

Corporate Governance



Members of the Board of Directors
(from left to right): Heinrich Sperry,
Johann Niklaus Schneider-Ammann (Chair-
man), Anton Affentranger (Vice-Chair-
man), Peter Forstmoser, Andreas Steiner

Corporate Structure & Shareholders

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 Swiss Exchange (SWX) guidelines published on July 1, 2002 regarding information on corporate governance. Aspects of the SWX guidelines not covered in this report are either not applicable or irrelevant to the Mikron Group.

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 SWX Swiss Exchange in Zurich (Swiss securities number 339'006) and on December 31, 2005 had a market capitalization of CHF 263.4 million. At operating level, the Mikron Group is made up of two divisions organized into one business segment, Corporate Services and other companies controlled by Mikron Holding AG.

The divisions are structured according to product and service type and encompass all the functions required by an independent company, such as sales, development, production and controlling. 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.

The Mikron Group consists of 12 companies worldwide. The corporate structure and the companies are listed on the inside back cover. 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 December 31, 2005, hold 5% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2005		31.12.2004	
	Number of shares of CHF -.10 par value each		Number of shares of CHF -.10 par value each	
Group of investors ¹	11'742'941	70.9%	11'742'941	70.9%
Public shareholders	4'770'143	28.8%	4'770'443	28.8%
Board of Directors and Group Management	51'960	0.3%	51'660	0.3%
Total	16'565'044	100.0%	16'565'044	100.0%

¹ This group of investors comprises Ammann Group Holding AG, Corporate Investment Management Affentranger Holding AG, Personalfürsorgestiftung Rieter AG, Tegula AG and Mr Rudolf Maag, who until 2008 are bound together by a shareholder pooling agreement with a fixed term of 5 years.

Cross-Shareholdings There are no cross-shareholdings consisting of either capital or voting rights.

Board of Directors

The duties of Mikron Holding AG's Board of Directors are defined in the Swiss Code of Obligations, the Articles of Association and the Organizational Regulations.

Members of the Board of Directors The company's Board of Directors consists of five members. The Chairman and Vice-Chairman of the Board of Directors shared the role of Co-CEO in an interim management arrangement between the Annual General Meeting in June 2003 and the end of that year, when the new CEO joined the company. None of the other members have held an executive role within the Mikron Group during the last three years, and 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 December 31, 2005:

Name	Age	Nationality	Position	First elected	Elected until
Johann N. Schneider-Ammann , Dipl. Ing. ETH	53	Swiss	Chairman, non-executive	1991	2008
As well as being Chairman and CEO of the Ammann Group in Langenthal, Johann-Niklaus Schneider is also a member of the Swiss National Council and President of Swissmem (Swiss Mechanical and Electrical Engineering Industries). In addition, he sits on the Board of Directors of the Swatch Group in Biel and of a number of SMEs.					
Anton Affentranger , lic. oec.	49	Swiss	Vice-Chairman, non-executive	2003	2006
Anton Affentranger is active as an entrepreneur in various capacities: as founder and Chairman of Affentranger Associates AG, Chairman of Corporate Investment Management Affentranger Holding AG and of Dartfish AG. He serves as Chairman of the Board of Directors at Zschokke Holding AG and as a member of the Board of Directors at Ammann Group. He is also Chairman of the Board of Directors of Transmission Technology Holding AG.					
Peter Forstmoser , Prof. Dr. iur., LL.M.	62	Swiss	Member, non-executive	1976	2008
Peter Forstmoser is professor of civil, commercial and capital market law at the University of Zurich and a partner at the Zurich law firm Niederer Kraft & Frey. He chairs the Board of Directors at Swiss Re, Hesta AG and Hesta Tex AG, Zug. He also serves as a member of the Board of Directors at Bank Hofmann AG and at Müller Möhl Group.					
Heinrich Spoerry , lic. oec., MBA	54	Swiss	Member, non-executive	2001	2007
Heinrich Spoerry is Chairman of the Board of Directors and CEO of the SFS Gruppe in Heerbrugg. He serves as Chairman of the Board of Directors at Industrieholding Cham AG and a member of the Board of Directors at Tegula AG, Zurich.					
Andreas Steiner , Dipl. Ing. ETH, Dr. sc. techn. ETH	60	Swiss	Member, non-executive	2003	2006
Andreas Steiner is member of the Board of Directors and CEO at Belimo Holding AG, Hinwil. He is a member of the University of Zurich's University Council, Chairman of Economiesuisse's research commission, a member of the board of trustees at the Hasler Foundation, Berne and a member of the Board of Directors at Eurospider Information Technology AG, Zurich.					

