development for Mikron Machining. "We offer two machines that meet these requirements: the Mikron Multistar CX-24 and Mikron Multistar LX-24 transfer machines." The Mikron Multistar CX-24 is unique worldwide in offering two-sided machining — the contact pins can be rotated 180° during the process. Both machines allow customers to manufacture on a dual cycle, which means to produce both contact pins and their counterpart contact openings on a single machine at the same time. This allows them to measure precision of fit (pull-out force) directly on the machine.

1000

contact pins per hour customers can produce with the Mikron Multistar CX-24.

Plug connectors consist of two parts, one bearing contact pins and a counterpart holding the contact openings. As electrical conductors, contact pins are usually made of brass.

Using the Mikron Multistar CX-24 transfer machine, customers can produce several thousand contact pins per hour and measure the precision of fit (pull-out force) of the parts during production.

PRECISION ON THE ROAD

If you're driving at 80 km/h, that's exactly what your speedometer should show. To make sure it does, cars are equipped with high-precision stepper motors.

Speedometers, tachometers and fuel gauges make driving easier. Mechanical gauges are still indispensable, despite digitalization. The dials in your dashboard conceal highly accurate precision mechanisms. The pointers are moved by compact stepper motors. The coils in these motors generate an electromagnetic field which turns the rotor by a certain angle (step). This allows stepper motors to be controlled with more precision than other electric motors (e.g. DC motors). Car manufacturers – and ultimately all car drivers – rely on this precision: speedometers, tachometers and fuel gauges need to be accurate.

Close cooperation

About half of all stepper motors for the automotive industry worldwide are produced using technology from the Swiss company Sonceboz. At its headquarters, the company produces one motor per second – all using an assembly system from Mikron Automation. The system was designed in close collaboration between Mikron Automation and Sonceboz. "It took all of our innovative capability to meet the requirements," says Jean-François Bauer, Head of Marketing & Business Development for Mikron Automation.

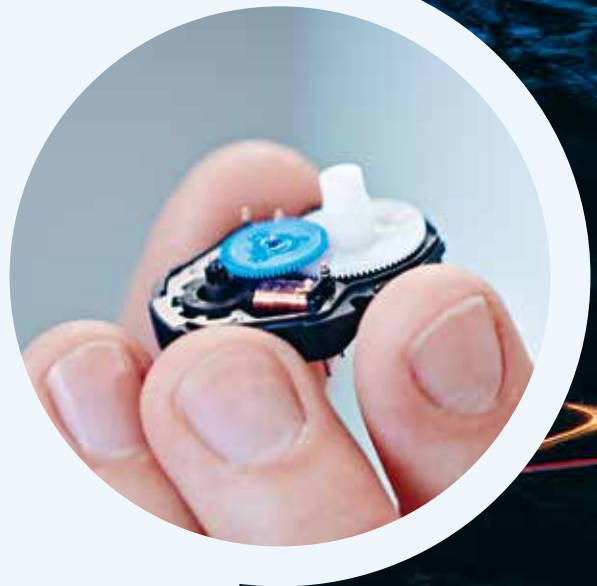
Custom assembly system

Sonceboz produces its stepper motors on a linear assembly line consisting of two Mikron G05 platforms (a single and

a dual module), two Mikron Tray Handler palletizers and two feeder systems. Here's how it works: A Mikron Tray Handler delivers pre-assembled components (a stator with two coils) to the assembly line. An innovative Mikron conveyor belt developed specially for high-volume production carries them to the first Mikron G05 platform. Here further components are installed, including the toothed drive gear. Before another palletizer carries the finished motor off the assembly line, a final electronic test is carried out. The entire assembly line runs in one-second cycles, which means, one work step lasts one second.

Several thousand stepper motors per day are produced on an assembly system from Mikron Automation.

Mikron Automation employees in Boudry developed and built the assembly system for Sonceboz.



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motor per second, Sonceboz produces using a Mikron Automation assembly system.

”It took all of our innovative capability to meet the customer’s requirements.“

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



RAPID AND CORRECT BONE HEALING

Whether through carelessness or plain bad luck, bone fractures can occur suddenly. That makes it all the more important for a broken bone to heal quickly afterwards. To speed regeneration, surgeons use implants made of special materials that are difficult to manufacture.

We all hope we'll never need them, but we're glad they're there when needed: implants to hold broken bones together so they can regenerate properly. Medical technology has made enormous advances in this area in recent years. Today surgeons use implants made of materials that are stable, lightweight and highly compatible with the human body: stainless steels and especially titanium, pure or in alloys depending on the application. Titanium's poor heat conductivity and high elasticity makes it difficult to machine, especially in its pure form. The tools used to manufacture implants can overheat, and the excess material (chips) can stick together. Tools wear down quickly, impacting safety in the machining process. Moreover, titanium is an expensive raw material, so production waste must be minimized. As a material it makes unusually high demands on the tools and thus on the tool manufacturer.

Quick, precise and reliable

A medical device manufacturer was unable to achieve constant production figures when manufacturing titanium rib plates in series on a CNC machine due to high variability in the service life of the individual milling tools.

Because the manufacturer had set a goal of halving production time per piece, however, a slower but more predictable milling process was out of the question. "Our customer achieved maximum reliability, precision and production speed only with the CrazyMill Cool, the high-performance milling cutter from Mikron Tool," says Markus Schnyder, Vice President of the Tool business line. "The material, coating and geometry of this tool are precisely designed for the materials to be worked, such as titanium." In addition, this milling cutter has multiple cooling channels integrated into the shaft to carry a strong flow of coolant directly to the blades, preventing elevated temperatures even at extremely high RPM. "This makes it possible to increase cutting speeds and milling depth to remove large quantities of material quickly," Markus Schnyder explains. "These are unique, patented characteristics." As a result, Mikron Tool's CrazyMill Cool milling cutter has been awarded the Innovation Prize of the Prodex International Exhibition for Machine Tools, Tools and Production Measurement.

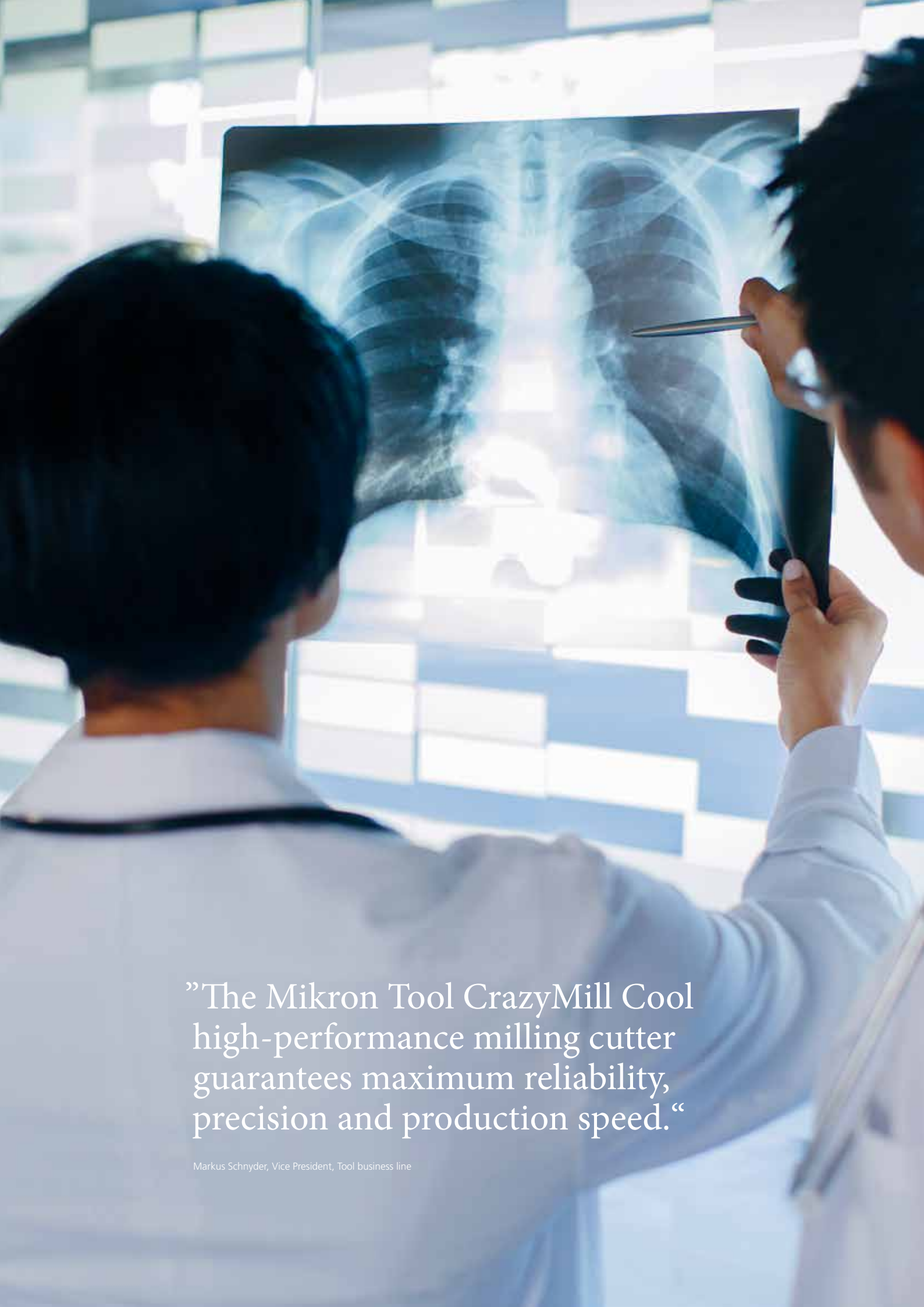
The material, coating and geometry of the CrazyMill Cool milling cutter are precisely designed for the materials to be worked, such as titanium. In addition, this milling cutter has multiple cooling channels integrated into the shaft to carry a strong flow of coolant directly to the blades, preventing elevated temperatures even at extremely high RPM. Dimensions: diameter 2 mm, two teeth, cylindrical shape (fitted with a small 45° protective rim). Cutting figures: cutting speed v_c 100 m/min, feed rate per tooth and rotation f_z 0.025 mm.

Mikron Tool manufactures the CrazyMill Cool milling cutter in Agno.



v_c 100

m/min cutting speed of the CrazyMill Cool



”The Mikron Tool CrazyMill Cool high-performance milling cutter guarantees maximum reliability, precision and production speed.“

Markus Schnyder, Vice President, Tool business line

The Mikron Group

The Mikron Group develops, produces and markets 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 divisions, 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 1,250 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).

Mission

As a global, leading supplier of high-volume, high-precision machining and automation solutions, the Mikron Group helps its customers to be market and business leaders by increasing industrial productivity and quality.

Corporate Story

The Mikron Group's core business is enabling productivity and quality improvements in the manufacturing processes of our customers. Mikron's products and solutions support industrial production companies in a wide variety of sectors in manufacturing their products more quickly and cost-effectively, thus reducing unit costs, space requirements, and staffing costs. In addition to all of this, they also increase manufacturing quality. Mikron's ultimate goal is to enable its customers to improve their competitiveness and profitability in creating added value with innovative turn-key solutions.

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 high-precision manufacturing processes. Worldwide. It is a partner to companies mainly in the automotive, pharmaceutical, medtech, consumer goods, writing instruments and watchmaking industries.

Mikron Automation

Mikron Automation is one of the world's leading manufacturers of customized, highly productive automation solutions for assembly and testing of complex products. The division guarantees customers fast, professional service and support.

- Number of employees: 650
- Sales in 2016: CHF 140 million
- Experience: 40 years
- Customers worldwide: 250
- Systems installed worldwide: over 3,000
- Projects: more than 60 per year
- Delivery times: 4 to 12 months

Mikron Machining

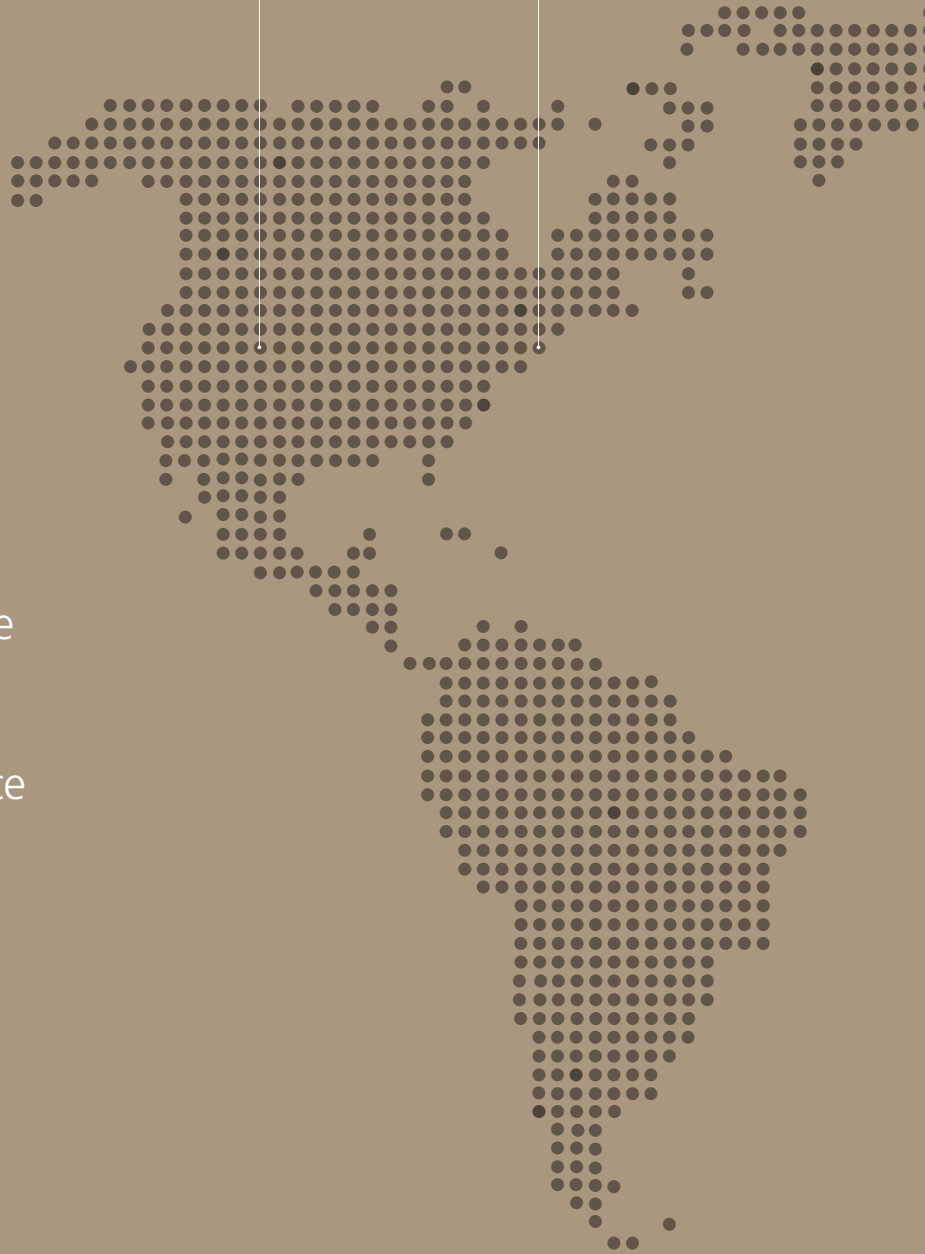
Mikron Machining is the leading supplier of customized, highly productive machining systems for the manufacturing of complex high-precision components made of metal such as turbocharger housings, injection nozzles and ballpoint pen tips. Mikron Machining develops and produces the necessary high-performance cutting tools itself, and these are regarded as some of the best in the world.

- Number of employees: 600
- Sales in 2016: CHF 117 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 **A**  

Monroe **M** 




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

 Headquarters
Automation/Machining

 Production site

 Sales and service center

A Mikron Automation

M Mikron Machining



Highlights 2016

January

Mikron Machining in Agno delivers the thousandth Mikron Multistar LX-24. The machine is destined for a customer in China, who produces up to 600 ballpoint pen tips a minute on it.

April

Mikron continues to strengthen the skills of its employees by continuing the Management & Leadership Training program and implementing a new set of training courses for all Project Managers.

April

At the ordinary Annual General Meeting in Biel, Switzerland, the shareholders of Mikron Holding AG elect Hans-Michael Hauser as a new member of the Board of Directors.

April

Mikron Machining strengthens its presence in Asia by attending the trade fairs SIMM 2016 in China and SIMTOS 2016 in South Korea. Furthermore, Mikron Tool moves in to a new sales and distribution office located within the Free Trade Zone of Shanghai. This enables it to respond even better to the needs of Mikron's customers for speedy delivery of high-performance cutting tools.

May

In Denver, Mikron Automation receives a visit from the Governor of Colorado who signs a Colorado House Bill facilitating collaboration between the industrial and educational sectors. Leading up to this, Mikron has been working with the Governor's office, Department of Labor, local colleges and school districts to develop an apprenticeship program.

