

TORNOS

*Report on the
first half of 2017*

Tornos Group



Rigorous implementation of the lean assembly approach in Moutier, Switzerland. ↗

Key figures

Tornos Group

In CHF 1'000*	1 st HY 2017 1.1.-30.6.2017	1 st HY 2016 1.1.-30.6.2016	Difference	Difference in %
Order intake	103'182	62'632	40'550	64.7%
Net sales	82'088	69'848	12'240	17.5%
EBITDA	3'375	-1'134	4'509	n/a
<i>in % of Net sales</i>	4.1%	-1.6%		
EBIT	1'679	-2'427	4'106	n/a
<i>in % of Net sales</i>	2.0%	-3.5%		
Net result	295	-3'541	3'836	n/a
<i>in % of Net sales</i>	0.4%	-5.1%		
Cash flow from operating activities	13'703	-9'134	22'837	n/a
Cash flow from investing activities	-3'563	4	-3'567	n/a
Free cash flow	10'140	-9'130	19'270	n/a
	30.6.2017	31.12.2016		
Net cash	5'288	-4'765	10'053	n/a
Total equity	81'579	80'352	1'227	1.5%
<i>in % of Total balance sheet</i>	61.9%	62.6%		
Total balance sheet	131'902	128'283	3'619	2.8%
Employees (Full-time equivalents)**	641	631	10	1.6%

* Unless otherwise stated

** Without apprentices

Tornos continues to perform well

Ladies and Gentlemen, dear Shareholders,

The Tornos Group performed very well in the first half of 2017. After a somewhat sluggish start to the year, demand for all product lines picked up significantly in every region from March onwards. The Tornos Group was well prepared for this upturn and all the key business figures in the half-year financial statements improved markedly. Order intake for the first half of 2017 was up by a total of around 65% on the figure for the equivalent prior-year period (and even by 98% in the machines business), the backlog rose by around 75% compared with the end of 2016, and net sales were also considerably higher than in the same period of the previous year. Tornos is back in profit with EBIT of CHF 1.7 million and a net result of CHF 0.3 million. The Group expects the annual financial statements to show positive EBIT and a positive net result.

In the first half of 2017, the Tornos Group posted total net sales of CHF 82.1 million (first half of 2016: CHF 69.8 million, +17.5%) and order intake of CHF 103.2 million (first half of 2016: CHF 62.6 million, +64.7%). In the machines business, Tornos even managed to increase order intake by 98%. The operating result (EBIT) for the first half of 2017 came to CHF 1.7 million (first half of 2016: CHF -2.4 million), and the net result was CHF 0.3 million (first half of 2016: CHF -3.5 million). In the first half of 2017 the Tornos Group generated positive free cash flow of CHF 10.1 million, thanks partly to a substantial reduction in net working capital since the start of the year. The Group had experienced a cash drain of CHF 9.1 million in the first half of 2016. The number of people employed by the Tornos Group (in full-time

equivalents) rose slightly, from 631 at the end of 2016 to 641 at the end of June 2017.

