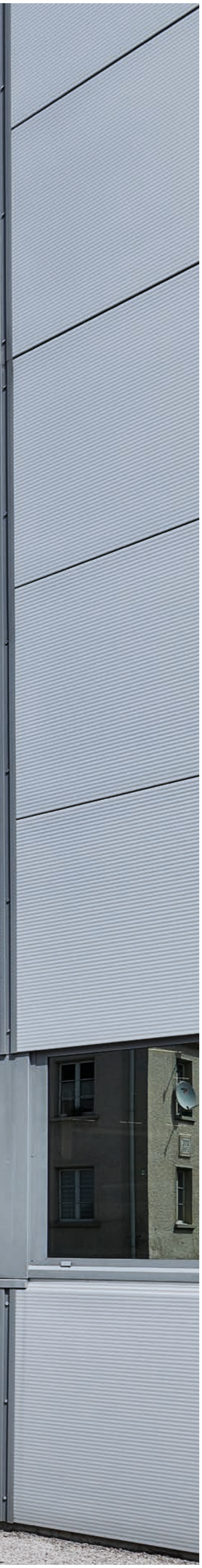
Interim Consolidated Financial Statements 2018

Tornos Group


TORNOS



Key Figures

Tornos Group

Unaudited, in CHF 1'000*	1st HY 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017	Difference	Difference in %
Order intake	**128'453**	**103'182**	25'271	24.5%
Net sales	**103'989**	**82'088**	21'901	26.7%
EBITDA	**7'275**	**3'375**	3'900	115.6%
in % of Net sales	*7.0%*	*4.1%*		
EBIT	**5'507**	**1'679**	3'828	228.0%
in % of Net sales	*5.3%*	*2.0%*		
Net result	**5'466**	**295**	5'171	1'752.9%
in % of Net sales	*5.3%*	*0.4%*		
Cash flow from operating activities	**3'749**	**13'703**	–9'954	–72.6%
Cash flow from investing activities	**–1'388**	**–3'563**	2'175	61.0%
Free cash flow	**2'361**	**10'140**	–7'779	–76.7%
	30.6.2018	**31.12.2017**		
Net cash	**27'487**	**23'428**	4'059	17.3%
Total equity	**97'810**	**90'240**	7'570	8.4%
in % of total balance sheet	*60.8%*	*63.0%*		
Total balance sheet	**160'966**	**143'310**	17'656	12.3%
Employees (full-time equivalents)**	**688**	**668**	20	3.0%

* Unless otherwise stated
** Without apprentices

Financial Review and Management Report

General

The world economy continues in good shape. In the first half of 2018 there was keen, broad-based demand for Swiss products internationally, which had a gratifying effect on foreign trade. Tornos was also able to benefit from this, thanks to its automatic lathes manufactured in Switzerland and Asia. The automotive industry, which is Tornos' biggest customer segment by far, is running on all cylinders. Together with demand from the electronics sector, the medical and dental technology segment and the reinvigorated watchmaking industry, this development should enable Tornos to maintain a high level of new orders in the coming months, provided that the Swiss franc does not come under upward pressure and there is no escalation of international trade tensions. Intensive competition for resources has also led to some commodity bottlenecks. There is a realistic prospect that the flourishing economy will start to slow down soon.

Tornos is consistently implementing its corporate strategy in the current market environment. It is in an excellent position thanks to its fully revised product portfolio, more flexible cost structure, internationally oriented production sites, restructured service department and innovative customer solutions. All this is reflected in the order intake for the first half of 2018.

Order intake and backlog

In the first half of 2018, the Tornos Group achieved total order intake of CHF 128.5 million (first half of 2017: CHF 103.2 million, +24.5%). All product lines contributed to this substantial increase. There was gratifyingly high market interest in the MultiSwiss multispindle product line. In this segment alone, Tornos was able to boost order intake by 84% compared with the equivalent period of the previous year. New orders for Swiss-type automatic lathes (single-spindle) manufactured in Switzerland remained at the same high level as in the previous year, while orders for Swiss-type automatic lathes in the medium-price segment, which are manufactured in Asia, rose by 47% compared with the first half of 2017.

