Annual Report 2005

Engineering Intelligence
for Customer Productivity
In the 2005 business year, the Mikron Group saw new orders on continuing activities decline to CHF 214.9 million (-2.2%) as net sales rose by 5.1% to CHF 218.4 million. At CHF 7.6 million, operating profit (EBIT) again improved significantly over the prior-year figure.

At CHF -24.6 million, net earnings were clearly negative, although this figure was impacted heavily by the sale of the Plastics Technology division and the resulting book loss. The equity ratio stands at 67%.

Mikron is confident about its prospects for 2006. Framework operating conditions are expected to remain largely unchanged. The goals for the coming year are a modest increase in volumes and a further improvement in operating profit (EBIT).
Sales by division
Total CHF 218 million

- Assembly Technology 45%
- Machining Technology 55%

Sales by geographical market
Total CHF 218 million

- Europe 76%
  - Switzerland 5%
  - Asia/Pacific, India 6%
  - North America 10%
  - Other markets 3%

Sales by market segment
Total CHF 218 million

- Automotive 58%
  - Office Equipment 8%
  - Medical/Personal Care 17%
  - Others 17%

Employees by activity
Total 983

- Production, Logistics 49%
  - Administration 10%
  - Marketing, Sales, Service 16%
  - Research & Development, Engineering 25%

Employees by country
Total 983

- Switzerland 85%
  - North America 7%
  - Europe 7%
  - Asia/Pacific, India 1%
**Key Figures 2005**

<table>
<thead>
<tr>
<th>in CHF million</th>
<th>2005</th>
<th>2004</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key performance data</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Order intake</td>
<td>214.9</td>
<td>219.7</td>
<td>-4.8 -2.2%</td>
</tr>
<tr>
<td>Net sales</td>
<td>218.4</td>
<td>207.8</td>
<td>10.6 5.1%</td>
</tr>
<tr>
<td>Stock of orders</td>
<td>96.7</td>
<td>96.7</td>
<td>0.0 0.0%</td>
</tr>
<tr>
<td>Operating output</td>
<td>230.6</td>
<td>213.8</td>
<td>16.8 7.9%</td>
</tr>
<tr>
<td>Productivity (added value/personnel expenses)</td>
<td>1.47</td>
<td>1.50</td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>14.7</td>
<td>9.6</td>
<td>5.1 53.1%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>983</td>
<td>935</td>
<td>48 5.1%</td>
</tr>
<tr>
<td><strong>Earnings</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings before interest and taxes (EBIT), as % of net sales</td>
<td>7.6 3.5%</td>
<td>3.8 1.8%</td>
<td>3.8 100.0%</td>
</tr>
<tr>
<td>Net earnings for the year, as % of net sales</td>
<td>13.2 6.0%</td>
<td>3.5 1.7%</td>
<td>9.7 277.1%</td>
</tr>
<tr>
<td><strong>Cash Flow</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Flow from operating activities incl. movement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in net working capital, as % of net sales</td>
<td>12.4 5.7%</td>
<td>0.5 0.3%</td>
<td>11.9 n.a.</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>16.2</td>
<td>54.9</td>
<td>-38.7 -70.5%</td>
</tr>
<tr>
<td><strong>Balance sheet</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance sheet total</td>
<td>290.7</td>
<td>340.3</td>
<td>-49.6 -14.6%</td>
</tr>
<tr>
<td>Current assets</td>
<td>165.5</td>
<td>182.4</td>
<td>-16.9 -9.3%</td>
</tr>
<tr>
<td>Fixed assets</td>
<td>117.6</td>
<td>157.9</td>
<td>-40.3 -25.5%</td>
</tr>
<tr>
<td>Current liabilities</td>
<td>74.3</td>
<td>108.0</td>
<td>-33.7 -31.2%</td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>14.9</td>
<td>23.0</td>
<td>-8.1 -35.2%</td>
</tr>
<tr>
<td>Shareholders’ equity, as % of balance sheet total</td>
<td>194.8 67.0%</td>
<td>209.3 61.5%</td>
<td>-14.5 -6.9%</td>
</tr>
</tbody>
</table>

**Accounting standard IFRS 5**

All figures refer to continuing activities: the Machining Technology and Assembly Technology divisions.
Setting up a vision inspection unit to examine pre-assembled parts. The unit can analyze positional accuracy to 0.1°, and is an example of how a key technology can be integrated into an assembly process.
# Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission</td>
<td>Front cover</td>
</tr>
<tr>
<td>Key Figures</td>
<td>Front cover</td>
</tr>
<tr>
<td>Report of the Board of Directors</td>
<td>3</td>
</tr>
<tr>
<td>Group operations</td>
<td>5</td>
</tr>
<tr>
<td>Brief profile</td>
<td>8</td>
</tr>
<tr>
<td>Markets and applications</td>
<td>9</td>
</tr>
<tr>
<td>Principle of the transfer machine</td>
<td>12</td>
</tr>
<tr>
<td>Research and Development</td>
<td>13</td>
</tr>
<tr>
<td>Production Equipment</td>
<td>14</td>
</tr>
<tr>
<td>Machining Technology division</td>
<td>15</td>
</tr>
<tr>
<td>Assembly Technology division</td>
<td>19</td>
</tr>
<tr>
<td>Further activities</td>
<td>22</td>
</tr>
<tr>
<td>Discontinued activities</td>
<td>23</td>
</tr>
<tr>
<td>Corporate Governance</td>
<td>25</td>
</tr>
<tr>
<td>Corporate Structure</td>
<td>Back cover</td>
</tr>
<tr>
<td>Mikron worldwide</td>
<td>Back cover</td>
</tr>
</tbody>
</table>
Report of the Board of Directors

Dear shareholders The Mikron Group tackled the challenges of 2005 from a sound base. I am delighted to be able to report that the business year was a successful one, with good results being achieved in operational terms. Further important progress was made, also for the future.