May

The Mikron XT-one machining center is the focus of Mikron Machining's two Demo Days in May. Visitors to the new Mikron Midwest Technical Center at Globetec in Chicago (USA) and visitors to the Tec-Center of Mikron's agent Otra in Seoul (South Korea) are impressed by the very fast chip-to-chip time of less than 0.9 seconds even at maximum spindle speed.

June

Mikron Automation attends Automatica in Munich, demonstrating the capabilities of its sites Mikron SA Boudry, Switzerland and Mikron Berlin GmbH. Visitors have the opportunity to witness Mikron's high-performance platforms – the G05, Polyfeed and Tray Handler – in action. Mikron Automation also presents its latest version of the Totem interface to manage multiple vision cameras, as well as its new PC control software "Mikron Object Oriented Software".

August

Mikron Automation is dedicated to its educational strategy and achieves two major milestones. For the first time at Mikron SA Boudry, ten young apprentices start their four-year vocational training as multi-skilled mechanics, which is part of the decision to expand its apprenticeship program by increasing the team from 16 to 40 apprentices. At Mikron Corporation Denver, the first three Senior high school students from Cherry Creek School District start their US Department of Labor approved apprenticeship.

September

The employees of the Mikron Group aim to comply with their Code of Conduct at all times. They can practise this with specific examples in the e-learning course for ethical behavior and compliance.

September

Both at the "International Exhibition for Metal Working (AMB)" in Stuttgart, Germany, and at the "International Manufacturing Technology Show (IMTS)" in Chicago, USA, many visitors are impressed by Mikron Machining's systems. The new Mikron VX-10 CNC high-precision rotary transfer machine is presented for the first time at the AMB. In a separate booth, Mikron Tool presents its tools for precise, fast and process-secure drilling and milling of stainless steels, heat-resistant and CrCo alloys.

September

Mikron Tool launches a high-performance small diameter carbide drill with internal cooling to reduce the heat at the tip and optimal chip removal. The innovation is a new

type of cooling channel which allows up to four times more coolant volume than good standard drills. The new geometry and coating enables it to drill much faster than good standard drills, offering up to three times longer tool life at the same time.

October

The Mikron Group revamps its website. The new, modern look with plenty of attractive pictures guides the user clearly and easily through the multifaceted world of the Mikron Group. Alongside Mikron's products, there is a particular focus on the "Jobs & Career" section, where students, jobseekers and employees can find out about the opportunities available at Mikron.

October

The Mikron Group launches an innovation drive in response to insufficient demand for its numerical control machine tools in the Mikron Machining division. It intends to greatly increase development activities for new machine concepts so as to safeguard existing markets and to add new ones over the long term. Weak demand for numerical control machine tools also means that existing production capacities for the current range have to be scaled back.

October

At the Mikron Management Meeting, which brings together the top managers approximately every three years, the focus is on innovation. The guest speaker, US Ambassador to Switzerland and Liechtenstein Suzie Le Vine, provides her thoughts on the subject.

November

Mikron Automation assembles the thousandth process module for any of its assembly lines at its standard factory located at Mikron SA Boudry. The process module is the core piece of the G05 assembly platform. This milestone shows the success of the automation solutions provided to worldwide customers since 2002.

November

An apprentice of Mikron SA Boudry came 5th in the multi-skilled mechanic CNC turning category at this year's

Industry Skills, narrowly missing out on the chance to go to the professional world championships.

November

As part of the Swissmem Young Professional Program, an employee of Mikron SA Boudry went to the Japan International Machine Tool Fair JIMTOF. The program helps to make mechanical engineering, especially studies and professions related to machine tools and involved processes, more interesting and appealing for young people.

December

The apprenticeship instructors in Agno look back on a successful year: One apprentice finished as the best apprentice multi-skilled mechanic within the Ticino metal and mechanical engineering industry association AMETI. A second one took first place at Ticino's FRAISA Tool-Champions 2015/2016. And a third one was named the best apprentice multi-skilled mechanic 2016 by the municipalities of Agno, Bioggio and Manno.

Mikron Management Report

Management Report

The Mikron Group succeeded in significantly increasing both sales and EBIT in the 2016 financial year, benefiting from a good order backlog at the start of the year and from rising demand in the service and tool business. The volatile demand for machining and automation systems was more challenging for the Machining business segment than the Automation business segment in the year under review. Overall, the Group achieved annual net sales of CHF 256.0 million (previous year: 228.6 million, +12%), order intake of CHF 243.6 million (previous year: 264.6 million, -8%) and EBIT of CHF 4.1 million (previous year: CHF 2.5 million, +64%). In the years ahead, the Mikron Group will intensify the innovation offensive it launched in 2016 while also continuing to develop existing products. Given that the order backlog is satisfactory overall – though unevenly distributed among the locations – the Mikron Group is anticipating modest sales growth in 2017. In view of the various measures being taken to cut material costs and raise efficiency, the Group is expecting a slight improvement in EBIT.

Group business review

In the year under review, the Mikron Group's Swiss sites were exposed to continued heavy pressure on costs owing to the strong Swiss franc. In the first few months of the year, the Group maintained some of the special measures adopted in the prior year in Switzerland, including increased weekly working hours. The strong Swiss franc also prompted the Swiss sites to carry on purchasing more from abroad.

The headquarters of the Automation business segment (Boudry) began the year with a healthy order backlog, coping very well with the additional volumes thanks to flexible internal and external capacity. The Denver site (US) also reported very high capacity utilization and continued to receive attractive orders from the pharmaceutical and medtech industries. The same applies to the Asian sites. Mikron Automation also landed new orders from the consumer goods and electronics industries at various sites. The fears over possible negative fallout from the Brexit vote expressed in the Semiannual Report have proved unfounded to date.

Uncertainty in the automotive industry adversely affected demand for machining and automation systems. While both business segments succeeded in attracting orders from the automotive sector, the volume was well short of original expectations, above all at Mikron Machining. Some of the machines engineered by Mikron Machining are particularly suitable for the production of diesel engine parts. The widely reported problems arising from manipulations of exhaust emission tests on diesel vehicles accordingly had distinctly negative consequences for Mikron Machining. Even though the uncertainty in the automotive industry dampened the investment climate, Mikron Machining's services and tools business benefited from the fact that production capacity utilization levels were good for many customers. Moreover, further tool innovations allowed the business segment to tap into additional markets and gain new customers that use non-Mikron production equipment – a strategy that Mikron Machining has been successfully pursuing for several years. Beyond this, the business segment launched a number of extensive projects to regenerate the machine portfolio. The aim is to continue providing customers with

highly productive, top-quality machines and systems that also offer a much greater degree of flexibility.

Outlook

The Mikron Group expects no fundamental change in general market conditions with ongoing cautious but improved investment behavior in Europe and Asia, and customers reporting solid capacity utilization, which services and tools will benefit from. Mikron expects the US market to offer further growth opportunities mainly for Mikron Automation and the tools business of Mikron Machining. Competition might become even more aggressive than in the past months because different industrial companies have seen falling profit levels.

The situation in the automotive industry remains very uncertain. While this market is extremely important for Mikron Machining in particular, for the Group as a whole it could lose in significance compared to the pharmaceutical and medtech industries. Both business segments are expecting fresh impetus from the growing shift toward electromobility and the general pressure on the automotive industry to produce lower-emission vehicles.

To formulate an outlook for 2017 is challenging. The Mikron Group expects ongoing positive stimuli to come from the service and tools business plus a volatile trend in order intake for machining and automation systems. Given that the order backlog is satisfactory overall – though unevenly distributed among the locations – the Mikron Group is anticipating modest sales growth in 2017. In view of the various measures being taken to cut material costs and raise efficiency, the Group is expecting a slight improvement in EBIT.

Order intake

The Mikron Group reported order intake of CHF 243.6 million in 2016, representing a decrease of 8% against the prior year (CHF 264.6 million). The change in local currencies was identical. Practically throughout the entire year, order intake levels for Mikron Machining's machines business were unbalanced, extremely volatile and generally too low. This ultimately led to personnel adjustments, while maintaining or even strengthening innovativeness. Despite securing some significant orders in the fourth quarter of 2016, the Mikron Machining business segment expects capacity utilization in the machines business to remain unsatisfactory at the beginning of 2017. Order intake of CHF 128.9 million (prior year: CHF 144.9 million) reported by Mikron Automation did not quite match the

record result achieved in 2015, which was due to very large individual orders that have since been successfully completed. That being said, virtually all of the business segment's sites reported a good mix of new customer projects and repeat orders.

Europe remains Mikron's most important market. Approximately 52% of orders received in 2016 were placed by European customers, with the automotive market segment accounting for a considerably higher share than the pharmaceutical/medtech market segment. The Swiss companies remained under a lot of pressure from the strong Swiss franc. This factor, plus frequent delays in investment decisions in the automotive industry, left demand from the German market well below expectations. However, year-on-year, Mikron succeeded in significantly increasing and almost tripling the number of orders from customers in the electrical and electronics industries across all markets.

In the US, Mikron recorded a slight decrease in order intake in the year under review following years of high growth rates. This can be explained in part by the presidential elections, which caused US customers to hold back on major investments. On the other hand, various negotiations for assembly systems extended into the new financial year.

Mikron reported encouraging levels of order intake in Asia, above all in the second half. Growing recognition for Mikron's efficient assembly lines and the consistently strong reputation enjoyed by Mikron Machining systems, mainly in the writing instruments industry, bolstered sales in the region. Correspondingly, the Mikron Group achieved a 25% increase in order intake in Asia in 2016 and is looking to confirm this trend in 2017.

The Mikron Group is satisfied with the level of service business in both segments and with the performance of the tool business within the Machining business segment, especially given the continued negative impact of the exchange rate.

Net sales, capacity utilization and order backlog

Posting annual sales of CHF 256.0 million, the Mikron Group clearly exceeded the prior-year result (CHF 228.6 million, +12%) as expected. Both business segments lifted sales, with the increase at Mikron Automation (+21%) much more pronounced than at Mikron Machining (+2%). The growth seen at the Automation business segment

is attributable to the healthy order backlog at the start of the year and the gratifying order intake levels. These two key figures were considerably weaker at Mikron Machining, resulting in unsatisfactory production capacity utilization rates for individual product lines. Whereas Mikron Automation increased sales further in the second half of the year, Mikron Machining was unable to do so for the reasons outlined.

Utilization of machine manufacturing capacity at Mikron Machining was unsatisfactory over the entire year, and at times even critical. After expectations of a rapid improvement in order intake failed to materialize – despite repeated positive signals from customers – management implemented further measures in the second half of 2016, including the selective introduction of short-time working, and job reductions. Individual Mikron Automation sites were also confronted with uneven or unsatisfactory capacity utilization levels.

Service business held up well in both segments in 2016. However, pressure on margins for spare parts and on hourly rates for service technicians continued to grow. In Asia, customers are increasingly having spare parts manufactured – or rather copied – by local companies. Besides lower prices, customers are also demanding shorter delivery times, which Mikron can satisfy in almost all regions. As this is not always readily feasible owing to legal requirements, for example in China, Mikron regularly has to adapt and further optimize spare parts logistics.

2016 was another successful year for Mikron Machining's tool business. Up 8%, tool sales now account for over 25% of the business segment total. The Rottweil site scaled up machining capacity in 2016 and increased sales both on the German market and internationally.

At CHF 122.9 million, the Mikron Group's order backlog at the end of 2016 was around 14% lower than the prior-year figure. The backlog of orders at both business segments was very unevenly distributed over the companies. Mikron Automation's order backlog at the beginning of 2017 was equivalent to almost 60% of last year's sales, while the corresponding figure for Mikron Machining (without taking into account the tools business) was only approximately 50%. To achieve the targeted growth, Mikron needs to attract some substantial new orders in early 2017. Despite existing potential for customer projects, it is very hard to assess the strength of clients' resolve to go ahead.

Profitability

In the 2016 business year, the Mikron Group reported EBIT of CHF 4.1 million, surpassing the prior-year result (CHF 2.5 million) as expected.

Whereas the EBIT of CHF 7.5 million (prior year: CHF 4.3 million) posted by the Automation business segment represents a further significant improvement in profitability, the Machining business segment suffered another setback, reporting EBIT of CHF -5.2 million (prior year: CHF -4.3 million). This reflects the significant fluctuations in order intake at a disappointingly low level and the related capacity utilization problems. The operating result was impacted not only by an uneven distribution of workload, but also by lower margins and by additional staff to support especially the growth of the tools business, and by expenses related to innovation initiatives. Neither could Mikron Automation fully benefit from the significantly higher sales volume as the margins on projects were further under pressure and some work peaks created inefficiencies. In addition, several complex and thus risky projects were under way, which had to be reflected in the accounts accordingly.

Financial result, income taxes and profit

The financial result improved slightly compared to the previous year and totaled CHF -0.9 million (prior year: CHF -1.2 million), CHF -0.6 million of which were related to net exchange rate losses (prior year: CHF -0.5 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 3.2 million (prior year: CHF 1.3 million), on which income taxes of CHF 0.8 million (prior year: CHF 0.4 million) were expensed. The income tax rate was distorted by tax losses not capitalized due to uncertainty about the companies' future taxable profits. Mikron's net earnings for 2016 were CHF 2.3 million, compared to CHF 0.9 million in the prior year. Net earnings per share for the year 2016 came to CHF 0.14 (prior year: CHF 0.06).

Balance sheet, financing and equity ratio

Overall, the Mikron Group's balance sheet remains very strong. Mikron is free of net debt and reports an equity ratio of 62% (prior year: 63%).

Cash and cash equivalents plus current financial assets of CHF 52.3 million significantly exceed interest-bearing liabilities of CHF 23.5 million. The current financial assets of CHF 13.5 million are mainly invested in high-quality Swiss

franc bonds and investment funds. The net cash position remains at 11% of net sales (prior year: 11%).

Net working capital decreased by CHF 1.8 million to CHF 38.9 million. Overall net working capital compared to net sales amounts to 15%, which is a significant decrease compared with the prior year (18%). This was driven by a solid level of prepayments received from projects sold just before year-end.

Totalling CHF 93.6 million, non-current assets increased by CHF 1.2 million. Investments mainly in production equipment, the enlargement of the Denver building and IT projects to improve efficiency amounted to CHF 8.7 million (prior year: CHF 16.7 million). This is slightly below plans, as some of the innovation investments were taken directly to the income statement. It is noticeable that the total amount of expenditures for new product development and enhancements not capitalized is nearly 3% of net sales. Total amortizations and depreciations came to CHF 7.8 million (prior year: CHF 7.0 million). The long-term financial liabilities of CHF 22.0 million relate to finance leases for production equipment and the mortgages for the investment property and two production facilities.

Since May 2015, Mikron can 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 expires at the end of June 2019 but may be extended by one year. The credit agreement requires Mikron to achieve certain key financial figures (covenants). The Group met these by a comfortable margin.

In 2016, shareholders' equity increased slightly to CHF 156.3 million. This represents a strong equity ratio of 62% (prior year: 63%). The decrease of 1% is attributable to the higher balance sheet total.

Cash flow

Cash flow from operating activities reached a considerable CHF 12.8 million at the end of 2016 (prior year: CHF 15.5 million). A total of CHF 7.5 million (prior year: CHF 13.2 million) was used for investment in non-current assets.

Strict management of net working capital and prepayments on orders signed before the end of the year led to

an operational free cash flow (without changes in financial assets) of CHF 5.3 million (prior year: CHF 2.3 million). This shows that Mikron was 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 long term. This goal was reached over the past 5 years, except in 2014.

Cash flow from financing activities amounted to CHF -2.1 million in the year under review (prior year: CHF 4.8 million), as a result of lower financial leases and amortizations of mortgages. Except for financial leases, no additional loans or mortgages were taken on.

Share performance and return

At the end of 2016, the share price stood at CHF 6.10 (prior year: CHF 5.93 per share). Factoring in the distribution of CHF 0.05 per share approved by the Annual General Meeting of shareholders, total shareholder return amounts to CHF 0.22 or 3.7% (prior year: CHF -1.07 or -15.2%). 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 102 million. Since this amount is lower than the Mikron Group's shareholders' equity, a test of potential impairment losses was carried out. The strategy outlook and impairment tests on material assets (in some cases with valuation reports from third parties) attest to the value of the shareholders' equity.

Corporate Financial Statements of Mikron Holding AG

The holding company and the management company support the individual group companies as well as the Board of Directors and Group Management. Only the CFO and a small Group finance team is employed by the management company and thus costs incurred remain basically unchanged at a low level. Group IT staff is employed by subsidiaries in Switzerland but their costs are passed on to the management company. In the year under review, IT costs for the Mikron Group overall increased by CHF 0.3 million, following a higher level of investments (increased depreciation) to further improve efficiency and higher IT security requirements.

