TORNOS

Consolidated Financial Statements 2013

Tornos Holding Ltd.

Consolidated Financial Statements 2013 Tornos Holding Ltd.

Tornos Group

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Tornos Holding Ltd., Moutier

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

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Tornos Holding Ltd., which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements (pages 6 to 73), for the year ended December 31, 2013.

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

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended December 31, 2013 give a true and fair view of the financial position, the results of operations and the cash flow in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers SA

Oliver Kuntze
Audit expert
Auditor in charge

Aude Joly
Audit expert

Neuchâtel, March 3, 2014

Consolidated income statement

In thousands of CHF, except per share data

For the years ended December 31,	Notes	2013	2012
			Restated (note 2.3)
Gross sales		**155'250**	**184'826**
Rebates and discounts		-4'434	-3'260
Net sales	28	**150'816**	**181'566**
Cost of sales	6	-127'007	-134'870
Gross profit		**23'809**	**46'696**
Marketing and sales	6	-27'379	-31'384
General and administrative expenses	6	-20'320	-20'604
Research and development	6	-12'313	-17'786
Other income - net	8	257	730
Operating income/(loss) (EBIT)		**-35'946**	**-22'348**
Finance incomes	9	1'860	197
Finance expenses	9	-2'305	-2'782
Exchange losses, net	10	-767	-767
Loss before income taxes		**-37'158**	**-25'700**
Income tax credit/(charge)	11	-8'441	3'070
Net loss		**-45'599**	**-22'630**
Loss attributable to:			
Owners of the parent		-45'586	-22'630
Non-controlling interests		-13	none
Loss per share	27		
- basic		-2.59	-1.51
- diluted		-2.59	-1.51
EBIT (operating income/(loss) before finance expenses, net, exchange losses and income taxes)		**-35'946**	**-22'348**
Depreciation, amortisation and impairment		7'606	14'758
EBITDA (operating income/(loss) before finance expenses, net, exchange losses, income taxes, depreciation, amortisation and impairment)		**-28'340**	**-7'590**

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

Consolidated statement of comprehensive income

In thousands of CHF

For the years ended December 31,	2013	2012
		Restated (note 2.3)
Net loss	**–45'599**	**–22'630**
Other comprehensive income/(loss)		
Items that will not be reclassified to profit or loss:	8'062	–7'147
Remeasurements of defined benefit pension plans,		
Net of KCHF –1'414 tax (2012: KCHF 1'305)		
Other items that will not be reclassified to profit or loss	**8'062**	**–7'147**
Items that may be or were reclassified to profit or loss:	–2'222	–625
Fair value gain/(loss) on available-for-sale financial assets,		
net of KCHF 187 tax (2012: KCHF 53)		
Cash flow hedges, net of KCHF 0 tax (2012: KCHF 301)	0	–1'581
Currency translation difference	298	–85
Other items that may be or were reclassified subsequently to profit or loss	**–1'924**	**–2'291**
Total comprehensive loss	**–39'461**	**–32'068**
Attributable to:		
Owners of the parent	–39'448	–32'068
Non-controlling interests	–13	none

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

Consolidated balance sheet

In thousands of CHF

For the years ended December 31,	Notes	2013	2012	2011
			Restated (note 2.3)	Restated (note 2.3)
ASSETS				
Cash and cash equivalents	12	11'142	10'884	17'068
Trade receivables	13	26'032	36'204	46'381
Available-for-sale financial assets	16	–	5'985	–
Inventories	14	59'821	78'176	84'373
Other receivables and prepayments	15	11'183	6'799	11'935
Assets classified as held for sale	17	891	–	–
Total current assets		**109'069**	**138'048**	**159'757**
Available-for-sale financial assets	16	–	–	6'663
Property, plant and equipment	17	25'526	29'130	32'120
Intangible assets	18	2'987	6'931	16'290
Deferred tax assets	19	4'938	14'068	8'936
Total non-current assets		**33'451**	**50'129**	**64'009**
Total assets		**142'520**	**188'177**	**223'766**
LIABILITIES AND EQUITY				
Interest bearing loans and borrowings	20	70	245	35'843
Loan from shareholders	20/30	10'000	–	–
Trade payables		18'819	17'353	29'329
Current tax liabilities		78	199	93
Other liabilities	21	14'533	15'692	17'473
Provisions	22	4'420	4'436	5'323
Total current liabilities		**47'920**	**37'925**	**88'061**
Interest bearing loans and borrowings	20	367	437	699
Loan from shareholders	20/30	–	40'000	–
Retirement benefit obligations	23	20'565	27'124	20'920
Provisions	22	727	773	836
Deferred tax liabilities	19	123	68	156
Total non-current liabilities		**21'782**	**68'402**	**22'611**
Total liabilities		**69'702**	**106'327**	**110'672**
Equity attributable to owners of the parent		72'391	81'850	113'094
Non-controlling interests		427	none	none
Total equity		**72'818**	**81'850**	**113'094**
Total liabilities and equity		**142'520**	**188'177**	**223'766**

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

Consolidated statement of changes in equity

In thousands of CHF	Ordinary shares	Share premium	Treasury shares	Retained earnings	Total with owners of the parent	Non-controlling interest	Total equity
At December 31, 2011 (audited)	**69'671**	**18'808**	**-6'827**	**47'749**	**129'401**	**none**	**129'401**
Restatement following IAS 19R				-16'307	**-16'307**	–	**-16'307**
At December 31, 2011 (restated)	**69'671**	**18'808**	**-6'827**	**31'442**	**113'094**	–	**113'094**
Comprehensive income							
Net loss				-22'630	**-22'630**	–	**-22'630**
Other comprehensive income							
Fair value loss on available-for-sale financial assets				-625	**-625**	–	**-625**
Cash flow hedges				-1'581	**-1581**	–	**-1'581**
Currency translation difference				-85	**-85**	–	**-85**
Remeasurements of defined benefit pension plans (IAS 19R)				-7'147	**-7'147**	–	**-7'147**
Total comprehensive loss	–	–	–	**-32'068**	**-32'068**	**-**	**-32'068**
Transactions with owners							
Issuance of new shares for stock compensation plan	88	56			**144**	–	**144**
Share-based compensation				680	**680**	–	**680**
Total transactions with owners	**88**	**56**	–	**680**	**824**	–	**824**
At December 31, 2012 (restated)	**69'759**	**18'864**	**-6'827**	**54**	**81'850**	**none**	**81'850**

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

In thousands of CHF	Ordinary shares	Share premium	Treasury shares	Retained earnings	Total with owners of the parent	Non-controlling interest	Total equity
At December 31, 2012 (restated)	**69'759**	**18'864**	**-6'827**	**54**	**81'850**	**–**	**81'850**
Comprehensive income							
Net loss				-45'586	**-45'586**	-13	**-45'599**
Other comprehensive income							
Fair value loss and recycling on available-for-sale financial assets sold				-2'222	**-2'222**	**–**	**-2'222**
Currency translation difference				298	**298**	–	**298**
Remeasurements of defined benefit pension plans (IAS 19R)				8'062	**8'062**	**–**	**8'062**
Total comprehensive loss	–	–	–	**-39'448**	**-39'448**	**-13**	**-39'461**
Transactions with owners							
Proceeds from shares issued, net of expenses paid	19'691	9'985			**29'676**	–	**29'676**
Proceeds from sale of treasury shares		-35	56		**21**	–	**21**
Share-based compensation				292	**292**	–	**292**
Total transactions with owners of the parent	**19'691**	**9'950**	**56**	**292**	**29'989**	**–**	**29'989**
Non-controlling interest arising on incorporation of the joint-venture in Xi'an	–	–	–	–	–	440	**440**
Total changes in ownership interests in subsidiaries that do not result in a loss of control	**–**	**–**	**–**	**–**	**–**	**440**	**440**
Total transactions with owners	**19'691**	**9'950**	**56**	**292**	**29'989**	**440**	**30'429**
At December 31, 2013	**89'450**	**28'814**	**-6'771**	**-39'102**	**72'391**	**427**	**72'818**

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

Consolidated statement of cash flows

In thousands of CHF

For the years ended December 31,	Notes	2013	2012
			Restated
Net loss		**-45'599**	**-22'630**
Adjustments for:			
Taxes	11	8'441	-3'070
Depreciation & Impairment of property, plant and equipment	17	3'123	4'003
Amortisation & Impairment of intangible assets	18	4'483	7'882
Goodwill impairment	18	-	2'873
Gain on recycling of available-for-sale financial assets	9	-1'726	-
Gain on disposal of property, plant and equipment	8	-179	-457
Share-based compensation	26	292	680
Employee defined benefit obligation		2'429	-2'558
Allowance and write-offs on inventories	14	15'594	204
Other non cash items		116	12
Decrease/(increase) in working capital:			
Trade receivables		10'112	10'040
Other assets and prepayments		-4'417	3'214
Inventories		2'674	5'912
Trade payables		1'504	-11'921
Other current liabilities and provisions		-1'005	-2'555
Interest expense	9	1'422	1'844
Interest received	9	-134	-197
Income tax paid		-641	-399
Net cash used in operating activities		**-3'511**	**-7'123**
Cash flows from investing activities			
Investment in property, plant and equipment	17	-415	-1'216
Disposal of property, plant and equipment	17	195	631
Disposal of available-for-sale financial assets	16	5'300	-
Investment in capitalised development costs	18	-176	-1'396
Interest and dividends received	9	134	197
Net cash provided by/(used in) investing activities		**5'038**	**-1'784**
Cash flows from financing activities			
Repayments of borrowings, including finance lease liabilities		-30'246	-35'856
Proceeds from shareholders' loans	20	-	40'000
Proceeds from issuance of share capital, net of expenses paid	24	29'676	144
Proceeds from sale of treasury shares	24/26.1	21	-
Cash received from non-controlling interest for Xi'an		70	
Interest paid		-739	-1'464
Net cash provided by/(used in) financing activities		**-1'218**	**2'824**
Net increase/(decrease) in cash and cash equivalents		**309**	**-6'083**
Cash and cash equivalents and bank overdrafts at beginning of year		10'884	17'068
Effects of exchange rate changes		-51	-101
Cash and cash equivalents and bank overdrafts at end of year		**11'142**	**10'884**

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

Notes to the consolidated financial statement

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

1 Activity and Group structure

Tornos Holding Ltd. (the Company) is a company domiciled in Moutier, Switzerland and is listed on the Main Standard of SIX Swiss Exchange in Zürich. The Group, which consists of the Company and all its subsidiaries, is active in the development, manufacture, marketing, sale and servicing of machines and related spare parts. The Group manufactures in Moutier and La Chaux-de-Fonds, Switzerland, in Taichung, Taiwan and in Xi'an, China, and markets the product lines on a worldwide basis. The Group's sales operations outside of Switzerland principally include European countries, Americas and Asia.

During the period, the Group registered in Taiwan on May 18, 2013 a new assembly plant as a branch of a group company. The operation of the assembly plant started in August 2013. The Group also registered in China, Xi'an on September 23, 2013 a new production plant, a joint venture with the company Shanxi Robot Automation Technology Co. Ltd.. The Tornos Group controls 70% of the company. The operation of the production plant started in November 2013.

These consolidated financial statements have been approved for issue by the Board of Directors on March, 3 2014. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 16, 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and have been applied in a manner consistent to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

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

2.2 Changes in accounting policy and disclosures

2.2.1 *New standards and amendments to standards which were adopted by the Group for the financial year beginning January 1, 2013*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2013 and have a significant impact on the Group and its accounting policies:

Amendment to IAS 1, "Financial statements presentation" regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in "other comprehensive income" (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

IAS 19, "Employee benefits" was revised in June 2011. The changes on the Group's accounting policies have been as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). Actuarial gains and losses (renamed as "remeasurements") are recognised immediately. The corridor approach or recognition immediately in profit or loss is no longer permissible. See note 2.3 for the impact on the financial statements.