The Mikron Group invested considerable energy in strengthening its market offering. These efforts paid off: The company managed to lift sales year-on-year, improve the operating result and go into the new business year with a healthy order backlog. A number of new customers were acquired.

The Western European markets have a very strong influence on Mikron’s business focus and activities. The service Mikron delivers to its customers is guided by the need for cost-effective production combined with the highest standards of quality. This is an area in which Western Europe is facing growing competition from the emerging markets in the Far East, but also from Eastern Europe as a location for low-cost production. The supply industry, above all, has been forced to follow the trend in construction toward a platform concept, which reduces the number of different components required and increases the average number of units of the parts to be produced. This is precisely where one of Mikron’s competencies is to be found: in customer-specific solutions for high-volume, high-quality production. Mikron remains committed to strengthening its position in its established markets and to supporting the projects of customers with a global presence, as a competent partner.

In its decision-making, the Board of Directors remains convinced that to succeed long-term in today’s business environment, Mikron’s activities require a firm focus that is crystal clear to observers both within and outside the company. Over the years, the Mikron Group had relied on its operations in two segments, both of which were maintained until the year under review: Production Equipment and Components. The company’s market position as well as its success in the capital goods business repeatedly made it clear that Mikron’s expertise lay primarily in the Production Equipment segment. And it is just such outstanding competencies that will allow the company to pursue its future development course. As a result, the Board decided that Mikron should in future concentrate its activities on this segment.

After careful evaluation, the decision was taken to look into the possible sale of the Plastics Technology division in the year under review. The division was at that time the only remaining operation in the Components segment. An important factor in the timing of this transaction was the realization that it was desirable to start concentrating on the designated core business as soon as possible. The divestment project was pursued, allowing the sale to go ahead in the autumn and be completed by year-end. Operational management is now free to devote its full attention to further strengthening the core business.

The second significant high-priority objective was to at least break even at the operating level (EBIT). A clearly negative EBIT result had been posted the previous year. It is extremely gratifying that every division ran profitable operations – including Plastics Technology, which has now been sold off – for which achievement the employees deserve recognition. On the basis of the
currently applicable accounting standards, the present Annual Report discloses the improve-
ment in the operating result for continuing operations only. The performance for 2005 as a
whole is thus not reflected to its full extent.

Much groundwork was done internally to make the results for fiscal 2005 possible, and
especially in support of future business. The Mikron Group’s ability to respond more quickly
to customer-specific requirements was improved by streamlining processes and fine-tuning
products. The expertise for which the name Mikron stands was also demonstrated most impres-
sively at EMO, the leading machine tool trade fair, with the launch of a future-proof machining
system that has the potential to generate the targeted growth.

In conclusion, I would like to summarize the main features of the Mikron Group which emerge
from the review of 2005 and present a sound base for 2006. The Group remains debt free, has
a very solid balance sheet with an equity ratio of 67%, has considerable resources available and
generated an operating profit. Our direction is clear, and there are no obstacles on the road
ahead.

I would like to thank each and every one of our employees on behalf of the Board of Directors
for all the work they have put in, adding to our confidence about the year ahead. I would also
like to thank our business partners and customers for your cooperation. And I would like to
thank you, the shareholders, for your confidence, which helps support the Mikron Group in its
development.

On behalf of the Board of Directors, the Chairman

Johann N. Schneider-Ammann
Group operations

Year under review The economic environment in fiscal 2005 was again largely dominated by optimism and robust business activity. The Mikron Group exploited the opportunities and openings this created, resulting in a firm order volume, an increase in net sales and operating profit (EBIT), as well as important advances in the field of innovation.

The needs of Mikron’s customers can be summarized in three major requirements: Pressure on costs, an everpresent factor now intensified by global procurement opportunities, means unit costs must be kept as low as possible. The final products are becoming ever more challenging from a technical point of view, resulting in sharply rising standards in terms of the quality of finished and assembled parts. To optimize the cost-effectiveness of individual projects and speed up time-to-market, customers are keen to keep delivery times as short as possible for their planned investments.

In the Production Equipment segment, Mikron therefore retained its focus on systematically developing comprehensive solutions for customers. The efficient use of tried-and-tested processes was the key feature of in-house implementation, supported by the further modularization and standardization of the company’s own products. This allowed Mikron to tailor service to customer requirements, yet stay within budgeted costs. The Mikron Group will keep up its efforts in this area.

In line with the clear objective set by the Board of Directors to continue focusing Mikron’s activities on its proven strengths, the Plastics Technology division was hived off in the second half of the year. This division’s ongoing efforts to improve on last year’s result saw operating income move back into positive territory. Plastics Technology is disclosed in this financial report as discontinued operations, since its disposal was completed before the end of the year.

Results Operating profit (EBIT), a key indicator of future performance, rose to CHF 7.6 million on continuing operations (2004: CHF 3.8 million). Both the Machining Technology and Assembly Technology divisions made a positive contribution to this figure. High expenses, incurred in the final stages of complex projects, reduced Machining Technology’s contribution to this result. As in the previous year, Assembly Technology made a solid contribution to operating profit (EBIT). Careful and cost-conscious project management once again proved its worth.

