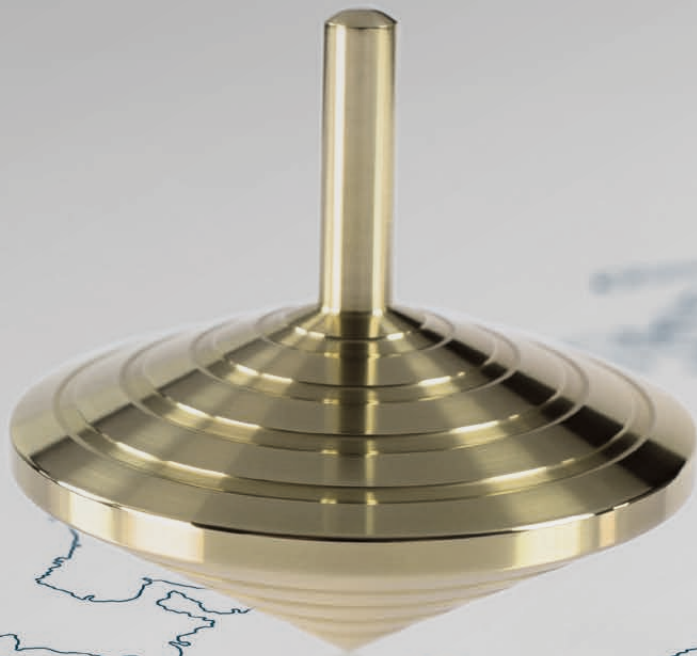


# TORNOS



## *Letter to the shareholders Management report 2016*

*Tornos Holding Ltd.*





# Key figures

## Tornos Group

In CHF 1'000\*

	2016	2015	Difference	Difference in %
<b>Order intake</b>	<b>133'494</b>	<b>160'049</b>	-26'555	-16.6%
<b>Net sales</b>	<b>136'169</b>	<b>163'954</b>	-27'785	-16.9%
<b>EBITDA</b>	<b>-323</b>	<b>4'921</b>	-5'244	n/a
<i>in % of Net sales</i>	-0.2%	3.0%		
<b>EBIT</b>	<b>-2'987</b>	<b>2'369</b>	-5'356	n/a
<i>in % of Net sales</i>	-2.2%	1.4%		
<b>Net result</b>	<b>-3'604</b>	<b>895</b>	-4'499	n/a
<i>in % of Net sales</i>	-2.6%	0.6%		
<b>Cash flow from operating activities</b>	<b>-14'206</b>	<b>-2'337</b>	-11'869	-507.9%
<b>Cash flow from investing activities</b>	<b>-1'425</b>	<b>40</b>	-1'465	n/a
<b>Free cash flow</b>	<b>-15'631</b>	<b>-2'297</b>	-13'334	-580.5%
	<b>31.12.2016</b>	<b>31.12.2015</b>		
<b>Net cash</b>	<b>-4'765</b>	<b>11'303</b>	-16'068	n/a
<b>Total equity</b>	<b>80'352</b>	<b>84'111</b>	-3'759	-4.5%
<i>in % of Total balance sheet</i>	62.6%	59.7%		
<b>Total balance sheet</b>	<b>128'283</b>	<b>140'798</b>	-12'515	-8.9%
<b>Employees (Full-time equivalents)**</b>	<b>631</b>	<b>657</b>	-26	-4.0%

\* Unless otherwise stated

\*\* Without apprentices

# Tornos remains on course

*Ladies and gentlemen,  
dear shareholders,*

*The Tornos Group is now well on the way to becoming a financially strong, internationally established, flexible company with a high capacity for innovation and lean manufacturing processes. The fact that the key figures for 2016 do not reflect the progress made in recent years can be attributed to a marked reluctance in the target markets - especially in the automotive supply industry - to invest in capital equipment, during the year under review. This had a considerable impact on the Tornos Group's net sales, order intake and result.*

*In the 2016 financial year, the Tornos Group posted total net sales of CHF 136.2 million (2015: CHF 164.0 million, -16.9%) and order intake of CHF 133.5 million (2015: CHF 160.0 million, -16.6%). Tornos was able to increase order intake considerably in the fourth quarter. The EBIT for the reporting year came to CHF -3.0 million (2015: CHF 2.4 million), and the net result was CHF -3.6 million (2015: CHF 0.9 million).*