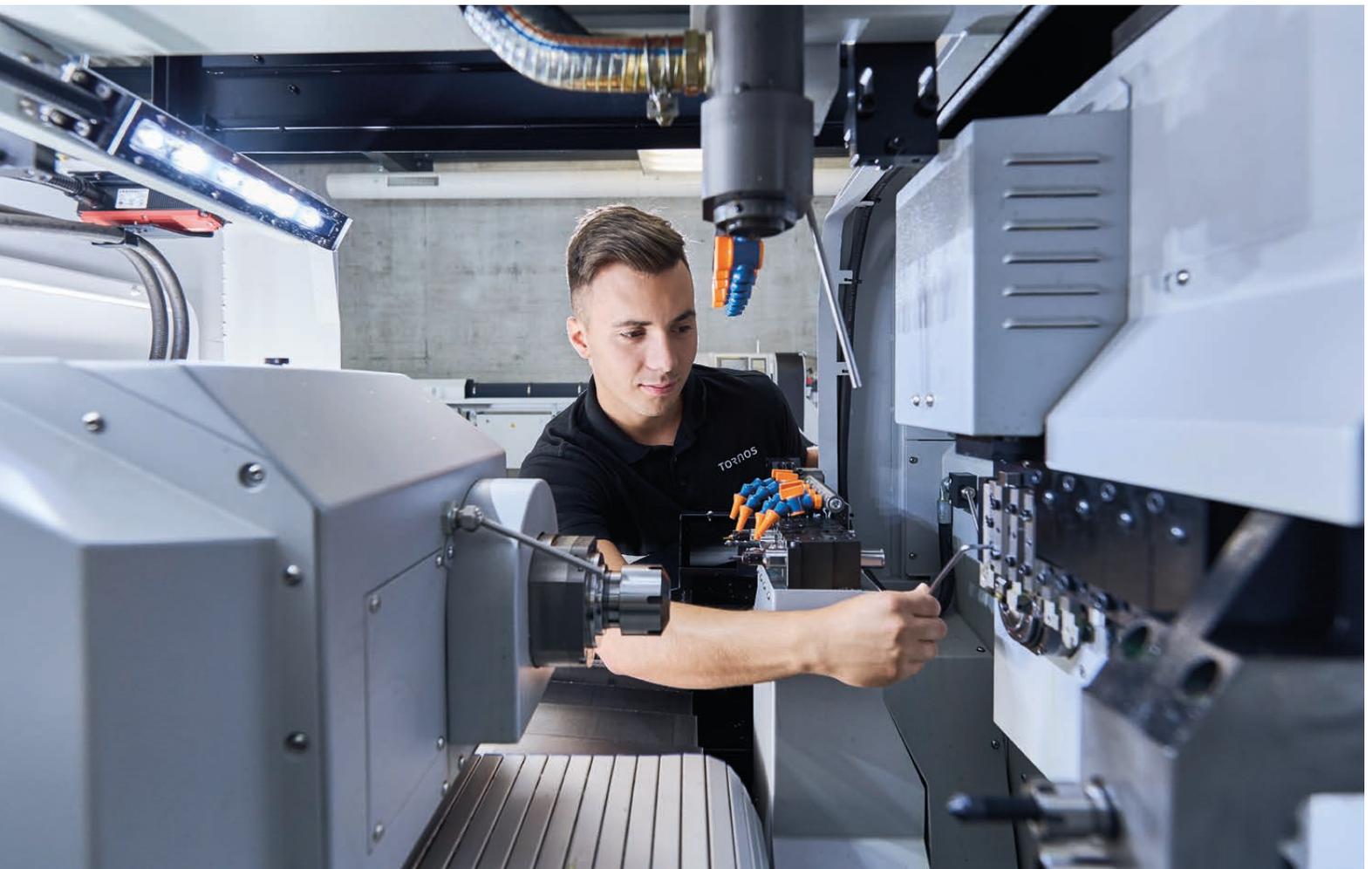
Market position improves considerably

Streamlining and expanding the product range enabled the Tornos Group to strengthen its position considerably in the various market segments and regions in the first half of 2017. Order intake improved markedly in all regions.

During the past year, the automotive industry – the most important market for Tornos – suffered from uncertainties and great reluctance to invest. Confidence returned to this market in the first few months of 2017 and demand for capital goods increased sharply, especially in the higher-price segment. The market segments of medical and dental technology and electronics also saw demand for high-value capital goods increase significantly in the first half of 2017. It is only in the watchmaking industry that no turnaround has yet been perceived.

Demand for high-end products rises strongly

Having already boosted sales of machines in the medium-price segment in the second half of 2016, the Tornos Group achieved very gratifying sales in the high-end multispindle segment in the first half of 2017. This was largely attributable to the newly launched MultiSwiss models, which can be used for manufacturing parts with a diameter of up to 32 millimetres. In June 2017, Tornos delivered the 200th machine from the MultiSwiss range, which was launched in 2011.



