

A close-up photograph of a textured surface, possibly a book cover or a piece of fabric, with a dark, diagonal line running across it. The texture is fine and grainy, and the lighting creates a subtle gradient from light to dark.

TORNOS

Annual Report 2013
Tornos Holding Ltd.

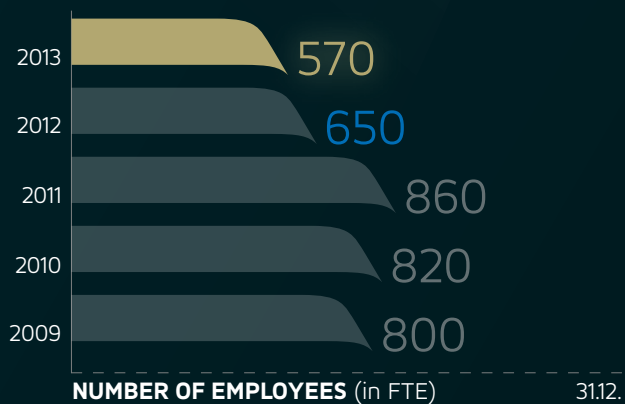
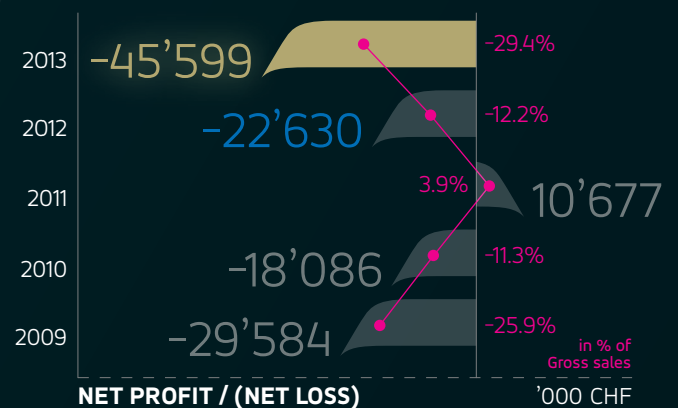
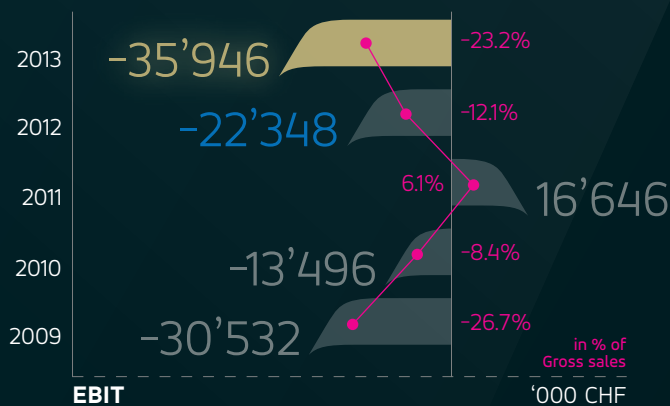
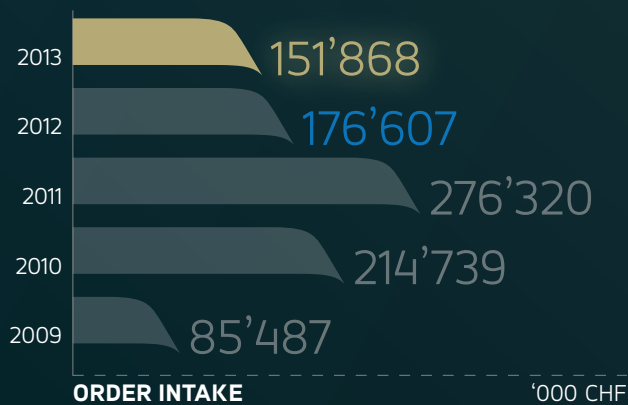




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At a glance



Key figures

ORDER INTAKE

'000 CHF	2013	2012
	151'868	176'607

GROSS SALES

'000 CHF	2013	2012
	155'250	184'826

EBITDA

'000 CHF	2013	2012
	-28'340	-7'590

EBIT

'000 CHF	2013	2012
	-35'946	-22'348

NET PROFIT / (NET LOSS)

'000 CHF	2013	2012
	-45'599	-22'630

NET CASH / (NET DEBT)

'000 CHF	2013	2012
	705	-23'813

EQUITY

'000 CHF	2013	2012
	72'818	81'850

TOTAL BALANCE SHEET

'000 CHF	2013	2012
	142'520	188'177

CAPITAL EXPENDITURE IN TANGIBLE FIXED ASSETS

'000 CHF	2013	2012
	415	1'216

NUMBER OF EMPLOYEES (in FTE)

31.12.	2013	2012
	570	650

Significant progress made under difficult circumstances

Ladies and gentlemen, Dear shareholders,

The 2013 financial year was marked by two factors that are important for the Tornos Group. The first is the macroeconomic environment, which remained difficult and negatively impacted on the Group's results. The second is the strategic reorientation of the Group, which began in autumn 2012 and was largely implemented throughout 2013. This reorientation significantly and durably altered the Group's foundation, and its cost, which is one time but nevertheless significant, has also had a significant effect on the results for the year.

The net loss came to CHF 45.6 million. This includes exceptional charges totalling CHF 28.3 million, which are due to the streamlining of the product portfolio (CHF 12.9 million), including adjustments to provisions for obsolescence, the sale of the Cyklos business (CHF 5.2 million), optimization of the distribution network and downsizing of both the overall and the management structure (CHF 1.1 million), losses on customer projects (CHF 0.5 million), and depreciation of deferred tax asset (CHF 8.6 million). No deferred tax assets on losses of the year under review were however recognized. These various charges were partially reduced by the sale of shares held as financial investments in the amount of CHF 1.7 million. Excluding these non-recurring elements, net loss is at CHF 19.0 million.

At CHF 155.3 million, gross sales fell by 16.0% compared with the CHF 184.8 million achieved in 2012. Order intake for the Tornos Group totaled CHF 151.9 million in 2013 (2012: CHF 176.6 million), a decline of 14.0%.

In spite of this unfavorable economic context, implementation of our strategic realignment has been rigorously pursued. The process of adapting our organization and streamlining our structure has resulted in a headcount reduction of almost one-third. The effect of the measures taken during the financial year is not fully reflected in the overall result for 2013. Nevertheless, the reduced cost base has already had a positive impact and the break-even point for profitability has been lowered. The effect of the measures described became increasingly apparent as the year progressed, and at operational level, we achieved a fourth-quarter operating result that came close to break-even point.

As regards general business development, the respective economic significance of Asia, Europe and North America is very different from what it was several years ago. In addition, the expectations of each market in terms of products have become starkly differentiated. This has led to a new operating environment that we have had to take on board in our strategic reorientation.

The European markets—and Western Europe in particular—continue to focus on innovative products, especially those in the high-end range. Tornos traditionally has a very strong position in its key market segments here, specifically automotive, medical and dental technologies, and micromechanics. Europe will remain our biggest market in the future, and our product range will reflect this.

The Asian countries, largely dominated by China, are strong growth markets for entry-level and



“Tornos Group’s priorities in the past year have focused on internationalizing and enhancing the flexibility of our business activities.”

mid-range products, and this is leading to a significant increase in the volume of machines produced. Thanks to its newly established presence in this region and new range of proprietary products, Tornos intends to significantly increase its sales and market share in Asia over the medium term.

In North and Latin America, Tornos is particularly interested in the medical and dental technology and automotive sectors. In these countries, too, we need to work at increasing our market share with a revamped product range.

In an industrial world in a state of upheaval, the Tornos Group’s priorities in the past year have focused on internationalizing and enhancing the flexibility of our business activities, as well as marketing innovative products in the high-end and mid-range segments.

Internationalization of business activities

One of the major goals of our strategic reorientation is to develop and distribute our own machines worldwide for the entry-level and mid-range market segments. To achieve this goal, Tornos has teamed up with a local partner to set up a new company in China that is dedicated to the development and production of sliding headstock lathes. We were even able to premiere a first standard-range product, the CT 20, in the Asian markets before the end of 2013. Tornos (Xi’an) Machine Works Co., Ltd., in which Tornos holds 70% of the capital, is located in the province of Shaanxi. The remaining capital is owned by an industrialist, the founder and majority shareholder in the machine tool manufacturer XKNC. This well-known company benefits from the extensive experience it has acquired during its many years of partnering with Japanese companies. Construction of a shared production unit in Xi’an has begun and the target date for occupation is mid-2014. In addition, Tornos is working with XKNC’s distribution network in China. This will give broader access to customers in the entry-level and mid-range market segment.

To date, the mid-range segment has been covered by products derived from the alliance with Tsugami. However, this alliance was limited to

the European market. Due to the geographical shift in the markets away from Europe, a process of strategic reorientation was initiated and the alliance with Tsugami was not renewed. The proprietary production referred to above will enable us to service the Asian and American mid-range markets effectively, in addition to Europe.

As a complement to the operation spearheaded in China, we successfully partnered in 2012 with a Taiwanese firm; this represents an additional pillar in the increased internationalization of our business. In Taiwan, Tornos is currently preparing for the upcoming presentation of a second product.

These different initiatives will enable Tornos to strengthen its position in the mid-range segment with new, competitively priced, quality products that it can market worldwide.

Systematic Group orientation for the future

Last year, the Tornos Group divided up its product categories by production site. High-end products and key components are manufactured in Switzerland. Standard and mid-range products are manufactured in China and in Taiwan. The product portfolio has been revised in the light of the developments in the global market and the new production sites available within the Group. It has been considerably slimmed down and currently focuses almost exclusively on the latest generation of products that has been launched within the past five years. The roadmap for upcoming product launches has been plotted out in this new framework. The Group's future configuration is based on development and production sites in Moutier, La Chaux-de-Fonds (both Switzerland) and Xi'an (China), with a fourth production site in Taichung (Taiwan).

The strategic analysis also included Cyklos, the surface treatment solution that we acquired in 2011 and which has been operating since then as a start-up. It has become apparent that the medium-term sales targets required to obtain a significant positive contribution to Group results cannot be achieved. As part of the strategic rationalization of our activities, the decision has been made to turn over the surface treatment activities to another company, which will continue this business.

Financing

Despite the poor results reported in 2012 and 2013, the Tornos Group remains on a solid financial footing. The capital increase in May 2013 carried the Group into a positive net cash situation. In late November 2013, Mr Walter Fust launched a public tender offer for all Tornos shares, which resulted in him increasing his share capital holding from 33.32% to 42.88%. Although this has no direct impact on the Group's financial situation, we see this purchase offer as a strong sign of this reference shareholder's confidence in the company's new strategic orientation.

Streamlining of the Board of Directors and General Management

At the 2013 Annual General Meeting, Mr Raymond Stauffer, a member of the Board of Directors since 2002, announced his resignation. Mr Stauffer had also served as CEO from 2002 to 2010, during which time he left a profound mark on the Tornos Group.

During the year under review, Mr Willi Nef, Head of Sales, and Mr Carlos Cancer, Head of Market & Sales Support, left the Group's General Management team to pursue other career avenues. On September 1, 2013, Mr Bruno Allemand was appointed to the General Management team as Head of Sales & Marketing. Mr Allemand has over 20 years of international experience in the machine tool sector, where he has held both management and sales positions.

