TORNOS

Consolidated Financial Statements 2001

TORNOS Holding SA, Moutier

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KPMG Fides Peat
Gümligen-Berne

Report of the Group Auditors to the General Meeting of

Tornos Holding S.A., Moutier

As group auditors, we have audited the consolidated financial statements of Tornos Holding S.A., Moutier and subsidiaries (Tornos Group), consisting of the consolidated balance sheet, the consolidated income statement, the consolidated statement of changes in equity, the consolidated cash flow statement and notes to the consolidated financial statements for the year ended December 31, 2001.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with the International Standards on Auditing issued by the International Federation of Accountants (IFAC), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements as of December 31, 2001 included goodwill in the amount of CHF 64 million arising from the acquisition of Moutier Machines Holding S.A. in December 1998. The valuation of this goodwill is based on a budget deemed appropriate by the board of directors in March 2002 when these consolidated financial statements were prepared. The recoverability of this goodwill mainly depends on the realisation of the budgets as planned. The most recent development of the business has indicated the existence of growing and significant uncertainties in the valuation of the goodwill. Due to the factors described below the goodwill cannot be conclusively assessed.

The consolidated financial statements as of December 31, 2001 were prepared on a going concern basis. During the fourth quarter of 2001 markets declined significantly; this development continued during the first quarter of 2002. As a result, Tornos Group experienced significant losses and a lack of liquidity, which raised substantial doubt as to Tornos Group's ability to continue as a going concern. Thus the board of directors has initiated organisational and financial restructuring measures requiring valuation adjustments and depreciation charges on inventories and intangible assets as well as the establishment of provisions. As described in note 28, the board of directors intends to propose restructuring measures to the annual general meeting of shareholders scheduled for June 28, 2002. Because of the complexity of these measures and the uncertainty as to how and to what extent Tornos Group will be able to continue as a going concern, the impact on the consolidated financial statements cannot be reliably assessed; as such the consolidated financial statements do not include any such adjustments.

In our opinion, except for the effect on the consolidated financial statements of the matters referred to in the two preceding paragraphs, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Accounting Standards (IAS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved, despite the qualifications described in the fourth and fifth paragraphs of this report. This recommendation is based on the assumption that the proposed restructuring measures as described in note 28 do not appear unfeasible and that those measures, if implemented, would remove the valuation deficiencies described in the fourth and fifth paragraphs of this report during the current business year.

As per the interim balance sheet of Tornos Holding SA as of April 30, 2002, the claims of the creditors are neither covered at going concern values nor at liquidation values. Therefore, the company is obviously over-indebted. We refer to article 725 paragraph 2 of the Swiss Code of Obligations according to which the board of directors is required to notify the court.

KPMG Fides Peat

Elmar Ittensohn	Bryan DeBlanc
Swiss Certified Accountant	*Certified Public Accountant (United States)*
Auditor in Charge	

Gümligen-Berne, May 25, 2002

Enclosure:
- Consolidated financial statements (balance sheet, income statement, statement of changes in equity, cash flow statement and notes)

Consolidated income statement

For the years ended December 31, *In thousands of CHF, except per share data*	**Notes**	**2001**	**2000**
Gross sales revenue		**372,845**	**370,097**
Commissions and discounts		(17,852)	(17,731)
Net sales		**354,993**	**352,366**
Material expenses		(189,368)	(170,910)
Personnel expenses	6	(114,389)	(100,980)
Other operating expenses, net	7	(39,812)	(38,531)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**11,424**	**41,945**
Depreciation of property, plant and equipment	13	(8,908)	(7,722)
Amortisation of goodwill and intangibles	14	(10,905)	(9,350)
Operating result (EBIT)		**(8,389)**	**24,873**
Financial expense, net	8	(18,214)	(10,417)
Loss / profit before tax		**(26,603)**	**14,456**
Income tax expenses	9	(3,288)	(4,942)
Loss / profit after tax		**(29,891)**	**9,514**
Minority interest		(30)	(35)
Net loss / profit for the year		**(29,921)**	**9,479**
Basic and fully diluted earnings per share	23	**(14.27)**	**7.29**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated balance sheet

As at December 31, *In thousands of CHF*	**Notes**	**2001**	**2000**
ASSETS			
Cash and cash equivalents		5,978	13,324
Trade receivables	10	75,982	102,402
Other receivables and prepayments	11	15,582	9,809
Inventories	12	120,654	119,203
Total current assets		**218,196**	**244,738**
Property, plant and equipment	13	71,896	66,925
Intangible assets	14	79,463	84,058
Financial assets		641	715
Deferred tax assets	15	2,617	3,690
Total non-current assets		**154,617**	**155,388**
Total assets		**372,813**	**400,126**
LIABILITIES AND EQUITY			
Trade payables		69,959	82,770
Other payables	16	31,093	36,960
Current tax liabilities		1,192	1,177
Interest bearing loans and borrowings	17	111,769	20,770
Provisions	21	2,977	2,543
Total current liabilities		**216,990**	**144,220**
Interest bearing loans and borrowings	17	7,901	174,200
Retirement benefit obligations	20.4	2,385	2,859
Provisions	21	2,273	1,906
Deferred tax liabilities	15	7,661	7,239
Total non-current liabilities		**20,220**	**186,204**
Total liabilities		**237,210**	**330,424**
Capital and reserves			
Ordinary shares	22	115,000	10,000
Preferred shares	22	-	55,000
Share premium		44,055	-
Currency translation reserve		2,704	2,327
Retained earnings		(26,156)	2,230
Total equity		**135,603**	**69,557**
Minority interest		**-**	**145**
Total liabilities, equity and minority interest		**372,813**	**400,126**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

In thousands of CHF

	Ordinary shares	Preferred shares	Share Premium	Currency Translation	Retained Earnings	Total	Minority interest
At January 1, 2000	10,000	55,000	-	2,100	(7,249)	59,851	117
Net profit for the year	-	-	-	-	9,479	9,479	35
Currencytranslation adjustment	-	-	-	227	-	227	(7)
At December 31, 2000	10,000	55,000	-	2,327	2,230	69,557	145
Effect of first application of IAS 39	-	-	-	-	1,535	1,535	-
At December 31, 2000	10,000	55,000	-	2,327	3,765	71,092	145
Net loss for the year	-	-	-	-	(29,921)	(29,921)	30
Acquisition of minority interests	-	-	-	-	-	-	(175)
Conversion of shares	55,000	(55,000)	-	-	-	-	-
Issuance of new shares	50,000	-	44,055	-	-	94,055	-
Currency translation adjustment	-	-	-	377	-	377	-
At December 31, 2001	115,000	-	44,055	2,704	(26,156)	135,603	-

