

TORNOS

*Interim Consolidated  
Financial Statements 2020*

*Tornos Group*



# Key Figures

## Tornos Group

Unaudited, in CHF '000*	1 <sup>st</sup> HY 2020 1.1.-30.6.2020	1 <sup>st</sup> HY 2019 1.1.-30.6.2019	Difference	Difference in %
<b>Order intake</b>	<b>42'834</b>	<b>76'878</b>	-34'044	-44.3%
<b>Net sales</b>	<b>56'170</b>	<b>117'154</b>	-60'984	-52.1%
<b>EBITDA**</b>	<b>-10'988</b>	<b>11'017</b>	-22'005	n/a
<i>in % of Net sales</i>	-19.6%	9.4%		
<b>EBIT**</b>	<b>-13'089</b>	<b>8'922</b>	-22'011	n/a
<i>in % of Net sales</i>	-23.3%	7.6%		
<b>Net result</b>	<b>-13'908</b>	<b>9'047</b>	-22'955	n/a
<i>in % of Net sales</i>	-24.8%	7.7%		
<b>Cash flow from operating activities</b>	<b>-8'781</b>	<b>-9'455</b>	674	7.1%
<b>Cash flow from investing activities</b>	<b>804</b>	<b>-2'789</b>	3'593	n/a
<b>Free cash flow**</b>	<b>-7'977</b>	<b>-12'244</b>	4'267	34.8%
	<b>30.6.2020</b>	<b>31.12.2019</b>		
<b>Net cash**</b>	<b>-9'436</b>	<b>-874</b>	-8'562	n/a
<b>Total equity</b>	<b>93'594</b>	<b>107'809</b>	-14'215	-13.2%
<i>in % of total balance sheet</i>	65.4%	64.4%		
<b>Total balance sheet</b>	<b>143'028</b>	<b>167'507</b>	-24'479	-14.6%
<b>Employees (full-time equivalents)***</b>	<b>636</b>	<b>729</b>	-93	-12.8%

\* Unless otherwise stated

\*\* Non-GAAP financial measure, refer to page 8

\*\*\* Without apprentices

# Financial Review and Management Report

## General

The structural change in the automotive industry had led to a slump in demand for Swiss-type automatic lathes and multispindle machines in the course of the 2019 financial year. During the first half of 2020, the Tornos Group was also severely affected by the coronavirus crisis. At times, almost all activities were paralyzed. And not only in machine sales but also in the service business: during the lockdown, service technicians in various countries were forbidden to visit customers. All of this had a very negative impact on the financial results of the Tornos Group in the first half of 2020.

During the second half of 2019, Tornos had already introduced various measures in response to the negative market developments, such as rigorous cost savings and a reduction in the workforce, which mainly affected temporary employees. Tornos continued to implement these cost-cutting measures in the first half of 2020. As a result, the Group has succeeded in keeping operating losses within limits. However, the result was greatly affected by the allowance on inventories in the amount of CHF 8.1 million which had to be made due to the longer storage period and lower consumption.

It is currently difficult to estimate the future development of the turning machine market or to predict when the next economic upturn will begin. The Tornos Group is preparing for a longer period of modest order intake and is therefore systematically implementing further cost reduction measures in line with its flexibility strategy.

## Coronavirus pandemic

The coronavirus pandemic has affected the individual Tornos sites in different ways. In China, a lockdown was already ordered at the end of January. In February, the Xi'an plant came to a standstill, and in March work resumed. There was no lockdown at the production site in Taichung (Taiwan). In Europe, national governments imposed strict measures between mid-March and mid-May, which in some cases led to work interruptions. In the USA, corresponding measures were introduced at a relatively late stage. Many of these measures are still in force in July 2020.

Tornos responded to the coronavirus crisis with measures including the following:

- Introduction of short-time working or the reduction of working hours with wage savings. The corresponding systems vary greatly from country to country.
- Application for Covid-19 loans, which have only been partially used so far
- Staff reductions
- Implementation of rigorous cost-saving measures in all areas

Tornos currently expects to continue these measures to a similar extent in the second half of 2020. They are intended to ensure the continued existence of the Group. Further information on the Covid-19 measures can be found in note 7 on pages 15 and 16.

## Order intake and backlog

The Tornos Group achieved total order intake of CHF 42.8 million in the first half of 2020 (first half of 2019: CHF 76.9 million, -44.3%). All market segments and machine types were affected by this significant change. In less favorable economic times, Tornos generally sells more machines from its Asian production facilities which are in the medium and lower price segments. Investments in machines in the higher price segment, such as those produced by Tornos in Moutier, are often postponed by customers until better times. Thus, almost 60% of the machines sold by Tornos in the first half of 2020 (in terms of units) come from the production sites in China and Taiwan.

