



Annual Report **2014**

Mikron Annual Report 2014

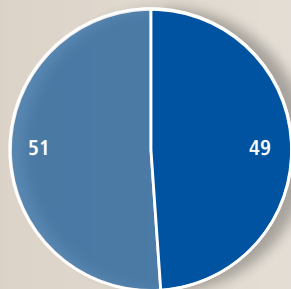
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Sales by segment in %

Total CHF 249.1 million

- Machining
- Automation

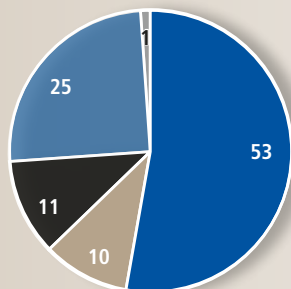


Mikron Group

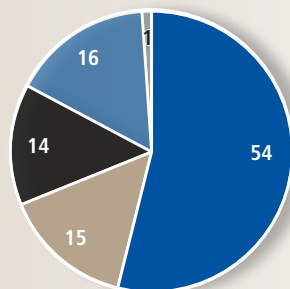
Sales by region in %

Total CHF 249.1 million

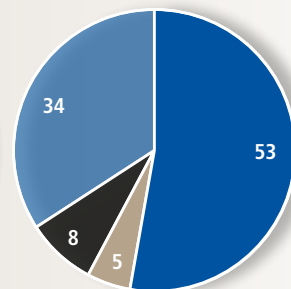
- Europe
- Switzerland
- Asia/Pacific
- North America
- Other markets



Mikron Group



Machining

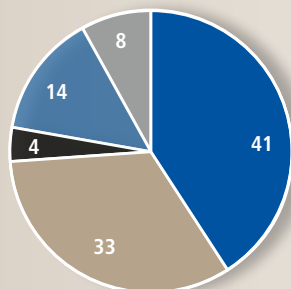


Automation

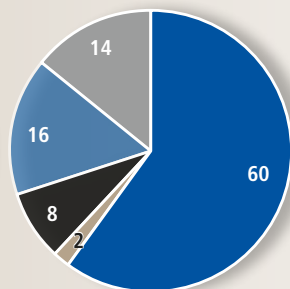
Sales by industry in %

Total CHF 249.1 million

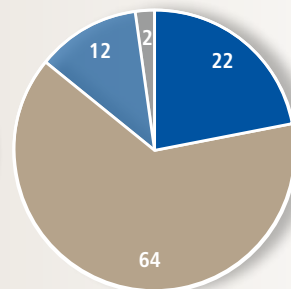
- Automotive
- Pharma/medical devices
- Writing
- Consumer goods
- Other



Mikron Group



Machining

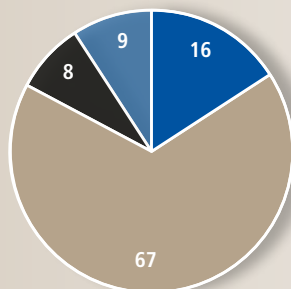


Automation

Employees by region in %

Total 1,162

- Europe
- Switzerland
- Asia/Pacific
- North America



Mikron Group

Mikron

Key Figures 2014

in CHF million, except productivity and number of employees

	2014		2013		+/-	
Key performance data						
Order intake	244.8		246.4		-1.6	-0.6%
Machining	110.9		125.8		-14.9	-11.8%
Automation	134.5		121.8		12.7	10.4%
Net sales	249.1		241.1		8.0	3.3%
Machining	123.8		125.2		-1.4	-1.1%
Automation	126.8		116.8		10.0	8.6%
Order backlog	117.4		122.4		-5.0	-4.1%
Machining	46.9		57.6		-10.7	-18.6%
Automation	70.1		65.1		5.0	7.7%
Operating output	256.9		247.7		9.2	3.7%
Productivity (added value/personnel expenses)	1.37		1.40		-0.03	-2.1%
Research and development	5.8		4.6		1.2	26.1%
Number of employees (end of year)	1,162		1,109		53	4.8%
Machining	565		534		31	5.8%
Automation	592		572		20	3.5%
Earnings						
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	12.0	4.8%	15.2	6.3%	-3.2	-21.1%
Earnings before interest and taxes (EBIT), as % of net sales	4.6	1.8%	5.2	2.2%	-0.6	-11.5%
Machining	-0.6	-0.5%	6.2	5.0%	-6.8	-109.7%
Automation	2.7	2.1%	-4.6	-3.9%	7.3	158.7%
Operating result, as % of net sales	2.7	1.1%	3.0	1.2%	-0.3	-10.0%
Profit for the year, as % of net sales	2.2	0.9%	2.4	1.0%	-0.2	-8.3%
Cash flow						
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	6.7	2.7%	10.6	4.4%	-3.9	-36.8%
Balance sheet						
Balance sheet total	237.3		232.1		5.2	2.2%
Current assets	154.4		152.8		1.6	1.0%
Cash and current financial assets	42.2		46.4		-4.2	-9.1%
Non-current assets	82.9		79.3		3.6	4.5%
Current liabilities	62.7		61.1		1.6	2.6%
Long-term liabilities	19.2		17.6		1.6	9.1%
Shareholders' equity, as % of balance sheet total	155.3	65.5%	153.5	66.1%	1.8	1.2%

Report by the Chairman of the Board of Directors and the CEO

Dear Shareholders,

In 2014, a year shaped by a challenging environment witnessing very different developments in the various business areas and sales markets, the Mikron Group reported a slight increase in sales overall and was able to hold order intake at the prior-year level. However, contrary to Mikron's own targets and expectations, the Group did not succeed in increasing profitability as well, with EBIT at CHF 4.6 million (prior year: CHF 5.2 million). While the Automation business segment achieved a significant improvement in profitability, the Machining business segment fell well short of the corresponding figures for the prior year. In the past few months, the management of the Mikron Group has assessed the impact of the Swiss National Bank's decision of 15 January 2015 to abandon its currency floor against the euro and has initiated a number of actions. Taking this into consideration, in 2015 the Mikron Group should be able to achieve a similar level of net sales and EBIT as in the prior year.

The Mikron Group's business areas and markets performed very differently in 2014. Whereas the medical devices and pharmaceutical industries and the US economy in general made significant progress, a mood of uncertainty and caution affected demand for capital goods in Europe, as felt most acutely by the Machining business segment. The solid demand from Switzerland seen in previous years also slowed down considerably. The Mikron Group nonetheless succeeded in defending the market position held by both business segments in Europe. Healthy capacity utilization levels in the automotive industry also had a favorable impact on the tool and service business. Although developments in the Asian markets fell short of expectations in the year under review, Mikron was still able to win a number of new customers and strengthen local competencies.

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Key figures

Order intake

The Mikron Group reported order intake of CHF 244.8 million in 2014, which was broadly at the same level as the prior year (CHF 246.4 million). While the Automation business segment achieved growth of 10%, the Machining business segment recorded a decrease of 12%. Demand from the medical devices, pharmaceutical and consumer goods industries in the US generated an exceptionally high order intake at Mikron Automation. In the first half of the year, demand from the medical devices and pharmaceutical industries in Europe was also considerable, but it tapered off substantially in the second half. Demand for machining and automation solutions from the automotive industry was generally very sluggish and unpredictable. By contrast, the automotive industry's demand for tools and services was encouraging. It was largely our innovative, high-performance tools that impressed new customers, including out-

Demand from the medical devices, pharmaceutical and consumer goods industries in the US generated an exceptionally high order intake at Mikron Automation.



Bruno Cathomen, Chief Executive Officer

Heinrich Spoerry, Chairman of the Board of Directors

side our usual core business sectors. In the year under review, all companies in the Mikron Group attracted orders from new customers and for new applications. We view this as confirmation of the Mikron Group's market proximity and innovative leverage – strengths which we aim to continue drawing on in the future.

Net sales, capacity utilization and order backlog

The Mikron Group increased its annual sales by 3% to CHF 249.1 million in the year under review (prior year: CHF 241.1 million). This growth is attributable solely to the Automation business segment, which enjoyed healthy capacity utilization levels at the Boudry and Denver locations and saw a 9% increase in sales to CHF 126.8 million (prior year: CHF 116.8 million). Thanks to the reassuring development of tool and service activities and despite a disappointing performance in terms of machinery business, the Machining business segment reported sales of CHF 123.8 million, only marginally below the previous year's level (prior year: CHF 125.2 million). In the year under review, capacity utilization within the Group was very unevenly distributed and in some cases unsatisfactory. It proved correspondingly difficult to plan and manage capacity. Europe remains the dominant geographic market for the Mikron Group, accounting for

The Mikron Group increased its annual sales by 3% to CHF 249.1 million in the year under review (prior year: CHF 241.1 million).

53% of all sales. Both business segments profited from the recovery in the US industrial sector. Overall, the US accounted for 25% of Group sales (prior year: 12%). Thanks to a shift in orders within the Automation business segment in the direction of Asia, Mikron increased sales in this region by 13% to CHF 27.5 million (prior year: CHF 24.3 million).

At CHF 117.4 million, the Mikron Group's order backlog at the end of 2014 was around 4% lower than the corresponding prior-year figure, with orders in hand still unevenly distributed over the sites. In order to grow further in 2015 and achieve satisfactory capacity utilization levels throughout Mikron, the Group needs to see a solid order intake already in the first few months of the year. Whether this will be the case is uncertain in the wake of the Swiss National Bank's decision to abandon its floor against the euro.

Profitability

With EBIT of CHF 4.6 million (1.8% of sales), the Mikron Group largely fell short of its profitability target. While the Automation business segment achieved a significant improvement in earnings with EBIT of CHF 2.7 million (prior year: CHF -4.6 million), the Machining business segment suffered a severe setback, reporting EBIT of CHF -0.6 million (prior year: CHF 6.2 million). This mainly reflects the significant fluctuations in order intake at a generally disappointingly low level and the related capacity utilization problems. The operating result was impacted not only by an uneven distribution of work, but also by additional costs during the final phase of several customer projects. The strong performance by Mikron Machining's tool and service business was, unfortunately, not sufficient to offset this decrease.

Net earnings

After factoring in the financial results and income taxes, the Mikron Group's net earnings for 2014 amounted to CHF 2.2 million, showing virtually no change against the previous year's figure (CHF 2.4 million). With earnings below expectations, and in view of the new challenges facing the Group following the decision of the Swiss National bank to abandon the ceiling on the euro, the Board of Directors will be proposing to the Annual General Meeting a distribution from capital reserves of CHF 0.05 per share (prior year: CHF 0.10 per share).

Financing/equity ratio

The group of investors who concluded a shareholder pooling agreement in 2003 terminated this agreement in April 2014. We wish to take this opportunity to reiterate our sincere thanks to these long-standing investors for their support. The Mikron Group continues to be solidly financed and

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The Board of Directors will be proposing to the Annual General Meeting a distribution from capital reserves of CHF 0.05 per share.

essentially debt-free. The net cash position (cash and cash equivalents plus current financial assets less interest-bearing liabilities) as at 31 December 2014 amounted to just under CHF 28 million. Our equity ratio is a solid 65%.

Cash flow

The Mikron Group reported operating free cash flow of CHF -2.6 million in the year under review. Despite strict management of net working capital, investment requirements could not be fully met with operating cash flow. Key negative contributing factors here were the international payment terms enforced by customers in the automotive industry and individual complex longer-term projects which cannot be completed and billed before 2015.

Employees

It is becoming increasingly hard for the Mikron Group and our customers to recruit technically qualified employees who also have language skills. This is true even though we can count specifically on Switzerland's dual education system and on our excellent reputation as an employer. Despite huge efforts to expand and optimize basic and further training opportunities within the company and to motivate employees to live out the Group's values, a number of interesting and challenging positions could only be filled with difficulty. Recruiting, keeping and developing employees and inspiring them to embrace shared goals and practices is and remains one of the principal challenges at all our locations. Our values are also showcased in our new corporate video, which can be found on our website at www.mikron.com.

Outlook

For 2015 the Mikron Group assumes an essentially unchanged difficult, but relatively stable economic environment. Automotive production is set to increase globally, and novel eco-friendlier transmission systems will further stimulate demand for new machining and automation solutions. We also expect to benefit from the growing need for self-medication and for precision assembly solutions. However, the positive economic development projected for the US is offset by continuing major uncertainties in Europe and parts of Asia. Many customers in these regions are very cautious regarding their investments. In addition, the removal of the floor against the euro by the Swiss National Bank creates major new challenges for Swiss export companies such as the Mikron Group. In response, we have already introduced numerous measures to secure sales and reduce

costs and will continue to do so. Taking this into consideration, in 2015 the Mikron Group should be able to achieve a similar level of net sales and EBIT as in the prior year.

Thanks

Last year demanded great commitment, strong nerves and considerable flexibility from our employees in both business segments, and most especially from all our managers. We would like to thank all Mikron employees for their tireless dedication, our customers for their confidence, and you, our valued shareholders, for your loyalty.

Yours sincerely,

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

Mikron

The Mikron Group

The Mikron Group markets machining and automation solutions, enabling customers around the world to master their precision manufacturing processes. Rooted in a culture of Swiss innovation, Mikron is a leading supplier to the automotive, medical devices, pharmaceutical, consumer goods, writing instruments and watch-making industries.

The two divisions, Mikron Automation and Mikron Machining, are based in Boudry and Agno, Switzerland, with additional production facilities in Germany, Singapore, China and the United States. The Mikron Group employs approximately 1,200 people who work to provide Mikron customers with an experience that reflects over 100 years of leadership in high-performance and high-precision production.

Mikron Holding AG is listed on SIX Swiss Exchange (MIKN).

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.

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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, medical devices, pharmaceutical, consumer goods, writing instruments and watch-making industries.

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.

Values

- **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.
- **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.
- **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.
- **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.
- **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.
- **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.

Group strategy | The Mikron Group helps customers to be market and business leaders by increasing industrial productivity and quality. 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 cutting tool business. 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. 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 medical devices industries, it aims to maintain its leadership position in Europe, to strengthen the footprint in Asia and grow at a disproportionately high rate in the US. 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 convincing value propositions.

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

Risk management | Mikron employs comprehensive risk management to ensure that the risks to which the Group is exposed are identified and assessed correctly, and that the appropriate risk monitoring and control measures are implemented efficiently. Further information on risk management is given in the Commentary of Group Management on the Financial Report 2014 of the Mikron Group and in the Notes to the Consolidated Financial Statements 2014 of the Mikron Group.