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated cash flow statement

For the years ended December 31, *In thousands of CHF*	**Notes**	**2001**	**2000**
Operating activities			
Loss / profit before tax and minority interest		(26,603)	14,456
Adjustments for:			
Depreciation of property, plant and equipment	13	8,908	7,722
Amortisation of goodwill and other intangible assets	14	10,905	9,350
Unrealised foreign exchange loss / gain		2,746	(4,295)
(Increase) decrease in working capital	24	2,969	(13,778)
Interest expense		9,421	13,209
Income tax paid		(1,881)	(4,650)
Gain on disposal of property, plant and equipment		(797)	(44)
Other non cash items		1,099	(703)
Net cash from operating activities		**6,767**	**21,267**
Investing activities			
Acquisition of minority interest	5.2	(400)	-
Purchase of property, plant and equipment	13	(4,794)	(5,244)
Disposal of property, plant and equipment		1,172	993
Capitalisation of development expenditures	14	(5,085)	(3,700)
Purchase of intangible assets	14	(1,029)	(1,784)
Purchase / Disposal of financial assets		(16)	47
Interest received		537	465
Net cash used in investing activities		**(9,615)**	**(9,223)**
Financing activities			
Payments on borrowings		(187,655)	-
Proceeds from borrowings		102,652	12,628
Payments of finance lease liabilities		(2,755)	(2,495)
Proceeds from issuance of share capital		94,055	-
Interest paid		(10,671)	(12,811)
Net cash used in financing activities		**(4,374)**	**(11,562)**
Decrease / Increase in cash and cash equivalents		(7,222)	482
Cash and cash equivalents at January 1		13,324	13,160
Effects of exchange rate changes		(124)	(318)
Cash and cash equivalents at December 31		5,978	13,324

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

1 Business

Tornos Holding SA (the Company) is a company domiciled in Moutier, Switzerland. The Group is exclusively active in developing, manufacturing, marketing and servicing of machine tools for turning applications. The Group's product lines primarily include sliding headstock lathes, multi-spindle lathes and fixed headstock lathes. The Group manufactures solely in Moutier, Switzerland and markets the product lines on a worldwide basis. The Group's areas of operation outside of Switzerland principally include western European countries and North America.

2 Basis of preparation

The consolidated financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand. They are prepared on the historical cost basis except for current and non-current investments that are stated at fair value (see accounting policy 4.8).

The accounting policies have been consistently applied by the Group enterprises and, except for the changes in accounting policies (refer note 4.2), are consistent with those used in the previous year.

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period of the consolidated financial statements. Actual results could differ from those estimates and assumptions.

3 Going concern

The consolidated financial statements as of December 31, 2001 have been prepared on the basis of going concern values. The board of directors is, however, aware that such basis may be jeopardised by the following matters.

As a result of, Tornos's loss making situation, it did not comply with most of the debt covenants required by the banks as of December 31, 2001, and in particular those covenants relating to the maintenance of certain key financial figures, (see note 17.5). The banks had agreed to a rolling waiver of the covenants on a monthly basis while simultaneously reassessing the situation each month. As part of the reorganisation plan to be proposed by the board of directors at the General Meeting of the Shareholders that will take place on June 28, 2002, all bank debts are subject to restructuring.

The ability of Tornos to restructure the bank debts and to continue as a going concern are dependent of the successful implementation of the proposed reorganisation plans.

A more detailed description of Tornos' current situation and the proposal by the board of directors are described in note 28 to these consolidated financial statements.

4 Summary of significant accounting polices

4.1 Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS) adopted by the International Accounting Standards Board (IASB), and the Interpretations (SIC) issued by the Standing Interpretations Committee of the IASB

4.2 Changes in accounting policies

IAS 39 on Financial Instruments has been initially applied as per January 1, 2001. IAS 39 requires that derivative financial instruments be recognised at fair value in the consolidated financial statements. The adjustments to the fair values of the interest rate swaps held by the Group were recognised in retained earnings as per January 1, 2001. Subsequent changes in fair values have to be recognised in the income statement when they arise unless hedge accounting is applied.

4.3 Basis of consolidation

Subsidiaries

Subsidiaries are those companies in which the Company, directly or indirectly, holds an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. A listing of the Company's subsidiaries is set out in Note 29.

Balances and transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

4.4 Foreign currencies

Foreign currency transactions

Transactions in foreign currencies are translated to CHF at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to CHF at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to CHF at the foreign exchange rate ruling at the date of the transaction.

Financial statements of foreign operations

The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to CHF at foreign exchange rates ruling at the balance sheet date. The revenues, expenses and cash flows of foreign operations are translated to CHF at the average exchange rates prevailing during the reporting period. Foreign exchange differences arising on this translation are recognised directly in equity.

4.5 Derivative Financial instruments

In 2000 and 2001 the Group was a party to interest rate swap agreements. IAS 39 requires that derivative financial instruments be recognised at fair value in the consolidated financial statements. The adjustments to the fair values of the interest rate swaps held by the Group were recognised in retained earnings as per January 1, 2001. Subsequent changes in fair values were recognised in the income statement. Hedge accounting was not applied.

At December 31, 2001 the Group did not hold any derivative financial instruments.

4.6 Revenue recognition

Revenues include sales of machines and service costs which can be directly charged to customers. Sales are recognised on the full completion of the delivery or service (upon delivery of products and customer acceptance, if any, or performance of services), net of sales taxes and discounts, and after eliminating sales within the Group.

Other revenues earned by the Group are recognised on the following bases:

- Interest income: on a time apportioned basis taking account of the yield on assets
- Royalties: on an accrual basis in accordance with the substance of the relevant agreement
- Dividend income: when the shareholder's right to receive payment is established

4.7 Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short-term liquid investments with original maturities of three months or less. They are stated at their nominal amounts.

4.8 Investments

Current and non-current investments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in the income statement. The fair value is the quoted bid price at the balance sheet date.

4.9 Trade and other receivables

Trade and other receivables are stated at anticipated realisable value, being cost less allowances determined based on a review of all outstanding amounts at the year end.

4.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads, except interest expenses, based on normal operating capacity.

4.11 Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 4.14).

Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul costs, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

■ Buildings	20-40 years
■ Plant and machinery	8-12 years
■ Equipment and motor vehicles	3-10 years

4.12 Leased assets

Leases with terms for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation (see accounting policy 4.11) and impairment losses, if any (see accounting policy 4.14).

Each lease payment is allocated between the liability and financial charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of financial charges, are included in interest bearing borrowings. The interest element of the finance charge is recognised in the income statement over the lease period.

4.13 Intangible assets

Goodwill

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation (see below) and impairment losses, if any (see accounting policy 4.14).

Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses, if any (see accounting policy 4.14).

Other intangible assets

Other intangible assets acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses, if any (see accounting policy 4.14).

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Goodwill is amortised from the date of initial recognition; other intangible assets are amortised from the date the asset is available for use. The estimated useful lives applied are as follows:

■ Goodwill	15 years
■ Capitalised development costs	4 - 7 years
■ Patents and trademarks	6 years

4.14 Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy 4.10), deferred tax assets (see accounting policy 4.15) and pension assets (see accounting policy 4.16), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount, being the higher of the asset's net selling price and value in use, is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

4.15 Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not subject to recognition of deferred taxes:

- goodwill not deductible for tax purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries to the extent that they are controlled and will probably not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

4.16 Employee benefits

The Group has established defined benefit and defined contribution plans around the world. Most of the pension schemes are final salary defined benefit plans and are either funded or unfunded. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered / funds.

