The Mikron Group in the first half-year 2002: Balance sheet, statement of income and cash flow

Consolidated balance-sheet			in CHF 1000
	30.06.02	31.12.01	▲%
Liquid assets	36'843	26'518	39%
Receivables, net cash from production contracts and prepaid expenses	132'666	170'935	–22%
Inventories	54'872	72'778	–25%
Total current assets	**224'381**	**270'231**	**–17%**
Tangible assets	235'214	261'238	–10%
Financial assets	4'470	4'837	–8%
Intangible assets	158'925	163'374	–3%
Employee pensions and deferred tax credits	6'798	6'723	1%
Total fixed assets	**405'407**	**436'172**	**–7%**
Total assets	**629'788**	**706'403**	**–11%**
Total current liabilities	**473'729**	**155'297**	**205%**
Total long-term liabilities	**44'575**	**400'279**	**–89%**
Total liabilities	**518'304**	**555'576**	**–7%**
Minority interests	**0**	**154**	
Total shareholders' equity	**111'484**	**150'673**	**–26%**
Total shareholders' equity as % of total assets	17,7%	21,3%	
Total liabilities and equity	**629'788**	**706'403**	**–11%**

First half-year 2002: Consolidated statement of income			in CHF 1000
	2002	2001	▲%
Net sales	194'083	344'685	–44%
Changes in WIP/capitalized own constructions	3'434	–43'895	–108%
Total operating output	**197'517**	**300'790**	**–34%**
Total operating expenses excl. exceptional expenditure	206'632	302'981	–32%
Ebita before exceptional income and expenditure	**–9'115**	**–2'191**	**316%**
as % of net sales	–4,7%	–0,6%	
Exceptional income and expenditure	12'352 [1]	–18'250	–168%
Earnings before amortization of goodwill, interest and taxes (Ebita)	**–21'467**	**16'059**	**–234%**
as % of net sales	–11,1%	4,7%	
Amortization of goodwill	4'268	68'411	–94%
Earnings before interest and taxes (Ebit)	–25'735	–52'352	51%
Interest and other financial expenses – net [2]	14'278	11'714	22%
Taxes	–72	1'977	–104%
Earnings before minority interests	**–39'941**	**–66'043**	**40%**
Minority interests on net earnings	0	–94	
HALF-YEAR NET EARNINGS	**–39'941**	**–66'137**	**40%**
as % of net sales	–20,6%	–19,2%	

[1] Exceptional expenditure for changing the loan agreements, income from the sale of holdings		
[2] Interest income	1'862	751

First half-year 2002: Consolidated statement of cash flow			in CHF 1000
	2002	2001	
Cash flow before movements in net working capital	**–15'011**	**41'329**	
Cash flow from operating activities – cash flow	**19'003**	**–24'045**	
Cash flow used in investing activities	**–415**	**–106'116**	
Cash flow from financing activities	**–7'591**	**106'861**	
Effect of exchange rate changes on cash	–672	1'988	
Increase/decrease in cash	**10'325**	**–21'312**	

MIKRON Technology Group

Financial Report
Half-year 2002

General
The figures within these half-year results comply with the principle of consistency and follow the rules applied in the 2001 financial report. The half-year report is not subject to examination by the auditors.

Development of shareholders' equity	
CHF 1000	Total shareholders' equity
Position as at January 1, 2001	**274'433**
Earnings for the year 2001	–127'340
Translation adjustments	2'403
Exchange rate differences	531
Increase of capital due to exercising option and conversion rights, less capital procurement costs	787
Changes in own shares	–141
Position as at December 12, 2001	**150'673**
Half-year earnings 2002	–39'941
Translation adjustments	–777
Exchange rate differences	1'529
Position as at June 30, 2002	**111'484**

Balance sheet
As most loans are not revolving, the main effect of debt reduction was a CHF 10,3 million increase in liquid assets. There was a marked decrease in "Receivables, net cash from production contracts and prepaid expenses" due to the lower sales volume and improvement in debtor management. Inventories declined due to the loss of volume from Step-Tec AG, the stock reduction programs and the lower order volume. The combination of smaller divestments offsetting investments and the sale of Step-Tec AG caused a reduction in tangible assets.