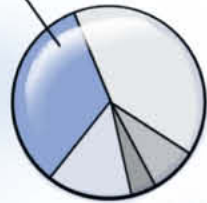
PHARMA / MEDICAL DEVICES



PEN INJECTOR



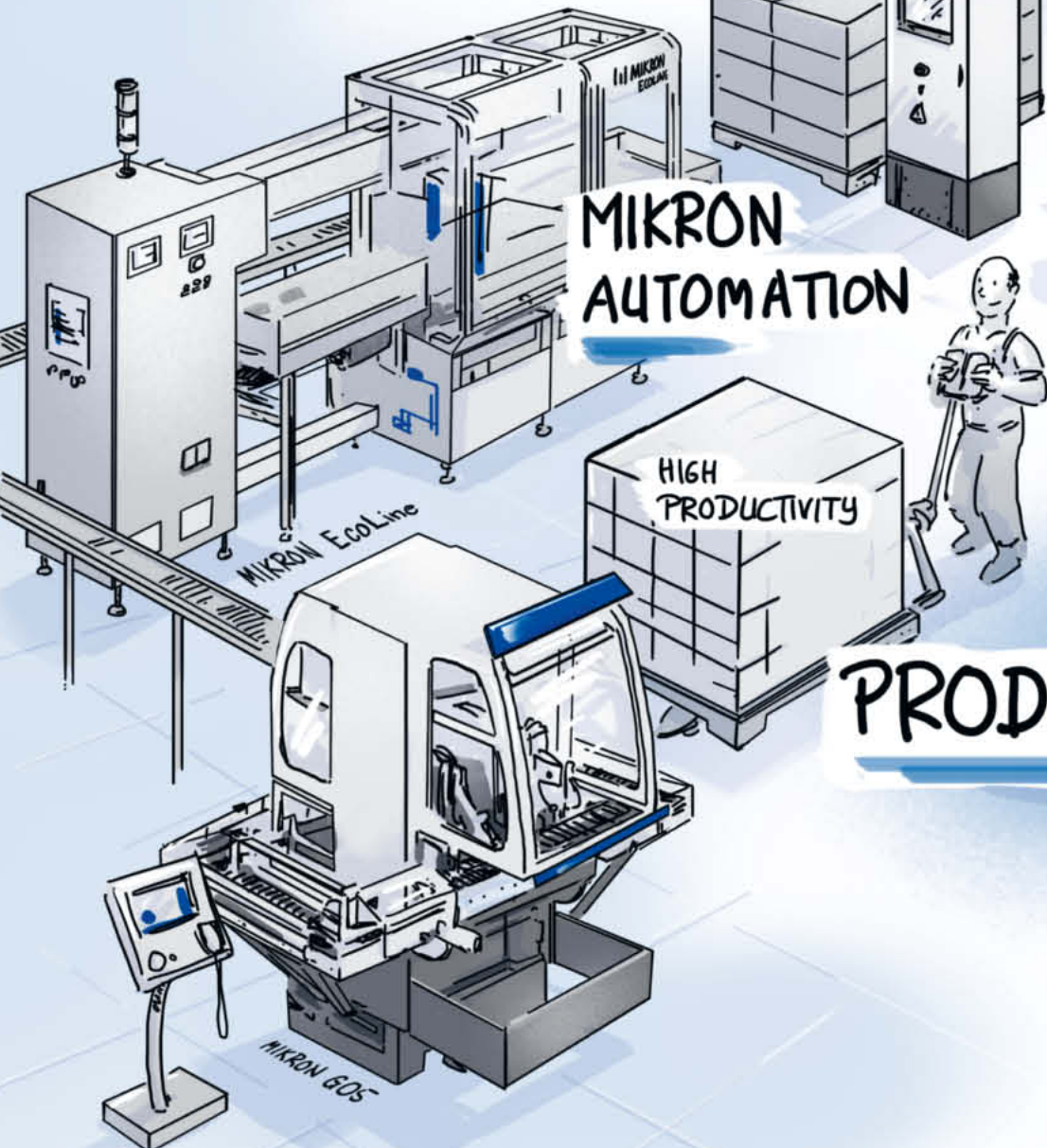
INHALER



PASSION



MIKRON AUTOMATION



Mikron EcoLine

Mikron 605

HIGH PRODUCTIVITY

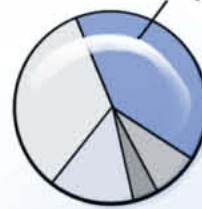


PRODUCTIVITY



THE WORLD OF **MIKRON**

AUTOMOTIVE

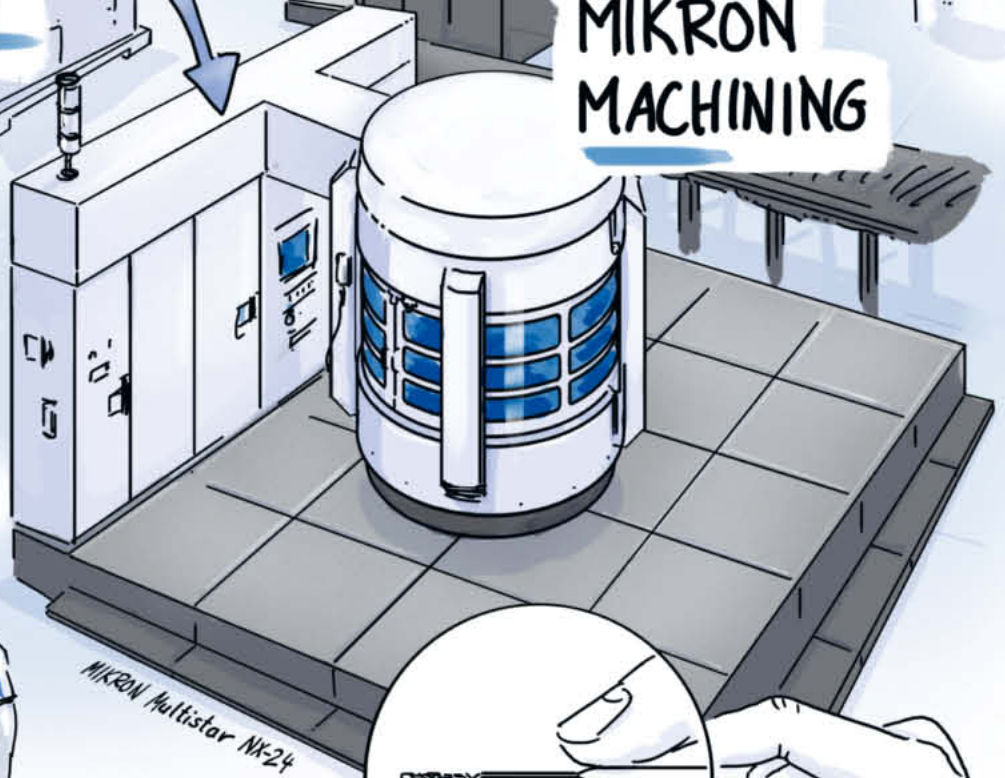


HIGH VOLUME



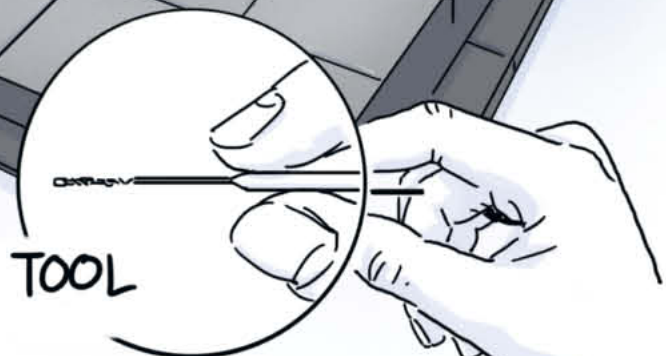
PRECISION

**MIKRON
MACHINING**



MIKRON Multistar NK-24

MIKRON TOOL



SERVICE

Mikron Automation

Mikron Automation is one of the world's leading manufacturers of customized, highly productive automation solutions for high-precision assembly and testing of products up to hand-size. The business segment operates primarily in the medical devices, pharmaceuticals, automotive and consumer goods industries.



590 employees

Mikron Machining

Mikron Machining is the leading supplier of customized, highly productive machining solutions for the manufacturing of complex high-precision components made of metal. The high-performance cutting tools used on the systems are developed and produced in house at Mikron Machining. Customers in the automotive, the writing instruments and the consumer goods and watchmaking industries account for the majority of the segment's net sales.



Net sales:
CHF 127 million in 2014

Net sales:
CHF 124 million in 2014

Automation solutions
for assembly and testing
Services

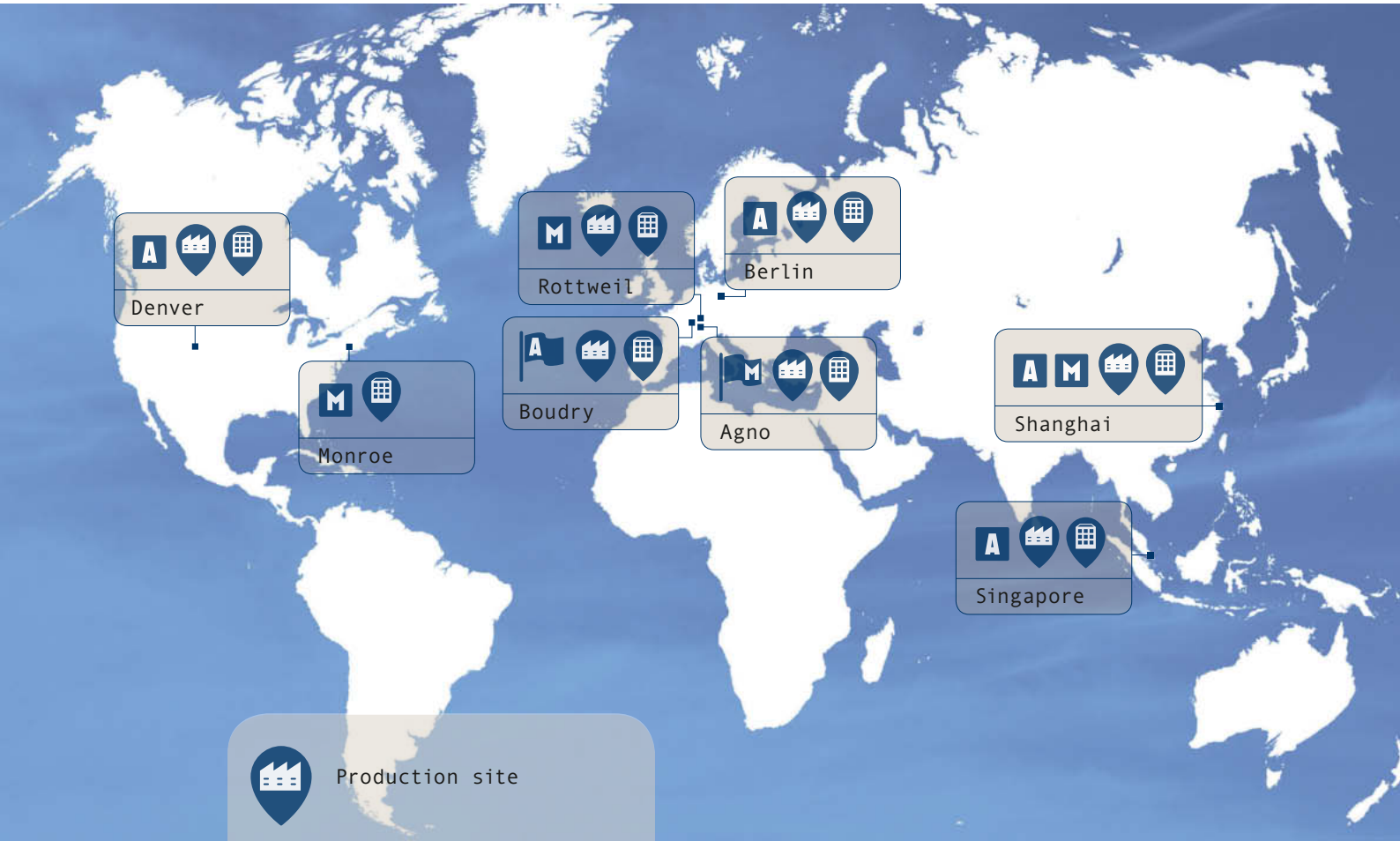


Machining solutions
for the manufacturing of
components made of metal
Cutting tools
Services



Nearly 40 years' experience
More than 3,000 systems installed

Over 100 years' experience
More than 7,000 systems installed



-  Production site
-  Sales and service center
-  Mikron Automation
-  Mikron Machining
-  Headquarters
Automation/Machining



The Mikron Group has a **global** presence. In addition to **eight** production sites and service centers the Group also has an **extensive network** of sales and service representatives. For more information go to: www.mikron.com/en/locations

Mikron

Highlights in 2014

January: Mikron Machining sells its first Mikron Multi-step XT-200 machining system to a United States customer after having sold the first Mikron NRG machines to the US at the end of 2013. Besides Mikron Tool, the Mikron Multi-step XT-200 is also one of the highlights at the IMTS, the most important machine tool exhibition in the US.

April: At the Annual General Meeting, the shareholders of Mikron Holding AG approve the revised Articles of Association required by the new ordinance against excessive remuneration in listed companies.

April: The shareholder pooling agreement for the shares of Mikron Holding AG is terminated. However, the core group of investors retain their holding in Mikron.

June: Two apprentice multi-skilled mechanics from Mikron SA Agno see off 1200 competitors to take two of the top-ranking places in "Tool Champions 2013/14", the competition that honors the most talented young Swiss apprentices in high-precision metalworking.

June: Mikron Automation attends Automatica, the international trade fair for automation and mechatronics in Munich. The division presents its full range of automation platforms for the first time on its 120-square-metre stand.

July: Apprentices from Mikron Boudry participate in the Industry Day organized in Zurich by Swissmem – the Swiss mechanical and electrical engineering industries federation. They talk to invited guests from the world of politics and industry about the significance of vocational training in Switzerland.

July: The Mikron website features a new responsive design that automatically adapts to different screen sizes. The Group also revamps its page on the LinkedIn networking platform (www.linkedin.com/company/mikron).

September: The Mikron Group wins 1st prize in the Newcomer of the Year category of the 2014 Swiss Annual Report Rating by the Harbour Club and Bilanz business journal. Mikron was singled out for the leap in quality it has made in value reporting. At the awards ceremony held on 18 September, the jury particularly praised Mikron's sustainability reporting.

September: Mikron Denver completes an ISO 9001 Quality System surveillance audit with zero non-conformities.

October: In Monroe the standard Enterprise Resource Planning (ERP) system SAP of Mikron Machining goes live. All companies now share the same system. In Singapore, moreover, a new ERP system is implemented, supporting Mikron Automation's strategy of aligning processes.

October: Mikron Machining attends the International Exhibition for Metal Working (AMB) in Stuttgart with a brand-new stand concept. The number of visitors reaches a record level. Along with the Mikron Multistep XT-200, Mikron Machining presents the Mikron Multistar LX-24.

November: Launch of the Mikron Management and Leadership training program. Employees from Agno, Boudry, Rottweil, Berlin and Monroe take part in the program.

November: To ensure that the almost 20 multi-skilled mechanic apprentices can benefit from a state-of-the-art work setting, the Mikron Boudry trainee workshop expands its infrastructure with the addition of two new milling machines, a lathe and a CNC machine.

November: Mikron Automation attends Pack Expo, the international trade fair for process and packaging solutions in Chicago. The interest in Mikron Automation at Pack Expo was significantly higher than any recent US shows Mikron Automation has participated in. This confirms the very good performance of Mikron Automation in the US market in 2014: In the first nine months, Mikron Automation's Denver site has already sold ten automation solutions and acquired four new customers – record figures for Mikron in the USA.

November: CrazyMill Cool, a small milling cutter made of hard metal and produced by Mikron Tool, is the best innovation to emerge from Switzerland's manufacturing and production industry in the past two years. That is the opinion of the jury adjudicating the Prodex Award, Switzerland's most prestigious manufacturing prize.

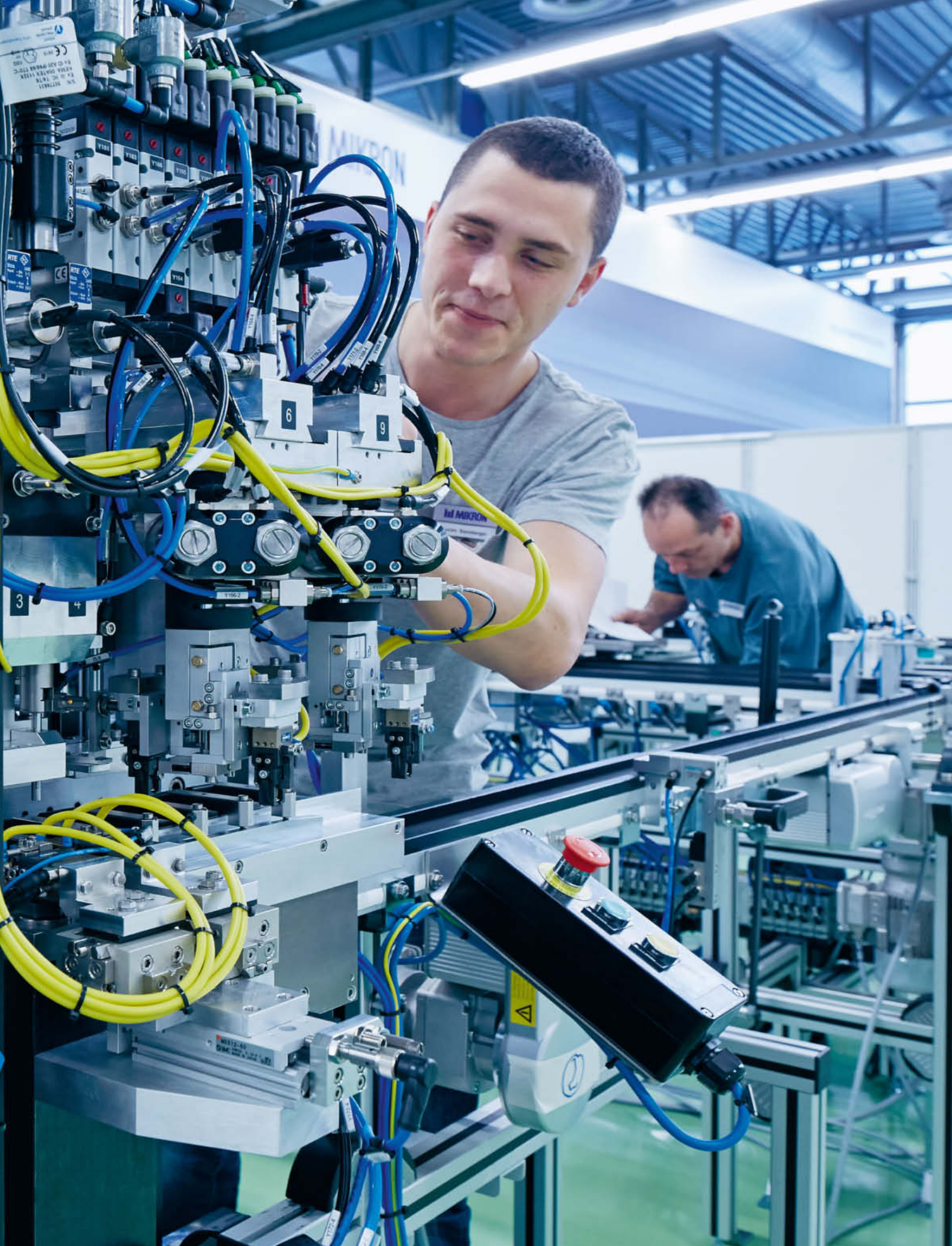
December: Mikron Machining invests into new machines and into process technology throughout the year to support further growth in its tools business. Renovation of the roof of the Agno site's tools factory is completed, testifying to the company's commitment to manufacturing at this location.

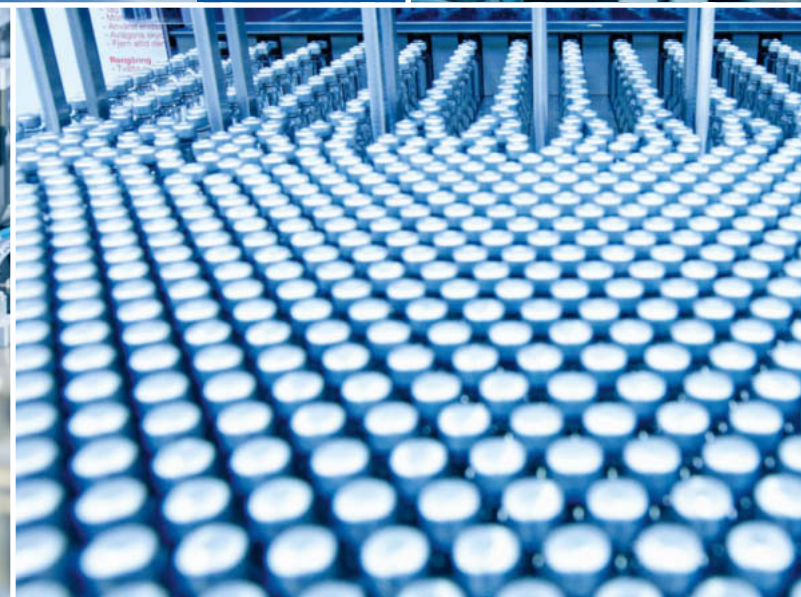
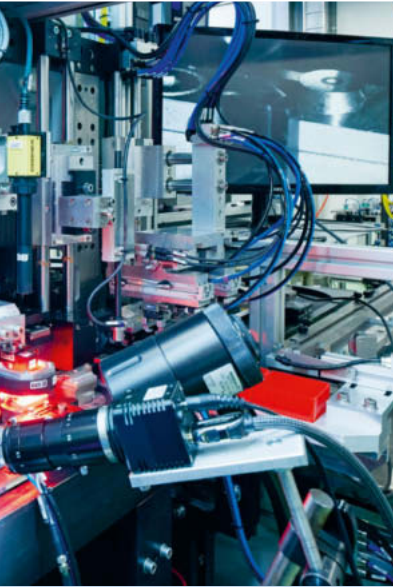
December: Mikron Berlin delivers its first assembly cells based on the standardized Mikron G05 platform, thus supporting the execution of large cross-company projects at Mikron Automation.