In Europe, the most important region for Tornos, order intake fell from CHF 36.9 million in the first half of 2019 to CHF 17.2 million (-53%). In Asia (including the rest of the world), where there were already signs of a market recovery, order intake fell by only CHF 0.2 million to CHF 7.6 million (-3%) compared with the same period of the previous year, with Tornos even increasing by 50% in China compared with the first half of 2019. In America, on the other hand, where the number of coronavirus cases is still very high, Tornos suffered a 61% drop in order intake—from CHF 10.1 million to CHF 3.9 million.

The medical and dental technology market segment accounted for 27% of total order intake in the first half of 2020. It was followed by the electronics and watchmaking industries with 11% each. The automotive industry, which had been the largest market segment for Tornos in previous years, only contributed 7% of the order intake in the first half of 2020. The remaining 44% came from subcontractors (known as 'job shops') that supply parts to the four aforementioned industries as well as to other markets such as aviation, pneumatics and hydraulics. The job shops invest mainly in machines in the medium and lower price segments.

The Tornos Group's order backlog stood at CHF 20.2 million as at 30 June, 2020. This represents a 41% decline in the first half of 2020 (31 December 2019: CHF 34.2 million).

### **Net sales**

The Tornos Group generated net sales of CHF 56.2 million in the first half of 2020 (first half of 2019: CHF 117.2 million, -52.1%). At constant currency rates, net sales for the first half of 2020 would have been CHF 57.8 million (-50.7% compared with the first half of 2019). In the Group's home market of Switzerland, net sales of CHF 14.7 million were CHF 11.7 million below the figure for the first half of 2019 (-44%). In the rest of Europe, they declined by CHF 43.3 million, or 67%, to CHF 21.0 million. In the Americas, net sales decreased by CHF 4.1 million from CHF 12.8 million to CHF 8.7 million. Asia (including the rest of the world) accounted for sales of CHF 11.8 million in the first half of 2020, about 14% below the figure for the first half of 2019. Overall, the individual regions accounted for the following shares of the Tornos Group's net sales in the first half of 2020: Switzerland 26% (first half of 2019: 22%); rest of Europe 37% (first half of 2019: 55%); Americas 16% (first half of 2019: 11%); Asia (including rest of the world) 21% (first half of 2019: 12%).

In the service and spare parts business, Tornos generated net sales of CHF 15.0 million in the first half of 2020. This is CHF 9.1 million less than in the corresponding period of the previous year (first half of 2019: CHF 24.1 million). The sale of spare parts suffered particularly badly, although the service business also fell considerably, as service technicians were unable to visit their customers during the lockdown.

### **Gross profit**

In the first half of 2020, the Tornos Group's gross profit fell by CHF 32.6 million to CHF 6.5 million compared with the corresponding period of the previous year (first half of 2019: CHF 39.1 million). CHF 20.3 million of this decline was volume-related. The CHF 12.3 million reduction in margins is mainly due to the significant increase in the allowance on inventories.

As already stated in the management report for the 2019 financial year, inventories have increased sharply over the past year. This is due to the abrupt decline in orders from the automotive industry. Certain parts and components must be ordered several months in advance in order to guarantee a market-driven delivery time for the machines. Due to the coronavirus pandemic, the planned reduction in inventories was only possible to a small extent. As a result of the longer storage period and lower consumption, allowance on inventories have increased massively. In the first half of 2020, they worsened the result of the Tornos Group by CHF 8.1 million. Tornos expects the allowance on inventories to increase further in the second half of 2020.

From today's perspective, they should no longer increase in 2021. If sales pick up again in the future and the inventory is decreased, the allowance could be reduced accordingly with an effect on the result. In addition, inventories worth CHF 1.1 million were disposed of in the first half of 2020. This was in connection with the relocation of a large part of the raw material warehouse to an external partner. The remaining CHF 3.1 million of the margin decline relates to the product mix. Compared with the corresponding period of the previous year, more machines in the medium and lower price segments with a lower gross margin were sold in the first half of 2020 than machines in the higher price segment.

The gross profit margin for the first half of 2020 was 11.5% (first half of 2019: 33.4%).

### **Operating expenses**

The rigorous cost-cutting measures introduced by the Tornos Group in the second half of 2019 have now taken effect in the first half of 2020. Operating expenses were reduced by CHF 7.1 million to CHF 22.9 million compared with the same period of the previous year (first half of 2019: CHF 30.0 million). Marketing and sales costs were reduced by CHF 4.0 million and research and development costs by CHF 2.0 million. General and administrative expenses decreased by CHF 1.1 million.

### **Non-operating result**

The non-operating result includes the income of CHF 3.2 million from the sale of the former production property "Rue de l'Ecluse 49" and the net income from the non-operating residential property "Tour Bechler" (CHF 0.1 million). The residential property is fully rented.

### **EBITDA and EBIT\***

Earnings before financial expense, tax, depreciation and amortization (EBITDA) came to CHF -11.0 million for the first half of 2020 (first half of 2019: CHF 11.0 million). The EBITDA margin was -19.6% (first half of 2019: 9.4%). Earnings before financial expense and tax (EBIT) amounted to CHF -13.1 million (first half of 2019: CHF 8.9 million). The impact of exchange rates on EBIT was insignificant in the first half of 2020. The EBIT margin was -23.3% (first half of 2019: 7.6%).

