

# First half-year 2003: Restructured balance sheet, focusing on customers and optimizing the business



The Mikron Technology Group's two most important goals for the first half year of 2003 have been achieved: The operating result was improved despite the difficult economic environment, and the balance sheet was successfully restructured at the same time.

## Operating performance: improved result in a difficult environment

Orders continued to decrease to CHF 196.9 million when compared to the previous year (CHF 226.7 million) and the second half of 2002. Reasons are continued slow demand for production related investment goods, which affected the Production Equipment segment especially.

Net sales were increased by 12.3% to CHF 217.9 million (previous year: CHF 194.1 million). This is representative for Production Equipment of incoming orders during past half years and, in the case of Components, a result of the Infocom joint venture's growth in Asia.

The operating result (EBITA before special expenses) for the first half-year of 2003 was improved despite a difficult economic environment. The improvement came about as a result of increased volumes and a better project/product mix.

## Half-year result: marked by special income and expenses

The half-year result of CHF 111.6 million is strongly influenced by special income and expenses (for details see page 5). These are CHF 118.9 million and are made up as follows:

- CHF 220.5 million, forgiveness of debts
- CHF -73.0 million, goodwill impairment
- CHF -28.6 million, other

First half-year 2003: Results		
CHF mill.	1 <sup>st</sup> half-year 2003	1 <sup>st</sup> half-year 2002
EBITDA (before exceptional expenses)	17,5	7,4
EBITA (before exceptional expenses)	4,6	-9,1
Exceptional expenses	-28,6	-12,4
EBITA (after exceptional expenses)	-24,0	-21,5
Half-year results	111,6	-39,9

## Outlook

No improvement in the economy is expected for the second half of 2003. As a result, orders are not expected to reach the previous year's level. Additionally, net sales will be influenced by the decreased orders of the first half of the year, which will have a negative effect on all of the year.

## Priorities

After the completion of the balance sheet restructuring, all the Group's efforts have gone into optimizing the business. The main focus is given to total orientation towards the customers' needs: Mikron wants to recapture its customers' trust and, thereby, improve plant utilization. At the same time, the project/product mix and internal procedures are to be improved in order to return to profitability. Specific investments to improve efficiency and to strengthen innovation will support these optimization measures.

In addition, management has begun to examine a mid-term strategy. Emphasis is placed on optimizing the business portfolio and on the sustained improvement of profitability.

First half-year 2003: Volume figures					
CHF Mio.	1 <sup>st</sup> half-year 2003	1 <sup>st</sup> half-year 2002	▲ %	2 <sup>nd</sup> half-year 2002	▲ %
Orders	196,9	226,7	-13,2	215,9	-8,8
Net sales	217,9	194,1	12,3	220,6	-1,2
Stock of orders	121,7	148,7	-18,2	-	-

# Mikron in the first half-year 2003:

## Business segments

### "Production Equipment" segment

The Production Equipment segment's orders have decreased by 20.1% to CHF 123.1 million (previous year: CHF 154.0 million) in comparison to the previous year. The main difference can be found in the Assembly Technology division. Last year, its figures included two large orders in medical technology for a combined amount of over CHF 31 million. Overall, orders for the segment were below expectations and another 10% less than the second half of 2002. This is mainly due to the customers' continued restraint exercised in connection with investment decisions. With approximately CHF 40 million each, the three segments Machining Technology, Axxicon Mould Technology and Assembly Technology acquired nearly identical quantities of orders.

Net sales rose by 10.1% to CHF 140.7 million and mirrors an image of orders shifted by their processing time. For Machining Technology and Assembly Technology it represents the comparatively high orders for 2002's first half and for Axxicon Mould Technology the figures for 2002's second half.

Due to increased production volumes, an adjusted cost structure and an improved project/product mix, the operating result was increased to CHF 7.2 million or 5.1% of net sales.

