

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 most senior management.



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

This 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.

Corporate Structure & Shareholders

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, Biel, is listed on SWX Swiss Exchange in Zurich and, on December 31, 2003 had a market capitalization of CHF 283.7 million. At operating level, the Mikron Group is made up of two business segments divided into five business divisions, a Corporate Service and all companies controlled by Mikron Holding AG, including joint ventures. The business 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 Controlling, Treasury, Public Relations and 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 corporate structure is illustrated on page 38.

Over 35 companies worldwide belong to the Mikron Group. The companies are listed on pages 48/49 of the financial report enclosed. The Mikron Group's management structure is independent of its and the individual companies' 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, 2003 hold 5% or more of the voting rights of Mikron Holding AG.

Shareholders	31.12.2003	31.12.2003	31.12.2002	31.12.2002
	Number of shares of CHF -.10 par value each		Number of shares in %	
Group of investors ¹	11,742,941	72.8	-	-
Public shareholders	4,334,174	26.9	1,228,732	95.6
Board of Directors and management	43,860	0.3	56,972	4.4
Total	16,120,975	100.0	1,285,704	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 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 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, non-executive members have held an executive role within the Mikron Group during the last three years, and none of them maintain 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, 2003:

Name	Age	Nationality	Position	First elected	Elected until
Johann Niklaus Schneider-Ammann Dipl. Ing. ETH	51	Swiss	Chairman and interim Co-CEO	1991	2005

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 Chairman 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.	47	Swiss	Vice-Chairman and interim Co-CEO	2003	2006
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Anton Affentranger is active professionally in various capacities: firstly as founder and Chairman of Affentranger Associates AG, Corporate Investment Management Affentranger Holding AG and Ultraia Capital AG, an investment company active in the biotechnology sector. He also serves as Executive Chairman of the Freiburg-based software company Dartfish and as Chairman of the Board of Directors at Zschokke Holding.

Peter Forstmoser Prof. Dr. iur., LL.M.	60	Swiss	Member, non-executive	1976	2005
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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.

Heinrich Spoerry lic. oec., MBA	52	Swiss	Member, non-executive	2001	2004
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At SFS Holding in Heerbrugg, Heinrich Spoerry serves as Chief Executive Officer. At the same time, he is a member of the Board of Directors at SFS Holding, Industrieholding Cham AG, Kardex AG, Zurich and Tegula AG, Zurich.

Andreas Steiner Dipl. Ing. ETH Dr. sc. techn. ETH	58	Swiss	Member, non-executive	2003	2006
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Andreas Steiner is CEO and Chairman of the Board of Directors 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.

Cross-Involvements

There are no cross-involvements among the Board of Directors of this and any other company.

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, non-executive members of the Board of Directors are required to tender their resignation at the next Annual General meeting. Executive members tender their resignation when reaching the age of 60.

Duties

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

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 2003 business year, the Board held 18 meetings including teleconferences.

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 tie vote, the President has the deciding vote.

Committees

Two committees have been 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 report to the full Board of Directors on their activities once a year and notify the Board 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 Peter Forstmoser (Chairman) and Heinrich Spoerry.

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 30.

The members of the Remuneration Committee are Heinrich Spoerry (Chairman) and Peter Forstmoser.

Information and Control Instruments vis-à-vis the 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 summarized by division, consolidated at 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.
- Each month, the division heads (Chief Operating Officers) submit a written report via the Group Management 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.

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 balance of rights and duties among 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 and the Organizational Regulations 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 Remuneration Committee approves the compensation of the members of General Management as proposed by the CEO.

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 authorizations 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 the return on capital employed.

The table on the next page contains information on the members of Group Management and the COOs from January 1, 2004 onwards:

Name	Age	Nationality	Position	Since
Eduard Rikli Dipl. Ing. ETH Dr. sc. techn. ETH	53	Swiss	Chief Executive Officer	2004

After many years in various managerial positions at the Sulzer Group, Eduard Rikli started as CEO on January 1, 2004. Mr Rikli also sits on the board of trustees for the Juventus Schools in Zurich and on the board of education for the Zurich College of Technology, Economics and Administration.

Andreas Moser Betriebsökonom HWV	42	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 took up the post of CFO permanently in January 2004.

Rune Bakke BSC Mech. Eng. & Business and Finance	44	Norwegian	Chief Operating Officer Joint Venture BaldaMikron	1999
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Rune Bakke has been employed by Mikron since the acquisition of the Iplast Group in 1999, the year in which he became head of Infocom in Asia. As head of the joint venture BaldaMikron, Rune Bakke receives only 50% of his compensation from the Mikron Group.

Jörg P. Hotz Dipl. Ing. ETH, MBA	53	Swiss	Chief Operating Officer Mikron Plastics Technology	2003
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Jörg Hotz joined the company following the balance sheet restructuring in mid-2003, having advised the new investors during the takeover. For a number of years prior to this, he was self-employed in the plastics processing industry.

Rolf Rihs Dipl. Ing. ETH	40	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.

Markus Schnyder	46	Swiss	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. He has been working for Machining Technology since as far back as 1987. Since 1998 he has headed up what was then a newly founded subsidiary, Mikron Tool SA Agno specializing in cutting tools.

