TORNOS

Interim Condensed Consolidated Financial Statements 2014

Tornos Holding Ltd.

Interim condensed consolidated income statement *(unaudited)*

In thousands of CHF, except per share data

Six months ended June 30,	Notes	2014	2013
Net sales	12	**90’291**	**76’277**
Cost of sales		-63’951	-57’178
Gross profit		**26’340**	**19’099**
Marketing and sales		-13’199	-13’768
General and administrative expenses		-8’855	-9’649
Research and development		-3’669	-4’358
Other income – net		528	194
Operating income/(loss) (EBIT)		**1’145**	**-8’482**
Finance income		29	82
Finance expenses		-537	-1’186
Exchange gains, net		412	95
Earnings/(loss) before income taxes		**1’049**	**-9’491**
Income tax charge		-555	-2’427
Net income/(loss) for the period		**494**	**-11’918**
Attributable to			
Owners of the parent		554	-11’918
Non-controlling interests		-60	none
Earnings/(loss) per share			
– basic		0.03	-0.76
– diluted		0.03	-0.76
EBIT (operating income/(loss) before finance expenses – net, exchange losses and income taxes)		**1’145**	**-8’482**
Depreciation and amortisation		1’770	2’125
EBITDA (operating income/(loss) before finance expenses – net, exchange losses, income taxes, depreciation and amortisation)		**2’915**	**-6’357**

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

Interim condensed consolidated statement of comprehensive income *(unaudited)*

In thousands of CHF Six months ended June 30,	Notes	2014	2013
Net income/(loss) for the period		**494**	**-11'918**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans, Net of KCHF 498 tax (2013: KCHF 330 tax)	10	-2'611	-1'719
Other items that will not be reclassified to profit or loss		**-2'611**	**-1'719**
Items that may be or were reclassified to profit or loss			
Fair value gain/(loss) on available-for-sale financial assets, net of KCHF 0 tax (2013: KCHF 39 tax)		0	-462
Currency translation difference		-139	115
Other items that may be or were reclassified subsequently to profit or loss		**-139**	**-347**
Total comprehensive loss for the period		**-2'256**	**-13'984**
Attributable to			
Owners of the parent		-2'196	-13'984
Non-controlling interests		-60	none

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Interim condensed consolidated balance sheet *(unaudited)*

In thousands of CHF	Notes	June 30, 2014	Dec. 31, 2013
ASSETS			
Cash and cash equivalents		26'890	11'142
Trade receivables		25'155	26'032
Inventories		56'780	59'821
Other receivables and prepayments		10'378	11'183
Assets classified as held for sale	9	891	891
Total current assets		**120'094**	**109'069**
Property, plant and equipment		24'381	25'526
Intangible assets		2'538	2'987
Deferred tax assets		5'003	4'938
Total non-current assets		**31'922**	**33'451**
Total assets		**152'016**	**142'520**
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings		70	70
Loan from shareholders	7.2	10'000	10'000
Trade payables		20'348	18'819
Current tax liabilities		20	78
Other liabilities		20'828	14'533
Provisions		3'902	4'420
Total current liabilities		**55'168**	**47'920**
Interest bearing loans and borrowings		335	367
Retirement benefit obligations	10	24'598	20'565
Provisions		748	727
Deferred tax liabilities		132	123
Total non-current liabilities		**25'813**	**21'782**
Total liabilities		**80'981**	**69'702**
Equity attributable to owners of the parent		70'302	72'391
Non-controlling interests		733	427
Total equity		**71'035**	**72'818**
Total liabilities and equity		**152'016**	**142'520**

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

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

In thousands of CHF	Ordinary shares	Share premium	Treasury shares	Retained earnings	Total with owners of the parent	Non-controlling interest	Total equity
At December 31, 2012	**69'759**	**18'864**	**–6'827**	**54**	**81'850**	**none**	**81'850**
Comprehensive income							
Net loss				–11'918	**–11'918**	–	**–11'918**
Other comprehensive income							
Fair value loss on available-for-sale financial assets sold				–462	**–462**	–	**–462**
Currency translation difference				115	**115**	–	**115**
Remeasurements of defined benefit pension plans (IAS 19R)				–1'719	**–1'719**	–	**–1'719**
Total comprehensive loss	**–**	**–**	**–**	**–13'984**	**–13'984**	**–**	**–13'984**
Transactions with owners							
Proceeds from shares issued, net of costs	19'691	9'985	–	–	**29'676**	–	**29'676**
Share-based compensation				253	**253**	–	**253**
Total transactions with owners of the parent	**19'691**	**9'985**	**–**	**253**	**29'929**	**–**	**29'929**
At June 30, 2013	**89'450**	**28'849**	**–6'827**	**–13'677**	**97'795**	**none**	**97'795**

