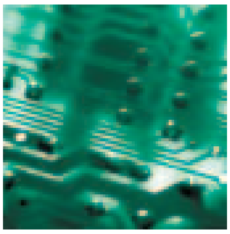
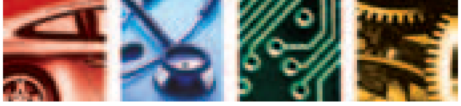





REPORT ON THE FIRST HALF OF 2013

TORNOS HOLDING SA



Ladies and Gentlemen, dear Shareholders,

2012 was a difficult year for Tornos, both in terms of business performance and at structural level. To put the company back on track for success, implementation of the new Strategic Plan for 2012–2017 began last autumn.

Since that time, the overall economic context has shown little sign of change or improvement, despite slight geographical rebalancing. Last year, demand shrank in southern Europe, largely due to the persistence of the debt crisis in the euro zone. As a result, demand stabilized at a relatively low level in the first half of the year. Due to the uncertainties weighing on the market, some customers are continuing to defer their investment decisions, while others are having difficulty obtaining the financing they need.

Macroeconomic forecasts still do not predict any significant recovery in the near future. In this context, the wait-and-see attitude that has been prevalent amongst our customers for some time suggests that they will only consider new investments once their existing capacity is fully exploited. On the other hand, over the first half year, the list of potential projects has tended to grow, which is positive testimony to the competitiveness of Tornos products.

The particularly positive response to the SwissNano, a sliding headstock lathe designed specifically for the watchmaking industry, clearly indicates that customers are ready to invest in innovative products. Despite being geared heavily to watchmaking, the SwissNano is also attracting a lot of interest from customers in other sectors.

In China, the new company Tornos Xi'an Machine Works Co. Ltd., headquartered in the city of Xi'an (Shaanxi province), is being set up. The Group will now be capable of designing, manufacturing and marketing its own entry-level and mid-range sliding headstock lathes and distributing in China through its local partner. This creates a new distribution channel in a market to which the Group previously had no access.

The partnership with Tsugami, launched in 2008 to distribute automatic lathes in Europe, will not be extended and will come to an end in 2014 as previously announced.

Business report

In the first half of 2013, orders totaled CHF 84.9 million (CHF 103.3 million in 2012), of which CHF 41.0 million came in during the second quarter. As a result, the drop compared to the year-back period was reduced to –17.9% as opposed to –32.2% at the end of the first quarter. By the same token, for gross sales of CHF 79.2 million (CHF 97.0 million in 2012), the drop compared to the same half of the previous year was reduced to –18.4% as opposed to –31.5% for the first quarter.

Due to the significant fluctuation in production workloads, the Group resorted to short-time working measures for several months during the first half of the year in an effort to optimize capacity utilization.

Markets

An important phenomenon that had started to emerge at the end of 2012 and intensified at the start of 2013 was the Chinese market's widespread wait-and-see attitude as a result of the change in government. The situation also had repercussions outside China.

This reticence was felt strongly in the automotive sector, an important market segment for Tornos. Even if this sector is holding up relatively well in northern Europe, the impact on sales of the multi-spindle lathes that are normally used in this industry has been particularly marked.

So far, the fiscal year has been disappointing in Asia. We had anticipated a certain amount of demand saturation in the electronics sector in South East Asia, and our expectations were proven correct. To ensure we have a stronger market presence with our future locally produced machines, a targeted drive is needed to market mid-range products in other sectors. In China, which is at the heart of Tornos' internationalization activities, outlet channels will be considerably broadened by the addition of Tornos Xi'an's distribution network.

The development of the Swiss watchmaking sector has been very encouraging. Activity in this field has been particularly dynamic, thanks especially to the SwissNano lathe, which received a lot of attention from industry insiders at Baselworld, the major international watchmaking trade fair. Orders for this impressive product have greatly surpassed expectations.

A number of new customer leads in the medical and dental technology market, which is of major importance to the Group, resulted in orders. On the other hand, the trend in this market segment in the United States, which traditionally represents an important part of sales, still leaves much to be desired.