Key figures for "Production Equipment" segment			
CHF Mio.	1 <sup>st</sup> half-y. 03	1 <sup>st</sup> half-y. 02	▲%
Orders	123,1	154,0	-20,1
■ Machining Technology	40,5	44,7	-9,1
■ Axxicon Mould Technology	41,7	43,1	-3,1
■ Assembly Technology	40,8	66,2	-38,3
Net sales	140,7	127,8	10,1
■ Machining Technology	42,2	47,7	-11,4
■ Axxicon Mould Technology	43,3	35,4	22,3
■ Assembly Technology	55,2	44,7	23,6
Stock of orders	100,7	146,7	-31,4
■ Machining Technology	30,1	56,7	-46,9
■ Axxicon Mould Technology	26,6	23,8	11,8
■ Assembly Technology	44,0	66,2	-33,5
EBITA (Earnings before amortization of goodwill, interest and taxes) as % of net sales	7,2	1,3	553,8
	5,1	1,0	-

### Outlook

No changes in the economic situation are expected for the second half of the year. Compared to the first half, orders will hardly increase, meaning that the previous year's level of approximately CHF 291 million will not be reached. Net sales will also be below last year's figures. Margins will remain unsatisfactory mainly because of the Machining Technology division's delivering of a negative result.

### Details on «Machining Technology»

For the fourth time in a row, orders were at an insufficient half-year level of CHF 40-45 million. For one, the reasons are found in the general slump in the machine tool industry, which has suffered a 50% decline in orders since the beginning of 2001. Furthermore, they are in specific Mikron segments that have been especially affected by the weakness in the market (e.g., ballpoint pen machines), or where delays are occurring due to innovation investments (motor elements and injection systems). Only the product group of cutting tools can report a strong growth. In spite of further cost reduction measures, the net sales of CHF 42.2 million (CHF 47.7 million in the previous year) could not yield a positive operating result.

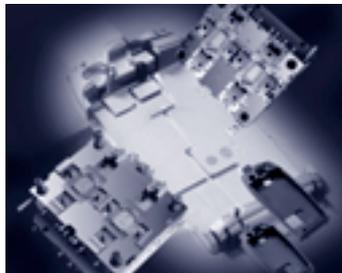


Multistar, the quickest, automatic rotary transfer machine for small parts.

### Details on "Axxicon Mould Technology"

The economic environment for plastic injection moulding tools has improved in the markets for optical media (CD, DVD), stabilized at a good level for mobile telephones, but continued to remain comparatively weak in all other markets on account of the general economic situation. Accordingly, orders for optical media and mobile phone tools improved further. The level of orders for tools in medical technology remained stable, while orders for other products, mainly close to the consumer market, declined. The company in Denmark was affected especially: Based on its slow incoming orders and continued great operating weakness, it was decided to cease activities in Denmark. With CHF 41.7 million, this year's orders were slightly behind last year's (CHF 43.1 million). Net sales were

increased by 22.3% to CHF 43.3 million (previous year: CHF 35.4 million). Consequently, the operating result improved strongly.



Industrialized – specified: Injection moulding tool programs for high-volume precision production.

### Details on "Assembly Technology"

The demand for automatic assembly systems remained stable in Europe but continued to decline in the USA. There are two reasons for the decline in orders to CHF 40.8 million (previous year: CHF 66.2 million):

- As mentioned before, during the previous year two medical technology projects with a total volume surpassing CHF 31 million were posted;
- Orders in the USA continue to drop.

Excluding last year's two major orders, orders could be held stable in all markets in Europe.

Net sales climbed to CHF 55.2 million (previous year: CHF 44.7 million), and it is a result of a good stock of orders during the last half of the previous year. The increased volume and a good mix of projects with many repetitive jobs led to a very good and, when compared to the previous year, significantly improved operating result.



High performance, speed and flexibility are combined in the new generation of highly flexible assembly systems.

### "Components" segment

Orders for the Components segment decreased by 15.7% to CHF 74.9 million (previous year: CHF 88.9 million). CHF 18 million were included in the previous year for production facilities regarding the medical technology order. During the current year, a reduction of minus CHF 3 million was made in the BaldaMikron joint venture due to a change of definition. Excluding this effect, orders increased by 10%, strong growth in Asia's mobile phone sector being the main reason.