At the beginning of the year, all businesses had set themselves the target of breaking even operationally at EBIT level, in the wake of the considerable operating loss reported in 2004. This target has clearly been met. A year-on-year comparison including the Plastics Technology division would show an even more significant increase in the operating result.

Under the dominant impact of changes to the business portfolio and the realignment of the corporate structure, the Mikron Group’s net result for the year was clearly negative at CHF -24.6 million (2004: CHF 0.5 million). The financial result, with interest income on divestments, initially had a positive effect on earnings before tax. On the basis of its improved earnings
outlook, the company utilized the tax loss carryforwards accumulated at the balance sheet date. The sale of the Plastics Technology division, however, entailed a considerable book loss.

**Orders** The volume figures refer exclusively to continuing operations in the Production Equipment segment. At CHF 214.9 million, order intake almost matched the previous year’s high level (CHF 219.7 million). Investment activity in the segment’s target markets was generally lively.

The Machining Technology division had a good first quarter, with an extremely positive trend in demand. The intake of new orders remained at expected levels for the next six months, before slowing down towards the end of the year. This leveling-off is attributable to the reorientation of a customer in the automotive supply chain. Overall, order volume was on target. The tools business played a major role in the division’s good overall performance, both with its special customer-specific tools and through increased marketing of its high-performance drilling tools product line. The new Mikron NRG-50™ machining system also got off to a successful and particularly pleasing start following its market launch.

The Assembly Technology division posted a healthy volume of orders in the first quarter. Significant delays subsequently affected a number of its many projects, with demand slackening as a result over the next two quarters. Order intake picked up appreciably in the last few months of 2005, going some way toward making up lost ground. However, volume for the year as a whole fell short of expectations. The success of the G05™ assembly platform, whose basic modules are used for the majority of new projects, warrants particular mention. The G05™ has been further strengthened by the addition of extremely flexible feeding units that use state-of-the-art technology.

**Net sales** In a year-on-year comparison, net sales advanced a further 5% to CHF 218.4 million. The Machining Technology and Assembly Technology divisions contributed equally to this figure.

Capacity utilization at all sites was thus maintained at a good level.

**Cash Flow** Cash flow from operations stood at CHF 12.4 million (2004: CHF 0.5 million). Major targeted investments were made in tangible assets, and overall these remained slightly below the level of depreciation. Developments in basic products and basic modules – to strengthen what will be important product lines in the coming years – were the key factors behind investments in intangible assets.

**Productivity and payroll** Productivity remained close to the prior-year level. With the given mix of services, expectations were practically met, but there is still room for improvement in this area.

Headcount rose by 5% to 983 employees. This increase is primarily attributable to Machining Technology division, which appointed a number of new specialist staff. The strengthening
of headcount in various areas was an important step in the drive to build on Mikron’s competencies, and one made necessary by the latest developments. Finally, the tools business was expanded in southern Germany and extra shift work introduced at the main site. In both cases, additional jobs were created.

Balance sheet The current balance sheet cannot be compared with last year’s, since the sale of the Plastics Technology division has been completed in the meantime. As a result, the total assets fell by CHF 49.6 million to CHF 290.7 million. Both current and fixed assets fell accordingly.

Current assets contain considerable resources held either as cash or cash equivalents or as short-term financial assets. The Mikron Group is planning to use these to expand its business.

The property which continues to be used by the milling machine business, a former member of the Mikron Group, and by Plastics Technology is disclosed under fixed assets. This property generated a return in line with the market and will in future be disclosed as investment property.

The balance sheet shows an increased equity ratio of 67% (2004: 61%).

Outlook 2005 closed with an order backlog of CHF 96.7 million, comparable with the previous year’s level. Capacity utilization is generally good and is further improved by the often very short delivery times. The trends dominating the current market environment are expected to continue: untiring efforts to lower unit costs combined with increasing quality requirements. For the Mikron Group this represents both an opportunity and a challenge. Further growth in volumes and an improvement in operating profit (EBIT) are our goals.

Thank you I would like to extend a warm thank-you to each and every one of our employees for all the efforts they have put in and their excellent collaboration. Their determination to succeed and the commitment they bring to Mikron on a daily basis are our most valuable asset for the future and a source of pleasure.

Dr. Eduard Rikli
CEO of Mikron Group
Brief profile

The Mikron Technology Group is one of the world’s leading suppliers of high-productivity manufacturing and assembly solutions. Its fields of expertise are geared to customers and markets with very high-volume outputs. Mikron sets itself apart by cost-effectively satisfying the highest standards of precision. The key customers belong to companies from the automotive, medical technology and writing instruments industries. Mikron employs a workforce of around 1,000, 80% of whom are based in Switzerland.

Today’s Mikron Group comprises two divisions: Mikron Machining Technology develops and manufactures machining systems for the production of metal parts ranging in size from medium to very small. The division also supplies its customers with its own high-performance cutting tools. This blend of expertise in mechanical engineering and cutting technology is unique anywhere in the world. Mikron Assembly Technology develops and manufactures systems for assembling small and medium-sized sub-assemblies. Mikron’s assembly systems also fulfil the requirements for clean-room production in the medtech industry.

The Mikron Group is working towards sustainable growth in its corporate value for the benefit of shareholders, customers and employees alike. The focus is on the ongoing expansion of earnings power – primarily using its own resources, but supported by external measures where appropriate. Total focus on customer requirements, outstanding expertise and skills on the part of the workforce, the courage to offer creative, ground-breaking solutions and the continuous development of proprietary products and processes combine to create a firm foundation for growth.

