

A man with short brown hair, wearing a black polo shirt with the 'TORNOS' logo, is focused on adjusting a large industrial machine. He is using a small tool to work on a component of the machine. The machine is grey and blue, with various mechanical parts and a large blue and orange robotic arm visible in the background. The setting is a modern industrial facility with concrete walls and overhead lighting.

TORNOS

Report on the first half of 2018

Tornos Group



Trade fairs and customer events are key elements of Tornos' marketing mix.

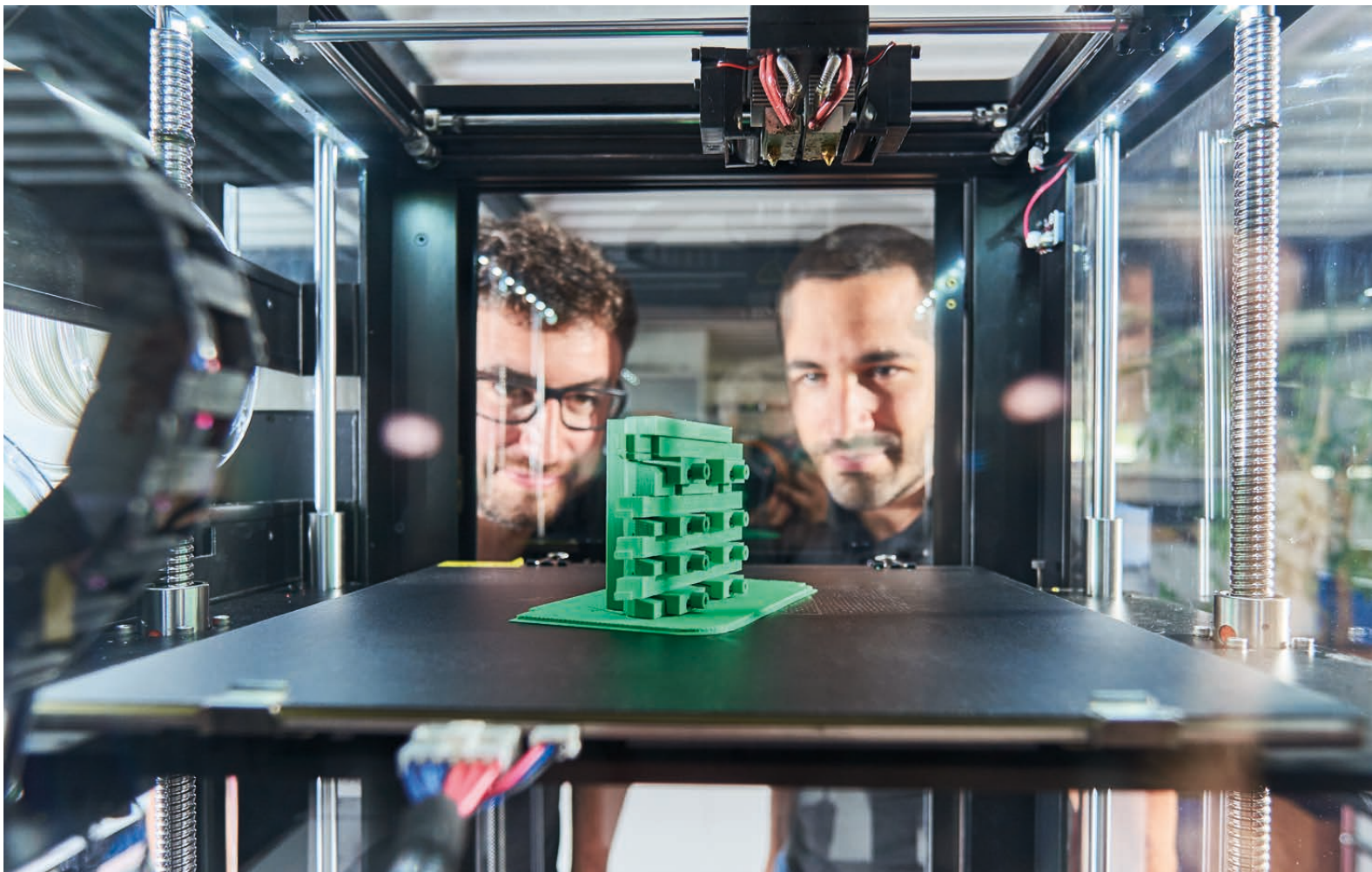
Key Figures

Tornos Group

Unaudited, in CHF 1'000*	1 st HY 2018 1.1.–30.6.2018	1 st HY 2017 1.1.–30.6.2017	Difference	Difference in %
Order intake	128'453	103'182	25'271	24.5%
Net sales	103'989	82'088	21'901	26.7%
EBITDA	7'275	3'375	3'900	115.6%
<i>in % of Net sales</i>	7.0%	4.1%		
EBIT	5'507	1'679	3'828	228.0%
<i>in % of Net sales</i>	5.3%	2.0%		
Net result	5'466	295	5'171	1'752.9%
<i>in % of Net sales</i>	5.3%	0.4%		
Cash flow from operating activities	3'749	13'703	-9'954	-72.6%
Cash flow from investing activities	-1'388	-3'563	2'175	61.0%
Free cash flow	2'361	10'140	-7'779	-76.7%
	30.6.2018	31.12.2017		
Net cash	27'487	23'428	4'059	17.3%
Total equity	97'810	90'240	7'570	8.4%
<i>in % of total balance sheet</i>	60.8%	63.0%		
Total balance sheet	160'966	143'310	17'656	12.3%
Employees (full-time equivalents)**	688	668	20	3.0%

* Unless otherwise stated

** Without apprentices



➤ Our people enjoy the challenge of developing high-tech solutions for actual business issues.

➤ Our Moutier site sets the benchmark for Tornos' assembly quality worldwide.

➤ Increased external procurement is essential in enabling Tornos to continue to improve its flexibility.



