Report on the first half of 2014

Tornos Holding Ltd.

Positive first-half result

Ladies and Gentlemen, dear Shareholders,

The Tornos Group made further steps towards a return to financial health in the first half of 2014. Compared to the equivalent period in 2013, the company reported a significant increase in order intake and sales. Thanks to consistent implementation of operational improvements, the Group achieved break-even point.

Business report

In the first six months of the current year, new orders amounted to CHF 102.0 million, which is equivalent to an increase of 20.2% on the prior-year period (2013: CHF 84.9 million). Net sales developed in a similar manner: At CHF 90.3 million, this figure was 18.4% up on the prior-year period (2013: CHF 76.3 million). Further measures to increase production efficiency and reduce delivery times were introduced, and will gradually take effect from the third quarter onwards.

Markets

Around three quarters of new orders in the first half of 2014 came from customer projects in Europe. The growth in new orders in Switzerland, Germany, and, in particular, southern Europe was pleasing. A number of customer projects that have continually been postponed month after month were completed. The main growth drivers in Europe were the core segments automotive and medical/dental technology.

A quarter of orders came from Asia and the United States. While the organizational adjustments initiated in the US and the alignment of the dealer network with the future product mix have not yet kicked in to the desired degree, the Group enjoyed a substantial rise in demand in Asia, where organizational measures and the alignment of the product offering to high-end and mid-range machines enabled Tornos to participate in the dynamic growth momentum. A new sales and service location with exhibition space was opened in Dongguan, the southern Chinese city that is home to a dense cluster of potential Tornos customers.

Thanks to consistent implementation of operational improvements, the Group achieved break-even point.

As reported previously, the current business year has also seen a further streamlining of the product portfolio.

Products

The focussing of marketing and sales activities for the latest-generation products is increasingly bearing fruit. In the highly competitive automotive segment, the MultiSwiss machine for manufacturing high-volume precision parts is gaining greater acceptance. This is evident from numerous follow-up orders in both Asia and Europe.

The SwissNano's successful market entry in the watchmaking industry in Switzerland has made customers in other target markets and regions prick up their ears. This innovative product is increasingly being presented at trade fairs overseas, and the first orders from Asia testify to its high level of market acceptance.

Tornos is also feeling the global shift in market weightings towards Asia, with key customers investing in additional capacity in this region. Many European companies that have moved their production to China or Taiwan are enquiring locally after top-of-the-range Tornos products, as are specialized local manufacturers.

As reported previously, the current business year has also seen a further streamlining of the product portfolio. This is part of the strategic plan, to increasingly rely on platform-based machines and thereby reduce the complexity of both the product range and manufacturing activities.

The strategic orientation for the future remains unchanged, namely a product mix of high-end and mid-range machines. High-end machines, which are customized to segment-specific needs and thereby facilitate the manufacture of highly challenging parts, as well as multi-spindle machines – above all the MultiSwiss –, which are geared to large-scale manufacturing at the lowest possible unit price, are developed and manufactured in Switzerland. The product spectrum is rounded out by mid-range products that are developed in Switzerland and manufactured at production sites in Xi'an (China) and Taichung (Taiwan). These products are extremely versatile, easy to use, and will play a key role in the United States, Asia, and Eastern Europe. A feature common to all products is the fact that key components requiring a high level of expertise – such as spindles – are manufactured in Switzerland and then installed in systems at the Group's different production sites.

Interim consolidated financial statements as at June 30, 2014

The buoyant demand evident in the markets resulted in net sales of CHF 90.3 million in the first half of the year, compared to CHF 76.3 million in the prior-year period. This is equivalent to growth of 18.4%. Accordingly, the Group achieved a positive net result of CHF 0.6 million (attributable to the owners of the parent), compared to a net loss of CHF 11.9 million in the prior-year period. At EBIT level, a profit of CHF 1.1 million (2013: CHF –8.5 million) was recorded. EBITDA amounted to CHF 2.9 million (2013: CHF –6.4 million).