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

In thousands of CHF	Ordinary shares	Share premium	Treasury shares	Retained earnings	Total with owners of the parent	Non-controlling interest	Total equity
At December 31, 2013	**89’450**	**28’814**	**–6’771**	**–39’102**	**72’391**	**427**	**72’818**
Comprehensive income							
Net income				554	**554**	–60	**494**
Other comprehensive income							
Currency translation difference				–139	**–139**	–	**–139**
Remeasurements of defined benefit pension plans (IAS 19R)				–2’611	**–2’611**	–	**–2’611**
Total comprehensive loss	**–**	**–**	**–**	**–2’196**	**–2’196**	**–60**	**–2’256**
Transactions with owners							
Share-based compensation				107	**107**	–	**107**
Total transactions with owners of the parent	**–**	**–**	**–**	**107**	**107**	**–**	**107**
Investment in non-controlling interests in the joint-venture in Xi’an	–	–	–	–	–	366	**366**
Total changes in non-controlling interests that do not result in a loss of control	**–**	**–**	**–**	**–**	**–**	**366**	**366**
Total transactions with owners	**–**	**–**	**–**	**107**	**107**	**366**	**473**
At June 30, 2014	**89’450**	**28’814**	**–6’771**	**–41’191**	**70’302**	**733**	**71’035**

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

Interim condensed consolidated statement of cash flows *(unaudited)*

In thousands of CHF

For the six months ended June 30,	2014	2013
Net income/(loss) for the period	**494**	**–11'918**
Adjustments for		
Taxes	555	2'427
Depreciation of property, plant and equipment	1'325	1'581
Amortization of intangible assets	445	544
Gain on disposal of property, plant and equipment	–535	–167
Share-based compensation	107	253
Employee defined benefit obligation	719	990
Allowance and write-offs on inventories	307	338
Other non cash items	–78	33
Decrease/(increase) in working capital		
Trade receivables	935	–341
Other receivables	801	–2'438
Inventories	2'746	2'455
Trade payables	1'510	2'437
Advance from clients	1'843	1'405
Other current payables and provisions	3'888	1'056
Interest expense	412	662
Income tax paid	–175	–257
Net cash provided by / (used in) operating activities	**15'299**	**–940**
Cash flows from investing activities		
Investment in property, plant and equipment	–151	–264
Disposal of property, plant and equipment	535	167
Interests and dividends received	–	82
Net cash provided by / (used in) investing activities	**384**	**–15**
Cash flows from financing activities		
Repayments of borrowings, including finance lease liabilities	–33	–30'137
Proceeds from issuance of share capital, net of expenses paid	–	30'085
Cash received from non-controlling interest for Xi'an	366	-
Interest paid	–264	–816
Net cash provided by / (used in) financing activities	**69**	**–868**
Net increase / (decrease) in cash and cash equivalents	**15'752**	**–1'823**
Cash and cash equivalents and bank overdrafts at January 1,	11'142	10'884
Effects of exchange rate changes	–4	83
Cash and cash equivalents and bank overdrafts at June 30,	**26'890**	**9'144**

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

Selected notes to the interim condensed consolidated financial statements

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated.

1 General information

Tornos Holding Ltd. (the Company) is a company domiciled in Moutier, Switzerland and is listed on the Main Standard of SIX Swiss Exchange in Zürich. The Group, which consists of the Company and all its subsidiaries, is active in the development, manufacture, marketing, sale and servicing of machines and related spare parts. The Group manufactures in Moutier and La Chaux-de-Fonds, Switzerland, in Taichung, Taiwan and in Xi'an, China, 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 condensed consolidated financial statements have been approved for issue by the Board of Directors on July 24, 2014.

2 Basis of preparation

The unaudited interim condensed consolidated financial statements of the Tornos Group ("the Group") for the six months ended June 30, 2014 have been prepared in accordance with the International Accounting Standard 34 on interim financial reporting. This interim condensed financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2013 which have been prepared in accordance with IFRS. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2013.

3 Accounting policies

The accounting policies applied by the Group in this interim condensed financial information are consistent with those applied in the consolidated financial statements as at and for the year ended December 31, 2013 except as described below:

The Group has applied IFRIC 21 "Levies". IFRIC 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 "Provisions". The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognized. The Group is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial statements for the period ended June 30, 2014. The Group does not expect IFRIC 21 to have a significant effect on the results for the financial year ending December 31, 2014.

Other amendments to IFRSs effective for the financial year ending December 31, 2014 are not expected to have a material impact on the Group.

Taxes on income in the interim periods are accrued using tax rate that would be applicable to expected total annual profit or loss.

4 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 estimated.

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 condensed 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, 2013, with the exception of changes in estimates that are required in determining the provision for income taxes and the defined benefit plans.

5 Seasonality and cyclicality of interim operations

The Group is not subject to any significant seasonality. The Group's operations are sensitive to economic cycles which can quickly impact its clients' investment decisions.

6 Scope of consolidation

There are no changes in the scope of consolidation in the period under review. As mentioned in prior financial statements, the Group's activity related to the start-up Cyklos Ltd. has ceased and this company is since January 1, 2014 held as a dormant company without any business activities.

