TORNOS

Consolidated Financial Statements 2002

TORNOS Holding SA, Moutier

Tornos Holding S.A., 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 (the Group), consisting of the consolidated income statement, the consolidated balance sheet, 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, 2002.

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 (ISA), 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.

In our opinion, 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 Financial Reporting Standards (IFRS) and comply with Swiss law.

Without qualifying our opinion, we draw your attention to note 2.4 to the consolidated financial statements describing the fact that the Group's ability to continue as a going concern is dependent on the quarterly achievement of the budgets, the related continuing compliance with its revised debt covenants, and either the successful refinancing of short-term borrowings of CHF 52 million due on December 31, 2003, or the ability to obtain other adequate financing from January 1, 2004.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG Fides Peat

Elmar Ittensohn
Swiss Certified Accountant
Auditor in Charge

Bryan DeBlanc
US Certified Public Accountant

Gümligen-Berne, March 3, 2003

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

Consolidated income statement

In thousands of CHF, except per share data

For the years ended December 31,	Notes	**2002**	**2001**
Gross sales revenue		**180’567**	**372’845**
Commissions and discounts		(10’910)	(17’852)
Net sales		**169’657**	**354’993**
Material expenses	6, 7	(133,463)	(189’368)
Personnel expenses	6, 8	(83’595)	(114’389)
Forgiveness of trade payables, net of VAT	6	9’894	-
Other operating income (expenses), net	9	(47,547)	(39’812)
Earnings before interest, tax, depreciation/amortisation EBITDA		**(85’054)**	**11’424**
Depreciation of property, plant and equipment	15	(9’478)	(8’908)
Amortisation of goodwill and other intangibles	16	(5’632)	(10’905)
Impairment loss on intangible assets	16	(76’125)	-
Operating loss (EBIT)		**(176’289)**	**(8’389)**
Forgiveness of bank debt	6	60,000	-
Other financial income (expense), net	10	(9,864)	(18’214)
Loss) before tax and minority interest		**(126’153)**	**(26’603)**
Income tax expenses	11	4’744	(3’288)
Loss) after tax		**(121’409)**	**(29’891)**
Minority interest		-	(30)
Net Loss for the year		**(121’409)**	**(29’921)**
Basic and fully diluted loss per share	25	**(18.19)**	**(14.27)**

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

Consolidated balance sheet

In thousands of CHF

As at December 31,	Notes	**2002**	**2001**
ASSETS			
Cash and cash equivalents		21’743	5’978
Trade receivables	12	46’588	75’982
Current tax assets		1’102	-
Other receivables and prepayments	13	8’513	15’582
Inventories	14	59’463	120’654
Total current assets		**137’409**	**218’196**
Property, plant and equipment	15	67’482	71’896
Intangible assets	16	251	79’463
Financial assets		20	641
Deferred tax assets	17	-	2’617
Total non-current assets		**67’753**	**154’617**
Total assets		**205’162**	**372’813**
LIABILITIES AND EQUITY			
Trade payables		17’451	69’959
Other payables	18	15’672	31’093
Current tax liabilities		642	1’192
Interest bearing loans and borrowings	19	56’288	111’769
Provisions	22	18’017	2’977
Total current liabilities		**108’070**	**216’990**
Interest bearing loans and borrowings	19	7’656	7’901
Retirement benefit obligations	21	1’513	2’385
Provisions	22	4’636	2’273
Deferred tax liabilities	17	1’373	7’661
Total non-current liabilities		**15’178**	**20’220**
Total liabilities		**123’248**	**237’210**
Capital and reserves			
Ordinary shares	23, 24	66’919	115’000
Share premium		13’943	44’055
Currency translation reserve		87	2’704
Retained earnings		965	(26’156)
Total equity		**81’914**	**135’603**
Total liabilities and equity		**205’162**	**372’813**

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 translat.	Retained earnings	Total
At January 1, 2001	**10’000**	**55’000**	**-**	**2’327**	**3’765**	**71’092**
Conversion of shares	55’000	(55’000)				-
Issuance of new shares	50’000		44’055			94’055
Net loss for the year					(29,921)	(29,921)
Currency translation adj.				377		377
At December 31, 2001	**115’000**	**-**	**44’055**	**2’704**	**(26’156)**	**135’603**
Reversal of accrued equity transaction cost*			975			975
Reduction in capital	(103’500)		(45’030)		148’530	-
Issuance of new shares:						
- cash	50’000		10’000			60’000
- debt equity swap	5’419		5’419			10’838
- charges of capital increase			(1’476)			(1’476)
Net loss for the year					(121,409)	(121,409)
Currency translation adj.				(2’617)		(2’617)
At December 31, 2002	**66’919**	**-**	**13’943**	**87**	**965**	**81’914**

* relating to the capital increase in 2001

Refer to note 24.

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

Consolidated cash flow statement

In thousands of CHF

For the years ended December 31,	Notes	2002	2001
Operating activities			
Loss before tax and minority interest		(126'153)	(26'603)
Adjustments for:			
Depreciation of property, plant and equipment	15	9'478	8'908
Loss (gain) on disposal of property, plant and equipment		221	(797)
Amortisation of/impairment loss on goodwill and other intangible assets	16	81'757	10'905
Restructuring write-down of inventories	6, 7	42,483	-
Forgiveness of bank debt and trade payables		(69'894)	-
Unrealised foreign exchange loss / gain		-	2'746
(Increase) decrease in working capital	26	22,315	2'969
Interest expense		6'389	9'421
Other non cash items		2'426	1'099
Income tax paid		(894)	(1'881)
Net cash (used in) / provided by operating activities		**(31'872)**	**6'767**
Investing activities			
Acquisition of minority interest	4	-	(400)
Payment on settlement of acquisition of Schäublin activities	28.4	(1'750)	-
Cash received on disposal of Schäublin activities	6.1	1'000	-
Purchase of property, plant and equipment	15	(1'204)	(4'794)
Disposal of property, plant and equipment	15	524	1'172
Capitalisation of development expenditures	16	(1'893)	(5'085)
Purchase of intangible assets	16	(656)	(1'029)
Purchase / disposal of financial assets		-	(16)
Interest received		422	537
Net cash used in investing activities		**(3'557)**	**(9'615)**
Financing activities			
Payments on borrowings		-	(187,655)
Proceeds from borrowings		3'441	102,652
Payments of finance lease liabilities		(5'568)	(2,755)
Proceeds from issuance of share capital, net	24	58'524	94,055
Interest paid		(5'016)	(10,671)
Net cash provided by / (used in) financing activities		**51'381**	**(4,374)**
Increase (decrease) in cash and cash equivalents		15'951	(7,222)
Cash and cash equivalents at January 1		5'978	13,324
Effects of exchange rate changes		(186)	(124)
Cash and cash equivalents at December 31		**21'743**	**5,978**

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

GENERAL INFORMATION

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 operations outside of Switzerland principally include western European countries and North America.