Defined contribution plans

Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Defined benefit plans

The Group's net obligation in respect of defined benefit pension and healthcare plans is calculated separately for each defined benefit plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; such benefits are discounted to determine their present value, and the fair value of any plan assets is deducted from the defined benefit obligation. The discount rate is the yield at balance sheet date on AAA credit rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary every year using the projected unit credit method.

When the benefits of a plan change, the portion of the increased benefits relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

In calculating the Group's obligation in respect of a plan, to the extent that any actuarial gain or loss exceeds ten percent of the greater of the present value of the defined benefit obligation and the fair value of plan assets, it is recognised in the income statement over the expected average remaining working lives of the employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a surplus, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

4.17 Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

4.18 Interest -bearing borrowings

Interest-bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

4.19 Segment reporting

The Group is engaged in the business of developing, manufacturing, marketing and servicing of machine tools for turning applications. The Group's product lines primarily include sliding headstock lathes, multi-spindle lathes and fixed headstock lathes. These products are mainly purchased by suppliers and subcontractors active in the electronic, automotive, connector, watch and medical engineering industries, as well as other specialised manufacturers of high precision turned parts.

All three product lines of the Group require similar materials and production processes. Management does not consider that there is currently a clear distinction of risks and returns among the products and therefore concluded that the Group operates in one business segment, i.e. automatic lathes.

In view of the foregoing and in accordance with IAS 14, management has chosen the geographical segmentation for the purposes of the Group's primary segment reporting.

Switzerland is the domicile of the parent company and the main operating company. The Swiss operating company conducts all development and manufacturing activities. The subsidiaries located in the other western European countries (France, Germany, Great Britain, Italy, Spain and the United Kingdom) and the United States only have sales and distribution activities. Additionally, the Swiss company sells via its sales agents located in Asia and rest of the world. This organisation has the effect that the risks and returns of each geographical location are dependent to a large extent on the operating company in Switzerland. Management has identified three geographical segments, namely, Switzerland, other western European countries and North America. For the purpose of presenting net sales by location of customers, two other geographical segments, namely Asia and rest of world, are identified.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

5 ACQUISITIONS AND DISPOSALS

5.1 2001

Acquisition of minority interests in TornosTechnologies Italia Sarl, Assago and Tornos Technologies Iberica, Granollers

With effect from May 31, 2001, the remaining 4% minority interest in Tornos Technologies Italia Sarl were acquired by the Group for CHF 0.2 million.

With effect from July 7, 2001, the remaining 5% minority interest Tornos Technologies Iberica were acquired by the Group for CHF 0.2 million.

As these entities were already controlled, they had already been fully consolidated before these transactions. The underlying fair values of the identifiable assets and liabilities contributing the minority interests acquired were estimated to approximate their historical carrying amounts of CHF 0.1 million in both cases at the time of the acquisitions. As a result, goodwill of total CHF 0.2 million was recognised on these transactions and is amortised over its estimated useful life of 15 years.

Disposal

There were no disposals in the year 2001.

5.2 2000

Acquisition of the CCN and CNC product ranges from Schaublin SA

By an asset purchase agreement dated December 21, 1999, Tornos S.A. (‘TBSA’) acquired from Schaublin SA, Bevilard (‘Schaublin’) two established machine businesses, namely the CCN and CNC product ranges. The assets taken over included accounts receivable, certain machines and inventories as of January 1, 2000 as well as all employees and customer relationships of the businesses concerned existing as of that date.

TBSA, the Swiss operating company, will pay to Schaublin an annual license fee of 3% on its sales of CCN and CNC products for the next four years.

The agreement also stipulated that any accounts receivable collected by TBSA shall be remitted to Schaublin, less a 12% handling fee. The balance that remained unpaid as of December 31, 2001 was transferred back to Schaublin in 2002.

The machines were taken over by the Swiss operating company at the book value recorded by Schaublin whereas the value of inventories are determined based on third party valuation less a mutually agreed adjustment. Such values were deemed to approximate fair value.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The cost of acquisition was allocated as follows:

Purchase price	6,815
Net assets acquired:	
Machines	340
Inventories	6,475
Pension liability of employees transferred	(409)
Fair value of net assets acquired	6,406
Goodwill	409

Accounts receivable were not considered as an 'acquired asset' as the risks and rewards associated therewith are retained by Schaublin. As such, they were not included in the above calculation.

The purchase price of CHF 6.8 million has not been settled yet as of December 31, 2001 due to a pending dispute between the parties. The Group has claimed and recognised compensation for the expenses incurred in solving technical problems and a reduction of the purchase consideration for the inventories which did not meet the conditions specified in the purchase agreement.

Disposal

There were no disposals in the year 2000.

6 PERSONNEL EXPENSES

	2001	**2000**
Wages and salaries	97,568	86,655
Social security costs	8,161	9,315
Pension costs		
Defined benefit plans (Note 20.2)	3,739	3,181
Defined contribution plans	302	256
Termination benefits	2,188	0
Training expenses	248	217
Other personnel expenses	2,183	1,356
Total personnel expenses	114,389	100,980
Number of employees at December 31,	1,283	1,231

Termination benefits relate to a restructuring plan which the Swiss operating company has started to implement in the fourth quarter 2001. They include lump-sum termination payments as well as contributions to pension funds to employees made redundant. An amount of CHF 550 has already been paid in 2001. Refer also note 20 (Pension and other post retirement benefit obligations) and note 21 (Provisions).

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

7 OTHER OPERATING INCOME (EXPENSES), NET

	2001	2000
Indirect production costs	(13,786)	(12,814)
Administrative expenses	(17,972)	(15,714)
Selling expenses	(14,709)	(15,437)
Gain on disposal of property, plant and equipment	797	44
Other operating income	5,858	5,390
Other operating income (expenses), net	(39,812)	(38,531)

8 FINANCIAL INCOME (EXPENSES), NET

	2001	2000
Financial income		
Interest income from third party	537	467
Exchange gains	20	3,832
Other financial income	5	0
Total financial income	562	4,299
Financial expenses		
Interest expenses for third parties	(9,958)	(13,674)
Bank charges and other financial expenses	(4,385)	(189)
Exchange losses	(4,433)	(853)
Total financial expenses	(18,776)	(14,716)
Financial income (expenses), net	(18,214)	(10,417)

Bank charges and other financial expenses include IPO-costs of CHF 3.7 million. From the exchange losses of CHF 4.4 million an amount of CHF 3.7 million is related to bank loans which have been repaid in 2001 (refer note 17).

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

9 INCOME TAX EXPENSES

	2001	2000
Current income tax expenses	1,906	3,969
Deferred tax expenses	1,382	973
Total income tax expenses	3,288	4,942

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which range between 8 % and 40 %, in the tax jurisdictions in which the Group operates.