Net sales rose by 19% to CHF 80.2 million (previous year: CHF 67.4 million). Included in this are the CHF 3 million for the above-mentioned production facilities. Net sales for the Plastics Technology division remained stable compared to the previous year and those for the Infocom-joint ventures doubled.

With CHF 1.4 million, the operating result (EBITA) is once again positive for the first time in two years. The significant improvement came from Europe and Asia (joint venture), while the USA remained negative.

#### Key figures for "Components" segment

CHF Mio.	1 <sup>st</sup> half-y. 03	1 <sup>st</sup> half-y. 02	▲%
Orders	74,9	88,9	-15,7
■ Plastics Technology	57,1	77,8	-26,6
■ Infocom-Joint-Ventures	17,8*	11,1	60,4
Net sales	80,2	67,4	19,0
■ Plastics Technology	59,6	57,0	4,6
■ Infocom-Joint-Ventures	20,6	10,4	98,1
EBITA	1,4	-5,7	124,6
as % of net sales	1,7	-8,5	-

\*including corrections of CHF -3.0 million to adapt to Mikron's definition

### Outlook

Considering the present economic environment, the fundamental new orientation and restructuring program for the Plastics Technology division launched at the beginning of 2002 presents a special challenge, and it will be completed as planned near the end of 2004. Excluding the above-mentioned production facilities, this will lead to a stagnation of the volumes compared to the previous year (CHF 110.4 million). Based on the good project portfolio, the BaldaMikron joint venture will increase net sales during the second half of 2003. All joint venture companies will yield

net sales of over CHF 110 million for 2003. The consolidated pro rata share for Mikron will be in the vicinity of CHF 45 million.

### Details on "Plastics Technology"

Die Excluding the mentioned production facilities, orders decreased by 5% to CHF 57.1 million (previous year: CHF 77.8 million). The share in future orders for engineering and tools could be held constant at approximately CHF 7 million. Net sales – always excluding the mentioned production facilities–remained stable at CHF 59.6 million (previous year: 57.0 million), however, volumes increased in Europe and Asia and decreased in the USA.

New project start-ups in Europe resulted in a growth of about 5%.

In the USA, the shut-down of the Anderson plant for economic reasons and the transfer of the remaining business to Rochester led to a decline of over 20%. A year ago, a streamlining project was launched with the objective to



Injection moulding precision repeated a million times at any site around the world.

concentrate the high-wage countries' capacities in fewer and larger plants, as well as to build up new, customer-oriented and more cost-efficient capacities in Eastern Europe and China:

- With the opening of the plant in China, Asia was able to produce volume for the first time.
- Construction of a new plant in the Czech Republic has begun.

Compared to the previous year, the operating result has significantly improved and reached the breakeven point in Europe. It remained negative in the USA due to the expenditures associated with the shut-down and the transfer; in China, it was because of the start-up situation.

### Details on the Infocom joint venture

Compared to the previous year, the joint venture with the German company Balda concentrating on the Infocom market was able to triple the volume at the two sites in Asia. This is not reflected in the comparative half-yearly net sales figures of CHF 20.6 million (previous year: CHF 10.4 million), because 2002 still contained now discontinued activities in Europe and the USA. Especially in China, demand by global and local manufacturers for mobile phone components remained high. There has been an impressive development in the activities started in the joint venture in China in 2000: Within less than three years, monthly sales grew from 0 to CHF 5 million (of which 50% are Mikron's). The workforce in China increased to 1,500.

In Malaysia, the discontinuance of the production of mobile phone components transferred to China could be replaced with "box-built," wireless technology products for the mobile phone and security sectors as originally intended.

Volumes for fully assembled subsystems for digital cameras developed nicely. Net sales compared with the previous year increased from CHF 10 million to over CHF 25 million (25% of which are Mikron's). The operating result of the joint venture with Balda improved in comparison to the previous year and reached a good level.



Individual services (here: painting) or complete procedures for our Infocom customers.