Tornos was able to boost orders in almost all regions. In Europe, the most important region for Tornos, order intake rose from CHF 62.5 million in the first half of 2017 to CHF 82.6 million (+32%), while in the Americas it increased from CHF 5.0 million to CHF 8.4 million (+68%). In Asia (including remaining regions) it fell slightly, from CHF 17.1 million to CHF 15.4 million, which was a decrease of CHF 1.7 million (-10%). This is in line with the general industry trend and in particular with the trend in China in the first half of 2018.

The Tornos Group is always able to react quickly to the various developments in its market segments and to benefit from an upswing. The Tornos Group's biggest market segment by far is the automotive industry. Here, order intake went up by 42% in the first half of 2018. In all, 54% of total machine orders were from this industry, with the multispindle machine business accounting for a substantial proportion. Several interesting projects are in progress in the medical and dental technology segment, and it should be possible to complete these in the second half of the year. However, in the first six months Tornos did not match the good results achieved in this segment in the same period of the previous year. This meant that the electronics segment, in which Tornos again made gains, now outperforms the medical and dental technology segment. Pleasing progress was also made in the watchmaking industry, with Tornos more than doubling order intake in this segment.

The Tornos Group's backlog currently stands at an all-time high of CHF 93.3 million. It rose by 47% in the first half of 2018 (December 31, 2017: CHF 63.6 million).

Net sales

In the first half of 2018, the Tornos Group posted net sales of CHF 104.0 million (first half of 2017: CHF 82.1 million, +26.7%). Excluding exchange rate impact, the result would have been net sales of CHF 99.0 million for the first half of 2018 (+20.6% compared with the first half of 2017).

In the Swiss domestic market, net sales of CHF 18.7 million were CHF 8.3 million higher than the figure for the first half of 2017 (+79%). Whereas net sales rose by CHF 12.6 million (24%) to CHF 65.9 million in the rest of Europe, they fell by CHF 2.5 million to CHF 6.1 million in the Americas compared with the same period of the previous year. However, the high backlog indicates that net sales will recover in this region in the second half of the year. Tornos boosted net sales in Asia (including remaining regions) by around 37% to CHF 13.4 million.

Overall, the individual regions accounted for the following shares of the Tornos Group's net sales in the first half of 2018: Switzerland 18% (first half of 2017: 13%); rest of Europe 63% (first half of 2017: 65%); Americas 6% (first half of 2017: 10%); Asia (including remaining regions) 13% (first half of 2017: 12%).

In the service and spare parts business, Tornos generated net sales of CHF 23.9 million in the first half of 2018. This was a gratifying 19% increase on the figure for the same period of the previous year (first half of 2017: CHF 20.1 million). The spare parts business, which is performing well, and the increasingly successful used machinery business also contributed.

Gross profit

In the first half of 2018, the Tornos Group generated a gross profit margin of 34.5% (first half of 2017: 35.1%). This represents a margin reduction of 0.6 percentage points. High demand for Tornos machines presented the Group and its suppliers with a few challenges. There were occasional delays in receiving certain parts from suppliers. The unexpectedly high increase in production volume made it necessary to adjust various processes and capacities, and to bring in temporary workers. These measures resulted in an above-average increase in costs for the first half of 2018. Tornos was, however, able to improve the situation considerably through targeted adjustments, which will have a positive impact on the cost structure in the second half of the year.

In the first half of 2018, the Tornos Group achieved an overall gross profit of CHF 35.8 million (first half of 2017: CHF 28.8 million).