Order backlog at an all-time high

Dear Sir or Madam,
dear Shareholders,

The encouraging business performance delivered by the Tornos Group in 2017 continued undiminished into the first half of 2018. Demand rose sharply again for all Tornos product lines in all regions. At the end of June 2018, the order backlog stood at an all-time high of CHF 93.3 million. There was a particularly strong uptick in orders received for MultiSwiss machines in the high-end multispindle segment. Tornos also posted a significant increase in orders for its mid-priced machines manufactured in Asia. The strong demand posed several challenges for Tornos and its suppliers. Deliveries of some supplier parts were sometimes subject to delay. This unexpectedly large increase in production volumes required the Group to make various process and capacity adjustments and deploy temporary staff, resulting in an increase in costs in the first half of 2018. By making targeted adjustments, Tornos was able to defuse the situation substantially.

Overall in the first half of 2018, the Tornos Group generated net sales of CHF 104.0 million (H1 2017: CHF 82.1 million, +26.7%) and order intake of CHF 128.5 million (H1 2017: CHF 103.2 million, +24.5%). The operating result (EBIT) for the first half of 2018 came to CHF 5.5 million (H1 2017: CHF 1.7 million, +228%) and the net result to CHF 5.5 million (H1 2017: CHF 0.3 million). The Tornos Group once again generated positive free cash flow of CHF 2.4 million in the first half of 2018 (H1 2017: CHF 10.1 million, thanks to the substantial reduction of CHF 12.5 million in net working capital). The number of people employed by the Tornos Group (in full-time equivalents) rose from 668 at the end of 2017 to 688 at the end of June 2018.