2 Basis of preparation

2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

2.2 Accounting framework and reporting currency

The consolidated financial statements are prepared on the historical cost basis except for certain financial instruments that are stated at fair value (see accounting policy 3.5). The consolidated financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand.

2.3 Accounting estimates and assumptions

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.

2.4 Going concern

The Group has incurred a significant loss of CHF 121 million and an operating cash drain of CHF 32 million during 2002. As a result, and despite a financial restructuring undertaken in 2002, shareholders' equity decreased from CHF 136 million to CHF 82 million.

The consolidated financial statements as of December 31, 2002 have been prepared on a going concern basis. The Board of Directors is, however, aware that such basis may be jeopardised by the following matters:

- As a result of Tornos' loss making situation and based on the approved budgets, the Group would have difficulties in complying with the debt covenants set out in the credit agreements effective at December 31, 2002, and in particular those covenants relating to the maintenance of certain key financial figures (refer to note 19.6). On February 26, 2003, the consortium of banks offered a waiver of the existing covenants and proposed revised covenants relating to the achievement of budgeted net sales and EBITDA with an acceptable shortfall of 10% and 5% respectively, that are to be complied with during 2003 on a quarterly basis. The new covenants have been accepted by the Group. Should the Group not be able to comply with such revised covenants, the consortium may call the outstanding bank debts for repayment at any time.

- The total borrowings under the credit agreement in the amount of CHF 52 million as of December 31, 2002 will become due on December 31, 2003. While the Company's Board of Directors believes that the Group will be able to prolong or refinance such borrowings provided that its budgets will be met, refinancing could be endangered by a failure to achieve the budgets.

- Main focus of the Group is to achieve the budgeted sales and margins. Such budgets are based on an expectation that the economic environment will not further deteriorate during 2003 and will recover in 2004. Should it become apparent that such targets cannot be met, the Board of Directors will take immediate steps to ensure the Group's liquidity position in case of a deteriorating performance.

Accordingly, the Group's ability to continue as a going concern is dependent on the quarterly achievement of the budgets, the related continuing compliance with its revised debt covenants, and either the successful refinancing of short-term borrowings of CHF 52 million due on December 31, 2003, or the ability to obtain other adequate financing from January 1, 2004.

3 Summary of significant accounting polices

The accounting policies have been consistently applied by the Group companies and are consistent with those used in the previous year.

3.1 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. Acquisitions are accounted for using the purchase method. A listing of the Company’s subsidiaries is set out in Note 4.

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.

3.2 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.

Notes to the consolidated financial statements

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

3.3 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

3.4 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.

3.5 Financial instruments

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.

Derivative financial instruments are recognised on the balance sheet at fair value. Changes in fair values are recognised in the income statement. Hedge accounting is not applied.

At December 31, 2002 the Group did not hold any derivative financial instruments.

3.6 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.

3.7 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.

Notes to the consolidated financial statements

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3.8 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 3.10).

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.

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 below) and impairment losses, if any (see accounting policy 3.10).

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.

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

3.9 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 3.10).

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.

Notes to the consolidated financial statements

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

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 3.10).

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 3.10).

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

3.10 Impairment

The carrying amounts of the Group's assets, other than financial instruments (see accounting policy 3.5), inventories (see accounting policy 3.7), deferred tax assets (see accounting policy 3.11) and pension assets (see accounting policy 3.12), 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.

3.11 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:

Notes to the consolidated financial statements

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

- goodwill not deductible for tax purposes;
- differences relating to the initial recognition of assets or liabilities that, at the time of the transaction, 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.

3.12 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 present value of any future refunds from the plan or reductions in future contributions to the plan.

Notes to the consolidated financial statements

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

3.13 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.

3.14 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 rate basis.

3.15 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

4 Scope of consolidation

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, 2002.

Acquisitions and disposals

2002

Acquisitions

There were no acquisitions in the year 2002.

Disposal of Schäublin activities

With effect from July 18, 2002, certain business activities were sold to Schäublin Machines SA for a consideration of CHF 1.4 million. The assets sold included inventories as well as the client database, construction plans and the trademark. The inventories with a carrying amount of CHF 6.1 million had been fully written off prior to the sale. The sales price was paid in two instalments: CHF 1.0 million in 2002 and CHF 0.4 million in February 2003.

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.

Disposals

There were no disposals in the year 2001.

Notes to the consolidated financial statements

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

5 Foreign currency exchange rates

Currency	Balance sheet rate		Average rate	
	2002	2001	2002	2001
EUR	1.4525	1.4770	1.4657	1.5080
USD	1.3885	1.6578	1.5479	1.6917
GBP	2.2343	2.4105	2.3304	2.4361
DEM	-	0.7552	-	0.7710
ESP	-	0.8877	-	0.9063
FRF	-	0.2252	-	0.2299
LIT	-	0.0763	-	0.0779

Notes to the consolidated financial statements

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

NOTES TO THE CONSOLIDATED INCOME STATEMENT

6 Restructuring

6.1 Economic development and operational restructuring

2001

During 1997-2001, Tornos was able to increase its revenues from CHF 197 million to CHF 370 million as a result of the introduction of the DECO product range. During the same period, the number of employees progressed from 850 to 1,300. Investments were made in new products and to increase productive capacity in reaction to increased demand. The strategy of expansion was financed initially by a leveraged buy-out in 1998 and the flotation of the Company's stock in early 2001.

During 2001, there commenced a period of perceptible downturn in the economy and of decline in demand for Tornos' rotary machines. The situation peaked in autumn of 2001 and led to a high number of order cancellations and to a significant under-utilisation of available capacity. In October 2001, the capacities were brought into line with the reduced level of orders and 180 employees in the production company in Moutier and 20 employees in the sales companies had to be laid off.

2002

The continuing negative trend in 2002 led to a severe drain on liquidity and the continuation of operations was compromised. The Board of Directors undertook a valuation of all assets, in particular of intangible assets as well as inventories which, on the basis of going concern values, led to an excess of liabilities over assets at Tornos SA level in the amount of CHF 135 million and at Tornos Holding AG in the amount of CHF 62 million as of April 30, 2002. In June, a basic agreement with of Tranche A investors (refer to note 23.1) and with the syndicate banks was reached as to the rescue of Tornos Group, and a short-term bridging loan to secure liquidity was granted. The operational restructuring was based on the following cornerstone principles:

- adjustment of production capacities (additional reduction of 350 employees)
- simplification of product lines (streamlining of product range; sale of activities transferred from Schäublin in 1999 (refer to note 4); overhaul of current development projects); and
- repositioning on markets.

In autumn 2002, a further structural adjustment became inevitable in view of the fact that the recovery in the economy foreseen to have occurred by the end of 2002 did not materialise. In November 2002, a further headcount reduction of 150 was announced. The restructuring of operational capacities is considered to be completed with this third wave of redundancies.