Operating expenses

In the first half of 2018, the Tornos Group's operating expenses amounted to CHF 30.1 million (first half of 2017: CHF 27.2 million, +CHF 2.9 million). The increase in sales meant that the biggest cost increase (CHF 1.3 million) was in the area of marketing and sales. Both general and administrative expenses, and research and development, saw costs rise by CHF 0.7 million respectively. The cost increase for research and development includes expenditure on the planned production launch of the SwissDECO range of Swiss-type automatic lathes in the *fourth quarter of 2018. At the same time, Tornos is working hard on the continued development of its TISIS programming and monitoring system and on automation solutions, according to Industry 4.0. A number of interesting new projects are also in hand, which Tornos will present in due course.*

Non-operating result

The non-operating result includes the net expenses of the non-operating property "Tour Bechler". Renovation work was completed at the end of 2017 and the building is now ready for letting.

EBITDA and EBIT

Earnings before financial expenses, tax, depreciation and amortization (EBITDA) came to CHF 7.3 million for the first half of 2018 (first half of 2017: CHF 3.4 million). The EBITDA margin was 7.0% (first half of 2017: 4.1%). Earnings before financial expenses and tax (EBIT) amounted to CHF 5.5 million (first half of 2017: CHF 1.7 million). Excluding exchange rate impact, the EBIT result for the first half of 2018 would have been CHF 3.6 million. The EBIT margin was 5.3% (first half of 2017: 2.0%).

Net result

Since Tornos was able to pay off all its debts at the end of 2017, net financial expenses fell by CHF 0.2 million in the first half of 2018 compared with the same period of the previous year. The depreciation of the Swiss franc against the euro increased the value of certain balance sheet items, which had a positive impact on the exchange rate result. In the first half of 2018 the latter was CHF +0.3 million (first half of 2017: CHF -0.9 million).

The net result for the first half of 2018 came to CHF 5.5 million (first half of 2017: CHF 0.3 million). The margin was a gratifying 5.3% (first half of 2017: 0.4%).

Balance sheet

The total balance sheet rose by CHF 17.6 million compared with December 31, 2017, to CHF 161.0 million.

On the assets side, cash and cash equivalents went up by CHF 4.0 million to CHF 27.7 million. Trade receivables also rose, increasing by CHF 2.6 million to CHF 23.1 million thanks to higher net sales in the second quarter of 2018 compared with the fourth quarter of 2017. Inventories soared by CHF 9.2 million, to reach CHF 77.4 million as at June 30, 2018. Although the inventories contained fewer finished machines, there was a rise in raw materials and work in progress owing to the high production volume. Other amounts due and prepaid expenses fell by CHF 2.3 million.

Fixed assets stood at CHF 25.6 million as at June 30, 2018, which was some CHF 0.5 million lower than on December 31, 2017.

On the liabilities side, trade payables hardly changed compared with December 31, 2017. By contrast, there was a huge rise in other liabilities of CHF 7.1 million to CHF 22.4 million. This figure includes a significant increase in customer prepayments because of the rise in net sales. Deferred income also rose (+CHF 2.7 million). The other items on the liabilities side changed very little compared with December 31, 2017.

As at June 30, 2018, net cash stood at CHF 27.5 million (December 31, 2017: CHF 23.4 million).

Total equity rose by CHF 7.6 million to CHF 97.8 million in the first half of 2018 (December 31, 2017: CHF 90.2 million), including minority interests of CHF 0.4 million (December 31, 2017: CHF 0.4 million). The increase in the total balance sheet resulted in a reduction of 2.2 percentage points in the equity ratio, to 60.8% (December 31, 2017: 63.0%).

Cash flow

Free cash flow was CHF 2.4 million in the first half of 2018. It was CHF 10.1 million in the same period of the previous year, thanks to the substantial reduction of CHF 12.5 million in net working capital. In the current reporting period, net working capital increased by CHF 3.7 million, mainly because of the increase in sales. Net investments came to CHF 1.4 million (first half of 2017: CHF 3.6 million). Tornos invested principally in properties and machine control systems. A further CHF 1.6 million in cash and cash equivalents was generated through Tornos selling its own shares, particularly in relation to the employee stock participation program. This brought the net increase in cash and cash equivalents to CHF 3.9 million (first half of 2017: CHF 6.1 million).