The streamlining of the company's structure has resulted in the downsizing of the management team to three members as of December 1, 2013. Consequently, Mr Pierre-Yves Mueller (Chief Operations Officer since 2012) and Mr Olivier Marchand (Chief Technology Officer since 2011) have left the General Management team and the company. Mr André Chardonnerieu (Head of Development and Engineering since 2011) has taken on new responsibilities in the Group.

We wish to thank the members of General Management who have left us for their commitment to the Tornos Group.

“Compared with the previous financial year, Tornos’ structure has been considerably refined. The Group now has a streamlined cost structure and lower break-even point.”

On course for the future

Thanks to the measures described above, we are confident that the Tornos Group is better equipped to face the challenges of global competition. Our product portfolio has a considerably sharper profile, and, thanks to Tornos’ SwissNano, EvoDECO and MultiSwiss lathes, and Almac’s BA 1008 milling machine and VA 1008 machining center, the Group now has compelling sales arguments for the high-end segment. During 2014, the Swiss ST and CT sliding headstock lathes will be complemented by new product ranges that offer our worldwide customers numerous standard and mid-range products.

Compared with the previous financial year, Tornos’ structure has been considerably refined. The Group now has a streamlined cost structure and lower break-even point, and these should have a positive impact, especially when coupled with improved order intake.

Today the company has greater flexibility to accommodate fluctuations in regional demand and is better equipped to absorb the negative impact of these variations on the development of our business.

The outlook is therefore ultimately positive, and we shall follow the implementation of our strategic reorientation very closely, aiming at posting an operational result close to breakeven in 2014.

On behalf of the Board of Directors and General Management, our thanks go to our shareholders, for the trust they have placed in us, and to our customers and partners for their invaluable collaboration. We also wish to thank our employees for their commitment in another very challenging year.

François Frôté
Chairman of the Board
of Directors



Michael Hauser
President and Chief
Executive Officer



Course of business 2013 and outlook for 2014

Order intake

The 2013 financial year ended with CHF 151.9 million in order intake (2012: CHF 176.6 million), a decline of 14.0%. This figure includes CHF 4.0 million of orders that had been booked prior to 2013 and were cancelled by customers during the financial year under review. Analyzed by geographical region, there was a significant contrast in developments:

In Europe, the trend was positive compared to the previous year, influenced by the strong upturn in business in Western Europe. Towards the end of the year, Tornos recorded a marked improvement compared to 2012, especially in its traditionally important markets in southern Europe, after a period of persistent weakness. This improvement was supported by vigorous growth in Germany. This development is due to several factors: The MultiSwiss has proven its merits as an attractive solution for automotive industry subsuppliers and is regularly considered as an option for new investments. The SwissNano, designed to meet the needs of the watchmaking industry, has attracted interest well beyond the Swiss market and in all the other key segments. Finally, our attendance at the 2013 EMO in Hanover, the world's biggest machine tool trade fair, at which we presented all our innovations, generated a very positive response. The new EvoDECO 32 and the Almac BA 1008 were the star products at this event. Business in Asia was unsatisfactory and remained well below 2012 levels. The large orders that customers placed at the beginning of 2012 to replace equipment destroyed by the devastating natural disasters that struck Thailand and Japan were not followed by orders of the same volume in 2013. The year under review proved to be very difficult

in China, due to the initial uncertainty caused by the change of government followed by the lack of visibility regarding the regime's new program. Investments to expand production capacities were particularly hard hit by the marked slowdown in the luxury sector and at high-end European automotive manufacturers operating in China. Over the year, however, the gap compared to 2012 closed considerably in China, finishing with a much lower drop than the rest of the sector.

In the United States, the medical and dental technology and automotive sectors have important growth potential that has not yet been fully tapped. For this reason, with a new management structure in place, we have overhauled our distribution network over the past year, and in doing so have realigned our future-oriented product mix. This will mainly involve more intensive marketing of multispindle lathes and the establishment of a new "Swiss-type" production line.

The Tornos Group's solid foundation in the automotive, medical and dental technology, micromechanics and electronics market segments compensates at least partly for the fluctuations in demand in these areas. However, it is important not to overlook the general tendency to hold off on new acquisitions. As a general rule, existing capacity must first be completely utilized before a company will invest in new equipment.

The electronics sector has always been characterized by a high level of innovation. There is currently a shift from hard disk drives towards memory cards, and this is impacting the hard

disk market, which has been an important market for Tornos. This trend has had a noticeable impact on the mediocre results for Asia already mentioned. However, the excess electronics capacity in this region will be made available to the automotive sector. This reorientation requires additional investments in production means, which results in new opportunities for products such as the MultiSwiss and the Swiss-type lathes.

In the automotive sector, results were virtually on par with the previous year, despite subsuppliers' disinclination to invest, as the Group's global presence enabled it to fulfill large orders in Asia. This point is worth emphasizing because the major European automotive manufacturers are increasingly gearing their supply chains towards Asia, where investment decisions are made locally.

Business picked up slightly in the medical and dental technologies sector. This market segment is currently experiencing a wave of consolidations, as well as growing pressure on margins. In this context, we are glad to report that the MultiSwiss, as well as the products in the EvoDECO range, are generating real added value for our customers' lead projects, and this is reflected in the excellent uptake of these products.

In micromechanics as well, the volume of orders has increased slightly compared to the previous year. In particular, the watchmaking industry saw a significant increase, confirming the judiciousness of launching the SwissNano in the first half of 2013. This new product also served to draw customers' attention to other high-end products, and to persuade them to place orders.

Overall, orders for new products as a percentage of total orders were more than three times higher than in 2012. This increase highlights the very good reception these innovations have received as well as their competitiveness, and it is an endorsement of the direction taken in our strategic reorientation.

Gross sales

Tornos ended the 2013 financial year with consolidated gross sales of CHF 155.3 million (2012: CHF 184.8 million), a fall of 16.0% compared with 2012. This disappointing level is due to several factors, all of which have had an impact on sales performance. The ongoing product portfolio development, undertaken as part of the strategic reorientation, initially required our sales forces to intensify their efforts to persuade customers to adopt the new products. In spite of these efforts, the fall in orders had an impact on sales figures. During this phase, our competitors held large-scale promotional campaigns, particularly in response to Tornos' announcement that it intended to enter the entry-level and mid-range market with its own products manufactured in Asia. The sluggishness of the European economy has weighed increasingly on business, as has the leveling off of growth momentum in China. As a result of these factors, gross sales totaled CHF 79.2 million in the first half (2012: CHF 97.0 million), and CHF 76.1 million in the second half (2012: CHF 87.8 million).

Profitability

At EBIT level, the Group is reporting a loss of CHF 35.9 million (2012: CHF -22.3 million) and a pre-tax loss of CHF 37.2 million (2012: CHF -25.7 million). Net earnings amount to CHF -45.6 million (2012: CHF -22.6 million). In 2013 the Group generated gross earnings of CHF 23.8 million, equivalent to a margin of 15.3% of gross sales compared with a margin of 25.3% or CHF 46.7 million in 2012. Net operating costs were reduced by 13.5% compared with the previous year, to CHF 59.8 million (2012: CHF 69.0 million). The reduction in borrowings to CHF 10.0 million, the combined result of the capital increase and attractive interest rate terms, enabled the Group to lower its financial costs to CHF 2.3 million (2012: CHF 2.8 million). Net foreign exchange losses of CHF 0.8 million (2012: CHF 0.8 million) result from operations (CHF 0.5 million) and include unrealized losses on currency hedging transactions in the amount of CHF 0.3 million.

Profitability excluding nonrecurring charges and elements

The results referred to above include nonrecurring charges and elements. These charges are due to the cessation of the surface treatment systems business (CHF 5.2 million), the streamlining of the product portfolio, including adjustments to provisions for obsolescence (CHF 12.9 million), the redimensioning of the company (CHF 0.8 million), the realignment of distribution structures (CHF 0.3 million), losses on customer projects (CHF 0.5 million), and depreciation of deferred tax assets (CHF 8.6 million). These elements total CHF 14.7 million (2012: CHF 6.3 million) at gross margin level, CHF 5.0 million (2012: CHF 7.7 million) in net operating costs and CHF 8.6 million (2012: credit of CHF 3.0 million) in depreciation of deferred tax assets, which amounts to a total of CHF 28.3 million for net earnings. These various expense items were partially offset by the sale of shares held as financial investments in the amount of CHF 1.7 million, resulting in a net negative impact of CHF 26.6 million (2012: 11.0 million).

Corrected for exceptional charges and elements, the key figures for the Group are as follows (the figures from the preceding year cited below are restated and adjusted for exceptional charges and elements related to the 2012 financial year):

Gross profit for the financial year under review total CHF 38.5 million, which corresponds to a gross margin of 24.8% on gross sales (2012: 28.7%).

Net operating expenses have been reduced by CHF 6.5 million, or 10.6% compared with the previous financial year, to CHF 54.8 million (2012: CHF 61.3 million), resulting in a loss at EBIT level of CHF 16.3 million (2012: CHF -8.3 million). Excluding the positive effect of the sale of shares held as financial investments in the amount of CHF 1.7 million, pre-tax earnings stand at CHF -19.2 million (2012: CHF -11.7 million). Corrected for amortization of deferred tax assets, the net loss is CHF 19.0 million (2012: CHF -11.6 million).

Orders for new products as a percentage of total orders were more than three times higher than in 2012.

The first goal for 2014 is to launch additional products.

Equity

As at the close of the financial year, equity stood at CHF 72.8 million (2012 adjusted: CHF 81.9 million), or 51.1% (2012 adjusted: 43.5%) of the balance sheet total of CHF 142.5 million (2012 adjusted: CHF 188.2 million). The net loss of CHF 45.6 million had a negative impact on equity. However, this reduction in equity was partially offset by the drop in potential expenses related to pension liabilities under IAS 19R standards for an amount of CHF 8.1 million and by the realization of capital gains related to the sale of shares in Tsugami for an amount of CHF 2.2 million. On the other hand, the capital increase carried out at the end of May boosted equity by a net amount of CHF 29.7 million. In this transaction, 4,375,578 registered shares with a par value of CHF 4.50 per share were subscribed at a reference price of CHF 7.00 per share. At the balance sheet date, share capital comprised 19,877,671 registered shares with a par value of CHF 4.50 per share, amounting to CHF 89,449,519.50 in total.

Cash flow and cash position

Having started the financial year with net debt of CHF 23.8 million, the Group achieved a net cash position of CHF 4.1 million at the end of the first half. This position was maintained and amounted to CHF 0.7 million at the end of the financial year. The capital increase carried out in May 2013 enabled the Tornos Group to reduce by CHF 40.0 million to CHF 10.0 million the temporary loans provided by two industrial shareholders in 2012. The sale of shares held as a financial investment in the second half year injected CHF 5.3 million in cash into the company. The CHF 9.8 million reduction in net working capital compared with the previous year made it possible to offset the negative effect of earnings on cash flow. Investments of CHF 0.4 million in tangible assets were mainly concentrated on operating equipment required to manufacture strategic components, whereas investments in intangible assets amounting to CHF 0.2 million represent an equity contribution to the new company (Tornos Xi'an) created in China.