Notes to the consolidated financial statements

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

6.2 Financial restructuring

The financial restructuring was provided for in the basic rescue agreement for Tornos Group which was adopted at the general meeting of shareholders of June 28, 2002. The financial restructuring encompassed principally a revaluation of the balance sheet and a capital reorganisation.

Restructuring charges and income:

The following restructuring charges were recognised in 2002:

- valuation adjustment on inventories of CHF 42.5 million (refer to note 7)
- recognition of an impairment loss of goodwill and development costs of CHF 76.1 million (refer to note 16)
- increase of general warranty provisions of CHF 3.5 million, and recognition of a specific provision for an upgrade program of existing machines of CHF 5.0 million (refer to notes 9 and 22)
- recognition of a provision of CHF 9.1 million for personnel redundancies (refer to note 8), and of other provisions for restructuring, production reorganisation as well as settlement of legal and patent disputes totalling CHF 6.9 million (refer to note 22)
- write-down of deferred tax assets of CHF 2,6 million (refer to note 11)

The following restructuring income was recognised in 2002:

- debt forgiveness by syndicate banks of CHF 60 million
- forgiveness of trade and other payables by suppliers of CHF 9.9 million (net of VAT)

Capital reorganisation:

- 90% reduction of share capital from CHF 115 million to CHF 11.5 million by reduction in par value from CHF 50 per share to CHF 5 per share
- capital increase in two steps (Tranche A/B, refer to note 23); capital increase by payment in cash of CHF 60 million and through debt-equity swap by suppliers in the amount of CHF 10.8 million.

Following the financial reorganisation, the Group has a consolidated equity of CHF 81.9 million, or 40% of total assets. The cash proceeds of CHF 60 million were used to reduce the balance of overdue suppliers as well as for implementing the restructuring and repositioning measures.

Notes to the consolidated financial statements

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

7 Material expenses

	2002	2001
Material expenses	(90'980)	(189'368)
Restructuring write-down of inventories	(42'483)	-
Total material expenses	**(133,463)**	**(189'368)**

Inventory write-downs arose as a result of reduced business activity levels and streamlining of the product range. Included in the restructuring write-down of CHF 42.5 million is a full write-off of the semi-finished and finished goods of the Schäublin business unit in the amount of CHF 6.1 million. As set out in note 4, the related business activities were disposed of in July 2002.

8 Personnel expenses

	2002	2001
Wages and salaries	(61'282)	(97,568)
Social security costs	(7'375)	(8,161)
Pension costs:		
Defined benefit plans (note 21.2)	(4'819)	(3,739)
Defined contribution plans	(223)	(302)
Redundancy costs (note 6)	(9'086)	(2,188)
Training expenses	(102)	(248)
Other personnel expenses	(708)	(2,183)
Total personnel expenses	**(83'595)**	**(114,389)**
Number of employees at December 31,	782	1,283

2002

Because of the reduced business activity and the weak economical development in 2002, additional restructuring efforts were necessary (refer to note 6). In June 2002 and November 2002, additional lay-offs had to be made by the Swiss operating company and certain subsidiaries in order to adjust the Group's capacity to the reduced market demand. An amount of CHF 5.9 million has already been paid in 2002.

2001

Termination benefits relate to a restructuring plan of the Swiss operating company, implemented 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 0.6 million was paid in 2001. Refer also to note 22 (Provisions).

Notes to the consolidated financial statements

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

9 Other operating income (expenses), net

	2002	2001
Indirect production costs	(7'739)	(13'786)
Administrative expenses	(20'260)	(17'972)
Selling expenses	(25'437)	(14'709)
Gain (loss) on disposal of property, plant & equipment	(221)	797
Other operating income	6'110	5'858
Other operating income (expenses), net	**(47,547)**	**(39'812)**

Selling expenses include the recognition of a provision to upgrade existing machines in the amount of CHF 5.0 million, other increases to warranty provisions in the amount of CHF 3.5 million and restructuring expenses in the amount of CHF 4.7 million (refer to note 6).

10 Financial income (expenses), net

	2002	2001
Financial income		
Interest income from third party	422	537
Exchange gains	25	20
Other financial income	706	5
Total financial income	**1'153**	**562**
Financial expenses		
Interest expenses for third parties	(6'811)	(9'958)
Bank charges and other financial expenses	(3'564)	(4'385)
Exchange losses	(642)	(4'433)
Total financial expenses	**(11'017)**	**(18'776)**
Financial income (expenses), net	**9,864**	**(18,214)**

11 Income tax expenses

	2002	2001
Current income tax credit	1,352	-
Current income tax expenses	(427)	(1'906)
Deferred tax	3'819	(1'382)
Total income tax	**4'744**	**(3'288)**

Notes to the consolidated financial statements

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The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2002 ranged between 11 % and 40 %, in the tax jurisdictions in which the Group operates. The reconciliation of the expected and the effective income tax expense is as follows:

	2002	**2001**
Loss before tax	**(126'153)**	**(26'603)**
Expected tax income	**36'214**	**835**
Non-taxable income *****	16'824	-
Tax effect of temporary differences on investments in subsidiaries	3'731	-
Write-off of deferred tax assets	(2'022)	(1'848)
Change in tax rates	327	(801)
Unrecognised tax loss carry forwards	(44'162)	(1'477)
Non-tax deductible amortisation of intangible assets	(5'463)	(395)
Other effects	(705)	398
Income tax expenses recognised	**4'744**	**(3'288)**

* relating to a non-taxable debt forgiveness by Tornos Holding SA to Tornos SA in the amount of CHF 150 million

The expected tax expense / income is calculated at entity level since the Group does not file consolidated tax returns. As such, profits and losses generated by different entities cannot be offset against each other.

Notes to the consolidated financial statements

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

NOTES TO THE CONSOLIDATED BALANCE SHEET

12 Trade receivables

	2002	**2001**
Trade receivables	50'511	79'543
Less allowance for doubtful accounts	(3'923)	(3'561)
Trade receivables, net	**46'588**	**75'982**

13 Other receivables and prepayments

	2002	**2001**
Prepaid expenses and accrued income	2'498	8'604
Other assets	6'015	6'978
Total other assets and prepaid expenses	**8'513**	**15'582**

14 Inventories

	2002	**2001**
Materials and components	32'787	43,771
Work in progress	27'087	33,752
Finished goods and spare parts	89'223	101,740
	149'097	179,263
Less allowance for obsolescence	(89'634)	(58,609)
Total inventories	**59'463**	**120,654**

The increase in allowance for obsolescence represents the restructuring write-down as a result of the reduced business activity levels and the streamlining of the product range (refer to notes 6 and 7).