Highest precision for industrial production “Maschinenfabrik Mikron AG” was founded in the Swiss town of Biel in 1908. In the first half of the last century, Mikron played a key role in the successful industrialization of the Swiss watchmaking industry with its pioneering tools and gear-cutting machines. Even then, high precision was the most important element in the industrial production of small components. From the 1960s onwards, Mikron gradually expanded its activities into new areas, such as milling machines, plastic components and machining systems (special-order machinery).

Mikron entered the machining systems business with its takeover of the Boudry-based company Haesler SA in 1962. Founded in the Swiss town of Le Locle in 1918, in 1925 Haesler built the watchmaking industry’s first transfer machine. Today, Mikron SA Boudry is the headquarters of the Assembly Technology division.

An important addition to the Machining Technology division was made in 1986, with the acquisition of Albe SA, based in the Swiss town of Agno. The history of the company, which was founded in 1957, actually dates back to 1945 and is closely connected with the story of the ballpoint pen and how it conquered the world. Today, the Machining Technology division is headquartered at Mikron SA Agno.
Markets and applications

Mikron’s competencies enable it to achieve particular success in the automotive and medical/personal care market segments, both of which are dominated by a strong need for innovation. Mikron is generally active in niche areas of these markets. Mikron’s customers also include manufacturers of writing instruments, as well as companies in the electrical, electronic and consumer goods industries.

The following list shows the contribution to sales by market segment and a selection of the products/applications which are either produced or assembled using Mikron machines.

Automotive
- Fuel delivery systems
  - Injection pumps/parts
  - Nozzles
- Engine components
  - Rocker arms
  - Spark plugs
- Security systems
  - Airbag gas generators
  - Airbag igniters
- Fuses
- Comfort systems
  - Climate control
  - Lights
  - Seat adjustments

Medical/Personal Care
- Self medication devices
  - Inhalers
  - Pen injectors
- Self diagnostic devices
  - Pregnancy testers

Office Equipment
- Ballpoints for
  - Ballpoint pens
  - Roller pens

Others
- Circuit breakers
- Switches
- Connectors
- Miniature connectors
- Fittings
- Valves
- Miniature loudspeakers
- Smart Card
Mikron Machining Technology’s latest rotary transfer system offers tool changing at the push of a button. The high degree of modularity of the Mikron NRG-50™ offers configurations that are both highly productive and highly flexible.
Principle of the transfer machine

Mikron’s manufacturing and assembly solutions are based on the technical principle of the transfer machine. The underlying rationale is to achieve three aims.

**Productivity** A transfer machine works simultaneously at several stations set up in sequence. Parts are clamped into special gripping devices or placed on a workpiece holder and “transferred” from one station to the next. Depending on the type of machine, transfer is either rotary (rotary transfer machine) or linear (linear transfer machine). Machining several parts in parallel leads to high productivity levels.

**Precision** The typically small workpieces are secured or precisely placed and positioned by the transfer machine itself. This ensures a high degree of precision, even with complex parts.

**Reliability** Transfer systems are set up in permanent configuration to ensure high process security and reliability, even after many years of use.
Research and Development

Mikron’s machining and assembly solutions are typically used for new products with a correspondingly high innovative content. Practically every customer project therefore involves development work. But the existing range of base machines is also subject to ongoing development and constant upgrading with new concepts, as the following two examples illustrate.

**Mikron NRG-50™: High productivity, high precision plus flexibility** The aim of this new development from the Machining Technology division was to achieve a high level of productivity in the manufacture of high-precision components without losing the quick changeover capability. A new concept was applied to reconcile these conflicting requirements.

The developers opted to use the rotary transfer principle, since this provides a high degree of basic accuracy. In addition, thermal stabilization techniques ensure that the machine maintains a consistently high level of precision, thus guaranteeing high process reliability. When it comes to adding machining stations, a totally modular system is available. This enables the machine to be configured according to the customer’s needs, thereby combining high productivity with great flexibility and allowing the customer to change over very quickly from one application to the next.

**G05™ Assembly Center: Clever expansion of the platform concept** One of the many factors contributing to the great success of Assembly Technology’s G05™ assembly platform is Polyfeed™, Mikron’s patented, highly flexible feeding device. Through the use of vision recognition and identification, the Polyfeed™ provides an effective tool for gripping and positioning components with demanding shapes.

On the basis of these outstanding properties, the feeding system has been further developed so that it can now additionally perform assembly operations. A new module called an “assembly center” has been created for the G05™ platform. Thanks to an integrated robot, this module can be used for a host of different assembly applications and is particularly suitable for high-variety product lines. The G05™ thus now has an even greater number of potential uses. And since the new module can be automatically integrated into the existing modular system, project run times can be kept very short.
Production Equipment comprises the activities of the two divisions: Machining Technology and Assembly Technology. These develop and manufacture capital goods – primarily machining and assembly systems – for industrial production. Production Equipment’s main markets include the automotive and medical/personal care sectors, as well as individual niches within these markets.

Order and sales volumes fell within the range of expectations and can be described as good overall. Production Equipment almost matched the very high order intake of the previous year, while achieving a modest improvement in net sales. Both divisions reported excellent capacity utilization throughout the year. Meanwhile, efforts to further lift operating profit (EBIT) bore fruit.

Both Machining Technology and Assembly Technology started 2006 with a healthy backlog of orders. Volumes are expected to pick up a little, and operating profit (EBIT) should increase once again.