Employees

On June 30, 2018, the Tornos Group had 688 employees (full-time equivalents) and 40 apprentices (December 31, 2017: 668 employees and 40 apprentices). Most of the increase was in Taichung (Taiwan), where Tornos recently brought its assembly plant into operation. The remainder of the new jobs were at the assembly plant in Xi'an (China) and in the service section in Poland.

Outlook

Although world affairs are subject to uncertainty, the overall economic prospects and the forecasts for the Swiss mechanical engineering industry look set to remain positive for the second half of the year. With the help of a product range carefully tailored to customer requirements, Tornos will continue to benefit from the high level of demand in its core markets. Despite facing supply-side difficulties, Tornos expects to see a further year-on-year improvement in EBIT and in the net result in 2018.

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.–30.6.2018	1.1.–30.6.2017	30.6.2018	31.12.2017
1 EUR	1.1694	1.0765	1.1577	1.1690
1 USD	0.9679	0.9945	0.9907	0.9744
1 GBP	1.3297	1.2514	1.3086	1.3168
1 CNY	0.1519	0.1447	0.1497	0.1497

Interim Consolidated Income Statement *(unaudited)*

In CHF 1'000	Notes	1st HY 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017
Net sales	10	**103'989**	**82'088**
Cost of sales		–68'161	–53'244
Gross profit		**35'828**	**28'844**
in % of Net sales		*34.5%*	*35.1%*
Marketing and sales		–15'407	–14'157
General and administrative expenses		–8'936	–8'252
Research and development		–5'870	–5'106
Other income – net	11	67	350
Operating expenses		**–30'146**	**–27'165**
Operating result		**5'682**	**1'679**
in % of Net sales		*5.5%*	*2.0%*
Financial income		5	5
Financial expense		–128	–369
Exchange result, net		316	–853
Ordinary result		**5'875**	**462**
Non-operating result	12	–175	–
Earnings before income taxes		**5'700**	**462**
Income taxes		–234	–167
Net result		**5'466**	**295**
in % of Net sales		*5.3%*	*0.4%*
Thereof attributable to shareholders of Tornos Holding Ltd.		5'431	473
Thereof attributable to minority interests		35	–178
Result per share	9		
– basic (CHF per share)		0.28	0.02
– diluted (CHF per share)		0.28	0.02

Additional information (in CHF 1'000)		1st HY 2018	1st HY 2017
EBITDA		**7'275**	**3'375**
in % of Net sales		*7.0%*	*4.1%*
Depreciation and amortization		–1'768	–1'696
EBIT		**5'507**	**1'679**
in % of Net sales		*5.3%*	*2.0%*

