TORNOS

Consolidated Financial Statements 2014

Tornos Holding Ltd.

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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 balance sheet, income statement, cash flow statement, statement of changes in equity and notes (pages 6 to 49), for the year ended 31 December 2014.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Swiss GAAP FER 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. 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 31 December 2014 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER 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	*Yves Tritten*
Audit expert	*Audit expert*
Auditor in charge	

Neuchâtel, 2 March 2015

Consolidated income statement

In thousands of CHF, except per share data For the years ended December 31,	Notes	2014	2013
			Restated (note 2.2)
Net sales	28	**175'806**	**150'816**
Cost of sales	6	–123'329	–125'924
Gross profit		**52'477**	**24'892**
Marketing and sales	6	–25'972	–26'615
General and administrative expense	6	–17'506	–19'862
Research and development	6	–6'975	–11'354
Other income – net	8	791	257
Operating result		**2'815**	**–32'682**
Finance income	9	59	134
Finance expense	9	–453	–2'311
Exchange result, net	10	885	–476
Ordinary result		**3'306**	**–35'335**
Income tax credit/(charge)	11	–436	–303
Net result		**2'870**	**–35'638**
Thereof attributable to shareholders of Tornos Holding Ltd.		2'996	–35'625
Thereof attributable to minority interests		–126	–13
Result per share	27		
– basic		0.15	–2.03
– diluted		0.15	–2.03

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	2014	2013
ASSETS			Restated (note 2.2)
Cash and cash equivalents	12	15’434	11’142
Trade receivables	13	21’574	26’032
Inventories, net	14	57’092	59’821
Other short-term receivables	15	6’879	8’060
Prepayments and accrued income	16	4’736	3’123
Total current assets		**105’715**	**108’178**
Property, plant and equipment	17	24’756	26’193
Intangible assets	18	774	763
Deferred tax assets	19	1’187	1’080
Total non-current assets		**26’717**	**28’036**
Total assets		**132’432**	**136’214**
LIABILITIES AND EQUITY			
Interest bearing borrowings	20	63	10’070
Trade payables		19’383	18’819
Current tax liabilities		261	78
Other liabilities	21	10’725	9’375
Accrued liabilities and deferred income	22	6’067	4’931
Provisions	23	3’547	4’420
Total current liabilities		**40’046**	**47’693**
Interest bearing borrowings	20	305	367
Retirement benefit obligations	24	5’969	5’966
Provisions	23	724	727
Deferred tax liabilities	19	185	163
Total non-current liabilities		**7’183**	**7’223**
Total liabilities		**47’229**	**54’916**
Share capital		89’450	89’450
Share premium	25	28’814	28’814
Treasury shares		–5’242	–6’771
Retained earnings		–31’839	4’688
Currency translation adjustments		278	315
Net result		2’996	–35’625
Equity attributable to shareholders of Tornos Holding Ltd.		**84’457**	**80’871**
Minority interests		746	427
Total equity		**85’203**	**81’298**
Total liabilities and equity		**132’432**	**136’214**

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

Consolidated statement of changes in equity

In thousands of CHF	Share capital	Share premium	Treasury shares	Retained earnings	Currency translation adjustments	Total attributable to shareholders of Tornos Holding Ltd.	Minority interests	Equity
As per December 31, 2012 (according to IFRS)	**69’759**	**18’864**	**–6’827**	**3’522**	**–3’468**	**81’850**	**none**	**81’850**
Adjustments according to Swiss GAAP FER (ref. notes 2.2)				874	3’468	**4’342**	none	**4’342**
As per January 1, 2013	**69’759**	**18’864**	**–6’827**	**4’396**	**–**	**86’192**	**none**	**86’192**
Minority interest arising on incorporation of the joint venture in Xi’an							440	**440**
Net result				–35’625		**–35’625**	–13	**–35’638**
Currency translation adjustments					315	**315**		**315**
Proceeds from shares issued, net of costs	19’691	9’985				**29’676**		**29’676**
Proceeds from sale of treasury shares		–35	56			**21**		**21**
Share-based compensation				292		**292**		**292**
As per December 31, 2013	**89’450**	**28’814**	**–6’771**	**–30’937**	**315**	**80’871**	**427**	**81’298**
Capital increase of the joint venture in Xi’an							361	**361**
Net result				2’996		**2’996**	–126	**2’870**
Currency translation adjustments					–37	**–37**	84	**47**
Proceeds from sale of treasury shares			1’529	–1’122		**407**		**407**
Share-based compensation				220		**220**		**220**
As per December 31, 2014	**89’450**	**28’814**	**–5’242**	**–28’843**	**278**	**84’457**	**746**	**85’203**