The investment property in Nidau (Switzerland) generated a net income of CHF 1.3 million (prior year: CHF 1.4 million) including an impairment of CHF 0.7 million based on a third-party market value assessment. With a

pre-impairment net yield of 6.9% (prior year: 6.7%) 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 in 2018. Various courses of action were evaluated over the past few months, the most promising of which will be pursued further.

The financial statements of Mikron Holding AG show a very high equity ratio of above 80%. Owing to a change in accounting rules, an impairment had to be booked on participations (subsidiary companies) in the prior year, resulting in a substantial loss. This technical adjustment had no impact on the Group's net asset value.

Customer satisfaction

The Mikron Group focuses on the needs of its customers, with the aim of establishing and cultivating long-term and strong relationships with them. As in previous years, this involved gathering customer feedback on an ongoing basis, and actively contacting customers to ask systematically for their opinion and feedback. Customer feedback conveys a very positive picture overall. Since the majority of customer projects are confidential, Mikron is seldom permitted to divulge information on the successes achieved or, in particular, on 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, as well as investments in new product developments.

Employees

Mikron operates in a demanding, cyclical and global market, which is highly competitive. The key to success is skilled and motivated employees who are willing to assume responsibility and work constructively together. This allows the Group to respond to the rapid changes, diverse customer requests and complexity inherent in the business. Every two years, an independent consultancy for personnel and organizational development assesses the level of employee satisfaction. In 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), similarly to other companies active in comparable fields but below the average of the total

participating companies, many of them coming from very different industries. Nevertheless, the commitment to Mikron as an employer was rated as high at 76 points (out of 100). The survey also showed that the increasing pace of change is becoming a stress factor for a growing number of employees. The anonymous detailed responses were analyzed on different levels by the management teams and specific actions have been initiated.

The challenge to attract and retain employees possessing the right level of technical qualifications combined with a broad set of language skills remains high. One way that 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 in the Swiss sites, and the Denver site – as one of the leading companies in the initiatives launched by the US Government – also successfully started an apprenticeship program. Developing employees is another important element. In 2016, employees of the Swiss, German and US subsidiaries spent over 18,000 hours in advanced training. Again this year the group held its proven management and leadership training program. In addition, for the first time, all project managers attended an advanced training course tailored specially to their needs. Mikron intends to continue both programs in the future. With only a very few exceptions, all employees were trained in the application of our Code of Conduct. Besides specific training sessions, employees are helped to develop on the basis of interesting, challenging tasks.

As at the end of the 2016 financial year, the Mikron Group numbered 1249 employees (FTEs), representing an increase of 5.8% (prior year: 1181 employees). The additional staff were engaged to support the growing Tools business, the growth of our US and Asia business and the new product developments launched in Mikron Machining. Around 65% of the workforce are employed with the companies in Switzerland, approximately 15% in each of 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 services functions. The economic performance and regional differences of the individual companies are also taken into account.

Innovation and key investments

Given that innovation is a key to Mikron's success, several projects were concluded and new ones started in 2016. In the year under review a total of CHF 7.1 million (prior year: CHF 5.7 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 2.8% of net sales (prior year: 2.5% of net sales). This does not include the innovation which is very regularly triggered by customer projects and is required to develop particular assembly or machining processes.

In the first half of 2016, Mikron Machining launched the Mikron Multistep XT-200 as a single-module machining center in the US. In September, in addition to a new tool product catalog, the business segment presented the high-performance CrazyDrill Cool for machining challenging alloys, and the full CNC high-precision rotary transfer machine Mikron VX-10. In 2016, Mikron Machining's service business successfully implemented a new remote support software for external access to IT systems and machines for maintenance and repair. Further Industry 4.0-based technologies are already available to Mikron Machining customers.

Last year the Automation business segment saw the successful launch of its new control software on the European market. The control system is based on robust, tried-and-tested industrial computers and open-architecture, future-proof programming technology. In a subsequent step, the software is to be modularly expanded for a wide range of production processes. The business segment expects the new software to increase the efficiency and quality of project execution. Customers will also be able to exploit the available automation system production data more efficiently – completely in keeping with Industry 4.0.

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.

In the 2017 financial year, Mikron plans to further invest in product development, mainly in Mikron Machining. What is more, in order to support the growth of the cutting tools business, the Group intends to invest in replacement and additional production and test equipment

and infrastructure improvements to secure the highest product quality. At Mikron Automation, key investments are being directed at a new product data management software (PDM) and different investment requirements. In summary, together with infrastructure and IT equipment investments aimed at further increasing efficiency, Mikron Group is again planning to invest more than CHF 10 million in total.

In the year under review, Mikron Machining also launched an innovation drive for the years 2016 to 2018. The business segment plans to invest a total of more than CHF 10 million in modernizing and streamlining its machine portfolio in line with the changed market conditions. Only prototypes are to be capitalized. All other investments will be charged to the income statement.

Business model and strategy

Mikron Group

The Mikron Group develops, produces and markets automation and machining systems that enable extremely precise and productive manufacturing processes. Rooted in the Swiss culture of innovation, the Group is a leading global partner to companies in the automotive, pharmaceutical, medtech, consumer goods, writing instruments and watchmaking industries. The two divisions, 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 1,250 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. With its innovative products, our companies work towards becoming the employer of choice for technical jobs.

Led by the vision of "creating value with passion for precision" and Mikron's mission statement, the Board of Directors periodically reviews the Group's strategy. In December 2016, the Board approved the budget for the year 2017. A new mid-term plan spanning the years 2018 to 2020 will be developed by the end of 2017. 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

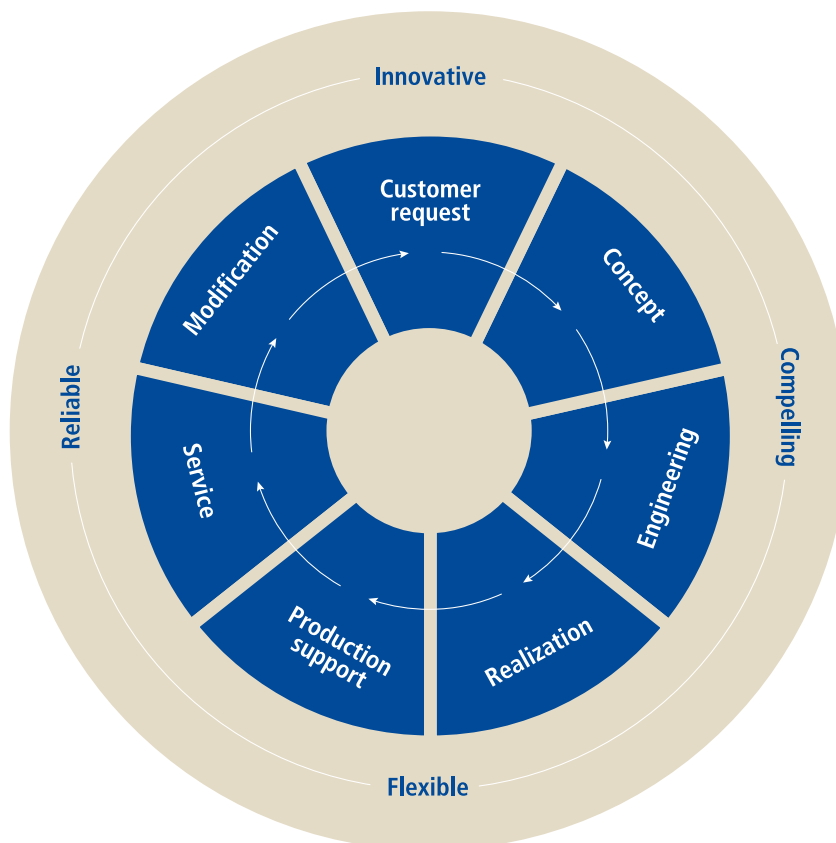
The strategic objectives of Mikron Machining are to strengthen its leadership position in the transfer machining niche, expand the service business by introducing additional services and addressing the whole installed machine base, and grow the successful cutting tool business – primarily its standardized “CRAZY” family products. 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, the exposure to the European market shall 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

The strategy of Mikron Automation aims to provide customers with the highest performance assembly and test solutions and to support these customers in ramping up, optimizing and maintaining production capacity throughout the life cycle. 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

The Mikron business model



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 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 and world-class project execution enable the Automation business segment to carry out projects across several sites and thus also deliver projects worth up to CHF 20 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, and quality and confidentiality. These values guide their daily behavior and serve as a common basis on which management and staff do business and develop the company.

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 increased to 2.6% from 1.6% 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.

The Mikron values

Six values guide Mikron's management and staff:

1 Skilled and motivated employees

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

2 Market and customer focus

The Mikron Group always focuses 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 each other informed.

5 Quality

Quality is all-encompassing. The Mikron Group works 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.

The management responsibility always remains with the line manager and cannot be delegated. The HR department of each company, which exchange and share best practices regularly, support and coordinate the local management and development of personnel, ensures that appropriate processes are in place, makes tools (checklists, forms, documents) available and supports and coaches in difficult and exceptional situations.

Risk management

Risk management

The Mikron Group applies a consistent Group-wide risk assessment system which covers both strategic and operational risks. All identified risks are given a rating (based on 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. 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 high 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 low 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 not known to it.
 - The Group's business and future development relies on the continued involvement and performance of its senior management and other key personnel such as highly skilled and knowledgeable technical staff. Mikron may not be able to retain the current management team or other key employees or to attract qualified and experienced personnel to fill vacant positions within a short period of time.
 - The Mikron Group maintains a set of insurance policies. However, they may not be adequate to cover all the risks it faces, nor will they be sufficient to fully compensate the impact of any force majeure event.
 - Environmental, health and safety laws and regulations impose increasingly stringent standards and operating conditions. Mikron has implemented thorough processes to meet these requirements. Changes in laws and regulations, or courts and competent authorities adopting a stricter stance in interpreting and applying these regulations, may nevertheless affect the Group's activities.
 - The Group currently owns an investment property in Switzerland. The fair value of the property is reviewed annually as per the balance sheet date and marked to market. Significant changes in the market conditions may impair the value of the property. In 2015, Mikron was informed by one of the lessees (a company renting around 60% of the building) of its intention to move out in 2018. All possible options are currently being investigated.
- 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 an iPhone/iPad application as brand management tools.

Brand management

Brand management

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

Mikron Automation

Mikron Automation

In a challenging business environment with customers proving very reluctant to invest, Mikron Automation achieved significant increases in both sales and EBIT as well as an encouraging EBIT margin of 5.4% (prior year: 3.7%) in 2016.

Business performance

The pharmaceutical and medtech industries are still Mikron Automation's most important market segments. In the US and Europe, new and increasingly complex medical devices are regularly being developed, a growing number of which also contain electronic components. That being said, customers from the pharmaceutical and medtech industries are investing more cautiously than before and are preferring to stagger the build-up of production capacities. Mikron Automation is well placed to meet this need with assembly systems that can be upgraded in phases.

Mikron witnessed an increase in demand for its assembly systems on the Asian market. This is due to the fact that in Asia, too, more and more single-use medical devices are being produced locally, and quality requirements for the assembled appliances are becoming ever more stringent. In 2016, Mikron Automation won a number of significant projects from the pharmaceutical and medtech industries in Asia. In all of its markets – above all in Europe – the business segment also succeeded in selling more systems to customers from the automotive industry than in the prior year. The high productivity of the assembly systems and Mikron's vast experience with extremely challenging applications paid off, making this growth possible despite the high competitive and cost pressure in this market segment.

Order intake and order backlog

At CHF 128.9 million (prior year: CHF 144.9 million), Mikron Automation's order intake did not quite match the record result achieved in 2015. While Mikron Boudry and the two sites in Asia posted year-on-year increases in order intake, the Denver site had to delay some larger projects at the customer's request, and anticipated

new orders had not yet been awarded. All sites reported a good mix of new customer projects and repeat orders from long-standing key customers. At CHF 80.8 million, the end-2016 order backlog was still at a solid level (prior year: CHF 99.5 million).

Sales and EBIT

Thanks to a high order backlog at the start of the year, Mikron Automation was able to increase sales as planned by a good 20% in the year under review. Apart from Berlin, all sites contributed to this growth – with the highest percentage rise reported by the companies in Asia. The service business was expanded further at all sites.

Posting EBIT of CHF 7.5 million (prior year: CHF 4.3 million), the Automation business segment achieved a pleasing EBIT margin of 5.4% (prior year: 3.7%). This was mainly due to stronger sales, good capacity utilization levels at all sites – with the exception of Berlin – as well as the positive effects of measures taken to enhance efficiency. Mikron Automation also completed a number of projects in the US better than planned.

Technology and innovation

Last year the Automation business segment saw the successful launch of its new control software on the European market. The control system is based on robust, tried-and-tested industrial computers and open-architecture, future-proof programming technology. In a subsequent step, the software is to be expanded with further modular elements for a wide range of production processes. The new software offers customers additional features and better utilization of the production data generated by the assembly system – fully in keeping with Industry



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

4.0. The business segment is also expecting more efficient and higher quality execution of projects, especially in the area of customer service.

Continuous improvements

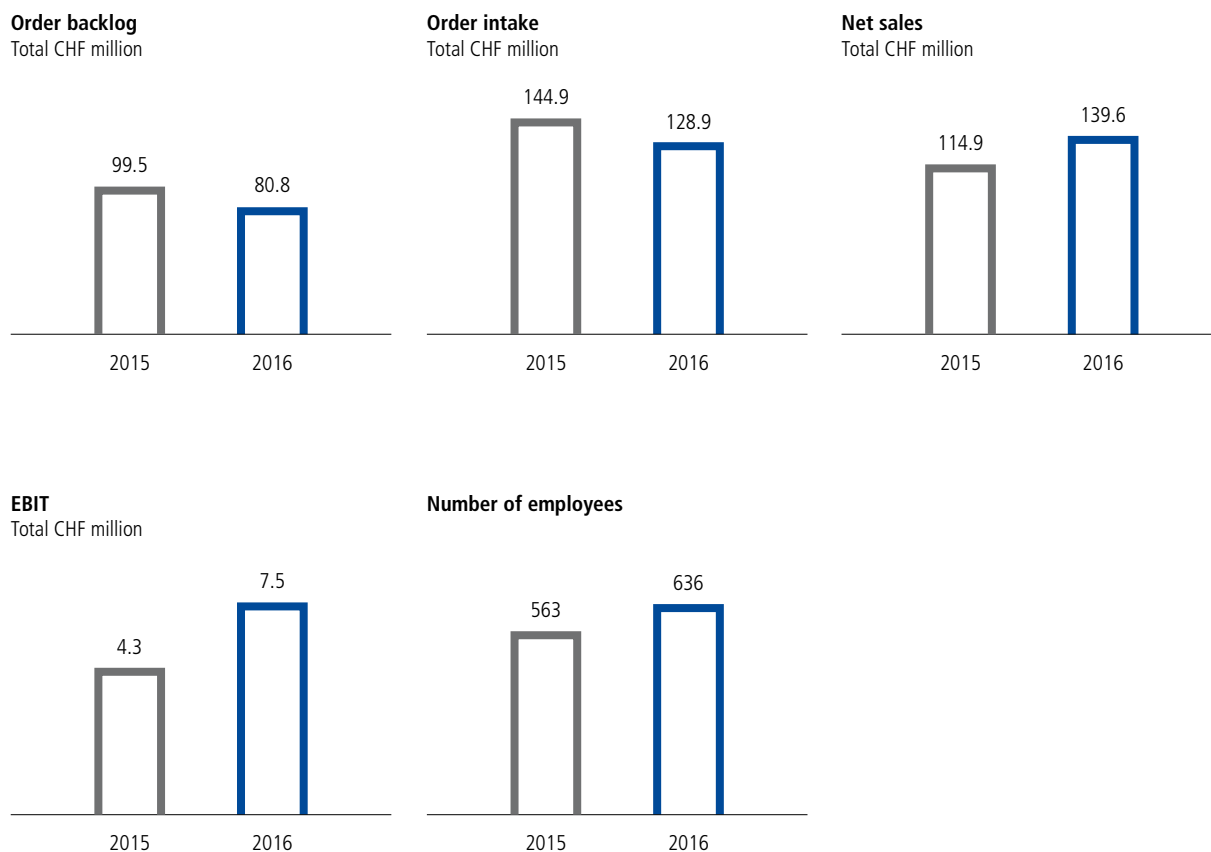
Mikron Automation successfully continued the efficiency enhancement measures introduced at the Boudry site in Switzerland. The standard G05 platform was cost-optimized, for instance, and further savings in costs and time were achieved in the supply chain. The business segment also invested in modern manufacturing machine tools, allowing the introduction of an unmanned third shift for the machining of selected components. On the back of these measures, Mikron Boudry has succeeded in defending its solid competitive position and increasing

profitability in spite of the difficult currency situation.

At the Denver site, the Automation business segment optimized the material flow and work processes at the new building it moved into in 2015. Since the building was already running at full capacity in its first year of operation, Mikron Automation decided to start as early as 2016 on the expansion originally planned for later. The new plant section will be ready for use in spring 2017.