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

Interim Consolidated Balance Sheet *(unaudited)*

In CHF 1'000	Notes	30.6.2018	in %	31.12.2017	in %
ASSETS					
Cash and cash equivalents		27'702		23'664	
Trade receivables		23'142		20'545	
Inventories, net		77'392		68'197	
Other short-term receivables		5'399		3'724	
Prepayments and accrued income		1'757		1'128	
Total current assets		**135'392**	84.1%	**117'258**	81.8%
Property, plant and equipment		24'401		24'853	
Intangible assets		705		728	
Deferred tax assets		468		471	
Total non-current assets		**25'574**	15.9%	**26'052**	18.2%
Total assets		**160'966**	100.0%	**143'310**	100.0%
LIABILITIES AND EQUITY					
Interest bearing borrowings		70		70	
Trade payables		23'972		24'304	
Current tax liabilities		356		203	
Other liabilities		22'369		15'220	
Accrued liabilities and deferred income		9'684		6'961	
Provisions		3'678		3'325	
Total current liabilities		**60'129**	37.3%	**50'083**	34.9%
Interest bearing borrowings		145		166	
Retirement benefit obligations		2'670		2'599	
Provisions		210		220	
Deferred tax liabilities		2		2	
Total non-current liabilities		**3'027**	1.9%	**2'987**	2.1%
Total liabilities		**63'156**	39.2%	**53'070**	37.0%
Share capital		89'450		89'450	
Capital reserve		28'814		28'814	
Treasury shares	8	-3'527		-5'452	
Retained earnings		-22'398		-31'195	
Currency translation adjustments		-408		-283	
Net result		5'431		8'493	
Equity attributable to shareholders of Tornos Holding Ltd.		**97'362**		**89'827**	
Minority interests		448		413	
Total equity		**97'810**	60.8%	**90'240**	63.0%
Total liabilities and equity		**160'966**	100.0%	**143'310**	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, 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**
December 31, 2017	**89'450**	**28'814**	**–5'452**	**–22'702**	**–283**	**89'827**	**413**	**90'240**
Net result				5'431		**5'431**	35	**5'466**
Currency translation adjustments					–125	**–125**		**–125**
Proceeds from sale of treasury shares			1'925	–328		**1'597**		**1'597**
Share-based compensation				632		**632**		**632**
June 30, 2018	**89'450**	**28'814**	**–3'527**	**–16'967**	**–408**	**97'362**	**448**	**97'810**

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 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017
Net result		**5'466**	**295**
Adjustments for expenses and income not affecting cash:			
Income taxes		234	167
Depreciation of property, plant and equipment		1'494	1'442
Amortization of intangible assets		274	254
Result on disposal of property, plant and equipment		100	–
Share-based compensation		632	341
Allowance and write-offs on inventories		–502	–1'363
Other non cash items		41	17
Change in Net Working Capital		–3'736	12'475
Thereof trade receivables		*–2'588*	*1'652*
Thereof other assets and prepayments		*–1'620*	*3'246*
Thereof inventories		*–8'657*	*–5*
Thereof trade payables		*–1'000*	*3'546*
Thereof other current liabilities and provisions		*10'129*	*4'036*
Interest expense		15	263
Income taxes paid		–269	–188
Cash flow from operating activities		**3'749**	**13'703**
Investment in property, plant and equipment		–1'138	–3'259
Investment in intangible assets		–250	–304
Cash flow from investing activities		**–1'388**	**–3'563**
Free cash flow		**2'361**	**10'140**
Repayments of borrowings, including finance lease liabilities		–38	–4'047
Proceeds from sale of treasury shares		1'597	313
Interest paid		–15	–263
Cash flow from financing activities		**1'544**	**–3'997**
Net cash flow		**3'905**	**6'143**
Cash and cash equivalents and bank overdrafts at January 1		23'664	9'601
Effects of exchange rate changes		133	–114
Cash and cash equivalents and bank overdrafts at June 30		**27'702**	**15'630**

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 24, 2018.

2 Basis of preparation

The unaudited interim consolidated financial statements of the Tornos Group for the six months ended June 30, 2018 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, 2017 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 in the consolidated financial statements as at December 31, 2017.

4 Critical accounting estimates and judgments

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, 2017.*

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

As of June 7, 2018, the company Almac Ltd., in La Chaux-de-Fonds, Switzerland has been merged with Tornos Ltd., in Moutier. All assets and liabilities have been taken over by Tornos Ltd. The brand name "Almac" has been deleted. The company continues to run as a branch of Tornos Ltd. and is still based in La Chaux-de-Fonds. This change is only of legal nature and does not impact the activities carried out by the company in La Chaux-de-Fonds. It had no financial impact on the financial statements.

Furthermore, to facilitate the activities of the Group in Asia, Tornos representative office in Thailand has been changed on June 5, 2018 to a distinctive legal entity: Tornos Technologies (Thailand) Company Ltd. This has no impact on the financial statements and does not change the scope of the activities carried out in this region.

