TORNOS

Interim Consolidated Financial Statements 2017

Tornos Group


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Key figures

Tornos Group

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

* Unless otherwise stated
** Without apprentices

Financial Review and Management Report

General

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

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

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

Order intake and backlog

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

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

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

Net sales

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

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

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

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

Gross profit

In the first half of 2017, the Tornos Group generated a gross profit margin of 35.1% (first half of 2016: 31.4%). This represents an increase of 3.7 percentage points. The changed product mix accounts for the margin improvement. Whereas in the previous year Tornos mainly sold machines produced in Asia, which were in the lower price segment and had lower margins, in the first half of 2017 it primarily sold Swiss-made machines, in the higher-price segment and with better margins. The gross profit for the first half of 2017 came to CHF 28.8 million (first half of 2016: CHF 21.9 million).

Operating expenses

In the first half of 2017, the Tornos Group's operating expenses amounted to CHF 27.2 million (first half of 2016: CHF 25.5 million, up CHF 1.7 million). The biggest cost increase (CHF 1.2 million) was in the area of research *and development. This was partly because of the cost of finishing the new MultiSwiss product line, and partly for development work on a new Swiss-type automatic lathe in the high-end segment, which Tornos is to present at EMO, the industry's leading trade show, in Hanover in autumn 2017. Higher costs in the area of marketing and sales are attributable to the increase in sales. Other income net included the proceeds of the sale of patents that are no longer operationally required.*

The prior-year figures for cost of sales and operating expenses have been restated. Further information on this subject may be found in Note 3 on page 12 of this half-year report.

Sale of property – non-operating result

In the previous 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. In the year under review, no property has been sold so far.

EBITDA and EBIT

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

Net result

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

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

Balance sheet

The balance sheet items also developed very pleasingly. The total balance sheet rose by CHF 3.6 million compared with 31 December 2016, to CHF 131.9 million.

On the assets side, cash and cash equivalents went up by CHF 6.0 million to CHF 15.6 million. By contrast, receivables decreased by CHF 1.8 million to CHF 16.9 million, even though sales in the second quarter of 2017 were significantly higher than in the fourth quarter of 2016. The reason for this positive development was the introduction of a rigorous receivables management system in January 2017. Inventories increased only slightly between 31 December 2016 and 30 June 2017. This was attributable to targeted stock management. Other amounts due and prepaid expenses fell by CHF 3.3 million.

Fixed assets stood at CHF 25.6 million as at 30 June 2017, up CHF 1.8 million compared with 31 December 2016. This figure includes in particular the capitalized costs of renovating the new staff restaurant and the non-operating property "Tour Bechler".

On the liabilities side, the Tornos Group was able to reduce its liabilities subject to interest by repaying CHF 4.0 million of the loan from the principal shareholders. The remaining debt was CHF 10.0 million as at 30 June 2017. Trade payables increased by CHF 3.5 million in the first half of 2017 because of the increase in sales. The other items on the liabilities side rose by CHF 3.0 million.

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

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

Cash flow

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

Employees

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

Outlook

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

Foreign currency translation

The most significant exchange rates against the Swiss franc for the Tornos Group in the period under review are shown in the table below.

Currency	Average rate		Closing rate	
	1.1.–30.6.2017	1.1.–30.6.2016	30.6.2017	31.12.2016
1 EUR	1.0765	1.0957	1.0942	1.0729
1 USD	0.9945	0.9819	0.9589	1.0201
1 GBP	1.2514	1.4075	1.2473	1.2586
1 RMB	0.1447	0.1502	0.1414	0.1469

Interim Consolidated Income Statement *(unaudited)*

In CHF 1'000	Notes	1st HY 2017 1.1.–30.6.2017	1st HY 2016 1.1.–30.6.2016 Restated
Net sales	10	**82'088**	**69'848**
Cost of sales		–53'244	–47'930
Gross profit		**28'844**	**21'918**
in % net sales		*35.1%*	*31.4%*
Marketing and sales		–14'157	–13'431
General and administrative expenses		–8'252	–8'277
Research and development		–5'106	–3'873
Other income – net	11	350	129
Operating expenses		**–27'165**	**–25'452**
Operating result		**1'679**	**–3'534**
in % net sales		*2.0%*	*–5.1%*
Financial income		5	7
Financial expense		–369	–272
Exchange result, net		–853	–640
Ordinary result		**462**	**–4'439**
Non-operating result	12	–	1'107
Earnings before income taxes		**462**	**–3'332**
Income taxes		–167	–209
Net result		**295**	**–3'541**
in % net sales		*0.4%*	*–5.1%*
Thereof attributable to shareholders of Tornos Holding Ltd.		473	–3'457
Thereof attributable to minority interests		–178	–84
Result per share	9		
– basic (CHF per share)		0.02	–0.18
– diluted (CHF per share)		0.02	–0.18