↗
Tornos employees work together in multidisciplinary and multicultural teams.

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



“In the first half of 2017 Tornos succeeded in generating very encouraging sales results in the high-end multi-spindle segment.”

Tornos also intends to add extremely innovative high-end machines to its Swiss-type automatic lathe (single-spindle) product range. These will be unveiled to an interested specialist audience at EMO Hannover, the industry's leading trade show, in September 2017.

Systematic implementation of the flexibility strategy

As part of its flexibility strategy, the Tornos Group began outsourcing a substantial portion of component manufacture to third parties at the beginning of 2015 via targeted global supply chain management. These activities will be stepped up in the second half of 2017. At the same time, the Tornos Group will invest in ultra-modern manufacturing technologies in order to be able to produce its key components and small series more efficiently.

Outlook for the second half of the year

The overall economic prospects and the forecasts for the Swiss mechanical engineering industry are all positive for the second half of the year. Thanks to its streamlined product range which is ideally tailored to the needs of its customers, Tornos is well equipped to continue to benefit from the revival in demand in the core markets. The Group also expects positive EBIT and a positive net result for the 2017 business year.



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 first half of 2017 confirmed the fundamental recovery in the world economy which started to become apparent in the fourth quarter of 2016. Demand for capital goods increased noticeably, especially in the automotive industry. A significant upturn was also evident in the Tornos Group's other target markets, apart from the Swiss watch-making industry, which was the sole exception.

In regard to exchange rate impact, both the euro and the US dollar were of particular importance to Tornos. At the end of 2016 the dollar was worth 1.02 Swiss francs, and by the end of June 2017 it had fallen to 0.96 Swiss francs. By contrast, the euro appreciated slightly, from 1.07 to 1.09 Swiss francs.

The consistent implementation of the corporate strategy and the great efforts made by the Tornos Group in this respect over recent years have paid off. As the economy revives, the Group stands ready with an almost completely revised product portfolio, a more flexible cost structure, internationally oriented production sites, a restructured service department and innovative customer solutions on the market. All this is reflected in the order intake for the first half of 2017.

Order intake and backlog

In the first half of 2017, the Tornos Group posted order intake of CHF 103.2 million (first half of 2016: CHF 62.6 million, up 64.7%). In the machine business, Tornos was able to boost order intake by as much as 98%. All product lines contributed to this substantial rise, with the high-end multispindle segment showing the most notable improvement. The newly developed machines in the MultiSwiss product line, for the manufacture of parts with a diameter of up to 32 millimetres, were very well received by the market. Tornos succeeded in increasing order intake in all regions. In Europe, the most important region for Tornos, it rose from CHF 33.7 million in the same period of the previous year to CHF 62.5 million (+85%), in the Americas from CHF 1.7 million to CHF 5.0 million (+194%) and in Asia (including remaining regions) from CHF 7.4 million to CHF 17.1 million (+131%). In terms of markets, the Tornos Group made particular progress in its key segment, the automotive industry. Order intake more than quadrupled in this segment. However, medical and dental technology also developed gratifyingly, as did the electronics segment. The watchmaking industry was the only one to show no signs of growth.

Tornos was able to maintain steady volumes in the service and spare parts business, matching the previous year's high level.

At CHF 53.3 million, the backlog of the Tornos Group was around 75% higher as of 30 June 2017 than at the end of 2016 (CHF 30.4 million).



Service – A continuum of expert support.

Net sales

In the first half of 2017, the Tornos Group posted net sales of CHF 82.1 million (first half of 2016: CHF 69.8 million, +17.5%). This figure does not yet reflect the significant increase in order intake, because a large proportion of the new orders will not filter through to sales until the second half of 2017. Excluding exchange rate impact, the net sales result for the first half of 2017 would have been CHF 83.1 million (+19.1% compared with the first half of 2016).