	2001	2000
Loss / profit before tax	(26,603)	14,456
Expected tax income / expenses	(835)	3,780
Write-off (reversal of previous write off) of deferred tax assets	1,848	(464)
Change in tax rates	801	886
Unrecognised tax loss carryforwards	1,477	-
Amortisation of intangible assets	395	336
Non-deductible expenses	232	-
Utilisation of previously unrecognised tax loss carryforwards	(44)	-
Others	(586)	404
Income tax expenses recognised	3,288	4,942

The expected tax expense is calculated at entity level and the Group does not file consolidated tax returns. As such, profits and losses generated by different entities cannot be offset against each other, resulting in a tax charge in the year 2001 despite of the Group's net loss incurred on a consolidated basis.

10 TRADE RECEIVABLES

	2001	2000
Trade receivables	79,543	105,984
Less allowance for doubtful accounts	(3,561)	(3,582)
Trade receivables, net	75,982	102,402

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

11 OTHER RECEIVABLES AND PREPAYMENTS

	2001	**2000**
Prepaid expenses and accrued income	8,604	4,482
Other assets	6,978	5,327
Total other assets and prepaid expenses	15,582	9,809

12 INVENTORIES

	2001	**2000**
Materials and components	43,771	40,695
Work in progress	33,752	32,038
Finished goods	74,339	82,554
	151,862	155,287
Less allowance for obsolescence	(31,208)	(36,084)
Total inventories	120,654	119,203

The decrease in the allowance for obsolescence is a result of articles being discarded for which a 100% allowance had previously been established.

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13 PROPERTY, PLANT AND EQUIPMENT

Cost	**Land and Buildings**	**Technical Machinery**	**Other Equipment**	**PP&E under con-struction**	**Total**
Cost					
At January 1, 2001	56,917	71,620	12,126	114	140,777
Additions	2,443	10,224	859	680	14,206
Disposals	(3,936)	(172)	(381)	-	(4,489)
Transfers	41	-	-	(41)	-
Translation adjustment	53	24	(29)	-	48
At December 31, 2001	55,518	81,696	12,575	753	150,542
Accumulated depreciation					
At January 1, 2001	(19,260)	(45,655)	(8,937)	-	(73,852)
Charge for the year	(1,925)	(5,638)	(1,345)	-	(8,908)
Written back on disposal	3,814	20	280	-	4,114
Transfer					
Translation adjustment	1	(2)	1	-	-
At December 31, 2001	(17,370)	(51,275)	(10,001)	-	(78,646)
Carrying amounts					
January 1, 2001	37,657	25,965	3,189	114	66,925
December 31, 2001	38,148	30,421	2,574	753	71,896

Of which related to leased assets:

	Land and Buildings	**Technical Machinery**	**Other Equipment**	**PP&E under con-struction**	**Total**
Additions					
December 31, 2000	-	1,836	-	-	1,836
December 31, 2001	772	8,463	177	-	9,412
Carrying amounts					
December 31, 2000	1,367	7,172	865	-	9,404
December 31, 2001	1,513	12,779	725	-	15,017

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Of which non-operating:

Carrying amounts	Land and Buildings	Technical Machinery	Other Equipment	PP&E under con-struction	Total
December 31, 2000	2,700	336	-	-	3,036
December 31, 2001	2,306	320	-	-	2,626

14 INTANGIBLE ASSETS

	Goodwill	Other intangible assets	Total
Cost			
At January 1, 2001	79,836	22,602	102,438
Additions	-	6,114	6,114
Acquisition of minority interests	231	-	231
Translation adjustment	-	(53)	(53)
At December 31, 2001	80,067	28,663	108,730
Accumulated amortisation			
At January 1, 2001	(10,713)	(7,667)	(18,380)
Charge for the year	(5,332)	(5,573)	(10,905)
Translation adjustment	-	18	18
At December 31, 2001	(16,045)	(13,222)	(29,267)
Carrying amounts			
December 31, 2000	69,123	14,935	84,058
December 31, 2001	64,022	15,441	79,463

The addition to goodwill arose from the acquisition of the minority interests in Tornos Technologies Italia Sarl and Tornos Technologies Iberica (refer note 5.1).

Additions to other intangibles represented development and software costs capitalised in accordance with IAS 38.

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15 DEFERRED INCOME TAXES

Deferred income taxes are calculated on all temporary differences under the liability method using the relevant local tax rates, which range between 8 % and 40 %.

No deferred income tax liabilities have been established on the retained earnings of the subsidiaries as management of the Group does not intend to distribute such earnings in the foreseeable future.

15.1 Deferred tax assets and liabilities

	2001	2000
Deferred tax assets arising from		
Tax loss carryforwards	-	1,955
Other deductible temporary differences	2,617	1,735
Total deferred tax assets	2,617	3,690
Deferred tax liabilities		
Accelerated tax depreciation	7,661	7,239

An amount of TCHF 130 was recognised in equity as per January 1, 2001 in connection with the first time application of IAS 39.

15.2 Tax losses

Deferred tax assets are recognised for tax loss carryforwards only to the extent that realisation of the related tax benefit is probable. Due to uncertainty of their recoverability tax assets on tax loss carryforwards have been fully written of in 2001.

	2001	2000
Available tax loss carryforwards	35,407	34,951
Estimated tax loss carryforwards not utilisable	35,407	15,300
Tax losses on which deferred tax assets are recognised	-	19,651

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All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The expiry dates of unrecognised tax loss carryforwards in the respective years are:

	2001	2000
Year 2001	-	7,400
Year 2006	17,867	7,900
After 2006	17,131	-
Losses not subject to expiry	409	-
	35,407	15,300

15.3 Tax rulings

On July 5, 2000, tax rulings were obtained from the tax authorities of the Canton of Berne and the local authorities of Moutier whereby tax holidays were granted to the Swiss operating companies.

Tornos S.A. is 100% tax exempted for the years 2000 to 2001, 80% tax exempted from 2002 to 2003 and 60% tax exempted from 2003 to 2006. Tornos Services SA is 80% tax exempted for the years 2000 and 2001 and 60% tax exempted for the years 2002 to 2003.

The tax holidays do not apply to local real estate and capital gains.

16 OTHER PAYABLES

	2001	2000
Advances received	4,862	14,172
Payable to pension plans	596	596
Deferred income and other accrued expenses	25,635	22,192
Total other payables	31,093	36,960

17 INTEREST BEARING LOANS AND BORROWINGS

	2001	2000
Senior facilities		
Term A Facility	49,430	88,852
Term B Facility	39,544	36,878
Term C Facility	13,841	-
Revolving Credit (working capital) Facility	-	37,500
Ancillary Facility	4,415	-
Subordinated Facility	-	20,525
Other bank borrowings	245	5,629
Finance lease liabilities (Note 18)	12,151	5,544
Mortgage	44	42
Total interest bearing loans and borrowings	119,670	194,970

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

Of which current portion:		
Current portion of senior (Term A) Facility	49,430	12,696
Current portion of senior (Term B) Facility	39,544	-
Current portion of senior (Term C) Facility	13,841	-
Ancillary Facility	4,415	-
Other short-term bank borrowings	245	5,629
Short-term leasing liabilities	4,294	2,445
Current portion	111,769	20,770
Non-current portion	7,901	174,200

All borrowings are made to the Swiss operating company. In connection with the Initial Public Offering, Tornos repaid bank loans of CHF 185 million. A new debt facility was provided by another banking syndicate on March 15, 2001. The facility consists of term loans (facility A and facility B) in the amount of CHF 90 million, a working capital facility (facility C) of CHF 14 million and an ancillary facility of CHF 16 million.

