

TORNOS

*Report on the
first half of 2015*

Tornos Holding Ltd.

Tornos holds its own in difficult economic environment

Ladies and Gentlemen, dear Shareholders,

The current financial year began with a thunderbolt. The Swiss National Bank's (SNB) 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. 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.

The Tornos Xi'an (Shaanxi province) site, inaugurated in autumn 2014



Course of business

In the first half of the current year, order intake came to CHF 92.3 million, which represents a decrease of 9.5% or CHF 9.7 million compared with the first half of the previous year (CHF 102.0 million). After currency adjustment, order intake stands at CHF 98.2 million.

Net sales were CHF 82.6 million. Compared with the year-back period (CHF 90.3 million) this was a fall of 8.5% or CHF 7.7 million. After currency adjustment, this represents a decline of 2.5% or CHF 2.2 million. The net result came to CHF -2.5 million (year-back period: CHF 2.2 million) and was reduced by CHF 1.2 million as a result of currency losses stemming from the removal of the minimum exchange rate for the Swiss franc against the euro.

Sales and gross margin were on a par with the figures for the first and second quarters.

The cost-cutting measures and efficiency program that were introduced immediately after the SNB's decision started to have a positive impact in the second quarter. They produced a significant reduction in operating costs in the second quarter of 2015 compared with the first, and this had a positive impact of CHF 0.9 million on the operating result (EBIT). In the first half of 2015, Tornos also succeeded in cutting operating costs in a year-on-year comparison.

Research and development expenditure was not affected by the measures; it rose compared with the same period in 2014. This is in line with Tornos' industrial logic for the coming years, which is geared to developing products targeted to the key markets.

Research and development expenditure was not affected by the measures; it rose compared with the same period in 2014.

The market launch of new products from the factories in China and Taiwan marked another step towards the strategic product mix.

Global Supply Chain Management a new area of responsibility

Further enhancing flexibility and ensuring the operational excellence of the Tornos Group are two of the key priorities being addressed by strategy implementation. A higher level of outsourcing than before and a consistent policy of transferring the supply chain to the euro and Asian currency zones are of great importance. Enhancing operational streams—still unsatisfactory under difficult economic conditions—is absolutely crucial to the success of the Tornos Group.

For that purpose, the creation of an additional area of responsibility, Global Supply Chain Management, aims at improving production performance and outsourcing, while shortening delivery times. This area of responsibility, which has been given top priority, has therefore been assigned to the former CFO, Luc Widmer. Bruno Edelmann, who joined Tornos from the Feintool Group, was appointed to fill the resulting CFO vacancy at the beginning of May.

Markets

Order intake in the first half of the year varied considerably according to region, owing to a number of factors.

In the Swiss domestic market, order intake progressed haltingly from the spring onwards. The exchange rate decision made the watchmaking industry less willing to invest. However, a number of orders were received from leading global companies in the medical and dental technology industry. Nevertheless, it is impossible to ignore the uncertainty in the Swiss market as regards the course that economic development is likely to follow.

Orders in the rest of Europe rose compared with the previous year. In the first few months, most of the momentum was generated by the countries of southern and eastern Europe; it expanded to northern Europe in the second quarter, mainly driven by the German automotive industry.

The CT 20 assembly line at Tornos Xi'an



Order intake in the United States reached gratifying levels. The adjustments to the distribution structures made in 2014 are starting to have an impact, while the product mix of high-end and standard machines as well as Swiss-type lathes and multi-spindle machines now available in the USA is appropriate to the diverse customer requirements in that country.

Orders in south-east Asia, in particular, were below expectations, namely due to the switchover from hard disk drives to SSDs.

On the other hand, major European suppliers—such as those delivering to the automotive industry—have built new production facilities in the Greater China market region (China, Hong Kong, Taiwan). This region offers growth potential for the Tornos Group in the next few years. However, the weak industrial growth observed in China during the first half

of the year may have a dampening effect on the machine tool sector's willingness to invest.

Products

The current product portfolio is driven by the MultiSwiss, which, together with the products in the EvoDECO range, forms the backbone of the high-end machines manufactured in Switzerland. Then there is the SwissNano: its features were tailored to the specific requirements of the watchmaking industry, and it is also attracting interest from other industries.

Processes at the new factories in China and Taiwan are stable, and production capacity is increasing on schedule. The market launch of new products from these factories marked another step towards the strategic product mix. This means that new products can now be introduced for Asian and American markets.

All in all, the portfolio is looking more varied and market-oriented now than it was two years ago, while also becoming more streamlined. This is a decisive factor as regards achieving the operational excellence for which we strive. The switch to lean manufacturing, which results in significantly shorter lead times, is also contributing.

The machine reconditioning business is also developing into an increasingly interesting business area. Tornos has thousands of machines in the market that, after fifteen years or more in operation, can be restored almost to new condition by means of a general factory overhaul. The necessary capacities for this work are gradually being built up.

Outlook

Tornos is now in the second half of its strategy implementation. Even though the currency situation has made the operating environment for export-oriented companies fundamentally different from the end of 2014, we are determined to continue to pursue our strategic objectives and implement the necessary measures.

In the autumn, attention will focus on EMO, the world's leading trade fair for the sector, which is being held in Milan this year. In addition, Tornos will participate in about a dozen exhibitions, backed up with in-house exhibitions in the subsidiaries, in order to show customers the latest innovations and the machines' potential applications.

Forecasts regarding the development of the machine tool market in 2015 are based on a very volatile environment. The key factors, which include the impact of the Greek crisis on investment behaviour in Europe, the repercussions of the EU sanctions against Russia, the slowdown in China and further developments on the currency front, make it impossible to issue any reliable predictions on the course of business in this financial year. As regards the second half, we expect the fourth quarter to make up for the usual seasonal downturn in the summer months. On the other hand, as things stand at present, we are no longer expecting to exceed the 2014 result.



François Frôté
Chairman of the
Board of Directors



Michael Hauser
President and
Chief Executive Officer

The French version of the report on the first half year is the official one.

Tornos Group - Unaudited Key Figures (in CHF 1'000 unless otherwise stated)	1st HY 2015 1.1.-30.6.2015	1st HY 2014* 1.1.-30.6.2014	Difference	Difference in %
Order intake	92'304	102'019	-9'715	-9.5%
Net sales	82'586	90'291	-7'705	-8.5%
EBITDA	408	3'601	-3'193	-88.7%
<i>in % of net sales</i>	0.5%	4.0%		
Operating result (EBIT)	-910	2'231	-3'141	n/a
<i>in % of net sales</i>	-1.1%	2.5%		
Net result	-2'491	2'206	-4'697	n/a
<i>in % of net sales</i>	-3.0%	2.4%		
Cash flow from operating activities	-6'654	15'299	-21'953	n/a
Cash flow from investing activities	-872	384	-1'256	n/a
Free cash flow	-7'526	15'683	-23'209	n/a

(in CHF 1'000 unless otherwise stated)	30.6.2015	31.12.2014	Difference	Difference in %
Net cash	7'564	15'066	-7'502	-49.8%
Total equity	82'606	85'203	-2'597	-3.0%
<i>in % of total balance sheet</i>	61.6%	64.3%		
Total balance sheet	134'056	132'432	1'624	1.2%
Employees (FTE)**	644	602	42	7.0%

* Restated Swiss GAAP FER

** Without apprentices

We keep you turning

investors.tornos.com

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