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	2014	2013
			Restated
Net result		**2'870**	**–35'638**
Adjustments for expense and income not affecting cash:			
Income taxes	11	436	303
Depreciation & impairment of property, plant and equipment	17	2'350	2'885
Amortization & impairment of intangible assets	18	308	3'979
Result on disposal of securities	9	–	685
Result on disposal of property, plant and equipment	8	–752	–179
Share-based compensation	26	220	292
Employee retirement obligations	24	22	–281
Allowance and write-offs on inventories	14	2'231	15'594
Other non cash items		–19	13
Changes in			
Trade receivables		4'684	10'112
Other assets and prepayments		–272	–4'417
Inventories		1'195	2'674
Trade payables		389	1'504
Other current liabilities and provisions		464	–1'005
Interest expense	9	213	743
Interest income	9	–5	–134
Income taxes paid		–404	–641
Cash flow from operating activities		**13'930**	**–3'511**
Investment in property, plant and equipment	17	–844	–415
Disposal of property, plant and equipment	17	752	195
Disposal of securities	9	–	5'300
Investment in intangible assets	18	–271	–176
Interests and dividends received	9	5	134
Cash flow from investing activities		**–358**	**5'038**
Repayments of borrowings, including finance lease liabilities	20	–10'069	–30'246
Proceeds from issuance of share capital, net of expenses paid	25	–	29'676
Proceeds from sale of treasury shares	25	407	21
Cash received from minority interests for Xi'an		361	70
Interest paid		–275	–739
Cash flow from financing activities		**–9'576**	**–1'218**
Net cash flow		**3'996**	**309**
Cash and cash equivalents and bank overdrafts at beginning of year		11'142	10'884
Effects of exchange rate changes		296	–51
Cash and cash equivalents and bank overdrafts at end of year		**15'434**	**11'142**

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 Domestic 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.

The Group registered in Taiwan, Taipei 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 Xi'an, China 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 2, 2015. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 14, 2015.

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. The consolidated financial statements are based on the financial statements of the Tornos Group Companies for the year ended December 31, prepared in accordance with uniform corporate accounting principles.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the entire existing accounting principles of SWISS GAAP FER (Generally Accepted Accounting Principle FER) and comply with the provisions of the listing rules of the SIX Swiss Exchange and with the Swiss law. The regulations of Swiss GAAP FER 31 "Complementary Recommendations for Listed Public Companies" have been early adopted. 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 securities and derivatives 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 Swiss GAAP FER 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 Change in accounting standard – Change to Swiss GAAP FER

Until December 31, 2013, Tornos Group has prepared its consolidated financial statements in accordance with IFRS (International Financial Reporting Standards). With the media release of November 4, 2014 the change from the accounting principles of IFRS to Swiss GAAP FER as of the 2014 business year was announced. The accounting principles applied in the preparation and presentation of the 2013 consolidated financial statements (restatement) deviates in the following points from the consolidated annual financial statements 2013 prepared according to IFRS.

Employee benefit obligation

Under IFRS the liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. Whereas the net periodic pension costs of defined benefit pension plans are recognised in the income statement. Effects from remeasurements are recognised in other comprehensive income.

Under Swiss GAAP FER the economic effect from pension plans is determined annually and recognised as an asset or liability in the balance sheet. Changes to such an asset or liability are recognised in the income statement. For Swiss pension plans the economic effect for the Group is determined by using the pension plans financial statements prepared in accordance with Swiss GAAP FER 26 as a basis.

As per December 31, 2012 the financial statements of the Swiss pension fund in accordance with Swiss GAAP FER 26 showed a technical coverage ratio of 102% with an underlying technical discount rate of 3.5%. The Group assumes that the technical discount rate will decrease significantly in a midterm perspective and therefore recognised a retirement benefit obligation as an economic liability in the opening balance sheet of KCHF 3'996.

Intangible Assets

Under IFRS, the Group capitalized internal development costs as long as there were identifiable assets that will generate future economic benefits and the cost of such an asset was able to be measured reliably. Under Swiss GAAP FER 10, the option is provided to not capitalize internally generated development costs even if criteria for capitalization are existing. Under Swiss GAAP FER, Tornos recognizes development costs directly in the income statement and is not capitalizing them.

