Interim Consolidated Financial Statements 2003

Tornos Holding SA, Moutier

Interim consolidated income statement

In thousands of CHF, except per share data

Six months ended June 30,	Notes	**2003**	**2002**
Gross sales revenue		**83’784**	**86’749**
Commissions and discounts		(2’349)	(5’217)
Net sales		**81’435**	**81’532**
Material expenses	6	(36’969)	(87’255)
Personnel expenses	6	(31’079)	(49’531)
Other operating income (expenses), net	6	(13’579)	(27’380)
Earnings before interest, tax, depreciation/amortisation EBITDA		**(192)**	**(82’634)**
Depreciation of property, plant and equipment		(4’366)	(4’625)
Amortisation of goodwill and other intangibles		(182)	(4’953)
Impairment loss on intangible assets	6	-	(73’814)
Operating loss (EBIT)		**(4’740)**	**(166’026)**
Other financial income (expense), net		(1’880)	(5’291)
Loss before tax and minority interest		**(6’620)**	**(171’317)**
Income tax expenses		(451)	4’068
Loss after tax		**(7’071)**	**(167’249)**
Net loss for the period		**(7’071)**	**(167’249)**
Basic and fully diluted loss per share		**(0.53)**	**(72.72)**

Interim consolidated balance sheet

In thousands of CHF

	June 30, 2003	**December 31, 2002**
ASSETS		
Cash and cash equivalents	22’889	21’743
Trade receivables	40’403	46’588
Current tax assets	1’342	1’102
Other receivables and prepayments	7’001	8’513
Inventories	59’813	59’463
Total current assets	**131’448**	**137’409**
Property, plant and equipment	63’725	67’482
Intangible assets	97	251
Financial assets	22	20
Total non-current assets	**63’844**	**67’753**
Total assets	**195’292**	**205’162**
LIABILITIES AND EQUITY		
Trade payables	15’051	17’451
Other payables	17’059	15’672
Current tax liabilities	683	642
Interest bearing loans and borrowings	55’949	56’288
Provisions	16’833	18’017
Total current liabilities	**105’575**	**108’070**
Interest bearing loans and borrowings	6’244	7’656
Retirement benefit obligations	1’747	1’513
Provisions	4’833	4’636
Deferred tax liabilities	1’666	1’373
Total non-current liabilities	**14’490**	**15’178**
Total liabilities	**120’065**	**123’248**
Capital and reserves		
Ordinary shares	66’919	66’919
Share premium	13’943	13’943
Currency translation reserve	471	87
Retained earnings	(6’106)	965
Total equity	**75’227**	**81’914**
Total liabilities and equity	**195’292**	**205’162**

Interim consolidated statement of changes in equity

In thousands of CHF	**Ordinary shares**	**Share premium**	**Currency translat.**	**Retained earnings**	**Total**
At December 31, 2001	**115’000**	**44’055**	**2’704**	**(26’156)**	**135’603**
Net loss for the period				(167’249)	(167’249)
Currency translation adjustment			(1’709)		(1’709)
At June 30, 2002	**115’000**	**44’055**	**995**	**(193’405)**	**(33’355)**
At December 31, 2002	**66’919**	**13’943**	**87**	**965**	**81’914**
Net loss for the period				(7’071)	(7’071)
Currency translation adjustment			384		384
At June 30, 2003	**66’919**	**13’943**	**471**	**(6’106)**	**75’227**

Interim consolidated cash flow statement

In thousands of CHF

For the six months ended June 30,	**2003**	**2002**
Net cash provided by operating activities	5’394	1’613
Net cash provided by / (used) in investing activities	182	(2’438)
Net cash provided by / (used in) financing activities	(4’825)	1’990
Net increase in cash and cash equivalents	**751**	**1’165**
Cash and cash equivalents at January 1	21’743	5’978
Effects of exchange rate changes	395	(78)
Cash and cash equivalents at June 30,	**22’889**	**7’065**

Selected explanatory notes to the interim consolidated financial statements

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

1 Basis of preparation

The interim consolidated financial statements for the six months ended June 30, 2003 have been prepared in accordance with the International Accounting Standard 34 on interim financial reporting. The accounting policies used are consistent with those used in the annual consolidated financial statements.