Notes to the consolidated financial statements

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

15 Property, plant and equipment

	Land and buildings	Technical Machinery	Other Equipment	PP&E under construction	Total
Cost					
At January 1, 2002	55'518	81'696	12'575	753	150'542
Additions	492	5'517	123	324	6'456
Disposals	(4)	(433)	(895)	-	(1'332)
Transfers		10		(10)	-
Translation adjustment	(750)	(140)	(308)	-	(1'198)
At December 31, 2002	**55'256**	**86'650**	**11'495**	**1'067**	**154'468**
Accumulated depreciation					
At January 1, 2002	(17'370)	(51'275)	(10'001)	-	(78'646)
Charge for the year	(1'970)	(6'461)	(1'047)	-	(9'478)
Written back on disposal	4	137	446	-	587
Transfer					
Translation adjustment	187	105	259	-	551
At December 31, 2002	**(19'149)**	**(57'494)**	**(10'343)**	**-**	**(86'986)**
Carrying amounts					
January 1, 2002	38'148	30'421	2'574	753	71'896
December 31, 2002	36'107	29'156	1'152	1'067	67'482

Of which related to leased assets:

	Land and buildings	Technical Machinery	Other Equipment	PP&E under construction	Total
Additions					
December 31, 2001	772	8'463	177	-	9'412
December 31, 2002	-	5'252	-	-	5'252
Carrying amounts					
December 31, 2001	1'513	12'779	725	-	15'017
December 31, 2002	1'358	15'490	193	-	17'041

The fire insurance value of PP&E amounts to approximately CHF 244 million (prior year: CHF 244 million).

Notes to the consolidated financial statements

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16 Intangible assets

	Goodwill	Other intangible assets	Total
Cost			
At January 1, 2002	80’067	28’663	108’730
Additions	-	2’549	2’549
Translation adjustment	-	(8)	(8)
At December 31, 2002	**80’067**	**31’204**	**111’271**
Accumulated amortisation			
At January 1, 2002	(16’045)	(13’222)	(29’267)
Charge for the year	(2’241)	(3’391)	(5’632)
Translation adjustment	-	4	4
At December 31, 2002	**(18’286)**	**(16’609)**	**(34’895)**
Accumulated impairment loss			
At January 1, 2002	-	-	-
Charge for the year	(61’781)	(14’344)	(76’125)
Translation adjustment	-	-	-
At December 31, 2002	**(61’781)**	**(14’344)**	**(76’125)**
Carrying amounts			
December 31, 2001	64’022	15’441	79’463
December 31, 2002	-	251	251

Due to the difficult market environment and the Group's loss making situation the recoverable amounts of Goodwill and the capitalised development costs were tested for impairment. The Goodwill had arisen from the acquisition of Tornos S.A. and its subsidiaries in 1999 (change of ownership and formation of Tornos Holding). Based on the calculation of their value in use, the carrying amounts of the goodwill and development costs were fully written down during 2002. The discount rate applied to this calculation is 12 %.

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17 Deferred income taxes

17.1 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2002		2001	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trade and other receivables	16	8	250	4’150
Inventories	-	-	1’430	405
Property, plant and equipment	-	1’236	-	1’626
Intangible assets	-	-	-	1’831
Financial assets	-	-	-	150
Trade and other payables	2	635	1’038	364
Provisions	22	-	154	-
Borrowings	466	-	610	-
Tax value of loss carry forwards	-	-	-	-
Tax assets / liabilities	**506**	**1’879**	**3’482**	**8’526**
Set off	-506	-506	-865	-865
Net tax assets / liabilities	**-**	**1’373**	**2’617**	**7’661**

17.2 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2002	**2001**
Tax affected amounts:		
Deductible temporary differences	1’532	19
Tax losses	51’099	5’016
	52’631	**5’035**

Due to uncertainty of their recoverability no tax assets on tax loss carry forwards have been recognised at December 31, 2002. The tax asset recognised in the previous year has been fully written off.

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

	2002	**2001**
Year 2006	17’867	17’867
Year 2007	830	-
After 2007	227’304	17’131
Losses not subject to expiry	1’882	409
Total	**247’883**	**35’407**

The deductible temporary differences for which no deferred tax asset has been recognised do not expire.

Notes to the consolidated financial statements

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

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

18 Other payables

	2002	**2001**
Advances received	4’040	4’862
Payable to pension plans	589	596
Deferred income and other accrued expenses	11’043	25’635
Total other payables	**15’672**	**31’093**

19 Interest bearing loans and borrowings

	2002	**2001**
Senior facilities		
Term A Facility	25’000	49’430
Term B Facility	20’000	39’544
Term C Facility	7’000	13’841
Term D Facility (former Ancillary Facility)	-	4’415
Other bank borrowings	99	245
Finance lease liabilities (refer to note 19.1)	11’801	12’151
Mortgage	44	44
Total interest bearing loans and borrowings	**63’944**	**119’670**
Of which current portion:		
Current portion of senior (Term A) Facility	25’000	49’430
Current portion of senior (Term B) Facility	20’000	39’544
Current portion of senior (Term C) Facility	7’000	13’841
Current portion of senior (Term D) Facility	-	4’415
Other short-term bank borrowings	66	245
Short-term leasing liabilities	4’222	4’294
Current portion	**56’288**	**111’769**
Non-current portion	**7’656**	**7’901**

19.1 Revised credit agreement with banks

All borrowings are made to the Swiss operating company. In June 2002, Tornos Holding SA was granted a bridge loan by the creditor banks which was repaid on July 9, 2002. As compensation, the banks were granted options on 300’000 shares which entitle them to purchase 300’000 registered shares with par value of CHF 5 for a price of CHF 6 per share. These options are secured by the conditional share capital created in the shareholders meeting held on June 28, 2002.

Notes to the consolidated financial statements

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On June 28, 2002, Tornos concluded a new Credit Agreement with the creditor banks, which laid down the following conditions:

- The banks waive debts of CHF 60 million out of a total amount due to them of CHF 120 million under the previously valid senior credit facility agreement.
- The remaining amount of CHF 60 million is due for repayment on December 31, 2003.
- As a compensation for their debt waiver, the banks received 750’000 options which entitle them to purchase 750’000 shares of a par value of CHF 5 for a price of CHF 6 per share. The options are secured by the conditional share capital which was approved by the shareholders meeting held on June 28, 2002.

19.2 Facility A

Facility A consists of a term loan up to an aggregate principal amount not exceeding CHF 25 million payable in full on December 31, 2003. The facility bears interest at LIBOR plus a fixed margin (6 %) for periods of up to twelve months.

19.3 Facility B

Facility B consists of a bullet credit up to an aggregate principal amount not exceeding CHF 20 million payable in full on December 31, 2003. The facility bears interest at LIBOR plus a fixed margin (6 %) for periods of up to twelve months.

19.4 Facility C

Facility C consists of a working capital facility up to an aggregate principal amount not exceeding CHF 7 million payable in full on December 31, 2003. The facility bears interest at LIBOR plus a fixed margin (6 %) for periods of up to twelve months.

19.5 Facility D

Facility D consists of a working capital facility up to an aggregate principal amount not exceeding CHF 8 million payable in full on December 31, 2003. 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 8 million payable on demand. The facility bears interest at LIBOR plus a fixed margin (6 %) for periods of up to twelve months.

