TORNOS

Interim Consolidated Financial Statements 2015

Tornos Holding Ltd.

Financial Review

General

This half-year report includes Tornos Holding Ltd. and all its subsidiaries. It covers the period from January 1 to June 30, 2015, with the same period of the previous year serving as the comparative period.

The Swiss National Bank's decision to discontinue the minimum exchange rate for the Swiss franc against the euro hit the Tornos Group during a growth phase, interrupting the previous year's upward trend. Like many other companies, Tornos could not escape the repercussions. In a single day new macroeconomic conditions were created which pushed up product prices by more than 12% compared with the international competition.
Tornos responded quickly to the changed conditions by immediately introducing an efficiency program with a targeted raft of measures. For example, purchasing in the euro zone was intensified, product prices were selectively adjusted, lean manufacturing was rolled out at a faster pace, cost controls were imposed even more rigorously and the number of hours worked per week in Switzerland rose from 40 to 43.

Order intake

Order intake fell by CHF 9.7 million or 9.5% year-on-year during the reporting period, to CHF 92.3 million (previous year: CHF 102.0 million). Exchange rate fluctuations, mainly affecting the euro, had a CHF 5.9 million impact on order intake. After currency adjustment, order intake came to CHF 98.2 million, CHF 3.8 million or 3.7% lower than in the previous year.

There was a sharp decline in orders in the Swiss domestic market in particular, with a drop of 63% (CHF -10.5 million) compared with the same period in 2014. In Asia, too, orders came in 25% or CHF 4.9 million behind the previous year's figure. However, the US market performed well. Here, order intake rose CHF 6.2 million (+230%) compared with the prior-year period. Europe (excluding Switzerland) was on a par with last year; after currency adjustment, order intake increased by around 15% year-on-year.

The service and parts business accounted for CHF 19.2 million of order intake, similar to the previous year's contribution.

The accompanying notes form an integral part of these interim consolidated financial statements

Net sales

Like order intake, net sales also fell year-on-year. As at June 30, 2015, they reached CHF 82.6 million, representing a drop of 8.5% or CHF 7.7 million on the previous year (CHF 90.3 million). Exchange rate fluctuations reduced net sales by CHF 5.5 million. After currency adjustment, the year-on-year fall was CHF 2.2 million or 2.5%.

The development of net sales and order intake varied in the different market regions. In the Swiss domestic market, net sales were only slightly (CHF -1.3 million) below the figure for the first half of the previous year. On the other hand, net sales declined significantly in the rest of Europe, with a drop of CHF 8.9 million or 17%. This was mainly the result of the removal of the minimum exchange rate for the Swiss franc. Net sales in America and Asia showed a significant year-on-year rise, at +33% and +13% respectively; however, prior-year figures were low.

Switzerland contributed 20% to net sales (previous year: 20%), while the share for Europe (excluding Switzerland) fell to 53% (previous year: 59%) because of exchange rates. The Americas saw their contribution rise to 11% (previous year: 7%). Asia also contributed slightly more, at 16% (previous year: 14%).

Gross profit

The gross profit margin fell by 2 percentage points year-on-year to 27.7%, reaching CHF 22.9 million for the reporting period (previous year: CHF 26.8 million). The volume-related fall was CHF 2.3 million.
Changes to the product mix and higher costs connected with the launch of new products had a negative impact of CHF 1.6 million.

Operating result

Cost-cutting measures were introduced as soon as the minimum exchange rate for the Swiss franc against the euro was removed, and these started to bear fruit in the second quarter of 2015 in particular. This meant that the operating result for the second quarter improved by about CHF 0.9 million compared with the first quarter thanks to lower operating expenses, even though quarterly sales and gross margins remained almost identical. It was also possible to reduce operating expenses by around CHF 0.8 million year-on-year, despite higher expenditure on research and development costs with a view to the planned expansion of the product portfolio over the next few years. Adjusted for income of CHF 0.5 million from the sale of machines in the previous year, costs were reduced by as much as CHF 1.3 million.

As at June 30, 2015, the operating result stood at CHF -0.9 million, CHF 3.1 million lower than in the previous year (CHF 2.2 million). The negative currency effect amounted to CHF 2.4 million. After currency adjustment, the operating result thus came to CHF 1.5 million, only CHF 0.7 million below the prior-year figure.

