

# **NEXTROM INTERIM REPORT**

**JANUARY - JUNE 2004**



## **INTERIM REPORT 2004**

### **General**

The market situation in Telecommunication related Fiber Optics industry has continued to be extremely difficult during the first 6 months of 2004 and impacted thus negatively on Nextrom's results. The investment levels in the industry continued very low and the recovery of the market is slower than earlier anticipated.

Nextrom received new orders worth of CHF 12.0 million during the first 6 months of 2004 (first 6 months 2003: CHF 6.2 million). The order backlog in the core business amounted to CHF 8.2 million at the end of June 2004 (end of June 2003: CHF 6.9 million).

Gross sales for the first 6 months amounted to CHF 7.9 million (first 6 month 2003: CHF 10.3 million).

The operating result once again suffered strongly from the depressed market situation. The operating loss of the first six months decreased only slightly from previous year, being CHF 9.9 million (CHF 11.7 million for the same period in 2003). The strong restructuring measures carried out in 2002 and 2003 in two phases have had a major decreasing impact on the structure costs of the company, bringing them down to ca. 30 % of the level they were two years earlier. Since the market has continued to be more difficult than anticipated, the company has decided on a further restructuring program which will be carried out in September-October. The actions will include closing of some sales offices and lay-offs in several locations. The aim is to keep the core competencies of the company in order to meet the customers' requirements also in the future. At the same time, other alternatives including potential partnerships are being considered with the aim to generate synergies and maximize shareholder value.

In June 2004, Nextrom acquired technology and assets related to soot fabrication of optical fiber preforms from Bular LLC, a Californian company.

During the first six months of 2004, the company has drawn the remaining undrawn portion of CHF 15.0 million on the CHF 86 million long-term loan facility granted by its main shareholder Nokia Corporation.

### **Outlook**

The expectations of the recovery of the Telecommunication related Fiber Optics market have been continuously postponed. As a result, the development in Nextrom's order intake has been slower than earlier anticipated. The management of the company now estimates that sales will grow from last year's CHF 17 million to the range of CHF 20-25 million for the whole year of 2004 and that the company will show losses also from the second half of the year.

## Consolidated Interim Financial Information

### Condensed consolidated income statements for the periods

	Notes	Jan-Jun 04 CHF 1'000	Jan-Dec 03 CHF 1'000	Jan-Jun 03 CHF 1'000
Gross sales	2	7'940	17'136	10'331
Gross profit		1115	(439)	395
Operating result before exceptional items	3	(9'894)	(19'842)	(9'623)
Operating result	3	(9'873)	(24'504)	(11'708)
Result before tax		(11'359)	(24'417)	(11'942)
<b>Net result</b>		<b>(11'475)</b>	<b>(24'234)</b>	<b>(12'025)</b>
Basic loss per bearer share	4	(4.58)	(9.68)	(4.80)
Basic loss per registered share	4	(1.53)	(3.23)	(1.60)
Diluted loss per bearer share	4	(4.43)	(9.68)	(4.80)
Diluted loss per registered share	4	(1.48)	(3.23)	(1.60)

### Condensed consolidated balance sheets for the periods ending

	Jun 04 CHF 1'000	Dec 03 CHF 1'000	Jun 03 CHF 1'000
<b>Assets</b>			
Cash and short term deposits	27'701	21'306	34'643
Other current assets	11'817	15'140	28'285
Long term assets	25'257	28'493	30'502
<b>Total assets</b>	<b>64'775</b>	<b>64'939</b>	<b>93'430</b>
<b>Liabilities and shareholders' equity</b>			
Current finance liabilities			810
Other current liabilities	26'406	30'700	45'827
Long term debt	20'000	5'000	5'000
Subordinated loan	66'000	66'000	66'000
Shareholders' equity	(47'631)	(36'761)	(24'207)
<b>Total liabilities and shareholders' equity</b>	<b>64'775</b>	<b>64'939</b>	<b>93'430</b>

**Condensed consolidated cash flow statements for the periods**

	<b>Jan-Jun 04</b>	<b>Jan-Dec 03</b>	<b>Jan-Jun 03</b>
	CHF 1'000	CHF 1'000	CHF 1'000
<b>Result before tax</b>	<b>(11'360)</b>	<b>(24'417)</b>	<b>(11'942)</b>
Adjustments for non cash items	1'862	288	411
Movement in net working capital	(970)	(1'215)	312
Income tax paid	(21)	2'819	2'355
<b>Net cash used by operating activities</b>	<b>(10'489)</b>	<b>(22'525)</b>	<b>(8'864)</b>
<b>Net cash from investing activities</b>	<b>1'764</b>	<b>2'147</b>	<b>531</b>
Loans from Nokia	15'000	25'000	25'000
Reimbursement of borrowings	836	(15'734)	(15'686)
Interest and Withholding tax paid	(610)	(1'097)	(326)
Capital increase	-	-	-
<b>Net cash from financing activities</b>	<b>15'226</b>	<b>8'169</b>	<b>8'988</b>
Net change in cash equivalents	6'501	(12'209)	655
Currency effects on cash	(106)	434	907
Cash at beginning of period	21'306	33'081	33'081
<b>Cash at end of period</b>	<b>27'701</b>	<b>21'306</b>	<b>34'643</b>

