

## Half-year Report

# Tornos Group on track

*Franz Kellerhals, Chairman of the Board of Directors  
Anton Menth, CEO and Delegate of the Board of Directors*



Ladies and Gentlemen,  
dear Shareholders,

The IPO of TORNOS on 13 March seems long ago, and it is now time to give you details of the results of the first half-year.

The results of TORNOS for the first six months of this year are satisfying. Gross sales reached CHF 206 million, with EBITDA totalling CHF 18.6 million. Overall, gross sales increased by 37.3% and EBITDA by 49.3%, compared with the same period last year. Currency effects had a negative impact on gross

sales of 1%. In contrast to the year 2000, TORNOS started 2001 with a very high order backlog, which largely explains the difference between the two half-year results.

Following a record-breaking order intake of CHF 430 million for the year 2000 (for machines only, i.e. excluding services and spare parts), the first half-year of 2001 saw a reduction in order intake. Despite the general market slowdown, Tornos has taken new orders of CHF 168 million for machines only which is within 10% of budget. The order backlog as of end of June amounted to CHF 164 million.

This led to a reduction in the order backlog and allowed the Group to re-establish more acceptable terms of delivery to its customers. In the competitive environment in which TORNOS operates, short delivery times are essential and reduce the risk of losing orders from customers for whom long delivery times are unacceptable.

As expected, EBITDA for the first half-year has been affected by the strong increase in activities. Work in progress had to be rebuilt after the record level of deliveries at the end of last year, with a detrimental effect on EBITDA over the corresponding months.

For the period TORNOS has recorded a net loss of CHF 6.1m which is mainly attributable to non-recurring items related to the IPO, all in all CHF 9.1m.

Major efforts were committed to the development of three new machines which will be presented at the world's

largest machine tool exhibition, the EMO in Hanover, this coming September. These new products will broaden the company's existing product range and increase the size of the accessible market for TORNOS products. The initial response to these new products by key customers has been very encouraging. Several customers have already signed up to receive their first machine.

The IPO on the stock exchange has had two positive effects. Firstly, the CHF 100 million raised by the company through this flotation has provided TORNOS with a financial structure that will allow the Group to exploit its growth potential. Secondly, the continuation of the TORNOS renewal programme ("Renouveau de TORNOS") with investments both in new products and in the productivity of its manufacturing facilities will strengthen the Group for the future.

Despite unfavourable conditions in the overall market, TORNOS is predicting an increase in gross sales of about 10% for the year 2001 and an EBITDA that will follow this growth.

Ladies and Gentlemen, dear Shareholders, we hope that this report makes good reading for you. We have already set a date for the next annual general meeting, which will take place on the 25 April 2002 in Moutier.

Yours sincerely,

*Franz Kellerhals*

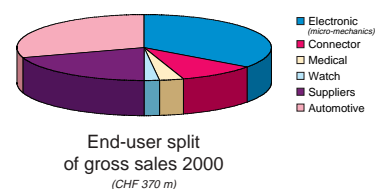
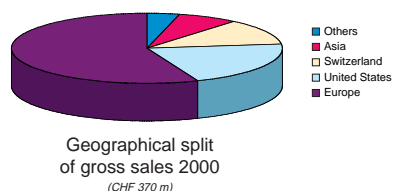
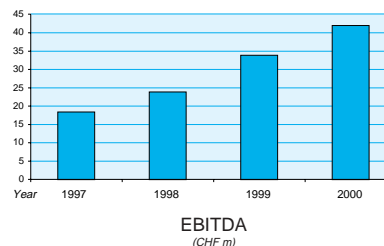
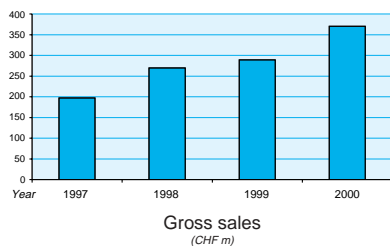
*Anton Menth*