## **Substantial increase in number of machines sold**

*In the second half of 2016, Tornos saw the number of machines ordered rise by nearly a third compared with the same period of 2015. Looking at the year as a whole, Tornos also received more machine orders during 2016 than it did in 2015. The fact that total order intake nevertheless fell is attributable to the change in the product mix, with more machines being sold in the medium price category, and fewer machines in the more expensive price category.*

*Tornos experienced a pronounced decline in the higher-price segment during the reporting year, both for its Swiss-type automatic lathes and for its multispindle machines. Uncertainties in the most important target markets led not only to a general reluctance to invest in capital equipment, but also to greater price sensitivity. However, Tornos' service and spare parts business performed well in 2016, generating 5% more revenues than in the previous year. The investments made in recent years paid off in this area, as did the strong customer focus cultivated by Tornos.*

## **Decision to manufacture own products in the medium-price segment successfully implemented**

*In the medium-price segment, Tornos expanded its product range to a total of seven machines in 2016 by adding the Swiss GT 32 and Swiss DT 13 models. By using the platform concept, it was possible to develop and complete its own-brand product segment for this part of the range in less than three years. In the year under review, Tornos sold 45% more machines from the factories in Xi'an (China) and Taichung (Taiwan) than in the previous year, with two-thirds of these going to customers in Europe. The machines' performance and cost efficiency are creating demand for them in areas such as medical and dental technology, the automotive supply sector and the watchmaking and jewelry industry. The Tornos Group has already established a firm market footing for its own medium-price products and has regained market share in Europe.*



François Frôté, Chairman and Michael Hauser, CEO

### **Successful expansion of the MultiSwiss range**

*The generally positive trend in order intake during the last quarter of 2016 is primarily attributable to the launch of two newly developed multispindle machines in the MultiSwiss product line. A few years ago, Tornos introduced the MultiSwiss 6x16, a product, which has since become the market benchmark for quality, precision and surface quality in high-volume production. The two new models that were unveiled before an interested specialist audience at the AMB trade fair in Stuttgart in September 2016 can manufacture parts with a diameter of up to 32 millimeters. A gratifying number of orders was received in the fourth quarter, and this positive response gives us cause for optimism regarding the future of these latest innovations. A large proportion of the numerous orders for the new MultiSwiss machines that were placed during the reporting year will not filter through to sales until 2017.*

### **SwissNano significantly exceeds recent years' sales**

*Sales of the SwissNano, a Swiss-type automatic lathe, also rose gratifyingly. Despite the very difficult market environment in the watchmaking industry, Tornos sold 80% more SwissNano machines than in the previous year, thus gaining additional market share in the watchmaking industry. The SwissNano has enabled Tornos to set the standard in the highly competitive field of precision micromechanics.*

### **Industry 4.0 with TISIS from Tornos**

*Tornos is a world leader in the area of user-friendly machine programming and communication, thanks to its innovative TISIS software solution. TISIS CAM is the name of the solution for computer-aided manufacturing (CAM), which enables machines to be accurately programmed to perform complex processing. One in every two Tornos machines is now ordered with TISIS.*

### **Targeted investment strengthens company's own manufacturing skills**

*Tornos has always enjoyed a high degree of vertical integration. In implementing its strategy, the Group set itself the goal of being able to fall back on at least one other supplier for all manufactured parts.*

*Thanks to targeted global supply chain management, Tornos has already outsourced about 30% of these parts since the beginning of 2015. The manufacturing equipment available is thus being utilized significantly more efficiently. This has enabled Tornos to gradually dispose of redundant manufacturing equipment. Other outsourcing projects involving highly qualified suppliers are in progress. In 2016, Tornos also conducted an evaluation of new, state-of-the-art production equipment, which it plans to purchase during 2017 and 2018. This will help it maintain its own expertise in the field of prototype production and high-precision "know-how" parts.*

### **Further streamlining of real estate portfolio**

*As part of our efforts to dispose of land and buildings that are surplus to operational requirements, we have sold the Foyer—the building in Moutier that currently houses our staff restaurant—to a local company in a related sector. We have plans to convert and renovate the Usine Junker building at Rue Industrielle so that we can continue to offer our employees good catering facilities close to the workplace.*

### **Founding of the Tornos Precision Park: from micromechanics to Industry 4.0**

*The Tornos Precision Park will be the centerpiece of the newly renovated Usine Junker building. A center for microprecision is to be set up under the patronage of Tornos. Young entrepreneurs and start-ups will be given the opportunity to join a dense network of technology firms, university research institutions and successful, established companies in*