Since the contractually agreed upon covenants were no longer met as of 31 December 2001, the banks can at any time demand the repayment of their credit facilities. The entire amount of the credit facilities has, therefore, been shown as short term. The maturity dates listed in footnotes 17.1 through 17.3 relate to the contractual terms which, however, are no longer valid as a result of the violation of the covenants.

17.1 Facility A

Facility A consists of a term loan up to an aggregate principal amount not exceeding CHF 50 million payable in instalments of CHF 10 million on March 31, 2002 and CHF 20 million on March 31, in both 2003 and 2004. The facility bears interest at LIBOR plus a margin based on the debt/EBITDA ratio ranging between 0.75 % and 2.25 %.

17.2 Facility B

Facility B consists of a term loan up to an aggregate principal amount not exceeding CHF 40 million payable in full on March 31, 2006. The facility bears interest at LIBOR plus a margin based on the debt/EBITDA ratio ranging between 1.0 % and 2.5 %.

17.3 Facility C

Facility C consists of a working capital facility up to an aggregate principal amount not exceeding CHF 14 million payable in full on March 31, 2004. The facility bears interest at the same rate as facility A plus a commitment fee based on the debt/EBITDA ratio ranging between 0.25 and 0.625 %.

17.4 Ancillary Facility

The facility may be used in the form of advances, current accounts, Letters of Credit, performance, bid and advance payment bonds or guarantees up to an aggregate amount of CHF 16 million payable on demand. The facility bears interest at the same rate as facility C.

At December 31, 2001 Tornos utilised the facility in form of current accounts in the amount of 4,415 (see above) and in the form of guarantees in the amount of 9,178.

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17.5 Covenants

The Group's borrowings are subject to certain covenants and conditions including, among other things, the achievement of certain financial targets (interest coverage ratio, leverage ratio, maximum capital expenditure), restrictions control, non-payment of principal and interest, certain defaults and bankruptcy events.

At December 31, 2001, the Group was not in compliance with the interest coverage ratio and the leverage ratio. The board of directors is working to renegotiate the credit conditions with the banks. The banks have agreed to a rolling waiver of the covenants on a monthly basis while simultaneously reevaluating the situation each month. The outcome of these negotiations is presently not yet known. In this connection refer to note 3.

17.6 Maturity schedule

	2001	**2000**
Within 1 year	111,769	20,770
Between 1 and 2 years	3,124	14,939
Between 2 and 5 years	3,883	101,858
Over 5 years	894	57,403
	119,670	194,970

17.7 Interest rate exposure

	2001	**2000**
At fixed rates	12,151	5,444
At floating rates	107,519	189,526
Total borrowings	119,670	194,970

In January 1999 the Group had entered into 5 interest rate swap contracts with a notional amount of CHF 135.8 million. The purpose of which was to limit fluctuations in the Group's interest cost with respect to its obligations under the facility agreements which were in force at that time. The contracts were settled in connection with the repayment of bank loans in March 2001 (refer note 19.1).

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17.8 Exchange rate exposure

The original currency of the Group's borrowings are:

	2001	**2000**
Swiss franc	117,166	42,871
Other European currencies	2,504	5,843
Euro	-	96,188
US Dollar	-	50,068
Total borrowings	119,670	194,970

18 FINANCE LEASE LIABILITIES

	2001	**2000**
Minimum lease payments		
Within 1 year	4,840	2,716
Between 2 to 5 years	7,894	3,460
More than 5 years	1,021	-
Total minimum lease payments	13,755	6,176
Future finance charges on finance leases	(1,604)	(632)
Present value of finance lease liabilities	12,151	5,544
Of which		
Due with 1 year	4,294	2,445
Between 2 to 5 years	6,963	3,099
More than 5 years	894	-

The finance lease liabilities of the Group carry an effective interest rate of 5.5 % at December 31, 2001 (2000: 6.0%).

The Company does not act as a lessor.

19 FINANCIAL INSTRUMENTS

19.1 Interest rate risks

In March 1999, the Swiss operating company had entered into 5 interest rate swap contracts in order to reduce its exposure to movements in floating interest with respect to its obligations under the Facility agreements which were in force at that time. At December 31, 2000 the unrecognised gain on these swaps was CHF 1.7 million. The Swaps were settled in connection with the repayment of bank loans in March 2001 (refer note 17).

At December 31, 2001 the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group.

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19.2 Foreign currency risk

Tornos S.A., the Swiss operating company of the Group invoices its revenues to the subsidiaries in local currencies and revenues to final customers in CHF. Therefore the currency risk is transferred from the subsidiaries to the Swiss operating company. The Group does not follow any systematic hedging policy against currency and market price risk through financial instruments.

19.3 Credit risk

The Company and the Group have no significant concentration of credit risk.

19.4 Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair values: Cash, trade receivables and payables, other receivables and payables, loans, short term borrowings and long-term borrowings.

20 PENSIONS AND OTHER POST RETIREMENT BENEFIT OBLIGATIONS

20.1 Description of pension schemes

Substantially all employees are eligible for retirement benefits. Among the benefit schemes are defined benefit plans as well as defined contribution plans. The locations with defined benefit plans of material nature are Switzerland, USA, France, Germany and Italy.

Retirement benefits are provided based on a final pay and service formula. Some of the plans provide only lump sum benefits in the events of leaving and retirement. The latest actuarial valuation was performed as of December 31, 2001 using the projected unit credit method.

The following summarises the components of pension cost, the funded status, the resulting prepaid assets or accrued liability and the assumptions used for the defined benefit plans:

20.2 Period pension cost recognised in personnel expenses

	Switzerland		**Outside Switzerland**		**Total**	
	2001	**2000**	**2001**	**2000**	**2001**	**2000**
Current service cost	8,011	6,736	361	346	8,372	7,082
Interest on obligation	5,480	4,873	201	230	5,681	5,103
Expected return on assets	(6,528)	(5,698)	(194)	(194)	(6,722)	(5,892)
Amortisation of						
unrecognised past service cost	22	24	-	-	22	24
unrecognised net (gain)/loss	(8)	-	(8)	4	(16)	4
Curtailment /Settlement	(348)	-	-	-	(348)	-
Termination benefits	2,188	-	-	-	2,188	-
Expected employees' contribution	(3,486)	(3,074)	-	-	(3,486)	(3,074)
Unrecognised pension asset	236	(66)	-	-	236	(66)
Net periodic pension cost recognised	5,567	2,795	360	386	5,927	3,181

For a description of the termination benefits refer note 6 (Personnel expenses).

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20.3 Actual return on plan assets

	Switzerland		Outside Switzerland		Total	
	2001	2000	2001	2000	2001	2000
Actual return	2,573	7,587	52	256	2,625	7,843

The pension plan assets include marketable securities, real estate and other assets.

