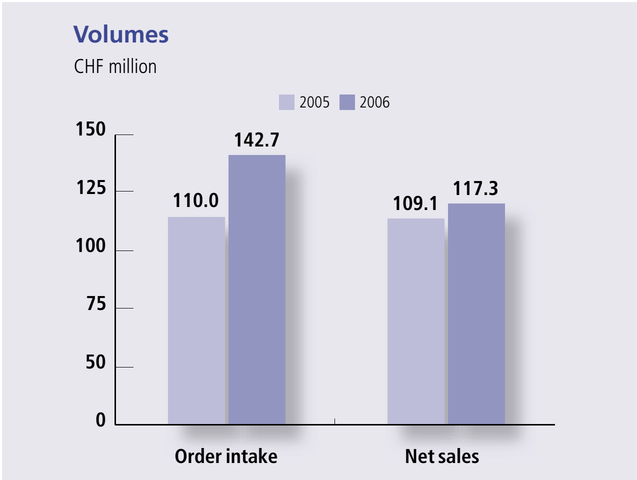
Semiannual Report 2006

Engineering Intelligence
for Customer Productivity

Good performance, further improvement in earnings power

In the first half of 2006, the Mikron Technology Group recorded a very high order intake of CHF 142.7 million (+29.8 %), with net sales at a respectable level of CHF 117.3 million (+7.5 %). Operating profit (EBIT) rose to CHF 4.0 million, representing an increase also in relation to net sales. Net earnings were slightly into positive territory (CHF 1.1 million), even after taking into account losses on discontinued activities. For the second half of the year, the Mikron Group does not expect a repeat of the unusually high order intake. It does look forward to net sales matching those of the first six months. The targeted improvement in operating profit (EBIT) is likely to be achieved, provided the actual level of business performance is sustained.



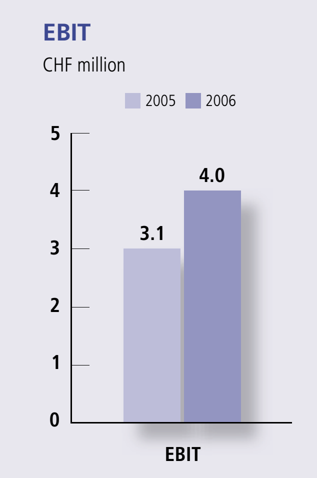
Environment and markets General conditions on the markets in which Mikron operates are favorable. In the automotive sector, the strongest market in terms of sales, Mikron continues to profit from current developments in fuel and diesel injection systems. Pressure to drive down costs is proving to be a lasting trend in the automotive supply industry as well as other segments, forcing companies to further exploit their existing cost-savings potential. This opens up great opportunities for Mikron and its highly productive machining and assembly solutions. Conversely, these companies are seeking to integrate suppliers more closely in their processes, in order to reduce their own risks. In view of the positive economic situation and the resulting sense of urgency on the client side, pressure on delivery times has increased even further.

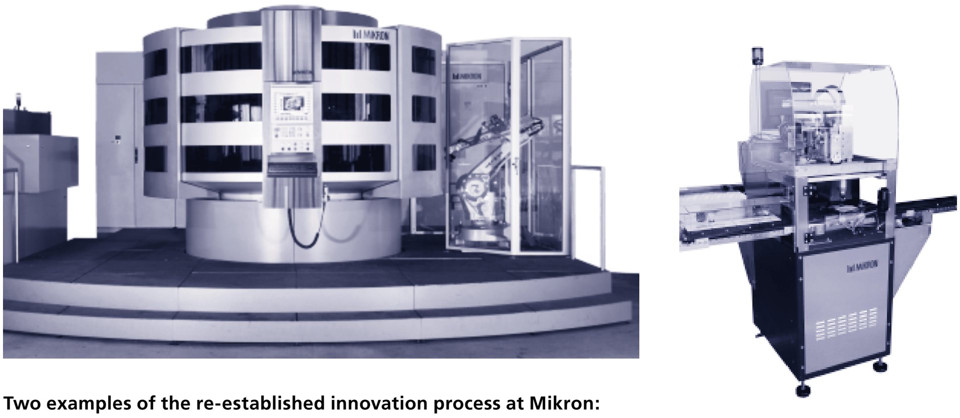
Good order mix At CHF 142.7 million, orders reached a very high level, generated by an accumulation of investment decisions on the clients' part. The expectations for the first-half were clearly exceeded. Order intake at both divisions showed a pleasing mix in terms of market segments and regions. Various new customers were acquired and a good number of repeat orders placed. The latest product developments at both divisions were well received on the market and have already given rise to several orders.

