TORNOS

Interim Consolidated Financial Statements 2004

Tornos Holding SA, Moutier

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Interim consolidated income statement
(unaudited)

In thousands of CHF, except per share data

Six months ended June 30,	Notes	**2004**	**2003**
Gross sales revenue		**87'193**	**83'784**
Commissions and discounts		-3'149	-2'349
Net sales		**84'044**	**81'435**
Material expenses		-32'615	-36'969
Personnel expenses	4	-34'053	-31'079
Other operating expenses - net	4	-15'197	-13'579
Profit / (loss) before interest, income taxes, depreciation and amortisation (EBITDA)		**2'179**	**-192**
Depreciation of property, plant and equipment		-4'139	-4'366
Amortisation of goodwill and other intangibles		-	-182
Operating loss (EBIT)		**-1'960**	**-4'740**
Other financial expenses - net		-2'040	-1'880
Loss before income taxes		**-4'000**	**-6'620**
Income taxes		-588	-451
Net loss for the period		**-4'588**	**-7'071**
Basic and fully diluted loss per share		**-0.34**	**-0.53**

Interim consolidated balance sheet
(unaudited)

In thousands of CHF

	Notes	June 30, 2004	December 31, 2003
ASSETS			
Cash and cash equivalents		4’378	12’317
Trade receivables		39’125	44’716
Inventories		60’918	55’764
Other receivables and prepayments		5’770	7’175
Total current assets		**110’191**	**119’972**
Property, plant and equipment		57’352	59’473
Intangible assets		-	62
Financial assets		-	22
Total non-current assets		**57’352**	**59’557**
Total assets		**167’543**	**179’529**
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings	5	36’352	52’775
Trade payables		18’358	12’876
Current tax liabilities		627	423
Other payables		21’089	15’207
Provisions		6’789	7’471
Total current liabilities		**83’215**	**88’752**
Interest bearing loans and borrowings		3’512	4’425
Retirement benefit obligations		1’602	1’624
Provisions		4’555	5’480
Deferred tax liabilities		901	821
Total non-current liabilities		**10’570**	**12’350**
Total liabilities		**93’785**	**101’102**
Shareholders’ equity			
Ordinary shares	6	67’169	66’919
Share premium	6	13’955	13’943
Accumulated deficit		-6’443	-1’855
Currency translation adjustment		-923	-580
Total shareholders’ equity		**73’758**	**78’427**
Total liabilities and shareholders’ equity		**167’543**	**179’529**

Interim consolidated statement of changes in equity
(unaudited)

In thousands of CHF	Notes	**Ordinary shares**	**Share premium**	**Retained earnings**	**Currency translat.**	**Total**
At December 31, 2002		**66'919**	**13'943**	**965**	**87**	**81'914**
Net loss for the period				-7'071		-7'071
Currency translation adjustment					384	384
At June 30, 2003		**66'919**	**13'943**	**-6'106**	**471**	**75'227**
At December 31, 2003		**66'919**	**13'943**	**-1'855**	**-580**	**78'427**
Issuance of new shares	6	250	12			262
Net loss for the period				-4'588		-4'588
Currency translation adjustment					-343	-343
At June 30, 2004		**67'169**	**13'955**	**-6'443**	**-923**	**73'758**

Interim consolidated cash flow statement
(unaudited)

In thousands of CHF

For the six months ended June 30,	**2004**	**2003**
Net cash provided by operating activities	13'071	5'394
Net cash provided by / (used in) investing activities	-2'127	182
Net cash provided by / (used in) financing activities	-18'816	-4'825
Net increase / (decrease) in cash and cash equivalents	**-7'872**	**751**
Cash and cash equivalents at January 1,	12'317	21'743
Effects of exchange rate changes	-67	395
Cash and cash equivalents at June 30,	**4'378**	**22'889**

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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, 2004 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 interim consolidated financial statements as of June 30, 2004 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 :

- On March 31, 2004 a new credit facility agreement in the amount of CHF 57 million maturing on April 30, 2005 was concluded with the creditor banks. The Group's borrowings under this facility agreement are subject to certain covenants and conditions for periods up to April 30, 2005, including, among other things, the achievement of certain financial targets. The financial covenants relate to minimum equity, minimum liquidity and interest coverage ratio which shall exceed predefined quarterly thresholds as well as leverage ratio which shall not exceed predefined quarterly thresholds. A violation of the covenants would entitle the consortium to call the outstanding bank debts for repayment at any time.

- Total utilised facility under the credit agreement with the creditor banks amounted to CHF 35.2 million at June 30, 2004.

The Group met all its financial covenants as of June 30, 2004. The Company's Board of Directors is of the opinion that the Group will also be able to comply with the covenants for the entire duration of the loan agreement.

As a result the Company's Board of Directors believes that the Group will be able to prolong or refinance such borrowings. 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 2004.

Accordingly, the Group's ability to continue as a going concern is dependent on the continuing quarterly compliance with the debt covenants, and either the successful refinancing of short-term borrowings, or the ability to obtain other adequate financing from April 30, 2005.

3 Scope of consolidation

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

4 Seasonality of business

From a statistical perspective, Tornos business is influenced by seasonality factors which generally make that first and second half count for 45 and 55% respectively of the full year sales.