### **Net result**

Net financial expense in the first half of 2020 was slightly lower than in the previous year. Due to the strengthening of the Swiss franc against the euro and the US dollar, individual balance sheet items were devalued, which had a negative impact on the exchange rate result. This amounted to CHF -0.7 million in the first half of 2020 (first half of 2019: CHF +0.4 million). The net result for the first half of 2020 came to CHF -13.9 million (first half of 2019 CHF 9.0 million). The margin was -24.8% (first half of 2019: 7.7%).

### **Balance sheet**

Total assets declined by CHF 24.5 million compared with 31 December 2019, to CHF 143.0 million. On the assets side of the balance sheet, cash and cash equivalents decreased by CHF 1.5 million to CHF 12.9 million. Trade receivables declined by CHF 4.4 million to CHF 12.5 million due to the lower sales revenue. Inventories decreased by CHF 17.5 million to CHF 84.4 million. CHF 8.1 million of this decrease is due to the aforementioned significant increase in the allowance on inventories. Other receivables and prepaid expenses increased by CHF 0.5 million.

At CHF 27.0 million, the non-current assets of the Tornos Group as at 30 June 2020 were around CHF 1.7 million lower than on 31 December 2019. A large part of the decrease was due to the sale of the "Rue de l'Ecluse 49" property. On the liabilities and equity side, interest bearing borrowings increased by CHF 7.1 million to CHF 22.2 million. Of this amount, CHF 5.0 million are loans from the main shareholder and CHF 2.1 million are Covid-19 loans from banks. Trade payables decreased by CHF 13.5 million compared to 31 December 2019. This is due to the reduced purchasing volume. Other liabilities fell by CHF 2.6 million to CHF 5.6 million. This includes customer prepayments, which decreased due to the lower order intake in the first half of 2020. Provisions fell by CHF 1.1 million as a result of the reduction in warranty provisions on the machines sold. The other items on the liabilities and equity side changed only marginally compared with 31 December 2019.

\* Non-GAAP financial measure, refer to page 8

As of 30 June 2020, Net cash\* amounted to CHF -9.4 million (31 December 2019: CHF -0.9 million). Equity decreased by CHF 14.2 million to CHF 93.6 million in the first half of 2020 (31 December 2019: CHF 107.8 million). As of 31 December 2019, minority interests of CHF 0.4 million from the thirty percent third-party stake in the production company in Xi'an (CN) are reported. Tornos acquired this share from its Chinese partner in January 2020 and now owns 100% of the company. The equity ratio rose by one percentage point to 65.4% (31 December 2019: 64.4%).

### Cash flow

Cash flow from operating activities amounted to CHF -8.8 million in the first half of 2020 (first half of 2019: CHF -9.5 million). It was influenced by the negative half-year result (CHF -13.9 million) and by the increase in net working capital (CHF -2.9 million), less the allowance and write-offs (CHF 8.7 million). The item "Disposal of property, plant and equipment" (see Interim Consolidated Statement of Cash Flows on page 13) includes the sale of the property "Rue de l'Ecluse 49". The related final cash flow of CHF 2.0 million in the first half of 2020 is shown under cash flow from investing activities. Investments in the first half of 2020 amounted to CHF 1.0 million (first half of 2019: CHF 2.6 million). These cash flows resulted in Free Cash flow\* of CHF -8.0 million in the first half of 2020 (first half of 2019: CHF -12.2 million). To cover the cash outflow, Tornos received a loan of CHF 5.0 million from its main shareholder. In addition, subsidiaries in Germany, France and the USA obtained Covid-19 loans in the amount of CHF 2.1 million. A further cash outflow (CHF 0.7 million) was due to the purchase of the thirty percent minority share in Tornos Xi'an. The net cash flow therefore came to CHF -1.7 million (first half of 2019: CHF -17.2 million).

### Changes in the General Management

Bruno Edelmann, CFO, and Bruno Allemand, Head of Sales & Marketing, both decided in June 2020 to leave the Tornos Group to take on new challenges. Bruno Edelmann will hand over on 1 September 2020 to the current Head of Global Supply Chain Management, Luc Widmer, who served as CFO of the Tornos Group from 2012 to 2015. Bruno Allemand will leave Tornos at the end of 2020. The Board of Directors and the Executive Committee thank Bruno Edelmann and Bruno Allemand for their great commitment to the Tornos Group. Tornos will take the opportunity to adapt its management organization to the current market conditions.

### Employees

As at 30 June 2020, the Tornos Group had 636 employees (full-time equivalents) and 35 apprentices (31 December 2019: 729 employees and 35 apprentices). Most of the reduction concerned the Swiss sites of Moutier and La Chaux-de-Fonds. The reduction was mainly in the number of temporary staff. Tornos also reduced the number of jobs at its production plants in China and Taiwan and at its sales and service companies. The reductions in the workforce resulted in savings of CHF 9.3 million, and the introduction of short-time working had a positive effect on the half-year accounts of CHF 3.8 million.