*an inspiring environment. With the aid of new technologies and embodying the spirit of Industry 4.0, this center is expected to make a major contribution to ensuring that the Jura Arc region continues to deliver world-class performance in the future.*

### **Globalization enriches the corporate culture**

*As part of its internationalization strategy, Tornos has set up its own production facilities in China and Taiwan in recent years. It goes without saying that these sites have to meet the same quality requirements as our main factory in Moutier. If it's labeled Tornos, it's made by Tornos. This places particular demands on managers, employees, partners and suppliers.*

*Two years ago, the Tornos Group kicked off the process of updating its image by unveiling a new fair stand design that attracted considerable attention. Since then, the new image has been gradually implemented worldwide and extended to all the Group's marketing and communication activities. The product portfolio, which is now complete, features consistent machine design, thus further demonstrating the Group's strategic realignment. The Tornos brand update was completed in autumn 2016 with the launch of the new logo. Tornos now has a more modern, dynamic and international image and look.*

### **Outlook for 2017**

*It is difficult to make predictions for the 2017 financial year. The automotive industry still remains reluctant to invest, and there is no sign of the trend in the watchmaking industry reversing. Now that our machine range is complete, we are well equipped for an upturn in demand. We are not publishing specific sales or result targets for 2017.*

## Thanks

*On behalf of the Board of Directors and General Management, we would like to thank our shareholders for the confidence they show in us. We wish to thank our customers and partners for their excellent collaboration, and our employees for all their hard work in a very difficult year which held numerous challenges.*



**François Frôté**  
*Chairman of the  
Board of Directors*



**Michael Hauser**  
*President and Chief  
Executive Officer*

**“Now that our machine range is complete, we are well equipped for an upturn in demand.”**



# Management report 2016

*In 2016, the business environment of the Tornos Group was characterized by a marked degree of caution in its sales markets, particularly for products in the higher-price range. In the automotive industry, which is Tornos' biggest market segment by far, this restraint was further accentuated by uncertainties provoked by the diesel engine emissions scandal. While the watchmaking industry battled with difficult sales globally during the reporting year, the medical and dental technology segment remained relatively stable, as did electronics.*

*In this challenging environment, the Tornos Group successfully implemented its strategy of manufacturing its own products in the medium-price category, expanding its range in this segment to a total of seven machines. The machines' performance and cost efficiency are creating demand in areas such as medical and dental technology, the automotive supply sector and the watchmaking and jewelry industry. In the year under review, the Tornos Group succeeded in establishing its own machines in the market and has regained market share.*

*Thanks to targeted global supply chain management, over the past two years Tornos has outsourced a substantial proportion of the parts that it previously manufactured in-house to suitably qualified supply partners. The manufacturing equipment available is thus being utilized significantly more efficiently.*

## **Order intake and backlog**

*In the 2016 financial year, Tornos generated order intake of CHF 133.5 million (previous year: CHF 160.0 million, -16.6%). The second half of the year (+13.3%) was significantly stronger than the first. By far the most orders were received by the Tornos Group in the fourth quarter of 2016.*

*Looking at 2016 as a whole, Tornos received more orders in terms of machine numbers than it did in 2015. The fact that order intake nevertheless fell is attributable to the change in the product mix, with more standard machines being sold in the medium price category, and fewer machines in the more expensive price category. This was particularly true for multispindle machines, which are manufactured in Moutier and mainly used in the automotive industry. During the year under review, Tornos also received significantly fewer machine orders from Europe (excluding Switzerland), and especially Germany, than in the previous year. Compared with the previous year, order intake from this sales market fell. On the other hand, there was a gratifying rise in orders from Switzerland, with an increase of about 10%. Although the Swiss watchmaking industry remains reluctant to invest, Tornos was nevertheless able to obtain attractive orders and gain market share in this segment. This was in no small part thanks to the SwissNano machine, which is produced in Moutier. Tornos sold about 80% more models of this innovative Swiss-type automatic lathe in 2016 than it did in the previous year. By contrast, the upward trend seen in 2015 was*



not sustained in the American market. Here, Tornos had to absorb a fall in order intake. Order intake also declined in Asia (including other regions).

Despite its marked reluctance to place orders, the automotive industry remained by far the most important market segment for Tornos, accounting for 28.5% (previous year: 31.2%) of order intake. Next came medical and dental technology with 13.7% (previous year: 13.9%). The electronics market segment performed well, increasing its share of total order intake from 9.8% to 12.7%. For Tornos, this segment is now ahead of the watchmaking industry, which accounted for 11.5% (previous year: 10.4%). The remaining 33.6% (previous year: 34.7%) came from sub-suppliers (known as job shops), which supply parts to the four industries mentioned above, and from smaller industries such as aviation or pneumatics/hydraulics.

