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22

*Half-year report*

*Tornos Group*

*incl. Interim Consolidated Financial Statements*

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### **Forward-looking statements**

The present half-year report contains forward-looking statements in relation to the Tornos Group which are based on current assumption and expectations. Unforeseeable events and developments could cause actual results to differ materially from those anticipated.

This half-year report is available in English, German and French. The original English-language version is binding. Tornos half-year report can be downloaded from the Tornos website: <https://investors.tornos.com>

### **Responsible for the contents**

Tornos Holding Ltd, Moutier, Switzerland

### **Concept**

Zoebeli Communications Ltd, Bern, Switzerland

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### **Printing**

Pressor Ltd, Delémont, Switzerland

# Key Figures

Tornos Group

Unaudited, in CHF 1 000 <sup>1)</sup>	1 <sup>st</sup> HY 2022 1.1.–30.6.2022	1 <sup>st</sup> HY 2021 1.1.–30.6.2021	Difference	Difference in %
<b>Order intake</b>	<b>98 297</b>	<b>104 640</b>	-6 343	-6.1%
<b>Net sales</b>	<b>93 677</b>	<b>84 389</b>	9 288	11.0%
<b>EBITDA <sup>2)</sup></b>	<b>10 651</b>	<b>13 182</b>	-2 531	-19.2%
<i>in % of net sales</i>	11.4%	15.6%		
<b>EBIT <sup>2)</sup></b>	<b>8 796</b>	<b>11 109</b>	-2 313	-20.8%
<i>in % of net sales</i>	9.4%	13.2%		
<b>Net result</b>	<b>8 782</b>	<b>11 644</b>	-2 862	-24.6%
<i>in % of net sales</i>	9.4%	13.8%		
<b>Cash flow from operating activities</b>	<b>5 931</b>	<b>18 581</b>	-12 650	-68.1%
<b>Cash flow from investing activities</b>	<b>-1 721</b>	<b>877</b>	-2 598	-296.2%
<b>Free cash flow <sup>2)</sup></b>	<b>4 210</b>	<b>19 458</b>	-15 248	-78.4%
	<b>30.6.2022</b>	<b>31.12.2021</b>		
<b>Net cash <sup>2)</sup></b>	<b>30 699</b>	<b>26 631</b>	4 068	15.3%
<b>Total equity</b>	<b>107 717</b>	<b>98 768</b>	8 949	9.1%
<i>in % of total balance sheet</i>	70.2%	68.2%		
<b>Total balance sheet</b>	<b>153 514</b>	<b>144 914</b>	8 600	5.9%
<b>Employees (full-time equivalents) <sup>3)</sup></b>	<b>662</b>	<b>640</b>	22	3.4%

1) Unless otherwise stated

2) Non-GAAP Financial measure, see <https://investors.tornos.com/en/content/publications>

3) Without apprentices

# Letter to shareholders

## Tornos confirms the good results for the 2021 financial year

*Dear Shareholders,*

*The Tornos Group has carried the momentum of the previous year into 2022, and confirmed its good results for the first half of the year. Compared to the first half of 2021, net sales rose by another 11%. Tornos saw a significant increase in Europe and the United States in particular, while the operating conditions remained very challenging with frequent disruptions in the global supply chain for raw materials and supplier products. The restrictions imposed by the local authorities to combat the coronavirus pandemic were felt most keenly in Asia, above all in China.*

*Although the Group's order intake for the first half of 2022 did not quite reach the high figure for the same period of 2021, it still clearly exceeded the net sales (book-to-bill ratio: 1.05). In terms of expenses, Tornos faced various cost increases for materials, energy and transportation in the first six months of 2022.*

*Overall, our Group posted order intake of CHF 98.3 million in the first half of 2022 (first half of 2021: CHF 104.6 million, -6.1%) and net sales of CHF 93.7 million (first half of 2021: CHF 84.4 million, +11.0%). EBIT\* fell from CHF 11.1 million to CHF 8.8 million.*