Deferred income taxes

The above-mentioned valuations and balance sheet adjustments have consequences for deferred income taxes in the balance sheet and income statement. Moreover, Swiss GAAP FER provides the option to not capitalize deferred tax assets on tax losses carried forward. Tax losses carried forward have however to be disclosed in the notes. Tornos is not capitalising deferred tax assets on losses carried forward.

Securities and financial assets under current assets

Under IFRS the Group had to classify its financial assets as loans and receivables, available-for-sale financial assets and derivatives financial instruments. The classification was depending on the purpose for which the financial assets were acquired. Following this concept, the Tsugami shares held by the Group were classified as available-for-sale financial assets under the current assets as per December 31, 2012 and carried at fair value with changes being recognized in equity until the securities were either sold or impaired. These financial assets were sold during the financial year 2013. According to Swiss GAAP FER, securities as part of the current assets have to be valued at fair value with changes being recognized in the income statement. Therefore, the change in fair value as of December 31, 2012 was already realised according to this concept and only the changes in fair value between the end of December 2012 and the date of disposal in 2013 had to be recognized in the result of the year 2013.

Derivatives

Under IFRS, derivative financial instruments were classified as financial assets or liabilities held for trading and recognized at fair value through profit or loss unless they were designated as hedges under IFRS and accounted for according to the hedge accounting. Assets or liabilities in this category were classified as other current assets or liabilities. The only derivative financial instruments the Group was holding were foreign currency futures or forwards to hedge commercial transactions. Following the provisions provided by Swiss GAAP FER, Tornos is not recognizing the fair value of these derivatives at the balance sheet date but discloses it in the notes as cash flow hedge instruments.

Currency translation adjustments

As a result of the change to Swiss GAAP FER, accumulated currency translation adjustments as of the date of the change are offset with retained earnings (KCHF 3'468). Therefore, under Swiss GAAP FER, the result from any divestiture will only contain currency translation adjustments that have occurred after January 1, 2013.

Presentation and structure

The presentation and structure of the balance sheet, income statement, statement of changes in equity, and statement of cash flows were adjusted to meet the requirement of Swiss GAAP FER. The previous year was restated in order to ensure the comparability with the presentation of the year under review.

2.2.1 *Impact due to conversion from IFRS to Swiss GAAP FER*

The implication of the adjustments mentioned above for equity and the income statement are summarized in the following tables:

Shareholders' equity	Jan 1, 2013	Dec 31, 2013
Equity according to IFRS	**81'850**	**72'391**
Adjustment regarding intangible assets, net of tax	–2'680	–2'057
Adjustment regarding tax losses carried forward	–10'712	–2'166
Adjustment regarding pension accounting, net of tax	17'734	12'430
Adjustment regarding derivatives, net of tax	–	273
Equity according to Swiss GAAP FER	**86'192**	**80'871**

Net result	Jan – Dec 2013
Net result according to IFRS	**–45'599**
Adjustment regarding intangible assets, net of tax	623
Adjustment regarding securities, net of tax	–2'222
Adjustment regarding tax losses carried forward	8'546
Adjustment regarding pension accounting, net of tax	2'741
Adjustment regarding derivatives, net of tax	273
Net result according to Swiss GAAP FER	**–35'638**

2.3 Consolidation

2.3.1 *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, whereby assets, liabilities, income and expenses are incorporated in the consolidated accounts. They are deconsolidated from the date that control ceases. The net assets acquired are valued at actual values and consolidated applying the purchase method. Previously not capitalized intangible assets are not valued and not recognized. Any minority interest is disclosed separately.

A listing of the Company's subsidiaries is set out in note 5.

2.3.2 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. Capital consolidation is based on the acquisition method, whereby the acquisition cost of a subsidiary is eliminated at the time of acquisition against the fair value of net assets acquired, determined according to uniform corporate accounting principles.

2.4 Foreign currencies

2.4.1 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.

2.4.2 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 remeasured. 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.

2.4.3 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 revenue, expense and cash flow 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 equity.

2.5 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. Sales are recognized if it is probable that the economic benefit will flow to the Group and the amount can be reliably estimated. Net sales represent total revenues net of rebates and discounts granted after billing.

2.6 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 borrowings in current liabilities. They are stated at their nominal amounts.