At CHF 30.4 million, the Tornos Group's order backlog as at December 31, 2016 was slightly higher than in the previous year (December 31, 2015: CHF 29.7 million).

### **Net sales**

In the 2016 financial year, Tornos posted net sales of CHF 136.2 million (previous year: CHF 164.0 million, -16.9%).

Reluctance to invest in more expensive products also affected the Tornos Group's sales. The average sales

price per machine fell, due to the shift in the product mix toward mid-range segment machines. At the same time, Tornos was able to significantly increase sales of machines from its own production activities in the mid-range segment in China and Taiwan.

The positive trend experienced by Tornos in the Swiss domestic market also had an impact on sales. The Group fell just short of the previous year's good result. In the other markets, however, Tornos suffered declines in sales.

Overall, the annual net sales of the Tornos Group in 2016 break down as follows: Switzerland 20.1% (previous year: 17.2%), rest of Europe 53.7% (previous year: 53.6%), Americas 10.2% (previous year: 11.3%), Asia (including remaining regions) 16.0% (previous year: 17.9%).

In the service and spare parts business, Tornos generated net sales of CHF 40.4 million in 2016 (previous year: CHF 38.0 million, +6.3%). The share that this business contributed to total net sales thus rose from 23.2% in the previous year to 29.7%.

### **Gross profit**

In the year under review, the Tornos Group generated gross profit of CHF 40.6 million (previous year: CHF 49.3 million). The difference is almost entirely (CHF 8.3 million) attributable to lower volumes. The gross profit margin declined slightly from 30.1% to 29.8%.

“The service and spare parts business contributed some 30% to total net sales of the year.”

#### **Operating expenses**

As in 2015, Tornos was once again able to cut operating expenses significantly in 2016, reducing them by CHF 3.0 million to CHF 44.7 million (-6.4%). It did so with the help of cost-cutting measures introduced at the start of January 2016. The extra savings came to about CHF 1.0 million for marketing and sales, CHF 1.1 million for general and administrative expenses and CHF 0.9 million for research and development.

#### **Research and development**

One of the Tornos Group's research and development priorities in 2016 was to complete the additions to the medium-price-segment product range. Tornos has expanded this range to a total of seven models through the addition of the Swiss GT 32 and Swiss DT 13 machines. These machines are achieving gratifying sales. In the multispindle segment, Tornos has also added two models to the MultiSwiss product range. These can be used for the high-precision manufacture of parts with a diameter of up to 32 millimeters at ultra-short cycle times. The initial market response was very positive, with Tornos obtaining a pleasing number of orders for these new MultiSwiss machines in the fourth quarter of 2016.

#### **Sale of property surplus to operational requirements**

In the reporting year, Tornos sold property surplus to operational requirements for a sum amounting to CHF 1.9 million. This resulted in a gain of CHF 1.1 million.

#### **EBITDA and EBIT**

Earnings before financial expenses, tax, depreciation and amortization (EBITDA) came to CHF -0.3 million for 2016 (previous year: CHF +4.9 million). Earnings before financial expenses and tax (EBIT) amounted to CHF -3.0 million (previous year: CHF +2.4 million). This resulted in an EBIT margin of -2.2% (previous year: +1.4%).

## Financial result

In the year under review, the Tornos Group generated a financial result of CHF -0.3 million (previous year: CHF -0.4 million). Financial expenses rose by CHF 0.2 million because of a higher financial loan compared with the previous year. On the other hand, Tornos benefited from positive currency effects in 2016 (CHF +0.3 million). The latter were slightly negative in the previous year (CHF -0.1 million).

## Net result

After deducting income tax of CHF 0.3 million, the net result came to CHF -3.6 million (previous year: +0.9 million). The margin was -2.6% (previous year: +0.6%).

## Balance sheet

Compared with the previous year, the balance sheet total fell by CHF 12.5 million to CHF 128.3 million.

On the assets side, cash and cash equivalents fell in particular (CHF -11.0 million), as did trade receivables (CHF -4.5 million) as a result of lower sales in the fourth quarter. On the other hand, inventories rose by CHF 2.9 million. Much of this increase is attributable to the launch of new products and the higher number of machines in transit from Asia to Europe. Other amounts due remained unchanged from the previous year, whereas prepaid expenses increased by CHF 1.0 million. Fixed assets also remained the same as in the previous year. Under tangible fixed assets, the sale of property surplus to operational requirements was offset by the renovation of the Tour Bechler (Bechler Tower), another property not required operationally which the Group intends to sell at a later date.