2 Going concern

The Group undertook restructuring measures in 2002 and achieved its budget as of June 30, 2003 while incurring a net loss of CHF 7.1 million.

The interim consolidated financial statements as of June 30, 2003 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:

- The total borrowings under the credit agreement with the syndicate banks in the amount of CHF 52 million as of June 30, 2003 will become due on December 31, 2003. The Company's Board of Directors believes that the Group will be able to prolong or refinance such borrowings since the Group met its budgets as of June 30, 2003. Negotiations with the banks will take place in September 2003. However, refinancing could be endangered by a deterioration of the financial performance and a resulting failure to achieve the budgets in the second half of 2003.

- 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. The approved budget showed that the Group would most likely not be able to comply with some of the covenants set out in the credit agreement during 2003. On February 26, 2003, the consortium of banks offered a waiver of the existing covenants and agreed to 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. As of March 31, 2003 and June 30, 2003 the Group complied with such revised covenants. The Company's Board of Directors believes that the Group will also be able to comply with the covenants in the second half of 2003. A violation of the covenants would entitle the consortium to call the outstanding bank debts for repayment at any time.

- 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 continuing 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 Scope of consolidation

No changes in the scope of consolidation occurred in the period under review.

Selected explanatory notes to the interim consolidated financial statements

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

4 Revised credit facility agreement

For the revised covenants agreed with the banks on February 26, 2003 and the necessary refinancing of short-term borrowings due on December 31, 2003, reference is made to note 2.

5 Segment reporting

5.1 Net sales by location of customers

Six months ended June 30,	**2003**	**2002**
Switzerland	13’383	16’343
Other western European countries	56’584	43’531
North America	7’312	11’120
Asia	3’508	10’415
Rest of world	648	123
Total net sales	**81’435**	**81’532**

5.2 Net sales by location of assets

Six months ended June 30,	**2003**	**2002**
Switzerland:		
- To third parties	23’326	28’396
- To other segments	41’093	34’442
Other western European countries:		
- To third parties	50’804	42’145
- To other segments	358	530
North America:		
- To third parties	7’305	10’991
- To other segments	4	159
Elimination	(41’455)	(35’131?
Total net sales	**81’435**	**81’532**

5.3 Segment result (EBIT) by location of assets

Six months ended June 30,	**2003**	**2002**
Switzerland	(4'690)	(156'769)
Other western European countries	619	(4’839)
North America	(779)	(2’887)
Total	(4’850)	(164’495)
Elimination	-	863
Unallocated	110	(2’394)
Total EBIT	**(4’740)**	**(166’026)**

Selected explanatory notes to the interim consolidated financial statements

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

6 Restructuring charges 2002

The restructuring measures implemented in 2002 impacted the interim consolidated income statement 2002 as follows:

Six months ended June 30,	**2003**	**2002**
Material expenses	(36’969)	(47’772)
Restructuring write-down of inventories	-	(39’483)
Total material expenses	**(36'969)**	**(87’255)**
Personnel expenses	(31’079)	(41’790)
Redundancy costs	-	(7’741)
Total personnel expenses	**(31’079)**	**(49’531)**
Other operating income (expenses), net	(13’579)	(19’032)
Restructuring provisions	-	(8’356)
Total other operating income (expenses), net	**(13’579)**	**(27’388)**
Write-off of goodwill and capitalised development costs	-	(73’814)
Total impairment loss on intangible assets	**-**	**(73’814)**

7 Post balance sheet events

The Board of Directors approved the interim consolidated financial statements on August 15, 2003. There were no events that took place between the balance sheet date and August 15, 2003 that would require adjustments to the amounts recognised in these interim consolidated financial statements or require disclosure.

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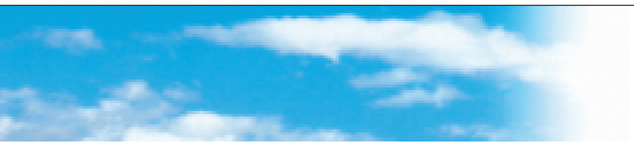

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