Financing

At the start of the fourth quarter, the loan facility with the two banks was renewed in an amended version until the end of the year. Essentially, the available line of credit was reduced from CHF 35.0 million to CHF 10.0 million as a result of the Group's improved cash position. At the start of 2014, subsequent financing was ensured by two of the Group's industrial shareholders, who granted it a loan of CHF 28.0 million, including the guarantee facility, at attractive terms.

Outlook for 2014

In 2013, the Tornos Group completed an important stage in its strategic reorientation as regards its structure and organization. As a result, its cost structure will be significantly improved, which will in turn lower its break-even point. The transition to an adapted product portfolio that is geared to forward-looking, platform-based products is in full swing. The growth in order intake for new products is encouraging. The first goal for 2014 is to launch additional products. The direction that Tornos has chosen for its product development and manufacturing activities will enable it to develop new outlets outside Europe using its own resources. Provided there is no deterioration in the economic situation in Europe and the investment climate in Asia, and in China in particular, remains stable, the Group expects to post a result that is close to breakeven in 2014.

Strategic plan 2017

In autumn 2012 Tornos started implementing a new five-year strategic plan comprising the following six major axes:

- *Internationalization of activities*
- *Greater flexibility*
- *Growth through innovation*
- *Increased revenue from service activities*
- *Operational excellence*
- *Introduction of specific solutions for targeted market segments*

The challenges of the strategic realignment are addressed through several strategic programs.

A different environment

Realignment of the strategic plan proved necessary to take account of new realities: shorter and more pronounced economic cycles; a stagnant market in Europe; increased activity in emerging economies, particularly in Asia; and growth in mid-range machines to the detriment of the high-end segment.

Flexibility, internationalization, and operational excellence

To meet the challenges of this economic environment, Tornos is continuously striving for greater flexibility. This should enable the Group to overcome economic cycles, with the goal of absorbing fluctuations of up to 50% without financial losses. This means internationalization of the business model so as to track the growth of emerging markets, while still responding to cyclical fluctuations.

The structure of the Group is permanently being adapted to expand its innovative capacity, while optimization of its financial structure is providing a solid foundation for the future.

Optimization of processes is an ongoing task to increase efficiency and further enhance operational excellence. The first step was the reorganization of activities in Switzerland with the aim of slimming down the cost structure by downsizing the organization on all levels. This made it possible to merge the sales and the market and sales support departments under one roof. Furthermore, responsibility for turning product development and operations in Switzerland (Moutier), China (Xi'an), and Taiwan (Taichung)

was merged. The micro milling business (Almac) is also operating from Switzerland (La Chaux-de-Fonds). A team of specialists in Switzerland is taking care of assembling high-quality key components, such as high-performance spindles and guide bushes, that are supplied to and built in at the different production sites.

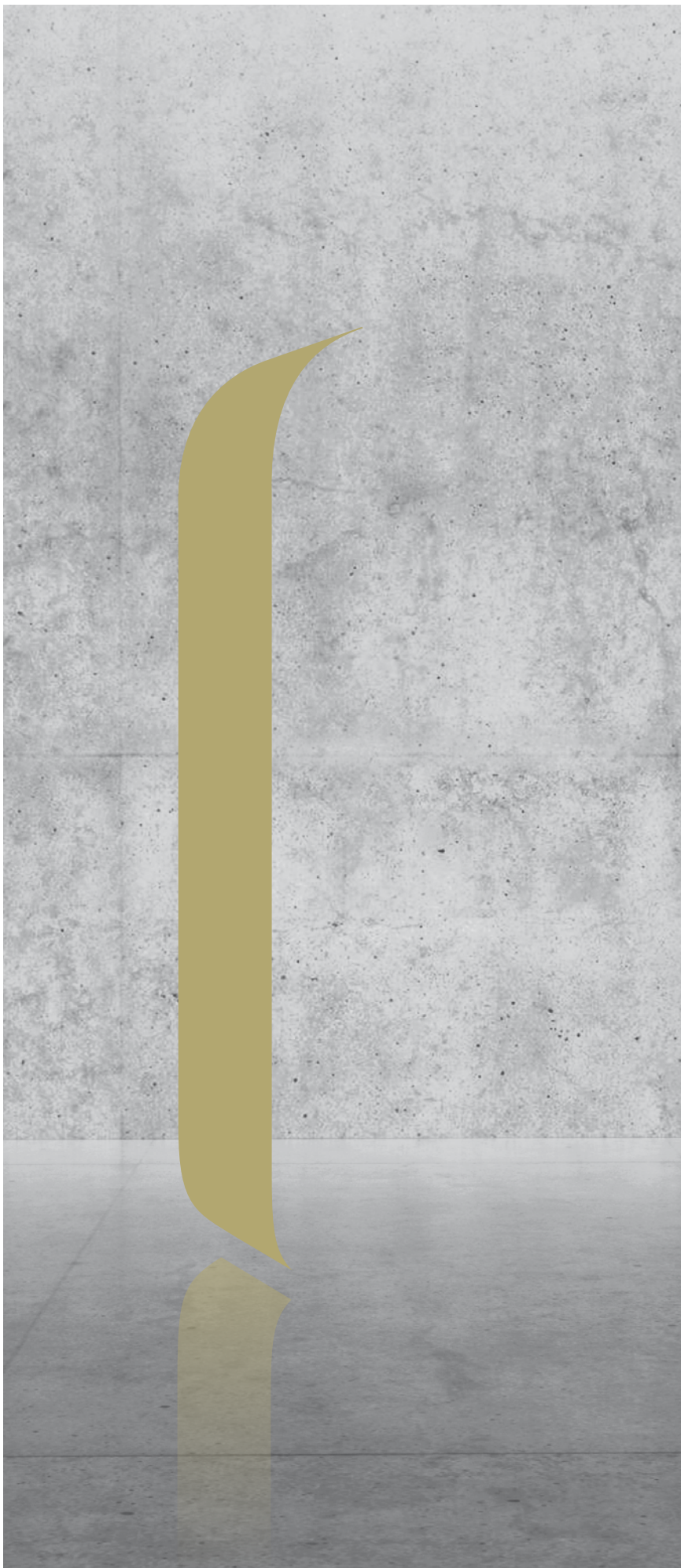
Innovation, service activities, and target market segments

To remain competitive, the Group is increasing its innovative capacity by launching new dedicated products—such as, in 2013, Swiss-type products like EvoDECO 32, SwissNano, Swiss ST 26 CE; the MultiSwiss with Y-axis; and from Almac the BA 1008 and VA 1008—to cover the mid-range and high-end product segments. The product mix for the future is based on a platform concept that is progressively being put in place. This will continuously lower the variety of products. The specific needs of the targeted customer segments are being addressed by means of modules.

The Group is striving to consolidate its position as a European market leader in technology while also strengthening its sales and service structure in the expanding markets to significantly boost growth. The sales network will be reinforced in the emerging market countries as well as in the United States. The strongest market growth is expected to be seen in Asia. The range of services offered to customers will be extended and includes overhauling machines to generate higher revenue.



The SwissNano launched in 2013, was awarded the iF product design award, a prestigious distinction in the field of industrial design.



Eighteen months ago, Tornos launched its Strategic plan 2017 with “growth through innovation” as a key pillar. What does that really mean?

To grow in western economies, you have to be innovative in order to survive. We must offer machines and services that differentiate us. When we talk about growth through innovation, we are referring to machines and application solutions that deliver added value to our customers. Innovation in general is not reinventing the wheel. It's very often incremental improvements, adaptations of applications to different market segments, and it makes a difference. If we don't innovate, we can only win by offering everything at lower costs, an unsustainable business model for any company in the western industrialized world. Tornos is the real pioneer of Swiss-type technology. Furthermore, we were the first company to adapt this technology for specific applications, by dedicating products and relevant services to market segments: medical, automotive, micromechanics/watchmaking, and electronics. For each of these, Tornos developed solutions in all relevant respects.

Innovation is a precondition of success for any technology company. What innovation elements are specific to Tornos?

An example of real innovation is our MultiSwiss. It bridges Swiss-type and multispindle technologies and therefore redefines the market. For customers using Swiss-type technology, the MultiSwiss is a simplified multispindle machine that allows them to easily step into this technology.

Innovation and internationalization are moving Tornos forward

Interview with CEO Michael Hauser

The MultiSwiss is very innovative and unique in terms of flexibility, precision, and—due to its ergonomics—user friendliness.

Another real innovation is our new SwissNano, an ultra-precise Swiss-type CNC machine dedicated to applications in the watch and electronics industries.

There are thousands of manual CAM machines installed worldwide and it is getting more and more difficult to find operators for these machines. The SwissNano precisely fits these customers' needs in terms of applications; and its small footprint means customers can replace their manual MS7 machines, one by one, with CNC-driven machines.

With our existing product range and pipeline, we look toward our customers' future needs. In fact, our new ISIS software interface makes it possible for the machine operator to use a tablet PC to monitor, steer and set up the machine—virtually and even remotely from anywhere. This is a new way of communicating with the machines, and it proves that we are looking to the future on behalf of our customers.

What should Tornos products convey?

First, they should convey our customer orientation. Tornos has a very strong and loyal base of customers who have been with us for a long time and have plenty of machines. It starts with the whole Tornos brand, and what it delivers: qualified sales and application people at the front, service

**“Our customers
...buy a trust-based
partnership
that brings with it
expertise.”**

people, and again, this market-segment driven application know-how. Our machines produce parts, so we have deep parts production know-how. So, our customers come to us not only for machines and services, but also for application expertise. Many of our machines are turnkey solutions. Our products also convey our commitment to exceeding our customers' expectations. When I talk to customers using our SAS 16, MS7 and DECO machines in the field, it is very clear: We exceed their expectations. They run these machines day and night and, for good reason, these machines are perceived as very high value.



They are long lasting, highly precise, reliable, and they keep their value. When you look at the after market, value is very high. Our customers don't just buy machines from us: They buy a trust-based partnership that brings with it expertise.

Why does the industrial design of Tornos' new products differ significantly from that of earlier products?

Our new industrial design differentiates us. When customers make decisions about capital-intense, high-end machines they want their factories to be showcases for their customers. When machines are well designed, that delivers value to both our customers and our customers' customers. In addition, it gives a strong motivation to our users. They love to work on our machines.

Innovation happens throughout our products, and our new industrial design makes our innovation strategy visible even on the exterior of the machine. We have received many compliments on the SwissNano design and we recently earned an iF product design award for it.

Has the pleasing design already had an impact on buying behavior?

Yes. Customers want a higher degree of personalization when they buy machines. Many relate to color and design in a personal way and, with the SwissNano, you choose your color. One customer bought a SwissNano in the same color as his aircraft. The marketing approach around the SwissNano has also influenced buying behavior and even turned customers into Tornos brand ambassadors. Very shortly after its launch, everyone was talking about it and, today, everyone knows the SwissNano.

What is distinct about the Tornos machine design?