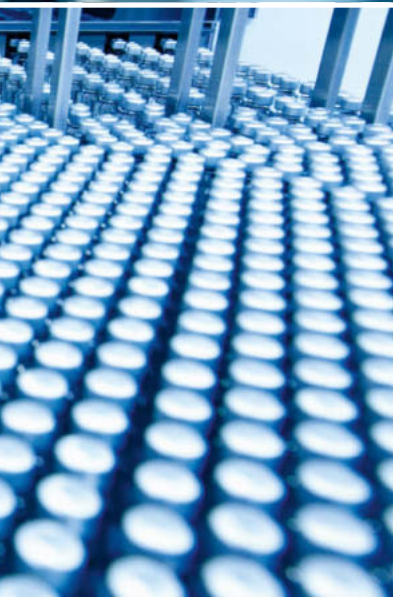
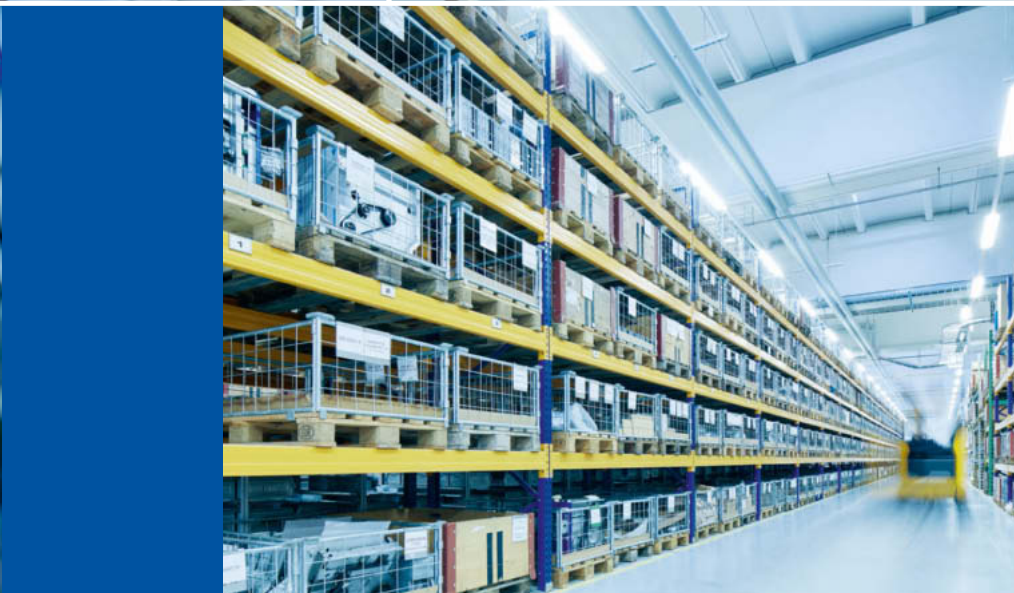
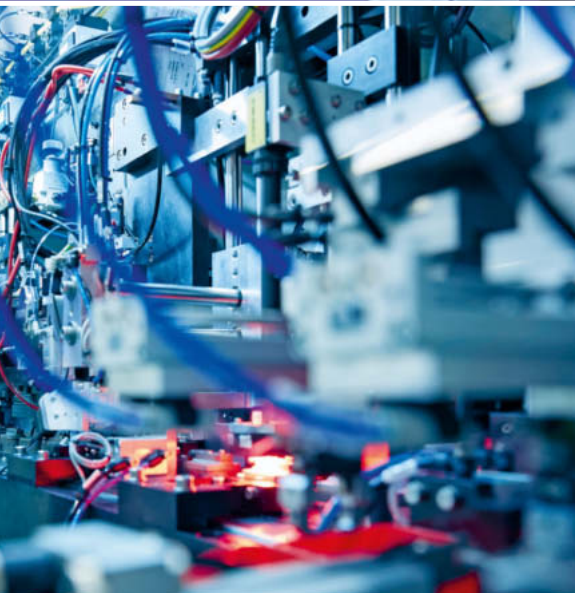
Mikron Automation

The pictures on the following pages were taken at Mikron Automation in Boudry, Switzerland. Here, around 330 employees engineer and assemble automation solutions and provide services.









Mikron Automation

Economic Environment, Technology, Strategic Projects, Business Performance

Economic environment | The Automation business segment's sales markets performed very unevenly in 2014. In the US, investment levels were considerably higher than in previous years. Mikron Automation profited from the good economic conditions, gaining market share at the same time. Successful reference projects completed by Mikron Automation in recent years paid off, leading to interesting new and follow-up orders, especially from the pharmaceutical, medical devices and consumer goods industries.

As in 2013, Mikron Automation received an encouragingly large number of orders from the UK and Ireland, while Mikron's principal European market Germany continued to show widespread caution. Several customers put investments on hold or opted for less automated solutions entailing lower investment volumes. Trends were visibly favorable in sales markets France, Italy and Spain, with investments rising again following a lengthy lean period.

In Asia, the Automation business segment succeeded in winning new customers from the pharmaceutical and medical devices industries. Generally though, demand from the Asian region fell short of expectations.

Technology | At Automatica in Munich, the sector's largest trade fair, Mikron Automation successfully profiled itself as a leading provider of highly productive automation solutions. The new generation of flexible Mikron Polyfeed

Mikron Automation's sales markets performed very unevenly in 2014.



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

and Mikron Tray Handler feeding systems, both equipped with a Cartesian high-speed robot optimized by Mikron, raised a great deal of interest. In the year under review, the business segment worked on a new open architecture machinery control system based on a state-of-the-art programming language. The first installation in a customer assembly line is planned for the first half of 2015. Offering enhanced features such as the statistical evaluation of production data, it can be more readily integrated into a higher-level production data management system than its predecessor.

Strategic projects | In the 2014 business year, the Automation business segment continued to systematically develop and harmonize its standard platforms to make them even more user-friendly and efficient. The transfer of basic module assembly from Singapore to Shanghai was successfully completed. Capacities at the Singapore site can now be devoted exclusively to the development and assembly of complex customer-specific automation solutions.

Business performance | Mikron Automation's overall business performance was encouraging. The business segment increased order intake in 2014 by 10% to CHF 134.5 million (prior year: CHF 121.8 million) and net sales by 9% to CHF 126.8 million (prior year: CHF 116.8 million). At CHF 70.1 million, the Automation business segment's order backlog at the end of 2014 was 8% higher than at the end of 2013 (CHF 65.1 million). Reporting EBIT of CHF 2.7 million (prior year: CHF -4.6 million), the business segment achieved a significant improvement in profitability, although the substantial cost variances on an automotive customer project also impacted the 2014 result.

As in 2013, Mikron Automation generated the bulk of its sales in the pharmaceutical and medical devices industries in 2014. Within this market segment, the business segment succeeded in defending its leading European market position while also increasing US sales considerably. A promising order from the consumer goods industry for a novel product with high market expectations offers Mikron Automation an opportunity to successfully apply its vast experience in the high-volume assembly of medical devices.

Capacity utilization was high throughout the year at the Boudry and Denver sites, which was not always the case at the other locations of the business segment. Thanks to the standardization of IT systems in recent years, the Asian sites were able to improve their capacity utilization levels by executing orders from other Automation business segment locations. Both in Berlin and Asia, the Automation business

In the year under review, Mikron Automation worked on a new open architecture machinery control system based on a state-of-the-art programming language.

Mikron Automation achieved a significant improvement in profitability.

Thanks to the standardization of IT systems in recent years, the Asian sites were able to improve their capacity utilization levels by executing orders from other locations.

Mikron Automation

Employees, Outlook

Key figures

In CHF million, except number of employees	2014	2013	+/-
Order intake	134.5	121.8	10.4%
Net sales	126.8	116.8	8.6%
Order backlog	70.1	65.1	7.7%
EBIT	2.7	-4.6	158.7%
Number of employees	592	572	3.5%

segment worked intensively on optimizing its processes and organization. Various efficiency enhancement measures implemented at Boudry and Denver began to bear fruit, with project execution markedly better than in previous years.

Employees | At the end of 2014, Mikron Automation employed a total of 592 people. At all locations, the business segment was able to fill key vacancies with qualified new employees. Finding qualified and motivated skilled workers with automation experience remains a huge challenge, above all in Asia. Mikron Automation again invested in employee development and held various internal training programs in the year under review. In Boudry, the business segment further expanded its apprentice training capabilities.

Mikron Automation again invested in employee development and held various internal training programs.

Outlook | The development of the Swiss franc will have a decisive impact on business at the principal location in Switzerland. Mikron Automation has initiated a range of measures to reduce costs, an undertaking for which its global structure is highly advantageous. Therefore, the Automation business segment is expecting order intake to remain solid in 2015, although slightly lower than in 2014. Based on the revaluated order backlog, the business segment is projecting a similar level of sales overall. The pharmaceutical and medical devices industries will remain the biggest sales market.

Mikron Automation is expecting order intake to remain solid in 2015, although slightly lower than in 2014.

Vision inspection system ensures guaranteed quality

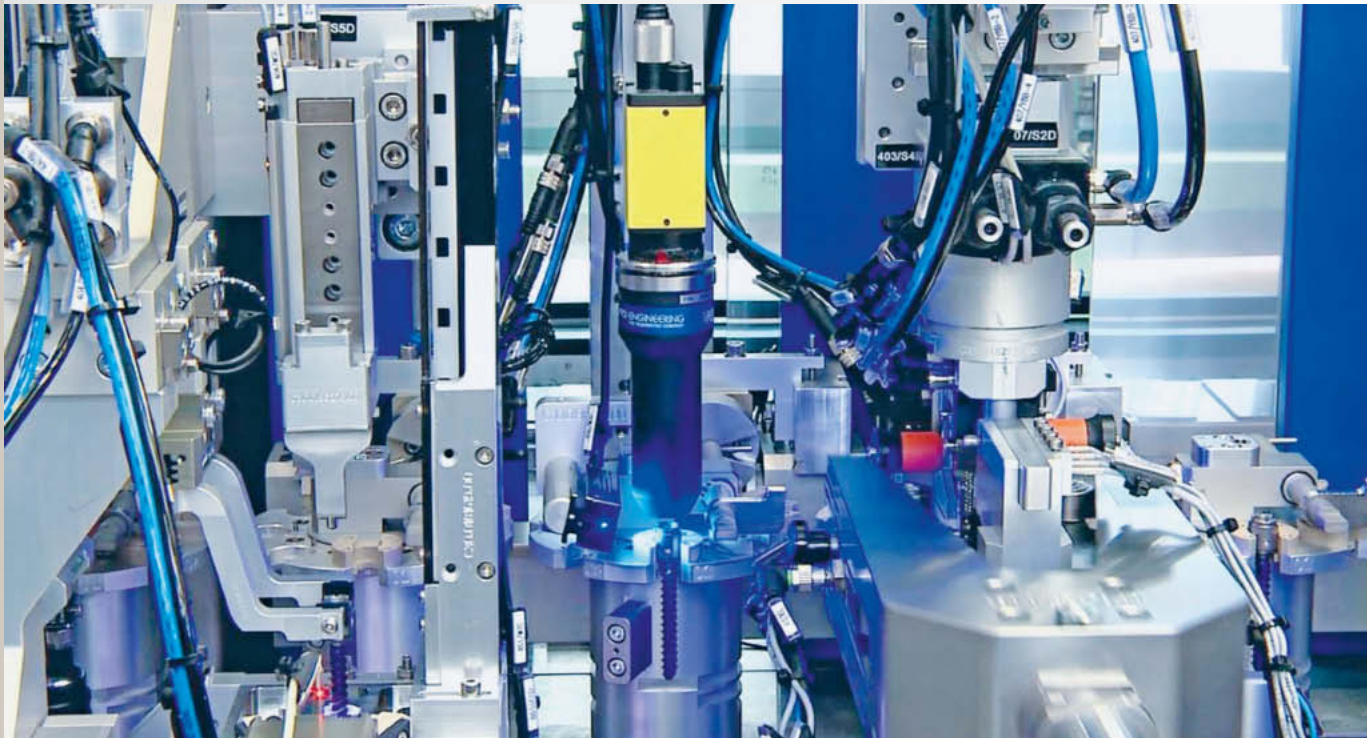
Customers in the medical devices industry need automation solutions that guarantee the quality of the assembled products. Many medical devices assembled on Mikron's automation solutions are critical for the health of patients, and failures due to poor quality of a device could be life-threatening. High-tech vision inspection systems from Mikron Automation ensure the required quality.

In 2014, Mikron supplied a leading customer in the world of medical devices with a high-performance automation solution for the assembly of a family of different products for implantation into the human body. To ensure the quality of the final products Mikron integrated different vision systems, in which various cameras check the status of the assembly process.

Guaranteed quality in milliseconds

The Vision inspection system consists of five cameras and a barcode reader integrated into a Mikron G05 assembly cell,

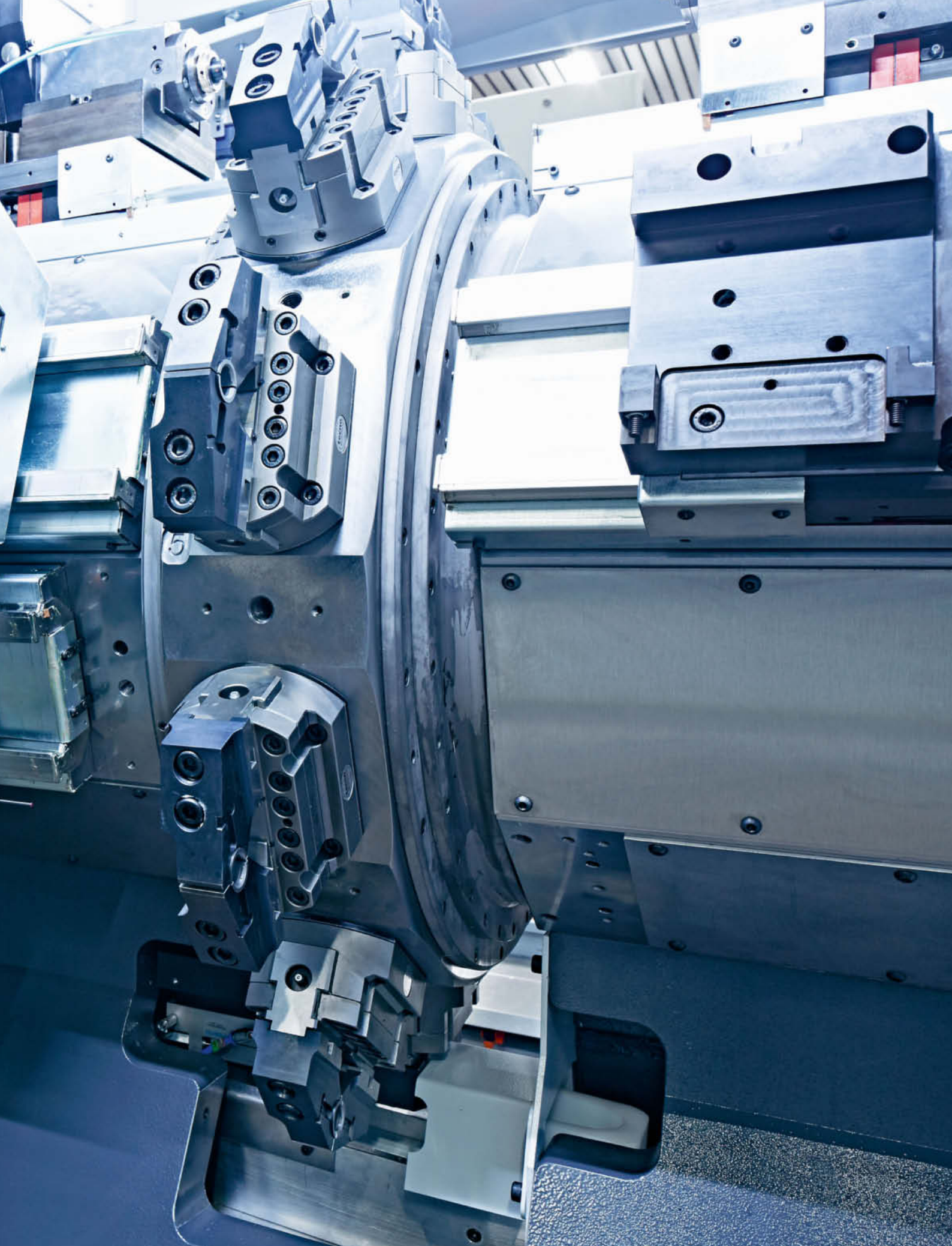
all managed by sophisticated software developed by Mikron. First, four cameras inspect the parts that are fed into the assembly cell: Do the physical dimensions such as length and diameter match the customer's strict requirements and have the parts been pre-assembled correctly? The customer can program and inspect more than 800 different production variants, and all the inspected data is saved for traceability purposes. Any defective parts are rejected immediately. Following the initial inspection, further assembly steps are performed in the assembly cell. Before the assembled parts leave the cell, another camera in the Vision inspection system checks that the parts have been correctly labeled. The system compares the product and batch numbers with the production database. Finally, a barcode reader checks that the parts have been properly packaged. The task is complete: all the checks have been carried out and traced in just a few milliseconds to ensure the impeccable quality of the final products produced on the Mikron Automation solution.



Mikron Machining

The pictures on the following pages were taken at Mikron Machining in Agno, Switzerland. Around 430 employees work here developing and manufacturing machining systems and cutting tools.









Mikron Machining

Economic Environment, Technology, Strategic Projects, Business Performance

Economic environment | In 2014, Mikron Machining customers generally reported good to very good capacity utilization levels, but at the same time they were reluctant to invest in new high-performance production equipment. While this led to a considerable increase in Mikron Machining's tool and service business sales, it also resulted in disappointing demand for advanced machining solutions.

In Europe, demand for machining solutions from Mikron Machining was driven by technical innovations in the key sales markets (particularly the German automotive industry), but hindered by detrimental macroeconomic developments in other EU countries. The prevailing uncertainty had a negative impact on the investment climate. Whereas the hoped-for increase in demand for machines in Asia and the US failed to materialize in the year under review, Mikron Machining reported pleasing growth in its tool business in both regions.

Technology | The automotive market segment's larger share in sales influenced the demand for specific product lines: in the year under review, Mikron Machining sold an above-average number of Mikron Multistar transfer machines used, for instance, to manufacture parts for injection systems. The business segment also successfully delivered the first Mikron NRG+ machine to the US in the year under review. Unveiled in 2013 at the leading EMO trade fair, the Mikron NRG+ is a fully CNC-controlled high-precision rotary transfer machine. Mikron Machining also collected wide-

Mikron Machining customers generally reported good to very good capacity utilization levels, but at the same time they were reluctant to invest in new high-performance production equipment.