2.7 Securities (financial assets under current assets)

Marketable securities and term deposits with maturities of more than 90 day are reported as current financial assets and stated at acquisition costs.

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. Securities are subsequently carried at fair value with any changes in fair value being recognised in to the financial result of the period.

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

2.8 Trade and other receivables

Trade and other receivables are carried at nominal value, less provision for bad debt determined based on a review of all outstanding amounts at the year-end. A provision for bad debt 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. Loans and receivables are carried at amortised cost using the effective interest method.

2.9 Derivative financial instruments

Derivative financial instruments are financial assets or liabilities whose value is primarily impacted by the price of one or several underlying basic values, which compared to a direct purchase of an underlying basic values does only require a minor initial investment and which will only be settled in the future. Derivatives are recognised in the balance sheet as soon as they fulfil the definition of an asset or a liability and are valued at actual values for derivatives without hedging purposes or disclosed in the notes for cash flow hedges. 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. Derivatives are classified under "securities".

Tornos Group is currently only concluding foreign currency futures or forward (foreign exchanges as underlying value) to hedge future commercial transactions. Following the recommendations of Swiss GAAP FER related to agreed future cash flows that are not yet recognised, and have therefore no effect on the income statement, but which will occur with a high probability, Tornos Group is not recognizing the effect of the hedge but discloses it in the notes.

2.10 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. Settlement discounts are recognized as part of the cost of goods.

Provisions are made for slow moving items. Obsolete items are written off (see note 4.1).

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).

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.

Operating lease payment are treated as operating expenses and charged to the income statement as incurred.

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. Estimated useful lives for buildings are determined based on the buildings purposes.

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

Items which qualify as intangible assets comprise acquired development costs, purchased patents and know-how and purchased software.

2.12.1 ***Development costs***

Internally generated development costs are charged to the income statement as incurred and are not capitalized even if they are related to new products or platforms and that the identifiable asset will generate expected future economic benefits and the cost of such an asset can be measured reliably. Acquired development costs are capitalized if they yield measurable economic benefits to the Group over several years. Development expenditures which do not meet the criteria above are recognised as an expense as incurred. Capitalized development costs are amortized on a straight line basis over a period which cannot exceed their estimated useful lives. Amortisation starts when the development projects are finalized and the specific products are introduced to the market. They are amortized over their useful lives on a straight-line basis.

Internal and external research costs are charged to the income statement as incurred.

2.12.2 *Purchased patents and know-how*

Purchased patents and know-how are capitalized and initially recorded at cost. They are amortised over their useful live 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 assets

Tangible and intangible assets 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 net selling price and value in use, is estimated. The carrying amounts of the Group's other assets, other than inventories (see accounting policy 2.10), deferred tax assets (see accounting policy 2.14), are reviewed at each balance sheet date to determine whether there is any indication of impairment. For tangible and 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.

2.14 Current and deferred income taxes.

Income tax on the profit or loss for 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 equity, in which case it is also recognised in equity.

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

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

Deferred tax assets are only recognized to the extent that it is probable that future taxable profit will be available to offset against these assets. No deferred tax asset is recognised for tax losses carried forward.

2.15 Trade accounts payable and other liabilities

Trade accounts payable as well as other liabilities are stated at nominal value.

2.16 Employee benefit plans

The Group has established different pension plans around the world. All employee benefit plans in the Group comply with the legislation in force in each country. The plan in Switzerland which is the most significant is jointly financed by the employer and the employees. The contributions are fixed in the plan rules. For the other countries, they are either lump sum plans, or plans in collaboration with insurances.

For Swiss pension plans the economic effect for the Group is determined by using the pension plans financial statements prepared in accordance with Swiss GAAP FER 26 as a basis. The economic effect from pension schemes of foreign subsidiaries is determined in accordance with the local valuation methods. On these bases the economic benefit and economic obligation is determined annually and recognised for each pension institution. The difference to the respective value of the prior year is recognised as personnel expenses in the result of the period. Employer contribution reserve, if any, and comparable items are capitalized in accordance with Swiss GAAP FER 16.

2.17 Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. 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.

2.18 Contingent liabilities

Contingent liabilities are assessed on the basis of likelihood and the amount of the future liabilities and are disclosed in the notes.

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 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.

2.21 Treasury shares

Treasury shares are stated at cost as a separate minus position in equity. Gains or losses arising on the disposal of treasury shares are recognised in equity.