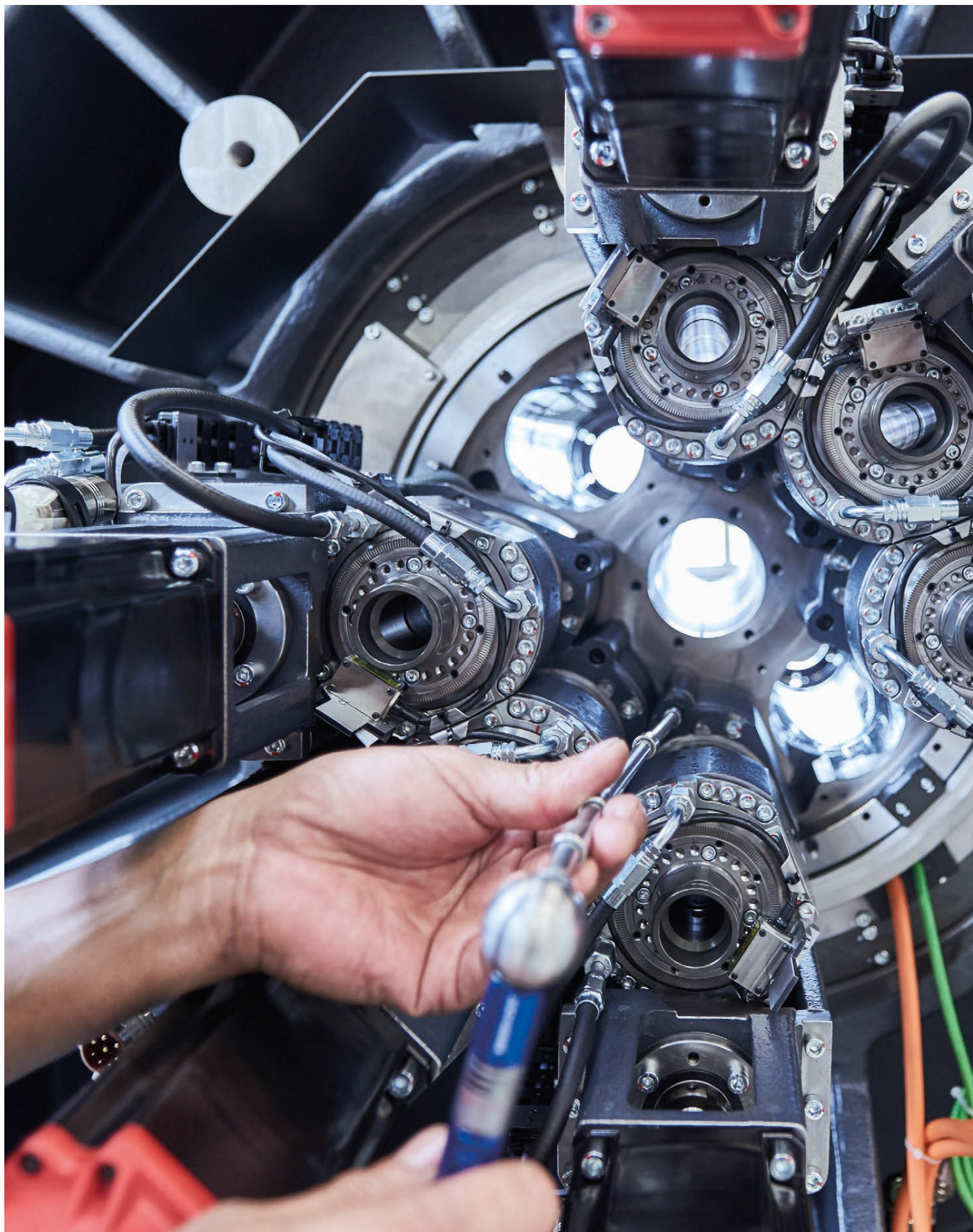
Positive trend for all machines and in all markets

Tornos chalked up an increase in order intake for all types of machine. Compared with the first half of 2017, it lifted unit sales by a total of around 30% in the reporting period. Service revenue likewise rose by around 20%.

The Tornos Group is always able to react quickly to the various developments in its market segments and to benefit from an upswing. The automotive industry – the most important sales market for Tornos – experienced a marked rise in demand in the first few months of 2018. The market segments for electronics and the watchmaking industry also saw healthy growth in demand for high-value capital goods in the first half of 2018. The Tornos Group was able to expand its market position in all these segments in the first half of 2018. The medical and dental technology segment was the only area in which Tornos did not match the good results achieved in the same period of the previous year. However, there are a number of interesting projects in the pipeline which should be completed in the second half of 2018.