Additional information (in CHF 1'000)

EBITDA		**3'375**	**–1'134**
in % net sales		*4.1%*	*–1.6%*
Depreciation and amortization		–1'696	–1'293
EBIT		**1'679**	**–2'427**
in % net sales		*2.0%*	*–3.5%*

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

Interim Consolidated Balance Sheet *(unaudited)*

In CHF 1'000	Notes	30.6.2017	in %	31.12.2016	in %
ASSETS					
Cash and cash equivalents		15'630		9'601	
Trade receivables		16'910		18'726	
Inventories, net		67'918		67'049	
Other short-term receivables		3'673		6'132	
Prepayments and accrued income		2'211		3'058	
Total current assets		**106'342**	80.6%	**104'566**	81.5%
Property, plant and equipment		24'411		22'618	
Intangible assets		750		707	
Deferred tax assets		399		392	
Total non-current assets		**25'560**	19.4%	**23'717**	18.5%
Total assets		**131'902**	100.0%	**128'283**	100.0%
LIABILITIES AND EQUITY					
Interest bearing borrowings	7	10'078		14'085	
Trade payables		18'934		15'483	
Current tax liabilities		80		103	
Other liabilities		6'231		5'278	
Accrued liabilities and deferred income		8'445		6'030	
Provisions		2'676		2'644	
Total current liabilities		**46'444**	35.2%	**43'623**	34.0%
Interest bearing borrowings		264		281	
Retirement benefit obligations		3'393		3'364	
Provisions		214		653	
Deferred tax liabilities		8		10	
Total non-current liabilities		**3'879**	2.9%	**4'308**	3.4%
Total liabilities		**50'323**	38.1%	**47'931**	37.4%
Share Capital		89'450		89'450	
Capital reserve		28'814		28'814	
Treasury shares		-5'487		-6'345	
Retained earnings		-31'299		-27'542	
Currency translation adjustments		-824		-1'124	
Net result		473		-3'553	
Equity attributable to shareholders of Tornos Holding Ltd.		**81'127**		**79'700**	
Minority interests		452		652	
Total equity		**81'579**	61.9%	**80'352**	62.6%
Total liabilities and equity		**131'902**	100.0%	**128'283**	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
December 31, 2015	**89'450**	**28'814**	**–6'734**	**–27'485**	**–666**	**83'379**	**732**	**84'111**
Net result				–3'457		**–3'457**	–84	**–3'541**
Currency translation adjustments					–191	**–191**	–23	**–214**
Share-based compensation				119		**119**		**119**
June 30, 2016	**89'450**	**28'814**	**–6'734**	**–30'823**	**–857**	**79'850**	**625**	**80'475**
December 31, 2016	**89'450**	**28'814**	**–6'345**	**–31'095**	**–1'124**	**79'700**	**652**	**80'352**
Net result				473		**473**	–178	**295**
Currency translation adjustments					300	**300**	–22	**278**
Proceeds from sale of treasury shares			858	–545		**313**		**313**
Share-based compensation				341		**341**		**341**
June 30, 2017	**89'450**	**28'814**	**–5'487**	**–30'826**	**–824**	**81'127**	**452**	**81'579**

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	1st HY 2017 1.1.–30.6.2017	1st HY 2016 1.1.–30.6.2016
Net result		**295**	**–3'541**
Adjustments for expenses and income not affecting cash:			
Income taxes		167	209
Depreciation of property, plant and equipment		1'442	1'081
Amortization of intangible assets		254	212
Result on disposal of property, plant and equipment		–	–1'107
Share-based compensation		341	119
Allowance and write-offs on inventories		–1'363	1'900
Other non cash items		17	–5
Change in Net Working Capital		12'475	–8'032
Thereof trade receivables		*1'652*	*1'728*
Thereof other assets and prepayments		*3'246*	*398*
Thereof inventories		*–5*	*–4'575*
Thereof trade payables		*3'546*	*–5'776*
Thereof other current liabilities and provisions		*4'036*	*193*
Interest expense		263	185
Income taxes paid		–188	–155
Cash flow from operating activities		**13'703**	**–9'134**
Investment in property, plant and equipment		–3'259	–1'330
Disposal of property, plant and equipment	12	–	1'677
Investment in intangible assets		–304	–343
Cash flow from investing activities		**–3'563**	**4**
Free cash flow		**10'140**	**–9'130**
Repayments of borrowings, including finance lease liabilities	7	–4'047	–34
Proceeds from sale of treasury shares		313	–
Interest paid		–263	–185
Cash flow from financing activities		**–3'997**	**–219**
Net cash flow		**6'143**	**–9'349**
Cash and cash equivalents and bank overdrafts at January 1		9'601	20'608
Effects of exchange rate changes		–114	–99
Cash and cash equivalents and bank overdrafts at June 30		**15'630**	**11'160**