The automotive market segment's larger share in sales influenced the demand for specific product lines.



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

scale customer feedback and a large number of usage reports on the Mikron Multistar NX-24 in 2014. It incorporated the findings into the machine's ongoing development. Further development work was also carried out on the Mikron Multistep, which is manufactured in Germany.

Mikron Tool has a very successful track record in the continual development of new tools. In November, it received the 2014 Prodex Award for the development of the CrazyMill Cool, the world's smallest end mill with integrated through cooling. The award is Switzerland's most coveted prize for innovation in the field of manufacturing.

Strategic projects | Mikron Machining's strategic projects in the year under review included process enhancements and workflow optimizations as well as the further development and globalization of the tool business. In addition to the extensive development of new tools, Mikron Tool also expanded its network of representatives and installed SAP at the Monroe site, enabling a link-up with the global planning and distribution system. As well as investing in new machines and employee training, Mikron Tool expanded production capacity in Germany. In the service business, Mikron Machining focused on optimizing spare parts management processes and on providing on-site support to customers when commissioning and starting up new machines. This specifically included intensive training for machine operators.

Business performance | Mikron Machining's 2014 business performance was disappointing on the whole. The recovery in the machinery business predicted at the beginning of the year on the strength of healthy tool and service activities and numerous requests for offers did not materialize. Customers proved very reticent when it came to placing investment orders in 2014 – individual orders already awarded were cancelled or put on hold, and a number of customers opted for simpler, less productive manufacturing solutions. As a result, Mikron Machining faced a sizeable struggle to utilize capacity, which ultimately led to insufficient profitability with EBIT at CHF -0.6 million (prior year: CHF 6.2 million). In the year under review, order intake decreased to CHF 110.9 million (prior year: CHF 125.8 million).

Overall, the Machining business segment witnessed a distinct shift in sales towards the automotive market segment. This is due both to the installation of a number of very large manufacturing solutions in the US and to a lack of demand in the writing instruments and watchmaking industries. Annual sales were at CHF 123.8 million, which meant that

Mikron Machining's strategic projects in the year under review included process enhancements and workflow optimizations as well as the further development and globalization of the tool business.

Customers proved very reticent when it came to placing investment orders in 2014 – individual orders already awarded were cancelled or put on hold, and a number of customers opted for simpler, less productive manufacturing solutions.

Mikron Machining

Employees, Outlook

Key figures

In CHF million, except number of employees	2014	2013	+/-
Order intake	110.9	125.8	-11.8%
Net sales	123.8	125.2	-1.1%
Order backlog	46.9	57.6	-18.6%
EBIT	-0.6	6.2	-109.7%
Number of employees	565	534	5.8%

encouraging developments in the tool business were not enough to reach the previous year's sales of CHF 125.2 million.

Employees | At the end of 2014, Mikron Machining employed a total of 565 people (prior year: 534). To cover the higher volume in the tool business, new skilled employees were taken on mainly in Rottweil and also in Agno. Additional young employees were recruited in Monroe. Various factors resulted in personnel changes for the machinery business in Agno: shifting demand for certain machine types, efforts targeted at strengthening innovation competence, as well as succession planning.

Outlook | Visibility is still very low in Mikron Machining's sales markets, particularly in terms of major investment projects. Most customers expect to see further growth and solid capacity utilization rates in 2015, which should provide added impetus for the Machining business segment's tool and services activities. However, the new currency scenario will make business substantially more difficult for the Swiss locations. Valuation effects will have an additional negative impact on the result. Mikron Machining will continue to focus on cost management, human resource development, innovation and the further expansion of business in Asia and the US.

Mikron Machining will continue to focus on cost management, human resource development, innovation and the further expansion of business in Asia and the US.

CrazyMill Cool sets new standards

Mikron Tool's CrazyMill Cool is the smallest-ever end-mill with integrated cooling. It sets new standards of speed, surface quality and tool life.

In November 2014, Mikron Tool's achievement in developing CrazyMill Cool earned it the Prodex Award, Switzerland's most prestigious manufacturing prize. The judges decided that CrazyMill Cool was the best innovation in the Swiss manufacturing and production industry in the last two years.

Integrated coolant channels

When machining materials with a low heat conductivity, such as stainless steel, titanium, chrome-cobalt alloys or superalloys, milling tools get extremely hot, and as a result, wear quickly. Conventional cooling with an external pipe does not provide sufficient cooling for such materials. However, CrazyMill Cool overcomes this challenge with flying colors. Three coolant channels are integrated into its carbide shaft. So the coolant exits at the end of the tool shank and delivers a strong, constant cooling jet at the cutting edges. This firstly extends tool service life by a substantial margin, and secondly enables maximum cutting speeds: CrazyMill Cool can remove up to twenty times more material than competitor products in the same amount of time. This takes milling into a whole new dimension. The coolant jet not only cools efficiently, it also flushes chips away with great effectiveness, which guarantees best surface qualities.

Lower tool costs

The CrazyMill Cool endmill is used in a wide range of industrial applications, including the automotive, watchmaking, jewelry, medical and dental technology, aerospace or food industries and petrochemistry. One manufacturer of medtech instruments uses CrazyMill Cool to mill special surgical scissors. Thanks to Mikron Tool's endmill, the milling process can be carried out with one instead of three tool types. Moreover CrazyMill cool makes it possible to reduce cycle times by 20 seconds. Since tool life is also three times longer, tool costs per part have been reduced by 74%.



Mikron Sustainability Report

Mikron

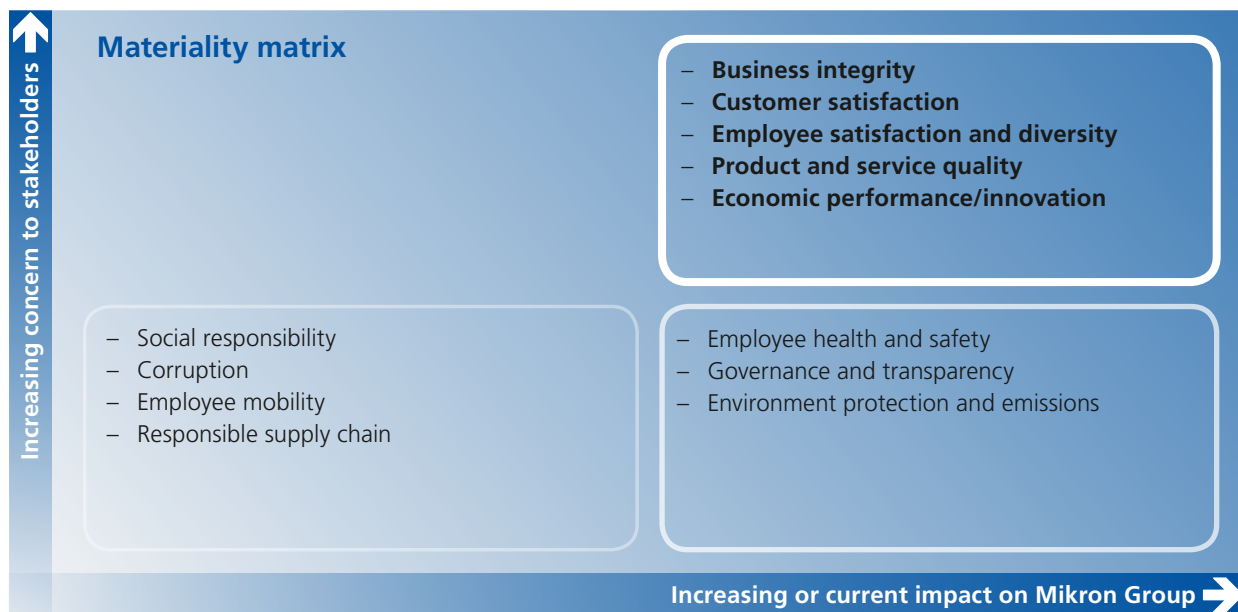
Sustainability Report

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

Mikron published its first sustainability report last year. The second issue is the first to be prepared in compliance with the core provisions of the G4 GRI guidelines without an external audit. In contrast to the last issue, this report also contains information on state support, compliance, industrial accidents and an analysis of the relevant indicators.

The Mikron Group conducts a regular qualitative survey to determine the indicators that are relevant to sustainability reporting, which is aimed at suppliers and other business partners along the Group's value chain, together with 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 Mikron Group conducts a regular qualitative survey to determine the indicators that are relevant to sustainability reporting.



The figures in the present report relate to the management company and to the Swiss locations of Agno and Boudry, which account for around 70% of Group sales. Mikron will progressively expand reporting to cover other locations in the future. Information on sustainability and all published reports on the subject are also available online on the Mikron Group's website: www.mikron.com/sustainability.

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 11).

All employees are obliged to adhere to Mikron's Code of Business 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 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.

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. One of Mikron's most important objectives is to minimize the risk of industrial accidents. There was just one industrial accident at Mikron in Switzerland during the year under review.

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.

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.

Employee satisfaction is very important to the Mikron Group, and regular surveys are conducted to establish its level. 65% of Mikron employees participated in the last one, which took place in summer 2014. All locations were involved except those in Asia. Overall job satisfaction had risen by 5% since the previous survey.

Number of staff	Total Switzerland	
	2014	2013
Number of employees (FTEs) <30 years	150	124
Number of employees (FTEs) 30–50 years	396	412
Number of employees (FTEs) >50 years	229	219
Total number of employees (FTEs)	775	755
Number of male employees (FTEs)	708	693
Number of female employees (FTEs)	67	62
Total number of employees (FTEs)	775	755
Number of male senior managers (FTEs)	94	93
Number of female senior managers (FTEs)	4	3
Total number of senior managers (FTEs)	98	96
of which currently living within 25 km of company	63	61
as % of total	64%	64%

New employee hires	Total Switzerland	
	2014	2013
Number of new employees (FTEs) <30 years	55	46
Number of new employees (FTEs) 30–50 years	32	44
Number of new employees (FTEs) >50 years	6	5
Total number of new employees (FTEs)	93	95
Number of male new employees (FTEs)	85	86
Number of female new employees (FTEs)	8	9
Total number of new employees (FTEs)	93	95

Advanced training | Like our customers, the Mikron Group is finding it increasingly difficult to recruit employees with both technical qualifications and language skills. Despite our good reputation as an employer, it was only with difficulty that we managed to fill a number of interesting and challenging positions during the reporting year. Recruiting, keeping and developing employees and inspiring them to embrace shared goals and practices remains one of the principal challenges at all our locations. This led in November 2014 to the launch of the Mikron Management and Leadership training program, in which employees from Agno, Boudry, Rottweil, Berlin and Monroe took part.

Employees in Switzerland spent just under 23,000 hours in advanced training during the reporting year. This is equivalent to an average of 30 hours per staff member, seven hours more than in 2013. In 2014, 65% (previous year: 81%) of employees received individual feedback from their line managers on their performance over the past twelve months. The companies in Agno were responsible for the decline. Management has already taken steps to increase this proportion as quickly as possible. Individual feedback helps Mikron to pursue the important objective of identifying possible advanced training needs.

Headcount | The Mikron Group has around 1,200 employees throughout the world. There were 775 full-time equivalents (FTEs) employed in Switzerland at the end of 2014 – 20 FTEs more than in 2013. A total of 77 FTEs left Mikron companies in Switzerland in the reporting year, while 93 FTEs joined these companies. This marginally increased the fluctuation rate, from 8% in the previous year to 10%. The rate of absenteeism (working hours absent as a proportion of annual working hours) fell from 3% to 2%, thus remaining at an encouragingly low level. At the end of 2014 the Mikron Group had 54 FTEs in Switzerland employed as temporary contract workers.

Diversity | As in other industrial companies, most of the employees of the Mikron Group in Switzerland are men. This hardly changed in the year under review: the proportion of men fell by just one percentage point, to 91%. At Senior Management level (98 FTEs), the top management level of the respective Group companies, 96% 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 higher education market. In Switzerland it is still the case, for example, that very many more men than women complete technical qualifications: the proportion of

Employee turnover	Total Switzerland	
	2014	2013
Number of employees (FTEs) <30 years leaving the company	22	24
Number of employees (FTEs) 30–50 years leaving the company	36	22
Number of employees (FTEs) >50 years leaving the company	19	16
Total number of employees (FTEs) leaving the company	77	62
Number of male employees (FTEs) leaving the company	72	55
Number of female employees (FTEs) leaving the company	5	7
Total number of employees (FTEs) leaving the company	77	62
Turnover rate	10%	8%

Training hours	Total Switzerland	
	2014	2013
Total training hours	22,914	17,436

Other Data	Total Switzerland	
	2014	2013
Rate of absenteeism	2%	3%
Number of employees (FTEs) receiving individual feedback	505	609

women pursuing initial training in engineering and technology amounted to just 6.3% in 2012 (source: Swiss Federal Statistical Office).

The average age of employees at the Mikron Group's Swiss locations fell during the reporting year. When broken down by age category, it is still the 30 to 50-year-olds that are most strongly represented (51% of the workforce) but the proportion of under-30s increased by three percentage points in 2014, to 19%. There was virtually no change in the proportion of over-50s as compared with 2013 (30%).

The Mikron Group has employees of a number of different nationalities at its Swiss locations: most (51%) are Swiss, followed by Italians (27%) and French (5%). This is due to geography: Agno is on the border between Switzerland and Italy, while Boudry is relatively close to France. Mikron employees in Switzerland come from a total of 35 different nations.

In the year under review, 64% of employees at Senior Management level lived no more than 25 kilometres from where they worked.

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 the environmental field.

Energy | Mikron Agno renewed the roof of a large production building in the reporting year, and it hopes to reduce the energy required for heating as a result. The first positive effects of the new roof will be felt in 2015.

Energy consumption fell in the 2014 reporting year by a total of 7% to 40 terajoules (previous year: 43 terajoules). 68% of this amount related to electricity, the remainder to heating oil – the consumption of which was down owing to the unusually mild winter.

Fuel consumption	Total Switzerland	
	2014	2013
Total fuel consumption from renewable sources (TJ)	0	0
Total fuel consumption from non-renewable sources (TJ)	13	15
Total fuel consumption (TJ)	13	15
Total fuel consumption from renewable sources (TCHF)	0	0
Total fuel consumption from non-renewable sources (TCHF)	327	369
Total fuel consumption (TCHF)	327	369

Electricity consumption	Total Switzerland	
	2014	2013
Electricity consumption (TJ)	23	23
Consumption for cooling system (TJ), Agno: incl. ventilation c/h	4	5
Total electricity consumption (TJ)	27	28
Electricity consumption (TCHF)	1,029	1,038
Consumption for cooling system (TCHF)	187	210
Total electricity consumption (TCHF)	1,216	1,248

CO₂ emissions | The Mikron Group is continuously striving to reduce the emission of greenhouse gases. Its consumption of energy in the reporting year resulted in CO₂ emissions of 1,643 tonnes (calculated according to the Greenhouse Gas Protocol). The previous year's figure was 2,078 tonnes. This 21% decline was mainly due to the mild winter, which reduced the need for heating oil, and to the amended, lower emission factors of the Swiss Federal Office for the Environment.

Water | Mikron's Swiss locations consumed 157,000 m³ of water in the reporting year, 15% more than in the previous year (2013: 136,000 m³). This major rise was mainly due to new machines at the Agno location. 92% of the water consumed was groundwater, practically the same as the previous year (90%). 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.

Waste | Mikron makes every effort to ensure that waste is dealt with in an environmentally-compatible way. Most of the waste produced in Switzerland is recycled. In 2014 the Group produced 427 tonnes of waste in Switzerland. 52% of this was recycled, 38% burned, and 10% disposed of. New rules on waste disposal introduced by the Agno local authority affected the calculation of waste volume. Compared with the previous year's adjusted volume (431 tonnes), the nation-wide volume fell by 1% to 427 tonnes.

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 a significant proportion of their sales in euros. This affects the choice of suppliers: in order to minimize currency translation losses, Mikron deliberately places orders with suppliers in eurozone countries. But Mikron's Swiss locations also use local providers: in the year under review they placed 21% of their order volume with suppliers based no more than 25 kilometres away from them.

Water withdrawal and discharge	Total Switzerland	
	2014	2013
Total volume of water withdrawal from rivers/lakes (1,000 m ³)	0	0
Total volume of water withdrawal from groundwater (1,000 m ³)	145	123
Total volume of rainwater used and collected on site (1,000 m ³)	0	0
Total volume of water withdrawal from water utilities (1,000 m ³)	12	13
Total volume of water withdrawal (1,000 m³)	157	136
Total volume of water discharge (1,000 m³)	155	136

Waste	Total Switzerland	
	2014	2013
Total weight of waste reused (t)	0	0
Total weight of waste recycled (t)	220	213
Total weight of waste burned (t)	163	154
Total weight of hazardous waste disposed of (t)	44	64
Total weight of waste disposed of otherwise (t)	0	0
Total weight of waste disposed of (t)	427	431

Proportion of local suppliers	Total Switzerland	
	2014	2013
Total amount of purchases (TCHF)	61,246	59,354
of which spent on suppliers within 25 km of company	12,854	14,443
in % of total	21%	24%

Compliance

The Mikron Group makes every effort to abide by the law, and conducts ongoing audits – both internal and external – to ensure that this is the case. The success of these audits is evident from the fact that the Group's Swiss locations had no significant fines to pay in 2014.

State support

The Mikron Group received financial support totalling CHF 0.3 million from state organizations in the reporting year, CHF 0.1 million of which as direct grants. The rest was for investments in apprentice training and renewing the roof in Agno. All contributions came from Swiss federal organizations, none of which are Mikron Group shareholders.

Mikron Corporate Governance

Mikron

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 September 2014 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 2014 had a market capitalization of CHF 117.8 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 114. 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 2014, hold 3% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2014		31.12.2013	
	Number of shares of CHF 0.10 par value each		Number of shares of CHF 0.10 par value each	
Group of investors			11,742,941	70.3%
Ammann Group Holding AG	6,958,335	41.6%		
Rudolf Maag	2,348,588	14.1%		
Personalfürsorgestiftung Rieter AG	587,147	3.5%		
Public shareholders	6,710,919	40.2%	4,866,723	29.1%
Board of Directors and Group Management	107,755	0.6%	103,080	0.6%
Total	16,712,744	100.0%	16,712,744	100.0%

The share pooling agreement was terminated as at 30 April 2014. The group of investors comprised Ammann Group Holding AG, Mr. Rudolf Maag, Tegula AG, Personalfürsorgestiftung Rieter AG and Corporate Investment Management Affentranger Holding AG. In May 2014, Tegula AG distributed its shareholding of 10.5% to its individual shareholders. None of them exceeds a shareholding of 3%.