In the Swiss domestic market, net sales of CHF 10.4 million were only CHF 2.4 million below the pleasing figure for the first half of 2016. The encouraging backlog of CHF 8.9 million from Switzerland gives cause for considerable optimism regarding net sales in the second half of the year. In the rest of Europe, net sales rose by CHF 12.7 million, or 31%, to CHF 53.2 million. Tornos was also able to increase net sales in the Americas compared with the same period of the previous year, by CHF 2.1 million to CHF 8.6 million. Net sales in Asia (including

remaining regions) stayed at the same level as the previous year. Here, too, the high backlog of CHF 12.7 million is looking very promising for the second half of the year.

Overall, the individual regions accounted for the following shares of the Tornos Group's net sales in the first half of 2017: Switzerland: 13% (first half of 2016: 18%), rest of Europe 65% (first half of 2016: 58%), Americas 10% (first half of 2016: 10%); Asia (including remaining regions): 12% (first half of 2016: 14%).

In the service and spare parts business, Tornos generated net sales of CHF 20.1 million in the first half of 2017. This meant that the Group more or less equalled the gratifying figure of CHF 20.3 million achieved in the first half of 2016, despite high capacity utilization in the new machinery business. The increasingly successful used machinery business also contributed.



EBITDA and EBIT

Earnings before financial expenses, tax, depreciation and amortization (EBITDA) came to CHF 3.4 million for the first half of 2017 (first half of 2016: CHF -1.1 million). Earnings before financial expenses and tax (EBIT) amounted to CHF 1.7 million (first half of 2016: CHF -2.4 million). Excluding exchange rate impact, the EBIT result for the first half of 2017 would have been CHF 2.3 million. The EBIT margin was 2.0% (first half of 2016: -3.5%).

Net result

In the first half of 2017, net financial expenses rose by CHF 0.1 million compared with the same period of the previous year. Certain balance sheet items depreciated owing to the weaker US dollar, which had a negative impact on the exchange rate result. In the first half of 2017 the latter came to CHF -0.9 million (first half of 2016: CHF -0.6 million).

The net result for the first half of 2017 came to CHF 0.3 million (first half of 2016: CHF -3.5 million). The margin was 0.4% (first half of 2016: -5.1%).

Balance sheet

Total equity rose by CHF 1.2 million to CHF 81.6 million in the first half of 2017 (31 December 2016: CHF 80.4 million), including minority interests of CHF 0.5 million (31 December 2016: CHF 0.7 million). The increase in the total balance sheet resulted in a reduction of 0.7 percentage points in the equity ratio, to 61.9% (31 December 2016: 62.6%).

As at 30 June 2017, net cash stood at CHF 5.3 million (31 December 2016: CHF -4.8 million).

Cash flow

In the first half of 2017, the Tornos Group generated a positive free cash flow of CHF 10.1 million, having posted a cash drain of CHF 9.1 million in the first half of 2016. The CHF 12.5 million decrease in net working capital contributed substantially to this improvement. Furthermore, Tornos made investments amounting to CHF 3.6 million. Much of this was spent on renovating the new staff restaurant and the non-operating property "Tour Bechler". Part of the free cash flow acquired was used to repay CHF 4.0 million of the loan received from the principal shareholders.

Employees

On 30 June 2017, the Tornos Group had 641 employees (full-time equivalents) and 42 apprentices (31 December 2016: 631 employees and 41 apprentices). Tornos hired several employees on a temporary basis in order to cope with the high workload in machine assembly and sales of spare parts.

“Tornos more than quadrupled order intake in the automobile industry market segment.”

↗ The lean assembly approach in the Xi'an, China factory delivers more efficient assembly processes, shorter assembly times and greater flexibility.

In Taichung, Taiwan, the same consistent quality standards are enforced as at all Tornos locations around the world.



We keep you turning



tornos.com

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