20.4 Pension liability recognised

	Switzerland		Outside Switzerland		Total	
	2001	2000	2001	2000	2001	2000
Projected benefit obligation	147,166	140,558	3,561	3,544	150,767	144,102
Less fair value of plan assets	142,578	144,988	2,329	3,200	144,907	148,188
(Over) under funded	4,588	(4,430)	1,232	344	5,820	(4,086)
Unrecognised net actuarial gain (loss)	(5,735)	2,341	(488)	367	(6,223)	2,708
Unrecognised prior service cost	(185)	(216)	-	-	(185)	(216)
(Prepaid) accrued pension cost	(1,332)	(2,305)	744	711	(588)	(1,594)
Valuation allowance	3,490	3,253	-	-	3,490	3,253
(Prepaid) accrued pension cost, net	2,158	948	744	711	2,902	1,659
Provision for claims by Institution de Prévoyance	500	500	-	-	500	500
Pension asset recognised	621	700	-	-	621	700
Termination benefits included in provisions	(1,638)	-	-	-	(1,638)	-
Accrued pension costs, gross	1,641	2,148	744	711	2,385	2,859

The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. In Switzerland, the Pension Fund is controlled by an equal number of representatives of management and the employees. This parity of control implies that neither side individually controls the funds paid into the pension fund. The Company cannot, therefore, dictate on its own that any excess funds will be used for the benefit of the Company (i.e. to reduce future contributions). Therefore, management believes that the major portion of the existing prepaid assets in Switzerland cannot be used for the benefit of the Company. Prepaid pension costs are recorded as an asset only to the extent that future contribution reductions under the existing pension schemes could be realised over the next few years.

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Movements in net (prepaid) accrued pension costs are:

	2001	**2000**
At January 1	1,659	1,987
Exchange differences	(1)	(13)
Acquisition of Schaublin	-	409
Net periodic pension costs recognised (Note 20.2)	5,927	3,181
Contributions to the plan	(4,683)	(3,905)
At December 31	2,902	1,659

20.5 Weighted average assumptions

The following are the major assumptions used in the actuarial calculations:

	Switzerland		**Outside Switzerland**	
	2001	**2000**	**2001**	**2000**
	%	**%**	**%**	**%**
Discount rate	4.00	4.00	6.55	6.71
Expected return on plan assets	4.50	4.50	6.76	6.89
Salary increases	1.97	2.39	3.96	4.01
Pension indexation	0.74	0.75	1.58	1.91

21 PROVISIONS

	Warranties	**Restructuring**	**Other**	**Total**
At January 1, 2001	2,366	176	1,907	4,449
Additional provisions	995	2,188	705	3,888
Utilised during year	(173)	(726)	(2,066)	(2,965)
Released via income statement	-	-	-	-
Exchange differences	(85)	-	(37)	(122)
At December 31, 2001	3,103	1,638	509	5,250

Presentation of provisions in the consolidated balance sheet is as follows:

	2001	**2000**
Current liabilities	2,977	2,543
Non-current liabilities	2,273	1,906
	5,250	4,449

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Warranties

The company gives a one year warranty on machines sold and undertakes to repair or replace items that fail to perform satisfactorily. The Group is not liable to provide spare parts for amounts exceeding the purchase price of a new machine.

Restructuring

Please refer to note 6 (Personnel expenses) and note 20 (Pensions and other post retirement benefit obligations).

22 SHARE CAPITAL

22.1 Capital structure

	Ordinary shares		**Preference shares**	
	2001	**2000**	**2001**	**2000**
Issued an fully paid-in at January 1	1,000,000	1,000,000	550,000	550,000
Reverse split of A and B shares	(800,000)	-	-	-
Split of C shares	1,100,000	-	(550,000)	-
Issued for cash	1,000,000	-	-	-
Issued and fully paid-in at December 31	2,300,000	1,000,000	-	550,000

In 2000 the share capital of the Company consisted of two classes of ordinary registered shares (“A” and “B” Ordinary Shares) with a par value of CHF 10 per share and one class of preferred registered shares (“C” Preference Shares) with a par value of CHF 100 per share. The number of shares of each category was as follows:

- Class A: 900,000 shares with par value of CHF 9 million
- Class B: 100,000 shares with par value of CHF 1 million
- Class C: 550,000 shares with par value of CHF 55 million

All shares were issued and outstanding at December 31, 2000. All shares were voting shares.

In connection with, and prior to the Initial Public Offering, the extraordinary shareholders' meeting of March 12, 2001 resolved to convert all A, B and C shares into new ordinary registered shares with a par value of CHF 50 each, by way of a split of the 550,000 C Shares (par value of CHF 100 each) into 1,100,000 new ordinary registered shares and of a reverse split of the 900,000 A Shares (par value of CHF 10 each) and the 100,000 B Shares (par value of CHF 10 each) into 200,000 new ordinary registered shares.

The extraordinary shareholders' meeting also resolved to increase the Company's share capital to CHF 115 million through the issuance of 1,000,000 shares with a nominal value of CHF 50. These new shares were offered in the Initial Public Offering at a price of CHF 100. The net proceeds from the share capital increase amounted to CHF 94.1 million (after deduction of transaction costs). The related transaction costs of CHF 5.9 million were recognized in equity.

22.2 Rights attached to each class of shares

Old capital structure

The A and B shares had privileged voting rights in connection with the election of the Board of Directors. The following preference dividend and liquidation rights were attached to the C shares:

C Shareholders were entitled to a cumulative preference dividend of 10 % p.a. on their par value. As of December 31, 2000, the parent company did not have any available earnings for the distribution of preference dividends. Unrecognised cumulative preference dividends amounted to CHF 11.0 million at December 31, 2000

In case of liquidation, distribution of accumulated preference dividends and the par value of the C shares would have taken place before distribution of the remaining proceeds to the other categories of shareholders.

New capital structure

The holders of the ordinary shares are entitled to receive dividends as declared by the meeting of shareholders and are entitled to one vote per share at the meetings of shareholders.

22.3 Conditional share capital

The extraordinary shareholders' meeting of March 12, 2001 resolved to create a conditional capital of CHF 2.5 million (50,000 registered shares with a par value of CHF 50 each). This conditional share capital is for the issuance of shares upon the exercise of subscription or option rights which will be granted to employees of the Company or its subsidiaries pursuant to one or several employee stock option plans that are currently being developed.

22.4 Significant shareholders

Doughty Hanson Partnerships held 98.3% of the A and C shares at December 31, 2000. All B Shares were held by the management of the Company.

At December 31, 2001, after the Initial Public Offering, 32.7 % of the shares were held by Doughty Hanson Partnerships and 2.7 % were held by the management of the Company.

23 EARNINGS PER SHARE, BASIC AND FULLY DILUTED

The calculation of earnings per share is based on a weighted average of 2,097,260 (previous year: 1,300,000) outstanding shares and the net loss (profit) for the year as presented in the consolidated income statement.

The previous years calculation has been adjusted retrospectively as if the new share structure had already existed. The average number of shares represents the share structure after the split of the old C shares and the reverse split of the old A and B shares. No deduction was made for a preference dividend since the new share structure does no longer include preference shares.