### Key figures Production Equipment

<table>
<thead>
<tr>
<th>in CHF million</th>
<th>2005</th>
<th>2004</th>
<th>+/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>Orders</td>
<td>214.9</td>
<td>219.7</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Machining Technology</td>
<td>121.1</td>
<td>114.2</td>
<td>6.1%</td>
</tr>
<tr>
<td>Assembly Technology</td>
<td>93.8</td>
<td>105.5</td>
<td>-11.1%</td>
</tr>
<tr>
<td>Net sales</td>
<td>218.4</td>
<td>207.8</td>
<td>5.1%</td>
</tr>
<tr>
<td>Machining Technology</td>
<td>119.8</td>
<td>113.9</td>
<td>5.2%</td>
</tr>
<tr>
<td>Assembly Technology</td>
<td>98.6</td>
<td>93.9</td>
<td>5.1%</td>
</tr>
<tr>
<td>EBIT</td>
<td>11.6</td>
<td>8.2</td>
<td>40.9%</td>
</tr>
<tr>
<td>Stock of orders</td>
<td>96.7</td>
<td>96.7</td>
<td>0.0%</td>
</tr>
<tr>
<td>Machining Technology</td>
<td>44.4</td>
<td>40.8</td>
<td>8.8%</td>
</tr>
<tr>
<td>Assembly Technology</td>
<td>52.3</td>
<td>55.9</td>
<td>-6.5%</td>
</tr>
<tr>
<td>Number of employees</td>
<td>961</td>
<td>909</td>
<td>5.7%</td>
</tr>
<tr>
<td>Machining Technology</td>
<td>618</td>
<td>564</td>
<td>9.6%</td>
</tr>
<tr>
<td>Assembly Technology</td>
<td>343</td>
<td>345</td>
<td>-0.6%</td>
</tr>
</tbody>
</table>
Machining Technology division

Markets and environment  The Machining Technology division develops and manufactures high-performance machining systems for the production of metal components in the very small to medium size range. Machining Technology also supplies its customers with its own cutting tools – a unique combination anywhere in the world. There was no notable change in the business environment for the division in 2005. The investment climate in Europe was positive, with customers showing a marked willingness to invest. In the US, the market showed signs of a modest recovery.

Around two-thirds of the products and services delivered by the Machining Technology division in 2005 went to companies in the automotive industry. In the year under review, the division continued to profit from the further development in fuel and diesel injection systems. Cost pressure in the automotive industry is intensifying and, as a result, customers are increasingly examining the possibility of production locations in Eastern Europe, Central America and Asia.

About 95% of the approximately 40 billion ballpoint pen tips manufactured worldwide are produced on machines supplied by Mikron Machining Technology. The ballpoint pen industry is undergoing a process of consolidation dominated by a small number of large manufacturers. The main production companies are based in India, Thailand and China. Demand for ballpoint pens is still growing in these countries, as the fine strokes of the characters in the national alphabets make the quality of pen tips very important.

Activities in the cutting tools segment are closely linked with the customer projects in machining systems. Thanks to the use of state-of-the-art cutting tools, machining quality is reaching new levels of excellence and processes are becoming ever more reliable. The division’s considerable expertise in all the technical aspects of machining gives it an important competitive edge.

Europe, led by Germany, remains the most important market for the Machining Technology division, although the Eastern European and Asian markets are becoming increasingly significant. The growing demand for high-performance production machines also offers potential for acquiring new customers. Using the opportunity presented by this development is one of the challenges facing the division at present.

The division has made an important technology leap with the development of a completely new machining system, the Mikron NRG-50™, which received its public launch at the EMO 2005 trade fair in Hanover. Machining Technology has reacted to the growing market need for low-cost and flexible production solutions by engineering a high degree of modularity into
the machine. Service solutions have also been greatly expanded over the past two years. Today, innovative service packages in the machines and tools segments are a success factor for the division.

**Business trend** The 2005 business year was marked by the unveiling of the new Mikron NRG-50™ machining system, further steps in the internal change process, a number of highly challenging customer projects and expansion of the customer base, for example in the automotive market segment.

Machining Technology posted an encouragingly high intake of orders in the first three quarters. This trend levelled off unexpectedly in the fourth quarter, and was attributable mainly to the reorientation of a car manufacturer in the field of injection systems. However, the impact is likely to be of only short duration. Apart from the automotive and writing instruments industries, a significant proportion of orders were received from the electrical industry. All in all, the increase in order volume was in line with expectations. A large number of new customers were acquired in the year under review, consisting first and foremost of suppliers to the automotive industry and companies in the watch making industry.

The increased sales volume fulfilled expectations. Having started 2005 with a good backlog of orders, capacity utilization at the division remained at a high level throughout the year. Headcount was adjusted in response to the higher volume.

There was a further improvement in operating profit (EBIT) at the Machining Technology division, which rose to a satisfactory level although failing to fully meet expectations. Partly instrumental in this were a number of critical customer projects, some of which were not finally completed until towards the end of the year.

**Outlook** The fundamentals are not likely to change very much in 2006 and business in some areas is expected to slacken off. A modest gain in volumes is expected for machining systems and somewhat stronger growth is anticipated in the cutting tool segment. The target is to achieve a further improvement in the operating profit (EBIT). The industrialization and systematic marketing of the new Mikron NRG-50™ and an expansion of service solutions are planned for 2006.
Drilling with the fastest internally cooled small drill in the world. The CrazyDrill™ Cool delivers maximum productivity and very high surface quality in diameter ranges up to 4 millimeters and depths of 15 x D.
Assembly Technology division

Markets and environment The strengths of the Assembly Technology division lie in the development and manufacture of high-performance assembly systems. In 2005, the division operated in a more or less unchanged business environment. All in all, the investment climate for Assembly Technology was on a par with the previous year. While the market in the USA showed a slight upturn, the situation in Europe remained largely unchanged.