In Asia, Mikron Automation achieved efficiency improvements in the handling of customer projects last year in both Singapore and Shanghai. All processes at the Shanghai site were brought into line with those at the other companies in the business segment – including complete IT integration. A parallel increase in headcount means that Mikron Automation can now also carry out customer

Automation



projects in China entirely on a local basis.

The Automation segment's service business increased the number of customer service specialists and technicians. Thanks to optimized internal processes and the improved link with the CRM system, Mikron Automation's service staff are now in a position to reply faster to customer inquiries and in greater detail.

Employees

At the end of December 2016, Mikron Automation had a headcount of 636. This is 13% more than in the prior year (563). The increase came about due to sales growth of around 20% and a higher number of apprentices. The headcount rose in the US and – to a somewhat lesser degree – in Asia.

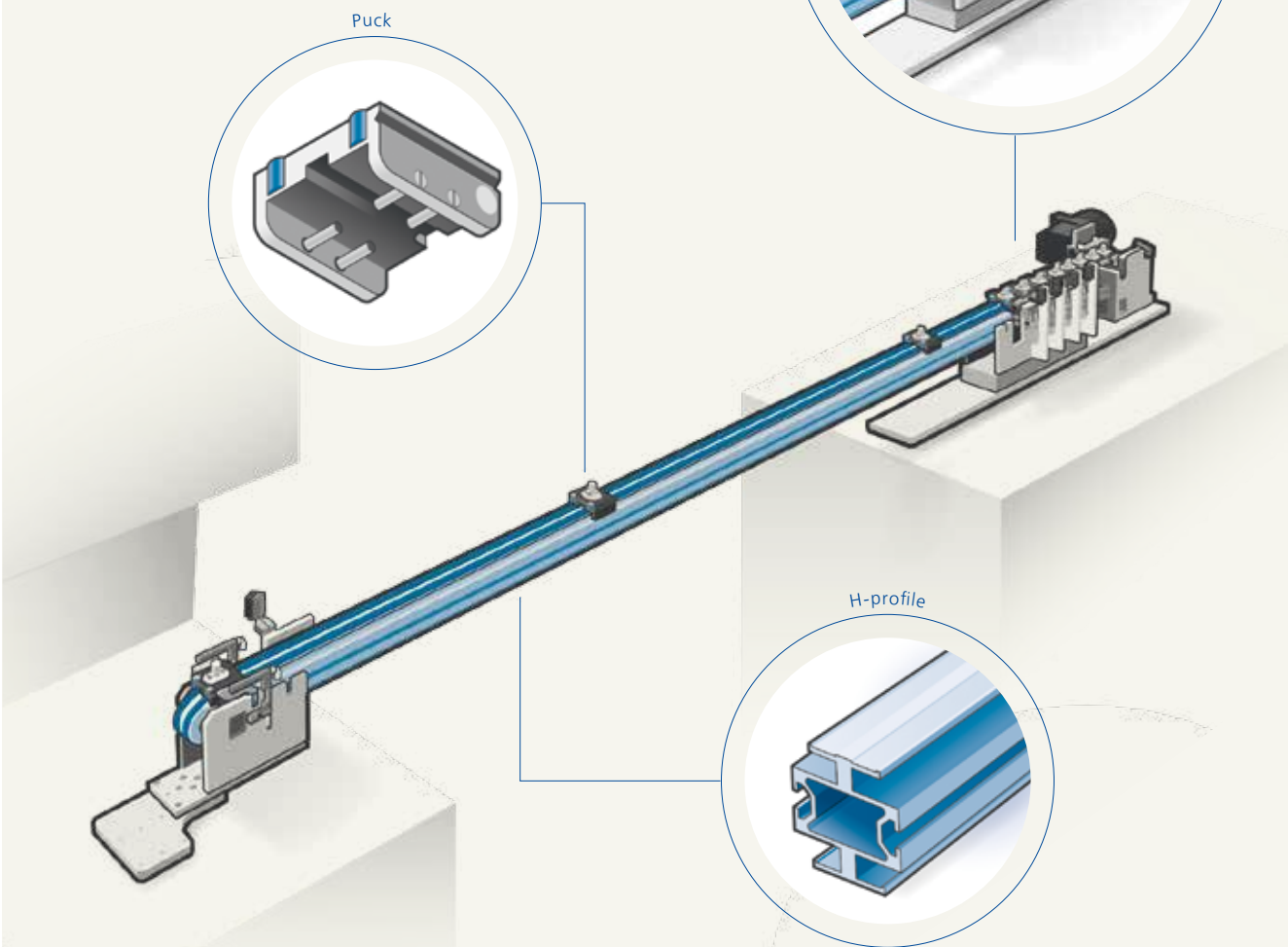
To ensure that enough well-trained employees are available in future too, Mikron Automation intensified its apprentice programs at the sites in Boudry, Berlin and recently also in Denver. Marking a new milestone, Boudry welcomed ten new first-year apprentice multi-skilled mechanics. With the support of Colorado Governor John Hickenlooper, Mikron Automation Denver launched its own apprentice program modeled on the Swiss appren-

ceship training system.

Outlook

It is currently difficult to assess customers' investment behavior. Although they have projects in place, investments are being approved only very hesitantly and usually much later than originally planned. Customers in Europe continue to show restraint when it comes to investing in automation systems, which is turning up the competitive pressure in Germany in particular. It will prove a challenge in 2017 to actually receive the intake of orders expected from the pharmaceutical and medtech industries or to replace them with orders from other market segments. In the US, Mikron Automation is hoping to soon see some clarity as to the new president's economic policy so that existing and potential customers can have more of an idea of which way the market is heading – otherwise investments will continue to be held back. With a number of attractive projects still pending in Asia, Mikron Automation's results in the region hinge very much on these projects being approved. Overall, despite some promising firm customer inquiries, Mikron Automation is expecting 2017 to be a challenging financial year.

An innovative link



Mikron Automation has succeeded in optimizing parts transfer mainly between feeding systems and assembly cells. The new patented solution is extremely rapid, flexible and economical on space. Developing the link involved overcoming a number of obstacles.

Mikron Automation has come up with a solution to an old problem: a flexible, rapid and space-saving system for transferring parts mainly between feeding systems and assembly cells. Classical solutions such as timing belts are unsatisfactory. They have little flexibility of use and no buffer; if one production cell stops, the other stops as well.

Movable pucks

Mikron Automation's design engineers tackled the

problem by substituting a belt with movable pucks for the inflexible timing belts. These pucks carry the parts for assembly along the belt. The loaded pucks travel along the upper side of the belt from the first cell to the second cell, where they are unloaded. The empty pucks make their way – on the underside of the belt – back to the first cell, where they join the column of “waiting” pucks. Although this system provides a buffer and saves

space, it does not by itself solve the whole problem. If the belt is not supported on the underside, it sags, forming a belly, which produces a tailback of pucks.

Flat belly link

To ensure that account was taken of this important aspect too, Mikron Automation developed the “flat belly link”. An H-profile supports not only the top of the belt, but the underside too. This new solution

provides considerably greater flexibility when configuring production lines. Furthermore, due to its low width, it can be compactly integrated into them. Around 50 patented flat belly links are already in service with customers. The innovative system achieves impressive transfer rates: At present, the flat belly link can move 175 pucks per minute.

Mikron Machining

Mikron Machining

The Machining business segment clearly felt the knock-on effects of the extreme restraint shown by customers in the markets for highly productive machining systems in 2016 as well – especially in Europe. Reported sales of CHF 116.4 million are above the prior-year CHF 113.8 million, but this figure was negatively distorted by one-off currency impacts in 2015. The very erratic and generally unsatisfactory development of order intake for machines translated into insufficient capacity utilization levels, which in turn led to a decline in EBIT to CHF -5.2 million (prior year: CHF -4.3 million). The services and tools business performed well.

Business performance

Demand for machining systems from Mikron Machining was well below expectations in Europe, due in particular to an abrupt slump in demand for larger systems for the production of diesel vehicle components. While Mikron Machining's operations in Asia also proved very sluggish, demand picked up considerably toward the end of the year with a growing number of project requests mainly from India, Taiwan, Korea and China. Demand in the US was satisfactory overall, but business was likewise relatively volatile. In the year under review, the Machining business segment's customers generally favored modifying and optimizing existing machines instead of investing in new ones. Tool and service sales were correspondingly encouraging, despite a slow start.

The watchmaking industry also held back noticeably on new investment projects in the year under review. The strong Swiss franc was evidently drawing ever more competitors from the eurozone to this market segment, which had previously been dominated primarily by Swiss machine builders. Mikron Machining nonetheless completed a number of large orders to modify existing systems. Demand from the writing instruments market segment was also reassuring, thanks above all to Chinese investors. Overall, Mikron Machining succeeded in winning several new customers in this segment. The most significant increase in demand seen by the Machining business segment in 2016 was in the area of electrical connectors and plugs. A number of completely different projects were carried out here in the year under review, including for electric cars.

Order intake and order backlog

The widescale reluctance to invest on the part of the automotive and watchmaking industries was reflected in the modest order intake of CHF 114.8 million (prior year: CHF 120.2 million). The lack of orders for large, numerically controlled, technically innovative and highly application-specific systems was felt especially acutely. Customers instead chose either not to invest or to switch to more basic production equipment in preparation for potentially lower production volumes. Encouragingly, Mikron Machining reported a slight year-on-year increase in its tools and services business in 2016. New tool launches enabled Mikron Machining to achieve growth that is less dependent on its machines business. At the same time, the business segment received some sizable tool orders from customers that had started production on new Mikron transfer machines.

The low order intake in the year under review also had an impact on the order backlog at the end of 2016. At CHF 42.3 million (prior year: CHF 43.8 million) this meant that – above all in Switzerland – Mikron Machining started the new financial year with an even smaller cushion than 12 months previously, in spite of the attractive orders won at the end of the reporting year.

Sales and EBIT

While sales rose slightly year-on-year to CHF 116.4 million (prior year: CHF 113.8 million) owing to the distorted 2015 result referred to above, Mikron saw EBIT decrease to CHF -5.2 million (prior year: CHF -4.3 million). This is attributable to a currency-related narrowing of margins on ongoing projects from the prior year, additional costs



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

incurred in the final stage of a small number of customer projects in the first half of the year, significantly higher innovation spending and, above all, unsatisfactory and inconsistent capacity utilization rates. In light of the unsatisfactory volumes and the extremely unpredictable outlook, the business segment scaled back capacity at the Rottweil site (Germany) in the summer. In the fall, the decision was taken to reduce headcount at the Agno site (Switzerland) as well. Cuts are to be staggered until the end of 2017 and will primarily be made through natural attrition. As far as possible, the innovative capabilities at the two sites were not hampered, and in some instances were even enhanced.

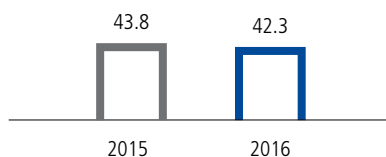
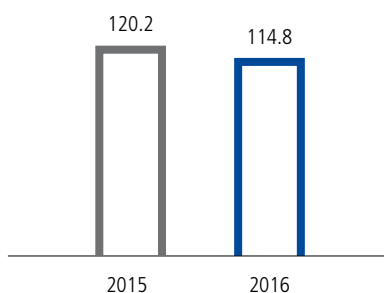
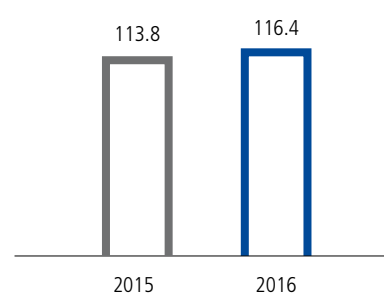
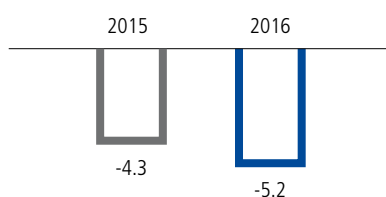
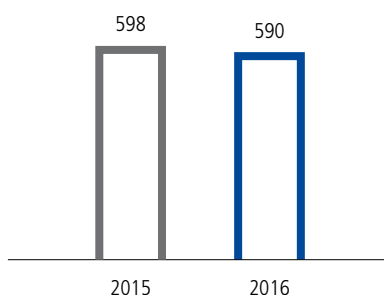
Technology and innovation

In the first half of 2016, Mikron Machining launched the Mikron Multistep XT-200 as a single-module machining center in the US. In September, in addition to a new tool product catalog, the business segment presented the high-performance CrazyDrill Cool for machining challen-

ging alloys, and the full CNC high-precision rotary transfer machine Mikron VX-10.

In the year under review, Mikron Machining launched an innovation offensive in the machines business for the years 2016 to 2018. The business segment is investing a total of more than CHF 10 million in modernizing and streamlining its machine portfolio in line with the new market conditions. In addition to generally cutting costs and addressing the difficult currency situation, the objective is to harness cutting-edge technologies and current production philosophies to develop modular machines with a broad range of applications. They will enable customers to industrially manufacture high-quality precision components in medium to very large quantities in a fast-changing, unpredictable and technically challenging world. The business segment aims to successively launch the new systems in specific customer projects in 2018 and 2019. In parallel with the innovation drive, Mikron Machining will continue investing in the maintenance and ongoing development of existing machining systems. In Agno and Rottweil, Mikron Machining made impro-

Machining

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

vements to the now tried-and-tested shop floor management system introduced in 2015 and commissioned further toolmaking machines. Within the tool business, Mikron Machining successfully developed new tools, tested special tools and carried out training at its technology center in Agno. Mikron Machining also advised several new customers on developing and improving their own drilling and milling processes.

In 2016, Mikron Machining's service business successfully implemented a new remote support software for external access to IT systems and machines for maintenance and repair. Further Industry 4.0-based technologies are already available to Mikron Machining customers.

Employees

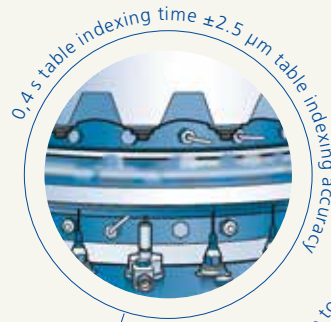
At the end of 2016, Mikron Machining employed a total of 590 people (prior year: 598). The decrease is due to capacity adjustments in the machines business in Rottweil and Agno. Headcount in the tools business and in the US increased in line with higher sales at all sites. The business segment made further investments in the expansion of its sales organization in the year under review. The Machining business segment attaches great value to gi-

ving young people access to professions in the industrial machining sector and so safeguarding know-how both long-term and worldwide. In the year under review, Mikron Machining engaged an additional 15 apprentices and trainees.

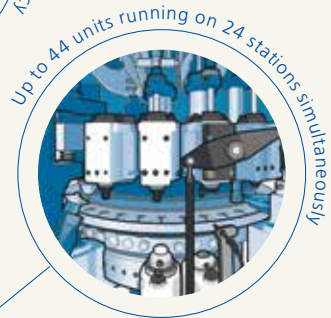
Outlook

Mikron Machining is assuming that customers in the automotive industry will again increase investments in highly productive transfer systems in the course of 2017. On the basis of various published projections and discussions with customers, the business segment does not, however, expect this to happen until the second half of the year. It is difficult to make a concrete forecast because larger projects frequently depend on the demand for end products, and uncertainties and unforeseen events result in investments being regularly postponed or very hesitantly approved. As a general rule, unforeseeable events and crises can very quickly influence business outcomes for an entire sector. No major changes are expected in the watchmaking industry. On the other hand, Mikron Machining is expecting to see stable or even increasing volumes in the electronics market and the writing instruments industry in 2017.

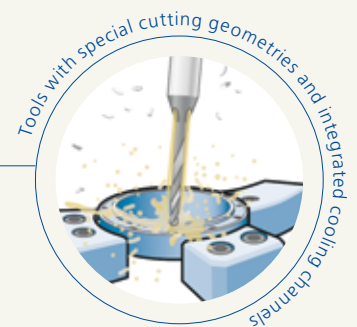
Machining system for the production of lead-free parts



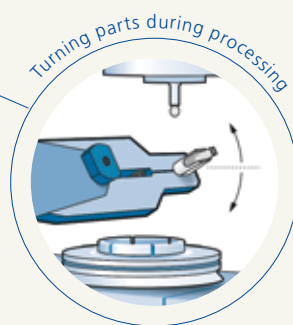
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Up to 44 units running on 24 stations simultaneously



Tools with special cutting geometries and integrated cooling channels



Turning parts during processing

The aim: electronic devices that are free of harmful substances. The problem: to mass produce these devices, manufacturers need to completely rethink their processes. Mikron Machining helps them to do this with a unique offer.

Lead, mercury or cadmium – electrical and electronic devices still contain substances that do not degrade easily and are poisonous to humans above a certain level. This places demands on manufacturers in the electronics industry. A European Union directive aims to stop the use of hazardous substances in electrical and electronic devices.