# CONSOLIDATED INCOME STATEMENT

In thousands of CHF

Six months ended June 30,	2001	2000
<b>Gross sales revenue</b>	<b>206,142</b>	<b>150,150</b>
Commissions and discounts	(9,413)	(7,059)
<b>Net sales</b>	<b>196,729</b>	<b>143,091</b>
Material expenses	(96,095)	(63,300)
Personnel expenses	(61,496)	(49,641)
Other operating income (expenses), net	(20,550)	(17,700)
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>18,588</b>	<b>12,450</b>
Depreciation of property, plant and equipment	(4,027)	(3,724)
Amortisation of goodwill and intangibles	(5,303)	(4,531)
<b>Operating result (EBIT)</b>	<b>9,258</b>	<b>4,195</b>
Financial income (expense), net	(14,164)	(5,805)
<b>Loss before tax</b>	<b>(4,906)</b>	<b>(1,610)</b>
Income tax expenses	(1,202)	(732)
<b>Loss after tax</b>	<b>(6,108)</b>	<b>(2,342)</b>
Minority interest	(30)	(28)
<b>Net loss for the period</b>	<b>(6,138)</b>	<b>(2,370)</b>
<b>Basic and diluted earnings per share (CHF)</b>	<b>(3.23)</b>	<b>(1.82)</b>

## TORNOS: KEY FIGURES 1997-2000



# CONSOLIDATED BALANCE SHEET

In thousands of CHF

	June 30 2001	December 31 2000
<b>ASSETS</b>		
Cash and cash equivalents	16,229	13,324
Trade receivables	97,331	102,402
Other receivables and prepayments	25,041	9,809
Inventories	149,309	119,203
<b>Total current assets</b>	<b>287,910</b>	<b>244,738</b>
Property, plant and equipment	65,591	66,925
Intangible assets	82,175	84,058
Financial assets	636	715
Deferred tax assets	5,022	3,690
<b>Total non-current assets</b>	<b>153,424</b>	<b>155,388</b>
<b>Total assets</b>	<b>441,334</b>	<b>400,126</b>
<b>LIABILITIES AND EQUITY</b>		
Trade payables	99,456	82,770
Other payables	50,572	36,960
Current tax liabilities	1,989	1,177
Interest bearing loans and borrowings	6,752	20,770
Provisions	2,909	2,543
<b>Total current liabilities</b>	<b>161,678</b>	<b>144,220</b>
Interest bearing loans and borrowings	105,528	174,200
Retirement benefit obligations	3,057	2,859
Provisions	1,933	1,906
Deferred tax liabilities	7,916	7,239
<b>Total non-current liabilities</b>	<b>118,434</b>	<b>186,204</b>
<b>Total liabilities</b>	<b>280,112</b>	<b>330,424</b>
<b>Capital and reserves</b>		
Share capital	115,000	65,000
Share premium	44,055	-
Retained earnings	2,034	4,557
<b>Total equity</b>	<b>161,089</b>	<b>69,557</b>
<b>Minority interest</b>	<b>133</b>	<b>145</b>
<b>Total liabilities, equity and minority interest</b>	<b>441,334</b>	<b>400,126</b>



# CONSOLIDATED CASH FLOW STATEMENT

In thousands of CHF

Six months ended June 30,	2001	2000
<b>Net cash from operating activities</b>	<b>6,976</b>	<b>3,514</b>
<b>Net cash used in investing activities</b>	<b>(3,665)</b>	<b>(1,424)</b>
<b>Net cash used in financing activities</b>	<b>(502)</b>	<b>(5,992)</b>
Increase (decrease) in cash and cash equivalents	2,809	(3,902)
Cash and cash equivalents at January 1	13,324	13,160
Effects of exchange rate changes	96	(161)
<b>Cash and cash equivalents at June 30,</b>	<b>16,229</b>	<b>9,097</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of CHF

	Ordinary shares	Preferred shares	Share Premium	Currency translation	Retained Earnings	Total	Minority interest
At December 31, 1999	10,000	55,000	-	2,100	(7,249)	59,851	117
Net loss for the period	-	-	-	-	(2,370)	(2,370)	28
Currency translation adjustment	-	-	-	(12)	-	(12)	(5)
At June 30, 2000	10,000	55,000	-	2,088	(9,619)	57,469	140
At December 31, 2000	10,000	55,000	-	2,327	2,230	69,557	145
Effect of first application of IAS 39	-	-	-	-	1,535	1,535	-
At January 1, 2001	10,000	55,000	-	2,327	3,765	71,092	145
Net loss for the period	-	-	-	-	(6,138)	(6,138)	30
Acquisition of minority interest	-	-	-	-	-	-	(42)
Conversion of shares	55,000	(55,000)	-	-	-	-	-
Issuance of new shares	50,000	-	44,055	-	-	94,055	-
Currency translation adjustment	-	-	-	2,080	-	2,080	-
At June 30, 2001	115,000	-	44,055	4,407	(2,373)	161,089	133



# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Basis of preparation

The consolidated interim financial statements for the six months ended June 30, 2001 have been prepared and comply with IAS 34 on Interim financial reporting. The accounting policies used are consistent with those used in the annual consolidated financial statements except for the first-time application of IAS 39 Financial Instruments as described below.