Positive sales performance Net sales lived up to expectations, reaching a healthy CHF 117.3 million. Capacity utilization was high at both divisions, reflecting the level of current orders.

Earnings power improved Operating profit (EBIT) of CHF 4.0 million was in line with expectations, with both divisions contributing to this figure in equal measure. It was, however, negatively impacted by a few very challenging orders. Mikron is on the right path, this shows the improvement in relation to net sales, means earnings power.

Discontinued activities affect net earnings The result for continuing activities stood at CHF 3.0 million. In the case of discontinued activities, an impairment in addition to the half-year loss reported by Seropa Technology in Caen/France led to a negative result of CHF 1.8 million. Net earnings of CHF 1.1 million thus fell short of expectations. Comparison with the prior-year period is only possible to a certain extent since these figures included a loss in the components business, which has now been sold off.





Two examples of the re-established innovation process at Mikron:
The **Mikron NRG-50™** rotary transfer machining system (left) developed by Mikron Machining Technology, and the linear transfer **G05™ Assembly Center** (right) from Mikron Assembly Technology's G05™ product family.

Outlook Mikron is well-positioned in the markets it serves. The Mikron Group is optimistic about the second half of the year, but expects order intake to level off. Working off the high order backlog has top priority. Since orders take several months to process, some will only be reflected in net sales 2007. The increase in volume and improvement in operating profit (EBIT), which have been set as targets for fiscal 2006, look set to be achieved.

Seropa Technology (formerly Axxicon Moulds Caen SA) Since mid-2004, the Mikron Group made numerous efforts to turn around the French mold manufacturer's loss-making business. Following an initial improvement, earnings deteriorated again in the first six months of 2006. Attempts to find a buyer over the last year or so have not met with the desired success. Since the beginning of 2006, the company became part of Mikron's discontinued activities. Seropa Technology opened insolvency proceedings at the end of June and was deconsolidated by Mikron as of June 30, 2006.

Key figures

1.1.–30.6.

CHF million	2006	2005	+/-
Order intake Production Equipment	**142.7**	**110.0**	**29.8 %**
- Machining Technology	75.5	67.8	11.4 %
- Assembly Technology	67.2	42.4	58.6 %
Net sales Production Equipment	**117.3**	**109.1**	**7.5 %**
- Machining Technology	60.8	59.3	2.5 %
- Assembly Technology	56.5	49.8	13.6 %
Stock of orders Production Equipment	**115.2**	**105.6**	**9.0 %**
- Machining Technology	52.9	55.5	-4.9 %
- Assembly Technology	62.3	50.1	24.0 %
Earnings before interest and taxes (EBIT)	**4.0**	**3.1**	**31.4 %**
- Production Equipment	5.1	5.1	0.0 %
- Corporate	-1.1	-2.0	-47.1 %
Net earnings	**1.1**	**2.0**	**-42.4 %**
- from continued operations	3.0	4.7	-37.6 %
- from discontinued operations	-1.8	-2.8	n. a.
Number of employees	**1'026**	**956**	**7.3 %**
- Production Equipment	1'005	933	7.7 %
- Corporate	21	23	-8.7 %

Consolidated Statement of Income

CHF 1'000, except for per share information	1.1.-30.6.2006		1.1.-30.6.2005	
Net sales	117'303		109'071	
Change work in process/finished goods	232		6'404	
Capitalized own production	1'883		932	
Operating output	**119'418**	**100.0 %**	**116'406**	**100.0 %**
Material costs and subcontractors	-48'893		-49'221	
Personnel expenses	-49'502		-45'937	
Other operating expenses - net	-12'362		-13'262	
Depreciation	-4'643		-4'928	
Earnings before interest and taxes (EBIT)	**4'018**	**3.4 %**	**3'059**	**2.6 %**
Financial result - net	-742		1'678	
Earnings before taxes	**3'276**	**2.6 %**	**4'737**	**4.1 %**
Income taxes	-323		-2	
Net earnings from continued operations	**2'953**	**2.5 %**	**4'734**	**4.1 %**
Net earnings from discontinued operations	**-1'813**	**-1.5 %**	**-2'756**	**-2.4 %**
Net earnings	**1'140**	**1.0 %**	**1'978**	**1.7 %**
Earnings per share continued operations - basic	0.18		0.29	
Earnings per share continued operations - diluted	0.18		0.28	