2.22 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the top management level to steer the business.

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. No forward exchange contracts were entered into in 2014.

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 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, resp. as securities. This investment was sold during the financial year 2013. Therefore, the Group has no further exposures as of December, 31 2014 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 CHF 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 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.

4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with Swiss GAAP FER 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 business forecast, production plans or external economic indicators.

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	Dormant
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	Liquidated in 2014
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	Thailand	Support services
Tornos Technologies Asia LTD Malaysia, Representative Office	Malaysia	Support services

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. hold 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 joint venture with the company Shanxi Robot Automation Technology Co. Ltd. This company is fully consolidated as a subsidiary. The total minorities interests at the year-end 2014 amounts to KCHF 746 (2013: KCHF 427) 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:

	2014	2013
Commitment to provide funding if called	933	1'471

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

Changes in scope

2014

The subsidiary Tornos Comercio, Importaçao e Exportaçao de Maquinas Ferramenta Ltda, in Sao Paulo, Brazil, has been liquidated as of October 17, 2014. There are no other changes in scope to be mentioned.

2013

Tornos Group has created on May 18, 2013 a Branch office called Tornos Management Holding Ltd., Taiwan Branch Office, in Taichung, Taiwan, which is a new assembly plant.

The Group has also registered Tornos (Xi'an) Machine Works Co. Ltd., as disclosed above, in Xi'an, China on September 23, 2013 a new production plant with the company Shaanxi 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.

6 Expense by nature

	2014	2013
		Restated
Personnel expense (note 7)	–59’080	–60’247
Gross changes in inventories of finished goods and work in progress, raw materials and consumables used	–78’959	–68’456
Obsolescence and write-offs on inventories (note 14)	–2’231	–15’594
Depreciation charges (note 17)	–2’350	–2’804
Amortisation charges (note 18)	–308	–561
Impairment charges (note 17 & 18)	–	–3’499
Marketing expenses & commissions	–6’331	–6’226
Consulting fees	–2’843	–4’076
Other operating expense	–21’680	–22’292
Total cost of sales, marketing and sales, general and administrative and research and development expense	**–173’782**	**–183’755**

7 Personnel expense

	2014	2013
		Restated
Personnel expense	–59’080	–63’618
Reimbursements from unemployment insurances	–	3’371
Personnel expense – net	**–59’080**	**–60’247**
Of which :		
Pension expense (note 24)	–3’096	–3’279
Share-based compensation (note 26)	–220	–292

8 Other income – net

	2014	2013
		Restated
Gain on sale of land and buildings	–	179
Gain on sale of machinery	752	-
Other net	39	78
Other income – net	**791**	**257**

9 Finance expense – net

	2014	2013
		Restated
Interest income	5	78
Dividend & other finance income	54	56
Finance income	**59**	**134**
Interest expense	–213	–743
Loss on sale of securities	–	–685
Bank charges and other finance expense	–240	–883
Finance expense	**–453**	**–2'311**
Finance result	**–394**	**–2'177**

The loss on sale of securities is related to the sale of Tsugami shares which were held as a strategic investment until July 2013. Tornos Group acquired during 2008 1'000'000 shares of JPY 1'000 each of Tsugami Corporation, Tokyo, Japan (Tsugami), a company listed on the Tokyo Stock Exchange for KCHF 3'574. Tsugami Corporation and the Tornos Group signed a framework partnership agreement on February 15, 2008. Following the long lasting cooperation and the up-coming business prospects for either of the companies, the parties decided at the end of 2012 that the mutual shareholding was to be abandoned. Following this decision to cease the partnership, the strategic investment was reclassified from non-current asset to current assets as of December 31, 2012 and valuated to fair value of KCHF 5'985. The Management and the Board decided in July 2013 to sell the shares for gross proceeds of KCHF 5'300.

10 Exchange result

	2014	2013
		Restated
Realized gains and losses	1'037	475
Unrealized gains and losses	–152	–951
Exchange result	**885**	**–476**

11 Income taxes

	2014	2013
		Restated
Current income tax charge	–524	–513
Deferred tax credit/(charge)	88	210
Income taxes	**–436**	**–303**

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2014 ranged between 8% and 37% (2013: between 8% and 36%), in the tax jurisdictions in which the Group operates.