### Outlook

It is extremely difficult to provide an outlook at present due to the current uncertainties. Tornos faces great challenges. The Group is expecting a slow recovery of the global markets in 2021. Overall Tornos does not yet anticipate any fundamental changes in the second half of 2020. The Group estimates net sales on a par with those in the first half of 2020. Accordingly, EBIT and the net result will also be similarly negative. In the medium and long-term, however, Tornos remains confident. The Group will be ready for the upturn following the economic downswing, which was massively aggravated by the coronavirus crisis, with its product portfolio carefully tailored to customer requirements and its expanded services.

Currency	Average rate		Closing rate	
	1.1.-30.6.2020	1.1.-30.6.2019	30.6.2020	31.12.2019
1 EUR	1.0757	1.1381	1.0805	1.0960
1 USD	0.9766	1.0074	0.9607	0.9778
1 GBP	1.2337	1.3013	1.1823	1.2835
1 CNY	0.1390	0.1480	0.1360	0.1401

\* Non-GAAP financial measure, refer to page 8

# Non-GAAP Financial Measures

Tornos supplements its Swiss GAAP FER results with non-GAAP financial measures. The main non-GAAP financial measures are EBIT, EBITDA, Free Cash flow, Net Working Capital and Net cash.

## EBIT and EBITDA

Tornos defines EBITDA as operating result plus non-operating result excluding depreciation on tangible fixed assets and amortization on other intangible assets and EBIT as operating result plus non-operating result. Tornos believes that EBITDA and EBIT are important performance indicators because they provide a measure of comparability to other companies with different capital or legal structures, which accordingly may be subject to disparate interest rates and effective tax rates, and to companies which may incur different depreciation and amortization expenses, or impairment charges related to fixed and intangible assets.

In CHF 1'000	1st HY 2020 1.1.-30.6.2020	1st HY 2019 1.1.-30.6.2019
Operating result	-16'437	9'053
Non-operating result	3'348	-131
<b>EBIT</b>	<b>-13'089</b>	<b>8'922</b>
Depreciation and amortization	2'101	2'095
<b>EBITDA</b>	<b>-10'988</b>	<b>11'017</b>

## Free Cash flow

Tornos defines Free Cash flow as cash flow from operating activities plus cash flow from investing activities. Tornos believes that Free Cash flow is an important information because it represents the cash Tornos is generating after required investments in its asset base are done and therefore can be used to cover financing requirements or be distributed to shareholders.

### Net Working Capital

Tornos defines Net Working Capital as the total of current assets and liabilities without taking into consideration cash and cash equivalents, interest bearing borrowings and provisions. Tornos considers that Net Working Capital is an important information since it shows whether Tornos has sufficient current assets to meet its current liabilities. Furthermore the Net cash tied up in Net Working Capital is shown. Changes in Net Working Capital shown in the Consolidated Statement of Cash flows only include cash-effective changes.

In CHF 1'000	30.6.2020	31.12.2019
Trade receivables	12'497	16'865
Inventories, net	84'415	101'871
Other short-term receivables	3'360	3'356
Prepayments and accrued income	2'875	2'337
Trade payables	-9'714	-23'174
Current tax liabilities	-143	-206
Other liabilities	-5'594	-8'234
Accrued liabilities and deferred income	-7'342	-7'331
<b>Net Working Capital</b>	<b>80'354</b>	<b>85'484</b>

### Net cash

Tornos defines Net cash as cash and cash equivalents less the interest bearing borrowing (current and non-current). Tornos believes that Net cash is an important information because it presents the available cash, taking into account the interest bearing borrowings including the shareholder loan.

In CHF 1'000	30.6.2020	31.12.2019
Cash and cash equivalents	12'923	14'440
Interest bearing borrowings (current)	-22'206	-15'113
Interest bearing borrowings (non-current)	-153	-201
<b>Net cash</b>	<b>-9'436</b>	<b>-874</b>