Consolidated Balance Sheet

CHF 1'000	30.6.2006		31.12.2005	
Cash and cash equivalents and current financial assets	46'430		71'383	
Receivables and prepaid expenses	39'723		37'565	
Net assets from customer projects and inventories	71'372		56'530	
Total current assets	**157'525**	**57.9 %**	**165'478**	**56.9 %**
Tangible assets	68'145		73'016	
Intangible assets	8'376		6'471	
Investment properties	29'796		29'796	
Other non-current assets	8'093		8'302	
Total non-current assets	**114'410**	**42.1 %**	**117'585**	**40.5 %**
Assets held for sale	**0**	**0.0 %**	**7'596**	**2.6 %**
TOTAL ASSETS	**271'935**	**100.0 %**	**290'659**	**100.0 %**
Short-term financial liabilities	1'810		2'335	
Current liabilities and accrued expenses	38'810		43'356	
Net liabilities from customer projects	16'619		21'521	
Short-term provisions	5'308		7'052	
Total current liabilities	**62'547**	**23.0 %**	**74'264**	**25.6 %**
Long-term financial liabilities	3'914		4'291	
Long-term provisions	3'639		4'660	
Other long-term liabilities	5'909		5'976	
Total long-term liabilities	**13'460**	**5.0 %**	**14'927**	**5.1%**
Liabilities associated with assets held for sale	**0**	**0.0 %**	**6'627**	**2.3 %**
TOTAL LIABILITIES	**76'007**	**28.0 %**	**95'818**	**33.0 %**
TOTAL SHAREHOLDERS' EQUITY	**195'928**	**72.0 %**	**194'841**	**67.0 %**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**271'935**	**100.0 %**	**290'659**	**100.0 %**

Consolidated Statement of Cash flow

CHF 1'000	1.1.-30.6.2006	1.1.-30.6.2005
Cash flow from operating activities		
Net Earnings from continued operations	2'953	4'735
Non-cash items	1'637	3'718
Changes in net working capital	-24'530	-22'824
Cash flow from operating activitie	**-19'940**	**-14'371**
Cash flow from investing activities		
Investments in tangible assets (net)	-1'000	-1'521
Investments in intangible assets (net)	-2'479	-2'151
Investments in financial assets (net)	0	0
Other cash flow from investing activities	0	0
Cash flow from investing activities	**-3'479**	**-3'672**
Cash flow from financing activities		
Repayment of finance lease liabilities	-1'148	-878
Other cash flow from financing activities	-168	-367
Cash flow from financing activities	**-1'316**	**-1'245**
Effect of exchange rate changes on cash	**-217**	**324**
Net cash flow from continued operations	**-24'952**	**-18'964**
Net cash flow from discontinued operations	**-545**	**-3'420**
Increase / decrease of cash and cash equivalents	**-25'497**	**-22'384**

Consolidated Statement of Shareholder's equity

CHF 1'000	1.1.-30.6.2006	1.1.-30.6.2005
Balance 31.12.2005	**194'841**	**209'268**
Net earnings	1'140	2'044
Capital increase	15	0
Change in treasury shares	-247	76
Translation adjustments	179	-366
Balance 30.06.2006	**195'928**	**211'022**

The accompaining notes form an integral part of the financial statements.

1. Commentary on the consolidated semiannual report Order intake in the first half of 2006 advanced 29.8% on the previous year, while net sales revenues were up 7.5%. Stock of orders grew 19.6% from January 1, 2006.

The modest rise in operating output combined with lower material costs led to a 5.0 % increase in added value compared to the previous year.

Owing to measures initially launched last year to expand capacity, personnel expenses were 7.8 % higher. Other operating expenses (net) decreased by 6.8%.