The joint venture with TecStar in the USA was dissolved during the first half of 2003. Reason for the withdrawal is the customers' moving nearly their entire mobile phone business to Asia. The plant in San Antonio, for which Mikron signed a long-term lease agreement, and that was set aside for the originally planned Infocom activities needs to be given a new purpose. Provisions for unsecured costs were already made at the end of 2002.

# The Mikron Group in the first half-year 2003: Balance sheet, statement of income and cash flow

Consolidated balance sheet		in CHF 1000	
	30.06.03	31.12.02	▲%
Liquid assets	46'668	34'332	35,9
Receivables, net cash from production contracts and prepaid expenses	101'290	118'764	-14,7
Inventories	62'979	55'429	13,6
Short-term loans	1'001	1'678	-40,3
<b>Total current assets</b>	<b>211'939</b>	<b>210'212</b>	<b>0,8</b>
Tangible assets	200'497	207'469	3,5
Financial assets	588	2'774	-78,8
Intangible assets	36'361	112'051	-67,5
Employee pensions and deferred tax credits	2'295	3'680	-37,6
<b>Total fixed assets</b>	<b>239'740</b>	<b>325'974</b>	<b>-26,5</b>
<b>Total assets</b>	<b>451'680</b>	<b>536'186</b>	<b>-15,8</b>
<b>Total current liabilities</b>	<b>137'487</b>	<b>483'004</b>	<b>-71,5</b>
<b>Total long-term liabilities</b>	<b>97'798</b>	<b>45'441</b>	<b>115,2</b>
<b>Total liabilities</b>	<b>235'285</b>	<b>528'445</b>	<b>-55,5</b>
<b>Total shareholders' equity</b>	<b>216'395</b>	<b>7'741</b>	<b>2795,4</b>
Total shareholders' equity as % of total assets	47,9%	1,4%	
<b>Total liabilities and equity</b>	<b>451'680</b>	<b>536'186</b>	<b>-15,8%</b>

First half-year 2003: Consolidated statement of income		in CHF 1000	
	2003	2002	▲%
Net sales	217'948	194'083	12,3
Changes in WIP/capitalized own constructions	5'667	3'434	65,0
<b>Total operating output</b>	<b>223'615</b>	<b>197'517</b>	<b>13,2</b>
Total operating expenses excl. exceptional expenses	219'002	206'632	6,0
<b>EBITA before exceptional income and expenses</b>	<b>4'613</b>	<b>-9'115</b>	<b>150,6</b>
as % of net sales	2,1%	-4,7%	
Exceptional income and expenses	-28'650	12'352	-131,9
<b>Earnings before amortization of goodwill, interest and taxes (EBITA)</b>	<b>-24'037</b>	<b>-21'467</b>	<b>12,0</b>
as % of net sales	-11,0%	-11,1%	
Amortization of goodwill	-3'062	-4'268	28,3
Impairment goodwill	-73'000	0	-100,0
<b>Earnings before interest and taxes (EBIT)</b>	<b>-100'100</b>	<b>-25'735</b>	<b>-289,0</b>
Interest and other financial expenses – net 2)	-4'193	-14'278	70,6
Forgiveness of debts	220'529	0	100,0
<b>Earnings before taxes (EBT)</b>	<b>116'236</b>	<b>-40'013</b>	<b>320</b>
Taxes	4'635	-72	2826,4
<b>Half-year net earnings</b>	<b>111'600</b>	<b>-39'941</b>	<b>279,4</b>
as % of net sales	51,2%	-20,6%	

First half-year 2003: Consolidated statement of cash flow		in CHF 1000	
	2003	2002	
<b>Cash flow from operating activities</b>	<b>-89</b>	<b>19'003</b>	
<b>Cash flow used in investing activities</b>	<b>-11'562</b>	<b>-415</b>	
<b>Cash flow from financing activities</b>	<b>24'035</b>	<b>-7'591</b>	
Translation adjustments on cash	-48	-672	
<b>Increase/decrease in cash</b>	<b>12'336</b>	<b>10'325</b>	

# Financial Report

## Half-year 2003

### Accounting principles

The unaudited half-year report was prepared in accordance with the International Financial Reporting Standards (IFRS). The same accounting principles were applied as in the consolidated annual report for 2002.