## Changes in accounting policies

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

## Scope of consolidation

No major changes in the scope of consolidation took place in the period under review.

## Financing result / Unusual items

Year 2001 (in millions of CHF).

The financial expenses include the following unusual items:

• Foreign exchange losses (profit) on interest bearing loans	3.8
• IPO costs	3.7
• Fair value adjustment of interest rate swaps	0.9
• Redemption premium for early repayment of loans	0.7
<b>Total</b>	<b>9.1</b>

Year 2000 (in millions of CHF).

The financial expenses include the following unusual items:

• Foreign exchange losses (profit) on interest bearing loans	(1.1)
• IPO costs	-
• Fair value adjustment of interest rate swaps	-
• Redemption premium for early repayment of loans	-
<b>Total</b>	<b>(1.1)</b>

## Interest bearing loans and borrowings

In connection with the IPO, Tornos repaid bank loans of CHF 185 million. The loans were denominated in CHF, EUR and USD. A new debt facility was provided by another banking syndicate on March 15, 2001. The facility consists of term loans in the amount of CHF 90 million and a working capital facility of CHF 14 million. The term loans will be repayable in instalments of CHF 10 million on March 31, 2002, CHF 20 million on March 31, in both 2003 and 2004, and CHF 40 million on March 31, 2006. The working capital facility has a maturity of three years and will be due in full on March 31, 2004.

## Segment reporting

### NET SALES BY LOCATION OF ASSETS

(In thousands of CHF)

Six months ended June 30,	2001	2000
<i>Switzerland</i>		
To third parties	64,533	40,375
To other segments	109,306	74,855
<i>Other European countries</i>		
To third parties	103,525	72,635
To other segments	847	721
<i>North America</i>		
To third parties	28,671	30,081
To other segments	100	75
Elimination	(110,253)	(75,651)
<b>Total net sales</b>	<b>196,729</b>	<b>143,091</b>

### NET SALES BY LOCATION OF CUSTOMERS

(In thousands of CHF)

Six months ended June 30,	2001	2000
Switzerland	28,407	15,309
Other European countries	127,992	92,002
North America	30,214	30,182
Asia	8,882	4,301
Rest of world	1,234	1,297
<b>Total net sales</b>	<b>196,729</b>	<b>143,091</b>

### SEGMENT RESULT (EBIT) BY LOCATION OF ASSETS

(In thousands of CHF)

Six months ended June 30,	2001	2000
Switzerland	5,624	-519
Other western European countries	4,472	3,699
North America	1,307	1,226
	11,403	4,406
Elimination	(2,054)	(120)
Unallocated	(91)	(91)
<b>Total EBIT</b>	<b>9,258</b>	<b>4,195</b>

# NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Equity

In connection with, and prior to the IPO, 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, and by eliminating the privileged voting rights attached to the A and B Shares and the preference liquidation and dividend rights of the C 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 IPO 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.

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

## Contingencies

In February 2001, the former shareholders of Moutier Machine Holding, a company acquired by the Group on December 31, 1998, threatened to commence judicial proceedings against the Group and its Directors for additional monies that they alleged to be entitled to under the stock purchase agreement regarding the sale of MMH to the Group. Group management considers that the probability of initiating such proceedings and the eventual successful claims

against the Group is remote. Until August 15, 2001, no such proceedings have been commenced.

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

## Post balance sheet events

These interim consolidated financial statements were approved by the Board of Directors on August 15, 2001. No events have occurred between June 30, 2001 and August 15, 2001 which would require adjustment to the carrying amounts of the Group's assets and liabilities as of June 30, 2001 or require disclosure.

## REVIEW REPORT TO THE BOARD OF DIRECTORS OF TORNOS HOLDING SA, MOUTIER

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

We have reviewed the consolidated interim financial statements of Tornos Holding SA and subsidiaries, consisting of the balance sheet, the related statements of income, changes in equity and cash flows and selected notes to the consolidated interim financial statements, for the six months ended June 30, 2001.

These consolidated interim financial statements are the responsibility of the board of Directors of Tornos Holding SA. Our responsibility is to issue a report thereon based on our review.

We conducted our review in accordance

with the International Standard on Auditing applicable to review engagements. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the consolidated interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come

to our attention that causes us to believe that the accompanying consolidated interim financial statements do not give a true and fair view of the Group's financial position, results of operations and cash flows in accordance with the International Accounting Standards (IAS).

KPMG Fides Peat

*Elmar Ittensohn*

*Bryan DeBlanc*

Gümligen-Berne, August 15, 2001