IFRS 12, "Disclosures of interests in other entities" includes the disclosure requirement for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

2.2.2 *New standards, amendments to standards and interpretations mandatory for the first time for the financial year beginning January 1, 2013, but have either no or no significant impact on the Group*

Standard/Interpretation	Key requirements and relevance on the Tornos Group
Amendment to IFRS 7, "Financial instruments: Disclosure", on asset and liability offsetting.	This amendment provides new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The Group does not have any financial instruments where the offsetting would be an option.
IFRS 10, "Consolidated financial statements"	This new standard builds on existing principle by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. Since the Group is only having interests in companies which have been incorporated by the Group from the beginning onwards and since all these companies are consolidated no further assessment is required.

IFRS 11, “Joint arrangements”	“Joint arrangements” focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangements; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted. The Group does not dispose of any joint venture for which this accounting standard is applicable. The new incorporated company in Xi’an which is labelled as a “joint venture” is controlled by the Group with 70% voting and decision rights and therefore this company is considered as a subsidiary which is fully consolidated.

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

The Group has not early adopted any other new standards, interpretations to existing standards and standards amendments which need adoption by January 1, 2014 or later.

Below is a list of the standards/interpretations that have been issued and are effective for periods after January 1, 2014 which might become relevant for the Group and their possible impact on the Group.

Standard/Interpretation	Nature of the changes in accounting policies	Effective Date	Impact
Amendment to IAS 32, “Financial instruments: Presentation” on asset and liability offsetting	These amendments clarify some of the requirements for offsetting financial assets and liabilities on the balance sheet.	1 January 2014	*
Amendments to IAS 36, “Impairment of assets” on recoverable amount disclosures for non-financial assets	This amendment addressed the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014	*
Financial instruments: Recognition and Measurement Amendment to IAS 39 “Novation of derivatives”	This amendment provides relieving from discontinuing hedge accounting when novation of a hedging instrument to a central counter party meets specified criteria.	1 January 2014	*

IFRIC 21, “Levies”	This is an interpretation of IAS 38, “Provisions, contingent liabilities and contingent assets”. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligation event). The interpretation clarified that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of levy.	1 January 2014	*
IFRS 9, “Financial instruments”, including amendments	IFRS 9 addresses the classification, measurement and recognition of financial assets and liabilities. It replaces the corresponding part of IAS 39. The new standard retains but simplifies the mix measurement model and establishes two primary measurement categories for financial assets: amortised cost and fair value. The basis of classification depends on the entity’s business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, the main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.	1 January 2015, at the earliest	***

There are no intentions to adopt these accounting changes before the effective date. There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

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

*** The Group is evaluating the potential impact that this standard will have on the Group’s consolidated financial statements. Currently, it is believed that this standard will have no impact on the Group based on the financial instruments currently on hand and based on the fact that the Group is principally holding instruments at amortized cost.

2.3 Impact of change in accounting policy

In the current year, the Group has retrospectively adopted IAS 19 (revised 2011) on Employee Benefit. IAS 19 R eliminates the previously applied "corridor method", under which the recognition of actuarial gain and losses was deferred. Instead the full defined benefit obligation, net of plan asset is now recorded in the balance sheet, with changes resulting from remeasurements recognized immediately in other comprehensive income. The revised standard also required net interest expense to be calculated as the product of the net defined benefit liability and the discount rate as determinated at the beginning of the year. The effect of this is to remove the previous concept of recognizing an expected return on plan assets. As a result, the Group decided to modify its accounting policy in order to treat this net interest expense as "interest expense" in the income statement instead of "employee benefit expenses". The Group believes that this treatment better reflects the nature of the expense following the revised standard.

Consolidated income Statements

In thousands of CHF, except per share data

For the years ended December 31,	2012	Restatement	2012
			Restated
Net sales	**181'566**		**181'566**
Cost of sales	-136'343	1'473	-134'870
Gross profit	**45'223**		**46'696**
Marketing and sales	-32'041	657	-31'384
General and administrative expenses	-20'800	196	-20'604
Research and development	-18'018	232	-17'786
Other income - net	730		730
Operating income/(loss) (EBIT)	**-24'906**		**-22'348**
Finance incomes	197		197
Finance costs	-2'402	-380	-2'782
Exchange gains/(losses) – net	-767		-767
Loss before income taxes	**-27'878**		**-25'700**
Income tax credit/(charge)	3'418	-348	3'070
Net loss	**-24'460**		**-22'630**
Basis and diluted profit per share (CHF)	**-1.63**		**-1.51**

Consolidated statements of comprehensive income

In thousands of CHF For the years ended December 31,	2012	Restatement	2012 Restated
Net loss	**–24'460**	1'830	**–22'630**
Other comprehensive income/(loss)			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit pension plans, Net of KCHF –1'305 tax	–	–7'147	–7'147
Other items that will not be reclassified to profit or loss	–		**–7'147**
Items that may be or was reclassified to profit or loss			
Fair value gain/(loss) on available-for-sale financial assets, net of KCHF 53 tax	–625		–625
Cash flow hedges, net of KCHF 301 tax	–1'581		–1'581
Currency translation difference	–134	49	–85
Other comprehensive income/(loss), net of tax	**–2'340**		**–2'291**
Total comprehensive income/(loss)	**–26'800**	**–5'268**	**–32'068**

Consolidated Balance Sheets

In thousands of CHF

For the years ended December 31,	2012	Restatement	2012
			Restated
ASSETS			
Current assets	**138'048**		**138'048**
Property, plant and equipment	29'130		29'130
Intangible assets	6'931		6'931
Deferred tax assets	10'007	4'061	14'068
Total non-current assets	**46'068**		**50'129**
Total assets	**184'116**		**188'177**
LIABILITIES AND EQUITY			
Current liabilities	**37'925**		**37'925**
Interest bearing loans and borrowings	437		437
Loan from shareholders	40'000		40'000
Retirement benefit obligations	1'488	25'636	27'124
Provisions	773		773
Deferred tax liabilities	68		68
Total non-current liabilities	**42'766**		**68'402**
Share capital	69'759		69'759
Share premium	18'864		18'864
Treasury shares	-6'827		-6'827
Retained earnings	22'924	-14'477	8'447
Other comprehensive income	2'222	-7'147	-4'925
Cumulative translation adjustment	-3'517	49	-3'468
Total equity	**103'425**		**81'850**
Total liabilities and equity	**184'116**		**188'177**

In thousands of CHF For the date	31 December 2011	Restatement	1 January 2012 Restated
ASSETS			
Current assets	**159’757**		**159’757**
Available-for-sale financial assets	6’663		6’663
Property, plant and equipment	32’120		32’120
Intangible assets	16’290		16’290
Deferred tax assets	5’846	3’090	8’936
Total non-current assets	**60’919**		**64’009**
Total assets	**220’676**		**223’766**
LIABILITIES AND EQUITY			
Current liabilities	**88’061**		**88’061**
Interest bearing loans and borrowings	699		699
Loan from shareholders	–		–
Retirement benefit obligations	1’523	19’397	20’920
Provisions	836		836
Deferred tax liabilities	156		156
Total non-current liabilities	**3’214**		**22’611**
Total equity	**129’401**	**–16’307**	**113’094**
Total liabilities and equity	**220’676**		**223’766**

2.4 Consolidation

2.4.1 *Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquisition and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement.

Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

2.4.2 *Balances and transactions eliminated on consolidation*

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

2.4.3 *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2.5 Foreign currencies

2.5.1 *Functional and presentation currency*

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

2.5.2 *Foreign currency transactions*

Transactions in foreign currencies are translated into CHF at the foreign exchange rate ruling at the date of the transaction or valuations where items are re-measured. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to CHF at the foreign exchange rate ruling at that date, foreign exchange differences arising on translation are recognised in the income statement except when deferred in other comprehensive income qualifying as cash flow hedges. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to CHF at the foreign exchange rate ruling at the date of the transaction. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2.5.3 *Financial statements of foreign operations*

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

2.6 Revenue recognition

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

2.7 Cash and cash equivalents

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

2.8 Trade and other receivables

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment determined based on a review of all outstanding amounts at the year-end. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due

according to the original terms of the receivables. Significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

2.9 Inventories

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

Inventories are composed of three categories (a) materials and components (b) work in progress and (c) finished goods and spare parts.

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

2.10 Financial assets

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

2.10.1 *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period which are classified as non-current assets. The Group's loans and receivables comprise cash and cash equivalents, trade receivables and other receivables in the balance sheet (see accounting policy 2.7 and 2.8).

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

2.10.2 *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management decides to have the possibility to dispose of the investment within 12 months of the balance sheet date. As on December, 31 2013 the Group does not hold any available-for-sale financial assets.

Regular purchases and sales of these financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. They are derecognised when the rights to receive cash flows from the investments have

expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

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

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

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

2.10.3 Derivatives financial instruments

Derivative financial instruments are financial assets or liabilities held for trading, which are recognised at fair value through profit or loss unless they are designated as hedges. Assets or liabilities in this category are classified as other current assets or liabilities. The only derivatives financial instruments the Group are getting into are Foreign Currency Futures or Forward to secure commercial transactions.

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

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

The Group may designate certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

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

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

2.10.4 Cash flow hedge

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

The fair values of various derivative instruments used for hedging purposes are disclosed in note 21. Movements on the hedging reserve in other comprehensive income are shown in note 25. The full fair value of a hedging derivative is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months and as a non-current asset or liability when the remaining hedged item is more than 12 months.

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

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

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

2.11 Property, plant and equipment

2.11.1 Owned assets

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

2.11.2 Subsequent expenditure

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

2.11.3 Leased assets

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

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

2.11.4 *Depreciation*

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

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

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

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

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

2.12 Intangible assets

2.12.1 *Goodwill*

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

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

2.12.2 *Development costs*

Internal and external research costs are charged to the income statement as incurred. Internal and external development costs are capitalised as intangible assets only when there is an identifiable asset that will generate expected future economic benefits and when the cost of such an asset can be measured reliably. Development expenditures which do not meet the criteria above are recognised as an expense as incurred.

Development costs previously recognised as an expense which subsequently meet the criteria are not capitalised retroactively. Development costs capitalisation is subject to prior approval by the Board of Directors upon proposal by the CEO and the CFO. Capitalisation can only be considered for expenses fulfilling the IAS 38 criteria. Capitalisation stops at the closing of the project.

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

2.12.3 *Patents and know-how*

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

2.13 Impairment of non financial assets

Assets that have an indefinite useful life, for example goodwill, or intangible assets not ready for use, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount, being the higher of the asset's fair value less costs of disposal and value in use, is estimated. The carrying amounts of the Group's other assets, other than inventories (see accounting policy 2.9), deferred tax assets (see accounting policy 2.15) and pension assets (see accounting policy 2.16), are reviewed at each balance sheet date to determine whether there is any indication of impairment. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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

2.14 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.15 Current and deferred income taxes

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

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

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are not recognised for differences relating to investments in subsidiaries when reversal of the temporary difference is controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

A deferred tax asset is recognised only to the extent that it is probable that sustainable future taxable profits will be available in the short term against which the asset can be utilised.

2.16 Employee benefits

The Group has established defined benefit and defined contribution plans around the world. For defined benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. This method takes into account years of service up to the reporting period and required the Group to make estimates about demographic variables (such as mortality, turnover) and financial variables (such as future salary increase) that will affect the final cost of the benefits.

The cost of defined benefit plans has three components:

- *service cost recognized in profit and loss;*
- *net-interest expense or income recognized in profit and loss;*
- *remeasurement recognized in other comprehensive income.*

Service cost includes current service cost, past service cost and gains or losses on settlements. Past service cost is recognized in the period the plan amendment occurs. Curtailment gains and losses are accounted for as past service cost. Contributions from plan participants' or a third party reduce the service cost and are therefore deducted if they are based on the formal terms of the plan or arise from a constructive obligation.

Net interest cost is equal to the discount rate multiplied with the net defined benefit liability (asset) taking into account changes during the year.

Remeasurements of the net defined benefit liability (asset) include actuarial gains and losses on the defined benefit obligation from changes in assumptions and experiences, return on plan assets excluding the interest income on the plan assets that is included in the net interest and changes in the effect of the asset ceiling (if applicable) excluding amounts included in the net interest. Remeasurements recorded in

other comprehensive income are not recycled. However, the entity may transfer those amounts recognized in other comprehensive income within equity.

