

TORNOS

*Report on the
first half of 2016*

Tornos Holding Ltd.

Absence of major projects impacts first-half sales and result

**Ladies and Gentlemen,
Dear Shareholders,**

By the end of 2015 it was already becoming apparent that the negative effects of removing the minimum exchange rate for the Swiss franc against the euro would continue to have an impact on order intake this year, all the more given the difficult global market environment. These unfavorable framework conditions present a real challenge for manufacturing companies in Switzerland.

In this regard, Tornos has adopted a series of measures that are reducing costs without jeopardizing forward-looking projects. Our development projects are proceeding as scheduled and new products are being launched this year as planned.

As part of its strategy implementation, Tornos took a further step in the rationalization of the real estate at its Moutier site by selling the "Foyer" building (Rue Industrielle 95) to a local company in a related sector.

It should also be noted that Tornos continues to enjoy a solid equity base and is financed without recourse to bank loans.





We
keep
our
customers
turning

Course of business

In the first six months of the current year, **order intake** came to CHF 62.6 million, which represents a substantial decrease of 32.2%, or CHF 29.7 million, compared with the same period of last year (CHF 92.3 million).

At CHF 69.8 million, **net sales** were 15.4% or CHF 12.8 million lower than in the year-back period (CHF 82.6 million).

Cost-cutting measures—which will have even more of an impact in the second half of the year—made a positive contribution to the result, as did the short-time working arrangements introduced selectively at the Moutier site in the second quarter. The switch to **lean assembly** is continuing, resulting in significantly shorter lead times for synchronized assembly. This opportunity to make savings should have an increasing impact over the medium term when production volumes rise.

These efforts, along with price discipline, meant that the gross margin remained at the same percentage level as in the previous year.

The **net result** of CHF -3.5 million (2015: CHF -2.5 million) includes a currency loss of CHF 0.6 million and an accounting profit of CHF 1.1 million from the disposal of property and land not required for operational purposes.

In the high-end machine segment, Tornos will increase the technological lead of the MultiSwiss by introducing two model variants—based on an extended platform—for machining larger-dimension parts.

Markets

Since worldwide demand for machine tools reached its peak in 2011, the three global regions Europe, Asia and the USA have trended downwards, apart from a short period of stability in 2014. Tornos is also being affected by this trend in these three large geographic regions, with order intake in some cases significantly below our expectations. Furthermore, **economic uncertainties** in Tornos' target markets slowed down numerous customer investment projects.

This is also true of China—the world's largest machine tool market—where the current downturn is being watched by Tornos with concern.

Feedback from our customers shows that they are not making new purchases until their current capacity has been fully utilized. Investment projects have therefore been repeatedly postponed.

Products

The first half of the year was particularly difficult for **multispindle products**. For Tornos, this was the main cause of the slump in demand in key European countries such as Germany and France, as well as in Asia and the USA. The automotive supply industry, which tends to be geared towards high production volumes, is an important consumer of multispindle machines. Here, Tornos felt the effects of customers' reluctance to invest in major machinery extensions.

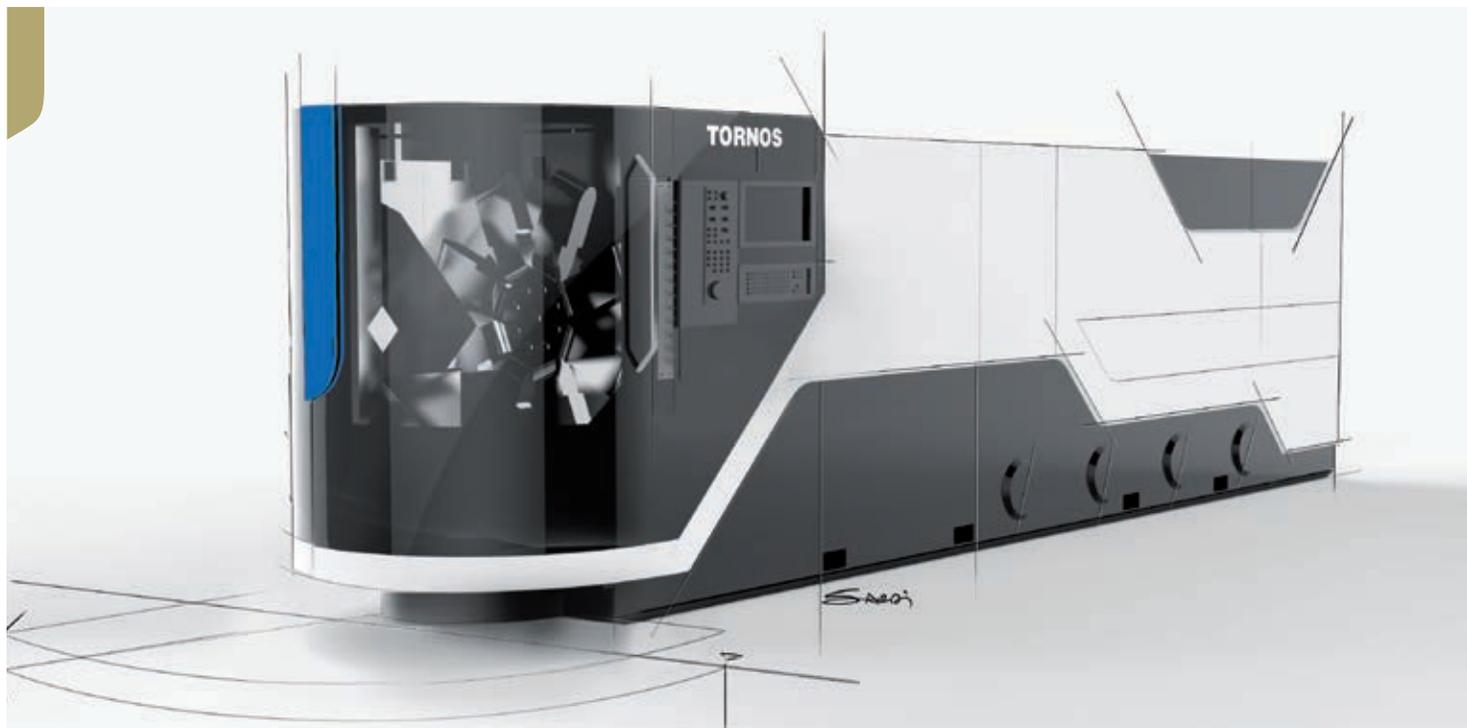
In the high-end machine segment, Tornos will increase the technological lead of the **MultiSwiss** by introducing two model variants—based on an extended platform—for machining larger-dimension parts. Thanks to the impeccable reputation that the MultiSwiss has gained in the market, our new machines should soon attract great interest from customers, and these products can be expected to have a positive impact on sales from 2017 onwards.