*Without the writeback of value adjustment provisions in the amount of CHF 4.6 million, EBIT\* for the first six months of 2022 would come to CHF 4.2 million (first half of 2021: CHF 3.9 million, excluding a book gain from a property sale of CHF 0.7 million). As a result of the changed market conditions and the usability of its inventory, the Tornos Group has introduced a refined method for value adjustment provisions that takes even better account of the specific circumstances at Tornos.*

### **Significant rise in orders in medical and dental technology**

*In the first half of 2022, the Tornos Group was particularly successful in its biggest sales market, medical and dental technology, increasing order intake from CHF 11.0 million to CHF 18.2 million (+65%). As was the case at the end of 2021, it thus remains Tornos' biggest market segment in terms of sales, followed by the automotive industry. Tornos also received more orders from the electronics and watchmaking industries in the first half of 2022 compared with the same period of 2021.*

\* Non-GAAP financial measure, see <https://investors.tornos.com/en/content/publications>

### **Significant rise in sales of SwissNano**

*The SwissNano Swiss-type automatic lathe, produced in Switzerland, again had considerably more customers in all sales markets in the first six months of 2022 than in the same period of the previous year. Demand for machines produced by Tornos in Taiwan also rose sharply. Due to the much stricter local coronavirus restrictions, the production of Tornos machines in China was severely limited in the first half of 2022.*

### **Service and spare parts business expanded further**

*Tornos' service and spare parts business continued to perform well, with sales in this area rising by 9.7% compared with the first half of 2021. The DECO 10 Plus offer, whereby Tornos customers could have their older DECO 10 machines upgraded to the latest technology, made a major contribution to this pleasing development. Tornos also buys older systems back and – after fully reconditioning them – puts them back on the market in the spirit of a circular economy.*

### **Infrastructure projects**

*The Tornos Group completed or pressed ahead with a number of infrastructure projects in the first half of 2022, including in São Paolo (Brazil), where Tornos opened a 300 square-meter Customer Center, and in Kąty Wrocławskie (Poland), where the Group brought a new production plant into operation. Here, it will primarily overhaul and modernize older DECO 10 systems. There are currently around 40 qualified employees working for Tornos in Poland. Some of them are active worldwide in order to ensure an efficient, high-quality global customer service.*

*In Taiwan, construction work has commenced on a new production building. This should be operational by the end of 2023 and create the ideal conditions for continuing the successful production of mid-priced and lower-priced Tornos machines in Taiwan.*



François Frôté, Chairman of the Board of Directors,  
Michael Hauser, CEO

## Outlook

*In view of the high order backlog, we remain in a good position and optimistic regarding the second half of 2022. It is still not possible to provide any specific guidance due to the continuing unpredictability of the coronavirus pandemic and the war in Ukraine. Uncertainties remain regarding the availability of raw materials and supplier parts and their price development. With its product portfolio, which is excellently geared to customer needs, its steadily expanding services and its flexible structure, the Tornos Group remains well equipped for a wide variety of scenarios.*

A handwritten signature in black ink, appearing to be 'FF'.

**François Frôté**

*Chairman of the Board of Directors*

A handwritten signature in black ink, appearing to be 'MH'.

**Michael Hauser**

*CEO and Chairman of the General Management*

*Moutier, August 2022*

# Management Report

*In the first half of 2022, the Tornos Group succeeded in building on its good position at the end of the previous financial year and confirmed the pleasing results of 2021. Compared with the first half of 2021, the Group lifted net sales by 11%. Order intake did not quite reach the high level of the first half of 2021 but is still well above net sales (book-to-bill ratio: 1.05). In the first six months of 2022, problems in the global supply chain for raw materials and vendor products persisted due to the Covid-19 pandemic and the war in Ukraine, and there were further increases in costs for materials, energy and transport.*

*In the first half of 2022, Tornos benefited again from the high inventory levels, which had resulted in substantial value adjustments in the 2020 financial year and which were largely scaled back again in 2021 as a result of the good level of business. In the first six months of 2022, Tornos wrote back further value adjustment provisions amounting to CHF 4.6 million. Owing to changing market conditions and the usability of its inventories, Tornos introduced a refined method for its value adjustment provisions which takes the specific features of the company's inventories into account and reacts even more appropriately to changes in materials consumption.*