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Cross-Involvements There are no cross-involvements among the Board of Directors of this and any other company. The main mandates of members of the Mikron Board of Directors can be found on page 27.

Elections and Terms of Office Pursuant to the Articles of Association, the company's Board of Directors consists of at least five and at most nine members, who are elected by the Annual General Meeting for a three-year term and who may be re-elected to successive terms.

After reaching the age of 65, members of the Board of Directors are required to tender their resignation at the next Annual General Meeting.

Duties The Board of Directors is the company's most senior body with responsibility for management supervision. It is the company's external representative and handles all matters not assigned by law, the Articles of Association or Organizational Regulations to any other corporate body. It issues guidelines on corporate policy and keeps itself informed about the course of business.

The primary duties of the Board of Directors are:

- ▶ Strategic direction and management of the Mikron Group,
- ▶ Shaping accounting as well as financial planning, policy and controls,
- ▶ Overall supervision of business operations,
- ▶ Shaping the Group structure,
- ▶ Appointing and dismissing members of Group Management and other key executives,
- ▶ Preparing the annual report and the Annual General Meeting and executing resolutions passed by the latter.

The Board of Directors convenes as often as business requires but at least four times a year. During the 2005 business year, the Board held ten meetings including teleconferences. Average attendance by Board members was 96% during that period.

Prior to the meetings, the members of the Board of Directors receive documentation allowing them to be properly prepared to discuss the items on the agenda.

A quorum of the Board of Directors is reached when at least half of the members are present. The Board passes its resolutions by a majority of the votes cast. In the event of a tied vote, the Chairman has the deciding vote.

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 important matters immediately.

Audit Committee The Audit Committee's primary task is to maintain a comprehensive and efficient auditing system for Mikron Holding AG and the Mikron Group. The committee also rates the external and internal auditors, approves the focal points of the audits, and reviews the audit results, accounting principles and financial control mechanisms.

The members of the Audit Committee are the Board members Peter Forstmoser (Chairman) and Heinrich Spoerry. Four meetings were held in the 2005 business year.

Remuneration Committee The Remuneration Committee submits to the full Board of Directors proposals concerning the compensation (including employee participation scheme) of the members of the Board of Directors and Group Management. Details of the Mikron Group's remuneration policy can be found on page 32.

The members of the Remuneration Committee are the Board members Heinrich Spoerry (Chairman) and Peter Forstmoser. Three meetings were held in the 2005 business year.

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:

- ▶ Financial statements (balance sheet, income statement) are prepared for each of the subsidiaries on a monthly basis. These figures are consolidated at division, segment and Group level and compared against the prior-year figures, the monthly budget and the forecast, which is revised on a quarterly basis. In addition, a medium-term plan spanning three years is prepared for each division and segment.
- ▶ Each month, the division heads (Chief Operating Officers) submit a written report to the holding company detailing the extent to which their targets have been met. At the Board of Directors' meetings, these reports are discussed with the CEO, the CFO and, if necessary, with the COOs.
- ▶ By request, other executives will attend Board meetings to report on their areas of responsibility.
- ▶ The Audit Committee meets regularly with executives and external consultants. It coordinates the work of external and internal auditors and receives their reports.
- ▶ Group Management informs the Board of Directors about current business by regularly distributing important information and, if necessary, in teleconferences.

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

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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 CEO of the Mikron Group. The COOs and the CFO report to the CEO. The Group's Organizational Regulations set out the rights and duties of the Board of Directors, the CEO, the divisions and the Corporate Service and describe how these cooperate.

Chief Executive Officer The CEO 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.

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

On the recommendation of the CEO, the Board of Directors takes its decisions on the annual budget (consolidated and for the holding company), individual key projects, financial statements (separate and consolidated) and personnel issues. The CEO submits to the Remuneration Committee proposals concerning the compensation of the members of Group Management.

The CEO regularly reports to the Board of Directors on current business developments, anticipated opportunities and risks, and changes at lower management levels. The members of the Board of Directors may request additional information. The CEO must notify the Chairman of the Board of Directors immediately when significant unanticipated developments occur.