Innovation projects on track

The first half of the year saw Tornos move successfully forward on its various innovation projects – both in the multispindle segment and in Swiss-type automatic lathes. The SwissDeco automatic lathe is based on a modular platform developed from scratch and raises the bar in the high-end segment. It was extremely well received in the various markets



targeted by Tornos. Demand for the new platform is there – preparations are well under way for the start of production in the fourth quarter of 2018. Tornos is also hard at work on the further development of its automation solutions. For Tornos customers, the scalable, user-friendly machine-programming and communication software TISIS is the gateway to Industry 4.0.

Moutier site and global supply chain management to be bolstered

Tornos is committed to qualitative growth. The Group's business is to become more global, and flexibility in all segments is to be increased. In the first half of 2018, Tornos agreed the sale of its factory building at Rue de l'Ecluse in Moutier at the end of 2019. Tornos will centralize production at the main site at Rue Industrielle in Moutier, expand the plant and simplify processes. In future, all Tornos machines produced in Switzerland will be assembled in this plant. In addition, Tornos will renovate the administration building. The work associated with this is also scheduled to be completed by the end of 2019.

In the first half of 2018, the Tornos Group merged its activities in the micro-milling machinery segment. These are now marketed under the single brand name of Tornos. A logical next step involved the integration of the subsidiary Almac SA, La Chaux-de-Fonds, into Tornos SA, Moutier. All employees of Almac SA were taken over by Tornos SA.

In Taichung, Taiwan, Tornos is now able to fully assemble its machines itself. The related infrastructure was brought on stream in May 2018. In Shanghai, China, Tornos has started the extension and renovation work required for its new Customer Center; this is scheduled to be operational in November 2018. In the USA, Tornos will move into a larger building by the end of September, and in Germany, it is planning a new technology center for its customers in the automotive industry.

The Moutier incubator launched in the Tornos Precision Park in 2017 is a microtechnology collaboration platform that brings together universities, institutions, start-ups and partner firms. Participants have access to extensive infrastructure. In the first half of 2018, three actual projects paving the way to the future were successfully initiated with different partners.

Tornos has also started to set up an academy for its own employees and for customers. Internally, the academy will cover sales, customer care and services, and externally, it will offer top-flight training for Tornos machine operators in particular.

Outlook for the second half of the year

Subject to geopolitical uncertainties, the macro-economic outlook and the forecasts for the Swiss mechanical engineering industry remain positive for the second half of the year. Its range of products perfectly geared to customer requirements will enable Tornos to continue benefiting from the healthy demand in its core markets. Despite facing supply-side difficulties, Tornos expects to see a further year-on-year improvement in EBIT and the net result in 2018.



François Frôté
Chairman of the
Board of Directors



Michael Hauser
President and Chief
Executive Officer

✎ The MultiSwiss range is now complete and can handle workpieces ranging from 4 to 32 millimeters in diameter.

Management Report

General

The world economy continues in good shape. In the first half of 2018 there was keen, broad-based demand for Swiss products internationally, which had a gratifying effect on foreign trade. Tornos was also able to benefit from this, thanks to its automatic lathes manufactured in Switzerland and Asia. The automotive industry, which is Tornos' biggest customer segment by far, is running on all cylinders. Together with demand from the electronics sector, the medical and dental technology segment and the reinvigorated watchmaking industry, this development should enable Tornos to maintain a high level of new orders in the coming months, provided that the Swiss franc does not come under upward pressure and there is no escalation of international trade tensions. Intensive competition for resources has also led to some commodity bottlenecks. There is a realistic prospect that the flourishing economy will start to slow down soon.

Tornos is consistently implementing its corporate strategy in the current market environment. It is in an excellent position thanks to its fully revised product portfolio, more flexible cost structure, internationally oriented production sites, restructured service department and innovative customer solutions. All this is reflected in the order intake for the first half of 2018.