Sales in Latin America and Eastern Europe failed to develop satisfactorily.

Products

In the first half of the year, Tornos focused its innovation efforts on the SwissNano lathe, which was presented to 350 customers at the 5th Watchmaking Days. This sliding headstock lathe represents a completely new concept and is based on the needs of the watchmaking and micro-mechanics industry in general. Customers appreciate its futuristic design, avant-garde ergonomics and attractive performance, all of which it combines with high thermal stability. Our initial experience demonstrates that there is good potential in other sectors as well. The SwissNano also gives Tornos a way of addressing the upcoming generation. In this context, Tornos launched a partnership with five training institutes in Switzerland by providing them with SwissNano machines.

Its forward-looking technology is gaining the MultiSwiss lathe a growing presence in quite a challenging market. Even though experienced users do not require special knowledge to operate and master this multi-spindle lathe, it nevertheless represents a paradigm shift in manufacturing philosophy. Having specialists accompany sales representatives on specific visits has resulted in major projects in this field being transformed into orders. As a result of this approach, the volume of business is higher than in the previous year. At CIMT in Beijing, the MultiSwiss 6x14 even received the 2013 award for the most innovative product and technology.

In preparation for EMO Hanover 2013, we are putting the finishing touches to genuine innovations and we hope, in particular, to present new groundbreaking products in the high-end sector, as well as for micro-milling applications.

We are also continuing to develop our EvoDECO line with the aim of increasing its competitiveness. We recently presented a new option on our EvoDECO 16 lathe: the B axis in back machining. Designed for the medical and dental industry, this new option has two main objectives: to reduce setup time and enhance machine performance. As part of the continuing development of the EvoDECO line, we will be presenting the EvoDECO 20 and EvoDECO 32 machines at the EMO trade fair. These two machines are the successors to the DECO 20 and DECO 26. These new products adopt the EvoDECO philosophy already applied to the 10 mm and 16 mm models. As a result, the excellent DECO kinematics are retained while the mechanical structure has been reinforced.

Interim consolidated financial statements as at 30 June 2013

The Group's unaudited interim consolidated financial statements at 30 June 2013 are enclosed. They comply with the provisions of IAS 34 on interim financial reporting. Moreover, it should be noted that the interim financial statements have been corrected in accordance with the SIX Exchange Regulation, as agreed on 18 March 2013, and that the corresponding publications have been made. In addition, IAS 19 revised related to employee benefits is retroactively adopted according to applicable provisions. The remainder of the report refers entirely to the restated values for the appropriate prior-year period.

The estimates underlying the financial statements are based on a conservative assessment of market development. Gross sales of CHF 79.2 million at 30 June 2013 resulted in a loss at operating result (EBIT) level of CHF –8.5 million and a net loss of CHF –11.9 million. By way of comparison, during the same period last year, gross sales of CHF 97.0 million resulted in an operating loss of CHF –6.4 million and a net loss of CHF –6.7 million.

The decline in the operating result can be explained mainly by the drop in volume and the contraction of the gross margin from 27.4% (in 2012) to 24.1%. The substantial long-term cost reductions generated by adapting the business model in the second half of 2012 only partially offset the impact of the contraction in volume. Operating costs were reduced by CHF 5.7 million, or 16.9% compared to the same period of the previous year. Excluding the cost savings stemming from short-time working measures, the reduction in operating costs would be CHF 5.9 million, or 16.9% compared to 2012.

Targeted action to manage working capital made it possible to maintain operational cash flow at CHF –0.9 million compared to CHF –7.4 million for the same period in 2012. The capital increase of CHF 30.6 million gross carried out at the end of May 2013 enabled Tornos to pay back CHF 30.0 million in temporary loans from two industrial shareholders. As a result, the net cash position is CHF 4.1 million, compared to a net debt of CHF –28.3 million at 30 June 2012.

In the wake of the restatement necessitated by IAS 19 revised, a net liability of CHF 24.4 million for employee benefits as determined by actuarial calculations was allocated to shareholders' equity, compared to CHF 14.7 million for the same period in 2012. Despite this reduction in shareholder equity, the above-mentioned capital increase resulted in shareholders' equity of CHF 97.8 million, or a percentage of 53.5% of the balance sheet total, compared to 50.0% over the same period last year.