Besides the colors and ergonomics, there are the cleanness and openness of the design. The ribbon is an identifier; you'll see it on future communication collateral and other machines. Our new industrial design conveys value in everything you see and touch on our machines. For example, the handles of the SwissNano are broached, polished aluminum. We have brought together high tech and good design.

Will there be more SwissNano colors on other products?

Our basic color is the black/light gray, and we personalize with the color and in the branding. EMO Hannover 2013 was the first time we showed a product in black, like in this annual report, and the response was extremely positive. Color is a visual cue related to innovation.

You will soon be manufacturing at four different sites. Are quality requirements comparable everywhere?

Yes. Most of our customers are global players. When you look at Tier 1 and Tier 2 automotive manufacturers, they must provide high quality everywhere to meet or exceed global standards. Like our customers, we apply the same standards of quality worldwide. It's a mission for everyone in our company to achieve these standards.

Why is Tornos increasing its international presence?

Automotive and medical manufacturers together make up almost 50 percent of the Tornos' turnover. These are mostly global players with multi-site operations, because they follow their customers. We must offer the same services in Asia to customers with roots in Europe. Wherever they are in the world, they expect—and receive from Tornos—consistently high quality application and sales support, and services.

From a customer behavior perspective, are expectations of innovative products comparable worldwide?

Basically, the customer expectations in terms of reliability, productivity and precision of the machines are equally demanding. We aspire to create the same perception on the customer's side whether he buys a standard or high-end machine.

“Europe remains the most important market for Tornos.”

In Xi'an, China, and Taichung, Taiwan, you will mainly produce standard products.

What's the underlying rationale?

First of all, with these products, we address the local markets. We want to cover international markets but also developing markets, which for the most part are outside of Europe. Due to logistics and production costs, we need to be nearer to these customers. Our machines produced in China and in Taiwan have key components—like spindles and guide bushes—made in Switzerland. This allows factories in China and Taiwan to produce high-standard machines with integral Swiss made parts that cannot be produced elsewhere at our renowned high level of quality.

Have Europe and Switzerland lost their leading positions in innovation and high tech?

Certainly not. The question is whether such high technology—and innovation—can be efficiently utilized everywhere. Emerging markets once had a limited skilled labor force, and that limited the ability to sell high-tech products because the market wasn't yet ready for the technology. Today, our high-tech machines allow customers in these markets to grow in their use of technology and become acquainted with the advantages of using sophisticated equipment in their processes. The second wave of investment in China is taking place now; customers have moved up the technology ladder and are upgrading their capabilities. There is a strong desire for innovative, sophisticated, high-end machine tools from the old continent. Europe remains the most important market for Tornos; at the same time, we recognize the potential of other developing markets.

How do you see the relationship between high-end and mid-range products in the mid-term?

We will continue to develop new machines, including high-end products. We will continue to push the limits with our high-end machines in terms of performance capability and precision. The mid-range products also will benefit from this development when the technology transfer comes in. The name of the game is moving every customer forward. Every time we exceed a customer's expectations, we move Tornos forward.

In the scope of the strategic plan 2017, a comprehensive renewal of the Tornos and Almac product portfolio based on a platform concept, known in the automotive industry, has been tackled. The first products have been brought into being. On this page the Tornos innovation process is exemplified by the development of the MultiSwiss, a product that bridges the gap between single-spindle and multispindle lathes.

Create a multispindle machine as a single-spindle.

The machine must allow a cost competitiveness with entry-level lathes.

The machine must be as easy to use as possible.

Workplace ergonomics must reach a high level.

Create a turnkey solution.

The machine must have unrivaled performance with tough materials.

Get to Ra value 0.5 with higher feed rates.

Market intelligence

Skill level of operators is decreasing.

Asian customers are increasingly interested in multispindle technology, but such technology is considered to be complex.

The Tornos innovation process

Integration of all peripherals in the machine.

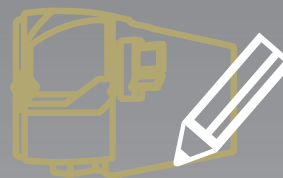
Replace hirth gear with a torque motor.

Six spindles and one counter spindle, programming is like six three-axes machines with an integrated PC.

Frontal access allows the user to enter inside the machine.

"Plug and play" principle for all applied tools.

Further develop hydrostatic technology to ensure sufficient dampening that allows to reach good Ra with tough materials.



Creation of MultiSwiss 6x14 "prototype 1."

Action



Technology



Requirements



Intelligence

Competition monitoring

Two new multispindle products for complex parts are being developed by competitors.

Requirements in terms of precision are increasing.

Tornos effectively covers the high-end market with multispindle products MultiSigma and MultiAlpha.

Requirements in terms of surface quality in Ra are increasing.





Start of field tests with five test customers.

EMO 2011: MultiSwiss presentation to the market.

Market shows growing interest.

Validation process

Market intelligence



A market for a chucker machine is identified in the automotive sector.

MultiSwiss allows the customer to offer solutions with a new range of parts.

Competition monitoring



New situation

Results

Acceptance



First customers buy a second or a third machine as the MultiSwiss' capacities exceed expectations.



A competing product is in development with the aim to fight against the MultiSwiss.

MultiSwiss is recognized for precision with tough materials.

MultiSwiss is more user-friendly, more productive and more rigid than its competition. But competition might address more complex parts.

MultiSwiss starts to prove its lead over competition.

A project is launched to make use of the competitive advantage in the market.



MultiSwiss Black Edition with a Y axis is presented to cover an even broader range of parts.



MultiSwiss White Edition as chucker version is presented, mainly addressing the automotive industry's needs.

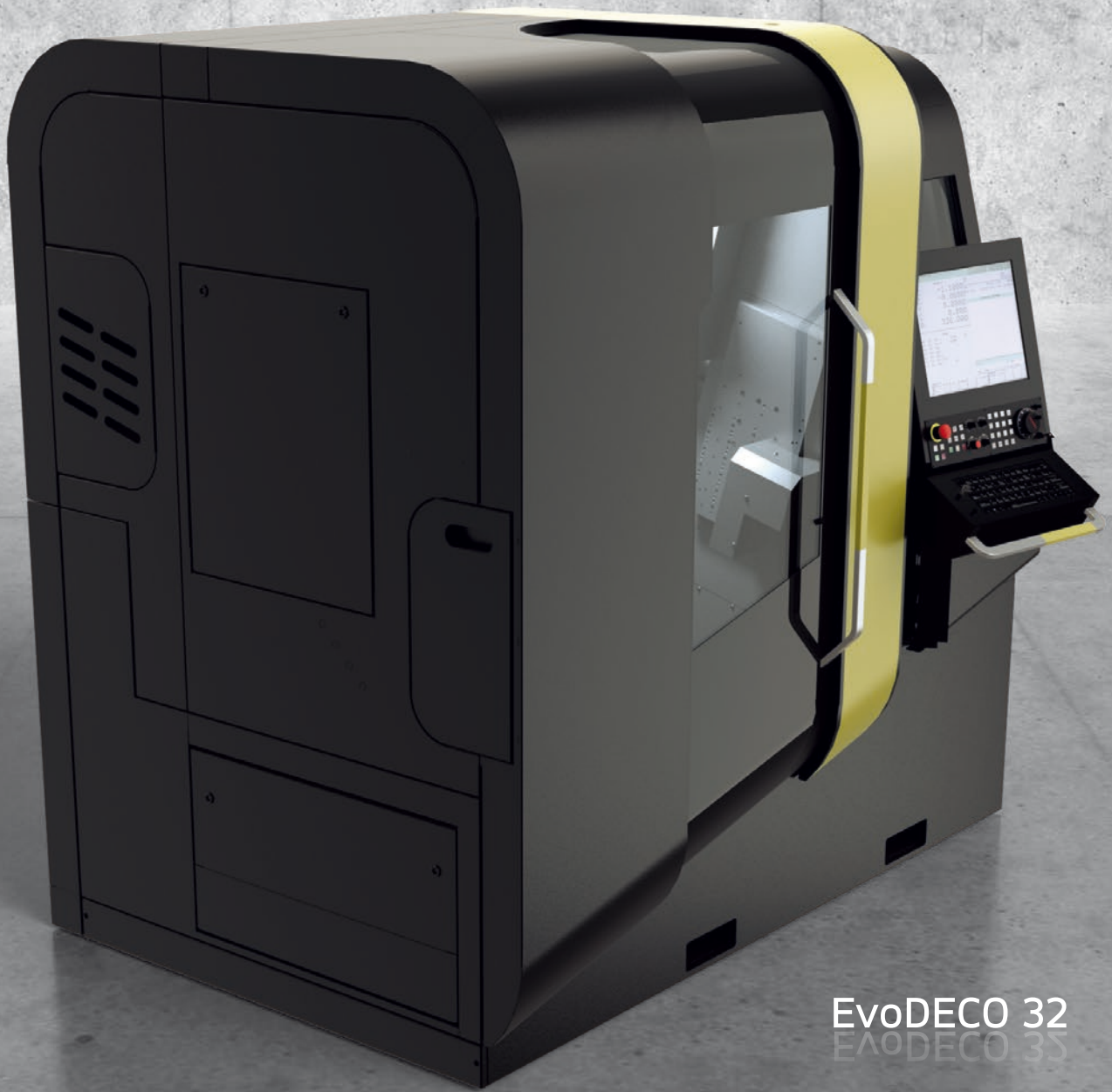
MultiSwiss Silver Edition is the optimized version using bars.



The number of MultiSwiss 6x14 sold clearly exceeds expectations.

We permanently analyze the environment to maintain our leadership.

*d machine;
ectations.*



EvoDECO 32
EvoDECO 35

The customer at the center

By capitalizing on our history, we have developed a forward-looking product design system. Our ambition is for the new product portfolio to create a strong emotional attachment to the brand so that we can achieve a lasting, positive impact on business relations with our customers.

It goes without saying that development activities will still revolve around the key features of our products—performance, precision and longevity.

Every aspect of the design process is geared to our customers. Our design planning teams work on specific areas that can be effectively transferred to industrial machinery, namely the operators' working environment and ergonomic considerations such as accessibility, feeling safe or user interface layout and intuitiveness.

At brand level, these are perceived quality, personality, appeal, subliminal messages and compatibility with current aesthetic criteria.

At product range level, they are in compliance with our business strategy, improved performance and internal product compatibility.

Our new machine families will reveal their affiliation with the Group by means of the aluminum ribbon attached to them. This new identifier represents both the quality and innovation that we will be bringing to the market through our unique products.



BA 1008
BY 1008



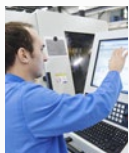
VA 1008
AV 1008

My EvoDECO 32 is so powerful it'll drill anything. It's also the best-looking machine in my shop and on the market.



#operatr
Automotive/
Germany

My DECOs' productivity is unbeatable. They make me faster and more flexible than my competitors.



#medicalcncscrew
Medtech/
USA

I had my DECO 10 completely overhauled by Tornos in Moutier. The first time in 15 years and it's like brand new!



#msgidht
Micromechanics/
Switzerland

The BA 1008 is an excellent bar milling machine, easy to set up and very productive. Hugely impressive!



#uniwatch
Watch industry/
Switzerland

The SwissNano is incredible! Completely different from any other machine. I'm proud to show it to the other apprentices here.