The Group presents the first component of defined benefit costs in the line item "employee benefits expense" and the second component of defined benefit cost in the line item "financial employee benefits expense" in its consolidated income statement. Remeasurements are recognized in "other comprehensive income" (OCI). The retirement benefit obligation recognized in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans. A liability for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of the termination benefit and when the entity recognizes any related restructuring costs.

The plan in Switzerland is jointly financed by the employer and the employees. The contributions are fixed in the plan rules. The company applies for this plan the risk sharing between employer and employee that reduces the net liability in the balance sheet of the Group.

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

2.17 Share-based compensation

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

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

2.18 Provisions

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

2.19 Interest bearing borrowings

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

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

2.20 Segment reporting

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

3 Financial risk management

3.1 Risk assessment as required by Swiss Law

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

3.2 Financial risk factors

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

3.3 Market risks

3.3.1 Currency risks

Tornos Ltd., the Swiss operating company of the Group invoices its revenues to the subsidiaries and to customers located outside Switzerland in local currencies, mainly EUR and USD except Asia where it is mainly in CHF. Therefore, the currency risk remains with the Swiss operating company. Tornos Ltd. converts the offer in those currencies at an exchange rate which is decided internally. An offer is only valid for 90 days, and only if the exchange rate between CHF and the other currency fluctuates by less than 5%. If parity is stable no foreign exchange contracts are entered into. If a change in the valuation of the CHF is expected a review of the risk is done and if appropriate foreign exchange contracts are entered into for all or a portion of the net position in each currency. Forward exchange contracts were entered into in 2013 with maturity going not beyond the first half of 2014.

On an annual basis, if the CHF had weakened/strengthened by 1% against the EUR additional income/losses and impact on equity of some KCHF 195 would have resulted from the translation of the net monthly movements in EUR (2012: KCHF 203).

At December 31, 2013, if the CHF had weakened/strengthened by 1% against the EUR additional exchange gains/losses and impact on equity of KCHF 35 would have resulted from the translation of all EUR denominated assets and liabilities, the majority of which being represented by cash equivalents and trade receivables (2012: KCHF 93). On an annual basis, if the CHF had weakened/strengthened by 1% against the USD additional income/losses and impact on equity of some KCHF 112 would have resulted from the translation of the net monthly movements in USD (2012: KCHF 74).

At December 31, 2013, if the CHF had weakened/strengthened by 1% against the USD additional exchange gains/losses and impact on equity of KCHF 73 would have resulted from the translation of all USD denominated assets and liabilities, the majority of which being represented by cash equivalents and trade receivables (2012: KCHF 40).

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

3.3.2 Interest rate risks

The Group was exposed to changes in interest rates on borrowings bearing interest at floating rates until the year-end 2013 through the facility agreement agreed on with its financing banks. Such exposure was limited to the change of the LIBOR. At December 31, 2013 and 2012, the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group. Since January 2014, the financing of the Group has been reorganized through private loans which bear fixed interest of 3% and 4% per annum. Therefore, no hedging on interests' fluctuations is deemed to be necessary.

3.3.3 Price risks

The Group was exposed to equity securities price risk because of an investment held by the Group and classified on the consolidated balance sheet as available-for-sale. This investment was sold during the financial year 2013 with a gain in profit and loss of CHF 1.7 million. Therefore, the Group has no further exposures as of December, 31 2013 to price risks.

3.4 Credit risk

The Group sells to a large and diversified customer base operating within different market industry segments and located on all the continents resulting in no significant concentration of credit risk. In any year, the largest customer, which may be different every year, represents less than 5% of total gross sales. Sales to new customers are made after obtaining credit ratings from independent sources, obtaining up to 90% of sales price before shipment and/or invoicing products to leasing companies financing the final customer. Cash is mainly maintained with first rate Swiss Banks. The maximum exposure is the carrying amount of each financial asset recognized on the balance sheet. However, the maximum exposure is deemed to be highly hypothetical since cash advances are mandatory before shipment and credit ratings assessments are performed on an ongoing basis by the Group. Furthermore, the Group is using export risk insurance to cover political and economic risks when exporting goods and services to certain countries of shipment.

3.5 Liquidity risk

Group treasury policy is to maintain flexibility in funding by keeping sufficient external financial sources available (see note 20.1 and note 20.2) as well as sufficient cash balances. In times of an economic downturn and the initial period of recovery thereafter, liquidity requirements may increase and external financial sources may be significantly or fully utilised.

The Group was disposing of committed credit facilities with two leading Swiss banks that matured on December 31, 2013. In January 2014, the finance structure of the Group was reevaluated by the Management and the Board and restructured to secure the strategic reorientation of the Group and its independence. Thus, new private loans have been concluded between the Tornos Group and two of its shareholders. The granted credit facility amounts to a total of MCHF 20 million and includes CHF 10 million which were granted in October 2012 and was complemented by an additional credit line of CHF 10 million with maturity date on March 31, 2015. Furthermore, a credit line of CHF 8 million for the issuance of bank guarantees was also agreed. The facility agreement does not bear any covenants. The interest rates are fixed and amount to 3% and 4% in 2014. The facility agreement renews automatically yearly unless a written notice of termination is given six months before the maturity date. Mortgage notes are assigned to the lenders.

There are no contracts with banks or other partners beyond the aforementioned.

3.6 Capital risk management

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

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

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

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

3.7 Fair values

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

3.8 Financial instruments by category

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

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

December 31, 2012

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

December 31, 2013

	Available-for-sale financial asset	Financial assets at fair value through profit & loss	Derivatives used for hedging	Loans and receivables	Total
Assets					
Cash and cash equivalents				11'142	**11'142**
Trade receivables				26'032	**26'032**
Derivative financial instruments (level 2)		–	–		–
Other assets				11'183	**11'183**
Available-for-sale financial assets (level 1)	–				
Total	–	–	–	**48'357**	**48'357**

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

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

	December 31, 2013			December 31, 2012		
	Financial liabilities at fair value through profit & loss	Financial liabilities at amortised cost	Total	Financial liabilities at fair value through profit & loss	Financial liabilities at amortised cost	Total
Liabilities						
Interest bearing loans and borrowings		10'428	**10'428**		40'573	**40'573**
Finance lease liabilities		9	**9**		109	**109**
Trade payables		18'819	**18'819**		17'353	**17'353**
Derivative financial instruments (level 2)	273	–	**273**		–	–
Other liabilities		14'260	**14'260**		15'692	**15'692**
Total	**273**	**43'516**	**43'789**	**–**	**73'727**	**73'727**

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

Please refer to note 20.4 for the maturity schedule of the interest bearing loans and borrowings and of the finance lease liabilities. Trade and other payables are all current at the balance sheet dates.

4 Critical accounting estimates and judgements

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

4.1 Inventory obsolescence

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

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

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

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

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

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

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

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

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

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

4.2 Deferred taxes

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

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

The Group has deferred tax assets of KCHF 4'938. These relate for 2'166 KCHF to deferred taxes on tax losses of Tornos Ltd. incurred in 2009, 2010 and 2012 and for 3'147 KCHF on deferred tax on postretirement benefits provisions. Part of the 2009 loss has already been utilized against taxable profit in 2011 and part of the deferred tax assets recognised as of December 31, 2012 have been impaired by 8'604 KCHF in view of updated business plans and the strategic decision taken by the Group. The financial budgets and

business plan actualized in 2013 approved by management and the Board of Directors show a return to a more profitable situation for the Group in the short term. Based on these budgets sufficient taxable profits will be available against which the tax losses can be utilised. Future economic development could however significantly impact the utilisation of these tax losses available for carry forward.

4.3 Post-retirement benefits and other long-term employee benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 23.

5 Scope of consolidation

Subsidiaries

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

Branches

Name	Domicile	Purpose
Tornos Management Holding Ltd., Taiwan Branch	Taiwan	Production
Tornos Ltd. Thailand, Representative Office	Bangkok	Support services
Tornos Technologies Asia LTD Malaysia, Representative Office	Pulau Pinang	Support services

Tornos Holding Ltd. holds 100% of the shares of Tornos Management Holding Ltd., Moutier, Switzerland which, in turn, holds 100% of the shares of Almac Ltd., La Chaux-de-Fonds, Switzerland, Almatronic Ltd., La Chaux-de-Fonds, Switzerland, Tornos Ltd., Moutier, Switzerland and Cyklos Ltd., Yverdon-les-Bains, Switzerland. All the other Group companies, except Tornos (Xi'an) Machine Works Co., Ltd., of which Tornos Ltd. holds 70% of participation, are direct or indirect wholly-owned subsidiaries of Tornos Ltd., Moutier.

All subsidiary undertakings are included in the consolidation. The Group does not hold any investments in associates nor in joint ventures which should be accounted for using the equity method. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company does not differ from the proportion of ordinary share held. Except the company, Tornos (Xi'an) Machine Works Co., Ltd., the shares of all subsidiaries are 100% held by the parent company and hence these subsidiaries are fully controlled and consolidated by the parent company. For Tornos (Xi'an) Machine Works Co., Ltd., Tornos Ltd. holds 70% of the shares and voting rights and is having the majority of seats and voting rights at the Board of Directors. Tornos (Xi'an) Machine Works Co., Ltd., is a legal joint venture with the company Shanxi Robot Automation Technology Co. Ltd. This company is fully consolidated as a subsidiary. The total non-controlling interests at the year-end 2013 amounts to KCHF 427 (2012: nil) and is solely related to the company Tornos (Xi'an) Machine Works Co., Ltd.

The group has the following commitments relating to this joint ventures:

	2013	2012
Commitment to provide funding if called	1'471	nil

There are no contingent liabilities to the group's interest in the joint venture.

Changes in scope

2013

Tornos Group has created on May 18, 2013 a Branch office called Tornos Management Holding Ltd., Taiwan Branch Office, in Taichung, Taiwan, Republic of China, which is a new assembly plant.
The Group has also registered Tornos (Xi'an) Machine Works Co. Ltd., as disclosed above, in China, Xi'an on September 23, 2013 a new production plant with the company Shanxi Robot Automation Technology Co. Ltd.. The Tornos Group controls 70% of the company. The goal of this company is the production of mid-range machines.

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

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

6 Expenses by nature

	2013	2012
		Restated
Personnel expenses (note 7)	-62'767	-75'621
Gross changes in inventories of finished goods and work in progress, raw materials and consumables used	-68'456	-81'782
Obsolescence and write-offs on inventories (note 14)	-15'594	-204
Depreciation charges (note 17)	-3'042	-4'003
Amortisation charges (note 18)	-1'065	-1'300
Impairment charges (note 17 & 18)	-3'499	-9'455
Marketing expenses & commissions	-6'226	-7'222
Consulting fees	-4'076	-4'203
Other operating expenses	-22'294	-20'854
Total cost of sales, marketing and sales, general and administrative and research and development expenses	**-187'019**	**-204'644**

7 Personnel expenses

	2013	2012
		Restated
Personnel expenses	–66'138	–81'978
Reimbursements from unemployment insurances	3'371	6'357
Personnel expenses – net	**–62'767**	**–75'621**
Of which:		
Defined benefit plans (note 23.2.2)	–5'498	–1'693
Defined contribution plans (note 23.1)	–305	–244
Share-based compensation (note 26)	–292	–881

8 Other income/(expenses) – net

	2013	2012
Gain on sale of land and buildings	179	457
Other - net	78	273
Other income/(expenses) - net	**257**	**730**

9 Financial expenses – net

	2013	2012
		Restated
Interest income	78	70
Dividend income	56	127
Profit recycled from OCI in P&L	1'726	–
Finance income	**1'860**	**197**
Interest expense	-743	-1'464
Interest expense IAS 19R	-679	-380
Bank charges and other finance expenses	–883	–938
Finance expenses	**–2'305**	**–2'782**
Finance expenses – net	**–445**	**–2'585**

10 Exchange gains/(losses) – net

	2013	2012
Ineffective portion of cash flow hedges	nil	274
Other exchange losses – net	–767	–1'041
Exchange losses - net	**–767**	**–767**

11 Income taxes

	2013	2012
		Restated
Current income tax charge	–513	–508
Deferred tax credit/(charge)	-7'928	3'578
Income tax credit/(charge)	**-8'441**	**3'070**

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2013 ranged between 8% and 36% (2012: between 8% and 36%), in the tax jurisdictions in which the Group operates. The reconciliation of the expected and the effective income tax expense is as follows:

	2013	2012
		Restated
Loss before income taxes	**–37'158**	**–25'700**
Expected tax credit	**5'978**	**4'297**
Weighted average applicable tax rate	16.1%	16.7%
Effect of tax deductible expenses eliminated on consolidation	3'100	-
Tax effect on treasury shares	43	93
Utilisation of previously unrecognised tax losses carryforwards	20	19
Current year losses for which no deferred tax asset is recognised	–8'594	–567
Write-down of deferred tax assets on tax losses carryforwards	-8'604	–
Change in deductible temporary differences for which no deferred tax asset is recognised	–321	–107
Expenses not deductible for tax purposes	-94	-605
Income taxes relating to prior years	–	-69
Other effects	31	9
Income tax credit/(charge) recognised	**–8'441**	**3'070**

The expected tax expense is calculated at entity level since the Group does not file consolidated tax returns. As such, profits and losses generated by different entities cannot be offset against each other. The main activities of the Group are located in countries with low tax rates which results in a relatively low weighted average tax rate of 16.1% (2012: 16.7%). The tax rate changes from year to year are due to changes in the mix of the taxable results of the individual Group companies.