Current and long-term liabilities decreased, mainly due to divestments but also because of the cost cutting programs and lower production volumes.
As already detailed in the 2001 report, Mikron negotiated new loan agreements with the lenders for the private placement and the bank syndicate. These had a provisional maturity of April 30, 2003. The bank syndicate loans and the private placement have been shown as current liabilities because their term to maturity at the date of the half-year report was less than one year. The lenders have confirmed that they will give favorable consideration to an extension of the loan agreements if the key financial figures and conditions are met. The equity ratio fell to 17,7% as a consequence of the negative result.

Statement of income
Changes in the scope of consolidation – the partial sale and closure of companies in the Infocom division and sale of Step-Tec AG – and lower orders caused a decrease in net sales. Operating expenditure (excluding exceptional expenditure, amortization, interest and taxes) fell 32%, but this reduction was insufficient to completely offset the severe fall in operating output. The operating margin therefore fell to –4,7%.

The prior year's Ebita after exceptional expenditure included the profit from the sale of holdings.
Ebita after exceptional expenditure slipped from CHF 16,1 million to CHF –21,5 million because the operating result was lower than the prior year and Mikron incurred considerable exceptional expenditure in connection with securing external funding.

Despite an ongoing decrease in net indebtedness, "Interest expenses and other financial expenses – net" increased, primarily due to higher interest costs.

Statement of cash flow
In contrast to the prior year, most of the expenditure which led to the negative result affected liquidity, causing a reduction from CHF 41,3 million to CHF –15,0 million in cash flow before movement in net working capital. Cash flow improved from CHF –24,0 million to CHF 19,0 million due to the decline in volume and the associated decrease in net working capital. Cash flow from investment activities includes CHF 5,3 million for capital expenditure on tangible assets, CHF 1,4 million for tangible assets acquired through finance leasing and CHF 1,0 million for capitalized development projects. Divestments of tangible assets amounted to CHF 7,3 million. The cash flow from financing activities consisted of the repayment of the convertible bond and smaller loans.

Key data on the Mikron Technologie share	as at June 30		
	2002 CHF	2001 CHF	▲ %
Average number of issued shares (units) – basic	1'285'704	1'281'821	–
Average number of issued shares (units) – diluted	1'285'704	1'316'753	–3
Half-year's earnings per share – basic	–31.07	–51.60	40
Half-year's earnings per share – diluted	–31.07	–50.20	38
Cash flow per share – basic	14.78	–18.76	
Shareholders' equity per share – basic	86.71	165.43	–48

MIKRON Technology Group

First half-year 2002: Orders up on prior half-year, earnings below expectations, net liabilities reduced

The Group's major target in 2002 is a gradual reduction in its high level of indebtedness by generating free cash flow and achieving larger divestments. Debt reduction went according to plan in the first half-year, with a fall in net working capital and the proceeds of the Step-Tec AG sale achieving a CHF 19 million decrease. However, this was countered by higher-than-expected costs related to securing external funding. Investments totaling CHF 8 million were offset by other small divestments of non-strategic assets.

Operating profit fell to CHF –9,1 million about CHF 5 million worse than target, due to the economic environment and the extended time needed to turn around the "Components" segment. Exceptional expenditure totaled about CHF 12 million – made up of the high cost of securing external funding and depreciation on divestments – bringing the half-year loss to just under CHF 40 million, about CHF 10 million higher than planned.

With the exception of the Machining Technology division and the Infocom joint ventures, orders progressed satisfactorily. At CHF 226,7 million, the order volume was 14% lower than the disinvestment-adjusted first half of 2001, but 15% higher than the second half of 2001. Net sales of CHF 194,1 million reflected the weak order flow of the prior periods, at least for Production Equipment. The stock of orders increased by about CHF 12 million compared to the end of 2001.