Almost half of the products and services delivered by the division in 2005 went to companies operating in the medical and personal care industry. The strong market position in this segment, where customers’ end products are required to meet extremely high quality and reliability standards, was successfully defended. Its main customers were manufacturers of self-medication devices, for example, insulin pens and inhalers. In this niche segment, general cost pressure in the health service results in increased demand for efficient, fully automated assembly solutions. This segment also profits from patients’ desire for greater convenience as well as from new production methods for these devices.

Over a third of orders received by Assembly Technology came from the automotive industry, where the customers are generally suppliers to vehicle manufacturers. The assembly systems supplied by the division are used first and foremost for the production of components and sub-assemblies for automotive safety, fuel injection and passenger comfort. One example of the strict standards demanded is the assembly system for the ignition unit of an airbag gas generator. The assembled unit cannot be tested before use, so one hundred percent reliability is called for. The division continues to profit from the car manufacturers’ platform concept and the related growth in unit sales of successful sub-assemblies.

Geographically, Europe, and above all Germany, remains the most significant market. Production sites in Eastern Europe are growing in importance, especially for the automotive industry, with the division thus strengthening its activities in these countries. In the USA, there was strong demand from the medical/personal care segment. In contrast, most of the American auto makers are reluctant to invest in technically advanced, highly automated assembly systems. In the low-wage countries of Asia, such as China, fully automated solutions still face a strong challenge. Nevertheless, Assembly Technology maintains a presence in these countries, scaled to the requirements.

The G05™ assembly platform is now used for about 70 percent of all customer projects. The industrialization and expansion of the portfolio of standard modules were also systematically pursued in 2005. The high degree of standardization and our own Polyfeed™ patented flexible feeding system allows project run times of five to eight months even for large-scale, technically
complex assembly solutions. The short delivery times, which are an all-important factor for customers, pose a continual challenge for the division, but give it an important competitive edge.

**Business trend** The 2005 business year was marked by the acquisition of a large number of new customers, some highly challenging customer projects, fewer repeat orders and an unsatisfactory volume of incoming orders in the second and third quarters.

After a good first quarter, order intake picked up appreciably again in the fourth quarter of 2005. All in all, orders were well below the strong figures for the previous year and fell short of expectations. However, the trend in incoming orders was not atypical for the capital goods market. The acquisition of many new customers was a pleasing development, as was the fact that most of our large customers implemented all their new projects using the new G05™ product platform.

Thanks to a healthy order book and a good first quarter, capacity utilization at the division remained high over the whole year. Sales were up on the previous year’s level. Headcount was adjusted temporarily to deal with the large stock of orders, particularly in the first half of the year.

The operating profit (EBIT) of the Assembly Technology division was substantially higher than in the previous year and thus exceeded expectations. A major contributory factor was the improved result from the subsidiary in the USA. On the other hand the result was burdened by some technically highly challenging customer projects and upfront costs for projects with the new Polyfeed™ feeding system. All in all, the result can be described as good.

**Outlook** No change is expected in the business fundamentals in 2006. A pleasingly high intake of new orders in the 4th quarter will ensure good capacity utilization for the division in the first half of the year. Order and sales volumes are expected to edge slightly higher than the previous year’s level. A good operating result is anticipated. The rollout of a clever product expansion of the G05™ assembly platform is planned in 2006, with which the division hopes to extend its market position in the near future (see also page 13).
Short, deliberate vibration – vision component recognition – reliable, accurate gripping and positioning on the workpiece holder: Polyfeed™, Mikron’s patented, highly flexible feeding system is ideal for difficult components and high-variety assembly solutions.
Seropa Technology

Markets and environment The general market environment for Seropa Technology was in somewhat better shape compared with the previous year. In the area of standardized moulds there are signs of an upturn in business with Smart Cards. Seropa Technology regained a foothold in this highly specialized customer segment with an order from a customer to fabricate a fully automated integrated system. This will be used for the production of credit card-sized data storage media with contactless data transmission. Several projects connected with medical technology were implemented in the specialized mould-making area. These applications centered on two of Seropa Technology’s known strengths, firstly the fabrication of injection moulds for the synchronized processing of inserts, for example paper filters, and secondly the development and manufacture of highly automated production lines.

Business trend Order and sales volumes picked up significantly compared with the flat performance recorded in the previous year. Contrary to expectations, new orders were somewhat slow to materialize, with the result that processing of the orders in some cases extended beyond the end of the year. Sales were substantially higher year-on-year, but still fell short of expectations. Although the high loss of the previous year was substantially reduced, a return to positive territory was not yet achieved.

Mikron intends to find a new and forward-looking solution for Seropa Technology. For this reason the company was spun off from the Production Equipment business segment in the second half of the year under review. Seropa Technology appears in the financial report as “discontinued business”.

Outlook The target set for 2006 is to achieve a further increase in volume. All efforts will be concentrated on getting the operating result back into profit territory.
Discontinued activities

Plastics Technology division

Divestment During the year under review, the Mikron Group hived off the Plastics Technology division as part of the continued focusing of its activities. The sales process initiated during the course of the year was successfully completed in December. Considerable expenditures and efforts invested in 2004 and 2005 enabled the division to break even in terms of operating profit (EBIT) by mid-year. The large operating loss of the previous year had been more than offset by year-end. Although the positive course of business aided efforts to sell the division, potential buyers tended to attach more weight to the many preceding years of losses than to the current situation and outlook, all of which ultimately impacted on the selling price and led to a book loss for the Mikron Group.