*You can find further details under "Selected notes to the Interim Consolidated Financial Statements" on pages 15 and 16 in section 8 "Inventories and allowance for obsolescence".*

## **Order intake and backlog**

*The Tornos Group achieved total order intake of CHF 98.3 million in the first half of 2022 (first half of 2021: CHF 104.6 million, -6.1%). This included orders in particular for medical and dental technology, while orders from the electronics and watchmaking industries surpassed the level of the first half of 2021. At 24.5%, medical and dental technology is again at the top of the market mix, followed by the automotive industry (16.2%), electronics (14.6%), watchmaking (10.2%) and the pneumatics and hydraulics segment (3.4%). 21.7% of Tornos's order intake in the first half of 2022 came from subcontractors (job shops), which supply parts to several of the above industries.*

*The order backlog of the Tornos Group amounted to an impressive CHF 63.3 million as of June 30, 2022. This surpasses the already very high level of end-2021 by 6.7% (December 31, 2021: CHF 59.3 million).*

## Net sales

In the first half of 2022, Tornos generated net sales of CHF 93.7 million (first half of 2021: CHF 84.4 million, +11.0%). Excluding exchange rate effects, net sales for the first half of 2022 would have come to CHF 95.9 million. In the Swiss home market, net sales amounted to CHF 17.9 million, which was CHF 1.4 million down on the figure for the first half of 2021 (-7.3%). In the rest of Europe, net sales rose by CHF 7.4 million or 16.1% to CHF 53.1 million, and in North and South America the figure was CHF 13.0 million, i.e. an increase of 64.6% (first half of 2021: CHF 7.9 million). In Asia, Tornos achieved sales of CHF 9.7 million (first half of 2021: CHF 11.3 million).

In the service and spare parts segment, Tornos generated net sales of CHF 23.9 million in the first half of 2022. This is CHF 2.2 million more than in the first half of 2021 (CHF 21.7 million). Both the sale of spare parts and the service business saw further growth compared with the first half of 2021. The new service offerings from Tornos and the intensified remote access, which allows access to machines and systems via computer systems regardless of location, also had a positive impact on service sales.

## Gross profit

In the first half of 2022, the Tornos Group's gross profit increased by CHF 2.1 million to CHF 35.6 million, compared with the first half of 2021: CHF 33.5 million. The write-back of value adjustment provisions contributed CHF 4.6 million to the margin improvement. The price increases for raw materials and certain vendor parts, which were very high in some cases and could not be passed on in full, had a negative impact on gross profit.

The gross margin for the first half of 2022 was 38.0% (first half of 2021: 39.7%).

## Operating expenses

At CHF 26.7 million, operating expenses in the first half of 2022 were above the level of the previous year (first half of 2021: CHF 23.0 million). This result was achieved on the back of significantly higher sales and as a result of the aforementioned cost increases. Expenses in both marketing and sales as well as research and development were somewhat higher than in the first half of 2021.

## Non-operating result

The non-operating result includes net income from the non-operating residential property "Tour Bechler", which is almost fully rented.

## EBITDA\* and EBIT\*

Earnings before financial expense, tax, depreciation, and amortization (EBITDA\*) came to CHF 10.7 million for the first half of 2022 (first half of 2021: CHF 13.2 million). The EBITDA margin was 11.4% (first half of 2021: 15.6%). Earnings before financial expense and tax (EBIT\*) amounted to CHF 8.8 million (first half of 2021: CHF 11.1 million), corresponding to an EBIT margin of 9.4% (first half of 2021: 13.2%). EBITDA\* and EBIT\* for the first half of 2022 also include the write-back of value adjustment provisions in the amount of CHF 4.6 million (first half of 2021: CHF 6.5 million and CHF 0.7 million from the book gain on a property sale in the UK). Excluding these effects, the EBITDA margin would have been 6.5% (first half of 2021: 7.1%) and the EBIT margin 4.5% (first half of 2021: 4.6%).



## Net result

The net result for the first half of 2022 was CHF 8.8 million (first half of 2021: CHF 11.6 million). The margin was 9.4% (first half of 2021: 13.8%). Excluding the write-back of value adjustment provisions, the net result margin would be 4.5% (first half of 2021: 6.0%).