12 Cash and Cash equivalents

	2013	2012
Cash at bank and in hand	11'142	10'884
Cash and cash equivalents	**11'142**	**10'884**

Cash and short-term deposits of KCHF 2'208 are held in China and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends or in the ordinary course of business.

13 Trade receivables

	2013	2012
Trade receivables	27'680	37'558
Less provision for impairment of receivables	-1'648	-1'354
Trade receivables – net	**26'032**	**36'204**

At December 31, 2013 trade receivables include amounts denominated in EUR equivalent to KCHF 6'983 (December 31, 2012: KCHF 13'470) and amounts denominated in USD equivalent to KCHF 3'669 (December 31, 2012: KCHF 4'039).

Trade receivables aging is as follows:

	2013	2012
Current	11'376	14'381
1 to 30 days overdue	5'293	8'804
31 to 60 days overdue	2'190	3'704
61 to 90 days overdue	295	768
91 to 180 days overdue	2'279	4'783
More than 180 days overdue	6'247	5'118
Trade receivables	**27'680**	**37'558**

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

	2013	2012
At beginning of year	-1'354	-1'352
Provision for receivables impairment	-726	-286
Receivables written off during the year as uncollectible	432	196
Unused amounts reversed	–	88
At end of year	**-1'648**	**-1'354**

The provision for impairment of receivable was determined based on reviews of all outstanding amounts at the year-end. Following those reviews, 83.2% of the provision for impairment of receivable for identified risks at December 31, 2013 is related to trade receivables classified under "more than 180 days" (December 31, 2012: 77% related to trade receivables classified under "more than 180 days").

At the balance sheet date ten customers accounted for approximately 27.73% of total trade receivables (December 31, 2012: 35% with six customers). The company did not identify any counterparty risk related to these positions.

14 Inventories

	2013	2012
Materials and components	47'069	39'671
Work in progress	20'778	19'646
Finished goods and spare parts	23'331	34'784
Total inventories – gross	**91'178**	**94'101**
Less allowance for obsolescence	-31'357	-15'925
Total inventories – net	**59'821**	**78'176**

Total obsolescence and write-offs for product phase-out charged to the income statement during the year 2013 amount to KCHF 15'594 (2012: KCHF 204).

15 Other receivables and prepayments

	2013	2012
VAT receivable	2'722	2'374
Deposit account for bank guarantees	4'486	–
Advances to logistic companies for customs clearance purpose	878	710
Advances to suppliers	931	965
Negative hours due from employees	241	561
Prepaid expenses	1'073	898
Other	852	1'291
Total other assets and prepayments	**11'183**	**6'799**

As further disclosed under Note 20, the Facility Agreement granted by financing banks to the Tornos Group matured on December, 31 2013 and has not been renewed. To enable the Group to further operate in the normal course of business and to reorganize its financing structure, a cash account as collateral has been opened at a premium Swiss Cantonal Bank to secure the bank guarantees provided to the company's customers. In reference to the note 32, the cash collateral was released in January 2014 together with the grant of the additional credit line provided by an industrial shareholder. There is no bad debt allowance on the carrying amounts recognised on December 31, 2013 and 2012.

16 Available-for-sale financial assets

	2013	2012
1'000'000 shares of Tsugami Corporation	**nil**	**5'985**

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

Tsugami Corporation and the Tornos Group signed a framework partnership agreement on February 15, 2008. The underlying logic of the agreement was that the two groups were complementary in terms of their product range and geographical markets, in which each of them holds a leadership position. Under the terms of the agreement, cooperation was established in a number of areas such as research and development, procurement, production and distribution. Following the long lasting cooperation and the up-coming business prospects for either of the companies, the parties decided that the mutual shareholding was to be abandoned. Therefore, the Management and the Board decided on July 2013 to sell the shares for gross proceeds of CHF 5.3 million with a net realized gain of KCHF 1'726. The Group recycled the profits from other comprehensive income accordingly in the profit and loss line finance income (see note 9).

17 Property, plant and equipment

	Land, buildings & installations	Machinery	Other equipment	Total
Cost				
At December 31, 2011	**67'602**	**65'032**	**12'960**	**145'594**
Additions	178	88	950	1'216
Disposals	-160	-301	-1'719	-2'180
Exchange differences	-49	-9	-82	-140
At December 31, 2012	**67'571**	**64'810**	**12'109**	**144'490**
Additions	261	23	131	415
Disposals	-1'171	-6'688	-710	-8'569
Transferred to asset held for sale	-7'678	–	–	-7'678
Exchange differences	17	2	7	26
At December 31, 2013	**59'000**	**58'147**	**11'537**	**128'684**
Accumulated depreciation				
At December 31, 2011	**-38'815**	**-63'503**	**-11'156**	**-113'474**
Depreciation for the year	-2'089	-969	-945	-4'003
Disposals	10	301	1'695	2'006
Exchange differences	-79	165	25	111
At December 31, 2012	**-40'973**	**-64'006**	**-10'381**	**-115'360**
Depreciation for the year	-1'878	-260	-904	-3'042
Impairment charge	-	–	-81	-81
Disposals	1'163	6'688	702	8'553
Transferred to asset held for sale	6'787	–	–	6'787
Exchange differences	-19	–	4	-15
At December 31, 2013	**-34'920**	**-57'578**	**-10'660**	**-103'158**
Carrying amounts				
December 31, 2012	**26'598**	**804**	**1'728**	**29'130**
December 31, 2013	**24'080**	**569**	**877**	**25'526**

Of which related to leased assets:

	Land, buildings & installations	Machinery	Other equipment	Total
Carrying amounts				
December 31, 2012	76	–	21	97
December 31, 2013	nil	–	nil	–

Property, plant and equipment transferred to the category held-for-sale for a net amount of KCHF 891 relates to assets that are not necessary for the operation of the Group and which are therefore as part of the operational reorganisation of the Group currently marketed by the Management for sale.
The fire insurance value of PP&E and inventories amounts to CHF 382 million (2012: CHF 382 million).

18 Intangible assets

	Goodwill	Development costs	Patents & know-how	Total
Cost				
At December 31, 2011	**2'873**	**9'656**	**3'870**	**16'399**
Additions	–	1'396	–	1'396
Write-off	–	-7'053	–	-7'053
At December 31, 2012	**2'873**	**3'999**	**3'870**	**10'742**
Additions	–	–	–	–
Incorporation of a new subsidiary	–	546	–	546
Write-off	–	–	-3'870	-3'870
Exchange differences	–	-7	–	-7
At December 31, 2013	**2'873**	**4'538**	**–**	**7'411**
Accumulated amortisation				
At December 31, 2011	**–**	**-109**	**–**	**-109**
Amortisation charge	–	-1'171	-129	-1'300
Impairment charge	-2'873	-6'582	–	-9'455
Write-off	–	7'053	–	7'053
At December 31, 2012	**-2'873**	**-809**	**-129**	**-3'811**
Amortisation charge	–	-742	-323	-1'065
Impairment charge	–	–	-3'418	-3'418
Write-off	–	–	3'870	3'870
At December 31, 2013	**-2'873**	**-1'551**	**–**	**-4'424**
Carrying amounts				
December 31, 2012	**–**	**3'190**	**3'741**	**6'931**
December 31, 2013	**–**	**2'987**	**–**	**2'987**

18.1 Goodwill

Goodwill resulted from the acquisition of Almac Ltd. and Almatronic Ltd. in 2008 which are considered as a single combined cash generating unit (CGU). The carrying amount was reduced to its recoverable amount through recognition of an impairment loss against goodwill in 2012. This loss was included in "cost of sales" in the income statement.

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

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

	2013	2012
Average EBIT margin	n.a	6.0%
Discount rate	n.a	9.7%

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

The CGU Almac does not hold any other intangible assets.

18.2 Development costs

Development costs with a net carrying amount of KCHF 2'987 are recognised as on December, 31 2013. In the financial year 2013, development costs of KCHF 546 have been recognised as part of the investment brought in by our partner for the incorporation of our new production plant Tornos (Xi'an) Machine Works Co., Ltd., in Xi'an and in which Tornos Ltd. holds 70% of participation. The new recognised development costs correspond to drawings and prototype of a platform which will be marketed and launched in 2014. Other development costs are related to products currently marketed. Amortisation charges of KCHF 742 (2012: KCHF 700) to these development costs are included in cost of sales.

In the reporting year 2012, development costs with a remaining capitalized amount of KCHF 6'582 were impaired, as a result of the decision of the Management and the Board of Directors in December 2012 to cease without delay further developments to specific machine platforms in order to reallocate financial and human resources to projects with a more promising outlook. The amortisation and impairment charges related to these development costs were included in R&D expenses in the income statement (2012: KCHF 471 depreciation and KCHF 6'582 impairment charges).

18.3 Patents & know-how

On May 2, 2011, Tornos Holding Ltd. acquired the patents and know-how for a new machine concept that enables to surface-treat machined parts. The acquisition responded to a major market need by enabling the Tornos Group customers to increase their own share of the value-added chain, shorten their production cycles and directly deliver finished parts. This acquisition was in line with the Group's general strategy of evolving from a machine builder into a system provider. This technology was developed and marketed by our company Cyklos Ltd. in Yverdon-les-Bains, which has been incorporated in February 2012. At the end of 2013, the Management and the Board of Directors have decided to discontinue this business field since it was concluded that further significant investments are required to enable this business activity to be sustainable. The Management and the Board of Directors are searching for new partners to improve the industrialisation of this venture. Since the Group is not further looking to industrialize this technology itself, the patents and know-how have been impaired by KCHF 3'418. Amortisation costs of KCHF 323 and impairment charges of KCHF 3'418 are included in R&D expenses (2012: KCHF 129 in cost of sales).

19 Deferred taxes

19.1 Deferred tax assets and liabilities

The net deferred tax assets mainly relate to deferred taxes arising from tax losses of Tornos Ltd. and the retirement benefit obligation of Tornos Ltd.. For further explanation also refer to note 4.2 on Critical accounting estimates and judgments.

Deferred tax assets and liabilities are attributable to the following:

	2013		2012[1]	
	Assets	Liabilities	Assets	Liabilities
Trade and other receivables	6	58	5	22
Inventories	26	–	–	–
Available-for-sale financial assets	–	–	–	189
Property, plant and equipment and intangible assets	213	776	25	837
Trade and other payables	94		102	2
Provisions	–	–	2	–
Retirement benefit obligations	3'147	3	4'201	28
Borrowings	–	–	31	–
Tax losses carried forward	2'166	–	10'712	–
Tax assets / liabilities	**5'652**	**837**	**15'078**	**1'078**
Set off	-714	-714	-1'010	-1'010
Net tax assets / liabilities	**4'938**	**123**	**14'068**	**68**

1) Restated

The decrease in the net deferred tax assets by KCHF 9'185 (2012: increase by KCHF 5'220) relates to the deferred tax expense recognised in the consolidated income statement of KCHF 7'928 (2012: deferred tax income of KCHF 3'578), to the deferred tax expense recognised in other comprehensive income of KCHF 1'227 (2012: tax income of KCHF 1'659) and to exchange differences of KCHF 30 (2012: KCHF -17). From the income tax recognised in other comprehensive income, an expense of KCHF 1'414 relates to

the retirement benefit obligations and KCHF 187 were recycled to the income statement on the sale of available-for-sale financial assets. In 2012 KCHF 1'305 related to retirement benefit obligations, KCHF 53 to investments classified as available-for-sale financial assets and KCHF 301 to cash flow hedges.