View of the SwissNano Center in Moutier

The improvement in the operating result is attributable to consistently implemented efficiency improvements, higher utilization of production capacity, and improved margins. Streamlined management of sales activities and the adjusted product mix, which includes an increasing proportion of new products, resulted in a rise in gross margin to 29.2%.

While sales volume increased strongly, operating costs came in at CHF 25.7 million, a decline of CHF 2.1 million on the prior-year period that included short-time working compensation of CHF 1.0 million. This results in a sustainable cost reduction of CHF 3.1 million or 10.6% compared to 2013.

Thanks to targeted measures, operating cash flow amounted to CHF 15.3 million (2013: CHF –0.9 million), and net cash improved from CHF 0.7 million as at December 31, 2013 to CHF 16.5 million. The substantial inflow of liquidity was above all attributable to the reduction in net current assets, with accounts receivable declining despite the growth in sales. Additionally, an increase in advance payments by customers as well as reduction in stock strengthened the positive effect.

The Group's unaudited interim consolidated financial statements at June 30, 2014 are enclosed. They comply with the provisions of IAS 34 on interim financial reporting.

Outlook

Tornos is resolutely continuing its efforts to restore itself to full health. The targeted internationalization of the Group enters a decisive phase this year. New proprietary products are now coming to market from the production sites in Asia, replacing the products made by the Japanese partner, with whom the Group stopped working at the start of the year. Accordingly, customers outside Europe now also have access to a range of standard machines that is tailored to the needs of the market, something that Tornos could not offer in the past. The Group is able to manage production capacities in line with demand, and will move into a new modern production site in Xi'an this autumn.

Tornos will be presenting its latest-generation products at a large number of trade fairs during the second half of the year, particularly IMTS in Chicago (USA), AMB in Stuttgart (Germany) and BIMU in Milan (Italy). To enable the new products to gain a foothold in the market as quickly as possible, they will also be presented to customers at in-house exhibitions.

We are anticipating comparable business development for the second half of the year, assuming the usual seasonal slowdown over the summer months. On the assumption that the economic environment does not change significantly, the prospects from today's perspective of achieving a balanced operating result for the year as a whole look promising.

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 KCHF unless otherwise stated)
Order intake
Net sales
EBITDA
in % of Net sales
EBIT
in % of Net sales
Net income/(loss) for the period *
in % of Net sales
Net cash/(Net debt)
Equity *
in % of Total balance sheet
Total balance sheet
Capital expenditures in tangible fixed assets

* Attributable to owners of the parent

First quarter 2014	First quarter 2013	Second quarter 2014	Second quarter 2013	First half 2014	First half 2013	Difference	Difference %/pts
50'334	43'811	51'685	41'042	102'019	84'853	17'166	20.2%
43'213	33'861	47'078	42'416	90'291	76'277	14'014	18.4%
554	–6'211	2'361	–146	2'915	–6'357	9'272	n.a.
1.3%	**–18.3%**	**5.0%**	**–0.3%**	**3.2%**	**–8.3%**		**n.a.**
–342	–7'272	1'487	–1'210	1'145	–8'482	9'627	n.a.
–0.8%	**–21.5%**	**3.2%**	**–2.9%**	**1.3%**	**–11.1%**		**n.a.**
–359	–7'032	913	–4'886	554	–11'918	12'472	n.a.
–0.8%	**–20.8%**	**1.9%**	**–11.5%**	**0.6%**	**–15.6%**		**n.a.**
–1'900	–24'044	16'485	4'082	16'485	4'082	12'403	303.8%
71'986	71'524	70'302	97'795	70'302	97'795	–27'493	–28.1%
51.2%	**38.8%**	**46.2%**	**53.5%**	**46.2%**	**53.5%**		**–7.3 pts**
140'584	184'274	152'016	182'675	152'016	182'675	–30'659	–16.8%
91	163	60	101	151	264	–113	–42.8%

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