#darkvador95
Watch industry /
Switzerland

My Tornos is built to keep producing for decades.



#cntech
Automotive/
Brazil

Tweets from around the world

Tornos' new stand is amazing. The SwissNano is very impressive. I'd visit Tornos at the IMTS in Chicago again.



#ammach
Electronics/USA

The new CT20 typifies Tornos' Swiss quality. It meets the needs of the Chinese market perfectly.



#xiashag
Electronics/
China

My MultiSwiss made more than 200,000 stainless steel parts without a tool change thanks to its hydrostatic technology. Incredible!



#cnctech
Automotive/Japan

The MultiSigma and MultiSwiss achieve Ra of up to 0.5 with tough materials. Nothing else achieves that kind of performance.



#zet67
Automotive/
Taiwan

I machine 60 parts a minute in three teams; no problem with my Tornos SAS 16.6. It's the most reliable machine I've got.



#pec46
Electronics/
Thailand



Corporate Governance

The Board of Directors and General Management place great value on responsible and transparent corporate governance and control in the interests of shareholders, customers and staff. The disclosure of corporate governance as given below takes its model from the SIX Swiss Exchange Ltd. and complies with the corporate governance best practice rules of "economiesuisse". At Tornos, corporate governance is based on the Articles of Association and the Rules of Organization.

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Group structure and shareholders

Group structure

	Share capital	% held	
		2013	2012
Tornos Holding Ltd., Moutier <i>Holding</i>	CHF 89'449'519.50		
└ Tornos Management Holding Ltd., Moutier <i>Management of shareholdings and holding company</i>	CHF 65'000'000	100%	100%
└ Almac Ltd., La Chaux-de-Fonds <i>Production and sales</i>	CHF 1'175'000	100%	100%
└ Almatronic Ltd., La Chaux-de-Fonds <i>Dormant company</i>	CHF 50'000	100%	100%
└ Cyklos Ltd., Yverdon-les-Bains <i>Development and sales</i>	CHF 100'000	100%	100%
└ Tornos Ltd., Moutier <i>Production and sales</i>	CHF 65'000'000	100%	100%
└ Tornos Technologies Deutschland GmbH, Pforzheim <i>Support services</i>	EUR 511'292	100%	100%
└ Tornos Technologies Iberica SA, Granollers <i>Support services</i>	EUR 60'200	100%	100%
└ Tornos Technologies Italia Srl, Opera/MI <i>Support services</i>	EUR 93'600	100%	100%
└ Tornos Technologies Poland Sp. z o.o., Katy Wroclawskie <i>Support services</i>	PLN 50'000	100%	100%
└ Tornos Technologies UK Ltd., Coalville <i>Support services</i>	GBP 345'000	100%	100%
└ Tornos Holding France SA, St-Pierre-en-Faucigny <i>Holding</i>	EUR 12'496'800	100%	100%
└ Tornos Technologies France SAS, St-Pierre-en-Faucigny <i>Support services</i>	EUR 762'250	100%	100%
└ Tornos Technologies U.S. Corp. Bethel, CT <i>Sales and service</i>	USD 2'400'000	100%	100%
└ Tornos Technologies Asia Limited, Hong Kong <i>Support services</i>	HKD 10'000	100%	100%
└ Tornos Technologies (HK) Limited, Hong Kong <i>Support services</i>	HKD 10'000	100%	100%
└ Tornos Technologies (Shanghai) Limited, Shanghai <i>Sales and service</i>	USD 500'000	100%	100%
└ Tornos Comércio Importação e Exportação de Máquinas Ferramenta Ltda, São Paulo <i>Support services</i>	BRL 370'000	100%	100%
└ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i>Production</i>	RMB 10'000'000	70%	–

Organizational structure of the Group

The Group's organizational structure is defined by functional areas as follows: sales and marketing, production and development, customer service, and general and financial services. The Group is managed by General Management comprising the three members as listed below:

General Management

Michael Hauser Chair
Bruno Allemand
Luc Widmer

Listed companies in the consolidation

Tornos Holding Ltd. is the only consolidated company within the Group to be listed on the stock exchange. The subsidiaries are not listed. Tornos shares are traded on the SIX Swiss Exchange, Zurich, under securities number TOHN (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 91.8 million.

Unlisted companies in the consolidation

Tornos Holding SA has no unconsolidated shareholdings.

2013

The company Tornos (Xi'an) Machine Works Co., Ltd. was created on September 23, 2013, in the scope of a joint venture in Xi'an, People's Republic of China. Tornos Ltd. owns a 70% stake in the company.

The purpose of the company is to manufacture lathes for the mid-range segment.

This was the sole change in the scope of consolidation during the year under review.

2012

Cyklos Ltd., Port Louis, Mauritius, the company that held the intellectual property rights to the new machine design for the surface treatment of machined parts and that was acquired on May 2, 2011, was liquidated on January 18, 2012. A new company established in Yverdon-les-Bains and also named Cyklos Ltd. was integrated on February 7, 2012 to sell and develop this new technology worldwide.

Tornos Ltd., Moutier, has acquired a minority shareholding of 1% in Tornos Comércio, Importação e Exportação de Máquinas Ferramenta Ltda, São Paulo to increase its participation in the company's share capital to 100%.

Shareholders

As at December 31, 2013, 2'070 shareholders were registered in the share register and held numbers of shares as follows:

More than 1'000'000 shares	3 shareholders
From 100'001 to 1'000'000 shares	10 shareholders
From 15'001 to 100'000 shares	34 shareholders
From 1 to 15'000 shares	2'023 shareholders

As at December 31, 2013, 2'594'771 shares, representing 13.05% of the total number of shares issued, were not registered in the share register (not assigned).

Major shareholders registered in the share register (i. e., representing 3% or more of the company's voting rights) are the following:

Shareholders	31.12.2013		31.12.2012	
	No. of shares	%	No. of shares	%
Walter Fust	6'624'263	33.32	3'898'448	25.18
Michel Rollier / Rollomatic Holding SA	2'853'733	14.36	1'253'733	8.10
Balfidor Fondsleitung AG	1'254'077	6.31	978'203	6.32
Berner Kantonalbank	661'545	3.33	661'545	4.27
Tornos Holding Ltd.	500'956	2.52	505'106	3.26
Tsugami Corporation	0	0.00	1'000'000	6.46
Number of shares known by the company or according to the latest declaration made to SIX Swiss Exchange Ltd. The percentages are based on the real number of shares at balance sheet date.				

The following communications were published according to article 20 of the Federal Law on Stock Exchanges and Security Trading in the course of 2012 and 2013:

Date	Shareholder	% of voting rights
03.07.2013	Tsugami Corporation	2.93
08.06.2013	Michel Rollier / Rollomatic Holding SA	14.36
07.06.2013	Tsugami Corporation	4.93
05.06.2013	Walter Fust	33.12
31.05.2013	Tornos Holding Ltd.	2.54
18.05.2013	Michel Rollier / Rollomatic Holding SA	18.41 ¹⁾
18.05.2013	Walter Fust	42.47 ¹⁾
23.08.2012	Walter Fust	25.17
19.05.2012	Tornos Holding Ltd.	3.12
17.05.2012	Raymond Stauffer	3.06
03.05.2012	Tornos Holding Ltd.	2.53
03.05.2012	Raymond Stauffer	2.96
22.03.2012	Balfidor Fondsleitung AG	5.02

¹⁾ Voting rights are calculated on the share total before the share capital increase.

Detailed information regarding above-mentioned or earlier publications can be found at the SIX Swiss Exchange website:

http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=11443

Tornos Holding Ltd. is unaware of any shareholders' pact.

Cross participations

There are no cross participations.

Capital structure

Capital

The Tornos Holding Ltd. share capital is as follows:

	31.12.2013			31.12.2012		
	No. of shares	Par value CHF	Share capital CHF	No. of shares	Par value CHF	Share capital CHF
Share capital	19'877'671	4.50	89'449'519.50	15'502'093	4.50	69'759'418.50
Authorized share capital	324'422	4.50	1'459'899.00	4'700'000	4.50	21'150'000.00
Contingent share capital	706'662	4.50	3'179'979.00	706'662	4.50	3'179'979.00

Specifications regarding authorized and contingent capital

The following information relates to the changes in authorized and contingent capital for 2013 and 2012. For changes occurring in 2011, please refer to Note 23.1 of the 2011 consolidated accounts, which are available on the website at: http://investors.tornos.com/sites/investors.tornos.com/files/data/publications/2011/e_tornos_gb11.pdf

Authorized capital

2013

The company has authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on April 17, 2012. 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 firm underwriting and partial increases is authorized. 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 best 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.

On May 30, 2013, the share capital was increased by issuing 4'375'578 registered shares with a par value of CHF 4.50 per share at CHF 7.00 per share.

On December 31, 2013, the authorized capital stood at CHF 1'459'899.00 with respect to 324'422 shares with a par value of CHF 4.50 per share.

2012

The company has authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on April 17, 2012. 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 firm underwriting and partial increases is authorized. 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 best 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.

As at December 31, 2012, authorized capital stood at CHF 21'150'000.00 with respect to 4'700'000 shares with a par value of CHF 4.50 per share.

Contingent capital

2013

As at 31 December 2013, the share capital could have been increased by up to CHF 3'179'979.00, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 706'662 shares with the said par value, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

2012

As at 31 December 2012, the share capital could have been increased by up to CHF 3'179'979.00, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 706'662 shares with the said par value, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

The detailed terms of the options have to be defined by the Board of Directors taking into account the above-mentioned requirements.

Capital changes

In KCHF	Share capital	Reserve from capital contribution – net	Reserve for treasury shares	Retained earnings	Total
Equity as at 31.12.2011	69'671	18'927	6'827	11'522	106'947
Issuance of new shares	88	56			144
Net result 2012				-528	-528
Equity as at 31.12.2012	69'759	18'983	6'827	10'994	106'563
Capital increase	19'691	10'939			30'630
Net result 2013				-13'049	-13'049
Transfer to reserve for treasury shares		56	-56		-
Equity as at 31.12.2013	89'450	29'978	6'771	-2'055	124'144

Shares and participation certificates

As at December 31, 2013, the ordinary share capital of Tornos Holding Ltd. amounted to CHF 89'449'519.50, and was divided into 19'877'671 fully paid up registered shares with a par value of CHF 4.50 per share, all having equal rights to dividends. There are no preferred shares or limitations with regard to voting rights. Each share corresponds to one vote ('one share, one vote').

There are no participation certificates.

Dividend right certificates

There are no dividend right certificates.

Restrictions on transfer and nominee registration

Tornos Holding Ltd. has only one type of share. These shares are not subject to any restriction on transfer.

Convertible loans and options

There are no convertible loans. Shareholding plans for persons designated by the Board of Directors exist. See Note 26 of the consolidated financial statements in the financial report with regard to the provisions of the share ownership plan in favor of individuals designated by the Board of Directors.