The **SwissNano**—developed and manufactured in Switzerland—performed very gratifyingly: the number of machines sold in the first six months of the year equaled the number sold in twelve months during each of the preceding two years. Today, the customer base for this high-precision Swiss-type lathe includes purchasers in the watchmaking industry and, increasingly, in the medical technology and electronics industries. It is striking to note how many repeat customers are ordering several machines thanks to their positive experience of using this product – including for the manufacture of precision watch components in the domestic market. With its remarkable price-performance ratio, its unrivaled features for small-dimension parts and its small footprint, the SwissNano is well on the way to establishing itself firmly in many workshops, particularly within the watchmaking industry.

In several countries, demand for **Swiss-type lathes** shifted to medium-priced standard products. Thanks to our market penetration in this segment, order intake went up in terms both of the number of machines and value. This increase was driven by Europe, particularly Switzerland, France and the United Kingdom.

A growing proportion of the machines ordered are made in the Asian factories. Even though expectations were not met as regards order intake or sales in the first half of the year, the increased demand from Europe for our standard machines from the **Swiss GT and Swiss DT lines** is an impressive demonstration of the competitiveness of these new products. A third platform-based 6-axis machine in this Swiss-type lathe standard series—the Swiss GT 32—will be launched this year at the leading trade fair, AMB in Stuttgart (Germany).

Design study of the MultiSwiss for machining larger-dimension parts



The **service and spare parts business**—a stable segment at Tornos—performed better than last year, which indicates that customers are experiencing a solid order situation. The machine overhaul business also expanded.

An increasing number of customers are choosing **TISIS**. This user-friendly software solution from Tornos enables them to remotely monitor and manage their network-based machines on mobile devices as part of the megatrend towards Industry 4.0. The machines currently on offer from Tornos provide everything that customers need in order to exploit this technological leap forward.

Outlook

A **comprehensive portfolio** containing the right products will be in place this year, and this, together with a cost structure that has made Tornos considerably leaner, is creating favorable conditions for future success. However, uncertainties in the global markets as well as customers' willingness to invest in new machinery remain open.

Many investors on the financial markets regard the **Swiss franc** as a "safe haven" whenever required. This has been impressively demonstrated by the latest developments following the Brexit decision, which is triggering upward pressure on the franc and hitting the competitiveness of Swiss products. The machine tool market therefore continues to face a highly volatile currency environment. In addition, a number of political and economic uncertainties are making stability harder to achieve.

Nevertheless, many customers are utilizing all of their available capacity. This in turn suggests that new machines will be purchased as soon as market confidence picks up somewhat. For the time being, however, Tornos is assuming that demand will not start to improve until the end of this year at the earliest.

In the circumstances, Tornos does not announce an earnings target. Instead, the company is concentrating on continuing to **optimize processes** so that it can make use of its increased flexibility to exploit the upturn in demand as soon as the situation eases.



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 2016 1.1.-30.6.2016	1st HY 2015 1.1.-30.6.2015	Difference	Difference in %
Order intake	62'632	92'304	-29'672	-32.2%
Net sales	69'848	82'586	-12'738	-15.4%
EBITDA	-1'134	408	-1'542	n/a
<i>in % of net sales</i>	-1.6%	0.5%		
Operating result (EBIT)	-2'427	-910	-1'517	-166.7%
<i>in % of net sales</i>	-3.5%	-1.1%		
Net result	-3'541	-2'491	-1'050	-42.2%
<i>in % of net sales</i>	-5.1%	-3.0%		
Cash flow from operating activities	-9'134	-6'654	-2'480	-37.3%
Cash flow from investing activities	4	-872	868	n/a
Free Cash Flow	-9'130	-7'526	-1'604	-21.3%

(in CHF 1'000 unless otherwise stated)	30.6.2016	31.12.2015	Difference	Difference in %
Net cash	1'800	11'303	-9'503	-84.1%
Total equity	80'475	84'111	-3'636	-4.3%
<i>in % of total balance sheet</i>	61.3%	59.7%		
Total balance sheet	131'303	140'798	-9'495	-6.7%
Employees (FTE)*	628	657	-29	-4.4%

* Without apprentices

The switch to lean assembly is continuing, resulting in significantly shorter lead times for synchronized assembly.

We keep you turning

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