The “lead-free” challenge

The mass production of metal components without hazardous substances such as lead

brings new challenges for manufacturers. The non-toxic materials can easily form clumps during machining, the tools on the machine quickly blunt or even break, and the precision of the parts machined suffers. It is therefore necessary to completely rethink the manufacturing process. Mikron Machining offers a unique package for this purpose.

High-productivity transfer machines

The Mikron Multistar CX-24 and LX-24 transfer machines enable maxi-

mum precision and speed when machining lead-free materials. Up to 44 units can run on 24 stations simultaneously. The Mikron Multistar CX-24 can also turn the parts 180° during the process. Mikron Machining's package also includes the special tools required.

High-precision tools

Mikron Tool has developed tools with special cutting geometries and integrated cooling channels for processing lead-free materials. These tools offer the utmost in precision, speed and tool

life time. They are not only perfectly designed for the material, but also for Mikron's machines.

Mikron Machining thus offers its customers an all-round, totally precise and reliable machining system – from a single source.

Mikron
Sustainability Report

Sustainability Report

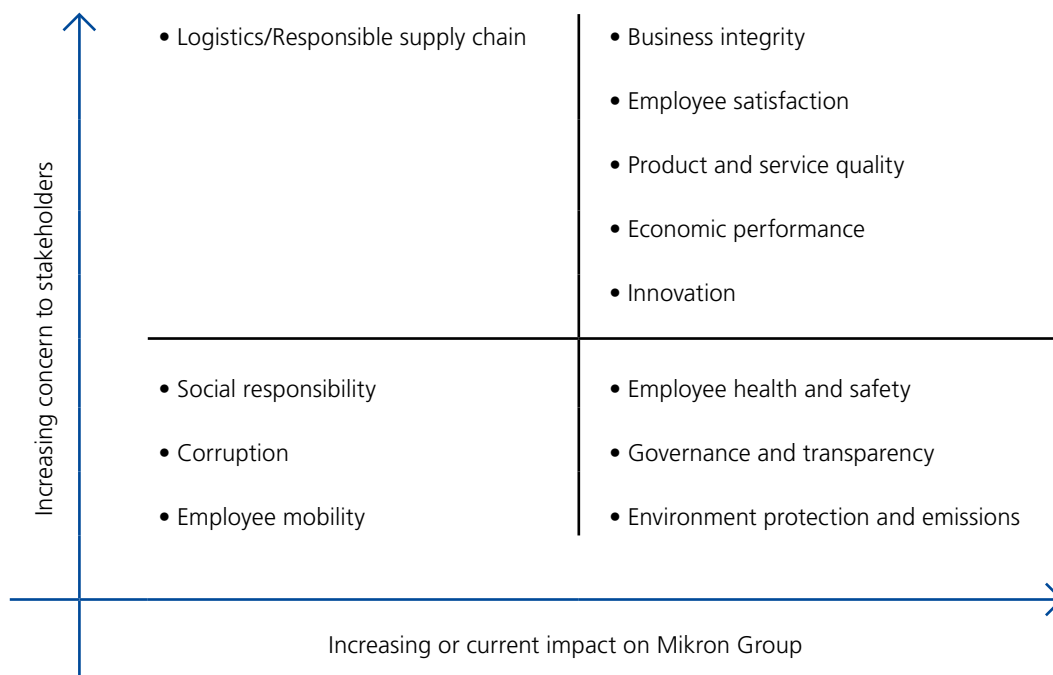
The Mikron Group acknowledges its responsibility towards people and the environment. Its Sustainability Report is guided by the globally recognized principles of the Global Reporting Initiative (GRI). The Group’s aim in this respect is to ensure transparent, standardized, and comparable reporting.

2016 Sustainability Report

In contrast to the 2015 Sustainability Report, the 2016 Report also contains data on the two Mikron sites in the US. The published figures therefore relate to the management company, the Swiss locations of Agno and Boudry, the German locations of Berlin and Rottweil, as well as the US locations of Denver and Monroe. As Mikron Denver transferred to a new location in 2015, there are no prior-year data available, i.e. they would not have produced comparable figures. The sites in Switzerland, Germany and the US account for around 95% of Group sales. Mikron will progressively expand its reporting to cover the

sites in Asia. Information on sustainability and all published reports on the subject are also available online on the Mikron Group’s website: www.mikron.com/sustainability.

The Mikron Group conducts a regular qualitative survey to determine the indicators that are relevant to sustainability reporting. Customers, suppliers and other business partners along the Group’s value chain take part in this survey, together with authorities and new and potential employees. At the same time, internal focus groups are conducted to identify and prioritize other indicators relevant to sustainability reporting. The accumulated findings are presented in the following matrix.



The areas of innovation, product and service quality, governance and transparency, which are key to Mikron, are dealt with on pages 34 and 41 of the present Annual Report.

People

The Mikron Group builds its commercial success on qualified and motivated staff. In interpersonal relationships – be it with colleagues, customers, or business partners – Group management promotes and demands respectful and loyal conduct at all times. The Mikron values provide essential guidance in this respect (see page 29).

All employees are obliged to adhere to Mikron's Code of Conduct. This sets out the relevant principles of ethical behavior in writing and applies to all of Mikron's areas and sites. The aim of the Code of Conduct is to ensure that the Mikron Group comes across as a good corporate citizen, complies with legislation, and creates a working environment characterized by mutual respect, openness and personal integrity. The Mikron Group's membership of various industrial associations and interest groups is one way in which it advocates the attitudes encouraged by the Code. In the year under review, employees at all sites took part in an e-learning course in ethical behavior and compliance and practiced suitable conduct by working through concrete example situations. Two sites also held specific compliance awareness workshops on the topic of conduct in difficult situations and to prevent data loss.

Health and safety

The health and safety of staff are extremely important to the management of the Mikron Group. Internal processes are regularly reviewed for potential negative effects on health and safety. As in the prior year, there were no significant occupational accidents in 2016. At the same time, various sites organized health and safety courses in a drive to reduce the risk of occupational accidents.

Employment conditions

Mikron staff benefit from attractive working conditions. All employees at the Mikron sites in Switzerland are covered by the collective employment contract of the Swiss mechanical and electrical engineering industries.

Number of staff

	2016	2015
Employees (FTEs) <30 years	244.6	219.7
Employees (FTEs) 30–50 years	562.0	578.1
Employees (FTEs) >50 years	340.8	300.8
Total employees (FTEs)	1,147.4	1,098.6
Male employees (FTEs)	1'041.4	997.9
Female employees (FTEs)	106.0	100.7
Total employees (FTEs)	1,147.4	1,098.6
Male senior managers (FTEs)	122.4	129.9
Female senior managers (FTEs)	6.9	6.9
Total senior managers (FTEs)	129.3	136.8
of which currently living within 25 km of company as % of total	69.7 54	79.3 58

New employee hires

	2016	2015
New employees (FTEs) <30 years	92.1	60.4
New employees (FTEs) 30–50 years	65.6	61.6
New employees (FTEs) >50 years	20.4	19.2
Total new employees (FTEs)	178.1	141.2
Male new employees (FTEs)	161.3	106.1
Female new employees (FTEs)	16.8	35.1
Total new employees (FTEs)	178.1	141.2

Occupational pensions are governed by legislation in Switzerland. Survivors' and old-age insurance (AHV) is the compulsory pension insurance system that applies throughout Switzerland. This secures a basic standard of living following an employee's retirement from work due to old age, or death. Workers in Switzerland with a total annual income of more than CHF 21,060 are additionally insured in the pension fund of their employer. This insurance is also mandatory, and supplements the basic AHV pension benefits. Pension fund contributions are divided 50/50 between employer and employee.

In Germany, the statutory pension insurance scheme (gesetzliche Rentenversicherung, GRV) is an important pillar of retirement provision. Contributions are based on earnings and split equally between employer and employee. They are deducted from gross salary and transferred to the pension insurance fund by the employer. The qualifying age for a standard retirement pension is currently 65. The statutory pension insurance scheme is run by Deutsche Rentenversicherung. Occupational pension schemes (betriebliche Altersvorsorge, bAV) represent another important pillar of retirement provision in Germany. They allow employer and employee contributions to be paid into a private pension insurance plan – up to a statutory ceiling, tax-free and exempt from social security contributions. The employees' entitlement to a pension is guaranteed by the state. In Germany, Mikron staff can take out occupational pension provision offering attractive additional benefits at special conditions through "Mikron Vorsorge+".

In the US, no mandatory retirement system exists. Nevertheless, many companies offer their employees the possibility to join a defined contribution retirement plan, the most common of which is the 401(k) plan. These enable employees to make voluntary tax-deferred contributions from their salaries to the plan. Employers can also add contributions. All employees of Mikron (over 21 years of age) have the possibility to participate in a 401(k) defined contribution plan after 6 months of employment. Individuals can contribute up to a government-capped amount. In addition, Mikron makes a contribution matching up to 4% of compensation. The plan provides retiring employees with multiple distribution options for receiving plan account balances. Lump-sum payments, instalment payments for a fixed number of months and annuities are available distribution methods.

Employee turnover

	2016	2015
Employees (FTEs) <30 years leaving Mikron	41.4	29.0
Employees (FTEs) 30–50 years leaving Mikron	67.2	29.9
Employees (FTEs) >50 years leaving Mikron	34.1	34.7
Total number of employees (FTEs) leaving Mikron	142.7	93.6
Male employees (FTEs) leaving Mikron	127.2	87.9
Female employees (FTEs) leaving Mikron	15.5	5.7
Total number of employees (FTEs) leaving Mikron	142.7	93.6
Turnover rate	13%	11%

Employee satisfaction

Every two years, an independent consultancy for personnel and organizational development assesses the level of employee satisfaction in over one hundred industrial companies in Switzerland. 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), which was quite significantly below the average of all companies that were also assessed. Nevertheless, commitment to Mikron was rated higher at 76 points (out of 100). In terms of this aspect, 79% of the companies participating in the survey ranged between 75 and 85 points. The survey also shows that the increasing pace of change represents a huge challenge for a growing number of employees. The detailed results for Mikron were analyzed on different levels by the management teams and specific actions initiated.

Organizations at the individual sites are continually developing. In the year under review, several sites adapted their organizational structure to the current business environment. In connection with this, efforts were also stepped up to assign employees to tasks that allow them to put their skills to maximum use.

Advanced training

In the year under review, the Mikron Group again succeeded in filling all open positions at every site with employees possessing technical qualifications and language skills. As in previous years, though, this entailed considerable effort. Several sites intend to make even greater use of the opportunities offered by dual-track vocational education and training (VET) by taking on additional apprentices. The Denver site launched a new apprentice program supported by the Governor of Colorado. In the year under review, HR officers from the two principal sites of Agno and Boudry were present at a number of school and university information events to wake students' enthusiasm for technical vocations and working for the Mikron Group. Mikron apprentices and trainees attended vocational skills contests, demonstrating the skills they have acquired and earning a number of awards or prizes.

Recruiting, keeping and developing employees and inspiring them to embrace shared goals and practices remain

Training hours

	2016	2015
By employees (FTE) <30 years	2,696.0	2,068.0
By employees (FTE) 30–50 years	13,446.0	14,722.2
By employees (FTE) >50 years	1,963.0	1,267.0
Total training hours	18,105.0	18,057.2

principal challenges at all our locations. Employees in Switzerland, Germany and the US spent over 18,000 hours in advanced training during the reporting year. This is equivalent to an average of 16 hours per staff member in the year under review.

In 2016, 86% (previous year: 86%) of employees received individual feedback from their line managers on their performance over the past twelve months. Individual feedback is important in helping the Group to identify possible advanced training needs.

Headcount

The Mikron Group has around 1250 employees throughout the world. There were 1147 full-time equivalents (FTEs) in Switzerland, Germany and the US at the end of the reporting year – 49 FTEs more than in 2015. A total of 143 FTEs in these countries left Mikron in the year under review, while 178 FTEs joined the company. The remaining growth can be explained by the decision to count apprentices as 1 instead of 0.5 FTE since the end of 2016. The fluctuation rate increased by two percentage points from 11% in the previous year to 13%. This is due to personnel capacity resizing at some Group sites. The rate of absenteeism (working hours absent as a proportion of annual working hours) matched the prior-year figure of 3%, thus remaining at an encouragingly low level. At the end of 2016, the Mikron Group had 44 FTEs in Switzerland, Germany and the US on temporary contracts (prior year: 44 FTE).

Diversity

As in other industrial companies, most of the employees of the Mikron Group in Switzerland, Germany and the US are men, who account for 91% of the workforce. At Senior Management level (129 FTEs), the top management level of the respective Group companies, 95% are men. The management of the Mikron Group is keen to promote diversity within the workforce. At the same time, however, those responsible for recruiting staff are dependent on the labor and training market. In Switzerland, it is still the case, for example, that considerably more men than women gain technical qualifications: the proportion of women pursuing initial training in engineering and technology amounts to 6.7%, with 9.7% studying technical

Other data

	2016	2015
Total hours of staff absent	63,848.6	61,669.8
Total hours worked ytd (standard)	2,403,113.2	2,227,181.5
Rate of absenteeism	3%	3%
Number of employees (FTE) insured at work	1.2	0.8
Number of workrelated fatalities (FTE)	0.0	0.0
Number of employees (FTEs) receiving individual feedback	981.8	946.9

subjects at universities of applied sciences and 29.1% at university (source: Swiss Federal Statistical Office).

There was virtually no change to the average age of employees at the Mikron Group's Swiss, German and US locations during the reporting year: when broken down by age group, it is still the 30 to 50-year-olds that are most strongly represented, making up 49% of the workforce. The proportion of under-30s increased by one percentage point year-on-year in 2016 to 21%, and the proportion of over-50s by three percentage points to 30%.

The Mikron Group has employees of a number of different nationalities at its sites in Switzerland, Germany and the US: alongside Swiss (38%) and Germans (17%), Italians (25%) and Americans (11%) are most widely represented. The relatively high proportion of different nationalities is due to the geographic location of the Agno and Boudry sites: Agno is on the border between Switzerland and Italy, while Boudry is fairly close to France. Mikron employees come from a total of 52 different nations.

In the year under review, 54% of employees at Senior Management level lived no further than 25 kilometers from where they worked. This is slightly lower than the prior-year figure.

Environment

Thanks to its highly efficient machining and automation solutions, the Mikron Group helps to ensure that its customers can produce in an environmentally friendly way. The increasing scarcity of energy and raw materials is a major challenge, to which the Mikron Group is resolutely facing up: we take our responsibility for the environment very seriously, at every link in the value chain. All Swiss sites have ISO 14001:2004 (environment) certification; Agno additionally has OHSAS 18001:2007 (occupational health and safety management) certification. In both Agno and Boudry, quality managers ensure that these certification requirements are complied with and that the Mikron Group continually develops in terms of environmental performance. The German sites in Rottweil and Berlin meet the strict legal requirements of Germany's Energy Services Act, but do not have ISO 14001 certification. They are required to conduct an energy audit every four years to verify what measures the company has taken to reduce CO₂ emissions and whether these are having

Fuel consumption

	2016	2015
From renewable sources (TJ)	0.0	0.0
From non-renewable sources (TJ)	32.4	16.7
Total fuel consumption (TJ)	32.4	16.7
From renewable sources (TCHF)	0.0	0.0
From non-renewable sources (TCHF)	423.7	392.3
Total fuel consumption (TCHF)	423.7	392.3

Electricity consumption

	2016	2015
Electricity consumption (TJ)	30.4	28.0
For cooling system (TJ)	5.8	3.8
Total electricity consumption (TJ)	36.2	31.8
Electricity consumption (TCHF)	1,313.9	1,265.4
For cooling system (TCHF)	188.6	178.0
Total electricity consumption (TCHF)	1,502.5	1,443.4

Sustainability Report

the desired effect. Audits were conducted at the two sites during the year under review – both sites passed.

Like the German locations, the US sites do not have any special environmental certification. The production site in Denver is, however, certified to ISO 9001. In the US, the Environmental Protection Agency (EPA) is responsible for protecting human health and the environment. It has many regulations that affect industries within the manufacturing sector and which are monitored by the quality manager.

In 2015, Mikron Boudry signed an agreement with the Canton of Neuchâtel to increase energy efficiency. By doing so, the site undertakes to use water, oil and electricity more efficiently in the coming years. In addition, Mikron Boudry produced a risk analysis regarding the environmental impact of all its activities.

Mikron Agno signed a target agreement for reducing CO₂ emissions and increasing energy efficiency under the energy model run by the Swiss Private Sector Energy Agency, which has awarded the site CO₂ reduced certification (valid until 2018).

Energy

Energy consumption at all the sites included in the report amounted to 68.6 terajoules in the 2016 reporting year – prior-year figures are not available for the Denver site. The companies in Switzerland and Germany reduced their consumption by a total of 3.7% to 46.4 terajoules (prior-year: 48.2 terajoules). 67% of this amount related to electricity, the remainder to fuel for vehicle transport and to gas and oil for heating. At the Agno site, the mild winter had a positive impact on heating energy consumption. To reduce energy consumption further, the site again invested in the replacement of old lighting with energy-saving light bulbs. Improvements to electrical motors and the optimization of pumps enabled the site to further reduce its power consumption. At Boudry, Mikron likewise invested in the renewal of lighting systems. Office ventilation was also optimized at the site. Increased utilization of machine capacity in the tool segment resulted in a moderate year-on-year rise in electricity consumption at Rottweil. On the other hand, the energy-optimized vehicle fleet helped to reduce fuel consumption at the Rottweil site.