On the liabilities side, financial liabilities rose by CHF 5.0 million to CHF 14.1 million. The additional funds were used mainly to finance the net working capital, which increased by about CHF 10 million compared with December 31, 2015. On the other hand, trade payables fell by CHF 9.6 million. This was because fewer goods were purchased as a result of lower machine sales. Other amounts due and provisions declined by about CHF 0.9 million

each. The latter was attributable to decreased warranty costs, again because of lower machine sales. Under non-current liabilities, the provision for pension obligations decreased by CHF 2.4 million as a result of the calculations made by the pension fund expert. The other items in non-current liabilities remained at much the same level as in the previous year.

On December 31, 2016, net cash stood at CHF -4.8 million (previous year: CHF 11.3 million).

Shareholders' equity was CHF 80.4 million on December 31, 2016 (December 31, 2015: CHF 84.1 million), of which CHF 0.7 million were minority interests (December 31, 2015: CHF 0.7 million). The equity ratio increased by 2.9 percentage points to 62.6%.

## Cash flow

For the financial year 2016, the Tornos Group posted a free cash drain (outflow of liquidity after operations, investments and divestments) of CHF 15.6 million (previous year: CHF 2.3 million). Of this, CHF 13.5 million (previous year: CHF 2.8 million) went into net working capital. The positive effect of the reduction in receivables (CHF +4.3 million) is offset by the following negative effects: increase in inventory (CHF -5.9 million), decrease in trade payables and other liabilities (CHF -11.9 million). In 2017 Tornos intends to reduce inventories significantly, thus freeing up liquidity.

Cash flow from investing activities was CHF -1.4 million in the year under review (previous year: CHF 0.04 million). The investments, most of which flowed into the non-operating property Tour Bechler (CHF -2.1 million), were offset by the sale of the Foyer building and a small piece of land (CHF 1.7 million). Tornos also spent about CHF 0.7 million on the purchase of software and hardware.

The free cash drain of CHF 15.6 million was financed by borrowing CHF 5.0 million from the main shareholders and by reducing cash or cash equivalents (CHF 10.6 million).

### **Risk management**

*The Tornos Group maintains a comprehensive risk assessment system that covers both strategic and operational risks. Further details may be found on pages 19 and 20 of the Annual Report.*

### **Employees**

*On December 31, 2016, Tornos employed 631 people (full-time equivalents) and 41 apprentices. At the end of 2015, it had 657 employees and 38 apprentices. Headcount was reduced mainly at the headquarters in Moutier. The average number of employees during the reporting year was 638 (2015: 646).*

*The employees of the Tornos Group are basically satisfied with their working conditions and value the commitment shown by their employer in this respect. These were the findings of an employee survey conducted by Tornos in 2016. The survey results encourage Tornos as it strives to keep on improving its employees' framework conditions.*

### **Brand management**

*The launch of a new logo in autumn 2016 brought the process of updating the Tornos brand and overhauling its visual image to a close. The now-complete product portfolio is also based on a uniform machine design that is a compelling expression of the new strategic direction.*

### **Outlook**

*It is difficult to make predictions for the 2017 financial year. Global economic development and companies' willingness to invest will be determined by the political changes in Europe and the USA, as well as a large number of other influencing factors. The automotive industry remains reluctant to invest, and there is as yet no sign of the investment trend in the watchmaking industry reversing. Tornos is well positioned in all market segments thanks to the machines launched in 2016. The Group is not announcing any specific sales and earnings targets for 2017.*



# Applications expertise



Automotive manufacturers and suppliers expect Tornos to deliver ultra-reliable lathe technologies capable of accurately machining brake system components.

• Tornos' applications expertise permits customized solutions



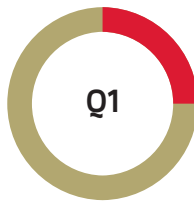
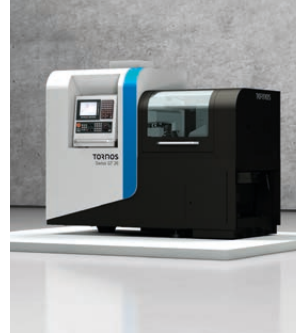
28 mm

45.55 mm

3.5 sec. (MultiSwiss)

Stainless steel  
(C 45 Pb K)

# Milestones in the 2016 financial year



## January to March

### Lean assembly

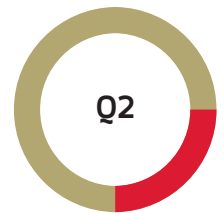
Rigorous implementation of the lean assembly approach in the Moutier factory delivers more efficient assembly processes, shorter assembly times and greater flexibility. Tornos' shop-floor management principles that ensure optimum manufacturing processes are extended to our plant in Xi'an in China.