At December 31, 2002 Tornos utilised the facility in form of guarantees in the amount of CHF 3.6 million.

19.6 Covenants

As of December 31, 2002 the Group’s borrowings were subject to certain covenants and conditions for the financial year 2003 including, among other things, the achievement of certain financial targets (interest coverage ratio, leverage ratio), restrictions control, non-payment of principal and interest, certain defaults and bankruptcy events. Since the budget showed that the Company would most likely not be able to comply with some of the covenants set out in the credit agreement during 2003, management requested a waiver of such covenants. On February 26, 2003, the consortium of banks offered a waiver of the existing covenants and proposed revised covenants relating to the achievement of budgeted net sales and EBITDA with an acceptable shortfall of 10% and 5% respectively, that are to be complied with during 2003 on a quarterly basis. Refer to note 2.4 for further information.

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19.7 Maturity schedule

	2002	**2001**
Within 1 year	56’288	111’769
Between 1 and 2 years	3’748	3’124
Between 2 and 5 years	3’079	3’883
Over 5 years	829	894
Total borrowings	**63’944**	**119’670**

19.8 Interest rate exposure

	2002	**2001**
At fixed rates	11’801	12’151
At floating rates	52’143	107’519
Total borrowings	**63’944**	**119’670**

19.9 Exchange rate exposure

The original currencies of the Group’s borrowings are:

	2002	**2001**
Swiss franc	61’998	117’166
Euro	1’964	-
Other European currencies	-	2’504
Total borrowings	**63’944**	**119’670**

19.10 Finance lease liabilities

	2002	**2001**
Minimum lease payments		
Within 1 year	4'707	4’840
Between 2 to 5 years	7’597	7’894
More than 5 years	959	1’021
Total minimum lease payments	**13’263**	**13’755**
Future finance charges on finance leases	(1’462)	(1’604)
Present value of finance lease liabilities	**11’801**	**12’151**
Of which		
Due with 1 year	4’222	4’294
Between 2 to 5 years	6’750	6’963
More than 5 years	829	894

The finance lease liabilities of the Group carry an effective interest rate of 5.2 % at December 31, 2002 (2001: 5.5%).

The Company does not act as a lessor.

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20 Financial instruments

20.1 Interest rate risks

The Group is exposed to changes in interest rates on borrowings bearing interest at floating rates. At December 31, 2002 and 2001 the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group.

20.2 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 decided not to follow any systematic hedging policy against currency and market price risk through financial instruments.

20.3 Credit risk

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

20.4 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.

21 Pensions and other post retirement benefit obligations

21.1 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 of the significant defined benefit plans 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, 2002 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 actuarial assumptions used for the defined benefit plans:

21.2 Period pension cost recognised in personnel expenses

	Switzerland		**Outside Switzerland**		**Total**	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Current service cost	6'807	8'011	453	361	7'260	8'372
Interest on obligation	5'453	5'480	230	201	5'683	5'681
Expected return on assets	(6'108)	(6'528)	(154)	(194)	(6'262)	(6'722)
Amortisation of						
unrecognised past service cost	21	22	-	-	21	22
unrecognised net (gain)/loss	48	(8)	8	(8)	56	(16)
Remeasurement of asset ceiling	1'822	-	-	-	1'822	-
Curtailment /Settlement	(758)	(348)	(10)	-	(768)	(348)
Expected employees' contributions	(2'993)	(3'486)	-	-	(2'993)	(3'486)
Unrecognised pension asset	-	236	-	-	-	236
Net periodic pension cost recognised	**4,292**	**3,379**	**527**	**360**	**4,819**	**3,739**

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21.3 Actual return on plan assets

	Switzerland		Outside Switzerland		Total	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Actual return	(11'436)	2'573	(299)	52	(11'735)	2'625

21.4 Pension liability recognised

	Switzerland		Outside Switzerland		Total	
	2002	**2001**	**2002**	**2001**	**2002**	**2001**
Projected benefit obligation	126,464	145,528	3'586	3'561	130,050	149,089
Less fair value of plan assets	117'160	142'578	1'654	2'329	118'814	144'907
(Over) under funded	**9,304**	**2,950**	**1'932**	**1'232**	**11,236**	**4,182**
Unrecognised net actuarial gain (loss)	(8'394)	(1'745)	(1'197)	(488)	(9'591)	(2'233)
Unrecognised prior service cost	(132)	(185)	-	-	(132)	(185)
Accrued pension cost, net	**778**	**1,020**	**735**	**744**	**1,513**	**1,764**
Pension asset recognised	-	621	-	-	-	621
Accrued pension costs, gross	**778**	**1'641**	**735**	**744**	**1'513**	**2'385**

The assets of the funded plans are held independently of the Group's assets in separate trustee administered funds. They include marketable securities, real estate and other assets. They also include 666,667 shares issued by the Company with a fair value of CHF 1.6 million. 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).

The movements in net accrued pension costs are as follows:

	2002	**2001**
At January 1,	1,764	2,159
Exchange differences	(65)	(1)
Net periodic pension costs recognised (Note 21.2)	4,819	3,739
Contributions to the plan	(4,800)	(4,133)
Others	(205)	-
At December 31,	**1,513**	**1,764**

21.5 Weighted average assumptions

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

	Switzerland		Outside Switzerland	
	2002	**2001**	**2002**	**2001**
Discount rate	3.75	4.00	6.56	6.55
Expected return on plan assets	4.50	4.50	6.69	6.76
Salary increases	1.98	1.97	3.99	3.96
Pension indexation	0.50	0.74	1.59	1.58

Notes to the consolidated financial statements

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

22 Provisions

	Warranties	Restruc-turing	Other	Total
At January 1, 2002	3'103	1'638	509	5'250
Additional provisions	9'005	14'032	3'994	27'030
Utilised during year	-2'085	-6'819	-277	-9'180
Released via income statement	-307	-21	-75	-403
Exchange differences	-28	-7	-9	-43
At December 31, 2002	**9'688**	**8'823**	**4'142**	**22'653**

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

	2002	2001
Current liabilities	18'017	2'977
Non-current liabilities	4'636	2'273
	22'653	**5'250**

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 also recognised a provision to upgrade existing machines for an amount of CHF 5 million.

Restructuring

Please refer to note 6 (Restructuring) and note 8 (Personnel expenses).

Other Provisions

Other provisions include the expected costs of pending litigation and patent disputes as well as other present obligations of uncertain timing and amount.

23 Share capital

23.1 Capital structure

	Ordinary shares		Preference shares	
	2002	2001	2002	2001
Issued and fully paid in at January 1,	2'300'000	1'000'000	-	550'000
Reverse split of A and B shares	-	(800'000)	-	-
Split of C shares	-	1'100'000	-	(550'000)
Issued for cash	10'000'002	1'000'000	-	-
Issued for debt equity swap	1'083'753	-	-	
Issued and fully paid in at December 31,	13'383'755	2'300'000	-	-

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

At January 1, 2001 the share capital of the Company consisted of the following categories:

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

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 recognised in equity.