Water withdrawal and discharge

	2016	2015
From groundwater (1000 m ³)	135.2	132.0
From water utilities (1000 m ³)	18.4	12.8
Total volume of water withdrawal (1000 m³)	153.6	144.8

Waste

	2016	2015
Reused (t)	0.2	0.2
Recycled (t)	245.9	271.1
Burned (t)	153.3	184.0
Hazardous waste disposed (t)	51.3	72.7
Disposed otherwise (t)	3.0	3.0
Total weight of waste disposed (t)	453.7	531.0

CO₂ emissions

The Mikron Group is continuously striving to reduce the emission of greenhouse gases. Its energy consumption in the reporting year resulted in CO₂ emissions of 4087 tonnes. Prior-year figures are not available for the US site in Denver. The companies in Switzerland and Germany produced 28% more CO₂ emissions despite a decrease in energy and heating oil consumption. This increase is therefore due entirely to the fact that the calculation was made using the latest emission factors.

Water

The sites included in the report consumed 153,600 m³ of water in the year under review. Prior-year figures are not available for the US site in Denver. The companies in Switzerland and Germany increased their consumption by 2.3%. The increase is mainly due to the higher level of activity at the Agno site, where Mikron uses water for cooling. At 88%, groundwater still made up a high proportion of the total water consumed (previous year: 91%). Virtually all the water Mikron used was fed back into the water cycle as usable water, either directly or via state-run waste-water treatment plants. Effective water consumption is thus low. To optimize water consumption at the Boudry site, faucets with electronic sensors were installed.

Waste

Mikron makes every effort to ensure that waste is dealt with in an environmentally compatible way. In 2016, the Group produced 453.7 tonnes of waste in Switzerland, Germany and the US (2015: 531.0 tonnes), corresponding to a decrease of 14.6%. Prior-year figures are not available for the US site in Denver. In the previous year, a substantial volume of waste was caused by clean-up work, additional special waste in Agno (change of oil for the milling machines, change of powder for the cleaning station, removal of old lighting fixtures) and to a more precise measurement of waste by the new disposal company. Part of the waste at Mikron Automation was attributable to customers' test parts that had to be disposed of at Mikron. This volume varies considerably. The decision not to use the parts burnishing system at Boudry halved the volume of special waste. The German sites scaled up efforts to separate hazardous waste in the reporting year.

Suppliers

As a globally active company, the Mikron Group has a highly heterogeneous procurement chain. Depending on location and business area, the Group uses both international and local suppliers. Mikron Automation and Mikron Machining organize their own procurement. The Swiss sites generate most of their sales in euros. This also affects the choice of suppliers: in order to minimize currency translation losses, they deliberately place orders with suppliers in eurozone countries. In the reporting year, steps were taken to broaden the systematic assessment, monitoring and cultivation of suppliers. The Agno site also evaluated new suppliers in Italy as well as in Eastern Europe – a few outsourcing projects have been successfully implemented. The Boudry site awarded an increasing number of orders to Asian suppliers and is now having some of its basic electrical cabinets assembled externally. At the same time, the site now produces pallets cost-effectively in-house. The Mikron sites in Switzerland, Germany and the US also use local suppliers: in the year under review they placed 15% of their order volume with suppliers based no more than 25 kilometres away from them (2015: 16%).

Compliance

The Mikron Group makes every effort to strictly abide by all laws, and conducts ongoing checks – both internal and external – to ensure that this is the case. No substantial complaints were received in this respect at the Swiss or German locations in 2016.

State support

The Mikron Group received financial support totaling CHF 450,000 from state organizations in the reporting year (2015: CHF 380,000). Around CHF 187,000 of this amount came from the Canton of Neuchâtel for research and development at the Boudry site, approx. CHF 199,000 was awarded to the Group for investments in apprentice training at Boudry and Agno, and CHF 60,000 was paid out for measures at Agno to reduce energy consumption in the Canton of Ticino. All contributions were allocated by Swiss federal organizations, none of which are Mikron Group shareholders.

Mikron
Corporate Governance

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 2016 had a market capitalization of CHF 101.9 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 11 active companies worldwide. The corporate structure and the companies are listed on page 129 of the Annual Report. The Mikron Group's management structure is independent of its legal structure.

Significant shareholders

The following table illustrates the shareholder structure of Mikron Holding AG. It also lists and names those shareholders who, as at 31 December 2016, hold 3% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2016		31.12.2015	
	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%	5,620,169	33.6%
Board of Directors and Group Management	125,755	0.8%	110,755	0.7%
Total	16,712,744	100.0%	16,712,744	100.0%

Further information on the corporate structure is given on page 129. Changes in significant shareholdings since 1 January 2016 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 2016

	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
2014	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
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

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 effected 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 2016:



Heinrich Spoerry
lic. oec., MBA.
Swiss, born in 1951.
Chairman, non-executive.
First elected 2001, elected
until 2017.

From 1987 to 1995 Heinrich Spoerry was a member of the Executive Board of Staefa Control Systems AG. From 1996 to 1998, he held a seat on the Executive Board at Cerberus AG, a subsidiary company of Staefa Control. Heinrich Spoerry then became Chairman of the Board of Directors and CEO (until 31 December 2015) of the SFS Group in Heerbrugg. He 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 2017.

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 2017.

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 2017.

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 2017.

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 in establishing and expanding BCG's consultancy business in the industrial and technology segment amongst other. Since 2015, he has been helping companies to develop and launch digital business models through ML Insights AG, the company he founded himself.

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 time period until the conclusion of the next ordinary General Meeting who – with the exception of the Independent Proxy – must be a member of the Board of Directors.

Duties

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

The Board of Directors is entrusted with the ultimate direction of the Company as well as the supervision of the management. It represents the Company towards third parties and attends to all matters which are not delegated to or reserved for another corporate body of the Company by 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 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 2016 business year, the Board held 7 meetings as well as two teleconferences. The physical meetings lasted between three and eight hours, and the teleconferences about one hour. The meetings of the Board of Directors in the year under review were attended by all members, except for one teleconference.

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, except for one, where a member was not required and thus excused.

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 of 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 2016 business year, each lasting one to five hours. All members attended the meetings. The CFO and CEO (if needed) attended the meetings on behalf of Group Management. 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 respectively 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 respective regulations (details are given on pages 74–77)
- To propose to the full Board of Directors targets for the 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 the Group Management.

The members of the Remuneration Committee in the year under review were the Board members Patrick Kilchmann (Chairman) and Eduard Rikli (until General Meeting in April 2016) respectively Andreas Casutt (as of General Meeting). The Remuneration Committee meets one to three times each year, usually in December and after the results for the financial year have been prepared. Two meetings were held in the 2016 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 timely focus on the decisive entrepreneurial and technical aspects. The Innovation Committee acts as a review board and accompanies 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. Three meetings were held in the business year 2016, 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 staffs.

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. The 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 the Group Management.

Once a year, the Board of Directors assesses the performance of its own members, its committees, its Chairman and the 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 by 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 the 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 Group's IT function reported to the CEO until 31.12.2016, thereafter to the CFO.

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.

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 2016:



Bruno Cathomen

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

Bruno Cathomen assumed office of the CEO of Mikron Group 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).

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 the 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 the 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 case of extraordinary factual 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 the 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.

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 the Group Management or being promoted within the Group Management during the period for which the General Meeting has already approved the overall compensation of the 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 of 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 the Group Management (fixed and performance based components) that may be paid in the subsequent business year;
4. the allocation of a number of shares for the members of the Group Management for the subsequent business year;
5. a possible additional compensation of the members of the 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 time 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 have the following other 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.

With the approval of the Chairman of the Board of Directors, the members of the Group Management may have the following other 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 publication

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

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

Entries in the share register

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

Quorums at the Annual General Meeting

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

Changes of control and defence measures

Duty to make an offer

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

Clauses on changes of control

There are no clauses on changes of control in favour of the members of the Board of Directors, Group Management or other employees.

Auditors

The auditors conduct their audit in accordance with Swiss law and Swiss auditing standards.

The Annual General Meeting elects the auditors for one year at a time.

Since 2004, PricewaterhouseCoopers AG, Berne has held the auditing mandate at Mikron Holding AG, its companies and the Mikron Group. Since the 2015 business year Norbert Kühnis, as lead auditor, has been responsible for the mandate.

Auditing fees and additional fees

In the 2016 business year, fees of CHF 344,981 for services rendered by PricewaterhouseCoopers in connection with auditing the 2016 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 9,200 were paid to the auditors in the year under review for non-audit-related services. They were related to tax consulting 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 provided that 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 2016
Announcement of the annual results/Publication of the Annual Report	16 March 2017
Annual Media and Analyst Conference	16 March 2017
Annual General Meeting	25 April 2017
End of the first six months of the business year	30 June 2017
Announcement of the semi-annual results	25 July 2017

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

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

At the Annual General Meeting, the Board of Directors and the 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).

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 2016. 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 and the 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
Fixed annual basic salary (base compensation)	Monthly cash compensation	Remuneration for function	Scope and responsibility, individual qualifications and experience	–
Performance-based compensation (short-term incentive)	Annual cash compensation	Remuneration for performance	Company results, individual performance	Order intake, EBIT, free cash flow, quantitative and qualitative targets
Share-based compensation (long-term incentive)	Locked-up shares (min. 3-year lock-up period)	Share in long-term performance, geared to shareholder interests	Contribution to the Group's strategic development	–
Pension and benefits	Pension and social security Other benefits	Protection against risks Expenses covered	Standard market practice and position	–

Governance

The General Meeting elects individually at least two but 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.

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

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

Compensation for the year 2016

Compensation to members of the Board of Directors

CHF 1,000	Base compensation		Social security and benefits		Total	
	2016	2015	2016	2015	2016	2015
H. Spoerry, Chairman	86	82	20	16	106	98
E. Rikli, Vice-Chairman	61	58	12	12	73	70
P. Kilchmann, Member	52	50	5	5	57	55
A. Casutt, Member	56	53	9	9	65	62
H-M. Hauser, Member	39	0	6	0	45	0
Total	294	243	52	42	346	285

Members of the Board of Directors receive a fixed remuneration. The remuneration is registered applying the accrual principle. Furthermore, a lump sum is paid out as compensation for expenses

Compensation Report

in accordance with the regulations, which have been approved by the tax authorities. In April 2016, the General Meeting approved a total remuneration payable to the Board of Directors for the period up to the next meeting of maximum CHF 390,000, which includes an additional member.

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	
	2016	2015	2016	2015
Base compensation	399	399	993	993
Variable compensation	103	118	303	320
Share based payments	28	0	51	0
Other compensations	144	133	370	354
TOTAL	674	650	1,717	1,667

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 and is paid after the approval of the annual financial statements. 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 2016. 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 2015, the Annual General Meeting approved a total fixed and performance-related remuneration which may be paid to Group Management during the 2016 financial year of maximum CHF 1,800,000. In April 2016, an amount of CHF 2,100,000 was approved, which may be paid out during the 2017 financial year.

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

	31.12.2016		31.12.2015	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry, Chairman	13,675	0.08%	13,675	0.08%
E. Rikli, Vice-Chairman	21,500	0.13%	21,500	0.13%
Group Management				
B. Cathomen, CEO	30,580	0.18%	25,580	0.15%
R. Rihs, COO	40,000	0.24%	37,000	0.22%
M. Blom, CFO	20,000	0.12%	18,000	0.11%

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 remuneration report of Mikron Holding AG (pages 74 to 77) for the year ended 31 December 2016.

Board of Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration 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 remuneration 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 remuneration 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 remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration 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 remuneration report of Mikron Holding AG for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Norbert Kühnis
Audit expert
Auditor in charge

Bernhard Bichsel
Audit expert

Bern, 13 March 2017

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Mikron Group

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Consolidated Financial Statements 2016 of the Mikron Group

Consolidated income statement

CHF 1,000	Note	2016		2015	
Net sales	4.1	255,986	100%	228,588	100%
Change in work in progress/finished goods		-2,203		3,309	
Capitalized own production		0		98	
Material costs and subcontractors	4.2	-96,359		-86,158	
Personnel expenses	4.3	-113,610		-106,739	
Other operating income	4.4	1,253		1,023	
Other operating expenses	4.4	-34,464		-32,094	
Depreciation of tangible assets	5.5	-5,983		-5,415	
Amortization of intangible assets	5.6	-1,847		-1,558	
Operating result		2,773	1.1%	1,054	0.5%
Financial result	4.5	-948		-1,155	
Ordinary result		1,825	0.7%	-101	-0.0%
Non-operating result	4.6	1,341		1,417	
Profit before taxes		3,166	1.2%	1,316	0.6%
Income taxes	4.7	-829		-394	
Profit		2,337	0.9%	922	0.4%
Net earnings per share – undiluted		0.14		0.06	
Net earnings per share – diluted		0.14		0.06	

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

Consolidated balance sheet

CHF 1,000	Note	31.12.2016		31.12.2015	
Current assets					
Cash and cash equivalents		38,723		34,237	
Current financial assets	5.1	13,530		14,603	
Accounts receivable	5.2	15,445		17,762	
Inventories	5.3	45,313		46,017	
Net assets from customer projects	5.4	38,929		31,422	
Other current receivables		2,918		2,498	
Prepaid expenses		3,325		4,984	
Total current assets		158,183	62.8%	151,523	62.1%
Non-current assets					
Tangible assets	5.5	54,643		53,645	
Intangible assets	5.6	4,673		5,119	
Investment property	5.7	29,604		29,650	
Deferred tax assets	5.9	4,652		3,936	
Total non-current assets		93,572	37.2%	92,350	37.9%
Total assets		251,755	100.0%	243,873	100.0%
Current liabilities					
Short-term financial liabilities	5.10	1,576		1,380	
Accounts payable		16,655		14,864	
Net liabilities from customer projects	5.4	28,054		26,067	
Short-term provisions	5.11	3,528		3,172	
Other current liabilities		2,892		2,677	
Accrued expenses	5.12	15,930		15,200	
Total current liabilities		68,635	27.3%	63,360	26.0%
Long-term liabilities					
Long-term financial liabilities	5.10	21,988		21,580	
Deferred tax liabilities	5.9	4,784		4,362	
Total long-term liabilities		26,772	10.6%	25,942	10.6%
Shareholders' equity					
Share capital	5.13	1,671		1,671	
Treasury shares		-68		-52	
Capital reserves		100,828		101,663	
Retained earnings		53,917		51,289	
Total shareholders' equity		156,348	62.1%	154,571	63.4%
Total liabilities and shareholders' equity		251,755	100.0%	243,873	100.0%

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

Consolidated statement of shareholders' equity

CHF 1,000	Note	Share capital	Treasury shares	Capital reserves	Retained earnings			Total Shareholders' equity
					Accumulated profits	Goodwill recognized	Translation adjustments	
Balance at 01.01.2015		1,671	-151	102,497	52,271	-962	-24	155,302
Profit 2015					922			922
Translation adjustments							-938	-938
Distribution to shareholders				-834				-834
Change in treasury shares	5.13		99		20			119
Balance at 31.12.2015		1,671	-52	101,663	53,213	-962	-962	154,571
Profit 2016					2,337			2,337
Translation adjustments							289	289
Distribution to shareholders				-835				-835
Change in treasury shares	5.13		-16		2			-14
Balance at 31.12.2016		1,671	-68	100,828	55,552	-962	-673	156,348

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

Consolidated statement of cash flow

CHF 1,000	Note	2016	2015
Cash flow from operating activities			
Profit		2,337	922
Depreciation and amortization	5.5, 5.6	7,830	6,973
Revaluation of investment property	5.7	702	581
Net gain (-)/loss (+) on sale of non-current assets	4.4	-7	16
Changes in provisions	5.11	360	-79
Changes in deferred taxes	4.7, 5.9	-164	-773
Other non-cash items		86	1,244
Movement in accounts receivable		2,408	-1,778
Movement in inventories		780	1,260
Movement in net assets/liabilities from customer projects		-5,709	14,047
Movement in accounts payable		2,296	-5,990
Movement in other receivables and prepaid expenses		1,200	-1,971
Movement in other current liabilities and accrued expenses		680	1,064
Cash flow from operating activities		12,799	15,516
Cash flow from investing activities			
Investments in tangible assets	5.5	-5,379	-11,794
Divestments of tangible assets	5.5	9	62
Investments in intangible assets	5.6	-1,463	-777
Investments in investment property	5.7	-618	-721
Investments in financial assets	5.1	-9,050	-5,887
Divestments of financial assets	5.1	10,261	7,000
Cash flow from investing activities		-6,240	-12,117
Cash flow from financing activities			
Purchase of treasury shares	5.13	-77	-52
Sale of treasury shares	5.13	63	171
Distribution to shareholders		-835	-834
Increase (+)/repayment (-) of financial liabilities		-431	5,679
Repayment (-) of finance lease liabilities		-782	-380
Interest received		400	461
Interest paid		-446	-215
Cash flow from financing activities		-2,108	4,830
Effect of exchange rate changes on cash and cash equivalents		35	-284
Net cash flow		4,486	7,945
Increase (+)/decrease (-) of cash and cash equivalents		4,486	7,945
Cash and cash equivalents at beginning of period		34,237	26,292
Cash and cash equivalents at end of period		38,723	34,237

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

Notes to the Consolidated Financial Statements 2016 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 1,250 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.