	2014	2013
		Restated
Ordinary result before income taxes	**3'306**	**–35'335**
Expected tax credit / (expense)	**–469**	**5'490**
Weighted average applicable tax rate	14.2%	15.5 %
Effect of tax deductible expense eliminated on consolidation	221	3'100
Tax effect on treasury shares	–23	43
Utilisation of previously unrecognised tax assets	1'202	20
Current year losses for which no deferred tax asset is recognised	–1'056	–8'594
Change in deductible temporary differences for which no deferred tax asset is recognised	–75	–299
Expense not deductible for tax purposes	–218	–94
Income taxes relating to prior years	–24	–
Other effects	6	31
Income tax credit/(charge) recognised	**–436**	**–303**

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 14.2% (2013: 15.5%). The tax rate changes from year to year due to changes in the mix of the taxable results of the individual Group companies.

12 Cash and Cash equivalents

	2014	2013
		Restated
Cash at bank and in hand	15'540	11'142
Less bank overdrafts	–106	–
Cash and cash equivalents	**15'434**	**11'142**

13 Trade receivables

	2014	2013
		Restated
Trade receivables	22’405	27’680
Less provision for impairment of receivables	–831	–1’648
Trade receivables – net	**21’574**	**26’032**

Trade receivables aging is as follows:

	2014	2013
		Restated
Current	11’244	11’376
1 to 30 days overdue	5’091	5’293
31 to 60 days overdue	1’397	2’190
61 to 90 days overdue	907	295
91 to 180 days overdue	568	2’279
More than 180 days overdue	3’198	6’247
Trade receivables	**22’405**	**27’680**

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

	2014	2013
		Restated
At beginning of year	–1’648	–1’354
Provision for receivable impairment	–102	–726
Receivables written off during the year as uncollectible	653	432
Unused amounts reversed	266	–
At end of year	**–831**	**–1’648**

14 Inventories

	2014	2013
		Restated
Materials and components	47’348	47’069
Work in progress	14’628	20’778
Finished goods and spare parts	28’704	23’331
Inventories – gross	**90’680**	**91’178**
Less allowance for obsolescence	–33’588	–31’357
Inventories – net	**57’092**	**59’821**

Total obsolescence and write-offs charged to the income statement during the year 2014 amount to KCHF 2’231 (2013: KCHF 15’594).

15 Other short-term receivables

	2014	2013
		Restated
VAT receivable	4'623	2'722
Deposit account for bank guarantees	–	4'486
Social securities & other related taxes receivable	1'656	256
Other	600	596
Total short-term receivables	**6'879**	**8'060**

The Facility Agreement granted by financing banks to the Tornos Group was maturing on December 31, 2013 and had 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 had been opened at a premium Swiss Cantonal Bank at the end of 2013 to secure the bank guarantees provided to the company's customers. 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, 2014 and 2013.

16 Prepayments and accrued income

	2014	2013
		Restated
Advances to logistic companies for customs clearance purpose	773	878
Advances to suppliers	1'119	931
Negative hours due from employees	71	241
Accrued income	83	–
Prepaid expenses	2'690	1'073
Total prepayment and accrued income	**4'736**	**3'123**

17 Property, plant and equipment

	Land, buildings & installations	Machinery	Other equipment	Total
Cost				
At December 31, 2012 (Restated)	**67’571**	**64’810**	**8’861**	**141’242**
Additions	261	23	117	401
Disposals	–1’171	–6’688	–403	–8’262
Exchange differences	17	2	7	26
At December 31, 2013 (Restated)	**66’678**	**58’147**	**8’582**	**133’407**
Additions	159	200	485	844
Disposals	–178	–14’396	–1’075	–15’649
Exchange differences	58	6	37	101
At December 31, 2014	**66’717**	**43’957**	**8’029**	**118’703**
Accumulated depreciation				
At December 31, 2012 (Restated)	**–40’973**	**–64’006**	**–7’581**	**–112’560**
Depreciation for the year	–1’878	–260	–666	–2’804
Impairment charge	–	–	–81	–81
Disposals	1’163	6’688	395	8’246
Exchange differences	–19	–	4	–15
At December 31, 2013 (Restated)	**–41’707**	**–57’578**	**–7’929**	**–107’214**
Depreciation for the year	–1’735	–224	–391	–2’350
Impairment charge	–	–	–	–
Disposals	178	14’396	1’075	15’649
Exchange differences	–25	–	–7	–32
At December 31, 2014	**–43’289**	**–43’406**	**–7’252**	**–93’947**
Carrying amounts				
December 31, 2013	**24’971**	**569**	**653**	**26’193**
December 31, 2014	**23’428**	**551**	**777**	**24’756**

Of which related to leased assets:

	Land, buildings & installations	Machinery	Other equipment	Total
Carrying amounts				
December 31, 2013	–	–	–	–
December 31, 2014	–	–	–	–

The fire insurance value of PP&E and inventories amounts to CHF 383 million (2013: CHF 382 million).