The operating margin was -1.1% (previous year: 2.5%).

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Net result

As at June 30, 2015, the net result came to CHF -2.5 million (previous year: CHF 2.2 million). It was badly hit by foreign exchange losses in the reporting period stemming from the removal of the minimum exchange rate for the Swiss franc against the euro (CHF -1.2 million). By the same date in the prior-year period, there was a foreign exchange gain of CHF 0.4 million. Overall, interest and taxes were much the same as in the previous year.

Consolidated balance sheet

The balance sheet total rose by CHF 1.6 million compared with December 31, 2014. On the asset side, trade receivables made a notable contribution to this increase (CHF 4.7 million), as did the inventory (CHF 2.1 million). Cash and cash equivalents fell by CHF 2.5 million to CHF 12.9 million, while other current assets declined by CHF 1.9 million to CHF 9.7 million. Non-current assets declined by CHF 0.7 million. On the liability side the interest bearing borrowings increased by CHF 5.0 million as a result of the proceeds received out of the shareholder loans. Trade payables declined by CHF 2.0 million to CHF 17.4 million. Other liabilities and accrued liabilities increased all together by CHF 1.8 million to CHF 18.6 million. The other balance sheet items have not changed significantly compared to prior year figures (December 31, 2014).

As at June 30, 2015, net cash stood at CHF 7.6 million (December 31, 2014: CHF 15.1 million).

As at June 30, 2015, shareholders' equity was CHF 82.6 million (December 31, 2014: CHF 85.2 million), of which CHF 0.9 million (December 31, 2014: CHF 0.7 million) were minority interests. The equity ratio declined by 2.7 percentage points compared with December 31, 2014 to stand at the still comfortable figure of 61.6%.

Consolidated statement of cash flows

Cash flow from operating activities came to CHF -6.7 million in the reporting period, well below the previous year's figure (CHF 15.3 million). A major reason for this large difference was the change in net working capital, which had contributed CHF 11.7 million to the positive cash flow in the previous year. In the period under review, net working capital made a negative contribution of CHF 5 .9 million.

Employees

As at June 30, 2015, headcount (FTE) was 644 (previous year: 602) and 40 apprentices (previous year: 40). The majority of the additional staff was hired at the factories in Xi'an, Taiwan, and in Moutier through temporary work agreements.

Foreign currency translation

The most significant exchange rates into Swiss francs for the Group in the period under review are shown in the table below.

Currency	Average rate		Closing rate	
	1.1.–30.6.2015	1.1.–30.6.2014	30.6.2015	31.12.2014
1 EUR	1.0578	1.2211	1.0363	1.2027
1 USD	0.9470	0.8907	0.9340	0.9894
1 GBP	1.4423	1.4864	1.4681	1.5368
1 RMB	0.1543	0.1450	0.1524	0.1608

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Interim consolidated income statement *(unaudited)*

In CHF 1'000	Notes	1st HY 2015 1.1.–30.6.2015	1st HY 2014 1.1.–30.6.2014
			Restated
Net sales	11	**82'586**	**90'291**
Cost of sales		–59'681	–63'455
Gross profit		**22'905**	**26'836**
in % net sales		*27.7%*	*29.7%*
Marketing and sales		–11'663	–13'094
General and administrative expenses		–8'732	–8'807
Research and development		–3'463	–3'232
Other income – net		43	528
Operating result		**–910**	**2'231**
in % net sales		*–1.1%*	*2.5%*
Financial income		8	29
Financial expenses		–153	–327
Exchange result, net		–1'179	412
Earnings/losses before income taxes		**–2'234**	**2'345**
Income tax		–257	–139
Net result		**–2'491**	**2'206**
in % net sales		*–3.0%*	*2.4%*
Thereof attributable to shareholders of Tornos Holding Ltd.		–2'353	2'266
Thereof attributable to minority interests		–138	–60
Result per share	10		
– basic (CHF per share)		–0.12	0.12
– diluted (CHF per share)		–0.12	0.12

Additional information (In CHF 1'000)		
EBITDA	**408**	**3'601**
Depreciation and amortisation	–1'318	–1'370
EBIT	**–910**	**2'231**

