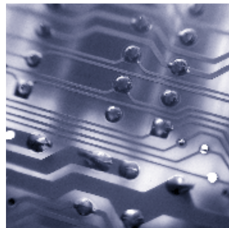
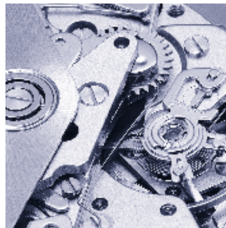
TORNOS

CONSOLIDATED FINANCIAL STATEMENTS

2012 | TORNOS HOLDING SA

Tornos Group

Report of the Statutory Auditor	4
Consolidated Financial Statements	7
Notes to the Consolidated Financial Statements	12

Tornos Holding SA, Moutier

Report of the Statutory Auditor	58
Financial Statements	61
Notes to the Financial Statements	64
Proposed appropriation of available earnings	68

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SA
Place Pury 13
Case postale
2001 Neuchâtel 1
Phone +41 58 792 67 00
Fax +41 58 792 67 10
www.pwc.ch

Report of the Statutory Auditor
to the General Meeting of
Tornos Holding SA, Moutier

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Tornos Holding SA, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements (pages 7 to 57), for the year ended December 31, 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Michael Foley	Aude Joly
Audit expert	Audit expert
Auditor in charge	

Neuchâtel, March 12, 2013

In thousands of CHF, except per share data

For the years ended December 31,	Notes	**2012**	**2011**
Gross sales		**184’826**	**271’051**
Rebates and discounts		–3’260	–4’178
Net sales	**27**	**181’566**	**266’873**
Cost of sales		–136’343	–180’789
Gross profit		**45’223**	**86’084**
Marketing and sales		–32’041	–36’970
General and administrative expenses		–20’800	–21’271
Research and development		–18’018	–11’745
Other income/(expenses) – net	8	730	548
Operating income/(loss) (EBIT)		**–24’906**	**16’646**
Finance expenses – net	9	–2’205	–3’506
Exchange gains/(losses) – net	10	–767	–477
Income/(loss) before income taxes		**–27’878**	**12’663**
Income tax credit/(charge)	11	3’418	–1’986
Net income/(loss)		**–24’460**	**10’677**
Earnings/(loss) per share	26		
– basic		–1.63	0.72
– diluted		–1.63	0.72
EBIT (operating income/(loss) before finance expenses, exchange losses and income taxes)		**–24’906**	**16’646**
Depreciation, amortisation and impairment		14’758	4’352
EBITDA (operating income/(loss) before finance expenses, exchange losses, income taxes, depreciation, amortisation and impairment)		**–10’148**	**20’998**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of CHF

For the years ended December 31,	**2012**	**2011**
Net income/(loss)	**–24’460**	**10’677**
Other comprehensive income/(loss)		
Fair value gain/(loss) on available-for-sale financial assets, net of KCHF -53 tax (2011: KCHF 3)	–625	34
Cash flow hedges, net of KCHF -301 tax (2011: KCHF 301)	–1’581	1’581
Currency translation difference	–134	43
Other comprehensive income/(loss), net of tax	**–2’340**	**1’658**
Total comprehensive income/(loss)	**–26’800**	**12’335**

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

In thousands of CHF

As of December 31,	Notes	**2012**	**2011**
ASSETS			
Cash and cash equivalents		10’884	17’068
Trade receivables	12	36’204	46’381
Available-for-sale financial assets	15	5’985	–
Inventories	13	78’176	84’373
Other receivables and prepayments	14	6’799	11’935
Total current assets		**138’048**	**159’757**
Available-for-sale financial assets	15	–	6’663
Property, plant and equipment	16	29’130	32’120
Intangible assets	17	6’931	16’290
Deferred tax assets	18	10’007	5’846
Total non-current assets		**46’068**	**60’919**
Total assets		**184’116**	**220’676**
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings	19	245	35’843
Trade payables		17’353	29’329
Current tax liabilities		199	93
Other liabilities	20	15’692	17’473
Provisions	21	4’436	5’323
Total current liabilities		**37’925**	**88’061**
Interest bearing loans and borrowings	19	437	699
Loan from shareholders	19/29	40’000	–
Retirement benefit obligations	22	1’488	1’523
Provisions	21	773	836
Deferred tax liabilities	18	68	156
Total non-current liabilities		**42’766**	**3’214**
Total liabilities		**80’691**	**91’275**
Total equity		**103’425**	**129’401**
Total liabilities and equity		**184’116**	**220’676**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of CHF	**Ordinary shares (note 23)**	**Share premium**	**Treasury shares (note 23.3)**	**Retained earnings (note 24)**	**Total**
At December 31, 2010	**67’907**	**15’968**	**–6’673**	**34’284**	**111’486**
Comprehensive income					
Net inome				**10’677**	**10’677**
Other comprehensive income					
Fair value gain on available-for-sale financial assets				34	34
Cash flow hedges				1’581	1’581
Currency translation difference				43	43
Total other comprehensive income				**1’658**	**1’658**
Total comprehensive income				**12’335**	**12’335**
Transactions with owners					
Issuance of new shares:					
to acquire patents and know-how	1’350	2’481			3’831
for stock compensation plan	414	359			773
Purchase of treasury shares			–154		–154
Share-based compensation (note 25)				1’130	1’130
Total transactions with owners					
At December 31, 2011	**69’671**	**18’808**	**–6’827**	**47’749**	**129’401**
Comprehensive income					
Net loss				**–24’460**	**–24’460**
Other comprehensive income					
Fair value gain on available-for-sale financial assets				–625	–625
Realisation cash flow hedges				–1’581	–1’581
Currency translation difference				–134	–134
Total other comprehensive income				**–2’340**	**–2’340**
Total comprehensive income				**–26’800**	**–26’800**
Transactions with owners					
Issuance of new shares:					
for stock compensation plan	88	56			144
Share-based compensation (note 25)				680	680
Total transactions with owners					
At December 31, 2012	**69’759**	**18’864**	**–6’827**	**21’629**	**103’425**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of CHF

For the years ended December 31,	Notes	**2012**	**2011**
Net income/(loss)		**–24'460**	**10'677**
Adjustments for:			
Taxes		–3'418	1'986
Depreciation of property, plant and equipment	16	4'003	4'243
Amortisation & Impairment of development costs	17	7'882	109
Goodwill impairment	17	2'873	–
Gain on disposal of property, plant and equipment		–457	–429
Share-based compensation		680	1'130
Employee defined benefit obligation		–	–646
Other non cash items		3	1
Decrease/(increase) in working capital:			
Trade receivables		10'040	–8'815
Other assets and prepayments		3'214	2'473
Inventories		6'116	7'631
Trade payables		–11'921	–1'520
Other current liabilities and provisions		–2'555	6'829
Interest expense		1'276	2'702
Income tax paid		–399	–649
Net cash provided by/(used in) operating activities		**–7'123**	**25'722**
Cash flows from investing activities			
Investment in property, plant and equipment	16	–1'216	–1'762
Disposal of property, plant and equipment	16	631	843
Investment in capitalised development costs	17	–1'396	–3'115
Interest and dividends received	9	197	158
Net cash used in investing activities		**–1'784**	**–3'876**
Cash flows from financing activities			
Repayments of borrowings, including finance lease liabilities		–35'856	–7'292
Proceeds from shareholders' loans	19	40'000	–
Proceeds from issuance of share capital		144	734
Purchase of treasury shares	23.3	–	–154
Interest paid		–1'464	–1'881
Net cash provided by/(used in) financing activities		**2'824**	**–8'593**
Net increase/(decrease) in cash and cash equivalents		**–6'083**	**13'253**
Cash and cash equivalents and bank overdrafts at beginning of year		17'068	3'834
Effects of exchange rate changes		–101	–19
Cash and cash equivalents and bank overdrafts at end of year		**10'884**	**17'068**

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

1 Activity and Group structure

Tornos Holding SA (the Company) is a company domiciled in Moutier, Switzerland and is listed on the SIX Swiss Exchange. The Group, which consists of the Company and all the entities listed in note 5, is active in the development, manufacture, marketing, sale and servicing of machines. The Group manufactures solely in Moutier and La Chaux-de-Fonds, Switzerland, and markets the product lines on a worldwide basis. The Group's operations outside of Switzerland principally include European countries, Americas and Asia.

These consolidated financial statements have been approved for issue by the Board of Directors on March 12, 2013. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 16, 2013.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and have been applied in a manner consistent with those described in the annual consolidated financial statements for the year ended December 31, 2011.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law. The consolidated financial statements are prepared under the historical cost convention with the exception that, as disclosed in the accounting policies below, certain items, including derivatives and available-for-sale financial assets, are shown at fair value. All amounts set out in the consolidated financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand (KCHF) unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2.1.1 New standards and amendments to standards which were adopted by the Group for the financial year beginning January 1, 2012

There are no significant amendments, new IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2012 and that have a material impact on the Group.

2.1.2 New standards, amendments to standards and interpretations mandatory for the first time for the financial year beginning January 1, 2012, but not currently relevant to the Group

Below is a list of the standards/interpretations that have been issued and are effective for periods starting on or after January 1, 2012, but that are currently not relevant for the Group.

Standard/Interpretation	Key requirements
Amendment to IFRS 7, "Financial instruments: Disclosure", on transfer of financial assets.	These amendments are as part of the IASBs comprehensive review of all balance sheet activities. The amendments promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset.
Amendment to IAS 12, "income taxes", on deferred tax.	Currently IAS 12, "Income taxes", requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment property. Hence this amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value.

2.1.3 *New standards, interpretations to existing standards and standards amendments that are not yet effective*

The Group has not early adopted any other new standards, interpretations to existing standards and standards amendments which need adoption by January 1, 2012 or later.

Below is a list of the standards/interpretations that have been issued and are effective for periods after January 1, 2012 with potential relevance for the Group.

Standard/Interpretation	Nature of the changes in accounting policies	Effective Date	Impact
Amendment to IAS 1, "Financial statement presentation", regarding other comprehensive income	The main change is a requirement to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassificable to profit or loss subsequently.	1 July 2012	**
Amendment to IAS 19, "Employee benefits"	These amendments eliminate the corridor approach and require recognising all actuarial gains and losses in OCI as they occur and to immediately recognise all past service costs. In addition, interest cost and expected return on plan assets are replaced with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability.	1 January 2013	****
Amendment to IFRS 7, "Financial instruments: Disclosures"	This amendment includes new disclosures on asset and liability offsetting to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP.	1 January 2013	*
IFRS 10, "Consolidated financial statements"	This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements.	1 January 2013	*
IFRS 11, "Joint Arrangement"	IFRS 11 is a more realistic reflection of joint arrangement by focusing on the rights and obligations of the parties to the arrangement rather than its legal form. Proportional consolidation is no longer allowed, only equity accounting is allowed.	1 January 2013	**
IFRS 12, "Disclosures of interests in other entities"	IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.	1 January 2013	*
IFRS 13, "Fair value measurement"	This new standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair values accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.	1 January 2013	*
IAS 28 (revised 2011), "Associates and joint ventures"	This revised standard includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11.	1 January 2013	**
Amendment to IAS 32, "Financial instruments": Presentation"	These amendments clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet.	1 January 2014	*

Standard/Interpretation	Nature of the changes in accounting policies	Effective Date	Impact
IFRS 9, "Financial instruments"	IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. It replaces the corresponding part of IAS 39. The new standard retains but simplifies the mix measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, the main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.	1 January 2015	***

* No or no significant impacts are expected on the financial statements of the Group.

** Mainly additional disclosures are expected in the financial statements of the Group.

*** The Group is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.

**** The effect of unrecognised actuarial losses to equity is estimated approximately to amount as of 01.01.2012 to CHF 19 million and as of 31.12.2012 to CHF 25 million. In the FY 2012, the personal expenses under IAS 19 Revised would have been reduced by round CHF 3 million and the finance costs increased by round CHF 0.5 million. The effect on the net interest amount under IAS 19R for 2013 is yet to be assessed.

In addition, various other already issued standards will be amended or clarified as part of the Annual improvements 2011, none of which is deemed to have a significant impact on the Group's operations.

There are currently no intentions to adopt these accounting changes before the effective date.

2.2 *Consolidation*

2.2.1 *Subsidiaries*

Subsidiaries are those companies in which the Company, directly or indirectly, holds an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Acquisitions are accounted for using the acquisition method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred at the date of exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. A listing of the Company's subsidiaries is set out in note 5.

2.2.2 *Balances and transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2.3 Foreign currencies

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand (KCHF) unless otherwise stated, which is the Company's functional and presentation currency.