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 Zürich. The Tornos Group, which consists of Tornos Holding Ltd. and all its subsidiaries, is active in the development, manufacture, marketing, sale 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 25, 2017.

2 Basis of preparation

The unaudited interim consolidated financial statements of the Tornos Group for the six months ended June 30, 2017 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, 2016 which have been prepared in accordance with Swiss GAAP FER.

3 Accounting policies and change in accounting presentation

The accounting policies applied by the Tornos Group in this interim financial report are consistent with those applied in the consolidated financial statements as at December 31, 2016, except for the following.

On January 1, following the changes and updates performed in Tornos' ERP-System, the Group has reviewed the presentation of its income statement based on the activity-based costing method. This analysis also comprised the allocation of the costs to the various profit and loss items. Based on the review, the Group came to the conclusion, that some expenses are more accurately presented within its structural costs and no longer within the gross profit as in previous periods. Tornos is convinced that the newly adopted presentation provides a more accurate presentation of its gross profit and operating expenses.

As a result, the effects of the provision for obsolescence on show-room machines attributed to the marketing and sales functions as well as the obsolescence on machines belonging to the R&D functions have been allocated to the demanding cost functions in the income statement. Furthermore, the cost centre related to warehousing activities of the service department has been attributed to the marketing and sales functions under the structural costs. This realignment resulted in a decrease in Cost of sales by CHF 2.5 million, an increase in Marketing and sales and R&D of CHF 2.1 million and CHF 0.4million, respectively. However, operating result and the net result as well as the cash flow statement remained unchanged.

Since financial statements must be presented in a consistent way and show meaningful comparative figures, the prior year figures have been restated accordingly (refer to Note 3.1).

3.1 Impact of the change in accounting presentation

This change in presentation has only an impact on the presentation of the income statement of the Group and is as follows:

Interim Consolidated Income Statement	1st HY 2016	Change in accounting policy & presentation	1st HY 2016
In CHF 1'000	1.1.–30.6.2016		1.1.–30.6.2016
			Restated
Net sales	**69'848**		**69'848**
Cost of sales	–50'396	2'466	–47'930
Gross profit	**19'452**	**2'466**	**21'918**
in % net sales	*27.8%*		*31.4%*
Marketing and sales	–11'355	–2'076	–13'431
General and administrative expenses	–8'277		–8'277
Research and development	–3'483	–390	–3'873
Other income - net	129		129
Operating expenses	**–22'986**	**–2'466**	**–25'452**
Operating result	**–3'534**	**–**	**–3'534**
in % net sales	*–5.1%*		*–5.1%*

This change has no impact on the presentation of the expenses by nature.

4 Critical accounting estimates and judgements

The preparation of interim financial statements requires Management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. On an ongoing basis, Management evaluates the estimates, including those related to provisions for warranty, provisions resulting from pending litigations as well as other present 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 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, 2016.

Management and Board of Directors believe the basis of planning and the assumptions to be realistic.

5 Seasonality and cyclicality 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

The dormant companies Almatronic Ltd., in La Chaux-de-Fonds, Switzerland and Cyklos Ltd., in Yverdon-les-Bains, Switzerland have been liquidated on April 4, 2017 and on May 23, 2017, respectively. Furthermore in a reverse merger, the company Tornos Technologies France SAS, St-Pierre-en-Faucigny, France has taken control and merged with the company Tornos Holding France SA, also domiciled in St-Pierre-en-Faucigny, France on June 9, 2017. These changes have no major financial impact on the financial statements.

There are no other changes in scope to be mentioned during the periods under review.

7 Loan from shareholders

Loan Facility Agreements have been granted for a total value of CHF 20 million by our shareholders since 2014. The agreements also include the provision of securities of CHF 8 million for bank guarantees.