First half-year 2002: Results

CHF mill.	1st half-year 2002	1st half-year 2001
Ebita before exceptional expenditure – net	–9,1	–2,2
Ebita	–21,5	16,1
Half-year results	–39,9	–66,1

Outlook

The second half of the year is not expected to bring any marked improvement in the economy. This outlook is based on Mikron's own specific situation as regards the market and projects. The Production Equipment segment's bid pipeline indicates that the order volume will remain steady in Assembly Technology and Axxicon Mould Technology and increase in Machining Technology. The relatively healthy first-half order volume and the expected increase in take-up volume in many projects in the Components segment will cause net sales to rise. We are expecting new orders for the whole year, before disinvestment of the Machining Technology division, of a little over CHF 450 million and net sales in the order of CHF 430–440 million.

Operating earnings before exceptional expenditure will improve by the end of the year. Exceptional expenditure for securing external funding will remain at a high level and interest costs will increase in the second half due to the loan agreements. Net earnings for the year will be significantly worse than planned. Depending in particular on the timing and proceeds of the disinvestment of the Machining Technology division, net earnings for the year will be either lower or higher than half-year net earnings. Indebtedness will fall due to the free cash flow generated by operating activities and the proceeds of the sale of Machining Technology. However, target gearing of 1,2 and an equity ratio approaching 30% will not be achieved by the end of 2002.

The sale of the Machining Technology division is in progress.

First half-year 2002: Volume figures

CHF mill.	1st half-year 2002	1st half-year 2001	▲ %	▲ % adjusted	2nd half-year 2001	▲ %	▲ % adjusted
Orders	226,7	297,0	–24	–14*	204,2	11	15*
Net sales	194,1	344,7	–44	–24*/**	262,8	–26	–17*/**
Stock of orders	164,2	197,1	–17	–8	152,2	8	20

* Prior year volume excluding disinvested companies

** Prior year excluding exceptional effects from the first-time application of the POC method

Mikron in the first half-year 2002: Business segments

"Production Equipment" segment

The scope of consolidation has changed since the prior year due to the sale of Step-Tec AG, a company in the Machining Technology division. The company was sold to Agie-Charmilles with retroactive effect from January 1, 2002. The prior year's sales included a one-off increase of CHF 60 million resulting from application of the percentage of completion (POC) method.

The three business divisions put in varying performances. Machining Technology orders were considerably down on the prior year at about the same level as the second half of 2001, while new orders at Axxicon Mould Technology and Assembly Technology improved significantly against both the first and second half-years of 2001. Axxicon Mould Technology benefited the most from the first signs of economic revival. Orders in the other two divisions were affected more by special cycles in specific market niches and by the timing of major projects than by the economy.

Net sales mirror order levels, with a time lag caused by processing times, and here reflected the weakness in new orders, particularly in the second half of 2001.

Operating earnings remained just in the black, thanks to rigorous costs savings – half-year costs fell by CHF 16 million or 17% against the first half of 2001 to around CHF 76 million.

Outlook

New orders are expected – fairly irrespective of general economic trends – to be healthy in all divisions in the second half due to the specific project status. This means that Machining Technology, with some large orders expected in the fall, should also be able to achieve a considerable improvement in its performance. Net sales in all divisions will increase accordingly. The operating result at Axxicon Mould Technology and Assembly Technology will improve to an attractive level. Despite low volumes, Machining Technology should achieve another positive result.

Details on "Machining Technology"

Machining Technology's performance was characterized by two weak half-years, each with new orders of only CHF 45 million or so ("normal" situation: CHF 70 – 80 million per half-year). This was due in part to the general economic situation, which was marked by a severe downturn in the electrical and electronics sector (machines for plugs and screw connections), but also to customers postponing decisions. However, Mikron's situation was exacerbated by two market-specific effects. The events of September 11 caused a temporary collapse in the market for ballpoint pen machines in the second half of 2001. The situation has since returned to normal. The past 12 months have seen relatively weak order levels for production systems of new, environmentally friendly injection systems. This was caused by innovation cycles. Capacity for the second generation has been established and orders for the third generation will not flow until the second half of 2002. The division reacted to this situation with massive cost savings, using its positive cash flow to absorb the collapse and achieve break-even. This involved very few job losses, with most staff going onto short-time working, a measure that allowed the division to retain its very experienced staff. Since May the order mix has improved in favor of higher value creation, so it has been possible to vastly reduce the number of staff on short-time working.