Board of Directors



François Frôté	Michel Rollier
Claude Elsen	Frank Brinken
	Philippe Maquelin



François Frôté (1953), Swiss

Chairman of the Board | *Appointed in 2002* | Elected until 2014 | Previous activities for Tornos: legal adviser | Committees: Chairman of the Nomination and Compensation Committee; Audit Committee | Training – final qualification on completion of studies: lawyer, law degree, University of Berne, 1979 | Current directorships: Rollomatic Holding SA: Director; Nugerol Holding SA: Director; Esco SA: Director; Bien-Air Holding SA: Director; Gebäudeversicherung Bern (GVB): Director; GVB Privatversicherungen AG: Director; PX Holding SA: Director; Azuréa Holding SA: Director; Coopérative Migros Neuchâtel Fribourg: Vice-Chairman | Professional activities: Law offices of Frôté & Partner: Lawyer and Director (since 1979)

Claude Elsen (1947), Luxembourg

Deputy Chairman of the Board | *Appointed in 2002* | Elected until 2014 | Previous activities for Tornos: none | Committee: none | Training – final qualification on completion of studies: M.Sc.E. Mec. Eng. RWTH (Rheinisch-Westfälische Technische Hochschule), Aachen, Germany, 1973; MBA, INSEAD, Fontainebleau, France, 1974 | Current directorships: BIA Group SA, Belgium: Director; Alpha Trains Group, Luxembourg: Director | Professional activities: DaimlerChrysler AG since 1996: Senior Vice President (from 1998 to 2002); Consilux: Managing Partner (since 2002)

Michel Rollier (1959), Swiss

Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: none | Committee: none | Training – final qualification on completion of studies: EPFL (Swiss Federal Institute of Technology Lausanne) engineer, 1985 | Current directorships: Rollomatic Holding SA, Chairman of the Board; Azuréa Holding SA: Director | Professional activities: Rollomatic SA, various management functions in the Group: Head of R&D (since 1989)

Frank Brinken (1948), Swiss

Appointed in 2011 | Elected until 2014 | Previous activities for Tornos: none | Committee: none | Training – final qualification on completion of studies: Engineer, Doctorate in Engineering, Polytechnic University of Aachen (RWTH), 1979; Honorary professor at Chemnitz University of Technology, Germany, 2013 | Current directorships: Calorifer AG: Director | Other professional bodies: CECIMO “European Committee for Cooperation of the Machine Tool Industries”: Chairman of the Economic Committee | Professional activities: Maag Pump Textron Systems: CEO (from 1995 to 2004); Starrag Group Holding AG: CEO (from 2005)

Philippe Maquelin (1951), Swiss

Appointed in 2011 | Elected until 2014 | Previous activities for Tornos: COO & CFO (from 2002 to 2010) | Committees: Chairman of the Audit Committee; Nomination and Compensation Committee | Training – final qualification on completion of studies: Economist (degree in economic sciences), University of Neuchâtel, 1976 | Current directorships: Nugerol Holding SA: Director; Banque Cantonale Neuchâteloise: Director; Previous professional activities: Ismeca Holding SA: CFO (from 1998 to 2002); Independent consultant (since 2002)

Members of the Board of Directors

2013

The Board of Directors comprises five members. At the Annual General Meeting 2013, Mr. Raymond Stauffer resigned as a Board member. No successor was elected.

No member has close business relations with Tornos Holding Ltd. or any Group company.

2012

The composition of the Board of Directors did not change in 2012.

Other activities and interest groups

No member of the Board of Directors has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest group other than those mentioned on page 39. No member holds an official function or political office.

Election and term of office

The Board of Directors of Tornos Holding Ltd. is made up of at least three members (currently five), the majority of whom are independent members with no executive function in the company. Members of the Board are elected individually, as and when necessary, by the General Meeting for a term specified by the latter but which may not exceed three years. They are eligible for reelection. The age limit is 70 years. The Chairman is elected by the Board of Directors. This information is subject to amendments following the introduction of the Ordinance against Excessive Remuneration in Listed Stock Companies Limited by Shares within the foreseen time limits.

Internal organization

The Rules of Organization of Tornos Holding Ltd. lay down the regulations for the company's operations, which are published on the website (in French only): <http://investors.tornos.com/sites/investors.tornos.com/files/data/governance/corporatedocuments/tornos-reglement-d-organisation-fr.pdf>

The information provided in the regulations are subject to amendments following the introduction of the Ordinance against Excessive Compensation in Listed Stock Companies Limited by Shares within the foreseen time limits.

The Rules of Organization set the following guidelines:

Authorities

The authorities of the various internal bodies are as follows:

The Board of Directors has the following duties and authorities:

- To exercise overall management of the company and issue the necessary instructions, including the approval of company policy and strategy;
- To determine the company's organization;
- To establish the accounting, financial control and planning principles and approve the annual plans and budgets (including investments);
- To appoint members of the General Management;
- To appoint and dismiss persons responsible for representing the company;
- To supervise the individuals entrusted with the management of the business, ensuring in particular that they comply with the provisions of law, and of the Articles of Association and regulations, and with the instructions issued;

- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the annual report, Group accounts, annual financial statements and resolutions for the appropriation of profits, and to carry out the decisions of the General Meeting;
- To inform the court in the event of over-indebtedness;
- To decide on calls to be made on partly-paid shares;
- To record capital increases and amend the Articles of Association appropriately;
- To determine the financial policy;
- To set guidelines for the company's information policy;
- To approve operations with major legal implications, exceptional transactions or unbudgeted financial commitments, where potential foreseeable risks exceed CHF 1 million, and in particular:
 - Contracts with third parties in areas outside the company's normal sphere of business;
 - Decisions to enter new business sectors or abandon existing ones;
 - The acquisition or sale of minority shareholdings;
 - Decisions to commence or terminate legal actions, or to enter into negotiated settlements.
- To approve unbudgeted investments in excess of CHF 250'000;
- To decide on the issuance of public loans and other capital market transactions;
- To decide on the establishment and liquidation of subsidiaries, and the acquisition or disposal of majority shareholdings;

- To decide on the purchase, mortgaging or sale of properties where the amount of the individual transaction is in excess of CHF 1 million;
- To oversee the activity of the General Management and in particular the implementation of the Board's decisions;
- Where the law requires auditors to be used, to ensure that they have the requisite professional skill;
- To provide advice to the General Management in all cases where the Board of Directors or the General Management itself deem it necessary or appropriate.

In cases where it is uncertain whether an issue falls within the remit of the General Management or the Board of Directors, the question is to be put to the Board of Directors for a ruling.

As far as is legally permitted, and subject to the responsibilities mentioned above, the Board of Directors delegates all aspects of management to the CEO and President. Accordingly, the CEO is responsible for all management and representation of the company. Hence, in matters falling within his remit, he will take the final decision.

In order to form a quorum, the majority of the members of the Board of Directors must be present at a meeting. If the votes are equal, the Chairman has the casting vote.

The Chairman of the Board of Directors has the following duties and authorities:

- To chair the General Meeting and meetings of the Board of Directors;
- To represent the Board of Directors to the public and before the authorities, shareholders and General Management;
- To brief the Board in a timely manner on all matters of importance to the company;

- To supervise the work of the General Management, and in particular the implementation of decisions of the Board of Directors;
- To advise the General Management;
- To carry out all tasks falling within his remit under the terms of the law, Articles of Association and Rules of Organization.

The CEO's duties and responsibilities include overseeing the company; representing the General Management to the Board of Directors, to the public and before the authorities; submitting proposals to the Board of Directors on all matters falling within the latter's remit; and organizing and overseeing the General Management.

The CEO may delegate management to certain members of General Management and other employees, as well as arrange for a deputy to represent him in case of absence, although this shall not absolve him from his responsibilities.

The Board of Directors meets as often as necessary, but at least four times a year. During 2013, eight meetings of various duration were held, as well as two conference calls. The Board of Directors regularly invited members of General Management to attend its meetings and, where necessary, invited external advisers when the items on the agenda required their expertise. Members of General Management also attended committee meetings.

General Management has the following duties and authorities:

- To manage the company in such a way as to ensure sound and sustainable development of the Tornos Group;
- To define the management tools to be used throughout the Group, in particular the planning, accounting, IT systems and internal control systems;

- To carry out regular analyses of company strategy and annual planning as well as their implementation; to submit proposals to the Board of Directors;
- To develop the corporate culture;
- To prepare all matters falling within the remit of the Board of Directors or its committees, and to implement their decisions;
- To approve job descriptions, instructions and guidelines issued within the organizational framework defined by the Board of Directors; approval of the job descriptions of members of General Management is the responsibility of the Board of Directors;
- To enter into contracts with third parties where the interests of several divisions of the company are involved or where the contracts are of importance to the Group;
- In general, to take decisions within all areas of the company's activity, within the scope of its delegated authority;
- To introduce the innovation process and examine development projects to be submitted to the Board as a whole;
- To define the portfolio of products and markets for approval by the Board of Directors;
- To examine acquisitions and disposals;
- To propose innovations to the Board of Directors for approval.

With the efficient allocation of duties in mind, the Board of Directors appointed Mr. François Frôté as Chairman and Mr. Claude Elsen as Deputy Chairman. It also set up the following committees:

Nomination and Compensation Committee

François Frôté (Chairman), Claude Elsen (member of the Committee up to the General Meeting on April 16, 2013), Philippe Maquelin

Under article 7.2 of the Rules of Organization of Tornos Holding Ltd, the Nomination and Compensation Committee has the following duties:

- Recommendations to the Board of Directors on the recruitment and selection of members of the General Management;
- Defining and setting terms and conditions for the recruitment and compensation of members of General Management;
- Evaluating the members of the General Management and setting the annual increases in remuneration to be awarded;
- Recommendations to the Board of Directors for the compensation arrangements of the Chairman of the Board and other directors;
- Recruitment, with a view to submitting recommendations to the Board of Directors or General Meeting with respect to new Board members;
- Approval of general principles of remuneration and other terms and conditions of employment for all staff;
- Approval of guidelines for annual salary increases for all staff;
- Reporting to the Board of Directors on the work of the Nomination and Compensation Committee.

During the 2013 financial year, article 7.1 of the Rules of Organization of Tornos Holding Ltd. relating to the composition of the Nomination and Compensation Committee was amended with effect from April 17, 2013. Under the said Rules, the Nomination and Compensation Committee now has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO have to be permanent invitees of the Committee with

consultative votes, and, lastly, the CFO may be invited to participate, with a consultative vote, either fully or partly in the Committee, depending on the decisions of the CEO. With respect to decisions, the rules also stipulate that in the event of an equally split vote on a decision, the Committee Chairman shall henceforth have the casting vote.

The Committee sat five times in the course of 2013 and held several informal sessions regarding the redimensioning of General Management (reduction to three members as from December 1, 2013). In this context, the Committee discussed in particular with regard to the nomination procedure for Mr. Bruno Allemand (Head of Sales) and the stepping down of Messrs. Carlos Cancer, Pierre-Yves Müller, Olivier Marchand, and André Chardonnereau from General Management. The decisions relating to these changes were made directly by the Board of Directors.

Mr. Michael Hauser (CEO) attended five meetings as a permanent guest. Mr. Frank Brinken attended the meeting on December 9, 2013 as a permanent guest. Mr. Luc Widmer (CFO) partially attended the meetings on October 7 and December 9, 2013, as a guest.