The CEO reviews compliance with the Articles of Association, the Organizational Regulations and the authorization to sign and proposes amendments should they become necessary.

Chief Operating Officers The Chief Operating Officers manage their respective divisions in accordance with the internal Organizational Regulations and are responsible for their division's earnings.

The following table provides information on each of the members of Group Management as at December 31, 2005:

Name	Age	Nationality	Position	Since
Eduard Rikli Dipl. Ing. ETH, Dr. sc. techn. ETH	54	Swiss	Chief Executive Officer	2004

After many years in various managerial positions at the Sulzer Group, Eduard Rikli took up the position of CEO at Mikron on January 1, 2004. Mr Rikli is also a governor of the Zurich College of Technology, Economics and Administration and sits on the Board of Trustees of the Zurich College of Technology.

Andreas Moser Betriebsökonom HWW	43	Swiss	Chief Financial Officer	1998
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Andreas Moser worked in various functions at the Ascom Group before joining Mikron in 1998 as Division Controller Machining Technology. From 2001 onwards, he headed up the Group's Business Controlling unit. He became interim finance director in June 2003 and CFO of the Mikron Group in January 2004.

Markus Schnyder	47	Swiss	Co-Chief Operating Officer Mikron Machining Technology	1981
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Markus Schnyder has been employed in various functions at the Mikron Group for over 20 years. In 1998, he took over as head of what was then a newly founded subsidiary, Mikron Tool SA Agno specializing in cutting tools. Since the end of 2003, he has managed the division together with Franz Wyss.

Franz Wyss Dipl. Ing. FH/NDU	49	Swiss	Co-Chief Operating Officer Mikron Machining Technology	1990
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Franz Wyss joined Mikron SA Agno in 1990 as head of a business unit. He has held various managerial functions and between 1999 and 2000 relocated an entire product line to Germany, where he set up a new mechanical engineering company. Since the end of 2003, he has managed the division together with Markus Schnyder.

Rolf Rihs Dipl. Ing. ETH	42	Swiss	Chief Operating Officer Mikron Assembly Technology	2002
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Rolf Rihs took over as COO of the Assembly Technology 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.

Management Contracts There are no management contracts.

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Members of Group Management
(from left to right): Eduard Rikli,
Franz Wyss, Markus Schnyder,
Andreas Moser, Rolf Rihs

Compensations, Shareholdings and Loans

Content and Method of Determining the Compensation and the Shareholding

Programs The basic principles of the remuneration policy are drawn up by the Remuneration Committee and approved by the full Board of Directors, which also endorses bonus programs and employee participation programs. The Board of Directors sets the salaries of the Board of Directors and the Group Management on the basis of the Remuneration Committee's proposals.

The members of the Board of Directors receive a basic compensation and an earnings-related bonus.

The Mikron Group's senior managers receive performance-related compensation. The variable component – 15% to 50% of the overall salary – depends on the individual achieving the performance targets set a year in advance and on the return on investment generated by the operating unit in question.

Compensation for Acting Members of Governing Bodies and Group Management

The compensation paid to the members of the Board of Directors in the 2005 business year amounted to CHF 381'000 in total.

The compensation paid to the members of Group Management (6 people) for the 2005 business year amounted to CHF 2'697'000. The standard compensation received by Jörg Hotz, who ceased to be a member of Group Management with effect from December 1, 2005, as a result of the sale of the Plastics Technology division, is included in this sum. No severance payments were made.

Compensation for Former Members of Governing Bodies and Group Management

In the 2005 business year, no compensation was paid to former members of governing bodies or Group Management who terminated their function before the year under review.

Share Allotment during the 2005 business year

No shares in Mikron Holding AG were allotted to members of governing bodies and Group Management in the 2005 business year.

Share Ownership

The group of investors holding 11'742'941 registered shares has three representatives on the Board of Directors. Additionally, according to the share register as at December 31, 2005, members of the Board of Directors and parties closely linked to them hold 44'660 Mikron Holding AG registered shares in total. Members of Group Management hold 7'300 registered shares.

Options

There were no outstanding management options as at December 31, 2005.

Loans Granted to Governing Bodies

No loans were granted to members of governing bodies.

Highest Total Compensation

The highest compensation paid to a member of the Board of Directors in 2005 amounted to CHF 124'000.

Additional fees and remunerations

In the year under review, Affentranger Associates AG performed services in the area of corporate finance/business development totaling CHF 150'000.