Subsequent to the General Meeting of Shareholders held on June 28, 2002 the following share capital changes were adopted in the second semester 2002:

- Reduction of the existing share capital by an amount of CHF 103.5 million from CHF 115 million to CHF 11.5 million in order to eliminate the accumulated deficit by way of a reduction in the par value of all 2’300’000 registered shares from CHF 50 to CHF 5. Additionally, share premium in the amount of CHF 45.0 million was netted against the accumulated loss.

- Simultaneous increase of the share capital in two tranches:

  Tranche A: Increase of the share capital by CHF 35.1 million by issuance of 7’015’002 bearer shares at the price of CHF 6 per share. The capital increase was entered to the Commercial Register on July 8, 2002.

  Tranche B: Increase of the share capital by CHF 20.3 million by issuance of 4’068’753 registered shares. 2’985’000 shares were paid cash for the price of CHF 6 per share and 1’083’753 were paid by a debt equity swap for the price CHF 10 per share. The capital increase was entered to the Commercial Register on September 20, 2002.

- Creation of an authorised share capital of CHF 10 million of which CHF 5.4 million were used for the above mentioned debt equity swap.

- Creation of a new conditional share capital of CHF 11.75 million which is reserved for the issuance of shares upon the exercise of option rights which were granted to shareholders and creditor banks. The existing conditional capital which was reserved for a stock option plan for employees was revoked.

- All bearer shares were converted into registered shares in connection with the increase of share capital referred to as Tranche B.

Notes to the consolidated financial statements

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

23.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2002 the share capital consisted of 13,383,755 ordinary registered shares with a par value of CHF 5.-- each. 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.

23.3 Authorised share capital

The shareholders meeting of June 28, 2002 resolved to create an authorised share capital of CHF 10 million, of which CHF 5.4 million were used for the above mentioned debt equity swap, and CHF 4.6 million were outstanding as of December 31, 2002.

23.4 Conditional share capital

The shareholders meeting of June 28, 2002 resolved to create a conditional capital of CHF 11.75 million (2'350'000 registered shares with a par value of CHF 5 each). An amount of CHF 5.75 million is reserved for the issuance of shares upon the exercise of option rights which were granted to the shareholders within the framework of the reduction of the share capital. An amount of CHF 6 million is reserved for the issuance of shares upon exercise of option rights which were granted to certain creditor banks in consideration of them waiving part of their claims.

23.5 Significant shareholders

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.

At December 31, 2002, the following shareholders held more than 5 % of the share capital of the Company:

	2002 Estimated percentage *
Doughty Hanson Group	24.9%
Credit Suisse Group	24.8%
Günther and Helmut Rothenberger	6.5%
Berner Kantonalbank	6.2%
Tornos Pension Fund	5.0%

* Not fully registered in the share register as of December 31, 2002

Notes to the consolidated financial statements

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

24 Stock options

The Group granted options to the shareholders in the framework of the reduction of the share capital (refer to note 23) and to the creditor banks as compensation for their debt waiver and for granting a bridge loan (refer to note 19). Additional options were granted to the former shareholders in connection with the settlement of a legal dispute (refer to note 28.4). Until December 31, 2002, none of these options were exercised.

At December 31, 2002, the following options were outstanding

Option granted to	Number of options	Expiry date
Existing shareholders	2’300’000	09.09.2004
Creditor banks for waiver of loans	750’000	08.07.2007
Creditor banks for bridge loan	300’000	16.07.2007
Former shareholders	125’000	08.07.2007

The existing shareholders are entitled to purchase 1,150,000 registered shares in total for a price of CHF 10 per share. Each of the options granted to the creditor banks and to the former shareholders entitles the holder to purchase one registered share for a price of CHF 6.

The options are secured by the conditional share capital of 11.75 million (refer to note 23.4)

OTHER NOTES TO THE CONSOLIDATED INCOME STATEMENT

25 Loss per share, basic and fully diluted

The calculation of earnings per share is based on a weighted average of 6,675,837 (previous year: 2,097,260) outstanding shares and the net loss (profit) for the year as presented in the consolidated income statement. There are no potential ordinary shares that had a dilutive effect in the years under review.

26 (Increase) decrease in working capital

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

	2002	**2001**
Trade receivables	27'249	26,200
Other receivables	4'510	(4,519)
Inventories	16,598	(1,665)
Trade payables	(32'257)	(12,673)
Other current payables and provisions	6'214	(4,374)
Decrease in working capital	**22,315**	**2,969**

Notes to the consolidated financial statements

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

27 Segment information

As described in Note 3.15 above, management of the Group has chosen geographical segments 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.

27.1 Net sales by location of assets

	2002	**2001**
Switzerland:		
- To third parties	54'953	121’643
- To other segments	77'352	179’664
	132'305	301’307
Other western European countries:		
- To third parties	91'898	186’901
- To other segments	888	1’981
	92'786	188’882
North America:		
- To third parties	22'806	46’449
- To other segments	110	218
	22'916	46’667
Elimination	(78'350)	(181’863)
Total net sales	**169'657**	**354’993**

27.2 Net sales by location of customers

	2002	**2001**
Switzerland	29'126	53’134
Other western European countries	102'023	231’648
North America	23'277	47’495
Asia	13'971	18’865
Rest of world	1'260	3’851
Total net sales	**169'657**	**354’993**

Notes to the consolidated financial statements

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

27.3 Segment result (EBIT) by location of assets

	2002	2001
Switzerland	(166’435)	(14’258)
Other western European countries	(5’406)	5’991
North America	(2’701)	784
Total	(174’542)	(7’483)
Elimination	645	(716)
Unallocated	(2’394)	(190)
Total EBIT	**(176’289)**	**(8’389)**

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

27.4 Segment assets

	2002	2001
Switzerland	186'079	332’499
Other western European countries	57'526	67’682
North America	12'432	24’504
Total	256'037	424’685
Elimination	(51'977)	(56’883)
Unallocated assets:		
- Goodwill on consolidation	-	2’394
- Deferred tax assets	-	2’617
- Tax receivables	1'102	-
Total assets	**205’162**	**372’813**

27.5 Segment liabilities

	2002	2001
Switzerland	45'050	88’611
Other western European countries	60'541	65’214
North America	1'075	8’970
Total	106'666	162’795
Elimination	(49'387)	(54’108)
Unallocated liabilities:		
- Tax liabilities	2'015	8’853
- Interest bearing borrowings	63'944	119’670
Total liabilities	**123'238**	**237’210**

Notes to the consolidated financial statements

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

27.6 Depreciation of property, plant and equipment by segment

	2002	**2001**
Switzerland	(8'428)	(7'701)
Other western European countries	(843)	(943)
North America	(207)	(264)
Total depreciation	**(9'478)**	**(8'908)**