Order intake and backlog

In the first half of 2018, the Tornos Group achieved total order intake of CHF 128.5 million (first half of 2017: CHF 103.2 million, +24.5%). All product lines contributed to this substantial increase. There was gratifyingly high market interest in the MultiSwiss multit spindle product line. In this segment alone, Tornos

was able to boost order intake by 84% compared with the equivalent period of the previous year. New orders for Swiss-type automatic lathes (single-spindle) manufactured in Switzerland remained at the same high level as in the previous year, while orders for Swiss-type automatic lathes in the medium-price segment, which are manufactured in Asia, rose by 47% compared with the first half of 2017.

Tornos was able to boost orders in almost all regions. In Europe, the most important region for Tornos, order intake rose from CHF 62.5 million in the first half of 2017 to CHF 82.6 million (+32%), while in the Americas it increased from CHF 5.0 million to CHF 8.4 million (+68%). In Asia (including remaining regions) it fell slightly, from CHF 17.1 million to CHF 15.4 million, which was a decrease of CHF 1.7 million (-10%). This is in line with the general industry trend and in particular with the trend in China in the first half of 2018.

The Tornos Group is always able to react quickly to the various developments in its market segments and to benefit from an upswing. The Tornos Group's biggest market segment by far is the automotive industry. Here, order intake went up by 42% in the first half of 2018. In all, 54% of total machine orders were from this industry, with the multit spindle machine business accounting for a substantial proportion. Several interesting projects are in progress in the medical and dental technology segment, and it should be possible to complete these in the second half of the year. However, in the first six months Tornos did not match the good results achieved in the same period of the previous year. This meant that the electronics segment, in which Tornos again made gains, now outperforms the medical and dental technology segment. Pleasing progress was also made



✦ Increasing customers' productivity and making true experts of their machine operators through effective training.

in the watchmaking industry, with Tornos more than doubling order intake in this segment.

The Tornos Group's backlog currently stands at an all-time high of CHF 93.3 million. It rose by 47% in the first half of 2018 (December 31, 2017: CHF 63.6 million).

Net sales

In the first half of 2018, the Tornos Group posted net sales of CHF 104.0 million (first half of 2017: CHF 82.1 million, +26.7%). Excluding exchange rate impact, the result would have been net sales of CHF 99.0 million for the first half of 2018 (+20.6% compared with the first half of 2017).

In the Swiss domestic market, net sales of CHF 18.7 million were CHF 8.3 million higher than the figure for the first half of 2017 (+79%). Whereas net sales rose by CHF 12.6 million (24%) to CHF 65.9 million in the rest of Europe, they fell by CHF 2.5 million to CHF 6.1 million in the Americas compared with the

same period of the previous year. However, the high backlog indicates that net sales will recover in this region in the second half of the year. Tornos boosted net sales in Asia (including remaining regions) by around 37% to CHF 13.4 million.

Overall, the individual regions accounted for the following shares of the Tornos Group's net sales in the first half of 2018: Switzerland 18% (first half of 2017: 13%); rest of Europe 63% (first half of 2017: 65%); Americas 6% (first half of 2017: 10%); Asia (including remaining regions) 13% (first half of 2017: 12%).

In the service and spare parts business, Tornos generated net sales of CHF 23.9 million in the first half of 2018. This was a gratifying 19% increase on the figure for the same period of the previous year (first half of 2017: CHF 20.1 million). The spare parts business, which is performing well, and the increasingly successful used machinery business also contributed.

EBITDA and EBIT

Earnings before financial expenses, tax, depreciation and amortization (EBITDA) came to CHF 7.3 million for the first half of 2018 (first half of 2017: CHF 3.4 million). The EBITDA margin was 7.0% (first half of 2017: 4.1%). Earnings before financial expenses and tax (EBIT) amounted to CHF 5.5 million (first half of 2017: CHF 1.7 million). Excluding exchange rate impact, the EBIT result for the first half of 2018 would have been CHF 3.6 million. The EBIT margin was 5.3% (first half of 2017: 2.0%).

Net result

Since Tornos was able to pay off all its debts at the end of 2017, net financial expenses fell by CHF 0.2 million in the first half of 2018 compared with the same period of the previous year. The depreciation of the Swiss franc against the euro increased the value of certain balance sheet items, which had a positive impact on the exchange rate result. In the first half of 2018 the latter was CHF +0.3 million (first half of 2017: CHF -0.9 million).