2.3.2 Foreign currency transactions

Transactions in foreign currencies are translated to CHF at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to CHF at the foreign exchange rate ruling at that date, foreign exchange differences arising on translation are recognised in the income statement except when deferred in other comprehensive income qualifying as cash flow hedges. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to CHF at the foreign exchange rate ruling at the date of the transaction.

2.3.3 Financial statements of foreign operations

The assets and liabilities of foreign operations are translated to CHF at foreign exchange rates ruling at the balance sheet date. The revenues, expenses and cash flows of foreign operations are translated to CHF at the average exchange rates prevailing during the reporting period. Foreign exchange differences arising on this translation are recognised directly in other comprehensive income as currency translation difference.

2.4 Revenue recognition

Revenues include sales of machines and spare parts on one side and services which can be directly charged to customers on the other side. Sales are recognised on the full completion of the delivery or service (upon delivery of products or customer acceptance in the case of "bill and hold" sales, or performance of services), net of sales taxes and discounts, and after eliminating sales within the Group. Gross sales represent the binding amounts effectively invoiced to customers. Net sales represent gross sales net of rebates and discounts granted after billing.

2.5 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalent includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within interest bearing loans and borrowings in current liabilities. They are stated at their nominal amounts.

2.6 Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment determined based on a review of all outstanding amounts at the year-end. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and is composed of three categories (a) materials and components (b) work in progress and (c) finished goods and spare parts.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes raw materials, direct labour, other direct costs and related production overheads based on normal operating capacity. It excludes borrowing costs.

2.8 Financial assets

The group has only the following categories of financial assets: loans and receivables, available-for-sale financial assets, and derivatives financial instruments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.8.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise cash and cash equivalents, trade receivables and other receivables in the balance sheet (see accounting policy 2.5 and 2.6).

Loans and receivables are carried at amortised cost using the effective interest method.

2.8.2 Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management decides to have the possibility to dispose of the investment within 12 months of the balance sheet date (see accounting policy 2.9).

2.8.3 Derivatives financial instruments

Derivative financial instruments are financial assets or liabilities held for trading, which are recognised at fair value through profit or loss unless they are designated as hedges. Assets or liabilities in this category are classified as other current assets or liabilities.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.9 Available-for-sale financial assets

Regular purchases and sales of these financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. They are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of monetary and non monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement as financial income. Interest on available-for-sale securities calculated using the effective interest method and dividends on available-for-sale equity instruments are recognised in the income statement as part of financial income when the Group's right to receive payments is established.

A significant and/or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities might be impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

The fair values of quoted investments are always based on current bid prices.

2.10 Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value in current assets or liabilities. The Group may designate certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Changes in the fair value of derivative instruments are recorded in the period in which they arise on the various lines of the income statement to which they relate.

2.10.1 Cash flow hedge

The Group documents at the inception of the transaction or at a later date within the limits permitted by IAS 39 the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception or at a later date within the limits permitted by IAS 39 and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve in other comprehensive income are shown in note 24. The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months and as a non-current asset or liability when the remaining hedged item is more than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within exchange gains/(losses) - net.

Amounts accumulated in equity are reclassified to the income statement in the periods when the hedged item affects the income statement (for example, when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within exchange gains/(losses) – net.

2.11 Property, plant and equipment

2.11.1 Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 2.13). Interest costs on borrowings to finance property, plant and equipment during the course of construction are capitalised.

2.11.2 Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul costs, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

2.11.3 Leased assets

Leases with terms for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 2.13).

Each lease payment is allocated between the liability and financial charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of financial charges, are included in interest bearing borrowings. The interest element of the finance charge is recognised in the income statement over the lease period.

2.11.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and other equipment. Depreciation of machinery is charged on the basis of effective usage which approximates the straight-line basis except in years when production varies considerably. Land is not depreciated. The estimated useful lives are as follows:

- Buildings 20–40 years
- Installations 8–12 years
- Machinery 8–12 years
- Other equipment 3–10 years

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Useful lives for the machinery refer to a normal utilisation of the production capacity. Depreciation in a year with under or over utilised capacity will be adjusted, if the under utilisation, respectively the over utilisation has a significant impact on the useful lives of the machinery.

Assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components.

2.12 Intangible assets

2.12.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Separately recognised goodwill is tested for impairment annually and whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.12.2 Development costs

Internal and external research costs are charged to the income statement as incurred. Internal and external development costs are capitalised as intangible assets only when there is an identifiable asset that will generate expected future economic benefits and when the cost of such an asset can be measured reliably. Development expenditures which do not meet the criteria above are recognised as an expense as incurred. Development costs previously recognised as an expense which subsequently meet the criteria are not capitalised retroactively. Development costs capitalisation is subject to prior approval of the audit committee upon proposal from the CEO and CFO. Capitalisation can only be considered for expenses fulfilling the IAS 38 criteria. Capitalisation stops at the closing of the project.

Capitalised development costs are amortised on a straight line basis over a period which cannot exceed their estimated useful lives. Amortisation starts when the development projects are finalised and the specific products are introduced to the market.

2.12.3 Patents and know-how

Purchased patents and know-how are initially recorded at cost. They are amortised over their useful lives on a straight-line basis beginning from the point when they are available for use. Estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful life is regularly reviewed.

2.13 Impairment of non financial assets

Assets that have an indefinite useful life, for example goodwill, or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. The carrying amounts of the Group's other assets, other than inventories (see accounting policy 2.7), deferred tax assets (see accounting policy 2.14) and pension assets (see accounting policy 2.15), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount, being the higher of the asset's net selling price and value in use, is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.14 Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is also recognised in other comprehensive income or directly in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred tax is not recognised for differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or group of entities filing consolidated tax returns.

A deferred tax asset is recognised only to the extent that it is probable that sustainable future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.15 Employee benefits

The Group has established defined benefit and defined contribution plans around the world. The benefits of the defined benefit plans usually depend on one or more factors such as the number of years the employee was covered in the plan, age, pensionable salary and to some extent on the accumulated old age capital. The plans are either funded or unfunded. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds.

The expense and defined benefit obligations for the material defined benefit plans in accordance with IAS 19 are determined using the Projected Unit Credit Method. This takes into account insurance years up to the valuation date. The valuations of the defined benefit obligations are conducted annually by independent actuaries. Valuation of pension assets is done annually, at market value.

Current service cost is recorded in the income statement for the period in which the services are rendered. Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees' expected average remaining working lives.

In measuring pension assets, the Group applies IFRIC 14—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation addresses the interaction between the limits on recognition of assets from defined benefit post employment plans and any minimum funding requirement of such plans. Actuarial losses and unvested prior service cost of the current period are immediately recognised if they would result in an asset that is not controlled by the Group.

In Switzerland the employees are insured in a company pension fund. The company pension fund covers the majority of the employees and is controlled by an equal number of representatives of the Management and the employees. The parity of control implies that neither side individually controls the assets in the pension fund. Therefore, the Company cannot dictate on its own that any excess funds will be used for the benefit of the Company (i.e. to reduce future contributions). In addition, the only contractual commitment of the Company is the payment of the monthly contribution to the pension fund which is based on each employee's individual earnings. Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

2.16 Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.17 Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the obligation.

2.18 Interest bearing borrowings

Interest bearing borrowings are initially recognised at fair value, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

Fees paid as transaction costs are deferred and amortised on a straight-line basis over the period of the loan agreement to which they relate.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer.

3 Financial risk management

3.1 Risk assessment as required by Swiss Law

Risks to which the Group may be faced are assessed by the Group Audit Committee on a regular basis. Each of the risks identified is evaluated in order to take appropriate preventive measures if necessary. The risk assessment summary is submitted to the Board of Directors of the Company for review and final approval.

3.2 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to cover certain risk exposures whenever needed.

3.3 Market risks

3.3.1 Currency risks

Tornos SA, the Swiss operating company of the Group invoices its revenues to the subsidiaries and to customers located outside Switzerland in local currencies, mainly EUR and USD except Asia where it is mainly in CHF. Therefore, the currency risk remains with the Swiss operating company. Tornos SA converts the offer in those currencies at an exchange rate which is decided internally. An offer is only valid for 90 days, and only if the exchange rate between CHF and the other currency fluctuates by less than 5%. If parity is stable no foreign exchange contracts are entered into. If a change in the valuation of the CHF is expected a review of the risk is done and if appropriate foreign exchange contracts are entered into for all or a portion of the net position in each currency. Forward exchange contracts were entered into in 2011 and 2010 which matured in 2012 and 2011 respectively.

Additionally, some forecasted machine purchases from Tsugami are made in JPY. The policy is to hedge those purchases whenever it is expected that a strengthening of the JPY will take place.

On an annual basis, if the CHF had weakened/strengthened by 1% against the EUR additional income/losses and impact on equity of some KCHF 203 would have resulted from the translation of the net monthly movements in EUR (2011: KCHF 775).

At December 31, 2012, if the CHF had weakened/strengthened by 1% against the EUR additional exchange gains/losses and impact on equity of KCHF 93 would have resulted from the translation of all EUR denominated assets and liabilities, the majority of which being represented by cash equivalents and trade receivables (2011: KCHF 124).

On an annual basis, if the CHF had weakened/strengthened by 1% against the USD additional income/losses and impact on equity of some KCHF 74 would have resulted from the translation of the net monthly movements in USD (2011: KCHF 128).

At December 31, 2012, if the CHF had weakened/strengthened by 1% against the USD additional exchange gains/losses and impact on equity of KCHF 40 would have resulted from the translation of all USD denominated assets and liabilities, the majority of which being represented by cash equivalents and trade receivables (2011: KCHF 24).

On an annual basis, if the CHF had weakened/strengthened by 1% against the JPY additional income/losses and impact on equity of some KCHF 138 would have resulted from the translation of the net monthly movements in JPY (2011: KCHF 230).

At December 31, 2012, if the CHF had weakened/strengthened by 1% against the JPY additional exchange gains/losses and impact on equity of KCHF 19 would have resulted from the translation of all JPY denominated assets and liabilities, the majority of which being represented by trade payables (2011: KCHF 70).

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risks.

3.3.2 Interest rate risks

The Group is exposed to changes in interest rates on borrowings bearing interest at floating rates. At December 31, 2012 and 2011, the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group. Should interest rates fluctuate by 100 basis points the impact on loss before tax and equity would be KCHF 7 and KCHF 365 based on the balance sheet as of December 31, 2012 and 2011 respectively.

3.3.3 Price risks

The Group is exposed to equity securities price risk because of an investment held by the Group and classified on the consolidated balance sheet as available-for-sale. Should market price change by 10% the available-for-sale financial asset would change by KCHF 599, with same impact on equity and no impact on profit or loss (KCHF 666 in FY 2011).

3.4 Credit risk

The Group sells to a large and diversified customer base operating within different market industry segments and located on all the continents resulting in no significant concentration of credit risk. In any year, the largest customer, which may be different every year, represents less than 10% of total gross sales. Sales to new customers are made after obtaining credit ratings from independent sources, obtaining up to 90% of sales price before shipment and/or invoicing products to leasing companies financing the final customer. Cash is mainly maintained with UBS and ZKB.

3.5 Liquidity risk

Group treasury policy is to maintain flexibility in funding by keeping committed credit lines available (see note 19.1) as well as sufficient cash balances. In times of an economic downturn and the initial period of recovery thereafter, liquidity requirements may increase and credit lines may be significantly or fully utilised .

The group disposes of committed credit facilities with two leading Swiss banks that mature 30 September 2013. Any potential breach in covenants would not be considered as an event of default. The group intends to re-new similar credit facilities at the maturity of the current ones.

The majority of the financial liabilities relate to a credit facility granted from shareholders which matures on January 1, 2014. (see note 19.4). In case the credit facilities granted are not terminated by either party, the loans convert automatically into a facility of undetermined duration and can be cancelled applying a notice period of six months to the month end. It is foreseen to reduce the credit facilities granted by shareholders through a public share capital increase that is planned to take place in the course of 2013.

Available authorized capital can be used for acquisitions or to finance economic downturns.

3.6 Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair values: cash, trade receivables net of specific provisions for impairment, available-for-sale financial assets and trade payables, other assets and liabilities, loans, short-term borrowings and borrowings classified as long-term negotiated at variable interest rates.