## Balance sheet

Total assets increased by CHF 8.6 million to CHF 153.5 million compared to December 31, 2021. On the assets side, cash and cash equivalents increased by CHF 4.0 million to CHF 30.8 million. Trade receivables rose by CHF 1.3 million to CHF 19.6 million. Inventories increased by CHF 2.2 million to CHF 76.5 million. Without the write-back of value adjustment provisions, inventories would have decreased by CHF 4.0 million.

At CHF 22.0 million as at June 30, 2022, the non-current assets of the Tornos Group were CHF 0.3 million higher than at December 31, 2021. On the liabilities and equity side, trade payables declined by CHF 1.4 million compared with December 31, 2021. The other items on the liabilities and equity side have not changed significantly compared with December 31, 2021.

As of June 30, 2022, net cash\* amounted to CHF 30.7 million (December 31, 2021: CHF 26.6 million). Total equity increased by CHF 8.9 million to CHF 107.7 million in the first half of 2022 (December 31, 2021: CHF 98.8 million). The equity ratio rose by 2.0 percentage points to 70.2% (December 31, 2021: 68.2%).

## Cash flow

Cash flow from operating activities for the first half of 2022 was CHF 5.9 million (first half of 2021: CHF 18.6 million). Investments in the first half of 2022 amounted to CHF 1.9 million (first half of 2021: CHF 0.2 million). These cash flows resulted in free cash flow\* of CHF 4.2 million in the first half of 2022 (first half of 2021: CHF 19.5 million).

## Outlook

In view of the high order backlog, the Tornos Group remains optimistic regarding the second half of 2022. It is still not possible to provide any specific guidance due to the continuing unpredictability of the coronavirus pandemic and the war in Ukraine. Uncertainties remain regarding the availability of raw materials and supplier parts and their price development. With its product portfolio, which is excellently geared to customer needs, its steadily expanding services and its flexible structure, the Tornos Group remains well equipped for a wide variety of scenarios.

\* Non-GAAP financial measure, see <https://investors.tornos.com/en/content/publications>

# Interim Consolidated Financial Statements

## Interim Consolidated Income Statement (unaudited)

In CHF 1 000	Notes	1 <sup>st</sup> HY 2022 1.1.–30.6.2022	1 <sup>st</sup> HY 2021 1.1.–30.6.2021
<b>Net sales</b>	11	<b>93 677</b>	<b>84 389</b>
Cost of sales		-58 103	-50 924
<b>Gross profit</b>		<b>35 574</b>	<b>33 465</b>
<i>in % of net sales</i>		38.0%	39.7%
Marketing and sales		-15 030	-12 645
General and administrative expenses		-8 434	-7 775
Research and development		-3 550	-2 728
Other income		280	195
Other expense		-	-46
<b>Operating expenses</b>		<b>-26 734</b>	<b>-22 999</b>
<b>Operating result</b>		<b>8 840</b>	<b>10 466</b>
<i>in % of net sales</i>		9.4%	12.4%
Financial income		122	1
Financial expense		-64	-118
Exchange result, net		51	824
<b>Ordinary result</b>		<b>8 949</b>	<b>11 173</b>
Non-operating result	13	-44	643
<b>Earnings before income taxes</b>		<b>8 905</b>	<b>11 816</b>
Income taxes		-123	-172
<b>Net result</b>		<b>8 782</b>	<b>11 644</b>
<i>in % of net sales</i>		9.4%	13.8%
Thereof attributable to shareholders of Tornos Holding Ltd.		8 782	11 644
Thereof attributable to minority interests		-	-
<b>Result per share</b>			
- basic (CHF per share)		0.45	0.59
- diluted (CHF per share)		0.45	0.59
<b>Additional information (in CHF 1 000)</b>			
<b>EBITDA <sup>1)</sup></b>		<b>10 651</b>	<b>13 182</b>
<i>in % of net sales</i>		11.4%	15.6%
Depreciation and amortization		-1 855	-2 073
<b>EBIT <sup>1)</sup></b>		<b>8 796</b>	<b>11 109</b>
<i>in % of net sales</i>		9.4%	13.2%