The first-time application of the principles on revenue recognition of sales in force since 1 January 2016 (Swiss GAAP FER Framework/12, Swiss GAAP FER 3/17-19 and Swiss GAAP FER 6/8) did not result in any material change to the prior treatment. Correspondingly, no restatement of the comparative figure for the prior year was made in the income statement.

1.3 Events after the balance sheet date

The Board of Directors approved the consolidated financial statements at its meeting of 13 March 2017. The approval of the consolidated financial statements by the Annual General Meeting is scheduled for 25 April 2017.

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 manufacture of complex high-precision components made of metal, such as turbocharger housings, injection nozzles and ballpoint pen tips. Mikron Machining develops and produces the necessary high-performance cutting tools itself, and these are regarded as some of the best in the world. Mikron Machining is headquartered in Agno (Switzerland). To date, Mikron Machining has developed and commissioned over 7,000 machining systems. Its international customers operate in the following industries: automotive supply, electronics and telecommunications, consumer goods, construction/building and pneumatics and hydraulics. Mikron Machining employs around 590 people at its production facilities – Mikron SA Agno (Switzerland, headquarters), Mikron Tool SA Agno (Switzerland) and Mikron GmbH Rottweil (Germany) – and its sales and service company Mikron Corp. Monroe (USA).
- Mikron Automation is one of the world's leading manufacturers of customized, highly productive automation solutions for the assembly and testing of complex products. The division guarantees customers fast, professional service and support. Mikron Automation is headquartered in Boudry (Neuchâtel), in a region that is regarded as the heart of the Swiss watchmaking industry. To date, Mikron Automation has installed more than 3,000 assembly and testing systems worldwide. Its international customers operate in the following industries: pharma, medtech, automotive supply, electrical/electronics, consumer goods and construction/building. Mikron Automation employs around 640 people at its sites in Boudry (Switzerland, headquarters), 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 2016	Average rate 2015	Closing rate 31.12.2016	Closing rate 31.12.2015
1 EUR	1.088	1.063	1.071	1.082
1 USD	0.991	0.960	1.025	0.989
1 SGD	0.715	0.698	0.709	0.704
1 CNY	0.149	0.153	0.147	0.153

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 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 yet exists 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	3–5

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 29.6 million as at 31 December 2016. 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 the 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 a 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	
		2016	2015	2016	2015
Euro (CHF/EUR)	-10%	-1,685	-1,429	-1,028	-945
US dollar (CHF/USD)	-10%	839	-738	-1,199	-540

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 2016 and 2015 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 2016, guarantees of CHF 29.2 million (prior year: CHF 27.6 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 payments.

CHF 1,000	Note	Maturity			Total and interest rate by currency					
		Less than 1 year	Between 1 and 3 years	Over 3 years	CHF	%	EUR	%	USD	%
At 31.12.2015										
Bank borrowings	5.10	446	14,957	4,320	13,820	1.2			5,903	2.8
Finance lease liabilities	5.10	745	1,682	621	2,121	2.8	927	3.9		
Derivative financial instruments (notional amount)	6.1	11,382	0	0						
Total		12,573	16,639	4,941						
At 31.12.2016										
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						
Total		28,131	16,474	5,514						

4. Details of the consolidated income statement

4.1 Net sales

CHF 1,000	2016	2015
Automation and machining systems (from customer projects)	184,031	158,480
Automation and machining systems (other)	406	748
Cutting tools	33,174	30,627
Service	38,375	38,733
Total net sales	255,986	228,588

4.2 Material costs and subcontractors

CHF 1,000	2016	2015
Raw materials and components	-91,311	-79,584
Subcontractors	-5,048	-6,574
Total material costs and subcontractors	-96,359	-86,158

4.3 Personnel expenses

CHF 1,000	2016	2015
Salaries and wages	-98,102	-92,146
Social charges	-10,625	-9,836
Pension expenses	-4,883	-4,757
Total personnel expenses	-113,610	-106,739

4.4 Other operating income and expenses

CHF 1,000	2016	2015
Other income	1,232	970
Gain on sale of non-current assets	21	53
Total other operating income	1,253	1,023
Real estate	-6,474	-6,946
Marketing and sales	-7,847	-6,931
Information technology	-3,731	-3,785
Personnel related expenses, including company cars	-4,736	-4,188
Production and project related expenses	-5,634	-4,156
Other expenses	-5,249	-5,690
Loss on sale of non-current assets	-14	-69
Capital and other taxes (excl. income taxes)	-779	-329
Total other operating expenses	-34,464	-32,094

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

4.5 Financial result

CHF 1,000	2016	2015
Financial income	4,130	6,291
Financial expenses	-5,078	-7,446
Total financial result	-948	-1,155
Interest income	400	461
Interest expenses	-438	-223
Total interest result	-38	238
Exchange gains	2,754	5,292
Exchange losses	-3,327	-5,813
Other financial income	976	538
Other financial expenses	-1,313	-1,410
Total other financial result	-910	-1,393
Total financial result	-948	-1,155

4.6 Non-operating result

CHF 1,000	2016	2015
Rental income	2,199	2,223
Income from property-related services	939	935
Total non-operating income	3,138	3,158
Owner-related expenses	-109	-194
Expenses for property-related services	-986	-966
Total non-operating expenses	-1,095	-1,160
Revaluation	-702	-581
Total non-operating result	1,341	1,417

4.7 Income taxes

CHF 1,000	2016	2015
Current income tax	-993	-1,167
Deferred income tax	164	773
Total income taxes	-829	-394
Earnings before taxes	3,166	1,316
Income tax at average tax rates	-791	-343
Impact of non-capitalized loss carry-forwards	-785	489
Capitalization of tax losses previously not recognized	2,631	1,321
Other taxable effects	-1,884	-1,861
Total income taxes	-829	-394
	26%	30%

The applicable tax rate for the Group is 25% (prior year: 26%). This corresponds to the average income tax rates of the individual Group companies in each jurisdiction.

5. Details of the consolidated balance sheet

5.1 Financial assets

CHF 1,000	31.12.2016	31.12.2015
Term deposits	0	2,000
Bonds	8,289	12,603
Investment funds	5,241	0
Total current financial assets	13,530	14,603

The bonds of CHF 8.3 million (prior year: CHF 12.6 million) comprise high-quality Swiss franc and US dollar bonds with a maturity of up to five years. The investment funds of CHF 5.2 million (prior year: none) comprise of high-quality real estate and dividend yield funds.

5.2 Accounts receivable

CHF 1,000	31.12.2016	31.12.2015
Accounts receivable	15,856	18,589
Allowance for doubtful accounts	-411	-827
Total accounts receivable	15,445	17,762

As at the balance sheet date, accounts receivable (including allowance for doubtful accounts) past due for 30 days and more amounted to CHF 2.2 million (prior year: CHF 3.6 million).

5.3 Inventories

CHF 1,000	31.12.2016	31.12.2015
Raw materials and components	20,590	19,276
Work in progress	10,596	13,736
Finished and trading goods	12,921	12,799
Prepayments to suppliers	2,053	1,620
Prepayments from customers	-847	-1,414
Total inventories	45,313	46,017

The provision for slow-moving inventories amounts to CHF 16.3 million (prior year: CHF 15.1 million).

5.4 Customer projects

CHF 1,000	31.12.2016	31.12.2015
Projects in progress – costs incurred	142,092	125,455
Recognized profits less recognized losses	35,233	35,521
Prepayments from customers	-166,450	-155,621
Total net assets and liabilities from customer projects	10,875	5,355
Net assets from customer projects	38,929	31,422
Net liabilities from customer projects	-28,054	-26,067
Total net assets and liabilities from customer projects	10,875	5,355

The stage of completion, determined by the costs incurred to date compared to the total estimated costs, was approximately 61% on 31 December 2016 (prior year: approximately 56%). At the balance sheet date, the Mikron Group had 136 projects in progress (prior year: 172 projects) with an average volume of CHF 2.2 million (prior year: CHF 1.8 million). As at 31 December 2016, there were no retentions by customers (prior year: none).

5.5 Tangible assets

CHF 1,000	Undeveloped real estate	Real estate	Machinery	Equipment and installations	Down pay- ments and assets under construction	Others	Total
At cost							
Balance at 01.01.2015	3,199	75,824	61,447	22,188	628	2,938	166,224
Additions	0	8,623	3,212	1,872	1,176	218	15,101
Transfers	0	109	188	258	-615	6	-54
Disposals	0	-1,167	-1,669	-2,685	0	0	-5,521
Translation adjustments	0	247	-748	-425	1	-175	-1,100
Balance at 31.12.2015	3,199	83,636	62,430	21,208	1,190	2,987	174,650
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
Balance at 31.12.2016	3,199	84,365	66,269	18,569	1,688	3,028	177,118
Accumulated depreciation							
Balance at 01.01.2015	0	-50,571	-50,216	-19,352	0	-1,950	-122,089
Depreciation	0	-1,660	-2,298	-1,247	0	-210	-5,415
Transfers	0	0	0	2	0	-2	0
Disposals	0	1,137	1,669	2,636	0	0	5,442
Translation adjustments	0	-2	531	397	0	131	1,057
Balance at 31.12.2015	0	-51,096	-50,314	-17,564	0	-2,031	-121,005
Depreciation	0	-1,848	-2,483	-1,448	0	-204	-5,983
Transfers	0	0	0	73	0	0	73
Disposals	0	4	801	3,610	0	0	4,415
Translation adjustments	0	-12	31	-5	0	11	25
Balance at 31.12.2016	0	-52,952	-51,965	-15,334	0	-2,224	-122,475
Net book value							
Balance at 31.12.2015	3,199	32,540	12,116	3,644	1,190	956	53,645
Balance at 31.12.2016	3,199	31,413	14,304	3,235	1,688	804	54,643
Of which finance leases							
Balance at 31.12.2015	0	0	1,923	0	480	0	2,403
Balance at 31.12.2016	0	0	3,592	0	0	0	3,592

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

In 2016, the Group acquired tangible assets of CHF 2.0 million (prior year: CHF 2.7 million) on a financial leasing basis.

5.6 Intangible assets

CHF 1,000	Capitalized development costs	Software	Assets under construction	Others	Total
At cost					
Balance at 01.01.2015	2,782	19,271	1,334	663	24,050
Additions	0	386	514	13	913
Transfers	0	79	-38	13	54
Disposals	-550	-1,976	0	0	-2,526
Translation adjustments	-78	-206	0	0	-284
Balance at 31.12.2015	2,154	17,554	1,810	689	22,207
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
Balance at 31.12.2016	3,603	18,222	689	689	23,203
Accumulated amortization					
Balance at 01.01.2015	-2,196	-15,399	0	-637	-18,232
Amortization	-274	-1,282	0	-2	-1,558
Disposals	550	1,976	0	0	2,526
Translation adjustments	44	132	0	0	176
Balance at 31.12.2015	-1,876	-14,573	0	-639	-17,088
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
Balance at 31.12.2016	-2,358	-15,523	0	-649	-18,530
Net book value					
Balance at 31.12.2015	278	2,981	1,810	50	5,119
Balance at 31.12.2016	1,245	2,699	689	40	4,673
Of which finance leases					
Balance at 31.12.2015	0	0	0	0	0
Balance at 31.12.2016	0	0	0	0	0

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

5.7 Investment property

CHF 1,000	2016	2015
Balance at 1 January	29,650	29,510
Capitalized expenditures	656	721
Revaluation	-702	-581
Balance at 31 December	29,604	29,650
Original acquisition cost	43,176	42,520

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 2016. The discounted cash flow method was used for the valuation. A discount rate of 6.4% was applied (prior year: 6.4%).

At the balance sheet date, the Group had entered into CHF 0.1 million (prior year: CHF 0.4 million) of 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 31.12.2015	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2015
		31.12.2015	31.12.2014			
Pension institutions with surplus/deficit	6,814	0	0	0	-4,293	-4,293
Total	6,814	0	0	0	-4,293	-4,293

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
Total	0	0	0	0	-4,295	-4,295

The information on the economic benefit as at 31 December 2016 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 2015. As at 31 December 2015, the Mikron pension fund reported a coverage rate of 116.9% (prior year: 123.5%). According to the pension fund's provisional accounts, the coverage rate is expected to have decreased by approximately 2.2% in the 2016 financial year. The number of active insureds increased in 2016 by about 4% (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	2016	2015
Statement of changes in deferred tax liabilities		
Balance at 1 January	4,362	4,693
Set-up and reversal of temporary differences	177	-442
Change in tax rate	-219	209
Translation adjustments	464	-98
Balance at 31 December	4,784	4,362
Statement of changes in deferred tax assets		
Balance at 1 January	3,936	3,438
Change in capitalized tax loss carry-forwards	293	323
Other changes	319	239
Translation adjustments	104	-64
Balance at 31 December	4,652	3,936

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 4.7 million (prior year: CHF 3.9 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 50.7 million (prior year: CHF 122.3 million) were not capitalized. Applying local tax rates results in a maximum potential tax benefit from non-capitalized tax loss carry-forwards of CHF 11.2 million (prior year: CHF 20.8 million).

5.10 Financial liabilities

CHF 1,000	Note	31.12.2016	31.12.2015
Short-term financial liabilities			
Bank borrowings		410	446
Finance lease liabilities		1,081	745
Derivative financial instruments	6.1	85	189
Total short-term financial liabilities		1,576	1,380
Long-term financial liabilities			
Bank borrowings		19,081	19,277
Finance lease liabilities		2,907	2,303
Total long-term financial liabilities		21,988	21,580

The investment property and two of the production facilities were mortgaged for liquidity management purposes. 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	31.12.2016	31.12.2015
Financial liabilities, expiring		
– not later than 1 year	1,576	1,380
– later than 1 year but not later than 3 years	16,474	16,639
– later than 3 years	5,514	4,941
Total financial liabilities	23,564	22,960

In addition, in April 2015, a credit agreement was negotiated with a bank consortium and concluded for 50 months. 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	Restructuring	Others	Total
Short-term provisions				
Balance at 01.01.2015	2,470	108	551	3,129
Additions	2,551	12	429	2,992
Utilization	-1,191	-101	0	-1,292
Reversal	-1,331	0	-267	-1,598
Translation adjustments	-46	-13	0	-59
Balance at 31.12.2015	2,453	6	713	3,172
Additions	1,918	0	750	2,668
Utilization	-1,248	-8	-78	-1,334
Reversal	-802	0	-172	-974
Translation adjustments	-4	2	-2	-4
Balance at 31.12.2016	2,317	0	1,211	3,528

CHF 1,000	Warranties	Restructuring	Others	Total
Long-term provisions				
Balance at 01.01.2015	0	0	181	181
Reversal	0	0	-181	-181
Balance at 31.12.2015	0	0	0	0
Reversal	0	0	0	0
Balance at 31.12.2016	0	0	0	0

Warranty provisions are related to sales of products and services and are based on experience.

The legal possibility to claim indemnifications related to the sale of companies in 2005 has expired in 2016, therefore the short-term provision reclassified from long-term in the prior year was reversed in 2016.

5.12 Accruals

CHF 1,000	31.12.2016	31.12.2015
Accrued expenses	15,679	15,180
Current income tax payables	251	20
Total accrued expenses	15,930	15,200

The accrued expenses of CHF 15.9 million (prior year: CHF 15.2 million) mainly consist of accruals in relation to employees' annual leave entitlements, overtime and bonus totaling CHF 8.1 million (prior year: CHF 7.2 million). Additionally there were outstanding trade payables, accrued income taxes of CHF 0.4 million (prior year: CHF 0.8 million) as well as the remaining costs of customer projects already billed, but for which final acceptance is still pending.

5.13 Shareholders' equity

Share capital

The share capital as at 31 December 2016 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 2016 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 2016 the company granted 10,000 treasury shares to Group Management (prior year: none) at no consideration, sold no shares (prior year: 28,207) and acquired 12,490 treasury shares (prior year: 8,600 shares). At 31 December 2016 Mikron Holding AG, Biel owned 11,090 treasury shares (prior year: 8,600 shares).