3.7 *Financial instruments by category*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

	December 31, 2011				
	Available-for-sale financial asset	**Financial assets at fair value through profit & loss**	**Derivatives used for hedging**	**Loans and receivables**	**Total**
ASSETS					
Cash and cash equivalents				17'068	17'068
Trade receivables				46'381	46'381
Derivative financial instruments (level 2)		18	2'581		2'599
Other assets				9'336	9'336
Available-for-sale financial assets (level 1)	6'663				6'663
Total	**6'663**	**18**	**2'581**	**72'785**	**82'047**

	December 31, 2012				
	Available-for-sale financial asset	**Financial assets at fair value through profit & loss**	**Derivatives used for hedging**	**Loans and receivables**	**Total**
ASSETS					
Cash and cash equivalents				10'884	10'884
Trade receivables				36'204	36'204
Derivative financial instruments (level 2)		–	–		–
Other assets				6'799	6'799
Available-for-sale financial assets (level 1)	5'985				5'985
Total	**5'985**	**–**	**–**	**53'887**	**59'872**

The fair value of available-for-sale financial assets (considered as level 1) is based on quoted market bid price at the balance sheet dates.

The fair value of derivative financial instruments (considered as level 2) is based on the exchange rates prevailing at the end of the year.

	December 31, 2012			December 31, 2011		
	Financial liabilities at fair value through profit & loss	Financial liabilities at amortised cost	Total	Financial liabilities at fair value through profit & loss	Financial liabilities at amortised cost	Total
LIABILITIES						
Interest bearing loans and borrowings		40'573	40'573		36'272	36'272
Finance lease liabilities		109	109		270	270
Trade payables		17'353	17'353		29'329	29'329
Derivative financial instruments (level 2)	–		–	64		64
Other liabilities		15'692	15'692		17'409	17'409
Current tax liabilities		199	199		93	93
Total	**–**	**73'926**	**73'926**	**64**	**83'373**	**83'437**

The fair value of derivative financial instruments (considered as level 2) is based on the exchange rates prevailing at the end of the year.

Please refer to note 19.4 for the maturity schedule of the interest bearing loans and borrowings and of the finance lease liabilities. Trade and other payables are all current at the balance sheet dates.

3.8 Capital risk management

Tornos considers equity as equivalent to the IFRS equity on the balance sheet. The financial policy of Tornos is that its business should be self-funded over the long term. Given the wide variability in business volumes over a full economic cycle the working capital requirement can rise sharply when the economy is booming. Significant temporary funding spikes can arise at the outset of cyclical upturns, requiring approximately 9 months for cash to flow massively back into the company. If the company does not hold adequate liquidity, some of the benefits of a cyclical upturn could be missed. To minimize this risk, a credit limit equal or higher than 10 to 15% of annual turnover will be maintained, and a cash reserve, up to 15 to 20% of full-year turnover, will be progressively built up.

Additionally, “minor” acquisitions, defined as those representing up to the equivalent of 5% of annual turnover, may be considered without calling an Extraordinary General Meeting of Shareholders to decide on the principle of the acquisition and how to finance it. A cash reserve may also be built up for this purpose.

Available authorised capital will be used for the planned public share capital increase in 2013 with proceeds of MCHF 30. Full subscription of the share capital increase is guaranteed.

Once these reserves have been accumulated, surplus cash will be distributed to shareholders in one form or another. The decision on whether to reduce the par value of the company’s shares, undertake share buybacks or pay dividends will be made in the light of circumstances at the time. Hence, a certain amount of cash will also have to be retained for this purpose.

In view of the above three factors, the Group will seek to maintain a net positive cash position.

Apart from the “minor” acquisitions referred to above, a cash reserve for potential acquisitions will not be maintained, as the decision on the purchase and the way it is to be financed falls normally within the discretion of the shareholders or within the discretion of the Board of Directors for the use of available authorised capital for this specific purpose.

4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates the estimates, including those related to goodwill and other intangible assets and to provisions for warranty purpose and other provisions resulting from pending litigations as well as other present obligations of uncertain timing, inventory obsolescence, bad debts and the assessment of income taxes including deferred tax assets, retirement benefit obligations and the fair value of stock option grants. Management bases the estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The accounting estimates and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are set out below:

4.1 Bad debts

Allowances are made for estimated losses resulting from the inability of the customers to make required payments. If the financial condition of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be needed.

4.2 Inventory obsolescence

Machines, including work in progress machines on the assembly floors and other work in progress, are reviewed individually and recorded at the lower of cost and estimated net realisable value based upon assumptions about future demand and market conditions.

For raw material, components, semi-finished goods and spare parts the following inventory obsolescence and write-offs methodologies were applied for any slow moving or any otherwise obsolete inventory provided that the review of significant positions did not result in a specific provision.

Raw material, components and semi-finished goods
Management objectives are to carry a quantity in stock that should not exceed 18 months of consumption based on 12 months of consumption. Any excess is fully provided for.

After 24 months at normal activity levels without movement, the individual stock of articles is written-off or fully provided. Once written-off, the articles are transferred to the spare parts department upon their request at nil value.

After 48 months at normal activity levels without movement, the stock is physically disposed of after second opinion from the spare parts department.

In case of a machine phase out all the related stocks of articles are fully written-off.

Spare parts in the spare parts department
For any article, the quantity of articles in stock cannot exceed 36 months of consumption based on 24 months of consumption. Any excess is fully provided for.

After 36 months of activity without movement, the stock of articles is written-off or fully provided.

After 72 months without movement, the stock is physically disposed of upon selective review.

Abnormal activity levels

In severe cyclical downturns, abnormally low activity and consumption rates may distort the calculation of excess inventory. During a cyclical downturn management objectives are to limit to a strict minimum all additions or replacements to consumed raw material, components and semi finished goods mitigating the risk of a significant increase in excess stock. Under the above methodology, using actual activity and consumption data that are abnormally low over a limited time period (up to 36 months) can be unreliable and may result in an overstatement of excess stock. During such periods, Management amends excess stock levels based on additional sources of information such as but not limited to business forecast, production plans, external economic indicators.

4.3 Intangible assets

4.3.1 Patents & know-how

As stated in note 17, on May 2, 2011 Tornos Holding SA acquired intellectual property rights to a new machine concept that enable surface treat machined parts. The acquisition responds to a major market need by enabling Tornos Group customers to increase their own share of the value-added chain, shorten their production cycles and directly deliver finished parts. This acquisition is in line with the Group's general strategy of evolving from a machine builder into a system provider. Patents & know-how shall be amortised over 10 years as from the time the first machine is sold to customers. Although not presently foreseen, future development of the business may be impacted by reasons beyond management current knowledge which could impact significantly the reported value of these intangible assets in future periods.

4.4 Deferred taxes

The Group's financial and operating performance, as well as that of its competitors, is significantly influenced by the short to medium term economic cycles.

In times of economic growth, customers will buy and even place speculative purchase orders. However, in an economic downturn, demand typically falls with customers often seeking to postpone deliveries or cancel orders.

The Group has deferred tax assets of KCHF 10'007. These mainly relate to deferred taxes on tax losses of Tornos SA incurred in 2009, 2010 and 2012 respectively. Part of the 2009 loss has already been utilized against taxable profit in 2011. The remaining tax losses expire in 2016, 2017 and 2019. The financial budgets and business plan 2012-2017 approved by Management and the Board of Directors show a return to a profit situation for the Group starting in 2013. Based on these budgets sufficient taxable profits will be available against which the tax losses can be utilised. Future economic development could significantly impact the utilisation of these tax losses available for carryforward.

4.5 Postretirement benefits and other long-term employee benefits

The Group has established defined benefit and defined contribution plans in several of its entities. The benefits of the defined benefit plans usually depend on one or more factors such as the number of years the employee was covered in the plan, age, pensionable salary and to some extent on the accumulated old age capital. The plans are either funded or unfunded. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds or within insurance companies. The expense incurred under the defined benefit retirement plans is based upon statistical and actuarial calculations, and is impacted by assumptions on discount rates used to determine the present value of future pension liabilities, expected returns that will be made on existing pension assets, future salary increases as well as future pension increases. Furthermore, the independent actuaries of the Group use statistical based assumptions covering future withdrawals of participants from the plan and estimates on life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences could impact significantly the amount of pension income or expense recognised in future periods.

4.6 Warranty provision

Warranty provision of KCHF 3'377 reflects management assessment of warranty claims (December 31, 2011: KCHF 4'418). It is based on historical data as well as the level of sales. The total warranty provision takes into consideration all possible legally enforceable claims. Actual results may fluctuate significantly.

4.7 Other provisions and contingencies

Other provisions amounting to KCHF 653 principally comprise the expected costs of pending litigations, as well as other present obligations of uncertain timing, the outcome of which may prove to be more or less favourable than the Management currently believes (December 31, 2011: KCHF 981).

Several of the Group subsidiaries are parties to various legal proceedings which are an ongoing feature of the business of the Group. As a result, claims could be made against them which might not be covered by existing provisions or by insurance. There can be no assurance that there will not be an increase in the scope of these matters or that any future lawsuits, claims, including those resulting from tax inspections, proceedings or investigations will not be material. Management does not believe that during the next few years, the aggregate impact, beyond current provisions, of these and other legal matters affecting the Group could be material to the Group's results of operations and cash flows, and to its financial condition and liquidity.

5 Scope of consolidation

Subsidiaries

Name	Domicile	Purpose
Tornos Management Holding SA, Moutier	Switzerland	Management of shareholdings and holding company
Almac SA, La Chaux-de-Fonds	Switzerland	Production and sales
Almatronic SA, La Chaux-de-Fonds	Switzerland	Dormant
Cyklos SA, Yverdon-les-Bains	Switzerland	Development and sales
Tornos SA, Moutier	Switzerland	Production and sales
Tornos Technologies Deutschland GmbH, Pforzheim	Germany	Support services
Tornos Technologies Iberica SA, Granollers	Spain	Support services
Tornos Technologies Italia Srl, Opera/MI	Italy	Support services
Tornos Technologies Poland Sp. z o.o., Katy Wroclawskie	Poland	Support services
Tornos Technologies UK Ltd., Coalville	United Kingdom	Support services
Tornos Holding France SA, St-Pierre-en-Faucigny	France	Holding company
Tornos Technologies France SAS, St-Pierre-en-Faucigny	France	Support services
Tornos Technologies U.S. Corp., Bethel CT	United States of America	Sales & services
Tornos Technologies Asia Limited, Hong Kong	Hong Kong	Sales & services
Tornos Technologies (HK) Limited, Hong Kong	Hong Kong	Sales & services
Tornos Technologies (Shanghai) Limited, Shanghai	China	Sales & services
Tornos Comercio, Importaçao e Exportaçao de Maquinas Ferramenta Ltda, Sao Paulo	Brazil	Sales & services

Tornos Holding SA holds 100% of the shares of Tornos Management Holding SA, Moutier, Switzerland which, in turn, holds 100% of the shares of Almac SA, La Chaux-de-Fonds, Switzerland, Almatronic SA, La Chaux-de-Fonds, Switzerland, Tornos SA, Moutier, Switzerland and Cyklos SA, Yverdon-les-Bains, Switzerland. All the other Group companies are direct or indirect wholly-owned subsidiaries of Tornos SA, Moutier.

Changes in scope

2012

Cyklos SA, Port Louis, Mauritius, the fledging company which held the intellectual property rights to the new machine concept that enable surface treat machined parts and which was acquired on May 2, 2011, was liquidated on January 18, 2012. A new company, established in Yverdon-les-Bains, also named Cyklos SA was incorporated on February 7, 2012 to produce, market and further develop this new technology worldwide.

Tornos Management Holding SA, Moutier acquired the minority interest of 1% in Tornos Comercio, Importaçao e Exportaçao de Maquinas Ferramenta Ltda, Brazil.

These are the only changes which took place in the scope of consolidation in the year under review.

2011

Cyklos SA, Port Louis, Mauritius, the fledging company holding intellectual property rights to a new machine concept that will enable surface treat machined parts was acquired on May 2, 2011, and is now under liquidation.

Tornos Management Holding SA, Moutier is in the process of acquiring the minority interest of 1% in Tornos Comercio, Importaçao e Exportaçao de Maquinas Ferramenta Ltda, Brazil.

These are the only changes which took place in the scope of consolidation in the year under review.