# Interim Consolidated Income Statement (unaudited)

In CHF 1'000	Notes	1 <sup>st</sup> HY 2020 1.1.-30.6.2020	1 <sup>st</sup> HY 2019 1.1.-30.6.2019
<b>Net sales</b>	<b>11</b>	<b>56'170</b>	<b>117'154</b>
Cost of sales		-49'720	-78'078
<b>Gross profit</b>		<b>6'450</b>	<b>39'076</b>
<i>in % of Net sales</i>		11.5%	33.4%
Marketing and sales		-11'801	-15'821
General and administrative expenses		-8'292	-9'358
Research and development		-2'943	-4'956
Other income		216	151
Other expense		-67	-39
<b>Operating expenses</b>		<b>-22'887</b>	<b>-30'023</b>
<b>Operating result</b>		<b>-16'437</b>	<b>9'053</b>
<i>in % of Net sales</i>		-29.3%	7.7%
Financial income		40	26
Financial expense		-67	-93
Exchange result, net		-664	416
<b>Ordinary result</b>		<b>-17'128</b>	<b>9'402</b>
Non-operating result	<b>12</b>	3'348	-131
<b>Earnings before income taxes</b>		<b>-13'780</b>	<b>9'271</b>
Income taxes		-128	-224
<b>Net result</b>		<b>-13'908</b>	<b>9'047</b>
<i>in % of Net sales</i>		-24.8%	7.7%
Thereof attributable to shareholders of Tornos Holding Ltd.		-13'908	9'038
Thereof attributable to minority interests		-	9
<b>Result per share</b>	<b>10</b>		
- basic (CHF per share)		-0.71	0.46
- diluted (CHF per share)		-0.71	0.46
<b>Additional information</b> (in CHF 1'000)			
<b>EBITDA</b>		<b>-10'988</b>	<b>11'017</b>
<i>in % of Net sales</i>		-19.6%	9.4%
Depreciation and amortization		-2'101	-2'095
<b>EBIT</b>		<b>-13'089</b>	<b>8'922</b>
<i>in % of Net sales</i>		-23.3%	7.6%

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

# Interim Consolidated Balance Sheet (unaudited)

In CHF '000	Notes	30.6.2020	in %	31.12.2019	in %
<b>ASSETS</b>					
Cash and cash equivalents		12'923		14'440	
Trade receivables		12'497		16'865	
Inventories, net		84'415		101'871	
Other short-term receivables		3'360		3'356	
Prepayments and accrued income		2'875		2'337	
<b>Total current assets</b>		<b>116'070</b>	81.2%	<b>138'869</b>	82.9%
Property, plant and equipment		25'622		27'238	
Intangible assets		895		950	
Deferred tax assets		441		450	
<b>Total non-current assets</b>	11	<b>26'958</b>	18.8%	<b>28'638</b>	17.1%
<b>Total assets</b>		<b>143'028</b>	100.0%	<b>167'507</b>	100.0%
<b>LIABILITIES AND EQUITY</b>					
Interest bearing borrowings		22'206		15'113	
Trade payables		9'714		23'174	
Current tax liabilities		143		206	
Other liabilities		5'594		8'234	
Accrued liabilities and deferred income		7'342		7'331	
Provisions		2'168		3'292	
<b>Total current liabilities</b>		<b>47'167</b>	33.0%	<b>57'350</b>	34.2%
Interest bearing borrowings		153		201	
Retirement benefit obligations		1'948		1'952	
Provisions		162		191	
Deferred tax liabilities		4		4	
<b>Total non-current liabilities</b>		<b>2'267</b>	1.6%	<b>2'348</b>	1.4%
<b>Total liabilities</b>		<b>49'434</b>	34.6%	<b>59'698</b>	35.6%
Share capital		69'572		69'572	
Capital reserve		40'037		40'331	
Treasury shares	9	-1'875		-1'875	
Retained earnings		615		-5'925	
Currency translation adjustments		-847		-747	
Net result		-13'908		6'040	
<b>Equity attributable to shareholders of Tornos Holding Ltd.</b>		<b>93'594</b>		<b>107'396</b>	
Minority interests		-		413	
<b>Total equity</b>		<b>93'594</b>	65.4%	<b>107'809</b>	64.4%
<b>Total liabilities and equity</b>		<b>143'028</b>	100.0%	<b>167'507</b>	100.0%

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

# Interim Consolidated Statement of Changes in Equity *(unaudited)*

In CHF 1'000	Share Capital	Capital reserve	Treasury shares	Retained earnings	Currency translation adjustments	Total attrib- utable to shareholders of Tornos Holding Ltd.	Minority interests	Equity
<b>December 31, 2018</b>	<b>69'572</b>	<b>45'776</b>	<b>-3'186</b>	<b>-6'639</b>	<b>-696</b>	<b>104'827</b>	<b>529</b>	<b>105'356</b>
Net result				9'038		<b>9'038</b>	9	<b>9'047</b>
Contribution to shareholders		-5'445				<b>-5'445</b>		<b>-5'445</b>
Currency translation adjustments					-57	<b>-57</b>	5	<b>-52</b>
Proceeds from sale of treasury shares			1'205	-585		<b>620</b>		<b>620</b>
Share-based compensation				670		<b>670</b>		<b>670</b>
<b>June 30, 2019</b>	<b>69'572</b>	<b>40'331</b>	<b>-1'981</b>	<b>2'484</b>	<b>-753</b>	<b>109'653</b>	<b>543</b>	<b>110'196</b>
<b>December 31, 2019</b>	<b>69'572</b>	<b>40'331</b>	<b>-1'875</b>	<b>115</b>	<b>-747</b>	<b>107'396</b>	<b>413</b>	<b>107'809</b>
Net result				-13'908		<b>-13'908</b>		<b>-13'908</b>
Changes in minority interest		-294			-4	<b>-298</b>	-413	<b>-711</b>
Currency translation adjustments					-96	<b>-96</b>		<b>-96</b>
Share-based compensation				500		<b>500</b>		<b>500</b>
<b>June 30, 2020</b>	<b>69'572</b>	<b>40'037</b>	<b>-1'875</b>	<b>-13'293</b>	<b>-847</b>	<b>93'594</b>	<b>-</b>	<b>93'594</b>