1) Non-GAAP financial measure, see <https://investors.tornos.com/en/content/publications>

## Interim Consolidated Balance Sheet (unaudited)

In CHF 1 000	Notes	30.6.2022	in %	31.12.2021	in %
<b>Assets</b>					
Cash and cash equivalents		30 799		26 778	
Trade receivables		19 596		18 258	
Inventories, net	8	76 459		74 295	
Other short-term receivables		2 927		2 153	
Prepayments and accrued income		1 783		1 706	
<b>Total current assets</b>		<b>131 564</b>	85.7%	<b>123 190</b>	85.0%
Property, plant and equipment		20 795		20 577	
Intangible assets		622		603	
Deferred tax assets		533		545	
<b>Total non-current assets</b>		<b>21 950</b>	14.3%	<b>21 724</b>	15.0%
<b>Total assets</b>		<b>153 514</b>	100.0%	<b>144 914</b>	100.0%
<b>Liabilities and equity</b>					
Interest bearing borrowings		42		75	
Trade payables		17 794		19 168	
Current tax liabilities		299		347	
Other liabilities		15 424		15 667	
Accrued liabilities and deferred income		8 315		7 005	
Provisions		2 775		2 524	
<b>Total current liabilities</b>		<b>44 649</b>	29.1%	<b>44 786</b>	30.9%
Interest bearing borrowings		58		72	
Retirement benefit obligations		1 061		1 055	
Provisions		-		233	
Deferred tax liabilities		29		-	
<b>Total non-current liabilities</b>		<b>1 148</b>	0.7%	<b>1 360</b>	0.9%
<b>Total liabilities</b>		<b>45 797</b>	29.8%	<b>46 146</b>	31.8%
Share capital		69 572		69 572	
Capital reserve		40 021		40 035	
Treasury shares	10	-1 057		-1 386	
Retained earnings		-8 424		-28 956	
Currency translation adjustments		-1 177		-826	
Net result		8 782		20 329	
<b>Equity attributable to shareholders of Tornos Holding Ltd.</b>		<b>107 717</b>	70.2%	<b>98 768</b>	68.2%
Minority interests		-		-	
<b>Total equity</b>		<b>107 717</b>	70.2%	<b>98 768</b>	68.2%
<b>Total liabilities and equity</b>		<b>153 514</b>	100.0%	<b>144 914</b>	100.0%

## 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.	Equity
<b>December 31, 2020</b>	<b>69 572</b>	<b>40 035</b>	<b>-1875</b>	<b>-29 156</b>	<b>-649</b>	<b>77 927</b>	<b>77 927</b>
Net result				11 644		<b>11 644</b>	<b>11 644</b>
Currency translation adjustments					177	<b>177</b>	<b>177</b>
Proceeds from sale of treasury shares			526	-219		<b>307</b>	<b>307</b>
Share-based compensation				145		<b>145</b>	<b>145</b>
<b>June 30, 2021</b>	<b>69 572</b>	<b>40 035</b>	<b>-1349</b>	<b>-17 586</b>	<b>-472</b>	<b>90 200</b>	<b>90 200</b>
<b>December 31, 2021</b>	<b>69 572</b>	<b>40 035</b>	<b>-1386</b>	<b>-8 627</b>	<b>-826</b>	<b>98 768</b>	<b>98 768</b>
Net result				8 782		<b>8 782</b>	<b>8 782</b>
Currency translation adjustments					-351	<b>-351</b>	<b>-351</b>
Proceeds from sale of treasury shares		-14	329			<b>315</b>	<b>315</b>
Share-based compensation				203		<b>203</b>	<b>203</b>
<b>June 30, 2022</b>	<b>69 572</b>	<b>40 021</b>	<b>-1057</b>	<b>358</b>	<b>-1 177</b>	<b>107 717</b>	<b>107 717</b>