Earnings before interest and taxes (EBIT) climbed to CHF 4.0 million, an improvement of 31.4%.

Last year's financial result was significantly impacted by interest income from loans to discontinued operations. This effect was eliminated in the first half of 2006. Interest income from cash and cash equivalents and current financial assets was offset by foreign exchange losses of CHF 0.6 million arising from the valuation of balance sheet items and hedging contracts according to the accrual method.

Net earnings from continued operations came to CHF 3.0 million.

Operating losses at Seropa Technology totaling CHF 0.8 million, and the full impairment of the remaining net assets in connection with the company's deconsolidation (see section 3, Scope of consolidation), resulted in a loss from discontinued operations of CHF 1.8 million.

Net earnings of the Mikron Group amounted to CHF 1.1 million.

The large order intake meant that net current assets rose significantly by CHF 24.5 million. This increase is reflected in the negative cash flow from operating activities of CHF 19.9 million. At 3.5 million, capital expenditures were markedly lower than depreciation.

Share capital increased by 147,700 shares in the first six months of the year, as the last of the options granted to creditors as part of the refinancing of the company in 2003 were exercised during this period. At June 30, 2006, share capital thus consisted of a total of 16,712,744 registered shares. While shareholders' equity remained more or less unchanged, the equity ratio rose to 72.0 %.

2. Accounting principles The unaudited consolidated semiannual financial statements for the period from January 1, 2006 to June 30, 2006 have been prepared in accordance with IAS 34. The accounting policies disclosed in the Annual Report for 2005 have been applied consistently. The new or revised IFRS standards and interpretations which came into effect as of January 1, 2006, as listed in the table on page 7, have no effect on shareholders' equity or the net earnings.

3. Scope of consolidation Mikron Holding AG, Biel, and all entities controlled by the company have been fully consolidated in the semiannual financial statements.

Seropa Technology was deconsolidated as at June 30, 2006 since Mikron has relinquished control of this company due to the insolvency proceedings that are now in progress. Seropa France, the sole shareholder in Seropa Technology, was likewise removed from the scope of consolidation as of the same date.

In 2005, the Plastics Technology Division was sold, and a number of finance companies were merged or liquidated. The prior-year figures in the statement of income and the statement of cash flow have been restated and can thus be compared with the figures for the current year.

The balance sheet as at December 31, 2005 contains assets and liabilities held for sale, which no longer feature on the balance sheet as at June 30, 2006 due to the deconsolidation outlined above.

4. Business seasonality The activities of the Mikron Group are not subject to significant seasonality.

5. Information by business segments The activities of the Mikron Group focus on the segment Production Equipment. Details of the course of business in this segment can be found on pages 2 and 3 of this report.

6. Significant assumptions used in presenting the consolidated financial statements
In applying the entity's accounting policies, the management has made judgments and estimations. The key assumptions concerning valuation of assets and liabilities are based on recoverability and probability of occurrence.

The recording of construction contracts as well as of employee benefits exerts a significant influence on the semiannual financial statements.

Impact of new or amended IFRS and Interpretations

		Effective date	Application Mikron	Impact
Amendments to IAS 19	Employee benefits: Actuarial Gains and Losses, Group Plans and Disclosures	January 1, 2006	2006	*
Amendments to IAS 39	Financial Instruments - Recognition and measurement: Cash Flow Hedge Accounting of Forecast Intragroup Transactions, The Fair Value Option, Financial Guarantee Contracts	January 1, 2006	2006	*
Amendments to IAS 21	The effects of changes in foreign exchange rates: Sister-to-Sister loans	January 1, 2006	2006	*
IFRS 6	Exploration for and evaluation of mineral resources	January 1, 2006	2006	*
IFRIC 4	Determining whether an arrangement constitutes a lease	January 1, 2006	2006	*
IFRIC 6	Liabilities arising from participating in a specific market - waste electrical and electronic equipment	January 1, 2006	2006	*
IFRIC 8	Scope of IFRS 2 Share-based Payment	May 1, 2006	2006	*
IFRIC 9	Reassessment of embedded derivatives	June 1, 2006	2006	*

* No impact expected on consolidated financial statements
** Additional disclosures in consolidated financial statements expected
*** The effects on consolidated financial statements cannot yet be predicted with sufficient certainty

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