The net result for the first half of 2018 came to CHF 5.5 million (first half of 2017: CHF 0.3 million). The margin was a gratifying 5.3% (first half of 2017: 0.4%).

Balance sheet

Total equity rose by CHF 7.6 million to CHF 97.8 million in the first half of 2018 (December 31, 2017: CHF 90.2 million), including minority interests of CHF 0.4 million (December 31, 2017: CHF 0.4 million). The increase in the total balance sheet resulted in a reduction of 2.2 percentage points in the equity ratio, to 60.8% (December 31, 2017: 63.0%).

As at June 30, 2018, net cash stood at CHF 27.5 million (December 31, 2017: CHF 23.4 million).

Cash flow

Free cash flow was CHF 2.4 million in the first half of 2018. It was CHF 10.1 million in the same period of the previous year, thanks to the substantial reduction of CHF 12.5 million in net working capital. In the current reporting period, net working capital increased by CHF 3.7 million, mainly because of the increase in sales. Net investments came to CHF 1.4 million (first half of 2017: CHF 3.6 million). Tornos invested principally in properties and machine control systems. A further CHF 1.6 million in cash and cash equivalents was generated through Tornos selling its own shares, particularly in relation to the employee stock participation program. This brought the net increase in cash and cash equivalents to CHF 3.9 million (first half of 2017: CHF 6.1 million).

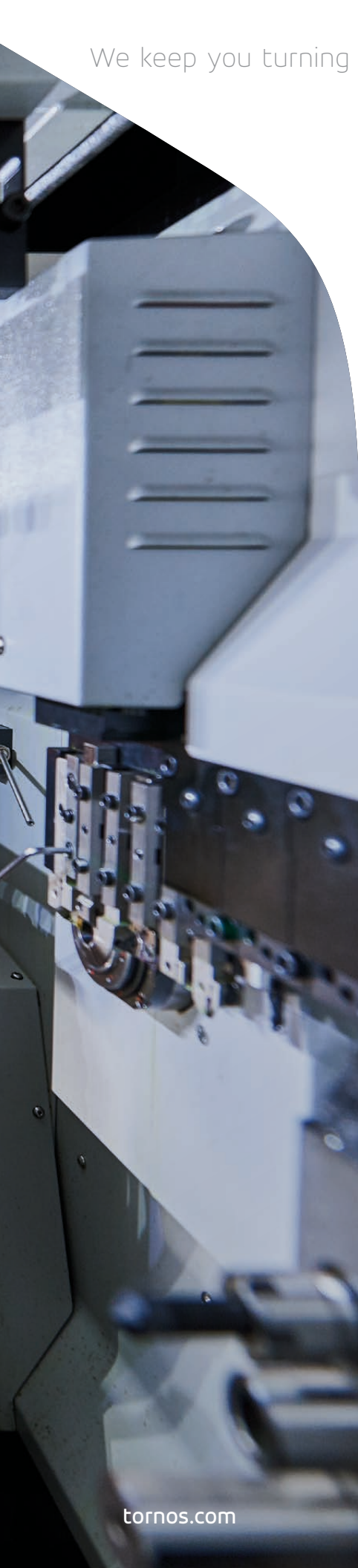
Employees

On June 30, 2018, the Tornos Group had 688 employees (full-time equivalents) and 40 apprentices (December 31, 2017: 668 employees and 40 apprentices). Most of the increase was in Taichung (Taiwan), where Tornos recently brought its assembly plant into operation. The remainder of the new jobs were at the assembly plant in Xi'an (China) and in the service section in Poland.



Lean assembly and careful use of resources are the guiding principles behind all production planning and an integral part of the entire production process in Moutier and La Chaux-de-Fonds, Switzerland, in Xi'an, China, and in Taichung, Taiwan.

We keep you turning



TORNOS HOLDING LTD

Rue Industrielle 111
P.O. Box 960
2740 Moutier / Switzerland
T +41 (0)32 494 44 44
contact@tornos.com

Tornos
throughout
the world



tornos.com