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Capital Structure

Capital, Convertible Bonds and Options The Mikron Group's capital as at December 31, 2005:

	Registered shares	Par value in CHF	Total in CHF
Ordinary capital	16'565'044	0.10	1'656'504.40
Authorized capital	0		0.00
Conditional capital	768'499	0.10	76'849.90

Of the conditional capital, 147'700 registered shares with a par value of CHF 0.10 each have been reserved to cover options granted to the creditors on June 19, 2003 as part of the refinancing. The issue price for these shares was set at CHF 0.10. The options expire on June 19, 2006.

A further 620'799 registered shares, each with a par value of CHF 0.10, may be created for the purposes of exercising option and conversion rights granted to their holders in connection with the company's bonds or similar debentures and/or by exercising option rights allotted to the shareholders and/or the company's Board of Directors and management. The number of registered shares securing management option rights is limited to a maximum of 550'000 registered shares. As at the cut-off date, the company had not entered into any commitments that would result in these registered shares being created.

Changes in capital over the last 3 years

in CHF		Number of shares	Par value	Ordinary capital
2003	As at January 1	1'285'704	50.00	64'285'200.00
	Capital write-down as at June 18	1'285'704	-49.90	-64'156'629.60
	Capital increase tranche B (group of investors)	11'571'336	0.10	1'157'133.60
	Capital increase tranche A (public shareholders)	1'285'704	0.10	128'570.40
	Exercise of creditors' options	1'978'231	0.10	197'823.10
	As at December 31	16'120'975	0.10	1'612'097.50
2004	As at January 1	16'120'975	0.10	1'612'097.50
	Exercise of creditors' options	444'069	0.10	44'406.90
	As at December 31	16'565'044	0.10	1'656'504.40
2005	As at January 1	16'565'044	0.10	1'656'504.40
	Change	0	0.10	0.00
	As at December 31	16'565'044	0.10	1'656'504.40

Mikron Holding AG has issued neither participation certificates (Partizipationsscheine) nor dividend right certificates (Genussscheine).

Mikron Holding AG did not issue any convertible bonds or option programs during the 2005 business year.

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.

There are no limitations on transferability or nominee registrations.

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 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. Shareholders who are unable to attend the Annual General Meeting in person may appoint someone as their proxy by giving him/her written authorization to represent them.

Convocation of the Annual General Meeting and Agenda The invitation to the Annual General Meeting goes out at least twenty days prior to the event and takes the form of a single notice published in the *Schweizerisches Handelsamtsblatt* and a letter sent to the address of shareholders entered in the share register.

The convening notice should cite the agenda items and proposals of the Board of Directors and the shareholders who have requested that a General Meeting be held or an item placed on the agenda.

Entries in the Share Register For three days before and three days after the Annual 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 specify otherwise.

Changes of Control and Defense 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 carry out their work according to the legal regulations and the principles of good professional practice.

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

Since 2004, PricewaterhouseCoopers AG, Berne has held the auditing mandate at Mikron Holding AG, its companies and the Mikron Group. Hanspeter Gerber, as lead auditor, is responsible for the mandate.

Auditing Fees and Additional Fees In the 2005 business year, PricewaterhouseCoopers AG, Berne charged the Mikron Group CHF 335'000 for services rendered in connection with auditing the 2005 annual financial statements of Mikron Holding AG and its subsidiaries and the consolidated financial statements of the Mikron Group.

PricewaterhouseCoopers performed additional services for the Mikron Group in 2005 amounting to CHF 123'000.

Supervisory and Control Instruments vis-à-vis the Auditors The Board of Directors' Audit Committee assesses the performance, fees and independence of the auditors and the Group auditors on an annual basis.

For further information regarding auditing, please see the chapter entitled "Audit Committee" on page 29.

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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	December 31
Guidance on the 2005 business year	Beginning of February
Announcement of the annual results	End of March
Publication of the annual report	End of March
Annual General Meeting	End of April
End of the first six months of the business year	June 30
Announcement of the semi-annual results	End of July
Guidance on the 2006 business year	Beginning of February

Detailed information is published on the Mikron Group's website at www.mikron.com. Visitors to the website can also view the current share price, the annual report and all press releases, and subscribe to receive news updates and the press releases free of charge.

As well as the in-depth annual and semi-annual reports, the company also publishes quarterly order and sales figures.

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

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