### Changes in scope of consolidation

The following investments were divested or liquidated during the first six months:

- New Ingenia SA, Switzerland, sold on January 1, 2003;
- Mikron Tunsberg AS and Mikron Norge AS, both in Norway, 90% sold in March, 2003;
- Mikron TecStar, LP, San Antonio/USA, liquidated in June, 2003.

The divested interests yielded net sales of CHF 5.4 million and an EBITA of –2.7 million during the first half of 2002. During the period under review, net sales were CHF 0.6 million and the EBITA was at CHF –0.7 million. On May 8, 2003, the Board of Directors asked the judge in charge to protect Axxicon Moulds Faarevejle A/S, Faarevejle/Dk under bankruptcy laws and to begin insolvency procedures. During period under review, no investments were acquired.

### Seasonality of business

The activities of the Group are not subject to any major seasonal fluctuations.

### Impairment

The recoverability of fixed assets has been tested. The dissolution of the joint venture with TecStar reduced the San Antonio, Texas, plant's fixed assets by CHF 2.0 million. The new Board of Directors effected an adjustment of the business plans and reappraised goodwill. As a consequence, the Infocom acquisition's goodwill was reduced by CHF 30.9 million and Axxicon's by CHF 42.1 million.

### Balance sheet restructuring

(Forgiveness of debts by lenders, reduction in capital and subsequent recapitalization)

Mikron Holding AG's Annual General Meeting agreed to a balance sheet restructuring on June 18, 2003:

- Reduction of shareholders' equity by reducing the par value of all outstanding registered shares from CHF 50.– to CHF 0.10.<sup>1)</sup>
- Recapitalization of shareholders' equity (tranche A) by creating 11,571,336 bearer shares of CHF 0.10 at an issue price of CHF 8.65 to be fully subscribed by the pool of investors.<sup>1)</sup>
- Recapitalization of shareholders' equity (tranche B) by

creating 1,285,704 registered shares of CHF 0.10 offered to present shareholders at an issue price of CHF 8.65.

- Creation of authorized capital (2,570,000 registered shares of CHF 0.10) for issue of options (preferential price of CHF 0.10 per share) to the lenders. In return, the lenders forgive a substantial part of their loans/-notes (including accrued interest) in the amount of CHF 220.5 million.<sup>1)</sup>

<sup>1)</sup> Executed and posted during the reporting period. The lenders transferred the remaining amount of credit (CHF 50 million) to a new credit agreement with a duration of three years.

### Provisions

For depreciation of invested funds (especially loans and receivables), CHF 4.5 million in provisions were posted for the imminent bankruptcy of Axxicon Moulds Faarevejle A/S. A provision of CHF 2.7 million was made for an irrevocable, economically only partially utilizable, long-term lease agreement in the USA.

### Special income and expenses

In connection with the balance sheet restructuring, special expenses in the amount of CHF 16.3 million were incurred. Selling off interests as well as the imminent bankruptcy of Axxicon Moulds Faarevejle A/S resulted in a net loss of CHF 4.9 million. CHF 4.7 million in expenses were brought on in connection with adjusting excess capacity at two sites in the USA.

### Events following the balance sheet date

The capital increase (tranche B) was successfully concluded in July. An encouraging 84% of former shareholders exercised their rights; the rest of the shares were subscribed in full by the pool of investors. The pool of investors' portion of shareholders' equity is at 80% for the moment, but will gradually decrease to 70% once the lenders have made use of their options. This transaction concludes the balance sheet restructuring process. Bankruptcy was declared for Axxicon Moulds Faarevejle A/S on July 24, 2003. With the appropriate provisions made in the semi-annual report dated June 30, 2003, the financial consequences have been accounted for.

#### Development of shareholders' equity

CHF 1000	2003	2002
Position as at January 1, 2002	7'742	150'673
Half-year earnings	111'600	–39'941
Increase of capital	100'092	0
Revaluation reserves	0	–777
Exchange rate differences	–3'039	1'529
Position as at June 30, 2003	216'395	111'484