Key figures for "Production Equipment"

CHF mill.	1st half-y. 02	1st half-y. 01	▲%	▲% adjusted
Orders	154,0	196,6	–22	–14*
■ Machining Technology	44,7	98,7	–55	–44*
■ Axxicon Mould Technology	43,1	37,2	16	
■ Assembly Technology	66,2	60,7	9	
Net sales	127,8	247,1	–48	–29*/**
■ Machining Technology	47,7	98,3	–51	–18*/**
■ Axxicon Mould Technology	35,4	35,9	–1	
■ Assembly Technology	44,7	112,9	–60	–47*/**
Stock of orders	146,7	188,7	–22	
■ Machining Technology	56,7	110,1	–49	
■ Axxicon Mould Technology	23,8	24,6	–3	
■ Assembly Technology	66,2	54,6	21	
Ebita (Earnings before amortization of goodwill, interest and taxes)	1,3	19,6		
as % of net sales	1,0	7,9		

* Prior year volume excluding disinvested companies

** Prior year excluding exceptional effects from the first-time application of the POC method

Details on "Axxicon Mould Technology"

There was a considerable improvement in the economic environment for plastic injection tools, above all in the CD, DVD and mobile telephone markets. The order books of both of Axxicon's specialist companies are full. Large orders were received for medical equipment from both external customers and projects running in conjunction with the

Plastics Technology division. A long-term outsourcing contract was signed with a highly regarded customer in Denmark with an annual requirement for hundreds of new injection tools. The contract requires the capacity of various Axxicon companies and covers not only the manufacture of the tools, but also their complete testing on injection machines. Various reorganization measures, including a large reduction in overheads in the Dutch companies, produced a 20% increase in productivity in the last six months. The Assembly Technology and Plastics Technology divisions cooperated closely to increase the marketing effort to large, international customer groups. This resulted in significantly higher new orders and a clearly positive operating result.

Details on "Assembly Technology"

New orders in the first half of 2002 improved by 50% against the second half of 2001 and 10% against the relatively strong first half of 2001. Assembly Technology therefore bucked the general trend of the sector – a severe decline over the last 12 months, similar to the machine tools sector – thanks to good diversification on the various user markets and its positioning in the medical equipment market. In the first half of 2002 the division received large orders from the medical sector, both directly from external customers and via the Plastics Technology division. The new product platform, which has even greater convertibility, was very well received by the market. As at the end of June, the USA was the only country where the level of orders remained low. This was due to customers continually postponing project decisions. The situation improved in July and August. The division's sales are still at a low level because of the poor order level in the second half of 2001. However, cost savings have allowed the division to achieve another positive operating result.

"Components" segment

The scope of consolidation has changed in that the prior year Infocom Technology's figures included volumes from Scandinavian companies which were closed or sold in the second half. Up until the end of April the figures also included the full volumes of the Asian companies that were transferred into the joint venture with Balda on May 1, 2001.

Key figures for "Components"

CHF mill.	1st half-y. 02	1st half-y. 01	▲%	▲% adjusted
Orders	88,9	100,5	–11	23*
■ Plastics Technology	77,8	62,7	15	0*
■ Infocom-Joint-Ventures	11,1	37,8	–61	17*
Net sales	67,4	104,6	–36	–10*
■ Plastics Technology	57,0	66,1	–14	0*
■ Infocom-Joint-Ventures	10,4	38,5	–63	17*
Stock of orders	32,7	24,0	36	
■ Plastics Technology	30,5	16,0	91	
■ Infocom-Joint-Ventures	2,2	8,0	–73	
Ebita	–5,7	–20,1	72	
as % of net sales	–8,5	–19,2		

* Volume excluding disinvested holdings

As at the end of June 2002, Infocom Technology includes the joint venture with Balda – Mikron's share is a 50% holding in a Norwegian engineering company and a Chinese company and a 25% holding in a Malaysian company – and the joint venture with TecStar, where Mikron has a 50% holding in a Texan production company.