19.2 Unrecognised deferred tax assets

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

	2013	2012
Deductible temporary differences	3'455	2'836
Tax losses carried forward	123'635	7'986
Total	**127'090**	**10'822**

The expiry dates of tax losses for which no deferred tax asset has been recognised or the tax asset has been reversed in 2013 are as follows:

	2013	2012
Within 1 year	–	–
Between 1 and 2 years	–	–
Between 2 and 5 years	34'278	–
After 5 years	87'474	7'609
Losses not subject to expiry	1'883	377
Total	**123'635**	**7'986**

20 Interest bearing loans and borrowings

	2013	2012
Current portion:		
Loan from shareholders (note 20.2)	10'000	–
Current portion of credit facility (notes 20.1 & 20.3)	Not used	Not used
Mortgages (note 20.1)	63	145
Short-term lease liabilities (note 20.7)	7	100
Current portion	**10'070**	**245**
Non-current portion:		
Non-current portion of credit facility (notes 20.1 & 20.3)	Not used	Not used
Mortgages (note 20.1)	365	428
Long-term lease liabilities (note 20.7)	2	9
Loan from shareholders (note 20.2)	–	40'000
Non-current portion	**367**	**40'437**
Total interest bearing loans and borrowings	**10'437**	**40'682**

20.1 Credit agreements with banks

Mortgages are granted to subsidiaries at floating rates of 1.8% and 1.65% at December 31, 2013 (December 31, 2012: 1.8% and 1.65%).

On September 29, 2009 the Group concluded a Facility Agreement with two banks. Under this Facility Agreement the banks granted to Tornos Ltd. as borrower, with Tornos Holding Ltd. acting as guarantor, a credit facility in the aggregate of CHF 50 million. Of this amount, CHF 20 million was used under Facility 1, CHF 20 million could be used under Facility 2 and CHF 10 million in the form of overdraft on current accounts, stand-by letter of credits, performance and bid bonds, advance payment guarantees or similar instruments of up to 12 months under Ancillary Facilities. This Facility Agreement which was valid until September 30, 2012 was subject to certain conditions and financial covenants and had been on February 16, 2012 renewed until September 30, 2013. On September 30, 2013, the credit agreement between the Group and the banks has been extended until December 31, 2013.

The major conditions related to Tornos Holding Ltd. pledging its shares in Tornos Ltd. and 430'000 treasury shares and Tornos Ltd. assigning its receivables and transferring for security purpose the mortgage notes related to its real estate properties located in Moutier. On December 22, 2009, and concurrent with the creation of Tornos Management Holding Ltd., an Amendment to the Facility Agreement was signed. Under this Amendment to the Facility Agreement, the banks agreed to the release of the pledge in the shares in Tornos Ltd. against a pledge in the shares of Tornos Management Holding Ltd. by Tornos Holding Ltd. In addition, Tornos Holding Ltd. and Tornos Management Holding Ltd. were both guarantors to the Amendment to the Facility Agreement. All other conditions and covenants stipulated in the Facility Agreement remained the same except that (a) the repayment of any intercompany loans between Tornos Holding Ltd., Tornos Management Holding Ltd. and Tornos Ltd. and any interest due thereon are subordinated to the prior written consent of the banks and (b) in the event of a breach of a representation, a covenant or an obligation under the Facility Agreement or an event of defaults as specified in the Facility Agreement, a pledge over all the shares in Tornos Ltd. shall also be executed.

On October 15, 2012 the Facility Agreement with the lenders was, in conjunction with the finance facility granted from two shareholders of CHF 40 million (see note 20.2), modified. The Facility Agreement was so amended that the credit facilities were reduced from CHF 50 million to CHF 35 million and that any breach in covenants would not be considered an event of default. On September 30, 2013, the loan with the banks was extended until December, 31 2013 and the facilities available were reduced from CHF 35 million to CHF 10 million, this reduction was made possible through the share capital increase realized on May 30, 2013 and the cash in hands available.

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

From September 30, 2009 to September 30, 2011 Facility 1 bore interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% was payable at each 6 months maturity date and 6.0% was carried forward on a special account. From September 30, 2009 to September 30, 2011 any amount drawn under Facility 2 was bearing interest at LIBOR plus 4.0% interest margin per annum.

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

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

Except CHF 4.3 million used under the ancillary facilities for guarantee purposes, the credit facilities granted by the banks were not used as of December, 31 2013 (same as of December 31, 2012).

The Facility Agreement which was valid until December 31, 2013 has not been renewed and has ceased at the aforementioned date. As stipulated under the note 32 "subsequent event", in addition to the already granted loans in 2012 by the two shareholders, an additional private loan was concluded in January 2014, containing an additional credit line of CHF 10 million and providing securities of CHF 8 million for bank guarantees.

20.2 Loan from shareholders

On October 15, 2012 two loans amounting each for CHF 20 million have been granted to the Tornos Group from two shareholders. These loans bear 3% fix interest per annum and mature on January 1, 2014. They are renewed automatically with termination period of six months.

On May 30, 2013, a share capital increase transaction took place which generated gross proceeds of CHF 30.6 million and which was used to pay back partially the loans granted by the two shareholders. Through this transaction, the loan from shareholders has been reduced to CHF 10 million as of December, 31 2013.

As described under the note 32 "subsequent event", in addition to the loans granted by shareholders in 2012 amounting to CHF 10 million at the end of the year 2013, an additional Facility Agreement was concluded containing an additional credit line of CHF 10 million and providing securities of CHF 8 million in bank guarantees. The aforementioned shareholder loans granted bear fixed interest rates of 3% and 4%. The additional credit line and the securities provided for bank guarantees mature on March 31, 2015 but are renewed automatically for another term of one year if not cancelled six month prior to the maturity date. Mortgage notes of Tornos Ltd. are assigned to the lender as securities to the granted loans.

20.3 Facilities

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

In millions of CHF	Credit facilities	Ancillary facilities	Total
At December 31, 2012			
Available	25.0	10.0	**35.0**
Drawn	0.0	4.0	**4.0**
Interest rate	note 20.1		
At December 31, 2013			
Available	3.5	6.5	**10.0**
Drawn	0.0	4.3	**4.3**
Interest rate	note 20.1		

Except CHF 4.3 million (2012: CHF 4.0 million) drawn under the ancillary facilities for guarantees purposes, the credit facilities granted by the banks were not drawn as of December 31, 2013 and of December 31, 2012.

20.4 Maturity schedule

	2013	2012
Within 1 year	10'070	245
Between 1 and 2 years	62	40'070
Between 2 and 5 years	180	182
Over 5 years	125	185
Total borrowings	**10'437**	**40'682**

20.5 Interest rate exposure

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

	2013	2012
At fixed rates	10'012	40'016
At floating rates	425	666

20.6 Exchange rate exposure

The original currencies of the Group's borrowings are:

	2013	2012
Swiss Francs	10'434	40'501
Euro	–	93
British Pound	3	88
Total borrowings	**10'437**	**40'682**

20.7 Finance lease liabilities

	2013	2012
Minimum lease payments		
Within 1 year	7	101
Between 1 to 5 years	2	10
Total minimum lease payments	**9**	**111**
Future finance charges on finance leases	–	-2
Present value of finance lease liabilities	**9**	**109**
Of which:		
Due within 1 year	7	100
Between 1 to 5 years	2	9

The majority of the finance lease liabilities of the Group carries an effective interest rate of 1.5% at December 31, 2013 (December 31, 2012: 1.5%).

21 Other liabilities

	2013	2012
Advances received	5'869	5'102
Accrued employees remuneration	3'640	3'519
Derivative financial instruments	273	-
Payable to pension plans	–	624
Commissions payable	1'221	2'004
Other taxes and social security payables	2'078	2'484
Other payables and accrued expenses	1'452	1'959
Total other liabilities	**14'533**	**15'692**

In appropriate circumstances, the Group uses derivative financial instruments as part of its risk management and commercial strategies (note 3.3.1). On December 31, 2013 the Group had open foreign exchange contracts to acquire a total of KJPY 369'600 against KCHF 3'400. At December 31, 2012 there were no open positions. Contracts are carried at fair value based on market price (level 2).

22 Provisions

	Warranties	Restructuring	Other	Total
At beginning of year	**3'377**	**1'179**	**653**	**5'209**
Additional provisions	5'847	802	100	6'749
Release of provisions unused	–	-266	–	-266
Use during the year	-5'692	-829	-36	-6'557
Exchange differences	7	1	4	12
At end of year	**3'539**	**887**	**721**	**5'147**

	2013	**2012**
Current	4'420	4'436
Non-current	727	773
Total	**5'147**	**5'209**

Warranties

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

Warranty provision reflects management assessment of warranty claims. It is based on historical data as well as the level of sales and specific cases. The total warranty provision takes into consideration all possible legally enforceable claims. Actual results may fluctuate significantly.

Restructuring

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

Other provisions

Other provisions include the expected costs of pending litigations as well as other present obligations of uncertain timing, of which may prove to be more or less favourable than management currently believes.

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

23 Retirement benefit obligations

The Group operates different pension plans in different jurisdictions for employees that satisfy the participation criteria. Among the benefits schemes are defined benefit plans as well as defined contribution plans.

Retirement benefits are provided based on salary, years of service or an accumulated old age account. The plans cover generally the employees against death, disability and retirement. However, some of the plans provide only lump sum benefits in the events of leaving the Group and retirement.

23.1 Defined Contribution Plans

The Group offers to employees that satisfy the eligibility criteria defined contribution plans in different locations. The Group is obliged to pay a fixed percentage of the annual pay to these pension schemes. To some of these plans, the employees have also to contribute contributions. These contributions are typically deducted by the employer from the monthly salary and paid to the pension fund. Next to the payment of the contributions, the employer has no further obligation against these pension funds or the employees.

During fiscal year 2013, the employer contributions to Defined Contribution Plans amounted to KCHF 305 (2012: KCHF 244).

23.2 Defined benefit pension plans

The Group finances Defined Benefit Plans for the employees that satisfy the criteria to join such plans. The material Defined Benefit Plans are located in Switzerland, France, Italy, US and Germany.

Pension Fund in Switzerland

The Swiss pension fund is organized through a foundation. The foundation is governed by a foundation board. The board is made up of an equal number of employee and employer representatives of the affiliated companies. The main duties of the foundation board include the decision about the plan rules including the level of the contributions, the organization and the investment strategy. Since the decisions are taken by the foundation board, the only influence of the group is through his representatives.

The benefits are mainly depending on a retirement savings account. To the retirement savings account the annual retirement credits and the interest will be credited (there is no possibility to credit negative interest). At retirement age, the insured members can choose whether to take a pension for life, which includes a spouse's pension, or a lump sum. In addition to retirement benefits, the plan benefits also include disability and death benefits. Insured members may also buy into the scheme to improve their pension provision up to the maximum amount permitted under the rules or may withdraw funds early for the purchase of a residential property for their own use. On leaving the company, the retirement savings will be transferred to the pension institution of the new employer or to a vested benefits institution. This type of benefit may result in pension payments varying considerably between individual years.

In defining the benefits, the minimum requirements of the Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and its implementing provisions must be observed. The BVG defines the minimum pensionable salary and the minimum retirement credits. The interest rate applicable to these minimum retirement savings is set by the Swiss Federal Council at least once every two years. In 2013, the rate was 1.5%, as already in 2012. It will be increase to 1.75% in 2014.

The structure of the plan and the legal provisions of the BVG mean that the employer is exposed to actuarial risks. The main risks are investment risk, interest risk, disability risk and the risk of longevity.