## Interim Consolidated Statement of Cash Flow (unaudited)

In CHF 1 000	Notes	1 <sup>st</sup> HY 2022 1.1.–30.6.2022	1 <sup>st</sup> HY 2021 1.1.–30.6.2021
<b>Net result</b>		<b>8 782</b>	<b>11 644</b>
Adjustments for expenses and incomes not affecting cash:			
Income taxes		123	173
Depreciation of property, plant and equipment		1 578	1 785
Amortization of intangible assets		277	288
Result on disposal of property, plant and equipment		-5	-802
Share-based compensation	10	203	145
Retirement benefit obligations		45	-
Allowance and write-offs on inventories		-5 087	-6 956
Interest expense		71	35
Interest income		-130	-1
Income taxes paid		-75	53
<b>Changes from operating cash flow before changes in net working capital</b>		<b>5 782</b>	<b>6 364</b>
Changes in net working capital		149	12 217
<i>Thereof trade receivables</i>		-1 249	-7 894
<i>Thereof other assets and prepayments</i>		-861	-1 006
<i>Thereof inventories</i>		2 841	10 435
<i>Thereof trade payables</i>		-1 299	5 247
<i>Thereof other current liabilities and provisions</i>		717	5 435
<b>Cash flow from operating activities</b>		<b>5 931</b>	<b>18 581</b>
Investment in property, plant and equipment	12	-1 856	-173
Disposal of property, plant and equipment		5	1 194
Investment in intangible assets		-	-145
Interests received		130	1
<b>Cash flow from investing activities</b>		<b>-1 721</b>	<b>877</b>
<b>Free cash flow <sup>1)</sup></b>		<b>4 210</b>	<b>19 458</b>
Repayments of borrowings, including finance lease liabilities		-48	-16 282
Proceeds from sale of treasury shares	10	242	307
Interests paid		-71	-35
<b>Cash flow from financing activities</b>		<b>123</b>	<b>-16 010</b>
<b>Net cash flow</b>		<b>4 333</b>	<b>3 448</b>
Cash and cash equivalents and bank overdrafts at beginning of year		26 778	17 329
Effects of exchange rate changes		-312	199
<b>Cash and cash equivalents and bank overdrafts at June 30</b>		<b>30 799</b>	<b>20 976</b>

1) Non-GAAP financial measure, see <https://investors.tornos.com/en/content/publications>

# 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, 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 August 9, 2022.

## 2 Basis of preparation

The unaudited interim consolidated financial statements of the Tornos Group for the six months ended June 30, 2022 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. This interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2021 which have been prepared in accordance with Swiss GAAP FER.

## 3 Foreign currency rates

Currency	Average rate		Closing rate	
	1.1.-30.6.2022	1.1.-30.6.2021	30.6.2022	31.12.2021
1 EUR	1.0435	1.1055	1.0072	1.0453
1 USD	0.9522	0.9164	0.9650	0.9233
1 CNY	0.1473	0.1416	0.1441	0.1449

## 4 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, 2021.

## **5 Critical accounting estimates and judgments**

*The preparation of interim financial statements requires the Management to make judgments, 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, 2021, except for the change in estimate explained in note 8.*

## **6 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.*

## **7 Scope of consolidation**

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

## **8 Inventories and allowance for obsolescence**

*Tornos has reviewed the methodology for the calculation of the provision on inventories for raw material, components, semi-finished goods and spare parts. The following changes have been applied as of June 30, 2022:*

- In performing the inventory obsolescence calculation, the average consumption taken into account has been extended from the last 12 months to the to the last 3 years. This is consistent with the demand and sales patterns in economic cycles and will reduce volatility in inventory valuation.*
- New items will be excluded from the allowance calculation during 2 years after the first move in the inventory instead of 2 years since the creation date in the ERP system. More complex machines require a long development time, and this approach will more adequately respond to the product lifecycle.*
- Extension of the period for value-adjustment from 18 months to a progressive scale from 18 months to 60 months or higher for a full depreciation. The shift for non-strategic parts operated by Tornos in the last years moving from own production to third-party purchasing requires a safety stock and therefore a less reactive approach in the future when calculating provision.*

- Alignment of the spare parts depreciation with other inventories. This change was made in order to be consistent and avoiding that a move from one inventory to the other impacts the provisioned amount for the same item.

After a cautious review, it is considered that the new methodology for making estimates in the area of inventory valuation is more appropriately reflecting the economical substance and is responding more adequately to business cycles as experienced in recent periods.