There are no potential ordinary shares that could have a dilutive effect.

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24 (INCREASE) DECREASE IN WORKING CAPITAL

The components of the (increase) decrease in working capital as disclosed in the consolidated cash flow statement are:

	2001	**2000**
(Increase) decrease		
Trade receivables	26,200	(35,762)
Other receivables	(4,519)	764
Inventories	(1,665)	(21,892)
Trade payables	(12,673)	29,824
Other current payables and provisions	(4,374)	13,288
(Increase) decrease in working capital	2,969	(13,778)

25 SEGMENT INFORMATION

As described in Note 5.19 above, management of the Group has chosen geographical segment for the purpose of primary segment reporting in accordance with IAS 14. The reportable segments identified are Switzerland, other western European countries and North America. For the purpose of presenting net sales by location of customers, two other geographical segments, namely Asia and rest of world, are identified.

25.1 Net sales by location of assets

	2001	**2000**
Switzerland		
To third parties	121,643	108,888
To other segments	179,664	173,648
	301,307	282,536
Other western European countries		
To third parties	186,901	169,122
To other segments	1,981	1,306
	188,882	170,428
North America		
To third parties	46,449	74,356
To other segments	218	144
	46,667	74,500
Elimination	(181,863)	(175,098)
Total net sales	**354,993**	**352,366**

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25.2 Net sales by location of customers

	2001	2000
Switzerland	53,134	44,005
Other western European countries	231,648	197,777
North America	47,495	74,315
Asia	18,865	23,564
Rest of world	3,851	12,705
Total net sales	**354,993**	**352,366**

25.3 Segment result (EBIT) by location of assets

	2001	2000
Switzerland	(14,258)	13,432
Other western European countries	5,991	5,718
North America	784	5,629
	(7,483)	24,779
Elimination	(716)	276
Unallocated	(190)	(182)
Total EBIT	**(8,389)**	**24,873**

The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable profits at local subsidiary level.

25.4 Segment assets

	2001	2000
Switzerland	332,499	352,548
Other western European countries	67,682	81,242
North America	24,504	36,286
	424,685	470,076
Elimination	(56,883)	(76,175)
Unallocated assets		
Goodwill on consolidation	2,394	2,535
Deferred tax assets	2,617	3,690
Total assets	**372,813**	**400,126**

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25.5 Segment liabilities

	2001	2000
Switzerland	88,611	101,505
Other western European countries	65,214	79,420
North America	8,970	19,633
	162,795	200,558
Elimination	(54,108)	(73,520)
Unallocated liabilities		
Tax liabilities	8,853	8,416
Interest bearing borrowings	119,670	194,970
Total liabilities	**237,210**	**330,424**

25.6 Depreciation of property, plant and equipment by segment

	2001	2000
Switzerland	7,701	6,493
Other western European countries	943	953
North America	264	276
Total depreciation	**8,908**	**7,722**

25.7 Amortisation of goodwill and other intangible assets by segment

	2001	2000
Switzerland	10,876	9,327
Other western European countries	29	23
North America	-	-
Total amortisation	**10,905**	**9,350**

25.8 Capital expenditure on property, plant and equipment and other intangible assets by segment

	2001	2000
Switzerland	18,607	10,585
Other western European countries	1,557	1,910
North America	156	69
Total capital expenditure	**20,320**	**12,564**

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

26 COMMITMENTS AND CONTINGENCIES

26.1 Capital and operating lease commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2001	**2000**
Property, plant and equipment	-	5,898
Total	-	5,898

Operating lease liabilities, minimum lease payments

	2001	**2000**
Year 1	3,789	2,888
Year 2	1,683	1,954
Year 3	1,002	315
Year 4	113	65
Year 5	5	6
After 5 years	178	180
Total	6,770	5,408

26.2 Other commitments

The asset purchase agreement with Schaublin provides that the Swiss operating company shall pay to Schaublin an annual license fee of 3% on the sales of CCN and CNC products until 2004. The license fee has been accrued as at December 31, 2000 and 2001 but has not been paid yet to Schaublin due to a pending dispute between the parties (refer note 5.2 and note 26.4).

26.3 Assets pledged

There were no assets pledged at December 31, 2001 and 2000.

26.4 Contingencies

In connection with the acquisition of Schaublin S.A. (refer note 5.2), the Group has claimed and recognised compensation for the expenses incurred in solving technical problems and a reduction of the purchase consideration for the inventories that did not meet the conditions specified in the purchase agreement. The amount of these claims remains undisclosed due to a pending dispute between the parties.

In March 2002 the former shareholders of Moutier Machine Holding (MMH), a company acquired by the Group on 31 December 1998, have filed a claim against the Group for additional monies that they alleged to be entitled to under the Stock Purchase Agreement regarding the sale of MMH to the Group. Group management considers the probability of successful claims against the Group to be remote.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

27 RELATED PARTY TRANSACTIONS

Related parties include the Doughty & Hanson Partnerships, the Board of Directors and the management of the Group.

Total remuneration to the Board of Directors and Group management amounted to CHF 2.1 million (CHF 2.1 million in 2000).

28 POST BALANCE SHEET EVENTS

The Board of Directors approved the consolidated financial statements on May 25, 2002. Except as disclosed below, there were no other events that took place between the year end date and May 25, 2002 that would require adjustments to the amounts recognised in these consolidated financial statements or otherwise require disclosure in accordance with IAS 10.

During the new business year, the creditor banks have been provided with a security over the properties in Moutier amounting to CHF 40 million. In addition, the banks have demanded a Global assignment of the receivables of Tornos S.A.

Due to the difficult market environment in North America and Europe and the decline in the markets for electronic and telecom industries, Tornos SA started to experience order cancellations by customers and a very low order volume since the last quarter of 2001. Despite the company’s immediate action to reduce its cost and increase order intake, Tornos faced a serious lack of liquidity in March 2002.

Based on the operating results during the first four months of 2002, there is substantiated concern over Tornos’ over indebtedness. Accordingly, the board of directors has prepared an interim balance sheet as of 30 April 2002 for both Tornos Holding SA and Tornos SA, using both, going-concern and liquidation values. Based on those interim balance sheets, it is noted that both companies have triggered Article 725 paragraph 2 of the Swiss Code of Obligations.

In order to protect the interests of employees, creditors and shareholders, and in accordance with the Swiss Code of Obligations, the board of directors is examining potential restructuring concepts to be proposed at the General Meeting of the Shareholders that will take place on June 28, 2002. These concepts will most likely require (1) creditors to waive a part of their receivables from and loans to Tornos SA, (2) shareholders to accept a decrease in share capital and (3) shareholders to decide on an increase in share capital. Parallel to the financial restructuring, the operations will be reorganised so that the cost structure will be appropriate for an annual sales volume between CHF 175 million to 200 million.