6 Expenses by nature

	2012	2011
Personnel expenses (note 7)	–78’179	–91’616
Changes in inventories of finished goods and work in progress, raw materials and consumables used	–81’986	–118’118
Depreciation charges (note 16)	–4’003	–4’243
Amortisation charges (note 17)	–1’300	–109
Impairment charges (note 17)	–9’455	–
Other expenses	–32’279	–36’689
Total cost of sales, marketing and sales, general and administrative and research and development expenses	**–207’202**	**–250’775**

7 Personnel expenses

	2012	2011
Personnel expenses, net of salary cuts due to short work	–84’536	–91’648
Reimbursements from unemployment insurances	6’357	32
Personnel expenses – net	**–78’179**	**–91’616**
Of which:		
Defined benefit plans (note 22.2.1)	–4’345	–3’325
Defined contribution plans (note 22.3)	–244	–169
Share-based compensation (note 25)	–881	–1’130

8 Other income/(expenses) – net

	2012	2011
Gain on sale of land and buildings	457	453
Other – net	273	95
Other income/(expenses) – net	**730**	**548**

9 Financial expenses – net

	2012	2011
Interest income	70	48
Dividend income	127	110
Finance income	**197**	**158**
Interest expense	–1’464	–2’860
Bank charges and other finance expenses	–938	–804
Finance expenses	**–2’402**	**–3’664**
Finance expenses – net	**–2’205**	**–3’506**

10 Exchange gains/(losses) – net

	2012	2011
Ineffective portion of cash flow hedges	274	699
Other exchange gains/(losses) – net	–1’041	–1’176
Exchange gains/(losses) – net	**–767**	**–477**

11 Income taxes

	2012	2011
Current income tax charge	–508	–383
Deferred tax credit/(charge)	3’926	–1’603
Income tax credit/(charge)	**3’418**	**–1’986**

The Group’s expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2012 ranged between 8% and 36% (2011: between 8% and 36%), in the tax jurisdictions in which the Group operates. The reconciliation of the expected and the effective income tax expense is as follows:

	2012	2011
Income/(loss) before income taxes	**–27’878**	**12’663**
Expected tax credit/(charge)	**4’645**	**–2’237**
Weighted average applicable tax rate	16.7%	17.7%
Tax effect on treasury shares	93	163
Utilisation of previously unrecognised tax losses carryforwards	19	254
Current year losses for which no deferred tax asset is recognised	–567	–
Expenses not deductible for tax purposes	–605	–192
Change in deductible temporary differences for which no deferred tax asset is recognised	–107	26
Income taxes relating to prior years	–69	–
Other effects	9	–
Income tax credit/(charge) recognised	**3’418**	**–1’986**

The expected tax expense is calculated at entity level since the Group does not file consolidated tax returns. As such, profits and losses generated by different entities cannot be offset against each other. The main activities of the Group are located in countries with low tax rates which results in a relatively low weighted average tax rate of 16.7% (2011: 17.7%). The tax rate changes from year to year due to changes in the mix of the taxable results of the individual Group companies.

12 Trade receivables

	2012	2011
Trade receivables	37’558	47’733
Less provision for impairment of receivables	–1’354	–1’352
Trade receivables – net	**36’204**	**46’381**

At December 31, 2012 trade receivables include amounts denominated in EUR equivalent to KCHF 13’470 (December 31, 2011: KCHF 21’602) and amounts denominated in USD equivalent to KCHF 4’039 (December 31, 2011: KCHF 4’504).

Trade receivables aging is as follows:

	2012	2011
Current	14’381	24’780
1 to 30 days overdue	8’804	11’949
31 to 60 days overdue	3’704	5’212
61 to 90 days overdue	768	2’132
91 to 180 days overdue	4’783	1’162
More than 180 days overdue	5’118	2’498
Trade receivables	**37’558**	**47’733**

Movements on the provision for impairment of trade receivables are as follows:

	2012	2011
At beginning of year	–1’352	–1’047
Provision for receivables impairment	–286	–490
Receivables written off during the year as uncollectible	196	185
Unused amounts reversed	88	-
At end of year	**–1’354**	**–1’352**

The provision for impairment of receivable was determined based on reviews of all outstanding amounts at the year-end. Following those reviews, 77% of the provision for impairment of receivable for identified risks at December 31, 2012 is related to trade receivables classified under “more than 180 days” (December 31, 2011: 95% related to trade receivables classified under “more than 180 days”).

At the balance sheet date six customers accounted for approximately 35% of total trade receivables. The company did not identify any counterparty risk related to these positions. The largest of these debtor positions was due to a significant sales contract recognized in the second half year (see also note 3.4 for credit risk policy).

13 Inventories

	2012	2011
Materials and components	39'671	45'986
Work in progress	19'646	24'080
Finished goods and spare parts	34'784	30'726
Total inventories – gross	**94'101**	**100'792**
Less allowance for obsolescence	–15'925	–16'419
Total inventories – net	**78'176**	**84'373**

Total obsolescence and write-offs charged to the income statement during the year 2012 amount to KCHF 204 (2011: KCHF 5'011).

14 Other assets and prepayments

	2012	2011
VAT receivable	2'374	3'698
Derivative financial instruments	–	2'599
Advances to logistic companies for customs clearance purpose	710	1'179
Negative hours due from employees	561	798
Advances to suppliers	965	1'268
Other	2'189	2'393
Total other assets and prepayments	**6'799**	**11'935**

There is no bad debt allowance at December 31, 2012 and 2011.

15 Available-for-sale financial assets

	2012	2011
1'000'000 shares of Tsugami Corporation	**5'985**	**6'663**

Available-for-sale financial assets represent the acquisition during 2008 of 1'000'000 shares of JPY 1'000 each of Tsugami Corporation, Tokyo, Japan (Tsugami), a company listed on the Tokyo Stock Exchange.

Tsugami and Tornos are two groups active in the machine tool sector which signed a framework partnership agreement on February 15, 2008. The underlying logic of the agreement is that the two groups are complementary in terms of their product range and geographical markets, in which each of them holds a leadership position. Under the terms of the agreement, cooperation is established in a number of areas such as research and development, procurement, production and distribution. Following the long lasting cooperation and the up-coming business prospects for either of the companies, the parties have decided that the mutal shareholding is abandoned.

16 Property, plant and equipment

	Land, buildings & installations	Machinery	Other equipment	Total
Cost				
At December 31, 2010	**69'703**	**65'411**	**12'251**	**147'365**
Additions	352	195	1'215	1'762
Disposals	–2'440	–572	–482	–3'494
Exchange differences	–13	–2	–24	–39
At December 31, 2011	**67'602**	**65'032**	**12'960**	**145'594**
Additions	178	88	950	1'216
Disposals	–160	–301	–1'719	–2'180
Exchange differences	–49	–9	–82	–140
At December 31, 2012	**67'571**	**64'810**	**12'109**	**144'490**
Accumulated depreciation				
At December 31, 2010	**–38'764**	**–63'136**	**–10'446**	**–112'346**
Charge for the year	–2'157	–940	–1'146	–4'243
Written back on disposal	2'092	572	416	3'080
Exchange differences	14	1	20	35
At December 31, 2011	**–38'815**	**–63'503**	**–11'156**	**–113'474**
Charge for the year	–2'089	–969	–945	–4'003
Written back on disposal	10	301	1'695	2'006
Exchange differences	–79	165	25	111
At December 31, 2012	**–40'973**	**–64'006**	**–10'381**	**–115'360**
Carrying amounts				
December 31, 2011	**28'787**	**1'529**	**1'804**	**32'120**
December 31, 2012	**26'598**	**804**	**1'728**	**29'130**

Of which related to leased assets:

	Land, buildings & installations	Machinery	Other equipment	Total
Carrying amounts				
December 31, 2011	197	–	25	222
December 31, 2012	76	–	21	97

The fire insurance value of PP&E and inventories amounts to CHF 382 million (2011: CHF 382 million).

17 Intangible assets

	Goodwill	Development costs	Patents & know-how	Total
Cost				
At December 31, 2010	**2'873**	**6'541**	**–**	**9'414**
Additions	–	3'115	3'870	6'985
At December 31, 2011	**2'873**	**9'656**	**3'870**	**16'399**
Additions	–	1'396	–	1'396
Write-off	–	–7'053	–	–7'053
At December 31, 2012	**2'873**	**3'999**	**3'870**	**10'742**
Accumulated amortisation				
At December 31, 2010	**–**	**–**	**–**	**–**
Amortisation charge	–	–109	–	–109
At December 31, 2011	**–**	**–109**	**–**	**–109**
Amortisation charge	–	–1'171	–129	–1'300
Impairment charge	–2'873	–6'582	–	–9'455
Write-off	–	7'053	–	7'053
At December 31, 2012	**–2'873**	**–809**	**–129**	**–3'811**
Carrying amounts				
December 31, 2011	**2'873**	**9'547**	**3'870**	**16'290**
December 31, 2012	**–**	**3'190**	**3'741**	**6'931**

17.1 Goodwill

Goodwill resulted from the acquisition of Almac SA and Almatronic SA in 2008 which are considered as a single combined cash generating unit (CGU). The carrying amount has been reduced to its recoverable amount through recognition of an impairment loss against goodwill. This loss has been included in "cost of sales" in the income statement.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets and business plan 2012-2017 approved by Management and Board of Directors. Cash Flows beyond the five-year period are extrapolated by using a residual value. The residual value computed in the value-in-use calculation considers an expected average EBIT-Ratio of 5%, which is in line with the average EBIT-rate of competitors in the industry. No growth rates have been considered.

The key assumptions used for value-in-use calculations are as follows:

	2012	2011
Average EBIT margin	6.0%	10.0%
Discount rate	9.7%	8.5%

Management determined the financial budget and the business plan 2012–2017 based on its expectations of products and market development. The discount rates used are pre-tax and reflect specific risks relating to the CGU. The impairment charge arose following the reassessment of the group's strategic plan, which had a negative impact on forecast revenues and EBIT margin. No class of asset other than goodwill was impaired. The pre-tax discount rate used in the previous years was 8.5%.

17.2 Development costs

Development costs with a remaining capitalized amount of KCHF 6'582 have been impaired, as a result of the decision of the Management and the Board of Directors in December 2012 to cease without delay further developments in order to reallocate financial and human resources to projects with a more promising outlook. The amortisation and impairment charges related to these development costs are included in R&D expenses in the income statement. The residual amortisation of KCHF 700 is included in cost of sales (2011: KCHF 109) and is related to development costs of products currently marketed.

17.3 Patents & know-how

On May 2, 2011, Tornos Holding SA acquired the patents and know-how for a new machine concept that enable to surface-treat machined parts. The acquisition responds to a major market need by enabling Tornos Group customers to increase their own share of the value-added chain, shorten their production cycles and directly deliver finished parts. This acquisition is in line with the Group's general strategy of evolving from a machine builder into a system provider. This technology is developed and marketed by our company Cyklos SA, in Yverdon-les-Bains, which has been incorporated in February 2012. Amortisation costs of KCHF 129 are included in cost of sales.

18 Deferred taxes

18.1 Deferred tax assets and liabilities

The net deferred tax assets mainly relate to deferred taxes arising from tax losses of Tornos SA incurred in 2009, 2010 and 2012. These tax losses expire in 2016, 2017 and 2019. For further explanation also refer to note 4.4 on Critical accounting estimates and judgments.

Deferred tax assets and liabilities are attributable to the following:

	2012		2011	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trade and other receivables	5	22	5	532
Available-for-sale financial assets	–	189	–	242
Property, plant and equipment	24	837	28	917
Trade and other payables	102	2	99	688
Provisions	2	–	–	–
Retirement benefit obligations	141	28	150	20
Borrowings	31	–	72	–
Tax losses carried forward	10’712	–	7’735	–
Tax assets/liabilities	**11’017**	**1’078**	**8’089**	**2’399**
Set off	–1’010	–1’010	–2’243	–2’243
Net tax assets/liabilities	**10’007**	**68**	**5’846**	**156**

Deferred tax assets and deferred tax liabilities are set off where there is a legally enforceable right to set off these taxes as they relate to the same tax authorities.

The increase in the net deferred tax assets by KCHF 4’249 (2011: decrease by KCHF 1’913) relates to the deferred tax income recognised in the consolidated income statement of KCHF 3’926 (2011: deferred tax expense of KCHF 1’603), to the deferred tax income recognised in other comprehensive income of KCHF 354 (2011: tax expense of KCHF 304) and to exchange differences of KCHF -31 (2011: KCHF 6). From the income tax recognised in other comprehensive income, KCHF 53 (2011: KCHF -3) relate to investments classified as available-for-sale financial assets and KCHF 301 (2011: KCHF -301) to cash flow hedges.