Further information on the shareholder structure and corporate structure is given on page 110 and 114. Changes in significant shareholdings since 1 January 2014 have been communicated to SIX Stock Exchange in accordance with regulations and published on the following website: www.six-exchange-regulation.com/publications/published_notifications/major_shareholders_en.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 2014

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

At the Annual General Meeting on 8 April 2014, the shareholders approved new Articles of Association. The previously existing provisions relating to conditional capital were removed.

Further information on the capital structure is given on page 109.

Changes in capital over the last three years

in CHF		Number of shares	Par value	Ordinary capital
2012	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
2013	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
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

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 four 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 2014:



Heinrich Spoerry

lic. oec., MBA
Swiss, born in 1951
Chairman, non-executive
First elected 2001, elected until 2015

From 1987 to 1995 Heinrich Spoerry was a member of the Executive Board of Staefa Control Systems AG in his capacity as Head of Finance, Controlling and Information Technology. He held a seat on the Executive Board at Cerberus AG, a fire detection and security systems manufacturer in Männedorf, from 1996 to 1998. Heinrich Spoerry then became Chairman of the Board of Directors and CEO of the SFS Group in Heerbrugg, a position he has occupied since 1998. He is a member of the Board of Directors of Bucher Industries 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 2015

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 Repower AG and 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 2015

Patrick Kilchmann was Head of Personnel Development at Sandoz AG, Basel from 1986 to 1990. From 1990 to 1992 he was Sales engineer at Schindler AG, Ebikon, and from 1992 to 2002 he worked in various management positions, most recently as Head of Business Development and member of the Executive Board of Sulzer AG, Winterthur. Since 2002 Patrick Kilchmann has held several management positions, most recently Head of Group Services and member of the Executive Board of the Ammann Group, Langenthal. He chairs the Board of Directors of Ammobilien AG, Langenthal and is a member of the Board of Directors of Transmission Technology Holding AG, Zug, selFrag AG, Kerzers and Landert Motoren AG, Bülach.


Andreas Casutt

Dr. iur., LL.M.
 Swiss, born in 1963
 Member, non-executive
 First elected 2013, elected until 2015

Andreas Casutt joined the law firm Niederer Kraft & Frey in Zurich in 1993 and was made a partner in 2002. His practice focuses on company law (including litigation), mergers & acquisitions, private equity transactions, stock exchange as well as employment law. Prior to that, he was an auditor and secretary at the Meilen (Switzerland) District Court. Andreas Casutt graduated from the University of Zurich in 1988 with a law degree. After working as an assistant to Prof. Peter Forstmoser, he received his Ph.D. for a thesis in stock corporation law in 1991. In 1995 he completed an LL.M. programme 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.

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 end at the end of the next ordinary General Meeting. Re-election is possible as long as the relevant member has not completed 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 2014 business year, the Board held seven meetings as well as two teleconferences. The physical meetings lasted between three and eight hours, and the teleconferences about one hour. Each meeting of the Board of Directors in the year under review was at-

tended by all members, except for one teleconference, where tasks were delegated to some of the members of the Board of Directors.

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 meetings.

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

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

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

Committees

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

Audit Committee

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

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

- To maintain a comprehensive and efficient audit concept and internal control system (ICS) for Mikron Holding AG and the Mikron Group
- To rate the external and internal auditors in terms of their independence, qualifications and (mandate-related) experience of their employees and to make a proposal to the Board of Directors regarding the election of external and internal auditors
- To assess the systems and scope of the audit approach, as well as the content, clarity and timely completion of reports
- To approve the key audit areas, to review the audit results, to supervise the rectification of any weaknesses identified
- To approve the budget for the external and internal audit activities and 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 Andreas Steiner (until 8 April 2014) and Eduard Rikli (as of 9 April 2014). The Audit Committee meets four to six times each year. Four meetings were held in the 2014 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 two meetings and the internal auditors at one meeting.

At its second 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 approved overall compensation by the General Meeting, the Remuneration Committee proposes to the Board of Directors the remuneration of its members and proposes respectively determines the remuneration of the members of the Group Management, both as further 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 55 to 57)
- 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 approved overall compensation 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 Eduard Rikli (Chairman) and Patrick Kilchmann. The Remuneration Committee meets one to two times each year, usually in December and after the results for the financial year have been prepared and the audited annual financial statements are available. Two meetings were held in the 2014 business year and were attended by all members. The meetings lasted about two hours. The members of Group Management may be invited, but have no right of participation or co-determination on this Committee.

Information and control instruments vis-à-vis Group Management

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

- Income statement and financial key performance indicators are reported on a monthly basis, while full financial statements (income statement, balance sheet and cash flow statement) are prepared quarterly. These figures are consolidated at Group, 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 twice 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.
- 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 (COOs).

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 reports to the CEO.

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 2014:



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.



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.



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 Pricewaterhouse Coopers (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 is 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 according to 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 can be modified within the period at the discretion of the Board of Directors or the Remuneration Committee.

An additional variable compensation in form of shares of 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 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 being 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 page 61.

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 incurred disadvantages in connection with the change of employment. If the additional amount of compensation is not sufficient enough to compensate for the disadvantages, the exceeding portion of the joining bonus has to be approved by the next ordinary General Meeting.

Resolutions

Each year, the General Meeting votes separately on the proposals by 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 pursuant 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 any other superior management or administrative body of publicly traded companies pursuant to Art. 727 para. 1 number 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 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 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 number 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 47).

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 further 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 demand from the Board of Directors that items be put on the agenda. Such demands have to 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 and invalid votes will not be taken into account for the calculation of the required majority.

Changes of control and defence measures

Duty to make an offer

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

Clauses on changes of control

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

Auditors

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

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

Since 2004, PricewaterhouseCoopers AG, Berne has held the auditing mandate at Mikron Holding AG, the majority of its companies and the Mikron Group. Since the 2008 business year Oliver Kuntze, as lead auditor, has been responsible for the mandate.

Auditing fees and additional fees

In the 2014 business year, fees of CHF 328,180 for services rendered in connection with auditing the 2014 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 53,314 were paid to the auditors in the year under review in respect of tax and other advisory services.

Supervisory and control instruments pertaining to the audit

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

Group Management informs the Audit Committee of planned “non-audit” services to be provided by the auditors. The Audit Committee approves individual “non-audit” services exceeding CHF 100,000 annually. The auditors may only provide “non-audit” services provided that the financial scope or content involved does not affect their independence.

To ensure independence, the lead auditor is replaced every seven years. This is the case in 2015.

For further information regarding supervisory and control instruments, please see the chapter entitled “Audit Committee” on pages 51 and 52.

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 2014
Guidance on the business year just ended (volumes)	22 January 2015
Announcement of the annual results/publication of the Annual Report	9 March 2015
Annual Media and Analyst Conference	9 March 2015
Annual General Meeting.....	16 April 2015
End of the first six months of the business year.....	30 June 2015
Announcement of the semi-annual results.....	23 July 2015

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)62 916 69 60) or e-mail (ir.mma@mikron.com).

Mikron Compensation Report

Mikron

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 2014. The Compensation Report satisfies the transparency requirements set out in the Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (ERCO).

Compensation policy

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

The compensation policy applied to members of the Board of Directors and the Group Management is described in detail on pages 55 to 57 of the Corporate Governance Report. The table below sets out the principles of this compensation policy.

Fair and transparent The compensation models are simple, clearly structured and transparent. They guarantee fair remuneration that reflects responsibilities and competencies.	Results- and performance-based Part of the remuneration paid is linked directly to the Mikron Group's results and to individual performance.
Long-term incentive Part of the compensation can be paid in the form of shares subject to a lock-up period. This gives recipients a share in the company's long-term performance and ensures alignment with shareholder interests.	Geared to the labor market Compensation is geared to the market environment so as to attract and retain talent managers and employees.

The Articles of Association define the following structure for the 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 Eduard Rikli (Chairman) and Patrick Kilchmann.

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

Compensation for 2014

Compensation to members of the Board of Directors

CHF 1,000		Base compensation		Pension and benefits		Total	
		2014	2013	2014	2013	2014	2013
H. Spoerry	Chairman	91	91	17	18	108	109
E. Rikli	Vice-Chairman	64	75	13	16	77	91
P. Kilchmann	Member	55	55	5	5	60	60
A. Casutt	Member	59	39	10	7	69	46
P. Forstmoser (until 9 April 2013)	Member	0	18	0	2	0	20
A. Steiner (until 8 April 2014)	Member	19	57	3	8	22	65
Total		288	335	48	56	336	391

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 in accordance with the regulations, which have been approved by the tax authorities.

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	
	2014	2013	2014	2013
Base compensation	399	399	993	982
Variable compensation (short-term incentive)	90	100	247	213
Share-based compensation (long-term incentive)	0	0	0	0
Pension and benefits	139	139	351	311
Total	628	638	1,591	1,506

Members of Group Management receive a fixed remuneration paid in 13 installments 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.

The Group Management was eligible for a long-term incentive (LTI), linked to achieving specific financial objectives of the 2012–14 mid-term plan of the Mikron Group and its two business segments. The cash bonus which will be paid out in the financial year 2015, is based on the level of achievement of the average consolidated EBIT margin of the Group and/or the business segment over the mid-term plan period. The cash bonus will be calculated by multiplying the average individual annual bonus payment for the years 2012–14 with the corresponding bonus factor, which ranges from 0% (minimum) to 150% (maximum). Since past performance fell short of expectations, the variable compensation paid to the members of Group Management will amount to approximately CHF 50,000 in total, fully accrued at year end.

Report of the Statutory Auditor



Report of the statutory auditor
to the general meeting of
Mikron Holding AG
Biel

Report of the statutory auditor to the General Meeting on the remuneration report 2014

We have audited the remuneration report of Mikron Holding AG (pages 62 and 63) for the year ended 31 December 2014.

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 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A blue ink signature of Oliver Kuntze, consisting of several fluid, overlapping strokes.

Oliver Kuntze
Audit expert
Auditor in charge

A blue ink signature of Bernhard Bichsel, featuring a prominent 'B' and 'B' followed by a cursive flourish.

Bernhard Bichsel
Audit expert

Bern, 6 March 2015

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Mikron Group Financial Report

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Commentary of Group Management on the Financial Report 2014 of the Mikron Group

Mikron Holding AG and its subsidiaries (together the Mikron Group) market machining and automation solutions, enabling customers around the world to master their precision manufacturing processes. Headquartered in Switzerland, the Mikron Group operates production facilities and sales offices in Switzerland and abroad. It employs a total workforce of approximately 1,200. Mikron Holding AG is a limited company under Swiss law, domiciled in Biel. Its shares trade on the SIX Swiss Exchange.

Business performance

In 2014, a year shaped by a challenging environment witnessing very different developments in the various business areas and sales markets, the Mikron Group reported a slight increase in sales overall and was able to hold order intake at the prior-year level.

Whereas the medical devices and pharmaceutical industries and the US economy in general made significant progress, a mood of uncertainty and caution affected demand for capital goods in Europe, as felt most acutely by the Machining business segment. The solid demand from Switzerland seen in previous years also slowed down considerably. The Mikron Group nonetheless succeeded in defending the market position held by both business segments in Europe. Healthy capacity utilization levels in the automotive industry also had a favorable impact on the tool and service business. Although developments in the Asian markets fell short of expectations in the year under review, Mikron was still able to win a number of new customers and strengthen local competencies.

However, contrary to Mikron's own targets and expectations, the Group did not succeed in increasing profitability, with EBIT at CHF 4.6 million (prior year: CHF 5.2 million). While the Automation business segment achieved a significant improvement in profitability, the Machining business segment fell well short of the corresponding figures for the prior year.

Outlook

For 2015 the Mikron Group assumes an essentially unchanged difficult, but relatively stable economic environment. Automotive production is set to increase globally, and novel eco-friendlier transmission systems will further stimulate demand for new machining and automation solutions. We also expect to benefit from the growing need for self-medication and for precision assembly solutions. However, the positive economic development projected for the US is offset by continuing major uncertainties in Europe and parts of Asia. Many customers in these regions are very cautious regarding their investments. In addition, the removal of the floor against the euro by the Swiss National Bank creates major new challenges for Swiss export companies such as the Mikron Group. In response, we have already introduced numerous measures to secure sales and reduce costs and will continue to do so. Taking this into consideration, in 2015 the Mikron Group should be able to achieve a similar level of net sales and EBIT as in the prior year.

Strategy

Mikron Group

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 2014, the Board approved a mid-term plan spanning the years 2015 to 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% over an economic cycle, while growing sales in the magnitude of 5% on average every year. In the short-term, the decision of the Swiss National Bank to abandon its floor against the euro will have to be factored in.

The Mikron Group markets machining and automation solutions, enabling customers around the world to master their precision manufacturing processes. Rooted in a culture of Swiss innovation, Mikron is a leading supplier to the automotive, medical devices, pharmaceutical, consumer goods, writing instruments, watch-making and various other industries. The two business segments, Mikron Automation and Mikron Machining, are based in Boudry and Agno, Switzerland, with

additional production facilities in Germany, Singapore, China and the United States. With its innovative products, our companies work towards becoming the employer of choice for technical jobs.

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 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 will be reduced as newly developed products are rolled out. We want our customers to recognize Mikron Machining as an international solution provider with the capability to adapt its innovative products quickly to specific needs and to execute projects efficiently with globally aligned key processes.

Mikron Automation

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 medical devices industries, it aims to maintain its leadership position in Europe, to strengthen the footprint in Asia and grow at a disproportionately high rate in the US. Other customer segments such as the automotive industry, consumer goods and electronics are expected to contribute to the growth. Competing against a significant number of smaller and a few larger competitors, Mikron Automation is in pole position thanks to its platform-based assembly concepts supported by fully customized automation and its technical expertise in engineering innovative solutions and convincing value propositions. Aligned processes and world-class project execution enable the Automation business segment to master projects across several sites and thus also deliver projects worth up to CHF 20 million.

Value-guided

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

Value-based management

The financial performance of the Mikron Group and its business segments is monitored by Group Management on a monthly basis. The focus lies on evaluating order intake and net sales (book-to-bill), the productivity defined as added value (net sales plus/minus changes in inventories, plus capitalized own production, minus material costs) divided by personnel expenses, earnings before interest and taxes (EBIT) and net working capital trade. As a measure of value-based management, Mikron applies the concept of return on invested capital (ROIC), with EBIT as the basis for the return. In the year under review, ROIC decreased to 3.0% from 3.4% in the previous year.

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. 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.
- 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.

Innovation

Innovation is the key to Mikron's success and therefore several projects were executed in 2014. In the year under review a total of CHF 5.8 million (prior year: CHF 4.6 million) was invested in the development of new or enhanced products or product platforms. These figures include capitalized research and development expenses, personnel expenses, material costs and other operating expenses and represent 2.3% of net sales. The innovation process is usually triggered either by customer enquiries or by potential improvements to products and services that have been identified in-house. Additionally, most customer projects include an innovative combination of known technologies with machining, assembly and quality control processes. Engineering is an integral part of designing customer-specific solutions.

Mikron Machining collected widescale customer feedback and a large number of usage reports on the Mikron Multistar NX-24 in 2014. It incorporated the findings into the machine's ongoing development. Further development work was also carried out on the Mikron Multistep, which is manufactured in Germany. Mikron Tool has a very successful track record in the continual development of new tools. In November, it received the 2014 Prodex Award for the development of the CrazyMill Cool, the world's smallest end mill with integrated through cooling. The award is Switzerland's most coveted prize for innovation in the field of manufacturing.

At Automatica in Munich, the sector's largest trade fair, Mikron Automation successfully profiled itself as a leading provider of highly productive automation solutions. The new generation of flexible Mikron Polyfeed and Mikron Tray Handler feeding systems, both equipped with a Cartesian high-speed robot optimized by Mikron, raised a great deal of interest. In the year under review, the business segment worked on a new open architecture machinery control system based on a state-of-the-art programming language. The first installation in a customer assembly line is planned for the first half of 2015. Offering enhanced features such as the statistical evaluation of production data, it can be more readily integrated into a higher-level production data management system than its predecessor.

In the 2015 financial year, Mikron plans to further invest in product development, mainly in Mikron Machining. Additionally, in order to support the growth of the cutting tools business, the Group intends to invest in replacement and additional production equipment. In summary, together with infrastructure and IT equipment investments with the aim of further increasing efficiency, the company is planning to invest more than CHF 10 million in total. On the back of the strong increase in activities in the US, the Board of Directors has decided to build a new factory in Denver, US, replacing the site rented so far. This investment will come on top.

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. In 2014, this involved gathering customer feedback on an ongoing basis, and actively contacting customers to ask for their opinion.

Personnel

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 and complexity inherent in the business. 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 2014, the survey was performed in all, except the Asian, Mikron companies. Overall 65% of the employees returned the survey, which data was collected online and in paper format. Overall job satisfaction was rated at 69 points (out of 100), a 5% improvement to prior year. Commitment to Mikron was rated at 78 points (out of 100), which represents a mean value compared with other companies that were also assessed. In terms of this aspect, 76%

of these companies ranged between 75 and 85 points. The detailed results for Mikron were analyzed on different levels by the management teams and specific actions initiated.

To be seen as an attractive employer means attracting, developing and retaining employees. In 2014, the Group invested around CHF 0.8 million (prior year: CHF 0.6 million), equating to CHF 500 per employee, in initial and advanced training (third-party costs only, not including the working hours that were made available). Besides specific training sessions, employees are helped to develop on the basis of interesting, challenging tasks. Each individual thus contributes to the success of the Group as a whole.

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. The economic performance and regional differences of the individual companies are also taken into account.

Share performance and return

In 2014, the share price saw an increase to CHF 7.05 per share at year-end (prior year: CHF 6.20 per share). Factoring in the distribution of CHF 0.10 per share approved by the Annual General Meeting of shareholders, total shareholder return amounts to CHF 0.95 or 15.3% (prior year: CHF 1.32 or 26.2%). The precise share performance is available at all times on the Mikron Group website.