**Condensed consolidated statements of changes in Shareholder's equity for the periods**

	Capital Bearer shares	Capital Registered shares	Treasury shares	Retained earnings	Fair value and other reserves	Total Shareholders' Equity
	CHF 1'000	CHF 1'000	CHF 1'000	CHF 1'000	CHF 1'000	CHF 1'000
<b>Balance at 31 December 2002</b>	<b>5'638</b>	<b>1'875</b>	<b>(135)</b>	<b>(5'793)</b>	<b>(14'609)</b>	<b>(13'024)</b>
Net loss for the period				(12'025)		(12'025)
Foreign currency translation adjustment					842	842
<b>Balance at 30 June 2003</b>	<b>5'638</b>	<b>1'875</b>	<b>(135)</b>	<b>(17'818)</b>	<b>(13'767)</b>	<b>(24'207)</b>
Net loss for the period				(12'209)		(12'209)
Foreign currency translation					(345)	(345)
<b>Balance at 31 December 2003</b>	<b>5'638</b>	<b>1'875</b>	<b>(135)</b>	<b>(30'027)</b>	<b>(14'112)</b>	<b>(36'761)</b>
Net loss for the period				(11'475)		(11'475)
Reversal of fair value adjustment					616	616
Foreign Currency translation adjustment					(11)	(11)
<b>Balance at 30 June 2004</b>	<b>5'638</b>	<b>1'875</b>	<b>(135)</b>	<b>(41'502)</b>	<b>(13'507)</b>	<b>(47'631)</b>
<b>Number of Shares at 30 June 2004</b>	<b>1'879'420</b>	<b>1'875'000</b>	<b>960</b>			

## Notes to the consolidated financial information

### 1. Accounting policies

The consolidated profit and loss accounts and balance sheets have been prepared applying consistently the accounting policies detailed in the 2003 consolidated financial statements. The interim financial statements comply with IAS 34

### 2. Gross sales by Business Segments

	<b>Jan–Jun 04</b> CHF 1'000	<b>Jan-Dec 03</b> CHF 1'000	<b>Jan-Jun 03</b> CHF 1'000
Fiber Optics	7'940	16'389	9'601
Discontinued operations	-	747	730
<b>Total gross sales</b>	<b>7'940</b>	<b>17'136</b>	<b>10'331</b>

### 3. Segment Operating Result

	<b>Jan–Jun 04</b> CHF 1'000	<b>Jan-Dec 03</b> CHF 1'000	<b>Jan–Jun 03</b> CHF 1'000
Fiber Optics	(9'350)	(20'457)	(9'130)
Discontinued operations	(28)	2'602	580
Unallocated Holding costs	(516)	(1'987)	(1'073)
<b>Operating result before exceptional items</b>	<b>(9'894)</b>	<b>(19'842)</b>	<b>(9'623)</b>
Exceptional items	21	(4'662)	(2'085)
<b>Operating result</b>	<b>(9'873)</b>	<b>(24'504)</b>	<b>(11'708)</b>

Exceptional items comprise principally restructuring charges, impairments of fixed and other long-term assets, as well as the gains and losses from the disposal of discontinued operations.

#### 4. Loss per Share

	Jan-Jun 04	Jan-Dec 03	Jan-Jun 03
Net result (CHF 1'000)	(11'475)	(24'234)	(12'025)
Weighted average number of bearer shares in issue	1'878'460	1'878'460	1'878'460
Adjustment for share options	88'034	-	-
Diluted number of bearer shares	1'966'494	1'878'460	1'878'460
Weighted average number of registered shares in issue	1'875'000	1'875'000	1'875'000
Basic loss per bearer share (CHF)	(4.58)	(9.68)	(4.80)
Basic loss per registered share (CHF)	(1.53)	(3.23)	(1.60)
Diluted loss per bearer share (CHF)	(4.43)	(9.68)	(4.80)
Diluted loss per registered share (CHF)	(1.48)	(3.23)	(1.60)

The weighted average number of shares in issue during the year is calculated as the weighted average number of bearer shares and bearer equivalent registered shares in issue, excluding the average number of bearer shares purchased by the company and held as treasury shares.

#### 5. Stock option plans

The number of outstanding share options as per June 30, 2004 of the April 2003 plan was 107'000 to granted to management and 14'100 granted to eligible employees.

#### 6. Long term debt and subordinated loan

In March 2004 Nextrom and Nokia Corporation entered into a new senior long term facility agreement of CHF 86'000'000 combining two earlier loan agreements into one agreement. The subordinated portion remained unchanged at CHF 66'000'000. The new loan has a maturity of 11 years. The loan contains financial covenants for which advance waivers have been received for the period up until March 31, 2005.

#### 7. Contingent liabilities

Since the 2003 financial statements no material changes have incurred.