18.2 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2012	**2011**
Deductible temporary differences	2’836	2’642
Tax losses carried forward	7’986	6’597
Total	**10’822**	**9’239**

The expiry dates of tax losses for which no deferred tax asset has been recognised are as follows:

	2012	**2011**
Within 1 year	–	–
Between 1 and 2 years	–	–
Between 2 and 5 years	–	–
After 5 years	7’609	6’131
Losses not subject to expiry	377	466
Total	**7’986**	**6’597**

19 Interest bearing loans and borrowings

	2012	2011
Current portion:		
Current portion of credit facility (notes 19.1 & 19.3)	–	33'000
Special account of the credit facility agreement (note 19.1)	–	2'547
Mortgages (note 19.1)	145	145
Short-term lease liabilities (note 19.7)	100	151
Current portion	**245**	**35'843**
Non-current portion:		
Non-current portion of credit facility (notes 19.1 & 19.3)	–	–
Special account of the credit facility agreement (note 19.1)	–	–
Mortgages (note 19.1)	428	580
Long-term lease liabilities (note 19.7)	9	119
Loan from shareholders (note 19.2)	40'000	–
Non-current portion	**40'437**	**699**
Total interest bearing loans and borrowings	**40'682**	**36'542**

19.1 Credit agreements with banks

Mortgages are granted to subsidiaries at floating rates of 1.8% and 1.65% at December 31, 2012 (December 31, 2011: 1.625% and 1.65%).

On September 29, 2009 the Group concluded a Facility Agreement with two banks. Under this Facility Agreement the banks granted to Tornos SA as borrower, with Tornos Holding SA acting as guarantor, a credit facility in the aggregate of CHF 50 million. Of this amount, CHF 20 million was used under Facility 1, CHF 20 million could be used under Facility 2 and CHF 10 million in the form of overdraft on current accounts, stand-by letter of credits, performance and bid bonds, advance payment guarantees or similar instruments of up to 12 months under Ancillary Facilities. This Facility Agreement which was valid until September 30, 2012 was subject to certain conditions and financial covenants and had been on February 16, 2012 renewed until September 30, 2013. The major conditions relate to Tornos Holding SA pledging its shares in Tornos SA and 430'000 treasury shares and Tornos SA assigning its receivables and transferring for security purpose the mortgage notes related to its real estate properties located in Moutier.

On December 22, 2009, and concurrent with the creation of Tornos Management Holding SA, an Amendment to the Facility Agreement was signed. Under this Amendment to the Facility Agreement, the banks agreed to the release of the pledge in the shares in Tornos SA against a pledge in the shares of Tornos Management Holding SA by Tornos Holding SA In addition, Tornos Holding SA and Tornos Management Holding SA are now both guarantors to the Amendment to the Facility Agreement. All other conditions and covenants stipulated in the Facility Agreement remained the same except that (a) the repayment of any intercompany loans between Tornos Holding SA, Tornos Management Holding SA and Tornos SA and any interest due thereon are subordinated to the prior written consent of the banks and (b) in the event of a breach of a representation, a covenant or an obligation under the Facility Agreement or an event of defaults as specified in the Facility Agreement, a pledge over all the shares in Tornos SA shall also be executed.

On October 15, 2012 the Facility Agreement with the lenders was amended and restated, in conjunction with the finance facility granted from two shareholders amounting to CHF 40 million (see note 29). The Facility Agreement was so amended that the credit facilities were reduced from CHF 50 million to CHF 35 million and that any breach in covenants would not be considered an event of default.

The financial covenants relate to minimum tangible net worth, minimum EBITDA calculated on a rolling annual basis until June 30, 2011, maximum total net debt to EBITDA ratio calculated on a rolling annual basis from September 30, 2011 and minimum interest cover ratio calculated on a rolling annual basis from December 31, 2011. The covenant ratio net debt / EBITDA was not met on June 30, 2012 and, in conjunction with the interest cover ratio, on September 30, 2012. The requests for waiver were positively responded by the Lenders.

From September 30, 2009 to September 30, 2011 Facility 1 bore interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% was payable at each 6 months maturity date and 6.0% was carried forward on a special account. Until September 30, 2011 this latter account bore interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% was payable at each 6 months maturity date and 6.0% was carried forward to that special account. Except as otherwise provided for in the Facility Agreement the non cash margin is payable on September 30, 2012.

From September 30, 2009 to September 30, 2011 any amount drawn under Facility 2 was bearing interest at LIBOR plus 4.0% interest margin per annum.

From October 1, 2011 to October 15, 2012 the applicable interest margins on Facility 1, 2 and the special account ranged between 2.25% and 4.0% per annum based on the total net debt to EBITDA ratio. At December 31, 2011 the applicable interest margin was 4.0% on Facility 1 and the special account and 3.5% on Facility 2. On October 15, 2012, as a result of the amended and restated Facility Agreement, the applicable interest margin was fixed to 3.75% on Facility 1 and on Facility 2 until the end of the Agreement.

The Facility Agreement is also subject to a commitment fee at a rate equal to 35% of the relevant cash interest margin on the average undrawn and uncancelled amount of Facility 2 and the Ancillary Facilities until the end of the availability.

19.2 Loan from shareholders

On October 15, 2012 two loans amounting each for CHF 20 million have been granted to the Tornos Group from two shareholders. These loans bore 3% fix interest per annum and will mature on January 1, 2014 and are renewed automatically, if they are not terminated by a written notice 6 months prior to the maturity date. In this context, it is planned to increase shareholders' equity by CHF 30 million, which will enable the Group to reduce the shareholders' loans to CHF 10 million. No securities, pledges or collaterals are linked to these agreements.

19.3 Facilities

Below is a summary of the credit facilities granted by the banks:

	Credit facilities CHF million	**Ancillary facilities** CHF million	**Total** CHF million
At December 31, 2011			
Available	40.0	10.0	50.0
Used	33.0	6.3	39.3
Interest rate	note 19.1		
At December 31, 2012			
Available	25.0	10.0	35.0
Used	0.0	4.0	4.0
Interest rate	note 19.1		

Except CHF 4 million used under the ancillary facilities for guarantees purposes, the credit facilities granted by the banks were not used as of December 31, 2012 (December 31, 2011 CHF 20 million was used under Facility 1 and CHF 13 million was used under Facility 2 and matured in January 2012).

The special account referred to in note 19.1 above and which accumulated the 6% interest margin on Facility 1 until September 30, 2011 amounting to KCHF 2'547 at December 31, 2011 has been repaid according to the agreement with the lenders dated 29 September 2009 (December 31, 2010: KCHF 1'235).

19.4 *Maturity schedule*

	2012	2011
Within 1 year	245	35'843
Between 1 and 2 years	40'070	254
Between 2 and 5 years	182	199
Over 5 years	185	246
Total borrowings	**40'682**	**36'542**

19.5 *Interest rate exposure*

	2012	2011
At fixed rates	40'016	52
At floating rates	666	36'490
Total borrowings	**40'682**	**36'542**

19.6 *Exchange rate exposure*

The original currencies of the Group's borrowings are:

	2012	2011
Swiss franc	40'501	36'144
Euro	93	218
British pound	88	180
Total borrowings	**40'682**	**36'542**

19.7 *Finance lease liabilities*

	2012	2011
Minimum lease payments		
Within 1 year	101	158
Between 1 to 5 years	10	121
Total minimum lease payments	**111**	**279**
Future finance charges on finance leases	–2	–9
Present value of finance lease liabilities	**109**	**270**
Of which:		
Due within 1 year	100	151
Between 1 to 5 years	9	119

The majority of the finance lease liabilities of the Group carries an effective interest rate of 1.5% at December 31, 2012 (December 31, 2011: 2.85%).

20 Other liabilities

	2012	2011
Advances received	5'102	6'031
Accrued employees remuneration	3'519	4'092
Derivative financial instruments	–	64
Payable to pension plans	624	663
Commissions payable	2'004	2'397
Other payables and accrued expenses	4'443	4'226
Total other liabilities	**15'692**	**17'473**

In appropriate circumstances, the Group uses derivative financial instruments as part of its risk management and trading strategies (note 3.3.1). At December 31, 2012 there were no open positions. At December 31, 2011 the Group had entered into foreign exchange contracts to buy a total of KEUR 10'000 against KCHF 12'200 value January 27, 2012. Contracts are carried at fair value (December 31, 2011: KCHF 64).

21 Provisions

	Warranties	Restruc-turing	Other	Total
At beginning of year	**4'418**	**760**	**981**	**6'159**
Additional provisions	3'348	4'343	–	7'691
Release of provisions unused	–	–32	–	–32
Utilised during the year	–4'382	–3'892	–323	–8'597
Exchange differences	–7	–	–5	–12
At end of year	**3'377**	**1'179**	**653**	**5'209**

	2012	2011
Current	4'436	5'323
Non-current	773	836
Total	**5'209**	**6'159**

Warranties

The Company gives a contractual one to two years warranty depending on the type of machines sold and undertakes to repair or replace items that fail to perform satisfactorily.

Restructuring

The provision for restructuring has been recognised as part of the strategic realignment of the Group for employees who have been made redundant and who are not rendering any services anymore to the Group. This provision also covers the financing of the pension fund of dismissed employees.

Other provisions

Other provisions include the expected costs of pending litigations as well as other present obligations of uncertain timing.

22 Retirement benefit obligations

22.1 Description of pension schemes

Substantially all employees are eligible for retirement benefits. Among the benefit schemes are defined benefit plans as well as defined contribution plans. The locations with significant defined benefit plans are Switzerland, France, Germany, Italy and the USA.

Retirement benefits are provided based on salary, years of service or an accumulated old age account. Some of the plans provide only lump sum benefits in the events of leaving the Group and retirement. The last actuarial valuation was performed as of December 31, 2012 by independent actuaries.

22.2 Defined benefit pension plans

22.2.1 Employee benefits expense

In accordance with IAS 19, the following amounts have been recorded in the income statement as employee benefits expense:

	2012	**2011**
Current service cost	3'913	3'277
Interest on obligation	3'883	4'068
Expected return on plan assets	–4'709	–4'953
Gains on curtailments	–1'493	–
Net actuarial losses recognised	3'113	1'279
Past service cost	–362	–346
Total employee benefits expense	**4'345**	**3'325**

22.2.2 Actual return on plan assets

	2012	**2011**
Actual return	8'654	13

22.2.3 Changes in the present value of the defined benefit obligation

	2012	**2011**
Opening defined benefit obligation	**156'495**	**140'060**
Current service cost	3'913	3'277
Plan participants' contributions	4'036	3'706
Interest on obligation	3'883	4'068
Actuarial losses/(gains)	15'870	8'616
Gains on curtailments	–3'485	–
Liabilities extinguished on settlements	–7'138	–
Benefit payments through pension assets	–8'274	–3'070
Benefit payments by employer	–149	–165
Exchange differences	–86	3
Closing defined benefit obligation	**165'065**	**156'495**

The employees in Switzerland that were covered under a collective pension plan were transferred as of January 1, 2011 to the Swiss company pension fund. The benefits for these employees were harmonized with the benefits of the other employees in Switzerland. The related plan changes resulted in a decrease in the defined benefit obligation. The unvested negative past service cost is amortised over the vesting period.

The restructuring announced in the FY 2012 had for effect a curtailment and a settlement of the pension plan. The defined benefit obligation was reduced by CHF 10.6 million and the plan assets by CHF 7.1 million. Additionally, a gain of CHF 1.5 million on curtailment was recognised as a diminution of the employee benefit expenses.

22.2.4 *Changes in the fair value of plan assets*

	2012	2011
Opening fair value of plan assets	**133'818**	**129'362**
Plan participants' contributions	4'036	3'706
Employer contributions	4'195	3'806
Benefit payments through pension assets	–8'274	–3'070
Expected return on plan assets	4'709	4'953
Gains/(losses) on assets	3'945	–4'940
Assets distributed on settlements	–7'138	
Exchange differences	–31	1
Closing fair value of plan assets	**135'260**	**133'818**

The pension assets are composed of the following essential classes of assets at December 31:

	2012	2011
Equities	25%	23%
Bonds	46%	45%
Real estate	26%	25%
Qualified insurance policies	0%	0%
Others	3%	7%

No shares issued by the Group are included in the assets of the pension plans at December 31, 2012 and 2011. The Group rented apartments which belong to pension plans for KCHF 50 during 2012 (2011: KCHF 56). The expected company contributions for fiscal year 2013 amount to KCHF 3'325.

