



MTS Systems Corporation Corporate Governance Guidelines

Board Composition

1. Board Membership Criteria

All directors must possess personal and professional integrity, intelligence, the time to devote to board demands, absence from conflict of interest, broad perspective, an inquiring mind, experience at a strategy/policy setting level, ability to be candid and work effectively with others and demonstrated ability to understand and respect the advisory and proactive oversight responsibility of the Board of Directors (the "Board"). Directors should each also have expertise in at least one aspect of the Company's business.

2. Retirement Age and Term Limits

There is no mandatory retirement age or term limit for directors.

3. Board Selection

The Board is responsible for nominating directors to be elected by the shareholders. Directors serve one year terms after election by shareholders at the Annual Meeting of Shareholders. The Governance and Nominating Committee recommends the criteria for Board members as well as prospective directors for nomination. Shareholders may nominate potential directors, in accordance with applicable rules and the Company's bylaws. Vacancies between Annual Meetings of Shareholders may be filled through nomination by the Governance and Nominating Committee and a majority vote of the Board.

4. Size of Board

The Articles of Incorporation and Bylaws of the Company permit a Board between three and ten members.

5. Director Job Change

A director who changes employer will automatically tender his or her resignation. The remaining directors will vote to either accept or decline that tender of resignation. If the majority of remaining directors vote to decline the tender of resignation, the director will remain on the Board.

6. Director Independence

At least a majority of directors must be independent, as defined by applicable rules of the NASDAQ Stock Market. This policy promotes unbiased oversight of the Company's officers and management.

7. Chair / CEO / Lead Director

The Board selects both the Chair and the CEO. The Board can select the same person for both positions.

The Board shall select an independent director as Lead Director if the CEO is also the Chair.

Board Meetings

1. Attendance

Each member of the Board is expected to attend as many Board meetings as possible in person or by telephone, but not less than 75% of the meetings.



2. Meeting of Independent Directors

The independent members of the Board regularly meet without the CEO present to discuss matters of interest.

3. Meetings and Agenda

The Board meets a minimum of four times per fiscal year. Additional meetings, including telephonic meetings, are held from time to time as appropriate. The Chair of the Board, with input from the lead director, establishes the agenda for each meeting, although Board members are free to suggest items for inclusion at future Board meetings. The lead director will bring forth the agenda in the absence of the Chair. The Chair ensures that independent director discussion occurs at every meeting. It is Company practice to ensure the Board receives all Board materials at least five days in advance of the meeting.

Board Duties and Responsibilities

1. Performance Reviews

The Board of Directors annually evaluates its performance to determine whether the Board and its committees are functioning effectively. The Governance and Nominating Committee is responsible for facilitating the annual review process as well as for reviewing with the Board the results of the evaluations.

2. CEO Evaluation and Succession Plan

The independent directors of the Board review the performance of the CEO on an annual basis in a private session. The directors review the CEO's previous year's performance and set both financial and non-financial performance objectives for the upcoming year. The independent directors also meet annually to review and approve a CEO succession plan.

3. Director Orientation and Education

The Company provides new directors with a director orientation program to familiarize such directors with, among other things, the Company's business, strategic plans, executive management team, significant financial, accounting and risk management issues, compliance programs, and code of business conduct. The Board has adopted a policy requiring annual refresher training for all directors. In addition, new directors are required to attend a formal board education program within two years of election.

Compensation and Stock Ownership

1. Director Stock Ownership

Independent directors have the guideline of achieving an ownership of the Company's Common Stock equal to a minimum of five times their annual retainer.

2. Director and Management Compensation

The Governance and Nominating Committee is responsible for developing and recommending director compensation policies and practices for approval by the full Board. A review of director compensation in relation to similarly situated companies is conducted annually to ensure that director compensation is consistent with market practices.

The Compensation Committee is responsible for establishing compensation plans for executives and key management. The Compensation Committee evaluates and makes recommendations to the independent directors regarding all components of the CEO's compensation. All compensation paid to the CEO is discussed and approved by the independent directors without the CEO's presence. All compensation paid to other Named Executives is approved by the full Board following a recommendation of the Compensation Committee.



Committees

1. Selection

The Board may appoint committees by a majority vote. The Company has an Audit Committee, Governance and Nominating Committee, and Compensation Committee. Members of all the committees consist entirely of independent directors. The Board has the power to fill vacancies, to change the membership, or to discharge any such committee.

2. Audit Committee

The Audit Committee is responsible for managing the relationship with outside auditors. It also reviews financial statements and internal controls with management and the independent auditors. The Committee reports regularly to the Board and makes any necessary recommendations. All members of the Committee must be financially literate at the time of appointment or must be capable of becoming financially literate by a reasonable time after appointment. At least one member of the Audit Committee must have accounting, finance, or related financial management expertise or experience. ([click here to view the Audit Committee Charter](#))

3. Governance and Nominating Committee

The Governance and Nominating Committee is responsible for governance policies and practices, including the evaluation of the Board and its individual members. The Committee is also responsible for recommending to the Board criteria for prospective directors, recommending the annual slate of directors to be elected by shareholders, and recommending candidates to fill Board vacancies and leading the process to fill chair and CEO positions. ([click here to view the Governance and Nominating Committee Charter](#))

4. Compensation Committee

The Compensation Committee is responsible for compensation of executive officers - including recommendations to the independent directors regarding CEO compensation, succession planning, management and leadership development, and employee stock and retirement program overview. ([click here to view the Compensation Committee Charter](#))

Other Governance Policies

1. Special Meetings

A special meeting of the shareholders may be called at any time by the Chair of the Board, two or more directors of the Board, a vote of the directors, or by a group of shareholders who own at least one-tenth of the outstanding shares of voting stock.

2. Board Access to Management

The Board of Directors has full access to the management of the Company and may contact managers from time to time in order to fully perform its duties. The interaction between Board members and management is expected to not interfere with the operation of the Company.

3. Auditor Rotation

In adhering with SEC requirements, the Company rotates its outside auditing partner no less often than every five years.

4. Stock Option Re-pricing

It is the policy of the Company to not re-price any stock options.

5. Annual Shareholder Meeting Attendance

It is the policy of the Company that all directors attend the annual shareholders' meetings.