Arno Wendrich Dipl. Ing.	44	Dutch	Chief Operating Officer Axxicon Mould Technology	1990
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Arno Wendrich joined the Axxicon Group as an International Sales Engineer in 1990. After holding various managerial functions, he became managing director of an Axxicon subsidiary in 1998 and COO of the division in 2002.

Franz Wyss Dipl. Ing. FH/NDU	48	Swiss	Chief Operating Officer Mikron Machining Technology	1990
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Franz Wyss joined Mikron 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.

Management Contracts

There are no management contracts.

Compensation, 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 stock option plans. The Board of Directors sets the salaries of the Board of Directors, Group Management and the Chief Operating Officers 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

During the 2003 business year, the members of the Board of Directors received only their basic compensation and expenses. These came to CHF 258,000 in total.

For their function as interim Co-CEO, Mr Schneider and Mr Affentranger were also paid fees and remuneration totaling CHF 420,000 in the 2003 business year.

The CEO did not receive any compensation for his function.

An amount of CHF 5,318,000 was expensed in 2003 for gross compensation and employer's additional voluntary contributions to the pension scheme for the members of Group Management (7.5 persons). This amount includes compensation paid to outgoing members of governing bodies during the year under review.

Compensation for Former Members of Governing Bodies and Group Management

No compensation was paid to former members of governing bodies or Group Management during the 2003 business year, who terminated their function before the year under review.

Share Allotment during the 2003 business year

No shares in Mikron Holding AG were allotted to members of governing bodies and Group Management in the 2003 business year.

Share Ownership

According to the share register as at December 31, 2003, members of the Board of Directors and parties closely linked to them hold 42,860 Mikron Holding AG registered shares in total. Members of Group Management hold 1,000 registered shares. The group of investors holding 11,742,941 registered shares has 3 representatives on the Board of Directors.

Options

There are no outstanding options as at December 31, 2003. 7,050 options expired during the business year.

Loans Granted by Governing Bodies

No loans were granted to members of governing bodies.

Highest Total Compensation

The highest compensation paid to an executive member of the Board of Directors in 2003 amounted to CHF 641,000. This amount is made up of the gross compensation and the employer's additional voluntary contributions to the pension scheme.

Capital Structure

Capital, Convertible Bonds and Options

The Mikron Group's capital as at December 31, 2003:

Capital	Registered shares	Par value in CHF	Total in CHF
Ordinary	16,120,975	0.10	1,612,097.50
Authorized	0		0.00
Conditional	1,212,568	0.10	121,256.80

Of the conditional capital, 591,769 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
2001	As at January 1	1,281,503	50.00	64,075,150.00
	Capital increase due to exercise of conversion and option rights	4,201	50.00	210,050.00
	As at December 31	1,285,704	50.00	64,285,200.00
2002	As at January 1	1,285,704	50.00	64,285,200.00
	Change	0	50.00	0.00
	As at December 31	1,285,704	50.00	64,285,200.00
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

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

Mikron Holding AG did not issue any convertible bonds or option programs during the 2003 business year.

Shares

The issued 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.

Shares acquired by the applicant as a trustee for third parties may not be entered in the register.

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 another shareholder, the company or the independent shareholders' representative as their proxy.

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 convocation of a General Meeting can also be requested by one or more shareholders who together represent at least 10 percent of the share capital, provided they submit their request in writing and cite the items they wish to be placed on the agenda and their proposals.

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. Resolutions to amend or remove provisions contained in the Articles of Associations concerning the conversion and transfer of shares, the composition and term of office of the Board of Directors and the amendment of statutory quorums can only be passed by a three-quarters majority of the share votes represented at the Annual General Meeting.

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. In the event of a change of control, all options may be exercised immediately in accordance with the option plan.

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.

Ernst & Young AG, Zurich has held the auditing mandate at Mikron Holding AG and its companies and at the Mikron Group since 1996. Yves Vontobel and André Gosteli, as lead auditors, have been responsible for the mandate since 2003.

Auditing Fees and Additional Fees

In the 2003 business year, Ernst & Young AG, Zurich charged the Mikron Group CHF 1 million for services rendered in connection with auditing the annual financial statements of Mikron Holding AG and its subsidiaries and the consolidated financial statements of the Mikron Group.

Ernst & Young charged the Mikron Group an additional CHF 3.2 million for services associated with its audit and for legal and tax consultancy services. The amount spent on legal and tax advice was high due to the additional outlay in connection with the restructuring.

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 27.

Information Policy

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

Key dates:

End of the business year	December 31
Guidance on the 2003 business year	End of January
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 August
Guidance on the business year 2004	End of January

As well as the in-depth annual and semi-annual reports, the company also publishes quarterly order and sales figures. The exact dates of the events mentioned above can be viewed at www.mikron-tg.com under the heading «Events».

In addition to publishing its financial results, Mikron also keeps the public abreast of current changes and developments.

The consolidated financial statements are prepared according to International Financial Reporting Standards (IFRS, formerly IAS).

Visitors to the web address given above can also view the current share price, the annual report and all press releases.

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.

Mikron Holding AG publishes information on events relevant to the share price in accordance with SWX Swiss Exchange regulations regarding *ad hoc* publicity.