22.2.5 *Amount recognised in the balance sheet*

The net position of pension obligations in the balance sheet can be summarised as follows at December 31:

	2012	2011
Present value of funded obligation	163'957	155'561
Fair value of plan assets	–135'260	–133'818
Under funding	**28'697**	**21'743**
Present value of unfunded obligations	1'108	934
Unrecognised actuarial losses	–29'812	–23'111
Unrecognised past service benefit	1'495	1'957
Net liability	**1'488**	**1'523**

22.2.6 Principal assumptions

The following principal assumptions form the basis for the actuarial calculation:

Calculation of defined benefit obligations at December 31:

	2012	2011
Discount rate	1.94%	2.55%
Future salary increases	1.42%	1.42%
Future pension indexations	0.10%	0.10%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

Calculation of expenses:

	2012	2011
Discount rate	2.55%	2.94%
Expected return on plan assets	3.52%	3.76%

22.2.7 Actual development of obligations and assets

The following table shows how the actual development of obligations and assets for the benefit plans deviates from their expected development at December 31:

	2012	2011	2010	2009	2008
Defined benefit obligation	165'065	156'495	140'060	137'175	139'767
Fair value of assets	–135'260	–133'818	–129'362	–127'473	–122'064
Under funding	**29'805**	**22'677**	**10'698**	**9'702**	**17'703**
Experience gain/(loss) on plan liabilities	–2'949	–3'181	1'198	–3'265	–2'868
Experience gain/(loss) on plan assets	8'654	–4'940	–1'306	5'435	–15'551

22.3 Defined contribution plans

During 2012 the Group contributed KCHF 244 (2011: KCHF 169) to defined contribution plans.

23 Share capital

23.1 Capital structure

	Issued registered shares	Treasury shares	Total shares in circulation
Issued and fully paid-in at December 31, 2010	**15'090'393**	**494'106**	**14'596'287**
Issued to acquire patents & know-how	300'000		300'000
Issued for cash	92'000		92'000
Purchased		11'000	–11'000
Issued and fully paid-in at December 31, 2011	**15'482'393**	**505'106**	**14'977'287**
Issued for cash	19'700		19'700
Issued and fully paid-in at December 31, 2012	**15'502'093**	**505'106**	**14'996'987**

During the year 2012:

- 19'700 registered shares were issued and fully paid for at a price of CHF 7.34 each under the MBP07;

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2012:

- The share capital amounts to CHF 69'759'418.50 represented by 15'502'093 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 3'179'979.00 which can be used for the issue of 706'662 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors;
- The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 21'150'000.00 by issuing no more than 4'700'000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company's interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

During the year 2011:

- 300'000 shares were issued from authorised share capital and recorded at market price of CHF 12.90 on transaction date to acquire Cyklos SA, Port Louis, Mauritius, the fledging company holding intellectual property rights to a new machine concept that will enable surface treat machined parts – as disclosed under Note 5 this company has been liquidated in 2012 and a new company, Cyklos SA, incorporated in Yverdon-les-bains was created to manage and operate this new technology;
- 81'000 registered shares were issued and fully paid for at a price of CHF 8.24 each under the MBP07;
- 11'000 registered shares were issued and fully paid for at a price of CHF 9.52 further to the exercise of options granted under the MBP07.

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2011:

- The share capital amounts to CHF 69'670'768.50 represented by 15'482'393 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 3'268'629.00 which can be used for the issue of 726'362 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors;

- The Board of Directors may, at any time up to April 12, 2012, increase the share capital by a maximum sum of CHF 21'150'000.00 by issuing no more than 4'700'000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company's interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

23.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2012 the share capital consisted of 15'502'093 ordinary registered shares with a par value of CHF 4.50 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meetings of shareholders and are entitled to one vote per share at the meetings of shareholders.

23.3 Treasury shares

Movements in treasury shares are as follows:

	2012		2011	
	Nb of shares	Amount	Nb of shares	Amount
At beginning of year	**505'106**	**6'827**	**494'106**	**6'673**
Purchases/sales	nil	nil	11'000	154
At end of year	**505'106**	**6'827**	**505'106**	**6'827**

Treasury shares are valued at average purchase price.

Starting in 2010 market making was contracted to a financial institution acting under its own name and for its own account in respect of gains and losses resulting from the shares the institution has bought/sold. No shares are loaned for that purpose. For market making, a fixed monthly fee is charged. During the year 2012, total costs incurred amounted to KCHF 84 (same amount as in 2011).

23.4 Conditional share capital

The conditional share capital amounts to CHF 3'179'979 and is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock option plans in favour of eligible members defined by the Board of Directors.

23.5 Authorised share capital

The General Meeting of Shareholders held on April, 17, 2012 approved the renewal of the authorised capital initially created during the General Meeting of Shareholders held on April, 13, 2010 and which was expiring up to April 12, 2012.

The creation of this authorised capital is a precautionary move intended to prepare the Group for two types of scenario. Firstly, if recession should extend beyond 2012 it could prove necessary to refinance the Group with a reinforcement of the shareholders' funds. If this should occur, it would be particularly advantageous to have an authorised capital available. Secondly, opportunities may present themselves to complete the Group product and technology portfolio on attractive terms and conditions. If so, it would be desirable to be able to access funds without delay to finance such an operation.

Therefore, the following amendments to the articles of association were made.

The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 21’150’000.00 by issuing no more than 4’700’000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised.

The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company’s interests.

The Board of Directors may exclude shareholders’ preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

23.6 Significant shareholders

The following shareholders held more than 5 percent of the share capital of the Company at December 31:

	2012	2011
Walter Fust	25.18%	20.00%
Michel Rollier	8.10%	7.76%
Tsugami Corporation	6.46%	9.45%
Balfidor Fondsleitung AG	6.32%	4.43%

24 Retained earnings

Retained earnings include the following:

In thousands of CHF	General reserves	Reserve for treasury shares	Available-for-sale financial assets	Hedging	Currency translation difference	Total
At December 31, 2010	**5’204**	**6’673**	**–2’813**	**–**	**–3’426**	**11’264**
Attributions from available earnings	15	154	–	–	–	169
Revaluation – gross	–	–	37	–	–	37
Revaluation – tax	–	–	–3	–	–	–3
Cash flow hedges – gross	–	–	–	1’882	–	1’882
Cash flow hedges – tax	–	–	–	–301	–	–301
Currency translation difference	–	–	–	–	43	43
At December 31, 2011	**5’219**	**6’827**	**2’847**	**1’581**	**–3’383**	**13’091**
Revaluation – gross			–678			–678
Revaluation – tax			53			53
Cash flow hedges transfer to P&L – gross				–1’882		–1’882
Cash flow hedges transfer to P&L – tax				301		301
Currency translation difference	–	–	–	–	–134	–134
At December 31, 2012	**5’219**	**6’827**	**2’222**	–	**–3’517**	**10’751**

The General reserves and the Reserve for treasury shares are not available for distribution.

25 Stock compensation plans

There is one stock participation plan remaining in 2012, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense under this plan is recognised in accordance with the provisions of IFRS 2 "Share-based Payment", 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 881 was recorded for the year ended December 31, 2012 (2011: KCHF 1'130). Compensation expense arising from stock options outstanding at December 31, 2012 to be recognised in future periods amounts to KCHF 478 (December 31, 2011: KCHF 720).

Under this plan, starting in 2007, a maximum of 300'000 shares/options may be allocated each year to the participants by the Nomination and Compensation Committee. The possible participants are members of the Board of Directors as well as the Management. Each participant chooses on grant date, within the number of shares/options allocated to him by the Nomination and Compensation Committee, to receive options free of charge, to purchase shares with a discount or a combination of receiving options free of charge and purchasing shares with a discount. As of December 31, 2012, a total of 1'661'666 shares/options were attributed by the Nomination and Compensation Committee since 2007, of which 141'500 options were exercised and 765'500 options were forfeited or expired without being exercised (December 31, 2011: 1'334'000 shares/options granted, 11'000 options exercised and 453'500 options forfeited or expired without being exercised respectively). Of the total remaining 754'666 shares/options (December 31, 2011: 869'500 shares/options) the participants elected to purchase 246'350 shares immediately and to receive 508'316 options under the stock option program as detailed below (2011: 226'650 shares and 642'850 options respectively).

25.1.1 Stock purchasing program under MBP07

Each participant has the right to purchase shares each year, starting on May 1, 2007 (within the number of shares/options allocated by the Nomination and Compensation Committee and not used for the stock option program). The purchasing price is the weighted average price paid at SIX within the 12 months (May 1 to April 30) preceding the purchase of the shares minus a discount of 25%. There is a restriction period of two years after purchasing the shares during which the shares are held in an escrow deposit. However, the shares do not need to be returned in case the employment contract is terminated and there is a drag along clause in case of a change of control transaction. In 2012, participants elected to purchase 19'700 shares at a price of CHF 7.34 (2011: 81'000 shares at CHF 8.24). As a result, KCHF 44 was recorded as an expense in the income statement for the year ended December 31, 2012 (2011: KCHF 459).

25.1.2 Stock option program under MBP07

Each participant receives free of charge each year starting on May 1, 2007 the number of options chosen (within the number of shares/options attributed by the Nomination and Compensation Committee and not used for the share purchasing program). The options vest after two years and can be exercised only in the third year. The exercise price is the weighted average price paid at the SIX Swiss Exchange within the 12 months (May 1 to April 30) preceding the allocation of the options. A possible share capital increase or reduction or dividend payment has no impact on the option rights pursuant to this program as the exercise price will not be adjusted should these events take place in the future. Options not exercised generally need to be returned at the time the employment contract is terminated. However, they can be exercised without any restriction in case of a change of control transaction. Total expenses recorded in the income statement for the year ended December 31, 2012 as part of this option program amounted to KCHF 636 (2011: KCHF 671). An additional expense as a result of the exercise of 130'500 options during the financial year 2012 was recorded for an amount of KCHF 201 under a transitional agreement.

The fair value of the grants under the MBP07 stock option plan was estimated using the Black-Scholes valuation model with the following assumptions and values:

	2012 attribution	**2011 attribution**	**2010 attribution**	**2009 attribution**	**2008 attribution**
Number of options granted	307'966	206'000	230'850	290'000	240'000
Grant date	May 1, 2012	May 1, 2011	May 1, 2010	May 1, 2009	May 1, 2008
Vesting period	2 years	2 years	2 years	2 years	2 years
Expiration date	April 30, 2015	April 30, 2014	April 30, 2013	April 30, 2012	April 30, 2011
Closing stock price at grant date	CHF 9.56	CHF 13.90	CHF 8.90	CHF 6.23	CHF 18.05
Exercise price	CHF 9.78	CHF 10.99	CHF 7.68	CHF 9.52	CHF 19.66
Expected life	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years
Volatility	34,88%	42.34%	46.94%	49.13%	37.76%
Expected dividend yield	0%	0%	0%	0%	2.77%
Risk free interest rate	–0,18%	0.76%	0.48%	0.45%	2.30%
Fair value of option at grant date	CHF 1.98	CHF 5.01	CHF 3.09	CHF 1.08	CHF 3.35
Expected turnover of personnel	–	–	–	–	–

The volatility measured is based on statistical analysis of daily share prices over the last 2.5 years.

A summary of activity under the MBP07 stock option plan, including weighted average exercise price, is as follows:

		2012			**2011**	
	Options	**Exercise price** (CHF)	**Contractual life**	**Options**	**Exercise price** (CHF)	**Contractual life**
Outstanding at January 1,	**642'850**	**9.35**		**747'850**	**12.14**	
Granted	307'966	9.78	3 years (April 30, 2015)	206'000	10.99	3 years (April 30, 2014)
Exercised	–130'500			–11'000		
Forfeited or expired	–312'000			–300'000		
Outstanding at December 31,	**508'316**	**9.76**		**642'850**	**9.35**	
Exercisable at December 31,	**91'350**	**7.68**		**251'000**	**9.52**	

26 Earnings/(loss) per share, basic and fully diluted

26.1 Basic

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (note 23.3).

	2012	2011
Net earnings/(loss) attributable to equity holders of the Company	–24'460	10'677
Weighted average number of ordinary shares in issue (thousands)	14'988	14'820
Basic earnings/(loss) per share (CHF per share)	**–1.63**	**0.72**

26.2 Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company 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 the Company's 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.

	2012	2011
Net earnings/(loss) attributable to equity holders of the Company	-24'460	10'677
Weighted average number of ordinary shares in issue (thousands)	14'988	14'820
Adjustments for share options (thousands)	16	112
Weighted average number of ordinary shares for diluted earnings per share (thousands)	15'004	14'932
Diluted earnings/(loss) per share (CHF per share)	**–1.63**	**0.72**

27 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The Chief Operating Decision Maker has been identified as the Group's Chief Executive Officer. He regularly reviews 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 CODM 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 Group's Chief Executive Officer assesses the performance of the machines based on EBIT. Additional reporting such as geographical area are also provided to the CODM but they are not considered as substantial information to make strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the CODM based on internal reporting of the core activity.

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

27.1 Analysis of revenues by category

	2012	2011
Machines and spare parts	176’730	263’222
Service	8’096	7’829
Gross sales	**184’826**	**271’051**
Rebates and discounts	–3’260	–4’178
Total net sales	**181’566**	**266’873**

Switzerland is the domicile of the parent company and of the main operating and distribution companies. The Swiss operating companies conduct all 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 only have support or sales and distribution activities. The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. The CODM 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.