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Interim consolidated balance sheet *(unaudited)*

In CHF 1'000	Notes	30.6.2015	31.12.2014
ASSETS			
Cash and cash equivalents		12'899	15'434
Trade receivables		26'276	21'574
Inventories, net		59'214	57'092
Other short-term receivables		6'922	6'879
Prepayment and accrued income		2'752	4'736
Total current assets		**108'063**	**105'715**
Property, plant and equipment		24'222	24'756
Intangible assets		735	774
Deferred tax assets		1'036	1'187
Total non-current assets		**25'993**	**26'717**
Total assets		**134'056**	**132'432**
LIABILITIES AND EQUITY			
Interest bearing borrowings		60	63
Trade payables		17'397	19'383
Current tax liabilities		232	261
Other liabilities		11'655	10'725
Accrued liabilities and deferred income		6'959	6'067
Provisions		3'366	3'547
Shareholder's loan	8	5'000	-
Total current liabilities		**44'669**	**40'046**
Interest bearing borrowings		275	305
Retirement benefit obligations		5'802	5'969
Provisions		673	724
Deferred tax liabilities		31	185
Total non-current liabilities		**6'781**	**7'183**
Total liabilities		**51'450**	**47'229**
Share Capital		89'450	89'450
Share premium		28'814	28'814
Treasury shares		–5'242	–5'242
Retained earnings		–28'694	–31'839
Currency translation adjustments		–240	278
Net result		–2'353	2'996
Equity attributable to shareholders of Tornos Holding Ltd.		**81'735**	**84'457**
Minority interests		871	746
Total equity		**82'606**	**85'203**
Total liabilities and equity		**134'056**	**132'432**

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Interim consolidated statement of changes in equity *(unaudited)*

In CHF 1'000	Share capital	Share premium	Treasury shares	Retained earnings	Currency translation adjustments	Total attributable to shareholders of Tornos Holding Ltd.	Minority interests	Equity
December 31, 2013	**89'450**	**28'814**	**–6'771**	**–30'937**	**315**	**80'871**	**427**	**81'298**
Capital increase of the joint venture in Xi'àn	–	–	–	–	–	–	366	366
Net result				2'266		**2'266**	–60	2'206
Currency translation adjustments					–139	**–139**	–	**–139**
Share-based compensation				107		**107**	–	**107**
June 30, 2014	**89'450**	**28'814**	**–6'771**	**–28'564**	**176**	**83'105**	**733**	**83'838**
Restated								
December 31, 2014	**89'450**	**28'814**	**–5'242**	**–28'843**	**278**	**84'457**	**746**	**85'203**
Capital increase of the joint venture in Xi'àn	–	–	–	–	–	–	310	310
Net result				–2'353		**–2'353**	–138	**–2'491**
Currency translation adjustments					–518	**–518**	–47	**–565**
Share-based compensation				149		**149**		**149**
June 30, 2015	**89'450**	**28'814**	**–5'242**	**–31'047**	**–240**	**81'735**	**871**	**82'606**

The accompanying notes form an integral part of these interim consolidated financial statements

Interim consolidated statement of cash flows *(unaudited)*

In CHF 1'000	1st HY 2015 1.1.–30.6.2015	1st HY 2014 1.1.–30.6.2014 Restated
Net result for the period	**–2'491**	**2'206**
Adjustments for expenses and income not affecting cash:		
Income taxes	257	139
Depreciation of property, plant and equipment	1'123	1'221
Amortization of intangible assets	195	149
Result on disposal of property, plant and equipment	–	–535
Share-based compensation	149	107
Allowance and write-offs on inventories	289	307
Other non cash items	–7	–45
Change in		
Trade receivables	–4'828	935
Other assets and prepayments	1'735	801
Inventories	–2'905	2'746
Trade payables	–1'798	1'510
Advance from customers	–40	1'843
Other current liabilities and provisions	1'930	3'888
Interest expense	60	202
Income tax paid	–323	–175
Cash flow from operating activities	**–6'654**	**15'299**
Investment in property, plant and equipment	–879	–151
Disposal of property, plant and equipment	7	535
Cash flow from investing activities	**–872**	**384**
Repayments of borrowings, including finance lease liabilities	–33	–33
Proceeds from shareholder's loan	5'000	–
Cash received from non-controlling interest for Xi'an	310	366
Interests paid	–60	–264
Cash flow from financing activities	**5'217**	**69**
Net cash flow	**–2'309**	**15'752**
Cash and cash equivalents and bank overdrafts at January 1	15'434	11'142
Effects of exchange rate changes	–226	–4
Cash and cash equivalents and bank overdrafts at June 30	**12'899**	**26'890**

The accompanying notes form an integral part of these interim consolidated financial statements

Selected notes to the interim consolidated financial statements

All figures are presented in CHF 1'000 unless otherwise stated.