27.7 Amortisation/impairment loss of goodwill and other intangible assets by segment

	2002	**2001**
Amortisation		
Switzerland	(5'589)	(10'876)
Other western European countries	(43)	(29)
North America	-	-
Total amortisation	**(5'632)**	**(10'905)**
Impairment loss		
Switzerland	(76'125)	-
Other western European countries	-	-
North America	-	-
Total impairment loss	**(76'125)**	**-**
Total amortisation/impairment loss	**(81'757)**	**(10'905)**

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

	2002	**2001**
Switzerland	8'931	18'607
Other western European countries	74	1'557
North America	-	156
Total capital expenditure	**9'005**	**20'320**

28 Commitments and contingencies

28.1 Operating lease commitments

Operating lease liabilities, minimum lease payments

	2002	**2001**
Year 1	2'788	3'789
Year 2	1'065	1'683
Year 3	342	1'002
Year 4	27	113
Year 5	-	5
After 5 years	165	178
Total minimum lease payments	**4'377**	**6'770**

Notes to the consolidated financial statements

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

28.2 Other commitments

As of December 31, 2002 there were no other commitments.

28.3 Assets pledged

There were no assets pledged at December 31, 2001. On January 31, 2002, Tornos entered on behalf of the creditor banks into a Credit Agreement. By December 31, 2002, the following assets were pledged:

	2002	**2001**
Carrying amount of pledged assets		
Trade receivables	50’511	-
Land and buildings	31’665	1’513
Technical equipment & machinery	15’683	13’504
	97’859	**15’017**

At December 31, 2002, the total value of the pledged mortgage notes related to land and buildings amount to CHF 40’016.

28.4 Contingencies

During the financial year 2002, the following contingencies were settled:

Acquisition of Moutier Machine Holding (MMH):

In March 2002, the former shareholders of Moutier Machine Holding (MMH), a company acquired by the Group on December 31, 1998, had 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. In June 2002, Tornos entered into a settlement agreement with the plaintiffs whereby the parties agreed on the following:

- The plaintiffs withdrew their claims.
- An amount of CHF 5 million that had been paid to an escrow account is released and paid to the plaintiffs including accrued interest.
- The plaintiffs participate in the capital increase (Tranche A) with an amount of CHF 5.24 million.
- The plaintiffs receive 125’000 share options, which entitle them to purchase 125’000 registered shares with a par value of CHF 5 each for a price of CHF 6 per share.

Acquisition of Schäublin activities:

In December 1999, Tornos had acquired certain activities from Mabinvest SA (previously Schäublin SA) for a consideration of CHF 6.8 million. The purchase consideration was never paid over as Tornos had asserted counter-claims for non-performance of certain contractual obligations on its part and had reflected these on the balance sheet. On June 4, 2002 the parties entered into settlement agreement under the terms of which Tornos had to pay to Mabinvest an amount of CHF 2.75 million, of which CHF 1.75 million were settled in cash. Mabinvest additionally received 100’000 registered shares as part of the debt equity swap.

Notes to the consolidated financial statements

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

29 Related party transactions

Related parties include the Doughty & Hanson Partnerships, Credit Suisse Group, 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 2001). For further information refer to the ‚Corporate Governance' section of the annual report. As of December 31, 2002, the Board of Directors and Group management held 61,223 shares (0.46%) of the Company.

Credit Suisse, a significant shareholder of the Company (refer to note 23.5) is the lead bank of a consortium of banks that granted credit facilities (loans and guarantees) in the amount of CHF 55.6 million as of December 31, 2002 (CHF 117.5 million as of December 31, 2001), and waived loans in 2002 in the amount of CHF 60 million. The financial expenses related to such facilities amounted to CHF 5.8 million in 2002 (CHF 4.0 million in 2001). Also refer to notes 10 and 19.

There are no other related party transactions that should be disclosed under this heading.

30 Post balance sheet events

The Board of Directors approved the consolidated financial statements on March 3, 2003. Except as disclosed below, there were no other events that took place between the year end date and March 3, 2003 that would require adjustments to the amounts recognised in these consolidated financial statements or otherwise require disclosure in accordance with IAS 10:

On February 26, 2003, the consortium of bank creditors offered a waiver of the existing covenants and proposed revised covenants relating to the achievement of budgeted net sales and EBITDA with an acceptable shortfall of 10% and 5% respectively, that are to be complied with during 2003 on a quarterly basis. Refer to note 2.4 for further information.

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., Moutier for the year ended December 31, 2002.

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 comply with Swiss law and the Company's articles of incorporation.

Without qualifying our opinion, we draw your attention to note 3 to the financial statements describing the fact that the Group's ability to continue as a going concern is dependent on the quarterly achievement of its budgets, the related continuing compliance with its revised debt covenants, and either the successful refinancing of its short-term borrowings of CHF 52 million due on December 31, 2003, or the ability to obtain other adequate financing from January 1, 2004. The valuation on a going concern basis of the Company's investments in, and loans due from, Tornos SA, Moutier, and other Group companies in the aggregate amount of CHF 81 million depends on the Group's ability to continue as a going concern.

We recommend that the financial statements submitted to you be approved.

KPMG Fides Peat

Elmar Ittensohn	Bryan DeBlanc
Swiss Certified Accountant	*US Certified Public Accountant*
Auditor in Charge	

Gümligen-Berne, March 3, 2003

Enclosure:
- Financial statements
  (income statement, balance sheet, statement of changes in equity and notes)

BALANCE SHEET

(in thousands of CHF)

as of December 31,	Note	2002	2001
ASSETS			
Cash and cash equivalents		**69**	**0**
Other receivables third		1	0
Other receivables group		0	4 787
Other receivables		**1**	**4 787**
TOTAL CURRENT ASSETS		**70**	**4 787**
Investment in group companies	4	65 000	65 000
Loans group companies	4	16 000	95 409
Financial assets		**81 000**	**160 409**
Organisation costs		0	273
Intangible assets		**0**	**273**
TOTAL NON-CURRENT ASSETS		**81 000**	**160 682**
TOTAL ASSETS		**81 070**	**165 469**
LIABILITIES AND EQUITY			
Other payables group		0	4 176
Other payables		**0**	**4 176**
Accrued expenses and deferred income		131	1 916
CURRENT LIABILITIES		**131**	**6 092**
Ordinary shares	5	66 919	115 000
Additional paid in capital		13 943	44 055
Retained earnings		148 852	-363
Net profit / (loss) of the year		-148 775	685
SHAREHOLDERS EQUITY		**80 939**	**159 377**
TOTAL LIABILITIES AND EQUITY		**81 070**	**165 469**

INCOME STATEMENT

(in thousands of CHF)