27.2 Net sales by location of customers

	2012	2011
Switzerland	39’217	57’571
Other European countries	79’360	150’884
North America	13’941	27’299
Asia	45’703	23’389
Rest of world	3’345	7’730
Total net sales	**181’566**	**266’873**

No transactions with a single customer accounted for 10% or more of the net sales in both 2012 and 2011.

27.3 Non-current assets

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

	Dec. 31, 2012	Dec. 31, 2011
Switzerland	34‘606	46’723
Other European countries	1’203	1’463
North America	112	193
Asia	60	31
Rest of the world	80	–
Total non-current assets for geographical area disclosure	**36’061**	**48’410**
Reconciling unallocated assets:		
– Available-for-sale financial assets	–	6’663
– Deferred tax assets	10’007	5’846
Total non-current assets per balance sheet	**46’068**	**60’919**

28 Commitments and contingencies

28.1 Operating lease commitments

Operating lease liabilities, minimum lease payments:

	2012	2011
Year 1	1'225	1'175
Years 2 to 5	1'947	1'814
After 5 years	151	348
Total minimum lease payments	**3'323**	**3'337**

28.2 Pledges

At December 31, 2012 and 2011, the following assets were pledged to banks or leasing companies:

	2012	2011
Trade receivables	32'298	40'466
Land and buildings	24'783	26'447
Technical machinery & other equipment	21	25
Total assets pledged	**57'102**	**66'938**

At December 31, 2012 the total value of the pledged mortgage notes related to land and buildings amount to CHF 40.5 million (December 31, 2011: CHF 40.5 million).

In addition, at both December 31, 2012 and 2011 and as described in note 19.1, 430'000 treasury shares and all the shares in Tornos Management Holding SA have been pledged in favour of the banks which grant the Amendment to the Facility Agreement to the Group.

28.3 Other commitments and contingent liabilities

There were no other commitments or contingent liabilities not in the ordinary course of business.

29 Related party transactions

Remuneration consisting of fees to non-executive members of the Board of Directors amounted to KCHF 740 in 2012 (2011: KCHF 712). Remuneration, consisting principally of salaries and bonuses, to the members of Group Management totalled KCHF 2'013 in 2012 (2011: KCHF 4'000). As of December 31, 2012, the outstanding balances payable related to remuneration amounted to KCHF 42 (December 31, 2011: KCHF 1'043). Please refer to note 30 for additional details.

During the years under review, option rights have also been granted and exercised as follows:

	Non-executive members and former member of the Board of Directors	Executive member of the Board of Directors and members of the Group Management	Total
Option rights outstanding at December 31, 2010	**96'000**	**518'500**	**614'500**
Granted during 2011	–	161'500	161'500
Exercised during 2011	–	–	–
Forfeited or expired during 2011	–32'000	–223'000	–255'000
Transfers between categories	104'000	–104'000	–
Option rights outstanding at December 31, 2011	**168'000**	**353'000**	**521'000**
Granted during 2012	62'666	190'000	252'666
Exercised during 2012	–26'000	–115'700	–141'700
Forfeited or expired during 2012	–74'000	–204'000	–278'000
Transfer (e.g. retirement)	–	–68'000	–68'000
Option rights outstanding at December 31, 2012	**130'666**	**155'300**	**285'966**

During 2012, the non-executive and the Group Management elected to purchase 17'200 shares of the Company under MBP07 (2011: 75'500). Please refer to note 25 for further details.

As of December 31, 2012, the Board of Directors and Group Management also held 2'011'095 shares (12.98%) of the Company (December 31, 2011: 2'113'892 shares and 13.7%).

During 2012, sales to companies in which two of the Directors of the Company hold a significant interest amounted to KCHF 404 (2011: KCHF 2'746). Services provided by a company in which one of the Directors of the Company holds a significant interest amounted to KCHF 152 (2011: KCHF 154). As of December 31, 2012, the related outstanding balances receivable and payable amounted to KCHF 32 and KCHF 12 respectively (December 31, 2011: KCHF 296 and KCHF 11 respectively).

No loans or advances were granted to related parties in 2012 and 2011. A loan of CHF 40 million - of which CHF 20 million are granted by a Company in which one of the Directors of the Company holds a significant interest - was granted from two shareholders as disclosed in Note 19.

Please refer to note 22 for transactions with the pension funds.

30 Board of Directors and General Management compensation disclosures as required by Swiss Law

30.1 2012

30.1.1 Compensation

In thousands of CHF unless otherwise stated

	Base compensation	Variable compensation			
	Cash (amount)	Cash bonus [1] (amount)	Shares [2] (number)	Stock options [2] (number)	Other compensation [3] (amount)
Non executive members of Board of Directors					
François Frôté *(Chairman of BofD and Chairman of Nomination and Compensation Committee and member of Audit Committee)*	200	–	–	8'000	26
Claude Elsen *(Deputy Chairman of BofD and member of Audit Committee and of Nomination and Compensation Committee)*	80	–	–	8'000	9
Philippe Maquelin *(Chairman of Audit Committee and member of Nomination and Compensation Committee)*	140	–	–	15'333	26
Michel Rollier *(Chairman of Alliance Committee and member of Products Committee)*	120	–	8'000	–	16
Raymond Stauffer *(Chairman of Products Committee and member of Alliance Committee)*	120	–	–	15'333	17
Frank Brinken *(Member of Products Committee and of Alliance Committee)*	80	–	8'000	–	8
Total non executive members of Board of Directors	**740**	**–**	**16'000**	**46'666**	**102**
General Management					
Michael Hauser *(CEO)*	573	–	1'000	29'000	108
Total other members of General Management	1'333	107	200	79'800	275
Total General Management	**1'906**	**107**	**1'200**	**108'800**	**383**
Former executive member of Board of Directors	**–**	**–**	**–**	**–**	**–**
Former member of the General Management	**1'112**	**20**	**–**	**40'000**	**239**

1) The amounts represent the recorded expense for cash bonus for 2012, which will be paid out in May 2013.
2) The number of shares and options reflected represent the number of shares and/or options granted during the year 2012 in accordance with the stock compensation plans and which are still vesting at December 31, 2012. Please refer to notes 25 and 29 for additional details.
3) These amounts comprise the Group share of payments to pension plans and other social security contributions.

30.1.2 Loans and credits

There were no loans and credits made to any current or former members of the Board of Directors or the General Management.

30.1.3 *Participations*

At December 31, 2012 the following participations were held by members of the Board of Directors and the General Management (including persons and entities closely related to these members):

	Shares	**Share options**		
		Expiring 2013	**Expiring 2014**	**Expiring 2015**
Non executive members of Board of Directors				
François Frôté *(Chairman of BofD and Chairman of Nomination and Compensation Committee and member of Audit Committee)*	150'567	8'000	–	8'000
Claude Elsen *(Deputy Chairman of BofD and member of Audit Committee and of Nomination and Compensation Committee)*	55'218	8'000	–	8'000
Philippe Maquelin *(Chairman of Audit Committee and member of Nomination and Compensation Committee)*	59'975	30'000	30'000	15'333
Michel Rollier *(Chairman of Alliance Committee and member of Products Committee)*	1'253'733	8'000	–	–
Raymond Stauffer *(Chairman of Products Committee and member of Alliance Committee)*	457'933	–	–	15'333
Frank Brinken *(Member of Products Committee and of Alliance Committee)*	9'000	–	–	–
Total non executive members of Board of Directors	**1'986'426**	**54'000**	**30'000**	**46'666**
General Management				
Michael Hauser *(CEO)*	1'000	–	–	29'000
Luc Widmer *(CFO)*	–	–	–	–
Pierre-Yves Müller *(Chief Operation Officer)*	–	–	–	–
Olivier Marchand *(Chief Technology Officer)*	200	–	–	19'800
André Chardonnereau *(Head of development and engineering)*	2'000	5'000	5'000	20'000
Carlos Cancer *(Head of Market & Sales Support)*	8'922	–	20'000	20'000
Willi Nef *(Head of Sales)*	12'547	–	16'500	20'000
Total General Management	**24'669**	**5'000**	**41'500**	**108'800**

30.2 2011

30.2.1 Compensation

In thousands of CHF unless otherwise stated

	Base compensation	Variable compensation			
	Cash (amount)	Cash bonus [1] (amount)	Shares [2] (number)	Stock options [2] (number)	Other compensation [3] (amount)
Non executive members of Board of Directors					
François Frôté *(Chairman of BofD and Chairman of Nomination and Compensation Committee and member of Audit Committee)*	200	–	8'000	–	26
Claude Elsen *(Deputy Chairman of BofD and member of Audit Committee and of Nomination and Compensation Committee)*	80	–	8'000	–	11
Philippe Maquelin *(Chairman of Audit Committee and member of Nomination and Compensation Committee)*	101	–	–	–	13
Michel Rollier *(Chairman of Alliance Committee and member of Products Committee)*	120	–	8'000	–	16
Raymond Stauffer *(Chairman of Products Committee and member of Alliance Committee)*	120	–	–	–	16
Frank Brinken *(Member of Products Committee and of Alliance Committee)*	58	–	–	–	8
Total non executive members of Board of Directors	**679**	**–**	**24'000**	**–**	**90**
General Management					
Philippe Jacot [4] *(CEO until August 8, 2011)*	873	130	3'000	–	114
Total other members of General Management [5]	2'591	440	18'500	114'500	499
Total General Management	**3'464**	**570**	**21'500**	**114'500**	**613**
Former executive member of Board of Directors	**193**	**54**	**30'000**	**–**	**39**
Former member of the General Management	**190**	**44**	**–**	**30'000**	**37**

1) The amounts represent the recorded expense for cash bonus for 2011, which will be paid out in May 2012.

2) The number of shares and options reflected represent the number of shares and/or options granted during the year 2011 in accordance with the stock compensation plans and which are still vesting at December 31, 2011. Please refer to notes 25 and 29 for additional details.

3) These amounts comprise the Group share of payments to pension plans and other social security contributions.

4) Per contractual agreement Mr P Jacot is entitled to one year of fixed remuneration plus the variable remuneration from the previous financial year and is payable at the end of the six-month notice period which is on February 29, 2012. The amounts reflected comprise these above contractual agreement as well as cash bonus for 2011, which will be paid out in May 2012 and estimated cash bonus for 2012, which will be paid in May 2013. Effective September 1, 2011 Mr M Hauser is the new CEO of the Group.

5) The cash remuneration and the number of shares include KCHF 34 and 8'000 shares respectively related to the function of Mr Paul Häring as member of Board of Directors and Chairman of the Audit Committee until April 12, 2011.

30.2.2 Loans and credits

There were no loans and credits made to any current or former members of the Board of Directors or the General Management.