Business trend Fiscal 2005 was marked by a substantial improvement in profitability, the stabilization of the major project in the medical technology sector and a renewed focusing on core competencies in the area of transmission technology.

Despite largely unchanged parameters, the Plastics Technology division posted a modest year-on-year rise in sales. Nearly half of these sales were generated from companies in the automotive industry. The medical sector – with Switzerland as a production location – gained in importance as a major order successfully entered the production phase after many years at the project stage. Production output here was increased in the second half of the year in agreement with the customer.

There was a sustained improvement in the operating result of the Plastics Technology division, which ended the year marginally in profit. The considerable expenditures invested in the previous year and the efforts made to improve and assure delivery quality thus paid off. After a number of difficult years in which the Mikron Group restructured its Components business segment several times, the financial turnaround was achieved.

The focal point of today’s activities are applications in the field of transmission technology, for example, gearboxes for the automotive industry and functional components and sub-assemblies for consumer goods as well as for the pharmaceutical industry. Plastics Technology supports its customers in this area – most of them global operators – right from the concept phase of a new product and contributes its many years of engineering experience to projects.

At the end of 2005, the Plastics Technology division employed around 700 people at eight production sites in seven countries (Switzerland, the United Kingdom, Italy, the Netherlands, the Czech Republic, the USA and China).

40 years in the components business Activities in the field of plastics components date back to the 1960s. On the basis of its know-how in the production of gear-cutting tools and machines, Mikron began gradually diversifying into the production of precision parts made chiefly of thermoplastics in response to the trend towards using plastic instead of metal gearwheels. The acquisition of two companies in Italy and the construction of a large injection moulding plant in England marked a considerable expansion of its activities on a much broader
geographical base. In the 1970s, the new Plastics Technology division concentrated on the then small but growing market of multinational customers.

In the 1990s, this global bias was intensified with new production facilities in the USA (1995 and 1998) and China (1998) and with the takeover of the Scandinavian Iplast Group (1999). At the end of the 1990s, the Components business segment comprised the two divisions Plastics Technology (formerly Kunststofftechnik) and Infocom Technology. The components business attained the same level of importance for Mikron as the production equipment business, all the more so when the standard machines product segment was sold to the Agie Charmilles Group in 2000 and Mikron from then on concentrated on its core competence in customized production equipment.

In 2000, with the unexpected loss of its main customer in the Infocom market, Mikron was forced to undertake a major restructuring of its components business. Some of the companies in the Infocom Technology division were closed and some transferred to a joint venture with the German Balda Group. After the sale of the stake in this joint venture in 2004, activities in the Components business segment were once again concentrated in the Plastics Technology division. In December 2005, Mikron hived off its entire components business and sold the Plastics Technology division to a Swiss group of investors.
Corporate Governance

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

<table>
<thead>
<tr>
<th>Shareholders</th>
<th>31.12.2005 Number of shares of CHF - 10 par value each</th>
<th>31.12.2004 Number of shares of CHF - 10 par value each</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group of investors⁠</td>
<td>11'742'941</td>
<td>70.9%</td>
</tr>
<tr>
<td>Public shareholders</td>
<td>4'770'143</td>
<td>28.8%</td>
</tr>
<tr>
<td>Board of Directors and Group Management</td>
<td>51'960</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>16'565'044</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

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

**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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Nationality</th>
<th>Position</th>
<th>First elected</th>
<th>Elected until</th>
</tr>
</thead>
<tbody>
<tr>
<td>Johann N. Schneider-Ammann, Dipl. Ing. ETH</td>
<td>53</td>
<td>Swiss</td>
<td>Chairman, non-executive</td>
<td>1991</td>
<td>2008</td>
</tr>
<tr>
<td>Anton Affentranger, lic. oec.</td>
<td>49</td>
<td>Swiss</td>
<td>Vice-Chairman, non-executive</td>
<td>2003</td>
<td>2006</td>
</tr>
<tr>
<td>Peter Forstmoser, Prof. Dr. iur., LL.M.</td>
<td>62</td>
<td>Swiss</td>
<td>Member, non-executive</td>
<td>1976</td>
<td>2008</td>
</tr>
<tr>
<td>Heinrich Spoerry, lic. oec., MBA</td>
<td>54</td>
<td>Swiss</td>
<td>Member, non-executive</td>
<td>2001</td>
<td>2007</td>
</tr>
<tr>
<td>Andreas Steiner, Dipl. Ing. ETH, Dr. sc. techn. ETH</td>
<td>60</td>
<td>Swiss</td>
<td>Member, non-executive</td>
<td>2003</td>
<td>2006</td>
</tr>
</tbody>
</table>

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 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 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 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 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.
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.
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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Nationality</th>
<th>Position</th>
<th>Since</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eduard Rikli</td>
<td>54</td>
<td>Swiss</td>
<td>Chief Executive Officer</td>
<td>2004</td>
</tr>
<tr>
<td>Andreas Moser</td>
<td>43</td>
<td>Swiss</td>
<td>Chief Financial Officer</td>
<td>1998</td>
</tr>
<tr>
<td>Markus Schnyder</td>
<td>47</td>
<td>Swiss</td>
<td>Co-Chief Operating Officer</td>
<td>1981</td>
</tr>
<tr>
<td>Franz Wyss</td>
<td>49</td>
<td>Swiss</td>
<td>Co-Chief Operating Officer</td>
<td>1990</td>
</tr>
<tr>
<td>Rolf Rihs</td>
<td>42</td>
<td>Swiss</td>
<td>Chief Operating Officer</td>
<td>2002</td>
</tr>
</tbody>
</table>