	Note	2002	2001
Management fee income		170	0
Total other operating income		**170**	**0**
Legal and consulting fees		-144	-206
Taxes other than income taxes		-20	-36
Total other operating expenses		**-164**	**-242**
EBITDA		**6**	**-242**
Amortisation of intangible assets		-273	-137
EBIT		**-267**	**-379**
Interest income third		3	9
Interest income group companies		2 653	4 787
Other financial income		634	0
Financial income		**3 290**	**4 796**
Interest expenses third		-20	0
Other financial expenses		-173	-3 689
Financial expenses		**-193**	**-3 689**
Net profit before taxes and e.o. items		**2 830**	**728**
Income tax expenses		0	-43
Cancellation of loans to group companies	4	-151 605	0
Net profit (loss) for the year		**-148 775**	**685**

STATEMENT OF CHANGES IN EQUITY

(in thousands of CHF)

	Ordinary shares	Additional paid in capital	Retained Earnings	Total Equity
Shareholder's Equity as of 31.12.2000	**65 000**	**0**	**-363**	**64 637**
Issuance of new shares	50 000	44 055		94 055
Net income (loss) for the year			685	685
Shareholder's Equity as of 31.12.2001	**115 000**	**44 055**	**322**	**159 377**
Decrease in capital	-103 500	-44 055	147 555	0
Issuance of new shares	55 419	15 419		70 838
Charges of the capital increase		-1 476	975	-501
Net income (loss) for the year			-148 775	-148 775
Shareholder's Equity as of 31.12.2002	**66 919**	**13 943**	**77**	**80 939**

NOTES TO THE FINANCIAL STATEMENTS 2002

(in thousands of CHF)

1 Basis of preparation

The financial statements of Tornos Holding SA, Moutier (the Company) as of 31.12.2002 have been prepared in accordance with the provisions of the Swiss law and the Company's Articles of Incorporation.

2 Valuation of assets / going concern

The Tornos Group has incurred a significant loss of CHF 121 million and an operating cash drain of CHF 32 million during 2002. As a result, and despite a financial restructuring undertaken in 2002, consolidated shareholders' equity decreased from CHF 136 million to CHF 82 million.

The Company's financial statements as of December 31, 2002, particularly its investments in, and loans due from, Tornos SA, Moutier, and other group companies in the aggregate amount of CHF 81 million, have been prepared and stated on a going concern basis. The Board of Directors is, however, aware that such basis may be jeopardised by the following matters:

- As a result of Tornos' loss making situation and based on the approved budgets, Tornos SA, the Company's largest shareholding, would have difficulties in complying with the debt covenants set out in the credit agreements effective at December 31, 2002, and in particular those covenants relating to the maintenance of certain key financial figures. On February 26, 2003, the consortium of banks offered a waiver of the existing covenants and proposed revised covenants relating to the achievement of budgeted net sales and EBITDA with an acceptable shortfall of 10% and 5% respectively, that are to be complied with during 2003 on a quarterly basis. Should Tornos Group not be able to comply with such revised covenants, the consortium may call the outstanding bank debts for repayment at any time.

- The total borrowings by Tornos SA under the credit agreement in the amount of CHF 52 million as of December 31, 2002 will become due on December 31, 2003. While the Company's Board of Directors believes that Tornos SA will be able to prolong or refinance such borrowings provided that the Group's budgets will be met, refinancing could be endangered by a failure to achieve the budgets.

- Main focus of the Tornos Group is to achieve the budgeted sales and margins. Such budgets are based on an expectation that the economic environment will not further deteriorate during 2003 and will recover in 2004. Should it become apparent that such targets cannot be met, the Board of Directors will take immediate steps to ensure the Group's liquidity position in case of a deteriorating performance.

Accordingly, the Company's ability to continue as a going concern is dependent on the quarterly achievement of the Group's budgets, the related continuing compliance with Tornos SA's revised debt covenants, and either the successful refinancing of Tornos SA's short-term borrowings of CHF 52 million due on December 31, 2003, or the ability to obtain other adequate financing from January 1, 2004. The valuation on a going concern basis of the Company's investments in, and loans due from, Tornos SA, Moutier, and other group companies in the aggregate amount of CHF 81 million depends on the Group's ability to continue as a going concern.

3 Guarantees

Tornos Holding SA entered as parent company and the original guarantor into a Senior Facility Agreement (CHF 60m) dated 28.06.2002 with the creditor banks. Until 31.12.2002 Tornos SA has as subsidiary and additional borrower drawn down CHF 55.6m

NOTES TO THE FINANCIAL STATEMENTS 2002

(in thousands of CHF)

4 Subsidiaries

Name	Purpose	Share capital	Ownership (%) 31/12/02	31/12/01
Tornos SA, Moutier	Production, Sales	CHF 65'000'000	100,00	100,00

As of 30.06.2002, the subsidiary was overindebted. After the recapitalisation of Tornos Holding SA, the loans given to Tornos SA were abandoned by CHF 151.6m

5 Share capital

In accordance with the resolutions adopted at the General Meeting of Shareholders held on 28.06.2002, the Company's share capital changes as follows:

Decrease of capital
- The share capital was reduced by CHF 103.5m to eliminate the accumulated deficits by reducing the par value of all 2.3 million registered shares (issued and outstanding) from CHF 50 to CHF 5 per share

Issuance of new shares in two steps
- Tranche A: Increase of the sahre capital by CHF 35.1 million by issueance of 7,015,002 bearer shares at the price of CHF 6 per share. The capital increase was entered to the Commercial Register on July 8, 2002.
  Tranche B: Increase of the share capital by CHF 20.3 million by issuance of 4,068,753 reigstered sshares. 2,985,000 shares were paid cash for the price of CHF 6 per share and 1,083,753 were paid by a debt equity swap for the price of CHF 10 per share. The capital increase was entered to the Commercial Register on September 20, 2002.

As of 31.12.2002 the Company's share capital is CHF 66.9m, represented by 13'383'755 shares with par value of CHF 5 each.

6 Conditional and approved share capital

According to the Company's Articles of incorporation, the capital can be increased as follows:

Conditional share capital of up to CHF 11.75m
- Up to 1'150'000 shares with par value of CHF 5 can be issued by the exercise of stock options, given to the shareholders because of the capital decrease, within two years.
- Up to 1'200'000 shares with par value of CHF 5 can be issued by the exercise of stock options, given to the banks and certain creditors who participated at the financial restructuring, within five years.

Authorised share capital of up to CHF 4.6m
- In case of financial restructuring or acquisitions, the Board of Directors may increase the share capital by up to 916'247 shares with par value of CHF 5 within two years.

NOTES TO THE FINANCIAL STATEMENTS 2002
(in thousands of CHF)

7 Major shareholders

Major sharehoders as of 31.12.2002 (more than 5% of voting rights):

- Doughty Hanson Group	24,9%
- Credit Suisse Group	24,8%
- Günter und Helmut Rothenberger	6,5%
- Berner Kantonalbank	6,2%
- Instituition de prévoyance de Tornos SA	5,0%

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS
(in CHF)

	2002
Retained earnings brought forward	148 852
Net income (loss) for the year	-148 775
Available earnings	**77**

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

Available earnings	77
Transfer to the general reserve	0
To be carried forward	**77**