Automation business segment

Order intake, order backlog and net sales

Mikron Automation's overall business performance was encouraging. The business segment increased order intake in 2014 by 10% to CHF 134.5 million (prior year: CHF 121.8 million) and net sales by 9% to CHF 126.8 million (prior year: CHF 116.8 million). At CHF 70.1 million, the Automation business segment's order backlog at the end of 2014 was 8% higher than at the end of 2013 (CHF 65.1 million).

As in 2013, Mikron Automation generated the bulk of its sales in the pharmaceutical and medical devices industries in 2014. Within this market segment, the business segment succeeded in defending its European market position while also increasing US sales considerably. A promising order from the consumer goods industry for a novel product with high market expectations offers Mikron Automation an opportunity to successfully apply its vast experience in the high-volume assembly of medical devices.

Capacity utilization was high throughout the year at the Boudry and Denver sites, which was not always the case at the other locations of the business segment. Thanks to the standardization of IT systems in recent years, the Asian sites were able to improve their capacity utilization levels by executing orders from other Automation business segment locations. Both in Berlin and Asia, the Automation business segment worked intensively on optimizing its processes and organization. Various efficiency enhancement measures implemented at Boudry and Denver began to bear fruit, with project execution markedly better than in previous years.

Added value and productivity ratio

Mikron Automation achieved a significantly higher added value of CHF 71.4 million (prior year: CHF 64.3 million). Added value is defined as net sales plus/minus changes in inventories, plus capitalized own production (development costs), minus material costs. This improvement was driven by a higher degree of projects delivered in line with expectations, a more favorable mix of projects (more projects to known customers and/or related to known applications), while at the same time continuing a high degree of price pressure for new projects. As a consequence, the productivity ratio (added value divided by personnel expenses) improved to 1.37. Employee headcount at the end of 2014 was 592 full-time equivalents.

EBIT

Reporting EBIT of CHF 2.7 million (prior year: CHF -4.6 million), the business segment achieved a significant improvement in profitability, although the substantial cost variances on an automotive customer project also impacted the 2014 result.

The other operating expenses stood at CHF 14.2 million. The increase to prior year was driven by recruitment to serve the higher business volumes mainly in the US, expenses to align IT and other processes and a larger share of Group IT, service and trademark charges. Overall, other operating expenses were managed successfully and represent only 11% of net sales, unchanged to prior year.

At CHF 2.2 million, depreciations and amortizations remained at the same low level as in the prior year. Mikron Automation does not need major production equipment to do business and in the last few years most research and development activities were expensed.

Free cash flow

Mikron Automation reported an excellent free cash flow of CHF 12.5 million in 2014 (prior year: CHF -2.6 million), driven by prepayments for projects acquired in the US and higher profits. Net working capital dropped significantly and stood at only 4% of net sales at the end of the year (prior year: 13% of net sales). At CHF 1.7 million, capitalized expenditure was the lowest for years. Higher investments are planned in 2015. On the back of the strong increase in activities in the US, the Board of Directors has decided to build a new factory in Denver, US, replacing the site rented so far.

Outlook

The development of the Swiss franc will have a decisive impact on business at the principal location in Switzerland. Mikron Automation has initiated a range of measures to reduce costs, an undertaking for which its global structure is highly advantageous. Therefore, the Automation business segment is expecting order intake to remain solid in 2015, although slightly lower than in 2014. Based on the revaluated order backlog, the business segment is projecting a similar level of sales overall. The pharmaceutical and medical devices industries will remain the biggest sales market.

Machining business segment**Order intake, order backlog and net sales**

Mikron Machining's 2014 business performance was disappointing on the whole. The recovery in the machinery business predicted at the beginning of the year on the strength of healthy tool and service activities and numerous requests for offers did not materialize. Customers proved very reticent when it came to placing investment orders in 2014 – individual orders already awarded were cancelled or put on hold, and a number of customers opted for simpler, less productive manufacturing solutions. As a result, Mikron Machining faced a sizeable struggle to utilize capacity, which ultimately led to insufficient profitability with EBIT at CHF -0.6 million (prior year: CHF 6.2 million). In the year under review, order intake decreased to CHF 110.9 million (prior year: CHF 125.8 million).

Overall, the Machining business segment witnessed a distinct shift in sales towards the automotive market segment. This is due both to the installation of a number of very large manufacturing solutions in the US and to a lack of demand in the writing instruments and watchmaking industries. Annual sales were at CHF 123.8 million, which meant that encouraging developments in the tool business were not enough to reach the previous year's sales of CHF 125.2 million.

Added value and productivity ratio

Although net sales are close to prior year, added value dropped by CHF 6.0 million to CHF 73.7 million. Added value is defined as net sales plus/minus changes in inventories, plus capitalized own production (development costs), minus material costs. The negative impact from a significantly lower sales volume in machining solutions, was only partially compensated by higher profits from the service and cutting tools business. Few significant project deviations added on top, resulting in an added value as a percentage of sales 4% lower than prior year. As a result of the lower added value, the produc-

tivity ratio (added value divided by personnel expenses) decreased to an insufficient 1.46. At the end of 2014, Mikron Machining employed a total of 565 people.

EBIT

The Machining business segment suffered a severe setback, reporting EBIT of CHF -0.6 million (prior year: CHF 6.2 million). This mainly reflects the significant fluctuations in order intake at a generally disappointingly low level and the related capacity utilization problems. The operating result was impacted not only by an uneven distribution of work, but also by additional costs during the final phase of several customer projects. The strong performance by Mikron Machining's tool and service business was, unfortunately, not sufficient to offset this decrease.

Other operating expenses stood at CHF 19.2 million for 2014. Excluding changes in provisions for future losses on projects, they increased by CHF 1.4 million year on year. In addition to pronounced sales and marketing activities, smaller income from subsidiaries (for investments) and higher Group IT charges mainly led to the increase. Managing tightly operating expenses, while pushing sales and marketing at the same time, is important in the current financial situation.

Depreciations and amortizations remained at CHF 4.8 million. Investments in 2014 exceeded depreciations and amortizations by CHF 1.3 million.

Free cash flow

Mikron Machining reported a strongly negative free cash flow of CHF -17.8 million in 2014 (prior year: CHF 5.8 million), driven by a strong increase in net working capital. Key negative contributing factors here were the international payment terms enforced by customers in the automotive industry and individual complex longer-term projects which cannot be completed and billed before 2015. Net working capital rose to 38% of net sales. The operating loss and investments of CHF 6.1 million (prior year: CHF 3.2 million) – mainly in production equipment and the development of a new product – added onto the cash outflow.

Outlook

Visibility is still very low in Mikron Machining's sales markets, particularly in terms of major investment projects. Most customers expect to see further growth and solid capacity utilization rates in 2015, which should provide added impetus for the Machining business segment's tool and services activities. However, the new currency scenario will make business substantially more difficult for the Swiss locations. Valuation effects will have an additional negative impact on the result. Mikron Machining will continue to focus on cost management, human resource development, innovation and the further expansion of business in Asia and the US.

Corporate

The Holding 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 are employed by the management company and thus costs incurred remain basically unchanged at a low level. The scope for further reductions in corporate costs is limited. Group IT staff are employed by subsidiaries in Switzerland but their costs are passed on to the management company. In the year under review, Group IT costs including third-party expenditure remained stable although investments were made in tools to improve efficiency.

The investment property in Nidau (Switzerland) generated a solid net income of CHF 1.9 million (prior year: CHF 2.2 million). The property is rented out to financially sound lessees. With a net yield of 6.6% (prior year exceptionally high at: 8.0%) 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.

Financial result, income taxes and profit

The financial result was on par with the previous year level and totaled CHF -1.6 million (prior year: CHF -1.6 million), of which CHF -1.2 million were related to net exchange rate losses (prior year: CHF -1.1 million). Gains of CHF 2.4 million were exceeded by losses of CHF 3.6 million. In the year under review, falling interest rates had a positive impact on the valuation of the bonds used to optimize income. This was the main reason for the lower financial expenses overall.

Profit before taxes amounted to CHF 3.0 million (prior year: CHF 3.6 million), on which income taxes of CHF 0.7 million (prior year: CHF 1.2 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 2014 were CHF 2.2 million, compared to CHF 2.4 million in the prior year.

Balance sheet as at 31 December 2014

Overall Mikron Group's balance sheet remains very strong. Mikron is free of net debt and reports an equity ratio of 65%. Cash and cash equivalents plus current financial assets of CHF 42.2 million significantly exceed interest-bearing liabilities of just CHF 14.6 million. The current financial assets of CHF 15.9 million are mainly invested in high-quality Swiss franc bonds with a residual maturity of up to five years. Due to the unfavorable payment terms enforced by the automotive industry the Mikron Group could not maintain the prior-year level of cash and cash equivalents, including current financial assets. Nevertheless, it still stands at a good 17% of total assets.

Net working capital increased by CHF 4.2 million to CHF 49.8 million. Overall net working capital of 20% remained quite stable compared to net sales (prior year: 19%). The slightly higher business volume, the payment terms challenges referred to above and some customer projects where deliveries slipped into 2015 led to an increase in both net assets from construction contracts and inventories.

With a total amount of CHF 82.9 million, non-current assets increased by CHF 3.6 million. Investments, mainly in production equipment and the development of new products and to a lesser extent in infrastructure and IT projects to improve efficiency amounted to CHF 9.8 million. Although this was lower than budgeted, it was far more than the total amortizations and depreciations, which came to CHF 7.2 million.

The long-term financial liabilities of CHF 14.4 million relate to finance leases for production equipment, the mortgaged investment property and one production facility. In 2014, shareholders' equity increased by CHF 1.8 million to CHF 155.3 million. This represents a strong equity ratio of 65% (prior year: 66%). Mikron has signed a credit agreement with a bank consortium expiring May 2015, worth CHF 50.0 million, which is available for bank guarantees to secure advance payments from customers and for fixed advances that are currently not being used. Prolongation of the agreement is being negotiated. The credit agreement requires Mikron to achieve certain key financial figures (covenants). The Group met these by a comfortable margin.

Consolidated cash flow statement

Cash flow from operating activities decreased from a cash inflow of CHF 10.6 million in the previous year to a cash inflow of CHF 6.7 million. Key negative contributing factors were the international payment terms enforced by customers in the automotive industry and individual complex longer-term projects which cannot be completed and billed before 2015. A total of CHF 9.3 million was used for investment in non-current assets. The Group is aiming to achieve positive operational free cash flows over the long term. Free cash flow totaled CHF -2.6 million in the period under review, compared with CHF 5.2 million in the previous year (without changes in financial assets). Cash flow from financing activities amounted to CHF -1.7 million in the year under review, mainly due to the distribution to shareholders approved by the Annual General Meeting.

Consolidated Financial Statements 2014 of the Mikron Group

Consolidated income statement

CHF 1,000	Note	2014		2013	
Net sales	4.1	249,134		241,147	
Change in work in progress/finished goods		6,832		6,028	
Capitalized own production		982		561	
Operating output		256,948	100.0%	247,736	100.0%
Material costs and subcontractors	4.2	-112,249		-103,786	
Personnel expenses	4.3	-105,836		-102,832	
Other operating income	4.4	1,413		2,323	
Other operating expenses	4.4	-30,464		-30,634	
Depreciation of tangible assets	5.7	-5,255		-5,028	
Amortization of intangible assets	5.8	-1,904		-2,535	
Impairment of intangible assets	5.8	0		-2,287	
Operating result		2,653	1.0%	2,957	1.2%
Financial result	4.5	-1,627		-1,614	
Ordinary result		1,026	0.4%	1,343	0.5%
Non-operating result	4.6	1,943		2,240	
Profit before taxes		2,969	1.2%	3,583	1.4%
Income taxes	4.7	-743		-1,190	
Profit		2,226	0.9%	2,393	1.0%

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

Consolidated balance sheet

CHF 1,000	Note	31.12.2014		31.12.2013	
Current assets					
Cash and cash equivalents	5.1	26,292		33,284	
Current financial assets	5.2	15,922		13,075	
Accounts receivable	5.3	16,297		15,144	
Inventories	5.4	47,972		42,826	
Net assets from customer projects	5.5	42,168		42,754	
Other current receivables	5.6	3,997		3,837	
Prepaid expenses		1,705		1,899	
Total current assets		154,353	65.1%	152,819	65.8%
Non-current assets					
Tangible assets	5.7	44,135		43,148	
Intangible assets	5.8	5,818		5,872	
Investment property	5.9	29,510		27,890	
Deferred tax assets	5.11	3,438		2,413	
Total non-current assets		82,901	34.9%	79,323	34.2%
Total assets		237,254	100.0%	232,142	100.0%
Current liabilities					
Short-term financial liabilities	5.12	380		200	
Accounts payable		20,471		21,073	
Net liabilities from customer projects	5.5	21,716		18,235	
Short-term provisions	5.13	3,129		4,328	
Other current liabilities		3,401		3,049	
Accrued expenses	5.14	13,613		14,182	
Total current liabilities		62,710	26.4%	61,067	26.3%
Long-term liabilities					
Long-term financial liabilities	5.12	14,368		13,870	
Long-term provisions	5.13	181		184	
Deferred tax liabilities	5.11	4,693		3,568	
Total long-term liabilities		19,242	8.1%	17,622	7.6%
Shareholders' equity					
Share capital	5.15	1,671		1,671	
Treasury shares		-151		-151	
Capital reserves		102,497		104,166	
Retained earnings		51,285		47,767	
Total shareholders' equity		155,302	65.5%	153,453	66.1%
Total liabilities and shareholders' equity		237,254	100.0%	232,142	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	Translation adjustments	
Balance at 01.01.2013		1,671	-159	106,668	46,690	-1,850	153,020
Profit 2013					2,393		2,393
Translation effects on loans with equity character						355	355
Translation adjustments						179	179
Distribution to shareholders				-2,502			-2,502
Treasury shares to Board of Directors	5.15		18				18
Change in treasury shares	5.15		-10				-10
Balance at 31.12.2013		1,671	-151	104,166	49,083	-1,316	153,453
Profit 2014					2,226		2,226
Translation effects on loans with equity character						1,602	1,602
Translation adjustments						-310	-310
Distribution to shareholders				-1,669			-1,669
Balance at 31.12.2014		1,671	-151	102,497	51,309	-24	155,302

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

Consolidated statement of cash flow

CHF 1,000	Note	2014	2013
Cash flow from operating activities			
Profit		2,226	2,393
Depreciation and amortization	5.7, 5.8	7,159	7,563
Impairment of intangible assets	5.8	0	2,287
Revaluation investment property	5.9	218	186
Gains (-) / losses (+) on sale of non-current assets	4.4	-217	-60
Changes in provisions	5.13	-1,191	-512
Changes in deferred taxes	4.7, 5.11	213	957
Other non-cash items		1,518	372
Cash flow from operating activities before changes in net working capital		9,926	13,186
Movement in accounts receivable		-1,003	-1,082
Movement in inventories		-5,296	504
Movement in net assets / liabilities from customer projects		3,524	-72
Movement in accounts payable		-154	-1,562
Movement in other receivables and prepaid expenses		236	530
Movement in other current liabilities and accrued expenses		-539	-933
Cash flow from operating activities		6,694	10,571
Cash flow from investing activities			
Investments in tangible assets	5.7	-5,353	-4,269
Divestments of tangible assets	5.7	219	165
Investments in intangible assets	5.8	-2,317	-1,268
Investments in investment property	5.9	-1,838	-46
Investments in financial assets	5.2	-4,084	-11,777
Divestments of financial assets	5.2	951	17,152
Cash flow from investing activities		-12,422	-43
Cash flow from financing activities			
Distribution to shareholders		-1,668	-2,502
Increase (+) / repayment (-) of financial liabilities		-50	-50
Increase (+) / repayment (-) of finance lease liabilities		-253	-635
Interest received		465	624
Interest paid		-208	-216
Cash flow from financing activities		-1,714	-2,779
Effect of exchange rate changes on cash		450	-138
Net cash flow		-6,992	7,611
Increase (+) / decrease (-) of cash and cash equivalents		-6,992	7,611
Cash and cash equivalents at beginning of period		33,284	25,673
Cash and cash equivalents at end of period		26,292	33,284

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

Notes to the Consolidated Financial Statements 2014 of the Mikron Group

1. General information

1.1 Business operations

Mikron Holding AG and its subsidiaries (combined, the Mikron Group) market machining and automation solutions, enabling customers around the world to master their precision manufacturing processes. Rooted in a culture of Swiss innovation, Mikron is a leading supplier to the automotive, medical devices, pharmaceutical, consumer goods, writing instruments and watch-making industries.

The two business segments, Mikron Automation and Mikron Machining, are based in Boudry and Agno, Switzerland, with additional production facilities in Germany, Singapore, China and the United States. The Mikron Group employs approximately 1,200 people who work to provide Mikron customers with an experience that reflects over 100 years of leadership in high-performance and high-precision production. Mikron Holding AG trades on the SIX Swiss Exchange under the symbol MIKN.

1.2 Basis of preparation

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER as a whole, applying the principle of historical cost accounting. Swiss GAAP FER 31 has not been early-adopted. Exceptions to this rule are marketable securities reported as current assets, derivative financial instruments and investment properties, which are reported at fair values.

1.3 Events after the balance sheet date

The Board of Directors approved the consolidated financial statements at its meeting of 6 March 2015. The approval of the consolidated financial statements by the Annual General Meeting is scheduled for 16 April 2015.

The Swiss National Bank (SNB) removed the ceiling between the Swiss franc and the euro on 15 January 2015. The extent of the impact can be substantiated based on the sensitivity table in Note 3.1.

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 114. 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 previously not 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 divisions which are grouped according to the types of products and services they provide.

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

- The Machining business segment comprises the Mikron Machining division, which has its main site in Agno (Switzerland) and a further production site in Rottweil (Germany) as well as several sales and service companies. The market offering of this business segment includes highly productive customized machining solutions for the manufacture of complex high-precision components made of metal. Matching cutting tools and a wide range of services round off the market offering. Its production solutions are used mainly by suppliers to the automotive component industry and are also well established in the writing instruments, electric/electronic, consumer goods and other industries. The most important market is Europe, led by Germany. The Asian market is becoming increasingly significant.
- The Automation business segment comprises the Mikron Automation division, which has its main site in Boudry (Switzerland) and further production sites in Denver (USA), Berlin (Germany), Singapore and Shanghai (P. R. China). Mikron Automation is one of the world's leading manufacturers of customized, highly productive automation solutions for high-precision assembly and testing of products up to hand size. A wide range of services support customers throughout the entire life span. Demand for the division's automation solutions comes mainly from companies in the pharmaceutical, medical devices, automotive and consumer goods industries. Geographically, its main markets are in Western Europe, the USA and increasingly Asia.
- 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 prevailing 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 2014	Average rate 2013	Closing rate 31.12.2014	Closing rate 31.12.2013
1 EUR	1.213960	1.232140	1.203170	1.225530
1 USD	0.917100	0.925210	0.983450	0.891750
1 SGD	0.722540	0.737490	0.743280	0.702890
1 CNY	0.148680	0.150570	0.157980	0.147090

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. 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 registered 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 Construction contracts

Construction contracts for machining and assembly systems are accounted for by 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.