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 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 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 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 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.
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.
Capital Structure

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

| 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

<table>
<thead>
<tr>
<th>in CHF</th>
<th>Number of shares</th>
<th>Par value</th>
<th>Ordinary capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>As at January 1</td>
<td>1’285’704</td>
<td>50.00</td>
</tr>
<tr>
<td></td>
<td>Capital write-down as at June 18</td>
<td>1’285’704</td>
<td>-49.90</td>
</tr>
<tr>
<td></td>
<td>Capital increase tranche B (group of investors)</td>
<td>11’571’336</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>Capital increase tranche A (public shareholders)</td>
<td>1’285’704</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>Exercise of creditors’ options</td>
<td>1’978’231</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>As at December 31</td>
<td>16’120’975</td>
<td>0.10</td>
</tr>
<tr>
<td>2004</td>
<td>As at January 1</td>
<td>16’120’975</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>Exercise of creditors’ options</td>
<td>444’069</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>As at December 31</td>
<td>16’565’044</td>
<td>0.10</td>
</tr>
<tr>
<td>2005</td>
<td>As at January 1</td>
<td>16’565’044</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>Change</td>
<td>0</td>
<td>0.10</td>
</tr>
<tr>
<td></td>
<td>As at December 31</td>
<td>16’565’044</td>
<td>0.10</td>
</tr>
</tbody>
</table>

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.
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

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of the business year</td>
<td>December 31</td>
</tr>
<tr>
<td>Guidance on the 2005 business year</td>
<td>Beginning of February</td>
</tr>
<tr>
<td>Announcement of the annual results</td>
<td>End of March</td>
</tr>
<tr>
<td>Publication of the annual report</td>
<td>End of March</td>
</tr>
<tr>
<td>Annual General Meeting</td>
<td>End of April</td>
</tr>
<tr>
<td>End of the first six months of the business year</td>
<td>June 30</td>
</tr>
<tr>
<td>Announcement of the semi-annual results</td>
<td>End of July</td>
</tr>
<tr>
<td>Guidance on the 2006 business year</td>
<td>Beginning of February</td>
</tr>
</tbody>
</table>

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.
### Mikron Group

#### Corporate Structure

**Corporate Services**
- Mikron Holding AG
  - Switzerland
- Mikron Management AG
  - Switzerland

**Machining Technology division**
- Mikron SA Agno
  - Switzerland
- Mikron Tool SA Agno
  - Switzerland
- Mikron GmbH Rottweil
  - Germany
- Mikron Corp. Monroe
  - USA
- Mikron Ltd. Tokyo
  - Japan

**Assembly Technology division**
- Mikron SA Boudry
  - Switzerland
- Mikron Corp. Denver
  - USA

**Seropa Technology Caen**
- France

### Local currency 1’000

<table>
<thead>
<tr>
<th>Activity</th>
<th>Currency</th>
<th>Share capital</th>
<th>Net sales(^1)</th>
<th>Shareholding direct</th>
<th>Shareholding indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switzerland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mikron Holding AG, Biel</td>
<td>1</td>
<td>CHF</td>
<td>1'612</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Mikron Management AG, Biel</td>
<td>1</td>
<td>CHF</td>
<td>25'000</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Mikron SA Agno, Agno</td>
<td>2, 3</td>
<td>CHF</td>
<td>13'500</td>
<td>72'798</td>
<td>100%</td>
</tr>
<tr>
<td>Mikron SA Boudry, Boudry</td>
<td>2, 3</td>
<td>CHF</td>
<td>2'000</td>
<td>84'873</td>
<td>100%</td>
</tr>
<tr>
<td>Mikron Tool SA Agno, Agno</td>
<td>2, 3</td>
<td>CHF</td>
<td>300</td>
<td>14'982</td>
<td>100%</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mikron GmbH Rottweil, Rottweil</td>
<td>2, 3</td>
<td>EUR</td>
<td>383</td>
<td>13'545</td>
<td>100%</td>
</tr>
<tr>
<td>France</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seropa Technology, Hérouville-St-Clair</td>
<td>2, 3</td>
<td>EUR</td>
<td>700</td>
<td>6'368</td>
<td>100%</td>
</tr>
<tr>
<td>Seropa France, Hérouville-St-Clair</td>
<td>1</td>
<td>EUR</td>
<td>6'372</td>
<td>0</td>
<td>100%</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mikron Ltd. Tokyo, Yokohama City</td>
<td>3</td>
<td>JPY</td>
<td>15'000</td>
<td>96'096</td>
<td>100%</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mikron Corp. Denver, Aurora</td>
<td>2, 3</td>
<td>USD</td>
<td>10</td>
<td>10'976</td>
<td>100%</td>
</tr>
<tr>
<td>Mikron Corp. Monroe, Monroe</td>
<td>3</td>
<td>USD</td>
<td>1</td>
<td>7'937</td>
<td>100%</td>
</tr>
<tr>
<td>Mikron North America Corp., Monroe</td>
<td>1</td>
<td>USD</td>
<td>3'500</td>
<td>0</td>
<td>100%</td>
</tr>
</tbody>
</table>

\(^1\) Net sales to third parties 2005

**Activity**
- 1 = Management/Service
- 2 = Production/Development
- 3 = Sales/Service

Valid as at Dec. 31, 2005