The employee and employer's contributions are set by the foundation board. 50% of the necessary financing is borne by the employer and 50% by the employee.

In Switzerland the company has also a liability to pay pension to two former directors.

Other Pension Plans

The Company in the US operates a company pension fund. Upon retirement the vested rights are transferred to an insurance company and the pension is paid by the insurance company. The risk is therefore mainly limited to the investment risk and the risk for changes in the lump sum factors. The plans in France and Italy satisfy the legal requirements. These plans are lump sum plans. The plan in Germany covers only pension payments.

The Group expects to contribute KCHF 2'985 to its defined benefit plan in 2014.

23.2.1 *Actuarial assumptions*

The main assumptions on which the actuarial calculations are based can be summarized as follows:

	2013	**2012**
Discount rate	2.23%	1.94%
Future increase in salaries	1.42%	1.42%
Future pension adjustments	0.10%	0.10%
Interest credit rate	1.75%	1.50%
Life expectancy at age 65		
Year of birth	1948	1947
– Men	21.29	21.18
– Women	23.76	23.66
Year of birth	1968	1967
– Men	23.09	23.00
– Women	25.52	25.44

23.2.2 *Defined benefit costs during period ending at 31.12.*

The amounts recognized in the income statement and in shareholders' equity can be summarized as follows:

	2013	2012
		Restated
Total service cost		
a. Current service costs	5'233	4'566
b. Past service costs and curtailments	–	-2'997
c. Plan settlements	–	–
Net interest cost	679	380
Administrative expense and taxes	265	124
Total defined benefit cost recognized in profit and loss	**6'177**	**2'073**
Actuarial (gain) / loss		
a. Arising from changes in demographic assumptions	9'437	554
b. Arising from changes in economic assumptions	-5'568	11'362
c. Arising from experience	-6'083	1'808
d. Return on plan assets (excl. amounts in net interest)	-7'262	-5'272
e. Changes in asset ceiling	0	0
Total defined benefit cost recognized in OCI	**-9'476**	**8'452**
Total defined benefit cost	**-3'299**	**10'525**

23.2.3 *Changes in the present value of the defined benefit obligation*

	2013	2012
		Restated
Opening defined benefit obligation	**162'384**	**154'738**
Current service cost	5'233	4'566
Plan participants' contributions	3'041	4'036
(Gain)/loss on curtailments	0	-2'997
Liabilities extinguished on settlements	0	-7'138
Interest expenses on the present value of the obligations	3'171	3'840
Benefit payments and net transferrals through pension assets	-16'440	-8'150
Benefit payments by employer	-188	-149
Actuarial losses/(gains)	-2'214	13'724
Exchange differences	-21	-86
Closing defined benefit obligation	**154'966**	**162'384**

23.2.4 *Changes in the fair value of plan assets*

	2013	2012 Restated
Opening fair value of plan assets	**135’260**	**133’818**
Interest income	2’492	3’460
Plan participants’ contributions	3’041	4’036
Employer contributions	3’069	4’195
Benefit payments and net transferrals through pension assets	–16’440	–8’150
Administrative expense paid from plan assets	–265	–124
Settlement payment from plan	–	–7’138
Return on plan assets (excl. interest income)	7’262	5’272
Exchange differences	–18	–109
Closing fair value of plan assets	**134’401**	**135’260**

23.2.5 *Amount recognised in the balance sheet*

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

	2013	2012 Restated
Present value of funded obligation	153’923	161’276
Fair value of plan assets	–134’401	–135’260
Under funding	**19’522**	**26’016**
Present value of unfunded obligations	1’043	1’108
Net liability	**20’565**	**27’124**

The restructuring announced in the FY 2012 had for effect a curtailment and a settlement of the pension plan. The defined benefit obligation was reduced by CHF 10.1 million and the plan assets by CHF 7.1 million. In total, a curtailment gain of CHF 3.0 million resulted that is recognised as a past service cost gain in the total service cost.

23.2.6 *Details of the pension assets*

	2013	2012
Equities		
– Quoted investments	41'414	34'515
– Non quoted investments	281	279
Bonds		
– Quoted investments	56'153	62'311
– Non quoted investments	77	76
Real estate		
– Collective investments	13'202	15'486
– Direct investments	19'109	19'109
Qualified insurance policies	539	557
Others	1'820	1'930
Cash	1'806	997
Total	**134'401**	**135'260**

The foundation board of the Swiss pension fund issues investment guidelines for the plan assets which include the tactical asset allocation and the benchmarks for comparing the results with a general investment universe. The assets are well diversified. The Swiss pension plan is also subject to the legal requirements on diversification and safety laid down by the BVG. It is a duty of the foundation board of the pension fund to review whether the chosen investment strategy is appropriate with a view to providing the pension benefits and whether the risk budget is in line with the demographic structure. Compliance with the investment guidelines and the investment results of the investment advisors are reviewed by the foundation board of the pension fund.The plan assets do not include any direct investments in the Group. Nevertheless, it cannot be excluded that equity funds have investments in the Group.

23.2.7 *Analysis of the defined benefit obligations*

The following table provides a breakdown of the defined benefit obligations among active insured members, former members with vested benefits and members receiving pensions. The terms of the obligations are also given.

	2013	2012
Defined benefit obligations		
a. Active employees	85'377	93'581
b. Vested terminations	0	0
c. Pensioners	69'591	68'803
d. Total	**154'968**	**162'384**
Modified duration		
a. Active employees	20.9	–
b. Vested terminations	0	–
c. Pensioners	10.4	–
d. Overall	**16.3**	**–**

The following table shows the change in present value of the defined benefit obligation on the discount rate, salary increase and pension indexation.

December 31, 2013		
Change in variable	+0.25%	-0.25%
Discount rate, impact on defined benefit obligation	-4'930	5'385
Salary increase, impact on defined benefit obligation	546	-463
Pension indexation, impact on defined benefit obligation	3'894	-1'517

24 Share capital

24.1 Capital structure

	Issued registered shares	Treasury shares	Total shares in circulation
Issued and fully paid-in at December 31, 2011	**15'482'393**	**505'106**	**14'977'287**
Issued for cash	19'700	–	19'700
Issued and fully paid-in at December 31, 2012	**15'502'093**	**505'106**	**14'996'987**
Issued for cash	4'375'578	–	4'375'578
Sale of treasury shares as part of the management participation programm	–	-4'150	4'150
Issued and fully paid-in at December 31, 2013	**19'877'671**	**500'956**	**19'376'715**

During the year 2013:

- *The share capital of the company was increased on May 30, 2013 through the issuance of 4'375'578 registered shares at a price of CHF 7.00 per share.*
- *4'150 treasury shares have been sold at a price of CHF 4.90 each under the Management and Board Participation plan 2007 (MBP07);*

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2013:

- *The share capital amounts to CHF 89'449'519.50 divided into 19'877'671 registered shares of CHF 4.50 nominal value each;*
- *The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 1'459'899.00 by issuing 324'422 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company's interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.*

During the year 2012:

- *19'700 registered shares were issued and fully paid for at a price of CHF 7.34 each under the Management and Board Participation plan 2007 (MBP07);*

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

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

24.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2013 the share capital consisted of 19'877'671 ordinary registered shares with a par value of CHF 4.50 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meetings of shareholders and are entitled to one vote per share at the meetings of shareholders.

24.3 Treasury shares

Movements in treasury shares are as follows:

	2013		2012	
	Nb of shares	Amount	Nb of shares	Amount
At beginning of year	**505'106**	**6'827**	**505'106**	**6'827**
Sale	-4'150	-56	nil	nil
At end of year	**500'956**	**6'771**	**505'106**	**6'827**

Treasury shares are valued at average purchase price.

Starting in 2010 market making was contracted to a financial institution acting under its own name and for its own account in respect of gains and losses resulting from the shares the institution has bought/sold. No shares are loaned for that purpose. For market making, a fixed monthly fee is charged. During the year 2013, total costs incurred amounted to KCHF 84 (same amount as in 2012).

24.4 Conditional share capital

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

24.5 Authorised share capital

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

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

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

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

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

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

In the context of the public share capital increase of 30 May 2013, the company issued 4'375'578 registered shares at a par value of CHF 4.50 each at a subscription price of CHF 7.00 per share. Following this transaction, the authorized share capital on December 31, 2013 was reduced to CHF 1'459'899.00 divided into 324'422 registered shares. The articles of association were amended accordingly.

24.6 Significant shareholders

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

	2013	2012
Walter Fust	33.32%	25.18%
Michel Rollier	14.36%	8.10%
Tsugami Corporation	0.00%	6.46%
Balfidor Fondsleitung AG	6.31%	6.32%

25 Retained earnings

Retained earnings are as follows:

		Other comprehensive income					
In thousands of CHF	General reserves	Available-for-sale financial assets	Hedging	IAS 19R	Currency translation difference	Accumula-ted gains and losses	Total
At December 31, 2011 (audited)	**5'219**	**2'847**	**1'581**	**–**	**-3'383**	**41'485**	**47'749**
Restatement following IAS19R						-16'307	**-16'307**
At December 31, 2011 (restated)	**5'219**	**2'847**	**1'581**	**–**	**-3'383**	**25'178**	**31'442**
Net loss 2012						-22'630	**-22'630**
Revaluation - gross		-678					**-678**
Revaluation - tax		53					**53**
Cash flow hedges transfer to P&L - gross			-1'882				**-1'882**
Cash flow hedges transfer to P&L - tax			301				**301**
Currency translation difference	-	-	-		-85		**-85**
Remeasurments of defined benefit pension plans (IAS19R) - gross				-8'452			**-8'452**
Remeasurements of defined benefit pension plans (IAS19R) - tax				1'305			**1'305**
Share based compensation						680	**680**
At December 31, 2012 (restated)	**5'219**	**2'222**	**–**	**-7'147**	**-3'468**	**3'228**	**54**

In thousands of CHF	General reserves	Other comprehensive income: Available-for-sale financial assets	Hedging	IAS 19R	Currency translation difference	Accumula-ted gains and losses	Total
At December 31, 2012 (restated)	**5'219**	**2'222**	**–**	**-7'147**	**-3'468**	**3'228**	**54**
Net loss 2013						-45'586	**-45'586**
Fair value loss and recycling on available-for-sale financial assets sold gross		-2'409					**-2'409**
Recycling - tax		187					**187**
Currency translation difference	–	–	–		298		**298**
Remeasurments of defined benefit pension plans (IAS19R) - gross				9'476			**9'476**
Remeasurements of defined benefit pension plans (IAS19R) - tax				-1'414			**-1'414**
Share based compensation						292	**292**
At December 31, 2013	**5'219**	**–**	**–**	**915**	**-3'170**	**-42'066**	**-39'102**

The General reserves are not available for distribution.

26 Stock compensation plans

There is one stock participation plan in 2013, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense under this plan is recognised in accordance with the provisions of IFRS 2 "Share-based Payment", for options over the vesting period and for shares purchased immediately in the accounts as the shares do not need to be returned in case the employment contract is terminated. The expense recorded in the income statement spreads the cost of each option equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Compensation expense of KCHF 292 was recorded for the year ended December 31, 2013 (2012: KCHF 881). Compensation expense arising from stock options outstanding at December 31, 2013 to be recognised in future periods amounts to KCHF 116 (December 31, 2012: KCHF 478).

Under this plan, starting in 2007, a maximum of 300'000 shares/options may be allocated each year to the participants by the Nomination and Compensation Committee. The possible participants are members of the Board of Directors as well as the management. Each participant chooses on grant date, within the number of shares/options allocated to him by the Nomination and Compensation Committee, to receive options free of charge, to purchase shares with a discount or a combination of receiving options free of charge and purchasing shares with a discount. As of December 31, 2013, a total of 1'927'583 shares/options were attributed by the Nomination and Compensation Committee since 2007, of which 141'500 options were exercised and 1'047'150 options were forfeited or expired without being exercised (December 31, 2012: 1'661'666 shares/options granted, 141'500 options exercised and 765'500 options forfeited or expired without being exercised respectively). Of the total remaining 738'933 shares/options (December 31, 2012: 754'666 shares/options) the participants elected to purchase 250'500 shares immediately and to receive 488'433 options under the stock option program as detailed below (2012: 246'350 shares and 508'316 options respectively).