### Expansion of our service business

Tornos expands its service business by offering new services, such as upgrading existing production systems so as to improve productivity. 14 service centers and 90 field service technicians are now available to assist Tornos customers worldwide.

### Trade fairs

Tornos attends both SIMODEC in La Roche-sur-Foron (France) and METAV in Düsseldorf (Germany), where it presents its latest offerings and product solutions for all four of its market segments. The interest shown by visitors to the fairs and their reactions are extremely promising.



## April to June

### Successful product launches at SIAMS 2016

Tornos premieres the Swiss GT 26B, Swiss DT 26 and Almac BA 1008 HP at SIAMS, the trade fair for microtechnology production equipment, in Moutier.

The **Swiss GT 26B**, which has five simultaneous axes, is produced at the Taichung plant in Taiwan. The modular B-axis considerably extends the range of functions, for example, by adding a fourth rotating drilling station or a full-blown thread-whirling head.

The **Swiss DT 26** completes the Swiss DT series. The DT 26's modular working range, state-of-the-art technical features and efficient five-axis kinematics make it ideal for all turning and milling tasks. The DT 26 is produced in Xi'an in China.

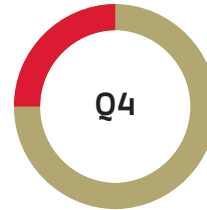
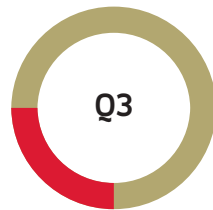
The **Almac BA 1008 HP** is based on the SwissNano platform, and is a product extension of the Almac BA 1008 launched in 2013. It is produced in La Chaux-de-Fonds. It is particularly suitable for machining very hard materials and precious metals. Precise and rapid machining is possible thanks to the high-pressure spindle cooling system that runs through the center.

### TISIS CAM

One in two Tornos machines is now ordered with TISIS CAM. Tornos is a world leader with its innovative software solution for accurately programming machines for complex processing tasks, and is making Industry 4.0 into a reality.

### Sale of the Foyer building in Moutier

As a property surplus to operational requirements, the Foyer in Moutier, which currently houses the Tornos staff restaurant, is sold to a local company in a related sector. A new Tornos staff restaurant will be set up in the Usine Junker during the course of 2017.



## July to September

### Completion of the MultiSwiss range

The MultiSwiss range is complete and can now handle workpieces ranging from 4 to 32 millimeters in diameter. These machines feature mobile spindles with Z-axes, barrel indexing via a torque motor and a sealed unit for all the necessary peripheral systems. They bridge the gap between Swiss-type automatic lathes and multi-spindle machines. State-of-the-art technology permits cycle times that come very close to those of cam-controlled multi-spindle machines.

### Launch of the Swiss GT 32

Tornos launches the Swiss GT 32, based on the Swiss GT 26. This new machine can accommodate up to 40 tools, including 14 with drive units. The Y-axis provides a particularly high secondary operation machining capacity, thanks to which many complex workpieces can now be produced without the need for finishing work. The Swiss GT 32 is produced in Taichung in Taiwan.

### AMB Stuttgart and IMTS Chicago

Tornos showcased the Swiss GT 32 and the MultiSwiss 6x32 at AMB Stuttgart. The Swiss GT 26B makes its US debut together with the TISIS CAM at IMTS in Chicago. The industry audience is enthusiastic about Tornos' new products and software solutions.

### New brand design with a new Tornos logo

Tornos completes the comprehensive, multi-year process of renewing its brand by introducing a new logo. Tornos now has a more modern, dynamic and international visual identity.

## October to December

### Two hundredth SwissNano

Tornos delivers its two hundredth SwissNano to Polydec, a Biel-based customer that is using it to produce challenging micro turned parts. Tornos SwissNano is a byword for the maximum efficiency production of high-precision components.

### Code of Conduct

Tornos approves its new Code of Conduct. It will be presented to employees at all sites in early 2017.

We keep you turning

tornos.com

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Tornos  
throughout  
the world