In particular, the following subjects were covered:

- Management of the nomination procedure for the new Head of Sales and preparation of the appointment of Mr. Bruno Allemand as Head of Sales;
- Issue of reducing the number of members of the Board of Directors;
- Identification of the individuals to participate in the "Management and Board Participation Plan 2007 (MBP 07)";
- Evaluation of the evolution of General Management;
- Issue of adapting employment contracts to the requirements of the Ordinance against Excessive Compensation in Listed Companies Limited by Shares;

- Investigate modifying the "Management and Board Participation Plan 2007 (MBP 07)";
- Investigate redesigning the pension fund for the members of the General Management;
- Assessment and review of Management and senior staff salaries for 2014;
- Remuneration for the members of the Board of Directors for 2014 and 2015.

The Chairman of the Nomination and Compensation Committee provided regular reports on the Committee's meetings to the Board of Directors; he also submitted resolutions for a decision. The minutes of committee meetings were distributed to the Directors.

Audit Committee

Philippe Maquelin (Chairman), Claude Elsen (member of the Committee up to the General Meeting on April 16, 2013), François Frôté

Under article 8.2 of the Rules of Organization of Tornos Holding Ltd., the Audit Committee has the following powers and duties:

- Recommendation to the Board of Directors concerning the appointment of auditors;
- Definition and interpretation of accounting standards;
- Reviewing and putting together the annual and semi-annual reports and presenting them to the Board as a whole;
- Reviewing and structuring capital market transactions for submission to the Board as a whole;
- Overseeing the compliance with the SIX Swiss Exchange directives;
- Overseeing the work of the auditors;

- On the instructions of the Board of Directors, monitoring particular operational or financial matters of the Group;
- Recommendation to the Board of Directors concerning the financial and dividend policy of the Tornos Group;
- Reporting to the Board of Directors on the work of the Audit Committee.

During the 2013 financial year, article 8.1 of the Rules of Organization of Tornos Holding Ltd. relating to the composition of the Audit Committee was amended with effect from April 17, 2013. Under the said Rules, the Audit Committee now has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO have to be permanent invitees of the Committee with consultative votes, and, lastly, the CFO may be invited to participate, with a consultative vote, either fully or partly in the Committee, depending on the decisions of the CEO. If required, the auditor may participate with a consultative vote. The Committee meets as often as necessary, but at least once a year. With respect to decision, the rules also stipulate that in the event of an equally split vote on a decision, the Committee Chairman shall henceforth have the casting vote.

The Committee met eight times in 2013, including once via conference call. Meetings lasted three and a half hours on average. Mr. Michael Hauser (CEO and permanent guest) and Mr. Luc Widmer (CFO and guest) attended all the meetings. Mr. Claude Elsen attended the conference call on July 25 as a permanent guest; Mr. Frank Brinken partially attended the meetings on November 11 and December 9 as a permanent guest; the auditors attended one meeting.

In particular, the following main topics were discussed:

- Review of the financial statements and annual report for 2012;

- Review of the Group auditor's report to the Audit Committee;
- Periodic review of the utilization of the authorized capital and the contingent capital of Tornos Holding Ltd.;
- Review of the capital increase of May 29, 2013;
- Review of the financial plan 2013–2017;
- Periodic review of impairment tests and extraordinary amortization and depreciation relating to the strategic and operational reorientation of the Group;
- Periodic review of the Group's long-term financing and lines of credit;
- Review of the intermediate financial statements on June 30 and the half-year report 2013;
- Review of the risk management map;
- Review of the internal control system of the Tornos Group;
- Review of the audit plan;
- Review of the Tornos Holding Ltd. Board of Directors report with regard to article 29 SESTA (Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act) and the interim financial statements as at September 30, 2013, that were published in the scope of the public tender offer by Mr. Walter Fust on November 27, 2013.

The Audit Committee also reviewed the quarterly financial results, the forecast for 2013 and the budget 2014. It reviewed the information to be released to the financial community. It examined certain specific points related to financial, accounting and taxation issues, as well as the interpretation, adaptation and implementation of accounting standards for the Group, IFRS and the SIX Swiss Exchange directives as they relate

to the preparation and publication of the Group's financial statements. The Committee examined and followed up with numerous operational questions potentially having a significant impact on the Group's financial statement. It participated in the tender offer regarding the auditors for 2014. It also assessed the performance of the auditors and its own work.

At each Board meeting, the Chairman of the Audit Committee gave an account of the Committee's work and submitted proposals for decision. The minutes of Committee meetings were distributed to the Directors.

Alliances Committee

The Alliances Committee was instituted by the Board of Directors at its meeting on April 29, 2008, in connection with the alliance with Tsugami. Due to the end of this partnership, the Board of Directors decided during the year under review to dissolve the Committee.

Products Committee

In the year under review, the Board of Directors decided to dissolve the Products Committee and to take on its duties.

Information and control methods for oversight of management

At its meetings, the Board of Directors is regularly kept verbally informed by General Management on the progress of business. In addition, a periodic management information system is in place, distributed to all members of the Board, whereby the most important indicators are compared on a weekly basis (orders received) and on a monthly basis written reports are issued, containing information on order intake, financials and operations. The budget is revised twice a year and reviewed by the Audit Committee. General Management also identifies and quantifies risks on an annual basis, defining appropriate preventive measures. The Audit Committee submits this document to the Board for approval.

Members of General Management

In accordance with the Group's organizational structure described above, General Management consists of two members plus Mr Michael Hauser, who also acts as Chief Executive Officer.

In the course of 2013, the following changes took place:

- *On January 28, 2013, Mr. Willi Nef, Head of Sales, resigned and left General Management and the company at the end of May 2013.*
- *On August 13, 2013, Mr. Carlos Cancer, Head of Market & Sales Support, resigned and left General Management at the end of November 2013; he left the company at the end of December 2013.*
- *On September 2, 2013, Mr. Bruno Allemand assumed his duties as Head of Sales & Marketing.*
- *On November 5, 2013, the redimensioning to three members was announced by General Management, with effect on December 1, 2013. Mr. Pierre-Yves Müller, COO, and Mr. Olivier Marchand, CTO, resigned and left the Group. Mr. André Chardonnerau, Head of Development and Engineering, was appointed Head of Product Development at Almac Ltd. as from December 1, 2013. Consequently, he left the Group's General Management.*

Other activities and interest groups

No member of General Management has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest groups, other than those mentioned on page 47. No member holds an official function or political office.

Management contracts

There are no management contracts with companies or individuals outside the Group.

Guidelines

The compensation paid to the members of the Board of Directors and General Management during the 2013 financial year is shown below. The provisions of the Ordinance of November 20, 2013 against Excessive Compensation in Listed Companies Limited by Shares that cover reporting on compensation had not yet come into force during the 2013 financial year. However, the information given below is set out in line with the requirements of the said Ordinance. The Remuneration Report gives a complete picture of the principles and elements applied by the Tornos Group, and of the structure and responsibilities relating to compensation. It contains detailed information about the remuneration, shares and loans of the Board of Directors and General Management.

General Management

Michael Hauser (1961), Swiss, German

Chief Executive Officer | Appointed in 2011 | Training – final qualification on completion of studies: Diplom-Kaufmann, University of Mannheim, 1988 | Current directorship: none | Other professional bodies: SWISSMEM, Council member and chairman of the “Machine tools and manufacturing technology” division; CECIMO “European Committee for Co-operation of the Machine Tool Industries”, Board member and Vice Chairman (Chairman from 2009 to 2011) | Previous professional activities: Agie Charmilles Group (CH): Mikron Agie Charmilles Ltd. (CH), Bostomatic Inc. (US), Step Tec AG (CH): Head of Milling Division and Group Management member (from 2000 to 2008); Head of GF AgieCharmilles; Georg Fischer Ltd. (CH): Member of the Executive Committee (from 2008 to 2010)



Luc Widmer (1969), Swiss

Chief Financial Officer | Appointed in 2012 | Training – final qualification on completion of studies: Business economist, University of Applied Sciences, Olten, 1998 | Current directorship: none | Previous professional activities: ALSTOM (Suisse) Ltd.: Chief Financial Officer Gas Segment Manufacturing (from 2001 to 2002); Managing Director Gas Turbine Logistics (from 2003 to 2004); Mikron Technology Group: Division Controller (2005); Forteq Group: Chief Financial Officer (from 2006 to 2012)



Bruno Allemann (1965), Swiss

Head of Sales & Marketing | Appointed in 2013 | Training – final qualification on completion of studies: Diploma SME-HSG, University of St. Gallen, 2004 | Current directorship: none | Previous professional activities: Mikron Ltd., Nidau: Head of Regional Sales, Head of Sales (from 1990 to 1998), Sales Director Switzerland (from 1999 to 2000); Agie Charmilles Group: Mikron Sales Ltd.: Director (from 2001 to 2007); Agie Charmilles GmbH (Germany): Managing Director (from 2007 to 2011); GF AgieCharmilles: Head of Marketing & Sales Support Milling (from 2011 to 2013)



Remuneration report

Remuneration system

Principles

The principles of remuneration in use at the Tornos Group provide a transparent, competitive and performance-related salary framework. Both basic annual salary and variable remuneration components are influenced by the performance appraisal conducted each year.

The members of the Board of Directors receive remuneration in the form of a fixed annual salary. In addition, they participate in the Tornos Group's option and stock purchasing program.

The members of the General Management receive fixed and variable annual remuneration. In addition, they participate in the Tornos Group's option and stock purchasing programme.

In the event of a change of control, the blocking periods specified in the Tornos Group's option and stock purchasing program become null and void.

Remuneration of the members of the Board of Directors

The remuneration of the members of the Board of Directors is set annually by the Board of Directors on the basis of a proposal made by the Nomination and Compensation Committee. In this respect, the role played by the member concerned within the organization of the Board of Directors on the one hand, and their participation in the committees of the Board of Directors on the other, are of crucial importance. On this basis, and taking into account the experience of previous years with regard to the time spent in meetings of the Board of Directors and committees, and on advisory and preparatory work, an estimate of the time spent is calculated for the various post holders, on the basis of which lump sum fees payable in cash are calculated. The basis for calculating these lump sum fees is therefore an estimate of the time spent and a daily rate based on the fees charged by a consultant for similar services (senior strategy and management consultant). In addition to the fixed remuneration, members of the Board of Directors may be allocated options or shares as part of the shareholding plan.

Members of the Board of Directors do not have the right to severance pay or any benefits relating to the termination of their mandate.

Remuneration of the members of the General Management

The fixed remuneration paid to members of the General Management is determined annually with reference to the Towers Watson Data Services survey of the salaries of Swiss managers ("Compensation Report Switzerland") on the one hand; however, contractual matters are withheld. On the other, the individual performance of the person concerned is evaluated by the Nomination and Compensation Committee. That committee sets the remuneration of each member of the General Management and informs the Board of Directors of its decisions. The variable components are factored in when determining the fixed remuneration. Variable remuneration is dependent on profitability criteria and on the achievement of annual individual qualitative and quantitative targets by the person concerned. The applicable financial criteria for the members of the General Management are the EBIT margin and new orders. Depending on the position in question, part of the variable remuneration may be linked to specific financial or non-financial targets. On average, variable remuneration ranges between 20% and 25% of the fixed salary. However, it may be twice as high and reach nearly 50% of the fixed remuneration if the individual targets are significantly exceeded, the EBIT margin is 15% or more, or new orders exceed the target by 20% or more.