7 Financial risk management

7.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks, credit risk and liquidity risk.

The interim condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and therefore they should be read in conjunction with the Group's annual financial statements as at December 31, 2013. There have been no changes in any risk management policies since the year end.

7.2 Liquidity risk

Group treasury policy is to maintain flexibility in funding by keeping sufficient external financial sources available as well as sufficient cash balances. In times of an economic downturn and the initial period of recovery thereafter, liquidity requirements may increase and credit lines may be significantly or fully utilized.

As disclosed in the annual consolidated financial statements, the finance structure of the Group was reassessed by the Management and the Board and restructured to secure the strategic reorientation of the Group and its independence. Thus, new private loans have been concluded in the first half of the year 2014 between the Tornos Group and two of its shareholders. The granted credit facility amounts to a total of CHF 20 million and includes CHF 10 million which were already granted in October 2012 and an additional credit line of CHF 10 million with maturity date on March 31, 2015. Furthermore, a credit line of CHF 8 million for the issuance of bank guarantees was also granted. The facility agreement does not bear any covenants. The interest rates are fixed and amount to 4% in 2014 (3% in 2013). The facility agreement renews automatically yearly unless a written notice of termination is given six month before the maturity date. Mortgage notes are assigned to the lenders.

There are no contracts with banks or other partners beyond the aforementioned.

8 Fair value estimation

On June 30, 2014, as well as on June 30, 2013, the Group is not holding any financial instruments which are carried at fair value.

The fair value of the following financial assets and liabilities approximate their carrying amount: cash and cash equivalents, trade receivables, other receivables and prepayments, interest bearing loans and borrowings, trade payables and other liabilities.

9 Assets classified as held for sale

The net assets held for sale relate to real estate that is not necessary for the operations of the Group and which is part of the operational reorganisation of the Group and actively marketed by Management for sale. It was already foreseen in the prior year to be able to sell the assets within one year. Unfortunately, circumstances arose that were previously considered unlikely and as a result the non-current assets are still not sold by the end of the period. However, Tornos Group and Management took the necessary measures to respond to the changed circumstances in order to facilitate the disposal in the coming year at advantageous conditions.

10 Remeasurement of the retirement benefit obligation

As a result of the continuing decrease in the market interest rates between the year-end 2013 and the end of the period June 30, 2014, an actuarial loss arising from changes in economic assumptions of CHF 7.3 million has been recognized which was partially offset by CHF 4.2 million through the increase in pension assets (return on plan assets). These two effects had for result to impact the OCI by CHF 3.1 million before tax.

11 Stock compensation plan

The Group has since 2011 one stock participation plan remaining, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense is recognised in accordance with the provisions of IFRS 2 "Share-based Payment", 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 107 was recorded for the six months period ended June 30, 2014 (June 30, 2013: KCHF 253).

During the period ended June 30, 2014, 172'473 options and 113'100 shares were additionally granted (2013: 261'767 options, resp. 4'150 shares) at an exercise price of CHF 4.81 for the options and CHF 3.60 for the shares. Participants elected in 2014 to purchase 113'100 shares at a price of CHF 3.60 (2013: 4'150 shares at CHF 4.90) with a transaction date in July 2014. The number of options outstanding as of June 30, 2014 amounts to 547'406 (outstanding at December 31, 2013: 488'433). In the first half 2014, 103'500 options have been forfeited.

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

12 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The Chief Operating Decision Maker (CODM) has been identified as the Group's Chief Executive Officer. He regularly reviews the Group's internal reporting for its only operating segment, machines, in order to assess performance and resource needs. The primary internal reporting to the CODM 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 Group's Chief Executive Officer assesses the performance of the machines based on EBIT. Additional reporting such as geographical area are also provided to the CODM but they are not considered as substantial information to make strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the CODM based on internal reporting of the core activity.

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

12.1 Analysis of revenues by category

Six months ended June 30,	2014	2013
Machines and spare parts	86'647	75'957
Service	3'644	3'320
Net sales	**90'291**	**76'277**

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 new 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 and production of 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 CODM 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.

12.2 Net sales by location of customers

Six months ended June 30,	2014	2013
Switzerland	17’818	17’371
Other European countries	52’994	39’818
Americas	6’586	9’269
Asia	10’898	8’407
Rest of world	1’995	1’412
Total net sales	**90’291**	**76’277**

No transaction with a single customer accounted for 10% or more of the net sales as of end of June in both 2014 and 2013.

12.3 Non-current assets

	June 30, 2014	Dec. 31, 2013
Switzerland	25’304	26’856
Other European countries	921	962
Americas	47	60
Asia	647	635
Total non-current assets for geographical area disclosure	**26’919**	**28’513**
Reconciling unallocated assets		
– Deferred tax assets	5’003	4’938
Total non-current assets per balance sheet	**31’922**	**33’451**

13 Subsequent events

There are no subsequent events to be mentioned.

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