Outlook

The impact of the strategy and of its six primary axes defines clear objectives for the coming years.

Success will continue to be contingent on launching innovative products. In the context of re-equilibrating markets and, as a consequence, of evolving customer requirements, new machines that will guarantee the right future product mix are at the planning stage. These are based on three platforms designed in Switzerland and geared to the top and mid-range segments, rounded out by Asian platforms for the entry-level and mid-range segments.

As regards the Group's internationalization strategy, Tornos Xi'an has paved the way for a major advance into the Asian countries. As a result, the Group will be able to round out its product range with competitive entry-level and mid-range products that are manufactured locally and sold on the global market.

The Group will place even greater emphasis on introducing and optimizing "lean" structures. In this regard, the Swiss site will concentrate on manufacturing high-end products and key parts. Production depth will be reduced in favor of subcontracting, which offers greater flexibility to respond to economic fluctuations. This optimization will also be facilitated by foreign outsourcing solutions that will mitigate the deterioration in Switzerland's competitiveness.

Exceptional-quality products, aftermarket and application technologies will be the sine qua non of success. Operational excellence is the only way to achieve this success. To encourage operational excellence, we will continue to analyze the product range and new product developments will be geared entirely to the needs of customers in the target segments of the automotive, medical and dental technology, electronics and micro-mechanics industries. In view of the process of focusing the product range and the anticipated drop in volumes at the Swiss site, structures will undergo constant adaptation.

We base our outlook on the belief that pressure on prices will remain high. The weakness of the yen, which further intensifies a Japanese competition that is already very strong, will present a fresh challenge for the company following that of the weak euro. The outlook for future business activity remains difficult. According to very conservative forecasts by various market players and inter-professional organizations, investment levels in the machine-tool sector are expected to remain weak throughout the year. Consequently, the Group does not expect the remaining months of the year to make up for the operating loss at the beginning of the year.

François Frôté Chairman of the Board of Directors	**Michael Hauser** CEO

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

Tornos Group Unaudited Key Figures (in KCHF unless otherwise stated)	**First quarter 2013**	**First quarter 2012[1]**	**Second quarter 2013**	**Second quarter 2012[2]**	**First half 2013**	**First half 2012[2]**	**Difference**	**Difference %/pts**
Order intake	43’811	64’659	41’042	38’665	84’853	103’324	–18’471	–17.9%
Gross sales	34’910	50’976	44’240	46’065	79’150	97’041	–17’891	–18.4%
EBITDA	–6’211	1’362	–146	–5’402	– 6’357	–4’040	–2’317	–57.4%
in % of Gross sales	–17.8%	2.7%	–0.3%	–11.7%	–8.0%	–4.2%		–3.8 pts
EBIT	–7’272	89	–1’210	–6’448	–8’482	–6’359	–2’123	–33.4%
in % of Gross sales	–20.8%	0.2%	–2.7%	–14.0%	–10.7%	–6.6%		–4.1 pts
Net profit/(Net loss)	–7’032	–1’181	–4’886	–5’475	– 11’918	–6’656	–5’262	–79.1%
in % of Gross sales	–20.1%	–2.3%	–11.0%	–11.9%	–15.1%	–6.9%		–8.2 pts
Net cash/(Net debt)	–24’044	–27’508	4’082	–28’261	4’082	–28’261	32’343	N/A
Equity	71’524	117’075	97’795	105’687	97’795	105’687	–7’892	–7.5%
in % of Total Balance sheet	38.8%	53.1%	53.5%	50.0%	53.5%	50.0%		3.5 pts
Total Balance sheet	184’274	220’578	182’675	211’494	182’675	211’494	–28’819	–13.6%
Capital expenditures in tangible fixed assets	163	241	101	554	264	795	– 531	–66.8%

[1] Restatement following the adoption of the IAS 19 revised standard.
[2] Restatement following the adoption of the IAS 19 revised standard and corrected in accordance with the SIX Exchange Regulation of March 18, 2013.

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