26.1 *Stock purchasing program under MBP07*

Each participant has the right to purchase shares each year, starting on May 1, 2007 (within the number of shares/options allocated by the Nomination and Compensation Committee and not used for the stock option program). The purchasing price is the weighted average price paid at SIX within the 12 months (May 1 to April 30) preceding the purchase of the shares minus a discount of 25%. There is a restriction period of two years after purchasing the shares during which the shares are held in an escrow deposit. However, the shares do not need to be returned in case the employment contract is terminated and there is a tag along clause in case of a change of control transaction. In 2013, participants elected to purchase 4'150 shares at a price of CHF 4.90 through the sale of treasury shares (2012: 19'700 shares at CHF 7.34). As a result, a shortfall of KCHF 35 out of this transaction was recorded in equity for the year ended December 31, 2013 (2012: KCHF 44 as expense through the emission of shares).

26.2 *Stock option program under MBP07*

Each participant receives free of charge each year starting on May 1, 2007 the number of options chosen (within the number of shares/options attributed by the Nomination and Compensation Committee and not used for the share purchasing program). The options vest after two years and can be exercised only in the third year. The exercise price is the weighted average price paid at the SIX Swiss Exchange within the 12 months (May 1 to April 30) preceding the allocation of the options. A possible share capital increase or reduction or dividend payment has no impact on the option rights pursuant to this program as the exercise price will not be adjusted should these events take place in the future. Options not exercised generally need to be returned at the time the employment contract is terminated. However, they can be exercised without any restriction in case of a change of control transaction. Total expenses recorded in the income

statement for the year ended December 31, 2013 as part of this option program amounted to KCHF 292 (2012: KCHF 636). During the financial year 2012, an additional expense as a result of the exercise of 130'500 options was recorded for an amount of KCHF 201 under a transitional agreement.

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

Attributions	**2013**	**2012**	**2011**	**2010**	**2009**
Number of options granted	265'917	307'966	206'000	230'850	290'000
Grant date	May 1, 2013	May 1, 2012	May 1, 2011	May 1, 2010	May 1, 2009
Vesting period	2 years	2 years	2 years	2 years	2 years
Expiration date	April 30, 2016	April 30, 2015	April 30, 2014	April 30, 2013	April 30, 2012
Closing stock price at grant date	CHF 4.49	CHF 9.56	CHF 13.90	CHF 8.90	CHF 6.23
Exercise price	CHF 6.53	CHF 9.78	CHF 10.99	CHF 7.68	CHF 9.52
Expected life	2.5 years	2.5 years	2.5 years	2.5 years	2.5 years
Volatility	35,88%	34,88%	42.34%	46.94%	49.13%
Expected dividend yield	0%	0%	0%	0%	0%
Risk free interest rate	-0,1%	-0,18%	0.76%	0.48%	0.45%
Fair value of option at grant date	CHF 0.46	CHF 1.98	CHF 5.01	CHF 3.09	CHF 1.08
Expected turnover of personnel	-	-	-	-	-

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

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

	2013			2012		
	Options	Exercise price (CHF)	Contractual life	Options	Exercise price (CHF)	Contractual life
Outstanding at January 1,	**508'316**	**9.76**		**642'850**	**9.35**	
Granted	265'917	6.53	3 years (April 30, 2016)	307'966	9.78	3 years (April 30, 2015)
Exercised	-4'150	4.90		-130'500		
Forfeited or expired	-281'650			-312'000		
Outstanding at December 31,	**488'433**	**10.23**		**508'316**	**9.76**	
Exercisable at December 31,	**103'500**	**10.99**		**91'350**	**7.68**	

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

27.1 Basic

Basic earnings per share is calculated by dividing the net income attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (note 24.3).

	2013	2012
		Restated
Net loss attributable to equity holders of the Company	-45'586	-22'630
Weighted average number of ordinary shares in issue (thousands)	17'583	14'988
Basic loss per share (CHF per share)	**-2.59**	**-1.51**

27.2 Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares: share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2013	2012
		Restated
Net loss attributable to equity holders of the Company	-45'586	-22'630
Weighted average number of ordinary shares in issue (thousands)	17'583	14'988
Adjustments for share options (thousands)	–	16
Weighted average number of ordinary shares for diluted earnings per share (thousands)	17'583	15'004
Diluted loss per share (CHF per share)	**-2.59**	**-1.51**

28 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The Chief Operating Decision Maker has been identified as the Group's Chief Executive Officer. He regularly reviews the Group's internal reporting for its only operating segment, machines, in order to assess performance and assess resource needs. The primary internal reporting to the CODM is presented on the same basis as the Group's consolidated income statement and consolidated balance sheet and is reported on a consistent basis over the periods presented. The Group's Chief Executive Officer assesses the performance of the machines based on EBIT. Additional reporting such as geographical area are also provided to the CODM but they are not considered as substantial information to make strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the CODM based on internal reporting of the core activity.

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

28.1 Analysis of revenues by category

	2013	2012
Machines and spare parts	147'797	176'730
Service	7'453	8'096
Gross sales	**155'250**	**184'826**
Rebates and discounts	–4'434	-3'260
Total net sales	**150'816**	**181'566**

Switzerland is the domicile of the parent company and of the main operating and distribution companies. The Swiss operating companies conduct all main development and manufacture activities. The subsidiaries located in the other European countries (France, Germany, Italy, Poland, Spain and the United Kingdom), the Americas and Asia, except our Branch in Taiwan and our new production company in Xian, only have support or sales and distribution activities. The entities in Taiwan and Xian are companies which on behalf of the parent company conduct some developments on new products, which are then marketed through our distribution network. The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. The CODM reviews sales for the four material geographical areas, namely, Switzerland, Other European countries, the Americas and Asia. For the purpose of presenting net sales by location of customers, one other geographical region, namely Rest of world, is identified.

28.2 Net sales by location of customers

	2013	2012
Switzerland	35' 512	39' 217
Other European countries	70'716	79'360
North America	16'736	13'941
Asia	21'014	45'703
Rest of world	6'838	3'345
Total net sales	**150'816**	**181'566**

No transactions with a single customer accounted for 10% or more of the net sales in both 2013 and 2012.

28.3 Non-current assets

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

At December 31,	2013	2012
		Restated
Switzerland	26‘856	34‘606
Other European countries	962	1’203
North America	60	112
Asia	635	60
Rest of the world	–	80
Total non-current assets for geographical area disclosure	**28’513**	**36’061**
Reconciling unallocated assets:		
– Available-for-sale financial assets	–	–
– Deferred tax assets	4’938	14’068
Total non-current assets per balance sheet	**33’451**	**50’129**

29 Commitments and contingencies

29.1 Operating lease commitments

Operating lease liabilities, minimum lease payments:

	2013	2012
Year 1	1’103	1’225
Years 2 to 5	2’010	1’947
After 5 years	145	151
Total minimum lease payments	**3’258**	**3’323**

29.2 Pledges

At December 31, 2013 and 2012, the following assets were pledged to banks or leasing companies:

	2013	2012
Trade receivables	22’329	32’298
Land and buildings	23’349	24’783
Technical machinery & other equipment	–	21
Total assets pledged	**45’678**	**57’102**

At December 31, 2013 the total value of the pledged mortgage notes related to land and buildings amount to CHF 40.5 million (December 31, 2012: CHF 40.5 million). At both December 31, 2013 and 2012 and as described in note 20.1, 430’000 treasury shares and all the shares in Tornos Management Holding Ltd. are pledged in favour of the banks which granted the Amendment to the Facility Agreement to the Group.

However, as described in note 32, the Tornos Group has amended its financing structure in January 2014 through a private financing and following the amendments made, the shares pledged of the Tornos Group in favour of the banks as 430'000 treasury shares of the company have been released back to the Group. In addition, following the amendments made to the financing structure of the Group, the company has received back all securities assigned to the lending banks, such as the trade receivable assignment and mortgage notes for CHF 37.1 million.

29.3 Other commitments and contingent liabilities

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

30 Related party transactions

Remuneration consisting of fees to non-executive members of the Board of Directors amounted to KCHF 580 in 2013 (2012: KCHF 740). Remuneration, consisting principally of salaries and bonuses, to the members of Group Management as of December, 31 2013 totalled KCHF 939 in 2013 (2012: KCHF 2'013). As of December 31, 2013, the outstanding balances payable related to remuneration amounted to KCHF 0 (December 31, 2012: KCHF 42). Please refer to note 31 for additional details.

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

	Non-executive members and former member of the Board of Directors	Members of the Group Management	Total
Option rights outstanding at December 31, 2011	**168'000**	**353'000**	**521'000**
Granted during 2012	62'666	190'000	252'666
Exercised during 2012	-26'000	-115'700	-141'700
Forfeited or expired during 2012	-74'000	-204'000	-278'000
Transfer (e.g. retirement)	–	-68'000	-68'000
Option rights outstanding at December 31, 2012	**130'666**	**155'300**	**285'966**
Granted during 2013	48'000	30'000	78'000
Exercised during 2013	–	–	–
Forfeited or expired during 2013	-54'000	-101'300	-155'300
Transfer (e.g. retirement)	-23'333	-25'000	-48'333
Option rights outstanding at December 31, 2013	**101'333**	**59'000**	**160'333**

During 2013, the non-executive and the Group Management elected to purchase 0 share of the Company under MBP07 (2012: 17'200). Please refer to note 26 for further details.

As of December 31, 2013, the Board of Directors and Group Management also held 3'169'493 shares (15.95%) of the Company (December 31, 2012: 2'011'095 shares and 12.98%).

During 2013, sales to companies in which two of the directors of the Company hold a significant interest amounted to KCHF 789 (2012: KCHF 404). Services provided by a company in which one of the directors of the Company holds a significant interest amounted to KCHF 146 (2012: KCHF 152). As of December 31, 2013, the related outstanding balances receivable and payable amounted to KCHF 384 and KCHF 0 respectively (December 31, 2012: KCHF 32 and KCHF 12 respectively). The receivables from related parties are unsecured in nature and bear no interest, as well as the payables. No provisions are held.

No loans or advances were granted to related parties in 2013 and 2012. As of December, 31 2013 a loan of CHF 10 million – of which CHF 5 million are granted by a Company in which one of the directors of the Company holds a significant interest - was granted from two shareholders as disclosed in Note 20.

Please refer to note 23 for transactions with the pension funds.

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

31.1 2013

31.1.1. Compensation

In thousands of CHF unless otherwise stated	Base compensation	Variable compensation			
	Cash (amount)	Cash bonus 1) (amount)	Shares 2) (number)	Stock options 2) (number)	Other compensation 3) (amount)
Non executive members of Board of Directors					
François Frôté (Chairman of BoD and Chairman of Nomination and Compensation Committee and member of Audit Committee)	200	-	-	8'000	26
Claude Elsen (Deputy Chairman of BoD)	80	-	-	8'000	11
Philippe Maquelin (Chairman of Audit Committee and member of Nomination and Compensation Committee)	140	-	-	8'000	18
Michel Rollier	80	-	-	8'000	11
Frank Brinken	80	-	-	8'000	11
Total non executive members of Board of Directors	**580**	**-**	**-**	**40'000**	**77**
General Management					
Michael Hauser (CEO)	573	-	-	30'000	104
Total other members of General Management	366	-	-	-	70
Total General Management	**939**	**-**	**-**	**30'000**	**174**
Former executive member of Board of Directors	**27**	**-**	**-**	**8'000**	**4**
Former member of the General Management	**1'465**	**51**	**-**	**52'917**	**285**

1) The amounts represent the recorded expense for cash bonus for 2013, which will be paid out in May 2014.

2) The number of shares and options reflected represent the number of shares and/or options granted during the year 2013 in accordance with the stock compensation plans and which are still vesting at December 31, 2013. Please refer to notes 26 and 30 for additional details.