18 Intangible assets

	Development costs	Patents & know-how	Software	Total
Cost				
At December 31, 2012 (Restated)	**–**	**3’870**	**3’248**	**7’118**
Additions	–	–	14	14
Disposals	–	–	–307	–307
Incorporation of a new subsidiary	546	–	–	546
Impairment	–	–3’870	–	–3’870
Exchange differences	–7	–	–	–7
At December 31, 2013 (Restated)	**539**	**–**	**2’955**	**3’494**
Additions	–	–	271	271
Disposals	–	–	–204	–204
Exchange differences	56	–	–	56
At December 31, 2014	**595**	**–**	**3’022**	**3’617**
Accumulated amortisation				
At December 31, 2012	**–**	**–129**	**–2’800**	**–2’929**
Amortisation charge	–	–323	–238	–561
Impairment charge	–	–3’418	–	–3’418
Disposals	–	–	307	307
Write-off	–	3’870	–	3’870
At December 31, 2013	**–**	**–**	**–2’731**	**–2’731**
Amortisation charge	–101	–	–207	–308
Disposals	–	–	204	204
Exchange differences	–8	–	–	–8
At December 31, 2014	**–109**	**–**	**–2’734**	**–2’843**
Carrying amounts				
December 31, 2013	**539**	**–**	**224**	**763**
December 31, 2014	**486**	**–**	**288**	**774**

18.1 Development costs

In the financial year 2013, development costs of KCHF 546 have been recognised as part of the investment brought in by our partner during the incorporation of our new production plant Tornos (Xi’an) Machine Works Co., Ltd., in Xi’an which is a joint venture, and which Tornos Ltd. holds 70% of participation. The new recognised development costs correspond to drawings and prototype of a platform which were launched in 2014.

18.2 Patents & know-how

On May 2, 2011, Tornos Holding Ltd. acquired the patents and know-how for a new machine concept that enable to surface-treat machined parts. The acquisition responded to a major market need by enabling Tornos Group customers to increase their own share of the value-added chain, shorten their production cycles and directly deliver finished parts. This acquisition 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 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. As a consequence to the aforementioned decision, the patents and know-how have been impaired by KCHF 3'418 in 2013. Amortisation costs of KCHF 323 and impairment charges of KCHF 3'418 are included in R&D expense as of December 31, 2013.

19 Deferred taxes

Movement in deferred tax assets and liabilities is as follows:

	Deferred tax assets	Deferred tax liabilities
At January 1, 2013	**806**	**104**
Additions	267	57
Reversals	–	–
Translation adjustments	7	2
At December 31, 2013	**1'080**	**163**
Additions	109	21
Reversals	–	–
Translation adjustments	-2	1
At December 31, 2014	**1'187**	**185**

Movement in deferred tax assets and liabilities is resulting from changes in taxable temporary differences.

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

	2014	2013 Restated
Within 1 year	–	–
Between 1 and 2 years	14'497	–
Between 2 and 5 years	46'284	47'506
After 5 years	75'754	89'269
Losses not subject to expiry	186	1'883
Total	**136'721**	**138'658**

20 Interest bearing borrowings

	2014	2013
		Restated
Loan from shareholders (note 20.2)	–	10'000
Current portion of credit facility (notes 20.1 & 20.3)	Not applicable	Not used
Mortgages (note 20.1)	60	63
Short-term lease liabilities (note 20.7)	3	7
Current interest bearing borrowings	**63**	**10'070**
Non-current portion of credit facility (notes 20.1 & 20.3)	Not applicable	Not used
Mortgages (note 20.1)	305	365
Long-term lease liabilities (note 20.7)	–	2
Non-current interest bearing borrowings	**305**	**367**
Interest bearing borrowings	**368**	**10'437**

20.1 Credit agreements with banks

Mortgages are granted to subsidiaries at floating rates of 1.8% and 1.65% at December 31, 2014 (December 31, 2013: 1.8% and 1.65%).