1 General information

Tornos Holding Ltd. is a company domiciled in Moutier, Switzerland and is listed on the Domestic Standard of SIX Swiss Exchange in Zürich. The Tornos Group, which consists of Tornos Holding Ltd. and all its subsidiaries, is active in the development, manufacture, marketing, sale and servicing of machines and related spare parts. Tornos manufactures in Moutier and La Chaux-de-Fonds (CH), in Taichung (TW) and in Xi'an (CN) and markets the product lines on a worldwide basis. The Group's sales operations outside of Switzerland principally include European countries, Americas and Asia.

These interim consolidated financial statements have been approved for issue by the Board of Directors on July 24, 2015.

2 Basis of preparation

The unaudited interim consolidated financial statements of the Tornos Group for the six months ended June 30, 2015 have been prepared in accordance with the Accounting Standard 31 "complementary recommendation for listed companies" of Swiss GAAP FER as well as the requirements of SIX Swiss Exchange. This interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2014 which have been prepared in accordance with Swiss GAAP FER.

3 Change from IFRS to Swiss GAAP FER / Restatement

In 2014 the Tornos Group has changed the accounting and reporting standard from IFRS (International Financial Reporting Standards) to Swiss GAAP FER with retroactive effect from January 1, 2013. Therefore, the interim figures at June 30, 2014, in prior year presented under the IFRS framework, have been restated according to Swiss GAAP FER.

Detailed information related to the change from IFRS to Swiss GAAP FER are disclosed in the annual financial statement December 31, 2014. The impacts of the adjustments on Tornos Group's shareholders' equity at June 30, 2014 and income statement for the first half of the year 2014 are summarized in the table below.

Shareholders' equity In CHF 1'000	Share-holders' equity as per IFRS	Adjustment for intangible assets & other assets	Adjustment regarding tax losses carried forward	Adjustment regarding pension accounting	Share-holders' equity as per Swiss GAAP FER
30.06.2014	**70'302**	–1'384	–1'458	15'645	**83'105**

Net result In CHF 1'000	Net result as per IFRS	Adjustment for intangible assets	Adjustment regarding tax losses carried forward	Adjustment regarding pension accounting	Net result as per Swiss GAAP FER
01.01.–30.06.2014	**494**	400	560	752	**2'206**

4 Accounting policies

The accounting policies applied by the Tornos Group in this interim financial report are consistent with those applied in the consolidated financial statements as at December 31, 2014.

5 Estimates

The preparation of interim financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. On an ongoing basis, Management evaluates the estimates, including those related to provisions for warranty, provisions resulting from pending litigations as well as other present obligations of uncertain timing, inventory obsolescence, bad debts, valuation of intangible assets, assessment of income taxes including deferred tax assets and retirement benefit obligations. In preparing these interim financial statements, the significant judgements made by Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2014.

Management and Board of Directors believe the basis of planning and the assumptions to be realistic.

6 Seasonality and cyclicality of interim operations

Tornos business areas are not subject to any significant seasonal influences. The Group's operations are sensitive to economic cycles which can quickly impact its clients' investment decisions.

7 Scope of consolidation

There are no changes in the scope of consolidation in the period under review. In March 2015, the capital of the subsidiary in Xi'an has been increased by KCHF 1'032 (thereof the joint venture partner contributed with 30%) following the strategy of the Group. This Company is, as in prior periods, fully consolidated.

8 Shareholder loans

Tornos has a credit agreement for a total of CHF 20 millions granted from two shareholders to finance its net working capital. The loan agreements mature on March 31, 2016, but are renewed automatically, if they are not terminated by a written notice 6 months prior to the maturity date. These loan agreements have not been terminated. As of June 30, 2015 the credit line has been used with an amount of CHF 5 million.