Notes to the consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

29 PRINCIPAL SUBSIDIARIES

Name	Domicile	Purpose
Tornos Services S.A., Moutier	Switzerland	Sales
Tornos S.A., Moutier	Switzerland	Production and sales
Tornos Deutschland GmbH, Pforzheim	Germany	Sales
Tornos Technologies Iberica, Granollers	Spain	Sales
Tornos Holding France, Paris	France	Holding company
Tornos-Technologies France, St Pierre	France	Sales
Tornos Technologies Italia Sarl, Assago	Italy	Sales
Tornos Technologies UK Ltd., Coalville	United Kingdom	Sales
Tornos Technologies U.S. Corp Brookfield CT	United States	Sales

All subsidiaries are held at 100% at December 31, 2001.

Tornos Holding S.A., Moutier

Report of the Statutory Auditors to the General Meeting

KPMG Fides Peat

Gümligen-Berne

Report of the Statutory Auditors to the General Meeting of Tornos Holding S.A., Moutier

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Tornos Holding S.A. for the year ended December 31, 2001.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation except for the following:

The balance sheet position Financial Assets includes the participation in Tornos S.A., Moutier, as well as accounts receivables and a loan to that subsidiary. Tornos S.A. incurred substantial losses during 2001. As a result, Tornos S.A. experienced a lack of liquidity, which raised substantial doubt as to Tornos S.A.'s ability to continue as a going concern. Thus the board of directors has recently initiated organisational and financial restructuring measures requiring valuation adjustments and depreciation charges on inventories and intangible assets as well as the establishment of provisions in the books of Tornos S.A.. As a result, significant valuation adjustments on the receivables from, the loan to and the participation in Tornos S.A. as well as the establishment of provisions are required in the books of Tornos Holding S.A..

As described in note 28 of the consolidated financial statements, the board of directors intends to propose restructuring measures to the annual general meeting of shareholders scheduled for June 28, 2002. Because of the complexity of these measures and the uncertainty as to how and to what extent Tornos Holding S.A. will be able to continue as a going concern, the impact on the financial statements cannot be reliably assessed; as such the financial statements do not include any such adjustments.

We recommend that the financial statements submitted to you be approved, despite the qualification described in the fifth paragraph of this report. This recommendation is based on the assumption that the proposed restructuring measures do not appear unfeasible and that those measures, if implemented, would remove the valuation deficiencies described in the fifth paragraph of this report during the current business year.

As per the interim balance sheet of Tornos Holding SA as of April 30, 2002, the claims of the creditors are neither covered at going concern values nor at liquidation values. Therefore, the company is obviously over-indebted. We refer to article 725 paragraph 2 of the Swiss Code of Obligations according to which the board of directors is required to notify the court.

KPMG Fides Peat

Elmar Ittensohn	Bryan DeBlanc
Swiss Certified Accountant	*Certified Public Accountant (USA)*
Auditor in Charge	

Gümligen-Berne, May 25, 2002

Enclosure:
- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of available earnings

BALANCE SHEET AS OF DECEMBER 31, 2001 AND 2000
(in thousands of CHF)

	31.12.2001	31.12.2000
ASSETS		
Other receivables group companies	4’787	--
CURRENT ASSETS	**4’787**	--
Investments in group companies	65’000	65’000
Loans group companies	95’409	**--**
Financial assets	**160'409**	**65'000**
Organisation costs	273	410
Intangible assets	**273**	**410**
NON-CURRENT ASSETS	**160'682**	**65'410**
TOTAL ASSETS	**165’469**	**65’410**
LIABILITIES and EQUITY		
Other payables group companies	4’176	763
Accrued expenses & deferred income	1’916	10
CURRENT LIABILITIES	**6'092**	**773**
Ordinary shares	115’000	65’000
Additionnal paid in capital	44’055	
Retained earnings	-363	-181
Net income (loss) for the period	685	-182
SHAREHOLDERS’ EQUITY	**159’377**	**64’637**
TOTAL LIABILITIES & EQUITY	**165’469**	**65’410**

PROFIT & LOSS ACCOUNT 2001 AND 2000
(in thousands of CHF)

	2001	2000
Legal & consulting fees	-206	-12
Taxes other than income taxes	-36	-34
Total other operating expenses	**-242**	**-46**
EBITDA	**-242**	**-46**
Amortisation of intangible assets	-137	-136
OPERATING PROFIT (EBIT)	**-379**	**-182**
Interest income third	9	--
Interest income group companies	4’787	--
Financial income	**4’796**	--
Other financial expenses	-3’689	--
Financial expenses	**-3’689**	--
FINANCIAL INCOME/EXPENSES	**1’107**	--
Current income taxes	-43	--
NET PROFIT (LOSS)	**685**	**-182**

NOTES TO THE FINANCIAL STATEMENT 2001

Valuation of financial assets - going concern

The other receivables from group companies of 6,882 TCHF and the financial assets of 160,409 TCHF relate to Tornos SA, a fully owned subsidiary. These assets are stated at going-concern values.

The board of directors is, however, aware that such basis may be jeopardised by the following matters. As a result of, Tornos's loss making situation, it did not comply with most of the debt covenants required by the banks as of December 31, 2001, and in particular those covenants relating to the maintenance of certain key financial figures. The banks had agreed to a rolling waiver of the covenants on a monthly basis while simultaneously reassessing the situation each month. As part of the reorganisation plan to be proposed by the board of directors at the General Meeting of the Shareholders that will take place on June 28, 2002, all bank debts are subject to restructuring.

The ability of Tornos to restructure the bank debts and to continue as a going concern are dependent of the successful implementation of the proposed reorganisation plans.

Guarantees and pledges of assets

Tornos Holding SA entered as parent company and the original guarantor into a Senior Facility Agreement (CHF 120 million) dated March 2001 with Credit Suisse. Until 31.12.00 Tornos SA has as subsidiary and additional borrower drawn down CHF 117.5 million.

Subsidiaries

Name	Purpose	Share capital	Ownership (%)	
			31.12.2001	31.12.2000
Tornos SA	Production, Sales	CHF 65'000'000.00	100.00	100.00

Contingencies

In March 2002 the former shareholders of Moutier Machine Holding (MMH), a company acquired by the Group on 31 December 1998, have filed a claim against the Group for additional monies that they alleged to be entitled to under the Stock Purchase Agreement regarding the sale of MMH to the Group. Group management considers the probability of successful claims against the Group to be remote.

Post balance sheet events

The Board of Directors approved the financial statements on May 25, 2002. Except as disclosed below, there were no other events that took place between the year end date and May 25, 2002 that would require adjustments to the amounts recognised in these financial statements or otherwise require disclosure.

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PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

	2001 CHF	2000 CHF
Retained earnings brought forward	-363,055.50	-182,527.75
Net profit for the year	684,817.22	-180,527.75
Available earnings	321,761.72	-363,055.50

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of available earnings:

	2001 CHF	2000 CHF
Transfer to the general reserve	16,000.00	0.00
To be carried forward	305,761.72	-363,055.50
	321,761.72	-363,055.50

TORNOS HOLDING S.A.
CH-2740 MOUTIER / SUISSE
Rue Industrielle 111
Tél. 032 / 494 44 44
Fax 032 / 494 49 03
E-mail: contact@tornos.ch
www.tornos.ch