All contracts 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 construction contracts.

2.5.6 Tangible assets

Property consists of production and office buildings. Tangible assets are measured at amortized 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 linear 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 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 covers only those production and office buildings which the Mikron Group no longer depends on for its own use and which are rented out to third parties. Investment properties are reported at market values. The Mikron Group currently owns a property in Nidau, Switzerland, with a market value of CHF 29.5 million as at 31 December 2014. 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 disclosed 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 generally 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 the 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 liabilities are generally recognized for all taxable temporary differences and deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available to offset against these assets.

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

2.5.15 Employee benefits

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

2.6 Income statement

2.6.1 Revenue recognition

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

Pro rata net sales and profits on construction 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.

2.6.2 Presentation

The operating output figure corresponds to net sales plus the change of work in progress/finished goods and capitalized own production.

2.7 Share-based payments

No share purchase plan is in place for Mikron Group employees.

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 active globally 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, where the currency is not the same as the company's functional currency.

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 Swiss Franc devalues against the listed currencies. In case of an appreciation of the Swiss franc an inverse impact applies.

CHF 1,000	Possible shift in currency rates 2014	Impact on net earnings 2014	Impact on shareholders' equity 2014
Currency			
CHF/EUR	10%	1,661	905
CHF/SGD	10%	268	466
CHF/USD	10%	387	294

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 2014 and 2013 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.

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.

CHF 1,000	Note	Less than 1 year	Between 1 and 3 years	Over 3 years
At 31 December 2013				
Bank borrowings	5.12	50	100	13,770
Finance lease liabilities	5.12	150	0	0
Derivate financial instruments	6.1	16,448	0	0
Total		16,648	100	13,770
At 31 December 2014				
Bank borrowings	5.12	50	100	13,720
Finance lease liabilities	5.12	209	548	0
Derivate financial instruments (notional amount)	6.1	11,395	0	0
Total		11,654	648	13,720

4. Details of the consolidated income statement

4.1 Net sales

CHF 1,000	2014	2013
Machines (from construction contracts)	180,397	181,127
Machines (other)	694	546
Cutting tools	30,517	26,305
Service	37,526	33,169
Total net sales	249,134	241,147

4.2 Material costs and subcontractors

CHF 1,000	2014	2013
Raw materials and components	-106,437	-98,396
Subcontractors	-5,812	-5,390
Total material costs and subcontractors	-112,249	-103,786

4.3 Personnel expenses

CHF 1,000	2014	2013
Salaries and wages	-91,575	-89,178
Social charges	-9,406	-9,148
Pension expenses	-4,855	-4,506
Total personnel expenses	-105,836	-102,832

4.4 Other operating income and expenses

CHF 1,000	2014	2013
Other income	1,195	2,228
Gain on sale of non-current assets	218	95
Total other operating income	1,413	2,323
Real estate	-7,161	-6,861
Marketing and sales	-7,139	-6,894
Information technology	-4,181	-3,513
Other expenses	-11,654	-12,854
Loss on sale of non-current assets	-1	-35
Capital and other taxes (excl. income taxes)	-328	-477
Total other operating expenses	-30,464	-30,634

4.5 Financial result

CHF 1,000	2014	2013
Financial income	3,377	3,136
Financial expenses	-5,004	-4,750
Total financial result	-1,627	-1,614
Interest income	465	624
Interest expenses	-208	-215
Total interest result	257	409
Exchange gains	2,392	1,866
Exchange losses	-3,628	-2,952
Other financial income	520	646
Other financial expenses	-1,168	-1,583
Total other financial result	-1,884	-2,023
Total financial result	-1,627	-1,614

4.6 Non-operating result

CHF 1,000	2014	2013
Rental income	2,349	2,615
Income from property-related services	922	912
Total non-operating income	3,271	3,527
Owner-related expenses	-142	-153
Expenses for property-related services	-968	-948
Total non-operating expense	-1,110	-1,101
Revaluation	-218	-186
Total non-operating result	1,943	2,240

4.7 Income taxes

CHF 1,000	2014	2013
Current income tax	-530	-233
Deferred income tax	-213	-957
Total income taxes	-743	-1,190

The applicable tax rate for the Group is 23% (prior year: 22%). 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 Cash and cash equivalents

CHF 1,000	31.12.2014	31.12.2013
Bank and post office accounts	26,292	33,284
Total cash and cash equivalents	26,292	33,284

5.2 Financial assets

CHF 1,000	Note	31.12.2014	31.12.2013
Bonds		15,922	12,929
Derivative financial instruments	6.1	0	146
Total current financial assets		15,922	13,075

The bonds of CHF 15.9 million (prior year: CHF 12.9 million) mainly comprise high-quality Swiss franc bonds with a maturity of up to five years.

5.3 Accounts receivable

CHF 1,000	31.12.2014	31.12.2013
Accounts receivable	17,061	15,697
Allowance for doubtful accounts	-764	-553
Total accounts receivable	16,297	15,144

As at the balance sheet date, accounts receivable (including allowance for doubtful accounts) past due for 30 days and more amounted to CHF 1.9 million (prior year: CHF 2.3 million).

5.4 Inventories

CHF 1,000	31.12.2014	31.12.2013
Raw materials and components	21,572	24,522
Work in progress	12,208	10,658
Finished and trading goods	11,242	5,850
Prepayments to suppliers	3,983	2,905
Prepayments from customers	-1,033	-1,109
Total inventories	47,972	42,826

The provision for slow-moving inventories amounts to CHF 13.8 million (prior year: CHF 13.6 million).

5.5 Construction contracts

CHF 1,000	31.12.2014	31.12.2013
Projects in progress – costs incurred	171,021	121,059
Recognized profits less recognized losses	36,304	28,896
Prepayments from customers	-186,873	-125,436
Total net assets and liabilities from customer projects	20,452	24,519
Net assets from customer projects	42,168	42,754
Net liabilities from customer projects	-21,716	-18,235
Total net assets and liabilities from customer projects	20,452	24,519

The stage of completion, determined by the costs incurred to date compared to the total estimated costs, was approximately 66% on 31 December 2014 (prior year: approximately 61%). At the balance sheet date, the Mikron Group had 171 projects in progress (prior year: 169 projects) with an average volume of CHF 1.8 million (prior year: CHF 1.5 million). As at 31 December 2014 there were no retentions by customers (prior year: none).

5.6 Other current receivables

CHF 1,000	31.12.2014	31.12.2013
Other current receivables	3,997	3,837
Total other current receivables	3,997	3,837

5.7 Tangible assets

CHF 1,000	Undeveloped real estate	Real estate	Machinery	Equipment and installa- tions	Down pay- ments and assets under construction	Others	Total
At cost							
Balance at 01.01.2013	3,199	73,878	59,514	21,325	897	2,859	161,672
Additions	0	385	1,582	950	551	109	3,577
Transfers	0	231	130	-68	-858	0	-565
Disposals	0	-21	-1,598	-298	0	-154	-2,071
Translation adjustments	0	0	61	-27	-3	9	40
Balance at 31.12.2013	3,199	74,473	59,689	21,882	587	2,823	162,653
Additions	0	1,112	3,614	742	584	119	6,171
Transfers	0	239	328	-61	-552	0	-46
Disposals	0	0	-2,180	-610	0	0	-2,790
Translation adjustments	0	0	-4	235	9	-4	236
Balance at 31.12.2014	3,199	75,824	61,447	22,188	628	2,938	166,224
Accumulated depreciation							
Balance at 01.01.2013	0	-47,456	-49,143	-18,064	0	-1,577	-116,240
Depreciation	0	-1,541	-2,208	-1,008	0	-271	-5,028
Transfers	0	0	0	79	0	0	79
Disposals	0	11	1,332	223	0	143	1,709
Translation adjustments	0	0	-42	22	0	-5	-25
Balance at 31.12.2013	0	-48,986	-50,061	-18,748	0	-1,710	-119,505
Depreciation	0	-1,585	-2,327	-1,101	0	-242	-5,255
Transfers	0	0	0	96	0	0	96
Disposals	0	0	2,180	608	0	0	2,788
Translation adjustments	0	0	-8	-207	0	2	-213
Balance at 31.12.2014	0	-50,571	-50,216	-19,352	0	-1,950	-122,089
Net book value							
Balance at 31.12.2013	3,199	25,487	9,628	3,134	587	1,113	43,148
Balance at 31.12.2014	3,199	25,253	11,231	2,836	628	988	44,135
Of which finance leases							
Balance at 31.12.2013	0	0	450	0	0	0	450
Balance at 31.12.2014	0	0	834	0	0	0	834

At the balance sheet date, the Group had entered into CHF 0.9 million of capital commitments to purchase tangible assets (prior year: CHF 0.2 million).

In 2014, the Group acquired tangible assets of CHF 0.9 million (prior year: none) on a financial leasing basis.

Other Information

CHF 1,000	31.12.2014	31.12.2013
Fire insurance values		
Real estate	65,963	72,647
Machinery, equipment and installations	72,483	71,384
Total fire insurance values	138,446	144,031

5.8 Intangible assets

CHF 1,000	Patents	Capitalized development costs	Software	Assets under construction	Others	Total
At cost						
Balance at 01.01.2013	2,719	4,996	16,381	0	653	24,749
Additions	0	390	1,375	0	0	1,765
Transfers	0	0	565	0	0	565
Disposals	0	-2,253	0	0	0	-2,253
Translation adjustments	38	-40	-4	0	0	-6
Balance at 31.12.2013	2,757	3,093	18,317	0	653	24,820
Additions	0	0	819	1,009	0	1,828
Transfers	0	-390	101	325	10	46
Disposals	0	0	-2	0	0	-2
Translation adjustments	-50	79	36	0	0	65
Balance at 31.12.2014	2,707	2,782	19,271	1,334	663	26,757
Accumulated amortization						
Balance at 01.01.2013	-204	-3,459	-12,008	0	-623	-16,294
Amortization	-277	-494	-1,758	0	-6	-2,535
Impairments	-2,287	0	0	0	0	-2,287
Transfers	0	0	-79	0	0	-79
Disposals	0	2,253	0	0	0	2,253
Translation adjustments	11	-13	-4	0	0	-6
Balance at 31.12.2013	-2,757	-1,713	-13,849	0	-629	-18,948
Amortization	0	-443	-1,453	0	-8	-1,904
Impairments	0	0	0	0	0	0
Transfers	0	0	-96	0	0	-96
Disposals	0	0	2	0	0	2
Translation adjustments	50	-40	-3	0	0	7
Balance at 31.12.2014	-2,707	-2,196	-15,399	0	-637	-20,939
Net book value						
Balance at 31.12.2013	0	1,380	4,468	0	24	5,872
Balance at 31.12.2014	0	586	3,872	1,334	26	5,818
Of which finance leases						
Balance at 31.12.2013	0	0	0	0	0	0
Balance at 31.12.2014	0	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 0.1 million).

Patents

In connection with the acquisition of IMA Automation Berlin GmbH in 2012 the Mikron Group purchased patents in the amount of CHF 2.7 million. The patents cover methods of manufacturing contacting systems for the photovoltaic industry and were fully impaired in 2013.

Software

In the 2014 financial year, the Mikron Group invested mainly in a new ERP system at two sites and an update of the consolidation software.

5.9 Investment property

CHF 1,000	2014	2013
Balance at 1 January	27,890	28,030
Capitalized expenditures	1,838	46
Revaluation	-218	-186
Balance at 31 December	29,510	27,890
Original acquisition cost	41,799	39,961
Fire insurance values	59,830	59,830

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 2014. The discounted cash flow method was used for the valuation. A discount rate of 6.5% was applied (prior year: 6.9%).

At the balance sheet date, the Group had entered into CHF 0.3 million of capital commitment for capital expenditure in relation to the investment property (prior year: CHF 0 million).

5.10 Employee benefits

All employees in Switzerland are insured through the Mikron pension fund, which is a foundation under Swiss law and 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 31.12.2013	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2013
		31.12.2013	31.12.2012			
Pension institutions without surplus/deficit	0	0	0	0	-3,929	-3,929
Total	0	0	0	0	-3,929	-3,929

CHF 1,000	Surplus / deficit 31.12.2014	Economic part of the organization		Change from prior year in the current result for the period	Contributions concerning the business period	Pension expenses 2014
		31.12.2014	31.12.2013			
Pension institutions without surplus/deficit	0	0	0	0	-4,297	-4,297
Total	0	0	0	0	-4,297	-4,297

The information on the economic benefit as at 31 December 2014 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 2013. As at 31 December 2013, the Mikron pension fund reported a coverage rate of 119.9%. According to the pension fund's provisional accounts, the coverage rate is expected to have increased by approximately 3% in the 2014 financial year. The number of active insureds increased in 2014 by about 3%. Contributions matched pension expenses during the relevant reporting period. There is no plan to use economic benefit that might exist from the surplus. The surplus is expected to fully benefit the insured employees.

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.

5.11 Deferred taxes

CHF 1,000	2014	2013
Statement of changes in deferred tax liabilities		
Balance at 1 January	3,568	3,276
Set-up and reversal of temporary differences	1,135	265
Translation adjustments	-10	27
Balance at 31 December	4,693	3,568

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

The deferred tax assets of CHF 3.4 million (prior year: CHF 2.4 million) result from accumulated tax loss carry forwards that were capitalized. Due to uncertainties that future taxable profit will be available to offset against these assets, tax loss carry forwards amounting to CHF 101.1 million (prior year: CHF 99.6 million) were not capitalized. Applying local tax rates results in a maximum potential tax benefit from non-capitalized tax loss carry forwards of CHF 16.0 million (prior year: CHF 14.9 million).

5.12 Financial liabilities

CHF 1,000	Note	31.12.2014	31.12.2013
Short-term financial liabilities			
Bank borrowings		50	50
Finance lease liabilities		209	150
Derivative financial instruments	6.1	121	0
Total short-term financial liabilities		380	200
Long-term financial liabilities			
Bank borrowings		13,820	13,870
Finance lease liabilities		548	0
Total long-term financial liabilities		14,368	13,870

The investment property and one 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	31.12.2014	31.12.2013
Financial liabilities, expiring		
– not later than 1 year	380	200
– later than 1 year but not later than 3 years	648	100
– later than 3 years	13,720	13,770
Total financial liabilities	14,748	14,070

In addition, in November 2011, a credit agreement was negotiated with a bank consortium and concluded for 42 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. Renewal of the contract is being negotiated.

5.13 Provisions

CHF 1,000	Warranties	Onerous contracts	Restructuring	Others	Total
Short-term provisions					
Balance at 01.01.2013	3,373	17	0	1,448	4,838
Additions	-2,891	0	104	0	2,995
Utilization	-2,105	-17	0	0	-2,122
Reversal	-668	0	0	-720	-1,388
Translation adjustments	6	0	-1	0	5
Balance at 31.12.2013	3,497	0	103	728	4,328
Additions	3,463	0	110	7	3,580
Utilization	-2,455	0	-103	0	-2,558
Reversal	-2,026	0	0	-184	-2,210
Translation adjustments	-9	0	-2	0	-11
Balance at 31.12.2014	2,470	0	108	551	3,129
Long-term provisions					
Balance at 01.01.2013	0	0	0	181	181
Additions	0	0	0	3	3
Balance at 31.12.2013	0	0	0	184	184
Reversal	0	0	0	-3	-3
Balance at 31.12.2014	0	0	0	181	181

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

Other long-term provisions cover risks from indemnifications related to the sale of companies in 2005 which will expire in 2016 at the latest.

5.14 Accruals

CHF 1,000	31.12.2014	31.12.2013
Accrued expenses	13,597	14,038
Current income tax payables	16	144
Total accrued expenses	13,613	14,182

The accrued expenses of CHF 13.6 million (prior year: CHF 14.2 million) mainly consist of accruals in relation to employees' annual leave entitlements, overtime and bonus totaling CHF 8.2 million (prior year: CHF 8.6 million), outstanding trade payables, accrued income taxes of CHF 0.5 million (prior year: CHF 0.3 million) as well as the remaining costs of customer projects already billed, but for which final acceptance is still pending.

5.15 Shareholders' equity

Share capital

The share capital as at 31 December 2014 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.

The share pooling agreement was terminated as at 30 April 2014. The group of investors (prior year share of voting rights: 70.3%) comprised Amman Group Holding AG, Mr Rudolf Maag, Tegula AG, Personalfürsorgestiftung Rieter AG and Corporate Investment Affentranger Holding AG.

Treasury shares

During 2014 the company acquired or sold no treasury shares (prior year: none). At 31 December 2014 Mikron Holding AG, Biel, owned 28,207 treasury shares (prior year: 28,207 shares).

Reserves

The statutory or legal reserves which may not be distributed amount to CHF 0.9 million (prior year: CHF 0.9 million). In the year under review, foreign currency translation adjustments of CHF 1.6 million (prior year: CHF 0.4 million) on loans with equity character in foreign currencies (EUR, USD 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 31.12.2013	146	0	16,448	6,730	9,718	0	0
Balance 31.12.2014	0	121	11,395	5,715	5,680	0	0

All are denominated in euros, US dollars or Norwegian kroner.

The replacement values are disclosed as financial assets (Note 5.2) or short-term financial liabilities (Note 5.12).

6.2 Assets pledged as security for liabilities

CHF 1,000	31.12.2014	31.12.2013
Real estate pledged as security for liabilities	57,962	56,576
Collateral securities – nominal	88,745	88,745
Loans and mortgages utilized	13,870	13,920
Other assets pledged as security for liabilities	44,558	51,530
Utilized by finance leases (machinery, licenses)	757	150
Utilized by credit facilities and loans	0	0

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

The credit limits made available by the bank consortium were secured by assigning the properties used for operational purposes, along with part of the credit balances held in bank accounts, current financial assets and part of the Mikron Group's receivables.