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

# Interim Consolidated Statement of Cash Flows (unaudited)

In CHF 1'000	Notes	1 <sup>st</sup> HY 2020 1.1.–30.6.2020	1 <sup>st</sup> HY 2019 1.1.–30.6.2019
<b>Net result</b>		<b>-13'908</b>	<b>9'047</b>
Adjustments for expenses and incomes not affecting cash:			
Income taxes		128	224
Depreciation of property, plant and equipment		1'780	1'858
Amortization of intangible assets		321	237
Result on disposal of property, plant and equipment		-3'250	-13
Share-based compensation		500	670
Allowance and write-offs		8'737	809
Interest expense		67	67
Interest income		-40	-
Income taxes paid		-190	-142
Changes from operating cash flow before changes in Net Working Capital		-5'855	12'757
Changes in Net Working Capital		-2'926	-22'212
<i>Thereof trade receivables</i>		4'313	3'137
<i>Thereof other assets and prepayments</i>		-610	-1'577
<i>Thereof inventories</i>		8'426	-12'793
<i>Thereof trade payables</i>		-13'414	2'310
<i>Thereof other current liabilities and provisions</i>		-1'641	-13'289
<b>Cash flow from operating activities</b>		<b>-8'781</b>	<b>-9'455</b>
Investment in property, plant and equipment		-1'012	-2'627
Disposal of property, plant and equipment		2'000	-
Investment in intangible assets		-224	-188
Interests and dividends received		40	26
<b>Cash flow from investing activities</b>		<b>804</b>	<b>-2'789</b>
<b>Free Cash flow</b>		<b>-7'977</b>	<b>-12'244</b>
Repayments of borrowings, including finance lease liabilities		-57	-42
Proceeds from borrowings		7'106	-
Distribution to shareholders		-	-5'445
Purchase of minority in Tornos (Xi'an) Machine Works Co., Ltd.		-711	-
Proceeds from sale of treasury shares		-	620
Interest paid		-67	-93
<b>Cash flow from financing activities</b>		<b>6'271</b>	<b>-4'960</b>
<b>Net cash flow</b>		<b>-1'706</b>	<b>-17'204</b>
Cash and cash equivalents and bank overdrafts at January 1		14'440	35'926
Effects of exchange rate changes		189	19
<b>Cash and cash equivalents and bank overdrafts at June 30</b>		<b>12'923</b>	<b>18'741</b>

The accompanying notes form an integral part of these interim condensed consolidated financial statements.

# Selected notes to the Interim Consolidated Financial Statements

## 1 General information

*Tornos Holding Ltd. is a company domiciled in Moutier, Switzerland and is listed on the Swiss Reporting Standard of SIX Swiss Exchange in Zurich. The Tornos Group, which consists of Tornos Holding Ltd. and all its subsidiaries, is active in the development, manufacture, marketing, sales and servicing of machines and related spare parts. The Group manufactures in Moutier and La Chaux-de-Fonds, Switzerland, in Taichung, Taiwan and in Xi'an, China, and markets the product lines on a worldwide basis. Tornos' sales operations outside of Switzerland principally include European countries, Americas and Asia.*

*These interim consolidated financial statements have been approved for issue by the Board of Directors on July 28, 2020.*

## 2 Basis of preparation

*The unaudited interim consolidated financial statements of the Tornos Group for the six months ended June 30, 2020 have been prepared in accordance with the Accounting Standard 31 "complementary recommendation for listed companies" of Swiss GAAP FER as well as the requirements of SIX Swiss Exchange and the Swiss law. This interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2019 which have been prepared in accordance with Swiss GAAP FER.*

## 3 Accounting policies

*The accounting policies applied by the Tornos Group in this interim financial report are consistent with those applied to the consolidated financial statements as at December 31, 2019.*

## 4 Critical accounting estimates and judgments

*The preparation of interim financial statements requires the Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates. On an ongoing basis, the Management evaluates the estimates, including those related to provisions for warranty, provisions resulting from pending litigations as well as other existing obligations of uncertain timing, inventory obsolescence, bad debts, valuation of intangible assets, assessment of income taxes including deferred tax assets and retirement benefit obligations. In preparing these interim financial statements, the significant judgements made by the Management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended December 31, 2019 and in addition the Covid-19 effect, which is reflected in note 7.*

*Management and the Board of Directors believe the basis of planning and the assumptions to be reasonable under the circumstances.*

## 5 Seasonality and cyclicity of interim operations

*Tornos business areas are not subject to any significant seasonal influences. The Group's operations are sensitive to economic cycles which can quickly impact its clients' investment decisions.*

## 6 Scope of consolidation

Tornos Ltd. took over the minority of Tornos (Xi'an) Machine Works Co., Ltd. of 30% for KCHF 711, which was held by Shaanxi Robot Automation Technology Co., Ltd. The transaction has taken place in January, 2020. Tornos (Xi'an) Machine Works Co., Ltd. is now fully owned and controlled by the Group.