In January 2004, short-work measures were introduced for all machining and assembly departments. This shut-down completely stopped the production process for that particular month. As a consequence, fixed manufacturing costs of CHF 4.2 million related to the month of January were immediately incurred.

Selected explanatory notes to the interim consolidated financial statements

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

5 Revised credit facility agreement

For the revised covenants agreed with the banks on March 31, 2004 and the necessary refinancing of short-term borrowings due on April 30, 2005, reference is made to notes 2 and 8.

6 Stock Compensation Plans

In 2004, the General Assembly of Shareholders approved the issue of 450'000 conditional shares that may be used by the Board of Directors to satisfy stock purchase and option plan commitments set out below.

Management Share Purchase Plan

Under the 2004 Management and Board Participation Plan, eligible members of the management and directors of the Group were offered 150'000 registered shares at CHF 5.30 per share to be issued in three equal tranches over a three-year period. The purchase price was deemed equivalent to the fair market value at the date each eligible member contractually committed to purchasing the shares, hence no compensation expense has been calculated in respect of the above. As at June 30, 2004, 50'000 registered shares had been issued under the 2004 Management and Board Participation Plan. Subscriptions for 79'992 registered shares to be issued in two equal tranches on May 1, 2005 and 2006 respectively had been received as at June 30, 2004. The 20'008 remaining shares available under this plan will be offered to the participants on May 1, 2005 and 2006 respectively.

Stock Option Plans

Under the 2004 Management and Board Participation Plan, eligible members of the management and directors of the Group were issued options to purchase registered shares at an exercise price in excess of the fair market value of the registered shares on the date of grant. The terms and conditions with respect to options granted were determined by the Board of Directors who administered these plans. Options generally vest over two years and remain outstanding for periods not exceeding three years. A total of 300'000 registered shares may be issued under these plans.

Compensation expense is recognized over the vesting period in accordance of the provisions of IFRS 2 "Share based payment". Compensation expense of CHF 6'000 was recorded for the period ended June 30, 2004. Such amounts are accrued as a liability when the expense is recognized and subsequently credited to additional paid-in capital upon exercise of the related stock option. Compensation expense arising from stock options outstanding at June 30, 2004 to be recognized in future periods amounted to CHF 69'000.

Selected explanatory notes to the interim consolidated financial statements

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

A summary of activity under the stock option plans, including weighted average exercise price, is as follows:

	June 30, 2004 (options)	**Exercise price** (CHF)	**Contractual live**
Outstanding at beginning of period	**-**	**-**	
Granted	100'000	6.00	3 years (April 30, 2007)
Exercised	-	-	
Cancelled or expired	-	-	
Outstanding at end of period	**100'000**	**6.00**	
Exercisable at end of period	-	-	

The fair value of the grants under the purchase plans and stock option plans was estimated using the Black-Scholes valuation model with the following assumptions and values:

Dividend yield	-
Expected life	2.5 years
Expected volatility	25%
Risk free interest rate	1.6%
Fair value of grants	0.75
Expected turnover of personnel	-

The expected volatility used to calculate the fair value differs from the historical volatility of the Company's share price over the previous 18-month period which amounted to 58%. Management consider that the historical volatility is not a reasonable basis upon which to estimate future volatility given the impact that the restructuring measures undertaken in 2002 had on both the share price and the trading volumes experienced during 2003.

Selected explanatory notes to the interim consolidated financial statements

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

7 Segment reporting

7.1 Net sales by location of customers

Six months ended June 30,	2004	2003
Switzerland	11'002	13'383
Other western European countries	59'538	56'584
North America	8'491	7'312
Asia	3'394	3'508
Rest of world	1'619	648
Total net sales	**84'044**	**81'435**

7.2 Net sales by location of assets

Six months ended June 30,	2004	2003
Switzerland:		
- To third parties	51'840	23'326
- To other segments	23'018	41'093
Other western European countries:		
- To third parties	23'716	50'804
- To other segments	821	358
North America:		
- To third parties	8'488	7'305
- To other segments	18	4
Elimination	-23'857	-41'455
Total net sales	**84'044**	**81'435**

Selected explanatory notes to the interim consolidated financial statements

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

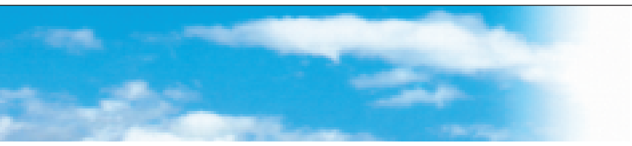
7.3 Segment result (EBIT) by location of assets

Six months ended June 30,	**2004**	**2003**
Switzerland	-3'400	-4'690
Other western European countries	1’846	619
North America	-314	-779
Total	-1’868	-4’850
Elimination	-39	-
Unallocated	-53	110
Total EBIT	**-1’960**	**-4’740**

8 Post balance sheet events

On July 12, 2004, in order to benefit from lower interest rates, the Group applied for voluntary reduction of CHF 5 million of the credit facility agreement with the creditor banks. As a result the credit facility agreement dated March 31, 2004 is now reduced to CHF 52 million.

The Board of Directors approved the interim consolidated financial statements on July 23, 2004. There were no other events that took place between the balance sheet date and July 23, 2004 that would require adjustments to the amounts recognised in these interim consolidated financial statements or require disclosure.



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