Reserves

The statutory or legal reserves which may not be distributed amount to CHF 0.9 million (prior year: CHF 0.9 million). In the year under review, foreign currency translation adjustments of CHF -0.1 million (prior year: CHF -0.9 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 31.12.2015	0	189	11,382	4,594	6,788	0	0
Balance at 31.12.2016	0	85	26,640	9,873	16,767	0	0

All instruments are mainly denominated in euros and US dollars.

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

6.2 Assets pledged as security for liabilities

CHF 1,000	31.12.2016	31.12.2015
Real estate (including investment property) pledged as security for liabilities	64,216	65,389
Collateral securities – nominal	97,054	97,038
Loans and mortgages utilized	19,491	19,723
Other assets pledged as security for liabilities	58,592	55,533
Finance lease liability (machinery, licenses)	3,988	3,048

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	31.12.2016	31.12.2015
Off-balance sheet lease commitments, payable		
– not later than 1 year	3,095	3,127
– later than 1 year but not later than 3 years	4,290	4,763
– later than 3 years but not later than 5 years	2,165	3,190
– later than 5 years	240	185
Total off-balance sheet lease commitments	9,790	11,265

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	2016	2015
At cost		
Balance at 1 January	962	962
Balance at 31 December	962	962
Accumulated amortization		
Balance at 1 January	-737	-544
Amortizations	-192	-192
Balance at 31 December	-929	-737
Theoretical value 31 December	33	225

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	2016	2015
Profit	2,337	922
Amortization of goodwill	-192	-192
Theoretical profit	2,145	730

CHF 1,000	31.12.2016	31.12.2015
Shareholders' equity	156,348	154,571
Theoretical value of goodwill	33	225
Theoretical shareholders' equity	156,381	154,796

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	2016	2015
Other operating expenses	-25	-6

CHF 1,000	31.12.2016	31.12.2015
Accounts payable	-5	-5
Other current liabilities and accrued expenses	-6	-77

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 156.3 million exceeded the Group's market capitalization of CHF 101.9 million at 31 December 2016. 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	
	2016	2015	2016	2015	2016	2015	2016	2015
Net sales – third party	116,279	113,587	139,563	114,766	144	235	255,986	228,588
Net sales – Group	124	243	20	113	-144	-356	0	0
Total net sales	116,403	113,830	139,583	114,879	0	-121	255,986	228,588
Operating result	-5,240	-4,298	7,523	4,325	490	1,027	2,773	1,054
Earnings before interest and taxes (EBIT)	-5,240	-4,298	7,523	4,325	1,831	2,444	4,114	2,471

CHF 1,000	Machining		Automation		Corporate/Eliminations		Total Group	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Assets excluding cash and cash equivalents and current financial assets	104,013	109,192	85,698	70,468	9,791	15,373	199,502	195,033
Cash and cash equivalents	2,711	1,335	2,545	5,229	33,467	27,673	38,723	34,237
Current financial assets	0	0	0	0	13,530	14,603	13,530	14,603
Total assets	106,724	110,527	88,243	75,697	56,788	57,649	251,755	243,873

7.2 Information by geographical segment

CHF 1,000	Net sales	
	2016	2015
Switzerland	23,450	19,493
Europe	137,889	139,436
North America	60,008	42,729
Asia/Pacific	31,292	22,544
Others	3,347	4,386
Total net sales	255,986	228,588

8. Net earnings per share**8.1 Weighted average number of shares**

Number	2016	2015
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	-11,090	-8,600
Adjusted for weighted average	5,628	-2,282
Weighted average number of shares – basic	16,707,282	16,701,862
Effect of dilution	0	0
Weighted average number of shares – diluted	16,707,282	16,701,862

8.2 Computation of earnings per share

CHF 1,000, except for per share information	2016	2015
Net earnings	2,337	922
Weighted average number of shares – basic	16,707,282	16,701,862
Net earnings per share – undiluted	0.14	0.06
Weighted average number of shares – diluted	16,707,282	16,701,862
Net earnings per share – diluted	0.14	0.06

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 2016 and the consolidated income statement, consolidated statement of shareholders' equity and consolidated statement of cash flow for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 82 to 107 and 129) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 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 1.0 million

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

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 six reporting units. Our full scope audit scope addressed over 67% of the Group's revenue. Specified audit procedures were performed on one further reporting unit, representing a further 19% of the Group's revenue. Additionally, review procedures (mainly based on interviews and analytics) were conducted at three reporting units, representing another 5% 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 1.0 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 2016, Mikron Group realized revenues of CHF 184 million arising from significant customer projects in both its Machining and Automation divisions. The recognition of profits on such contracts in accordance with Swiss GAAP FER 22 “Long term contracts” is based on the stage of completion under the contract activity. This is measured by reference to the proportion of actual contract costs incurred at balance sheet date relative to the estimated total cost of the contract at completion.</p> <p>The measurement of profits on customer projects recognized at the balance sheet date is a key audit matter because of the value of revenue and costs impacted and the level of judgment involved in estimating the forecasted costs and revenues under these contracts.</p> <p>An inappropriate application of the percentage-of-completion method could result in a material variance in the amount of profit or loss recognized at the balance sheet date and thus also in the current period.</p> <p>Refer to notes 2.5.5 “accounting policy for customer projects”, note 4.1 “net sales” and note 5.4 “customer projects”.</p>	<p>We tested the customer projects and their treatment in the consolidated financial statements as follows:</p> <ul style="list-style-type: none"> • We obtained an understanding of the relevant processes and control activities (including budgeting, monitoring of projects and month-end procedures), and tested selected controls for effectiveness; • We reconciled estimated total revenues to contractual arrangements; • We tested significant projects (high value or high risk projects) completed in 2016 to compare the total cost incurred with previous estimates to assess accuracy of estimates; • We performed system-based procedures to test the allocation of personnel, machining and material costs to individual projects; • We tested prepayments and payments received from customers and the allocation to the correct projects; • We tested the project valuation calculations and reconciled information to the general ledgers; • We inquired of project managers to gain a more in-depth understanding of the portfolio of projects and related risks, and to challenge management’s assumptions and estimates applied in the valuation of these projects. <p>We were able to satisfy ourselves that the estimates applied and the assumptions made by management were sufficiently reasonable and supportable 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 break-even. In particular, the Group’s Machining division has reported losses. Furthermore, the carrying amount of consolidated equity at 31 December 2016 exceeds Mikron Group’s stock market capitalization.</p>	<p>We assessed management’s impairment test as follows:</p> <ul style="list-style-type: none"> • We assessed management’s medium-term cash flow forecasts, as derived from its business plans and approved by the Board of Directors while considering accuracy of past management forecasts. We further assessed



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".

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

Bernhard Bichsel
Audit expert

Bern, 13 March 2017

5-Year Financial Summary

CHF million, except productivity and number of employees	2016		2015		2014		2013		2012	
Key performance data										
Order intake	243.6		264.6		244.8		246.4		236.3	
Net sales	256.0		228.6		249.1		241.1		235.3	
Order backlog	122.9		142.9		117.4		122.4		109.5	
Productivity (added value/personnel expenses)	1.39		1.37		1.37		1.40		1.46	
Research and development	7.1		5.7		5.8		4.6		5.2	
Number of employees (end of year)	1,249		1,181		1,162		1,109		1,093	
Investments incl. acquisitions of subsidiaries – net	8.7		16.7		9.8		5.0		11.3	
Earnings										
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	12.6	4.9%	10.0	4.4%	12.0	4.8%	15.2	6.3%	19.8	8.4%
Earnings before interest and taxes (EBIT), as % of net sales	4.1	1.6%	2.5	1.1%	4.6	1.8%	5.2	2.2%	11.2	4.8%
Operating result, as % of net sales	2.8	1.1%	1.1	0.5%	2.7	1.1%	3.0	1.2%	9.1	3.9%
Ordinary result, as % of net sales	1.8	0.7%	-0.1	-0.0%	1.0	0.4%	1.3	0.5%	8.3	3.5%
Profit for the year, as % of net sales	2.3	0.9%	0.9	0.4%	2.2	0.9%	2.4	1.0%	8.5	3.6%
Cash flow										
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	12.8	5.0%	15.5	6.8%	6.7	2.7%	10.6	4.4%	9.8	4.2%
Operational free cash flow (prior to acquisitions and changes in current financial assets)	5.3		2.3		-2.6		5.2		0.6	
Balance sheet										
Balance sheet total	251.8		243.9		237.3		232.1		231.1	
Current assets	158.2		151.5		154.4		152.8		146.1	
Non-current assets	93.6		92.4		82.9		79.3		85.0	
Current liabilities	68.6		63.4		62.7		61.1		60.5	
Long-term liabilities	26.8		25.9		19.2		17.6		17.6	
Shareholders' equity, as % of balance sheet total	156.3	62.1%	154.6	63.4%	155.3	65.5%	153.5	66.1%	153.0	66.2%

Information on Share Capital

	2016	2015	2014	2013	2012
Number of shares¹⁾					
Registered shares	16,712,744	16,712,744	16,712,744	16,712,744	16,712,744
Total	16,712,744	16,712,744	16,712,744	16,712,744	16,712,744
Key figures per share in CHF²⁾					
Profit	0.14	0.06	0.13	0.14	0.51
Cash flow from operating activities	0.77	0.93	0.40	0.63	0.58
Shareholders' equity	9.36	9.25	9.29	9.18	9.16
Distribution to shareholders	0.05	0.05	0.10	0.15	0.12
Share price SIX Swiss Exchange					
At 31 December	6.10	5.93	7.05	6.20	5.03
High/low during business year	6.80–5.34	7.72–5.19	9.90–6.26	6.31–5.07	6.99–5.00

1) All shares are entitled to dividends/distributions.

2) Based on the average number of outstanding shares.

Trading volume (daily average)

In the 2016 fiscal year the average daily trade volume was 3,999 shares (prior year: 9,460 shares).

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Financial Statements 2016 of Mikron Holding AG

Profit and loss statement

CHF 1,000	Note	2016	2015
Services and other income		2,625	3,030
Other operating expenses		-2,251	-2,323
Earnings before interest and taxes		374	707
Dividend income	2	3,400	6,844
Income from revaluation of investments and loans	2	2,096	6,810
Other financial income	3	3,443	2,422
Total financial income		8,939	16,076
Expenses from revaluation of investments and loans	2	-6,074	-37,895
Other financial expenses	3	-1,378	-3,267
Total financial expenses		-7,452	-41,162
Profit/loss for the year		1,861	-24,379

Balance sheet

CHF 1,000	Note	31.12.2016	31.12.2015
Current assets			
Cash and cash equivalents and short-term investments with a quoted market price		46,844	41,882
Short-term interest-bearing receivables		10,150	11,899
<i>Due from Group companies</i>		10,150	11,899
Other current receivables		596	911
<i>Due from third parties</i>		129	145
<i>Due from Group companies</i>		467	766
Accrued income and prepaid expenses		360	429
Total current assets		57,950	55,121
Non-current assets			
Investments	2, 4	45,187	43,163
Financial assets		61,335	53,872
<i>Loans to Group companies</i>	2, 5	61,335	53,872
Total non-current assets		106,522	97,035
Total assets		164,472	152,156
Current liabilities			
Short-term interest-bearing liabilities		15,555	5,762
<i>Due to Group companies</i>		15,555	5,762
Other short-term liabilities		336	711
<i>Due to third parties</i>		260	292
<i>Due to Group companies</i>		76	419
Accrued expenses and deferred income		291	457
Short-term provisions		0	162
Total current liabilities		16,182	7,092
Long-term liabilities			
Long-term interest-bearing liabilities		15,150	12,936
<i>Due to Group companies</i>		15,150	12,936
Total long-term liabilities		15,150	12,936
Total liabilities		31,332	20,028
Shareholders' equity			
Share capital		1,671	1,671
Legal reserves		100,828	101,663
<i>Reserves from capital contribution</i>		100,828	101,663
Profit carried forward		28,848	53,225
Profit/loss for the year		1,861	-24,379
Treasury shares		-68	-52
Total shareholders' equity	6	133,140	132,128
Total liabilities and shareholders' equity		164,472	152,156

Notes to the Financial Statements 2016 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 2016	Closing rate 31.12. 2016
1 EUR	1.088	1.071
1 USD	0.991	1.025
1 SGD	0.715	0.709
1 CNY	0.149	0.147

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 2016 financial year are disclosed.

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

CHF 1,000	2016	2015
Dividend income	3,400	6,844
Revaluation of investments and loans	2,096	6,810
Total financial income from investments and loans	5,496	13,654
Revaluation from dividend	0	-6,844
Revaluation from change in Swiss Code of Obligations (individual valuation of assets)	0	-19,295
Revaluation of investments and loans	-6,074	-11,756
Total financial expenses from investments and loans	-6,074	-37,895
Net financial expenses from investments and revaluation of loans	-578	-24,241

3. Other financial income and expenses

CHF 1,000	2016	2015
Interest income from Group companies	2,242	1,394
Interest income third parties	391	456
Foreign exchange gains	354	291
Other financial income	456	281
Total other financial income	3,443	2,422
Interest expense to Group companies	-131	-14
Foreign exchange losses	-342	-2,172
Other financial expenses	-905	-1,081
Total other financial expenses	-1,378	-3,267
Net other financial income/expenses	2,065	-845

4. Major investments

Please refer to page 129.

5. Subordinated loan

Loans to Group companies include subordinated loans amounting to CHF 14.1 million (prior year: CHF 13.9 million).

6. Statement of shareholders' equity

CHF 1,000	Share capital	Reserves from capital contribution	Treasury shares	Profit carried forward	Shareholders' equity
Balance at 31.12.2014	1,671	102,497	-152	53,205	157,221
Loss 2015				-24,379	-24,379
Proceeds/payments for change in treasury shares			100	20	120
Distribution to shareholders		-834			-834
Balance at 31.12.2015	1,671	101,663	-52	28,846	132,128
Profit 2016				1,861	1,861
Proceeds/payments for change in treasury shares			-16	2	-14
Distribution to shareholders		-835			-835
Balance at 31.12.2016	1,671	100,828	-68	30,709	133,140

In 2016 the company granted 10,000 treasury shares to Group Management (prior year: none) at no consideration, sold no shares (prior year: 28,207) and acquired 12,490 treasury shares (prior year: 8,600 shares). At 31 December 2016 Mikron Holding AG, Biel owned 11,090 treasury shares (prior year: 8,600 shares).

7. Significant shareholders and their investment

As of 31 December 2016 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

	31.12.2016		31.12.2015	
	Number of shares	Voting power	Number of shares	Voting power
Board of Directors				
H. Spoerry	13,675	0.08%	13,675	0.08%
E. Rikli	21,500	0.13%	21,500	0.13%
Group Management				
B. Cathomen	30,580	0.18%	25,580	0.15%
R. Rihs	40,000	0.24%	37,000	0.22%
M. Blom	20,000	0.12%	18,000	0.11%

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

Collateral for third-party liabilities

CHF 1,000	31.12.2016	31.12.2015
Guarantees in favor of bank syndicate	55,000	132,180
Guarantees for Group companies	18,427	12,266

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

CHF 1,000	31.12.2016	31.12.2015
Assets pledged as securities for liabilities	47,440	42,793

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	2016	2015
Profit carried forward at the beginning of the period	28,846	53,205
Excess proceeds from sale of treasury shares	2	20
Profit/loss for the year	1,861	-24,379
Profit carried forward available to the General Meeting	30,709	28,846

The Board of Directors proposes to the Annual General Meeting of Shareholders that the profit carried forward of CHF 30.7 million for the year ended 31 December 2016 be appropriated as follows:

CHF 1,000	2016 Motion of the Board of Directors	2015 Resolution of the General Meeting
Profit carried forward available to the General Meeting	30,709	28,846
Carried forward	30,709	28,846

Reserves from capital contribution

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

CHF 1,000	2016 Motion of the Board of Directors	2015 Resolution of the General Meeting
Reserves from capital contribution	100,828	101,663
Allocation to voluntary retained earnings and distribution to shareholders	-836	-835
Carried forward	99,992	100,828

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 2016, the profit and loss 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 2016 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 1.0 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 a key audit matter the following area of focus has been identified:

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

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.

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the 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 1.0 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 2016, the carrying values of the company's investments, and loans to group companies amount to CHF 45.2 million and CHF 61.3 million, respectively. We focussed our audit on these assets because of the materiality of the account balances, the judgment involved in the assessment of recoverability of these assets and in light of the financial performance of certain subsidiaries pertaining to Mikron's Machining division that has been performing below management's expectations in recent years. Further, the carrying amount of consolidated equity at 31 December 2016 exceeds Mikron Holding's stock market capitalization.	<p>We tested management's assessment of the recoverability of these investments and loans as follows:</p> <ul style="list-style-type: none"> • We analyzed and challenged managements' assessment of the businesses' future results, as reflected in the corresponding budgets and business forecasts of Mikron Group; • We re-performed management's calculation of recoverable values to assess the recoverability of loans to and investments in subsidiaries; • 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.



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.

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 'B. Bichsel'.

Bernhard Bichsel
Audit expert

Bern, 13 March 2017

Group Companies/ Investments Mikron Holding AG

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

Activity

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

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