There are no other changes in scope to report for the period under review.

## 7 Impact of Covid-19 pandemic

Tornos Group was materially and adversely affected by the consequences of the Covid-19 pandemic, which spread in the first half of 2020. Based on the facts and circumstances known at this moment and the possible scenarios about how the Covid-19 virus and resulting government measures could evolve, an impairment test was performed. As result, no need for an impairment has been stated and management has determined that the use of the going concern assumption is warranted.

### 7.1 Balance sheet items affected by Covid-19

In CHF 1'000	30.6.2020	31.12.2019
Materials and components	51'837	55'076
Work in progress	13'556	15'106
Spare parts	22'312	22'470
Finished goods	26'819	31'221
<b>Inventories – gross</b>	<b>114'524</b>	<b>123'873</b>
Less allowance for obsolescence	-30'109	-22'002
<b>Inventories – net</b>	<b>84'415</b>	<b>101'871</b>

Lower consumption led to a prolongation of storage which could not be fully offset by measures taken and consequently to an increase of allowance for obsolescence by KCHF 8'107 in 2020.

### 7.2 Reimbursement from unemployment insurance

	1 <sup>st</sup> HY 2020	1 <sup>st</sup> HY 2019
	1.1.–30.6.2020	1.1.–30.6.2019
Personnel expenses - gross	-27'174	-36'486
Reimbursement from unemployment insurance (and other governmental institution)	3'828	-
<b>Personnel expenses – net</b>	<b>-23'346</b>	<b>-36'486</b>

Tornos Group applied for short-time working in several countries, whereby the major part of the reimbursement from unemployment insurance and other governmental institution was paid in Switzerland (KCHF 3'259).

### 7.3 Government-supported loans

Tornos Group applied for government-supported loans in various countries. In Switzerland, a government-supported loan of MCHF 10.5 has been granted in April 2020. The credit line has not been utilized up to the balance sheet date. For MCHF 0.5 the interest rate is currently set fixed at a rate of zero percent. For MCHF 10.0 the interest rate is currently set at 0.5%. The interest rates are subject to an annual amendment based on the market developments. For the duration of the Covid-19 loan, the company can only make replacement investments in fixed assets, may not distribute dividends and royalties and may not repay capital contributions. There are also further restrictions regarding the granting and repayment of loans to group companies and owners. Reduction of the credit line will be made quarterly from March 31, 2021 onwards on the basis of the original loan amount and will expire on December 31, 2024.

In Germany a government-supported loan of KCHF 540 has been granted and disbursed in May 2020. The interest rate is set at 3.03%. Repayment will be made quarterly from September 30, 2022 onwards and will expire on June 30, 2030.

In France a government-supported loan of KCHF 1'081 has been granted and disbursed in May 2020. The interest rate depends on the repayment date. The loan must be repaid within six years. In the United States a government supported loan of KCHF 480 has been granted and disbursed in May 2020. In certain circumstances the loan can be forgiven up to the full amount.

### 8 Stock compensation plan

There is one stock participation plan, namely the Management and Board Participation plan 2007 (MBP07). As part of this plan, the members of the Management and of the Board are annually attributed option rights to either purchase shares immediately in the first month of the attribution or after a period of two years (vesting period). The options can then be exercised during one year. Compensation expense is recognized for options over the vesting period and for shares purchased immediately in the accounts as the shares do not need to be returned in case the employment contract of an incumbent is terminated. The expense recorded in the income statement spreads the cost of each option equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Compensation expense of KCHF 500 was recorded for the six month' period ended June 30, 2020 for the options granted (June 30, 2019: KCHF 665) and no shares were purchased by the participants (June 30, 2019: KCHF 5).

The fair value of the grants under the MBP07 is estimated using the Black-Scholes valuation model.

### 9 Treasury shares

Movements in treasury shares are as follows:

	30.6.2020		31.12.2019	
	Number of shares	Amount (in CHF 1'000)	Number of shares	Amount (in CHF 1'000)
<b>At beginning of year</b>	<b>264'319</b>	<b>1'875</b>	<b>449'269</b>	<b>3'186</b>
Sale of treasury shares	-	-	-184'950	-1'311
<b>At end of period</b>	<b>264'319</b>	<b>1'875</b>	<b>264'319</b>	<b>1'875</b>

Treasury shares are valued at average purchase price of CHF 7.09 (December 31, 2019: CHF 7.09). As of June 30, 2020, and for the period under review, no shares have been sold as part of the Management and Board Participation plan 2007, MBP07 (in 2019 184'950).