The aforementioned shareholder loans facilities granted bear fixed interest rates of 4%. The credit line and the securities provided for bank guarantees mature on March 31, 2018, but are renewed automatically for another term of one year if not cancelled six months prior to the maturity date. These agreements have not been terminated at the end of the interim period.

At the end of June 30, 2017, CHF 4.2 million (December 31, 2016: CHF 2.4 million) were used under the ancillary facilities for guarantees purposes and CHF 10 million (December 31, 2016: CHF 14 million) were used as part of the credit facilities granted.

8 Stock compensation plan

There is one stock participation plan, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense under this plan is recognised in accordance with the provisions of SWISS GAAP FER 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 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 86 was recorded for the six months period ended June 30, 2017 (June 30, 2016: KCHF 119) for the options granted and KCHF 255 (June 30, 2016: KCHF 0) for the shares purchased. As of June 30, 2017 120'050 shares have been purchased by the Management and the Board as part of the Management and Board Participation Plan at a price of CHF 2.61 per share compared to a market value at the date of purchase of CHF 4.75. The sale of the shares was made by Tornos own treasury shares.*

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

9 Result per share, basic and fully diluted

9.1 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 year, excluding ordinary shares purchased by the Group and held as treasury shares.

	1st HY 2017 1.1.–30.6.2017	1st HY 2016 1.1.–30.6.2016
Net result attributable to equity holders of Tornos (in CHF 1'000)	473	-3'457
Weighted average number of ordinary shares in issue (in 1'000)	19'000	18'935
Basic result per share (CHF per share)	**0.02**	**–0.18**

9.2 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.

	1st HY 2017 1.1.–30.6.2017	1st HY 2016 1.1.–30.6.2016
Net result attributable to equity holders of Tornos (in CHF 1'000)	473	-3'457
Weighted average number of ordinary shares in issue (in 1'000)	19'000	18'935
Adjustment for shares options (in 1'000)	61	–
Weighted average number of ordinary shares for diluted earnings per share (in 1'000)	19'061	18'935
Diluted result per share (CHF per share)	**0.02**	**–0.18**

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

10 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The top management is responsible to steer the business and regularly review the Group's internal reporting for its only operating segment, "machines", in order to assess performance and assess resource needs. The primary internal reporting to the top 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.

The top management assesses the performance of the business based on operating result. Additional reporting such as geographical area are also provided to the top management but they are not considered as substantial information to strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the top management based on internal reporting of the core activity.

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

The operating result amounts to a gain of KCHF 1'679 for the period under review and a loss of KCHF -3'534 for the first half year 2016.

10.1 Net sales by category

In CHF 1'000	1st HY 2017 1.1.–30.6.2017	1st HY 2016 1.1.–30.6.2016
Machines and spare parts	76'943	65'166
Service	5'145	4'682
Net sales	**82'088**	**69'848**

Switzerland is the domicile of the parent company and of the main operating and distribution companies. The Swiss operating companies conduct all main development and manufacture activities. The subsidiaries located in the other European countries (France, Germany, Italy, Poland, Spain and the United Kingdom), the Americas and Asia, except the branch in Taiwan and the production company in Xi'an, only have support or sales and distribution activities. The entities in Taiwan and Xi'an are companies which, on behalf of the parent company, conduct some developments on new products, which are then marketed through the Group's distribution network. The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. The top management reviews sales for the four material 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.

10.2 Net sales by region

In CHF 1'000	1st HY 2017 1.1.–30.6.2017	1st HY 2016 1.1.–30.6.2016
Switzerland	10'421	12'855
Other European countries	53'243	40'562
Americas	8'637	6'584
Asia	9'182	9'567
Rest of world	605	280
Total net sales	**82'088**	**69'848**

10.3 Non-current assets

The total of non-current is as follows:

In CHF 1'000	30.6.2017	31.12.2016
Switzerland	23'857	21'984
Other European countries	636	632
Americas	4	8
Asia	664	701
Total non-current assets for geographical area disclosure	**25'161**	**23'325**
Reconciling unallocated assets:		
- Deferred tax assets	399	392
Total non-current assets per balance sheet	**25'560**	**23'717**

11 Other income

Other income of KCHF 350 related to the sale of patents which are not necessary anymore for the operation of the Group.

12 Non-operating result

The gain of KCHF 1'107 in prior year relates to the sale of non-operating buildings and lands which have been sold for KCHF 1'877 as part of the rationalization of its real property inventory.

13 Subsequent events

There are no subsequent events to be mentioned.

We keep you turning

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