From recovery to consolidation: for the transition year 2004, the TORNOS group forecasts improved results compared with the budget

François Frôté
President of the Board of Directors

Raymond Stauffer
Delegate of the Board of Directors and Chief Executive Officer

Ladies and
Gentlemen,
Dear Shareholders,

After the crisis gone through in 2002, 2003 was the year of recovery. In accordance with the strategy decided on, we have characterised 2004 as a year of consolidation of the actions undertaken for the reconstruction of the group, with a balanced net result as the main financial objective of the budget for the financial year.

We are pleased to inform you about the operating results of the first half-year 2004 as well as about the further perspectives for the current financial year.

Priority to the development of products and markets, and to the reduction of costs

The main strategic priorities for the current financial year are the increased dynamism of product research and development, and the strengthening of our geographical coverage. New products will be presented within a year, and the opening of our sales office in Shanghai in July 2004 constituted a first definite step in the expansion of our activities in Asia.

At the operational level, the permanent reduction of costs and improving their flexibility in response to cyclical variations is a priority objective of the establishment of new management procedures.

Start of the year in line with the budget

As foreseen, 2004 started at a low level. Though some industries had already recorded signs of economic improvement in the last quarter of 2003, this was not the case in the area of machine tools. Under these conditions and in accordance with the pre-established action plan, the year started with a partial shutdown period affecting the whole of production. This stoppage was limited to the month of January only. It allowed us to align manufacture and assembly activities with the level of activity of the markets thus creating a reserve of work and a situation favourable to the further course of production. This measure of a reduction in working hours was accompanied by a training plan, intended on the one hand to make our production workers more versatile, and on the other to make the company more flexible as a result.

Improvement in the economic climate since March

From the point of view of orders received, the months of January and February were relatively slack, with a level comparable to that of the average for the previous financial year. March was an excellent month, and this improvement has been confirmed in

half-year report

FROM RECOVERY TO CONSOLIDATION

the following months. The value of orders[1] received for the half-year is CHF 116.5 million, and if it is too early to talk about a lasting upturn one should however note the increase by 33.4 % compared with the same period of the previous financial year (CHF 87.3 million). Apart from the odd slight difference, the recovery in orders received affects all products and all sales regions, with a revival in activity in the sub-contract and connector markets, areas which have been particularly depressed in 2003.

Improved results

The improvement in orders received referred to above did not yet have a marked impact on the sales figures for the first six months, which increased to CHF 87.2 million, against CHF 83.8 million for the same period of the previous year.

The net result recorded for the first half-year shows a loss of CHF 4.6 million, compared with a loss of CHF 7.1 million for the comparable period of the preceding financial year. The EBIT shows a loss of CHF 2.0 million (CHF 4.7 million loss on June 30, 2003) while the positive EBITDA reaches CHF 2.2 million (CHF 0.2 million loss on June 30, 2003). It should however be pointed out that these results are affected by a non-recurring charge of CHF 4.2 million arising from non-absorption of the fixed costs caused by the partial shut-down introduced in January 2004. At all levels the results recorded are better than the budget figures and have increased compared with the previous year.

Positive cash flow and reduction in indebtedness

The operational cash flow (money flow resulting from commercial activity) works out at CHF 13.1 million (CHF 5.4 million on June 30, 2003). With regard to the balance sheet for June 30, 2004, the most positive fact concerns the reduction in net indebtedness (interest-bearing debts less liquid assets) which moves from CHF 44.9 million on December 30, 2003 to CHF 35.5 million. It should be noted that the proportion of equity capital in the balance sheet total reaches 44 %.

Interim consolidated financial statements on June 30, 2004

The unaudited interim financial statements on June 30, 2004 have been prepared in accordance with guideline number 34 of the International Accounting Standards (guideline for the preparation of interim results).

[1] *Note : orders received = machine orders + sales for other activities*

The most important figures of the consolidated profit and loss account are as follows :

	6 months on June 30, 2004 (unaudited) TCHF	**6 months on June 30, 2003** (unaudited) TCHF
Consolidated gross sales	87’193	83’784
Profit / (loss) before interest, tax, depreciations and goodwill amortization (EBITDA)	2’179	-192
Loss before interest and tax (EBIT)	-1’960	-4’740
Half-year net loss	-4’588	-7’071

The most important figures of the consolidated balance sheet are as follows :

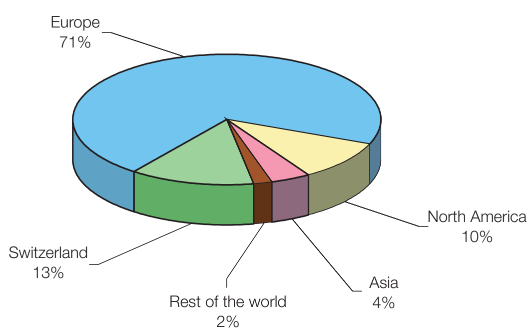
	June 30, 2004 (unaudited) KCHF	**Dec. 31, 2003** (unaudited) KCHF
Total assets	167’543	179’529
Current assets	110’191	119’972
Non-current assets	57’352	59’557
Current liabilities	83’215	88’752
Non-current liabilities	10’570	12’350
Equity	73’758	78’427
Equity in % of liabilities & equity	44.0 %	43.7 %

The most important figures of the cash-flow account are as follows:

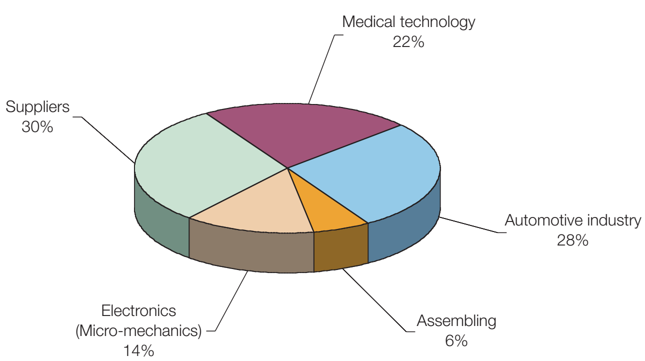
	6 months on June 30, 2004 (unaudited) TCHF	**6 months on June 30, 2003** (unaudited) TCHF
Cash flow resulting from business activities	13'071	5'394
Cash flow resulting from investment activities	-2'127	182
Cash flow resulting from financial activities	-18'816	-4'825
Increase / (decrease) of liquid assets	-7'872	751
Liquid assets per January 1	12'317	21'743
Foreign currency effects	-67	395
Liquid assets per June 30	4'378	22'889

Growth in sales figures and positive result
Subject to an economic situation stabilised at the level of the second half-year, the group forecasts for the year 2004 incoming orders to a value slightly in excess of CHF 200 million, compared with CHF 170.6 million for the year 2003. The forecast group turnover for the financial year lies in the range of CHF 190 to 195 million, a sum greater than the budget figure and to be compared with CHF 174.7 million in 2003. In this context, a slightly positive result is expected for the financial year, compared with a budget at the break-even point and a loss of CHF 2.8 million for the previous financial year.

Geographical distribution of gross sales in the first half-year 2004



Main fields of application of gross sales in the first half-year 2004



Conclusion
As part of the implementation of our strategic plan, we note a positive trend in our results compared to the forecasts.

Thanking you for your confidence, we remain

Yours sincerely,

Moutier, August 2004

François Frôté
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