## 10 Result per share, basic and fully diluted

### 10.1 Basic

Basic result per share is calculated by dividing the net income attributable to equity holders of Tornos by the weighted average number of ordinary shares in issue during the period, excluding ordinary shares purchased by the Group and held as treasury shares.

	1 <sup>st</sup> HY 2020 1.1.–30.6.2020	1 <sup>st</sup> HY 2019 1.1.–30.6.2019
Net result attributable to equity holders of Tornos (in CHF 1'000)	-13'908	9'038
Weighted average number of ordinary shares in issue (in 1'000)	19'613	19'478
<b>Basic result per share</b> (CHF per share)	<b>-0.71</b>	<b>0.46</b>

### 10.2 Diluted

Diluted result per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. Tornos has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of Tornos' shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	1 <sup>st</sup> HY 2020 1.1.–30.6.2020	1 <sup>st</sup> HY 2019 1.1.–30.6.2019
Net result attributable to equity holders of Tornos (in CHF 1'000)	-13'908	9'038
Weighted average number of ordinary shares in issue (in 1'000)	19'613	19'478
Adjustment for shares options (in 1'000)	-	47
Weighted average number of ordinary shares for diluted earnings per share (in 1'000)	19'613	19'525
<b>Diluted result per share</b> (CHF per share)	<b>-0.71</b>	<b>0.46</b>

Tornos currently disposes of enough own shares to issue in the case when the share options are exercised.

## 11 Segment information

Tornos Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The Management is responsible for steering the business and regularly reviewing the Group's internal reporting for its only operating segment, "machines", in order to assess performance and identify resource needs. The primary internal reporting to the Management is presented on the same basis as the Group's consolidated income statement and consolidated balance sheet and is reported on a consistent basis over the periods presented.

Management assesses the performance of the business based on operating results. Additional reporting based on such criteria as geographical areas, is also made available to the Management though such reporting is of secondary importance when it comes to strategic decisions, allocation or planning of resources or monitoring the Group's operational performance. These operational decisions are all executed by the Management based on internal reporting of the core activity.

Revenues generated are derived from sales of machines, spare parts and services.

The operating result for the period under review amounts to a loss of KCHF 16'437 (June 30, 2019: gain of KCHF 9'053).

### 11.1 Analysis of revenues by category

In CHF 1'000	1 <sup>st</sup> HY 2020 1.1.-30.6.2020	1 <sup>st</sup> HY 2019 1.1.-30.6.2019
Machines	41'214	93'090
Service and spare parts	14'956	24'064
<b>Net sales</b>	<b>56'170</b>	<b>117'154</b>

Switzerland is the domicile of the parent company and of the main operating and distribution companies. Swiss operating companies conduct all main development and manufacturing activities. Subsidiaries which are located in the other European countries (France, Germany, Italy, Poland, Spain and the United Kingdom), the Americas and Asia, except for the production companies in Taiwan and Xi'an, run support or sales and distribution activities. Production sites in Taiwan and Xi'an work on development of new products, as assigned by the Tornos Group, and these new products are marketed through the Group's distribution network. The transactions between the Group companies are conducted based on internationally recognized transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. Management reviews sales in four main geographical areas, namely Switzerland, other European countries, the Americas and Asia. For the purpose of presenting net sales by location of customers, one other geographical region, namely Rest of world, is identified.

## 11.2 Net sales by location of customers

In CHF 1'000	1 <sup>st</sup> HY 2020 1.1.–30.6.2020	1 <sup>st</sup> HY 2019 1.1.–30.6.2019
Switzerland	14'650	26'402
Other European countries	21'022	64'241
Americas	8'727	12'788
Asia	11'771	13'723
<b>Total Net sales</b>	<b>56'170</b>	<b>117'154</b>

## 11.3 Non-current assets

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) is as follows:

In CHF 1'000	30.6.2020	31.12.2019
Switzerland	23'826	25'759
Other European countries	1'107	948
Americas	276	298
Asia	1'308	1'183
<b>Total non-current assets for geographical area disclosure</b>	<b>26'517</b>	<b>28'188</b>
Reconciling unallocated assets:		
- Deferred tax assets	441	450
<b>Total non-current assets per balance sheet</b>	<b>26'958</b>	<b>28'638</b>

## 12 Non-operating result

A gain of KCHF 3'250 relates to the sale of a former operating building which has been sold for KCHF 4'000. The final payment of KCHF 2'000 was received in January 2020.

A non-operating building held for sale with a net book value of KCHF 6'418 generated rental income of KCHF 170 and ancillary costs of KCHF 72 (June 30, 2019: loss of KCHF 131). This building was completely renovated and reassigned as a non-operating building since then. At the end of June the building is fully let.

## 13 Subsequent events

There were no subsequent events to be mentioned.

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