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

6.3 Off-balance sheet lease commitments

CHF 1,000	31.12.2014	31.12.2013
Off-balance sheet lease commitments, payable		
– not later than 1 year	3,538	3,545
– later than 1 year but not later than 3 years	4,769	3,325
– later than 3 years but not later than 5 years	2,784	1,348
– later than 5 years	2,091	1,054
Total off-balance sheet lease commitments	13,182	9,272

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	2014	2013
At cost		
Balance at 1 January	1,567	1,567
Additions	0	0
Disposals	0	0
Balance at 31 December	1,567	1,567
Accumulated amortization		
Balance at 1 January	-958	-261
Amortizations	-192	-313
Disposals	0	0
Impairments	0	-384
Balance at 31 December	-1,150	-958
Theoretical value 31 December	417	609

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 depreciation 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	2014	2013
Profit	2,226	2,393
Amortization goodwill	-192	-697
Theoretical profit	2,034	1,696

CHF 1,000	31.12.2014	31.12.2013
Shareholders' equity	155,302	153,453
Theoretical value goodwill	417	609
Theoretical shareholders' equity	155,719	154,062

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	2014	2013
Net sales	0	2,883
Material costs and subcontractors	0	-151
Other operating expenses	-149	-26
CHF 1,000	31.12.2014	31.12.2013
Accounts receivable	0	159
Other current liabilities and accrued expenses	-84	-26

Due to the termination of the share pooling agreement, the related party transactions reduced significantly compared to the prior year. The 2013 figures have not been restated.

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

7. Information by segment

7.1 Information by business segment

CHF 1,000	Machining		Automation		Corporate / Eliminations		Total Group	
	2014	2013	2014	2013	2014	2013	2014	2013
Net sales – third party	123,050	124,645	126,788	116,502	-704	0	249,134	241,147
Net sales – Group	702	536	43	343	-745	-879	0	0
Total net sales	123,752	125,181	126,831	116,845	-1,449	-879	249,134	241,147
Operating result	-643	6,242	2,748	-4,587	548	1,302	2,653	2,957
Earnings before interest and taxes (EBIT)	-643	6,242	2,748	-4,587	2,491	3,542	4,596	5,197

CHF 1,000	Machining		Automation		Corporate / Eliminations		Total Group	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Assets excluding cash and cash equivalents and current financial assets	115,890	109,179	58,155	61,328	20,995	15,276	195,040	185,783
Cash and cash equivalents	4,367	2,190	5,898	4,113	16,027	26,981	26,292	33,284
Current financial assets	0	0	0	0	15,922	13,075	15,922	13,075
Total assets	120,257	111,369	64,053	65,441	52,944	55,332	237,254	232,142

7.2 Information by geographical segment

CHF 1,000	Net sales	
	2014	2013
Switzerland	23,790	25,107
Europe	133,348	156,637
North America	62,328	29,801
Asia/Pacific	27,467	24,341
Others	2,201	5,261
Total net sales	249,134	241,147

Report of the Statutory Auditor



Report of the statutory auditor
to the general meeting of
Mikron Holding AG
Biel

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Mikron Holding AG, which comprise the income statement, balance sheet, statement of shareholders' equity, statement of cash flow and notes (pages 74 to 99 and 114) for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

Oliver Kuntze
Audit expert
Auditor in charge

Bernhard Bichsel
Audit expert

Bern, 6 March 2015

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5-Year Financial Summary

CHF million, except productivity and number of employees	2014		2013		2012		2011		2010 restated	
Key performance data										
Order intake	244.8		246.4		236.3		225.0		219.8	
Net sales	249.1		241.1		235.3		210.9		182.5	
Order backlog	117.4		122.4		109.5		95.9		84.2	
Operating output	256.9		247.7		237.4		212.0		181.0	
Productivity (added value/personnel expenses)	1.37		1.40		1.46		1.48		1.39	
Research and development	5.8		4.6		5.2		6.1		5.5	
Number of employees (end of year)	1,162		1,109		1,093		972		902	
Investments incl. acquisitions of subsidiaries – net	9.8		5.0		11.3		11.5		3.0	
Earnings										
Earnings before interest, taxes, depreciation, amortizations and impairments (EBITDA), as % of net sales	12.0	4.8%	15.2	6.3%	19.8	8.4%	17.9	8.5%	11.3	6.2%
Earnings before interest and taxes (EBIT), as % of net sales	4.6	1.8%	5.2	2.2%	11.2	4.8%	9.4	4.5%	3.1	1.7%
Operating result, as % of net sales	2.7	1.1%	3.0	1.2%	9.1	3.9%	7.4	3.5%	0.5	0.3%
Ordinary result, as % of net sales	1.0	0.4%	1.3	0.5%	8.3	3.5%	6.1	2.9%	-0.5	-0.3%
Profit for the year, as % of net sales	2.2	0.9%	2.4	1.0%	8.5	3.6%	7.1	3.4%	1.6	0.9%
Cash flow										
Cash flow from operating activities (incl. changes in net working capital), as % of net sales	6.7	2.7%	10.6	4.4%	9.8	4.2%	8.0	3.8%	14.9	8.2%
Operational free cash flow (prior to acquisitions and changes in current financial assets)	-2.6		5.2		0.6		-2.9		13.0	
Balance sheet										
Balance sheet total	237.3		232.1		231.1		219.1		206.6	
Current assets	154.4		152.8		146.1		136.7		126.7	
Non-current assets	82.9		79.3		85.0		82.4		79.9	
Current liabilities	62.7		61.1		60.5		53.2		50.5	
Long-term liabilities	19.2		17.6		17.6		17.7		15.1	
Shareholders' equity, as % of balance sheet total	155.3	65.5%	153.5	66.1%	153.0	66.2%	148.2	67.6%	140.9	68.2%

Information on Share Capital

	2014	2013	2012	2011	2010 restated
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	0.13	0.14	0.51	0.43	0.10
Cash flow from operating activities	0.40	0.63	0.58	0.48	0.89
Shareholders' equity	9.29	9.18	9.16	8.87	8.43
Distribution to shareholders	0.10	0.15	0.12	0.00	0.00
Share price SIX Swiss Exchange					
At 31 December	7.05	6.20	5.03	5.30	6.86
High/low during business year	9.90–6.26	6.31–5.07	6.99–5.00	10.90–5.00	7.80–6.00

1) All shares are entitled to dividends/distributions.

2) Based on the average number of outstanding shares.

Trading volume (daily average)

In the 2014 fiscal year the average daily trade volume was 11,321 shares (prior year: 10,782 shares).

Mikron Holding AG

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Financial Statements 2014 of Mikron Holding AG

Income statement

CHF 1,000	2014	2013
Revenue		
Financial income	6,424	7,976
Services and other income	3,369	3,599
Income from revaluation of investments and loans	4,859	0
Dividend income	2,700	7,600
Total revenue	17,352	19,175
Expenses		
Financial expenses	4,156	7,060
Expenses from revaluation of investments and loans	6,920	7,316
Other expenses	2,294	2,031
Total expenses	13,370	16,407
Net earnings	3,982	2,768

Balance sheet

CHF 1,000	31.12.2014	31.12.2013
Current assets		
Cash and cash equivalents	15,744	26,852
Marketable securities	16,074	13,081
Intercompany receivables	673	210
Other receivables	132	171
Short-term financial assets towards third parties	0	146
Short-term financial assets towards Group companies	19,535	13,207
Prepaid expenses	209	6
Total current assets	52,367	53,673
Non-current assets		
Long-term financial assets		
– Investments	70,610	70,001
– Loans to Group companies	52,996	47,662
Total non-current assets	123,606	117,663
Total assets	175,973	171,336
Current liabilities		
Accounts payable	8	117
Intercompany payables	182	291
Other liabilities	75	32
Short-term financial liabilities	121	0
Short-term financial liabilities from Group companies	15,107	15,388
Accrued expenses	313	265
Total current liabilities	15,806	16,093
Long-term liabilities		
Long-term financial liabilities from Group companies	2,614	0
Provisions	180	183
Total long-term liabilities	2,794	183
Total liabilities	18,600	16,276
Shareholders' equity		
Share capital	1,671	1,671
Capital surplus reserve (legal reserve)	102,497	104,166
Reserve for treasury shares	152	152
Retained earnings	53,053	49,071
Total shareholders' equity	157,373	155,060
Total liabilities and shareholders' equity	175,973	171,336

Notes to the Financial Statements 2014 of Mikron Holding AG

1. Commentary of Group Management on the financial report 2014 of Mikron Holding AG

Investments in subsidiaries are reported based on the "group valuation" principle. Thus the net earnings of Mikron Holding AG mirror the performance of the Mikron Group. As the Group was confronted with volatile markets and divergent trends in individual regions and market segments, its earnings were below expectations.

Mikron Holding AG recorded net earnings of CHF 4.0 million, compared to CHF 2.8 million in the prior year. In the year under review, the subsidiaries distributed CHF 2.7 million in dividends to Mikron Holding AG (prior year: CHF 7.6 million). While several subsidiary companies delivered positive earnings, these were outweighed by losses at other sites, resulting in a revaluation expense of CHF 6.9 million. Stewardship costs, including the remuneration for the Board of Directors, remained stable at CHF 2.0 million (prior year: CHF 2.0 million). These costs are covered by the trademark fee and other service income. The net financial income (financial income less financial expense) of CHF 2.3 million is significantly higher than in the prior year, driven by the latest foreign currency developments (prior year: CHF 0.9 million). Interest income and valuation gains from marketable securities contributed CHF 0.5 million.

With cash and cash equivalents plus marketable securities of CHF 31.8 million (prior year: CHF 39.9 million) and an equity ratio of 89.4%, the company is financially very healthy.

In 2014 the Annual General Meeting of Shareholders approved a distribution of CHF 1.7 million (CHF 0.10 per share) from the capital surplus reserve. The Board of Directors plans to propose a distribution from capital reserves of CHF 0.05 per share to the shareholders at the next Annual General Meeting.

2. Accounting principles

The financial statements of Mikron Holding AG have been prepared in accordance with accounting principles stipulated by Swiss law. Balance sheet items are reported taking the imparity principle and the lower of cost or market principle into consideration. Foreign currency transactions are translated using the exchange rate prevailing at the date of transaction. Assets and liabilities are translated into Swiss francs at the exchange rates prevailing on the balance sheet date.

Investments are reported at cost less any accumulated depreciations and impairments. The valuation of shareholdings is based on the individual financial statements of the subsidiary companies established in accordance with Swiss GAAP FER.

Applying the transitional provisions of the new accounting law, these financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until 31 December 2012. From 01 January 2015 onwards the application of the new accounting law is mandatory. A revaluation expense will be necessary in the 2015 income statement due to the new individual valuation of the investments.

3. Subsequent event

The Swiss National Bank (SNB) removed the ceiling between the Swiss franc and the euro on 15 January 2015. As a result, we expect a valuation impact on the assets reported in the financial statements of Mikron Holding AG at 31 December 2014 that reduces the equity ratio from 89.4% to 89.1% based on the Group's January closing rates (EUR 1.01626, USD 0.90356, SGD 0.67280 and CNY 0.14460). The income statement 2015 will be impacted accordingly.

Including the effect of the revaluation expense due to the new accounting law a further decrease of the equity ratio to 87.6% is expected.

4. Information on risk management

The company is incorporated into the Mikron Group's central risk assessment system, which deals with both strategic and operational risks. All identified risks are given a rating (based on the probability of occurrence and extent of potential losses) and recorded in a risk inventory. This risk inventory provides the basis for the detailed discussions held at least once a year by the Board of Directors for the purpose of ensuring that the inventory is fully up to date. Ongoing monitoring of the risk inventory is a Group Management task.

A risk assessment will be carried out for all identified risks relating to accounting and financial reporting. The internal control system over financial reporting ensures that appropriate controls are defined in order to reduce financial risks. Remaining risks are monitored.

5. Statement of shareholders' equity

CHF 1,000	Share capital	Capital surplus reserve	Reserve for treasury shares	Retained earnings	Shareholders' equity
Balance at 31.12.2012	1,671	106,668	170	46,285	154,794
Net earnings 2013				2,768	2,768
Change of reserve for treasury shares			-18	18	0
Distribution to shareholders		-2,502			-2,502
Balance at 31.12.2013	1,671	104,166	152	49,071	155,060
Net earnings 2014				3,982	3,982
Distribution to shareholders		-1,669			-1,699
Balance at 31.12.2014	1,671	102,497	152	53,053	157,373

6. Capital subject to a condition

CHF 1,000	31.12.2014	31.12.2013
Capital I subject to a condition	n.a.	12
Capital II subject to a condition	n.a.	50

Capital I subject to a condition

The capital increase subject to a condition with an initial nominal value of CHF 12,079.90 as per approval of the Annual General Meeting of 18 June 2003 by the issue of 120,799 registered shares at a par value of CHF 0.10 has been annulled by the revision of the articles of incorporation in 2014.

Capital II subject to a condition

The capital increase subject to a condition with an initial nominal value of CHF 50,000 as per approval of the Annual General Meeting of 18 June 2003 by the issue of 500,000 registered shares at a par value of CHF 0.10 has been annulled by the revision of the articles of incorporation in 2014.

7. Information on treasury shares

During 2014 the company acquired or sold no treasury shares (prior year: no shares). At 31 December 2014 Mikron Holding AG, Biel owned 28,207 treasury shares (prior year: 28,207 shares).

8. Shareholder structure

From a total of 3,035 shareholders, 3,027 shareholders with 15,216,065 shares are entitled to vote. Eight shareholders with 92,165 shares as well as 1,404,514 shares of the trading stock are not entitled to vote.

	31.12.2014			31.12.2013			
	Number of shareholders	Number of shares	%	Number of shareholders	Number of shares	%	
Shareholders	≥5%	2	9,306,923	55.69%	1	11,742,941	70.26%
Shareholders	>100,000 <5%	10	2,342,476	14.02%	2	372,572	2.23%
Shareholders	>10,000 ≤100,000	63	1,784,611	10.68%	45	936,002	5.60%
Shareholders	>1,000 ≤10,000	616	1,442,752	8.63%	688	1,605,079	9.60%
Shareholders	>100 ≤1,000	1,176	397,450	2.38%	1,302	442,925	2.65%
Shareholders	>10 ≤100	982	33,101	0.20%	1,095	36,041	0.22%
Shareholders	≤10	186	917	0.01%	206	1,026	0.01%
Trading stock		0	1,404,514	8.40%	0	1,576,158	9.43%
Total		3,035	16,712,744	100.00%	3,339	16,712,744	100.00%

9. Significant shareholders and their investments

The share pooling agreement was terminated as at 30 April 2014. The group of investors (prior year share of voting rights: 70.3%) comprised Amman Group Holding AG, Mr Rudolf Maag, Tegula AG, Personalfürsorgestiftung Rieter AG and Corporate Investment Affentranger Holding AG.

As of 31 December 2014 there are two shareholders with investments of >5% in voting rights (Ammann Group Holding AG, Berne 41.6%; Mr. Rudolf Maag, Binningen, 14.1%). No other single shareholder holds 5% or more of the voting rights. The Ammann Group Holding AG is represented on the Board of Directors by Mr. Kilchmann.

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

		31.12.2014		31.12.2013	
		Number of shares	Voting power	Number of shares	Voting power
Board of Directors					
H. Spoerry	Chairman	13,675	0.08%	6,500	0.04%
E. Rikli	Vice-Chairman	21,500	0.13%	21,500	0.13%
A. Steiner (until 8 April 2014)	Member	n.a.	n.a.	5,500	0.03%
Group Management					
B. Cathomen	CEO	25,580	0.15%	25,580	0.15%
R. Rihs	COO	32,000	0.19%	32,000	0.19%
M. Blom	CFO	15,000	0.09%	12,000	0.07%

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

11. Subordinated loans

Loans to Group companies include subordinated loans amounting to CHF 8.1 million (prior year: CHF 6.6 million).

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

CHF 1,000	31.12.2014	31.12.2013
Assets pledged as security for liabilities	32,491	40,143
Utilized by credit facilities and loans	0	0
Guarantees in favor of bank syndicate	155,216	152,903
Guarantees for Group companies	9,951	15,298

The credit facility made available by the bank consortium was secured by assigning the credit balances held in bank accounts, marketable securities and the receivables of the company of CHF 32.5 million (prior year: CHF 40.1 million).

Under the terms of the credit agreement, the company is irrevocably committed to the bank consortium for the payment of all debts in respect of Group companies. The guarantee is subject to legally binding restrictions. The reported amount of CHF 155.2 million (prior year: CHF 152.9 million) corresponds to the distributable reserves as per the balance sheet.

Mikron Holding AG has issued guarantees of CHF 10.0 million (prior year: CHF 15.3 million) predominantly to customers of Group companies in respect of down payments received.

13. Major investments

See page 114.

Proposed Appropriation of Retained Earnings

Proposal of the Board of Directors

The Board of Directors proposes to the Annual General Meeting of Shareholders that the retained earnings of CHF 53.1 million for the year ended 31 December 2014 be appropriated as follows:

Appropriation of retained earnings

CHF 1,000	31.12.2014	31.12.2013
Retained earnings carried forward	49,071	46,285
Change of reserve for treasury shares	0	18
Net earnings	3,982	2,768
Retained earnings	53,053	49,071
Carry forward to new account	53,053	49,071

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

Reclassification and payback of capital surplus reserves

CHF 1,000	31.12.2014	31.12.2013
Reclassification of capital surplus reserves in other reserves	836	1,671
Distribution from other reserves (without withholding tax) for the financial year 2014 of CHF 0.05 per share for 16,712,744* shares	836	1,671

* These figures are based on the issued share capital as of 6 March 2015. For distribution the entitled share capital is calculated at the cut-off date. Treasury shares are not entitled to distributions.

Report of the Statutory Auditor



Report of the statutory auditor
to the general meeting of
Mikron Holding AG
Biel

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Mikron Holding AG, which comprise the income statement, balance sheet and notes (pages 106 to 111 and 114) for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements 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 system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

Oliver Kuntze
Audit expert
Auditor in charge

Bernhard Bichsel
Audit expert

Bern, 6 March 2015

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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 Ltd.	2,3	SGD	1,431	100%	
P.R. China					
Mikron Shanghai Ltd.	2,3	CNY	3,379		100%
USA					
Mikron Corp. Denver, Aurora	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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Except for the historical information contained herein, the statements in this annual report are forward-looking statements that involve risks and uncertainties.