For the first half of 2022, the old depreciation methodology would have brought further releases of KCHF 854. The change in the estimation methodology contributes a further release of KCHF 3 768 of provision.

In CHF 1 000	30.6.2022	31.12.2021
Materials and components	40 762	39 532
Work in progress	15 727	17 086
Spare parts	20 412	20 961
Finished goods	20 570	23 928
<b>Inventories – gross</b>	<b>97 471</b>	<b>101 507</b>
Less allowance for obsolescence	-21 012	-27 212
<b>Inventories – net</b>	<b>76 459</b>	<b>74 295</b>

The total amount of inventories scrapped or written off in the first half year 2022 amounts to KCHF 1 144 (2021: KCHF 630).

## 9 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 203 was recorded for the six months period ended June 30, 2022 for the options granted (June 30, 2021: KCHF 145) and KCHF 73 for the shares purchased (June 30, 2021: 219). The fair value of the grants under the MBP07 is estimated using the Black-Scholes valuation model.



## 10 Treasury shares

Movements in treasury shares are as follows:

	30.6.2022		31.12.2021	
	Number of shares	Amount (in CHF 1 000)	Number of shares	Amount (in CHF 1 000)
<b>At beginning of year</b>	<b>195 219</b>	<b>1386</b>	<b>264 319</b>	<b>1875</b>
Sale of treasury shares	-46 300	-329	-74 100	-526
Acquisition of treasury shares	-	-	5 000	37
<b>At end of period</b>	<b>148 919</b>	<b>1057</b>	<b>195 219</b>	<b>1386</b>

Treasury shares are valued at average purchase price of CHF 7.10 (December 31, 2021: CHF 7.10).

As of June 30, 2022, and for the period under review, 46 300 shares have been sold at an average price of CHF 5.22 as part of the Management and Board Participation plan 2007, MBP07 (June 30, 2021: 74 100).

## 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 gain of KCHF 8 840 (June 30, 2021: gain of KCHF 10 466).

## 11.1 Analysis of revenues by category

In CHF 1 000	1 <sup>st</sup> HY 2022 11.-30.6.2022	1 <sup>st</sup> HY 2021 11.-30.6.2021
Machines	69 827	62 653
Service and spare parts	23 850	21 736
<b>Net sales</b>	<b>93 677</b>	<b>84 389</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 and Spain), the Americas and Asia, except for the production companies in Taiwan and Xi'an and the Service Center in Poland, 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.

## 11.2 Net sales by location of customers

In CHF 1 000	1 <sup>st</sup> HY 2022 11.-30.6.2022	1 <sup>st</sup> HY 2021 11.-30.6.2021
Switzerland	17 930	19 337
Other European countries	53 065	45 788
Americas	13 010	7 929
Asia	9 672	11 335
<b>Total net sales</b>	<b>93 677</b>	<b>84 389</b>

## 12 Investment in property, plant and equipment

In order to support the growth of the production in Taiwan, Tornos has decided to invest in a new factory. Construction phase has just started and is planned to be completed end of 2023. The cash-flow was impacted by KCHF 1 342.

### **13 Non-operating result**

*A non-operating building with a net book value of KCHF 6 066 generated rental income of KCHF 176, ancillary costs of KCHF 99 and depreciation of KCHF 121 (June 30, 2021: loss of KCHF 7). At the end of June, the building is almost fully let.*

### **14 Subsequent events**

*The reduction in nominal value agreed by the Annual General Meeting on April 13, 2022, of CHF 2.50 per registered share in Tornos Holding AG was achieved through a distribution to shareholders of CHF 0.25 per registered share and an allocation to legal reserve from capital contributions of CHF 2.25 per registered share. The distribution of CHF 0.25 per registered share has been paid to shareholders free of expenses and withholding tax with a value date of July 13, 2022. From July 11, 2022, the registered shares of Tornos Holding AG have been traded on SIX Swiss Exchange ex nominal value repayment and at the new nominal value of CHF 1.00 per share.*

### **Non-GAAP financial measures**

*Tornos discloses in its external communications key performance indicators that are not defined in Swiss GAAP FER. The definitions are available on the Group's website at <https://investors.tornos.com/en/content/publications>.*

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