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

31.1.2 *Loans and credits*

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

31.1.3 *Participations*

At December 31, 2013 the following participations were held by members of the Board of Directors and the General Management (including persons and entities closely related to these members):

	Shares	Share options		
		Expiring 2014	Expiring 2015	Expiring 2016
Non executive members of Board of Directors				
François Frôté (Chairman of BoD and Chairman of Nomination and Compensation Committee and member of Audit Committee)	190’567	–	8’000	8’000
Claude Elsen (Deputy Chairman of BoD)	55’218	–	8’000	8’000
Philippe Maquelin (Chairman of Audit Committee and member of Nomination and Compensation Committee)	59’975	30’000	15’333	8’000
Michel Rollier	2‘853‘733	–	–	8‘000
Frank Brinken	9’000	–	–	8‘000
Total non executive members of Board of Directors	**3’168’493**	**30’000**	**31’333**	**40’000**
General Management				
Michael Hauser (CEO)	1‘000	–	29‘000	30‘000
Luc Widmer (CFO)	–	–	–	–
Bruno Allemand (Head of Sales and Marketing)	–	–	–	–
Total General Management	**1’000**	**–**	**29’000**	**30’000**

31.2 2012

31.2.1 Compensation

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

1) The amounts represent the recorded expense for cash bonus for 2012, which will be paid out in May 2013.

2) The number of shares and options reflected represent the number of shares and/or options granted during the year 2012 in accordance with the stock compensation plans and which are still vesting at December 31, 2012. Please refer to notes 26 and 30 for additional details.

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

31.2.2 ***Loans and credits***

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

31.2.3 ***Participations***

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

	Shares	Share options		
		Expiring 2013	Expiring 2014	Expiring 2015
Non executive members of Board of Directors				
François Frôté (Chairman of BoD and Chairman of Nomination and Compensation Committee and member of Audit Committee)	190’567	8’000	–	8’000
Claude Elsen (Deputy Chairman of BoD and member of Audit Committee and of Nomination and Compensation Committee)	55’218	8’000	–	8’000
Philippe Maquelin (Chairman of Audit Committee and member of Nomination and Compensation Committee)	59’975	30’000	30’000	15’333
Michel Rollier (Chairman of Alliance Committee and member of Products Committee)	1’253’733	8’000	–	-
Raymond Stauffer (Chairman of Products Committee and member of Alliance Committee)	457’933	–	–	15’333
Frank Brinken (Member of Products Committee and of Alliance Committee)	9’000	–	–	-
Total non executive members of Board of Directors	**2’026’426**	**54’000**	**30’000**	**46’666**
General Management				
Michael Hauser (CEO)	1‘000	–	–	29‘000
Luc Widmer (CFO)	–	–	–	-
Pierre-Yves Müller (Chief Operation Officer)	–	–	–	-
Olivier Marchand (Chief Technology Officer)	200	–	–	19’800
André Chardonnereau (Head of development and engineering)	2’000	5’000	5’000	20’000
Carlos Cancer (Head of Market & Sales Support)	8’922	–	20’000	20’000
Willi Nef (Head of Sales)	12’547	–	16’500	20’000
Total General Management	**24’669**	**5’000**	**41’500**	**108’800**

32 Subsequent event

In January the Tornos Group has amended its financing structure by putting it on a new contractual basis as follows:

Two industrial shareholders are granting credit facilities of CHF 20 million in the form of a CHF 10 million loan granted since October 2012, complemented by an additional credit line of CHF 10 million expiring on March 31, 2015. Furthermore, a credit line of CHF 8 million for the issuance of a bank guarantee is equally granted. Mortgage notes of Tornos Ltd. are assigned as securities to the facilities granted.
Following the amendments made to the financing structure of the Group, the company has been released from its function as guarantor to the former credit facilities. In addition, 430'000 treasury shares of the company have been handed back, as well as the shares of Tornos Management Holding Ltd., the mortgage notes of CHF 37 million and the receivables assigned of Tornos Ltd.

There are no other subsequent events to be mentioned.

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of Tornos Holding Ltd., which comprise the income statement, balance sheet, statement of changes in equity and notes (pages 76 to 83), for the year ended December 31, 2013.

Board of Directors' Responsibility

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements for the year ended December 31, 2013 comply with Swiss law and the company's articles of incorporation.

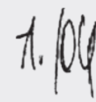
Report on other legal requirements

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

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

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

PricewaterhouseCoopers SA



Oliver Kuntze *Audit expert* *Auditor in charge*	*Aude Joly* *Audit expert*

Neuchâtel, March 3, 2014

Income statement

In thousands of CHF

For the years ended December 31,	Note	2013	2012
Dividend income		56	127
Interest income		–	1'119
Gains on sale of investments	3	1'726	–
Total income		**1'782**	**1'246**
Administrative expenses		–459	–554
Impairment on loan to subsidiary	9	–12'844	–
Loss on valuation of treasury shares	6	–512	–1'187
Loss on sale of treasury shares		–36	–
Costs related to the capital increase 2013		–953	–
Taxes other than on income		–27	–33
Total expenses		**–14'831**	**–1'774**
Loss before income taxes		**–13'049**	**–528**
Income taxes		–	–
Net loss		**–13'049**	**–528**

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

Balance sheet

In thousands of CHF As of December 31,	Notes		2013	2012
ASSETS				
Cash and cash equivalents			30	10
Treasury shares	6, 8		2'341	2'909
Group receivables			4'347	-
Other investment	3		-	3'574
Other current assets			4	9
Total current assets			**6'722**	**6'502**
Investment in a subsidiary	2, 8		65'000	65'000
Loan to a subsidiary	8, 9		22'712	35'556
Long term loan to a subsidiary			30'000	-
Total non-current assets			**117'712**	**100'556**
Total assets			**124'434**	**107'058**
LIABILITIES AND EQUITY				
Group payables			262	441
Accrued expenses			28	54
Total current liabilities			**290**	**495**
Ordinary shares	4		89'450	69'759
Legal reserves				
General reserve				
Reserve from capital contribution - net	5		29'978	18'983
Reserve from capital contribution - gross *	5	81'465		
Loss carry forward set off *	5	-44'055		
Capital increase costs set off *	5	-7'432		
Reserve for treasury shares	6		6'771	6'827
Retained earnings/(loss)	10		-2'055	10'994
Total equity			**124'144**	**106'563**
Total liabilities and equity			**124'434**	**107'058**

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

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

Statement of changes in equity

In thousands of CHF	Ordinary shares (note 4)	Additional paid-in capital	Reserve from capital contribution – net (note 5)	Reserve for treasury shares (note 6)	Retained earnings	Total
At December 31, 2011	**69'671**	**–**	**18'927**	**6'827**	**11'522**	**106'947**
Issuance of new shares	88		56			144
Net loss					–528	–528
At December 31, 2012	**69'759**	**–**	**18'983**	**6'827**	**10'994**	**106'563**
Capital increase	19'691		10'939			30'630
Net loss					–13'049	–13'049
Transfer from reserve treasury shares			56	–56		–
At December 31, 2013	**89'450**	**–**	**29'978**	**6'771**	**–2'055**	**124'144**

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

Notes to the Financial Statement

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

1 Basis of preparation

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

2 Subsidiary

Name	Purpose	Share capital	2013	2012
		KCHF	% held	% held
Tornos Management Holding Ltd., Moutier, Switzerland	Management of shareholdings and holding company	65'000	100	100

3 Other investment

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

Tsugami and Tornos are two groups active in the machine tool sector which signed a framework partnership agreement on February 15, 2008. The underlying logic of the agreement was that the two groups are complementary in terms of their product range and geographical markets, in which each of them holds a leadership position. Under the terms of the agreement, cooperation was established in a number of areas such as research and development, procurement, production and distribution. Following the long lasting cooperation and the up-coming business prospects for either of the companies, the parties decided that the mutual shareholding could be abandoned and therefore the investment was sold during the year 2013. Proceeds from the sale generated a net profit of CHF 1.7 million.

4 Share capital, conditional capital and authorised capital

During the year 2013:

- *4'375'578 shares were issued following the capital increase performed on May 30, 2013 at market price of CHF 7.00 each share;*
- *The share capital of the company was increased on May 30, 2013 through the issuance of 4'375'578 registered shares at a price of CHF 7.00 per share.*

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2013:

- *The share capital amounts to CHF 89'449'519.50 divided into 19'877'671 registered shares of CHF 4.50 nominal value each;*
- *The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 1'459'899.00 by issuing 324'422 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by share underwriting agreement and partial increases are authorised. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company's interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.*

During the year 2012:

- *19'700 registered shares were issued and fully paid for at a price of CHF 7.34 each under the Management and Board Participation plan 2007 (MBP07);*

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

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

5 Reserve from capital contribution – net

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

At December 31,	2013	2012
Reserve from capital contribution – gross	**81'465**	**70'470**
Loss carry forward set off	-44'055	-44'055
Capital increase costs set off	-7'432	-7'432
Reserve from capital contributions – net	**29'978**	**18'983**

6 Treasury shares

Movements in treasury shares are as follows:

	2013		2012	
	Nb of shares	Total of average purchase price	Nb of shares	Total of average purchase price
At beginning of year	**505'106**	**6'827**	**505'106**	**6'827**
Sale of treasury shares*	-4'150	-56	nil	nil
At end of year	**500'956**	**6'771**	**505'106**	**6'827**

(* sold as part of the management participation plan, MBP07)

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

Starting in 2010 market making was contracted to a financial institution acting under its own name and for its own account in respect of gains and losses resulting from the shares the institution has bought/sold. No shares are loaned for that purpose. For market making, a fixed monthly fee is charged. During the year 2013 total costs incurred amounted to KCHF 84 (2012: KCHF 84).

7 Significant shareholders

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

At December 31,	2013	2012
Walter Fust	33.32%	25.18%
Michel Rollier	14.36%	8.10%
Tsugami Corporation	0.00%	6.46%
Balfidor Fondsleitung AG	6.31%	6.32%

8 Pledges

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

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

On October 15, 2012 the Facility Agreement with the lenders was amended and restated, in conjunction with the finance facility granted from two shareholders to the Group amounting to CHF 40 million. The Facility Agreement was so amended that the credit facilities were reduced from CHF 50 million to CHF 35 million and that any breach in covenants would not be considered an event of default. The Facility Agreement with the banks was extended to the year-end 2013. On May 30, 2013, the loan provided by the two shareholders to Tornos Ltd. was reduced to CHF 10 million as CHF 30 million were converted as equity through a capital increase transaction.

Except CHF 4.3 million used under the ancillary facilities for guarantees purposes, the credit facilities granted by the banks were not used as of December 31, 2013 (same as of December 31, 2012).

The Facility Agreement which was valid until December 31, 2013 has not been renewed and ceased therefore at the aforementioned date. As stipulated under the note "subsequent event", in addition to the already granted loans in 2012 by two shareholders, an additional Facility Agreement was concluded with Tornos Ltd. containing a credit line of CHF 10 million and providing securities of CHF 8 million in bank guarantees.

9 Impairment on loan to subsidiary

As a result of the restructuring of the activities of the Group, the loan to the subsidiary "Tornos Management Holding Ltd." has been reviewed and impaired by CHF 12.8 million.

10 Retained earnings/(loss)

Evolution of the accumulated gains and losses:

In thousands of CHF For the years ended December 31,	2013	2012
Retained earnings brought forward	10’994	11’522
Net loss	-13’049	-528
Available earnings/(loss)	**-2’055**	**10’994**

10 Board of Directors and General Management compensation

The disclosures required by articles 663bbis and 663c of the Swiss Code of Obligations on the Board of Directors and General Management compensation is reflected in note 31 of the consolidated financial statements.

12 Risk assessment

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

13 Subsequent event

In January, the Group has amended its financing structure by putting it on a new contractual basis as follow: Two industrial shareholders are granting credit facilities of CHF 20 million in the form of a CHF 10 million loan granted since October 2012, complemented by an additional credit line of CHF 10 million expiring on March 31, 2015. These loans are renewed automatically, if they are not terminated by a written notice 6 months prior to the maturity date. Furthermore, a credit line of CHF 8 million for the issuance of a bank guarantee is equally granted. Mortgage notes of Tornos Ltd. are assigned as securities to the facilities granted.

Following the refinancing, the company was released as guarantor under the former facility agreement as well as all pledges and securities were released.

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