30.2.3 Participations

At December 31, 2011 the following participations were held by members of the Board of Directors and the General Management (including persons and entities closely related to these members):

	Shares	Share options		
		Expiring 2012	Expiring 2013	Expiring 2014
Non executive members of Board of Directors				
François Frôté *(Chairman of BofD and Chairman of Nomination and Compensation Committee and member of Audit Committee)*	203'442	8'000	8'000	–
Claude Elsen *(Deputy Chairman of BofD and member of Audit Committee and of Nomination and Compensation Committee)*	55'218	8'000	8'000	–
Philippe Maquelin *(Chairman of Audit Committee and member of Nomination and Compensation Committee)*	59'975	30'000	30'000	30'000
Michel Rollier *(Chairman of Alliance Committee and member of Products Committee)*	1'201'620	8'000	8'000	–
Raymond Stauffer *(Chairman of Products Committee and member of Alliance Committee)*	457'933	30'000	–	–
Frank Brinken *(Member of Products Committee and of Alliance Committee)*	1'000	–	–	–
Total non executive members of Board of Directors	**1'979'188**	**84'000**	**54'000**	**30'000**
General Management				
Michael Hauser *CEO since September 1, 2011)*	–	–	–	–
Philippe Jacot *(CEO until August 8, 2011)*	6'000	–	–	–
Paul Haering *(CFO)*	66'000	8'000	–	–
André Chardonnereau *(COO)*	2'000	–	–	5'000
Olivier Marchand *(CTO)*	350	–	–	–
Carlos Cancer *(Head of Single-spindle Products)*	8'922	20'000	20'000	20'000
Roland Gutknecht *(Head of Micro Milling Products)*	9'000	20'000	16'000	15'000
Willi Nef *(Head of Sales & Marketing)*	17'547	20'000	16'500	16'500
Bernard Seuret *(Head of Production)*	20'885	20'000	20'000	20'000
Sandor Sipos *(Head of Customer Service)*	4'000	20'000	18'000	18'000
Iwan von Rotz *(Head of Multispindle Products)*	–	20'000	20'000	20'000
Total General Management	**134'704**	**128'000**	**110'500**	**114'500**

31 Subsequent event

There are no subsequent events to be mentioned.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SA
Place Pury 13
Case postale
2001 Neuchâtel 1
Phone +41 58 792 67 00
Fax +41 58 792 67 10
www.pwc.ch

Report of the Statutory Auditor
to the General Meeting of
Tornos Holding SA Moutier

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Tornos Holding SA, which comprise the income statement, balance sheet, statement of changes in equity and notes (pages 61 to 67), for the year ended December 31, 2012.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

Michael Foley Audit expert Auditor in charge	Aude Joly Audit expert

Neuchâtel, March 12, 2013

In thousands of CHF

For the years ended December 31,	Note	**2012**	**2011**
Dividend income		127	110
Interest income		1’119	1’273
Total income		**1’246**	**1’383**
Administrative expenses		–554	–428
Loss on valuation of treasury shares	6	–1’187	–2’072
Taxes other than on income		–33	–23
Total expenses		**–1’774**	**–2’523**
Loss before income taxes		**–528**	**–1’140**
Income taxes		–	–
Net loss		**–528**	**–1’140**

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

BALANCE SHEET

In thousands of CHF **As of December 31,**	Notes		**2012**	**2011**
ASSETS				
Cash and cash equivalents			10	9
Treasury shares	6, 8		2'909	4'097
Other investment	3		3'574	-
Other current assets			9	4
Total current assets			**6'502**	**4'110**
Investment in a subsidiary	2, 8		65'000	65'000
Other investment	3		-	3'574
Subordinated loan to a subsidiary	8		35'556	34'437
Total non-current assets			**100'556**	**103'011**
Total assets			**107'058**	**107'121**
LIABILITIES AND EQUITY				
Group payables			441	152
Accrued expenses			54	22
Total current liabilities			**495**	**174**
Ordinary shares	4		69'759	69'671
Legal reserves				
General reserve				
Reserve from capital contribution – net	5		18'983	18'927
Reserve from capital contribution – gross *	5	70'470		
Loss carry forward set off *	5	–44'055		
Capital increase costs set off *	5	–7'432		
Reserve for treasury shares	6		6'827	6'827
Retained earnings			10'994	11'522
Total equity			**106'563**	**106'947**
Total liabilities and equity			**107'058**	**107'121**

* These amounts are subject to the approval of the Swiss Federal Tax Administration.

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

In thousands of CHF	**Ordinary shares (note 4)**	**Additional paid-in capital**	**Reserve from capital contribution – net (note 5)**	**Reserve for treasury shares (note 6)**	**Retained earnings**	**Total**
At December 31, 2010	**67’907**	**16’049**	**–**	**6’673**	**12’816**	**103’445**
Transfer to reserve from capital contribution – net		–16’049	16’049			–
Issuance of new shares	1’764		2’878			4’642
Net loss					–1’140	–1’140
Transfer to reserve for treasury shares				154	–154	–
At December 31, 2011	**69’671**	**–**	**18’927**	**6’827**	**11’522**	**106’947**
Issuance of new shares	88	–	56	–	–	144
Net loss	–	–	–	–	–528	–528
At December 31, 2012	**69’759**	**–**	**18’983**	**6’827**	**10’994**	**106’563**

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

1 Basis of preparation

The financial statements of Tornos Holding SA, Moutier (the Company) are prepared in accordance with the provisions of the Swiss law and the Company's Articles of Incorporation.

2 Subsidiary

Name	Purpose	Share capital	% held	
		KCHF	2012	2011
Tornos Management Holding SA, Moutier, Switzerland	Management of shareholdings and holding company	65'000	100	100

3 Other investment

Other investment represents the acquisition during 2008 of 1'000'000 shares of JPY 1'000 each of Tsugami Corporation, Tokyo, Japan (Tsugami), a company listed on the Tokyo Stock Exchange which is carried at cost.

Tsugami and Tornos are two groups active in the machine tool sector which signed a framework partnership agreement on February 15, 2008. The underlying logic of the agreement is that the two groups are complementary in terms of their product range and geographical markets, in which each of them holds a leadership position. Under the terms of the agreement, cooperation is established in a number of areas such as research and development, procurement, production and distribution. Following the long lasting cooperation and the up-coming business prospects for either of the companies, the parties have decided that the mutual shareholding is abandoned.

4 Share capital, conditional capital and authorised capital

During the year 2012:

- 19'700 registered shares were issued and fully paid for at a price of CHF 7.34 each under the MBP07;

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2012:

- The share capital amounts to CHF 69'759'418.50 represented by 15'502'093 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 3'179'979.00 which can be used for the issue of 706'662 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors;
- The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 21'150'000.00 by issuing no more than 4'700'000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company's interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

During the year 2011:

- 300’000 shares were issued from authorised share capital and recorded at market price of CHF 12.90 on transaction date to acquire Cyklos SA, Port Louis, Mauritius, the fledging company holding intellectual property rights to a new machine concept that enable surface treat machined parts – this company has been liquidated in 2012 and a new company, Cyklos SA, incorporated in Yverdon-les-bains was created to manage and operate this new technology;
- 81’000 registered shares were issued and fully paid for at a price of CHF 8.24 each under the MBP07;
- 11’000 registered shares were issued and fully paid for at a price of CHF 9.52 further to the exercise of options granted under the MBP07.

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2011:

- The share capital amounts to CHF 69’670’768.50 represented by 15’482’393 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 3’268’629.00 which can be used for the issue of 726’362 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors;
- The Board of Directors may, at any time up to April 12, 2012, increase the share capital by a maximum sum of CHF 21’150’000.00 by issuing no more than 4’700’000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company’s interests. The Board of Directors may exclude shareholders’ preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

5 Reserve from capital contribution – net

The net amount of the Reserve from capital contribution is summarized as follows and is subject to the approval of the Swiss Federal Tax Administration:

	December 31, 2012	December 31, 2011
Reserve from capital contribution - gross	**70’470**	**70’414**
Loss carry forward set off	–44’055	–44’055
Capital increase costs set off	–7’432	–7’432
Reserve from capital contributions – net	**18’983**	**18’927**

6 Treasury shares

Movements in treasury shares are as follows:

	2012		2011	
	Nb of shares	Total of average purchase price	Nb of shares	Total of average purchase price
At beginning of year	**505’106**	**6’827**	**494’106**	**6’673**
Purchases	nil	nil	11’000	154
At end of year	**505’106**	**6’827**	**505’106**	**6’827**

Treasury shares are valued at the lower of average purchase price and average quoted price during the month preceding the closing of the accounts.

Starting in 2010 market making was contracted to a financial institution acting under its own name and for its own account in respect of gains and losses resulting from the shares the institution has bought/sold. No shares are loaned for that purpose. For market making, a fixed monthly fee is charged. During the year 2012 total costs incurred amounted to KCHF 84 (2011: KCHF 84).

7 Significant shareholders

The following shareholders held more than 5 percent of the share capital of the Company at December 31:

	2012	2011
Walter Fust	25.18%	20.00%
Michel Rollier	8.10%	7.76%
Tsugami Corporation	6.46%	9.45%
Balfidor Fondsleitung AG	6.32%	4.43%

8 Pledges

On September 29, 2009 the Company entered as guarantor into a Facility Agreement with two banks. Under this Facility Agreement the banks granted to Tornos SA as borrower, with Tornos Holding SA acting as guarantor, a credit facility in the aggregate of CHF 50 million. Of this amount, CHF 20 million was used under Facility 1, CHF 20 million could be used under Facility 2 and CHF 10 million in the form of overdraft on current accounts, stand-by letter of credits, performance and bid bonds, advance payment guarantees or similar instruments of up to 12 months under Ancillary Facilities. This Facility Agreement which was valid until September 30, 2012 was subject to certain conditions and financial covenants and had been on February 16, 2012 renewed until September 30, 2013. The major conditions relate to Tornos Holding SA pledging its shares in Tornos SA and 430'000 treasury shares and Tornos SA assigning its receivables and transferring for security purpose the mortgage notes related to its real estate properties located in Moutier.

On December 22, 2009, and concurrent with the creation of Tornos Management Holding SA, an Amendment to the Facility Agreement was signed. Under this Amendment to the Facility Agreement, the banks agreed to the release of the pledge in the shares in Tornos SA against a pledge in the shares of Tornos Management Holding SA by Tornos Holding SA In addition, Tornos Holding SA and Tornos Management Holding SA are now both guarantors to the Amendment to the Facility Agreement. All other conditions and covenants stipulated in the Facility Agreement remained the same except that (a) the repayment of any intercompany loans between Tornos Holding SA, Tornos Management Holding SA and Tornos SA and any interest due thereon are subordinated to the prior written consent of the banks and (b) in the event of a breach of a representation, a covenant or an obligation under the Facility Agreement or an event of defaults as specified in the Facility Agreement, a pledge over all the shares in Tornos SA shall also be executed.

On October 15, 2012 the Facility Agreement with the lenders was amended and restated, in conjunction with the finance facility granted from two shareholders amounting to CHF 40 million. The Facility Agreement was so amended that the credit facilities were reduced from CHF 50 million to CHF 35 million and that any breach in covenants would not be considered an event of default.

The financial covenants relate to minimum tangible net worth, minimum EBITDA calculated on a rolling annual basis until June 30, 2011, maximum total net debt to EBITDA ratio calculated on a rolling annual basis from September 30, 2011 and minimum interest cover ratio calculated on a rolling annual basis from December 31, 2011. The covenant ratio net debt / EBITDA was not met on June 30, 2012 and, in conjunction with the interest cover ratio, on September 30, 2012. The requests for waiver were positively responded by the Lenders.

From September 30, 2009 to September 30, 2011 Facility 1 bore interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% was payable at each 6 months maturity date and 6.0% was carried forward on a special account. Until September 30, 2011 this latter account bore interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% was payable at each 6 months maturity date and 6.0% was carried forward to that special account. Except as otherwise provided for in the Facility Agreement the non cash margin is payable on September 30, 2012.

From September 30, 2009 to September 30, 2011 any amount drawn under Facility 2 was bearing interest at LIBOR plus 4.0% interest margin per annum.

From October 1, 2011 to October 15, 2012 the applicable interest margins on Facility 1, 2 and the special account ranged between 2.25% and 4.0% per annum based on the total net debt to EBITDA ratio. At December 31, 2011 the applicable interest margin was 4.0% on Facility 1 and the special account and 3.5% on Facility 2. On October 15, 2012, as a result of the amended and restated Facility Agreement, the applicable interest margin was fixed to 3.75% on Facility 1 and on Facility 2 until the end of the Agreement.

The Facility Agreement is also subject to a commitment fee at a rate equal to 35% of the relevant cash interest margin on the average undrawn and uncancelled amount of Facility 2 and the Ancillary Facilities until the end of the availability.

Except CHF 4 million used under the ancillary facilities for guarantees purposes, the credit facilities granted by the banks were not used as of December 31, 2012 (December 31, 2011 CHF 20 million was used under Facility 1 and CHF 13 million was used under Facility 2 and matured in January 2012).

The special account referred to above and which accumulated the 6% interest margin on Facility 1 until September 30, 2011 amounting to KCHF 2’547 at December 31, 2011 has been repaid according to the agreement with the lenders dated 29 September 2009 (December 31, 2010: KCHF 1’235).

9 Board of Directors and General Management compensation

The disclosures required by articles 663bbis and 663c of the Swiss Code of Obligations on the Board of Directors and General Management compensation is reflected in note 30 of the consolidated financial statements.

10 Risk assessment

The disclosures required by articles 663b of the Swiss Code of Obligations on the risk assessment is reflected in note 3.1 of the consolidated financial statements.

11 Subsequent event

There are no subsequent events to be mentioned.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

In thousands of CHF

For the years ended December 31,	2012	2011
Retained earnings brought forward	11’522	12’816
Transfer to reserve for treasury shares	–	–154
Net loss	–528	–1’140
Available earnings	**10’994**	**11’522**

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation:

In thousands of CHF

For the years ended December 31,	2012	2011
	Proposal	Proposal
Available earnings	10’994	11’522
To be carried forward	**10’994**	**11’522**

TORNOS SA
Rue Industrielle 111   CH-2740 Moutier   Phone +41 (0)32 494 44 44   Fax +41 (0)32 494 49 03   contact@tornos.com   www.tornos.com