The CEO and CFO benefit from a contractual clause that provides for a one-off severance allowance to be paid only in the event of the employer terminating the contract for reasons other than termination of the employment relationship without notice pursuant to article 337 of the Code of Obligations. In this case, at the end of the six-month notice period, a fixed annual salary is payable, in addition to the variable remuneration for the preceding financial year. The other members of the Board of Directors do not benefit from a one-off contractual severance allowance. Furthermore, they have six-month notice periods. The employment agreements will be subject to amendments following the introduction of the Ordinance against Excessive Compensation in Listed Stock Companies Limited by Shares within the foreseen time limits.

Remuneration paid to the Board of Directors in 2013

Overview of functions

The members of the Board of Directors assumed the following functions:

	Board of Directors			Nomination and Compensation Committee		Audit Committee	
	Chairman	Deputy Chairman	Member	Chairman	Member	Chairman	Member
François Frôté							
Claude Elsen							
Philippe Maquelin							
Michel Rollier							
Frank Brinken							
Raymond Stauffer*							

* Mr. Raymond Stauffer resigned with effect as of the Ordinary General Meeting 2013.

Remuneration

Remunerations mentioned below have been validated by the financial auditors in the scope of the consolidated financial statements (see Note 31.1.1 of the financial report).

In KCHF unless otherwise stated	Remuneration fixed in cash	Other remuneration in cash	Total remuneration in cash	Shares (number)	Stock options (number)
François Frôté	200	26	226	0	8'000
Claude Elsen	80	11	91	0	8'000
Philippe Maquelin	140	18	158	0	8'000
Michel Rollier	80	11	91	0	8'000
Frank Brinken	80	11	91	0	8'000
Current Board of Directors	580	77	657	0	40'000
Raymond Stauffer*	27	4	31	0	8'000
Total Board of Directors	607	81	688	0	48'000

* Mr. Raymond Stauffer resigned with effect as of the Ordinary General Meeting 2013.

Other remuneration comprises payments made in respect of social security contributions. Shares and options on shares were allocated within the framework of the company's option and stock purchasing program in 2013 and may not be exercised until April 30, 2015.

The above information includes all the remuneration paid to the members of the Board of Directors. During the period under review and at the end of the financial year, the company did not grant any loans or other benefits to members of the Board of Directors or their families.

Remuneration paid to the Board of Directors in 2012

Overview of functions

The members of the Board of Directors assumed the following functions:

	Board of Directors			Nomination and Compensation Committee		Audit Committee		Products Committee		Alliances Committee	
	Chairman	Deputy	Member	Chairman	Member	Chairman	Member	Chairman	Member	Chairman	Member
	Chairman										
François Frôté											
Claude Elsen											
Philippe Maquelin											
Michel Rollier											
Frank Brinken											
Raymond Stauffer											

Remuneration

Remunerations mentioned below have been validated by the financial auditors in the scope of the consolidated financial statements (see Note 31.2.1 of the financial report).

In KCHF unless otherwise stated	Remuneration fixed in cash	Other remuneration in cash	Total remuneration in cash	Shares (number)	Stock options (number)
François Frôté	200	26	226	0	8'000
Claude Elsen	80	9	89	0	8'000
Philippe Maquelin	140	26	166	0	15'333
Michel Rollier	120	16	136	8'000	0
Frank Brinken	80	8	88	8'000	0
Raymond Stauffer	120	17	137	0	15'333
Total Board of Directors	740	102	842	16'000	46'666

Other remuneration comprises payments made in respect of social security contributions. Shares and options on shares were allocated within the framework of the company's option and stock purchasing program in 2012 and may not be exercised until April 30, 2014.

The above information includes all the remuneration paid to the members of the Board of Directors. During the period under review and at the end of the financial year, the company did not grant any loans or other benefits to members of the Board of Directors or their families.

Remuneration paid to members of the General Management in 2013

The remuneration paid to the members of the General Management during the financial year under review came to CHF 1.1 million; the members of the General Management who left the company during the period under review were paid CHF 1.8 million. These remuneration figures are the amounts booked during the period under

review, although the variable cash remuneration will not be paid until May 2014.

Remunerations mentioned below have been validated by the financial auditors in the scope of the consolidated financial statements (see Note 31.1.1 of the financial report).

In KCHF unless otherwise stated	Remuneration fixed in cash	Remuneration variable in cash	Other remuneration in cash	Total remuneration in cash	Shares (number)	Stock options (number)
Michael Hauser (CEO)	573	0	104	677	0	30'000
Other members of General Management	366	0	70	436	0	0
Current General Management	939	0	174	1'113	0	30'000
Former members of General Management	1'465	51	285	1'801	0	52'917
Total General Management	2'404	51	459	2'914	0	82'917

Other remuneration comprises payments made in respect of retirement pensions and social security contributions. Shares and options on shares were allocated within the framework of the company's option and stock purchasing program in 2013 and may not be exercised until April 30, 2015.

The above information includes all the remuneration paid to the members of the General Management. During the period under review and at the end of the financial year, the company did not grant any loans or other benefits to members of the General Management or their families.

Remuneration paid to members of the General Management in 2012

The remuneration paid to the members of the General Management during the financial year under review came to CHF 2.4 million; the members of the General Management who left the company during the period under review were paid CHF 1.4 million. These remuneration figures are the amounts booked during the

period under review, although the variable cash remuneration was only paid in May 2013.

Remunerations mentioned below have been validated by the financial auditors in the scope of the consolidated financial statements (see Note 31.2.1 of the financial report).

In KCHF unless otherwise stated	Remuneration fixed in cash	Remuneration variable in cash	Other remuneration in cash	Total remuneration in cash	Shares (number)	Stock options (number)
Michael Hauser (CEO)	573	0	108	681	1'000	29'000
Other members of General Management	1'333	107	275	1'715	200	79'800
Current General Management	1'906	107	383	2'396	1'200	108'800
Former members of General Management	1'112	20	239	1'371	0	40'000
Total General Management	3'018	127	622	3'767	1'200	148'800

Other remuneration comprises payments made in respect of retirement pensions and social security contributions. Shares and options on shares were allocated within the framework of the company's option and stock purchasing program in 2012 and may not be exercised until April 30, 2014.

The above information includes all the remuneration paid to the members of the General Management. During the period under review and at the end of the financial year, the company did not grant any loans or other benefits to members of the General Management or their families.

Share and option holdings by members of the Board of Directors and General Management

Below-mentioned information has been validated by the financial auditors in the scope of the consolidated financial statements (see Notes 31.1.1 and 31.2.1 of the financial report).

	Number at 31.12.2013		Number at 31.12.2012	
	Shares	Options	Shares	Options
François Frôté	190'567	16'000	190'567	16'000
Claude Elsen	55'218	16'000	55'218	16'000
Philippe Maquelin	59'975	53'333	59'975	75'333
Michel Rollier	2'853'733	8'000	1'253'733	8'000
Frank Brinken	9'000	8'000	9'000	0
Raymond Stauffer	457'933	23'333	457'933	15'333
Total Board of Directors	3'626'426	124'666	1'986'426	130'666
Michael Hauser (CEO)	1'000	59'000	1'000	29'000
Luc Widmer	0	0	0	0
Bruno Allemand	0	0	0	0
Pierre-Yves Müller*			0	0
Olivier Marchand*			200	19'800
André Chardonnerau*			2'000	30'000
Carlos Cancer*			8'922	40'000
Willi Nef*			12'547	36'500
Total General Management	1'000	59'000	23'669	155'300

* These persons were not part of the General Management as at December 31, 2013.

Participation rights of shareholders

Limitation and representation of voting rights

In accordance with Article 10 of the Articles of Association, there are no voting restrictions, with each share entitling its owner to one vote. Under the Articles of Association, shareholders may only be represented at General Meetings by their legal representative, another shareholder with voting rights, the independent proxy, the company representative or the representative of a securities custodian.

Statutory quorum

Apart from the quorums specified in Article 704 CO, Article 11 of the Articles of Association provides for a qualified quorum of at least two-thirds of the votes represented and an absolute majority of the nominal value of the shares represented in the case of a vote on the limitation of the exercise of voting rights or any change or cancellation of such limitation.

Convening General Meetings

Convening General Meetings according to Article 8 of the Articles of Association must comply with statutory prescriptions.

Entry of items on the agenda

Shareholders representing a nominal value of CHF 1'000'000 or more may demand that an item for discussion be entered on the agenda. They must submit their request at least 45 days before the meeting, in writing, quoting the items to be discussed and the motions.

Entries in the share register

Entries in the share register (register closing date) must be made at least 11 days before the General Meeting.

Control and warding-off mechanisms

Obligation to submit an offer

The legal thresholds apply with regard to the obligation to submit a public offer.

Takeover clauses

In the event of a takeover, the lock-in period stipulated for shares and options under the employee share option schemes will become null and void. There are no other clauses relating to takeovers in favor of members of the Board of Directors and members of General Management, other than the severance payments set out in chapter "Remuneration system" (see pages 48-49).

Auditors

Since financial year 2006, the auditors of the holding company and Group have been PricewaterhouseCoopers Ltd., Neuchâtel.

Term of office of the auditors and of the senior auditor responsible

The auditors are appointed annually by the General Meeting of Shareholders. Mr. Michael Foley (Fellow of the Institute of Chartered Accountants) was the senior auditor responsible since 2007. He was replaced by Mr. Olivier Kuntze, Chartered Public Accountant, in the course for the year under review. Every three to five years a call for tenders is issued to duly qualified

accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading the assignment, and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee, and by feedback from management on the way the audits are conducted. The same procedure applies to the evaluation of additional non-audit services supplied.

Audit and additional fees

The audit fees paid to PricewaterhouseCoopers Ltd. are as follows:

Fees in CHF	2013	2012
Auditing	185'000.00	228'000.00
Other services	61'182.00	144'782.50

Other services include legal and tax services.

Means of receiving information from the external auditors

The Audit Committee monitors the external auditors on behalf of the Board of Directors. The audit plan is submitted by the auditors to the Audit Committee for approval of the areas to be the object of particular scrutiny in the year under review. The Audit Committee also asks the auditors to carry out reviews of specific areas that are not included in the audit plan but for which particular reassurance is sought. PricewaterhouseCoopers Ltd. keeps the Audit Committee regularly advised of its activity, and

participates in meetings of the Committee as required. It is kept informed of the work of the Audit Committee by receiving a copy of the minutes. In 2013, the auditors attended one meeting of the Audit Committee and submitted two reports to the members of the Audit Committee and the members of the Board of Directors respectively. At the end of the year, the Audit Committee examines, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the holding and Group company together with the financial report.

Information and disclosure policy

Tornos keeps its shareholders informed of the state of business and events relevant to the stock exchange through the annual and half-yearly reports, and, on a quarterly basis or as required, by way of press releases to the media. All important information can be consulted on the company's website at www.tornos.com. The annual report as well as the financial report containing information relating to the remuneration of members of the Board of Directors and General Management may be ordered from Tornos Ltd., Investor Relations, rue Industrielle 111, CH-2740 Moutier.

The French version of the annual report is definitive.

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