The first half of 2002 can be seen as a continuation of the turnaround efforts of 2001, although the economic environment has not improved. Business was particularly disappointing in the Infocom joint venture companies in Asia. In Plastics Technology (automotive, medical and electrical components) there was a healthy trend in orders for production equipment (tools, automation) to be used in future order contracts for components. More than CHF 16 million of these orders were passed on to Axxicon Mould Technology and Assembly Technology. Net sales reflected the weak economy, but also the short-term focus inherent in the phasing out of unprofitable projects and in western European capacity reduction. The operating result was below expectations, reflecting the situation with the turnaround and the economy.

Outlook

The project position is expected to greatly increase volumes in the Infocom joint venture companies in Asia and the USA in the second half of 2002. Volumes are drawn from a broad base of customers, with projects from Siemens, Motorola, Sony-Ericsson, Alcatel and local Chinese companies. Volume should increase to CHF 30-35 million.

Second-half volumes in Plastics Technology are expected to increase by 10–15% against the first half of 2002 on the basis of the projects lined up. In the short term, turnaround activity will continue to concentrate on the plants in Norway and Andersen (USA). The expansion of the medical business – via the installation of a large clean room in Nidau (Switzerland) and the cooperation with additional customers – is proceeding to plan. Sales and Engineering will be gradually placed under the charge of one management team, which will be greatly strengthened. High-volume strategic projects will be targeted in all Mikron's major market segments. The operating result will continue improving up until the end of the year.

Details on "Plastics Technology"

Orders include about CHF 25 million for production equipment for future production contracts. Around CHF 18 million relate to medical technology and include tools and automated systems for the long-awaited major project with GlaxoSmithKline. Net sales declined to 14%, reflecting in part the weaker market conditions compared with 2001. The remainder of the fall relates to the conscious decision to phase out low-yielding volume. As planned, the first half saw the sale of both tooling companies in Switzerland and Italy to neighboring firms. They will continue to work closely with Mikron as strategic sub-contractors in their respective specialties. In addition, the production volume in Italy has been condensed down to just one plant. In a further measure, a capacity optimization project was kicked off with the aim of concentrating western European capacity into fewer, larger plants. An additional aim is to expand capacity in eastern Europe and China, which are located near to customers and are cost efficient. In order to strengthen future business and improve its strategic direction, Mikron has placed its main focus on reorganizing and expanding its sales and engineering capacity. It is planned that Plastics Technology concentrates more of its efforts on large projects with global customers and looks to cooperate with customers at an earlier stage in product development.

Details on the joint ventures with Balda and TecStar

In the joint venture with Balda, the existing projects in the Chinese factory experienced constant delays in volume, mainly due to the economic environment facing customers in both Europe and Asia. Tooling order books are completely full, which is the basis for securing future volumes. Take-up volumes have been increasing since June. As expected, sales of mobile phone components in Malaysia have completely fallen away with the switch to China. A local businessman continues to hold 50% in the company, which has been restructured into a total provider for the industrial application and manufacture of all types of wireless technology equipment. This includes an increasing number of personal security devices, which is a market the Norwegian engineering firm in the joint venture is also focusing on by providing support to the customer from product idea to prototype. The switch was not without problems and the first half saw a massive collapse in volumes. Thanks to a high degree of cost flexibility, the joint venture achieved a neutral operating result.

The order situation for the second half looks considerably better and volumes since July have also risen strongly. The joint venture with TecStar in San Antonio, USA, concentrated on acquiring new Infocom orders in the first half. These projects will enable the company to make better use of plant capacity and to cover plant costs.