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

7 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 attributed every year 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 recognised 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 307 was recorded for the six months period ended June 30, 2018 (June 30, 2017: KCHF 86) for the options granted and KCHF 325 for the shares purchased (June 30, 2017: KCHF 255). As of June 30, 2018 47'883 shares have been purchased by the Management and the Board as part of the Management and Board Participation Plan attributed in 2018 at a price of CHF 7.56 per share (June 30, 2017: 120'050 shares at CHF 2.61). 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.

8 Treasury shares

Movements in treasury shares are as follows:

	30.6.2018		31.12.2017	
	Number of shares	Amount (in CHF 1'000)	Number of shares	Amount (in CHF 1'000)
At beginning of year	**763'254**	**5'452**	**888'304**	**6'345**
Sale of treasury shares	-269'442	-1'925	-125'050	-893
At end of period	**493'812**	**3'527**	**763'254**	**5'452**

Treasury shares are valued at average purchase price. As of June 30, 2018, and for the period under review, 269'442 shares have been sold either through the market or as part of the management participation plan, MBP07, for the options vested. The sale of the treasury shares in 2017 concerned share purchased as part of the management participation plan and the options rights attributed.

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 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017
Net result attributable to equity holders of Tornos (in CHF 1'000)	5'431	473
Weighted average number of ordinary shares in issue (in 1'000)	19'205	19'000
Basic result per share (CHF per share)	**0.28**	**0.02**

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 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017
Net result attributable to equity holders of Tornos (in CHF 1'000)	5'431	473
Weighted average number of ordinary shares in issue (in 1'000)	19'205	19'000
Adjustment for shares options (in 1'000)	86	61
Weighted average number of ordinary shares for diluted earnings per share (in 1'000)	19'291	19'061
Diluted result per share (CHF per share)	**0.28**	**0.02**

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 for the period under review amounts to a gain of KCHF 5'682 (June 30, 2017: KCHF 1'679).

10.1 Net sales by category

In CHF 1'000	1st HY 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017
Machines	80'100	62'024
Service and spare parts	23'889	20'064
Net sales	**103'989**	**82'088**

As a change in presenting "Net sales by category", the sale of spare parts will be shown together with the sale of Service instead of the sale of Machines. The previous period has been changed accordingly.

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 2018 1.1.–30.6.2018	1st HY 2017 1.1.–30.6.2017
Switzerland	18'657	10'421
Other European countries	65'871	53'243
Americas	6'076	8'637
Asia	13'372	9'182
Rest of world	13	605
Total Net sales	**103'989**	**82'088**

10.3 Non-current assets

The total of non-current is as follows:

In CHF 1'000	30.6.2018	31.12.2017
Switzerland	23'591	23'945
Other European countries	642	659
Americas	2	2
Asia	871	975
Total non-current assets for geographical area disclosure	**25'106**	**25'581**
Reconciling unallocated assets:		
- Deferred tax assets	468	471
Total non-current assets per balance sheet	**25'574**	**26'052**

11 Other income

Other income of KCHF 350 in 2017 related to the sale of patents which were not necessary anymore for the operation of the Group. In 2018, there are no material other income to be reported.

12 Non-operating result

The non-operating loss of KCHF 175 relates to a building held for investment purpose with a net book value of KCHF 5'209 and include rent income of KCHF 11. This building had been completely renovated at the end of 2017 and reassigned as non-operating building since then. From 2018, the apartments in the building are ready to be rented.

13 Subsequent events

Following the approval of the reduction in nominal value of CHF 1.00 per registered share by the shareholders at the Annual General Meeting on April 11, 2018, the capital reduction has been entered in the Commercial Register on July 6, 2018 . This reduction in nominal value has been achieved through a distribution to shareholders of CHF 0.15 per registered share and an allocation to legal reserve from capital contributions of CHF 0.85 per registered share. The distribution of CHF 0.15 per registered share has been paid to shareholders free of expenses and withholding tax with a value date of July 13, 2018. From July 11, 2018, the registered shares of Tornos Holding AG is traded on SIX Swiss Exchange ex nominal value repayment and at the new nominal value of CHF 3.50 per share.

We keep you turning

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