The aforementioned shareholder loans bear fixed interest rates of 4%.

9 Stock compensation plan

Tornos has since 2011 one stock participation plan, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense is recognised for options over the vesting period and for shares purchased immediately in the accounts as the shares do not need to be returned in case the employment contract is terminated. The expense recorded in the income statement spreads the cost of each option equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Compensation expense of KCHF 149 was recorded for the six months period ended June 30, 2015 (June 30, 2014: KCHF 107).

The fair value of the grants under the MBP07 stock option plan is estimated using the Black-Scholes valuation model.

10 Result per share, basic and fully diluted

10.1 Basic

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	1st HY 2015 1.1.–30.6.2015	1st HY 2014 1.1.–30.6.2014
		Restated
Net result attributable to equity holders of the Company (CHF 1'000)	–2'353	2'266
Weighted average number of ordinary shares in issue (thousands)	19'490	19'377
Basic result per share (CHF per share)	**–0.12**	**0.12**

10.2 Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	1st HY 2015 1.1.–30.6.2015	1st HY 2014 1.1.–30.6.2014
		Restated
Net result attributable to equity holders of the Company (CHF 1'000)	–2'353	2'266
Weighted average number of ordinary shares in issue (thousands)	19'490	19'377
Adjustments for share options (thousands)	–	25
Weighted average number for diluted earnings per share (thousands)	19'490	19'402
Diluted result per share (CHF per share)	**–0.12**	**0.12**

11 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The top management is responsible to steer the business and regularly review the Group's internal reporting for its only operating segment, "machines", in order to assess performance and assess resource needs. The primary internal reporting to the top management is presented on the same basis as the Group's consolidated income statement and consolidated balance sheet and is reported on a consistent basis over the periods presented.

The top management assesses the performance of the business based on operating result. Additional reporting such as geographical area are also provided to the top management but they are not considered as substantial information to strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the top management based on internal reporting of the core activity.

Revenues generated are derived from sales of machines, spare parts and service.

The operating result for the period under review amounts to a loss of KCHF -910 and for 2014 to an operating gain of KCHF 2'231.

11.1 Net sales by category

In CHF 1'000	1st HY 2015 1.1.–30.6.2015	1st HY 2014 1.1.–30.6.2014
Machines and spare parts	78'951	86'647
Service	3'635	3'644
Net sales	**82'586**	**90'291**

Switzerland is the domicile of the parent company and of the main operating and distribution companies. The Swiss operating companies conduct all main development and manufacture activities. The subsidiaries located in the other European countries (France, Germany, Italy, Poland, Spain and the United Kingdom), the Americas and Asia, except the Branch in Taiwan and the production company in Xi'an, only have support or sales and distribution activities. The entities in Taiwan and Xi'an are companies which on behalf of the parent company conduct some developments on new products, which are then marketed through the Group's distribution network. The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. The top management reviews sales for the four material geographical areas, namely, Switzerland, Other European countries, the Americas and Asia. For the purpose of presenting net sales by location of customers, one other geographical region, namely Rest of world, is identified.

11.2 Net sales by region

In CHF 1'000	1st HY 2015 1.1.–30.6.2015	1st HY 2014 1.1.–30.6.2014
Switzerland	16'498	17'818
Other European countries	44'070	52'994
Americas	8'774	6'586
Asia	12'347	10'898
Rest of world	897	1'995
Total net sales	**82'586**	**90'291**

11.3 Non-current assets

The total of non-current assets other than deferred tax assets is as follows:

In CHF 1'000	30.06.2015	31.12.2014
Switzerland	23'355	23'721
Other European countries	773	863
Americas	28	37
Asia	801	909
Total non-current assets by region	**24'957**	**25'530**
Reconciling unallocated assets:		
- Deferred tax assets	1'036	1'187
Total non-current assets per balance sheet	**25'993**	**26'717**

12 Subsequent events

There are no subsequent events to be mentioned.

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TORNOS HOLDING LTD

Rue Industrielle 111
CH-2740 Moutier
Phone +41 (0)32 494 44 44
Fax +41 (0)32 494 44 03
contact@tornos.com