Up to September 30, 2013 the company disposed of irrevocable, committed credit facilities with two banks amounting to CHF 35 million. In addition, the group was granted finance facilities of CHF 40 million by two shareholders. On September 30, 2013 the committed financial facilities with the two banks were reduced to CHF 10 million following the share capital increase realized on May 30, 2013. The committed facility agreement was valid until December 31, 2013 and has not been renewed.

The Facility Agreement was bearing in 2013 interest at LIBOR plus 3.75% interest margin per annum 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.

20.2 Loan from shareholders

On October 15, 2012 two loans amounting for CHF 20 million each have been granted to the Tornos Group from two shareholders. They are renewed automatically, if they are not terminated by a written notice 6 months prior to the maturity date.

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.

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 in January 2014 containing an additional credit line of CHF 10 million and providing securities of CHF 8 million in bank guarantees. The afore-mentioned shareholder loans granted bear fixed interest rates of 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:

In millions of CHF	Credit Facilities	Ancillary facilities	Loan from shareholders	Total
At December 31, 2013				
Available	3.5	6.5	10.0	**20.0**
Used	0.0	4.3	10.0	**14.3**
Interest rate	note 20.1		note 20.2	
At December 31, 2014				
Available	n.a	8.0	20.0	**28.0**
Used	n.a	4.6	0.0	**4.6**
Interest rate	n.a		note 20.2	

Except CHF 4.6 million (2013: CHF 4.3 million) used under the ancillary facilities for guarantees purposes, the credit facilities granted were not used as of December 31, 2014 (2013: CHF 10 million through the shareholders).

20.4 Maturity schedule

	2014	2013
		Restated
Within 1 year	63	10'070
Between 1 and 2 years	60	62
Between 2 and 5 years	180	180
Over 5 years	65	125
Total borrowings	**368**	**10'437**

20.5 Interest rate exposure

	2014	2013
		Restated
At fixed rates	3	10'012
At floating rates	365	425

20.6 Exchange rate exposure

The original currencies of the Group's borrowings are:

	2014	2013
		Restated
Swiss franc	368	10'434
British Pound	–	3
Total borrowings	**368**	**10'437**

20.7 Finance lease liabilities

	2014	2013
		Restated
Minimum lease payments		
Within 1 year	3	7
Between 1 to 5 years	–	2
Total minimum lease payments	**3**	**9**
Future finance charges on finance leases	–	–
Present value of finance lease liabilities	**3**	**9**
Of which :		
Due within 1 year	3	7
Between 1 to 5 years	–	2

The majority of the finance lease liabilities of the Group carries an effective interest rate of 1.5% at December 31, 2014 (December 31, 2013: 1.5%).

21 Other liabilities

	2014	2013
		Restated
Advances received	6'503	5'869
Payable to pension plans	24	–
Commissions payable	1'932	1'221
Other taxes and social security payables	2'096	2'078
Other payables	170	207
Total other liabilities	**10'725**	**9'375**

22 Accrued liabilities and deferred income

	2014	2013
		Restated
Accrued employees remuneration	3'924	3'640
Other accrued expenses	2'143	1'291
Total accrued liabilities and deferred income	**6'067**	**4'931**

23 Provisions

	Warranties	Restructuring	Other	Total
At January 1, 2013	**3'377**	**1'179**	**653**	**5'209**
Additions	5'847	802	100	6'749
Reversals	–	-266	–	-266
Utilization	-5'692	-829	-36	-6'557
Translation adjustments	7	1	4	12
At December 31, 2013	**3'539**	**887**	**721**	**5'147**
Additions	6'192	21	300	6'513
Reversals	–	–	–	–
Utilization	-6'537	-830	-50	-7'417
Translation adjustments	19	–	9	28
At December 31, 2014	**3'213**	**78**	**980**	**4'271**

	2014	2013
		Restated
Current	3'547	4'420
Non-current	724	727
Total	**4'271**	**5'147**

Warranties
The Company gives a contractual one year warranty 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.

24 Retirement benefit obligations

The Group operates different pension plans in different jurisdictions for employees that satisfy the participation criteria.

Retirement benefits are provided based on salary, years of service or a retirement saving 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.

Pension Fund in Switzerland
The employees in Switzerland are insured through the Tornos pension fund a foundation which is legally independent from the Tornos Group. The pension fund provides benefits in accordance with the Law on Occupational Retirement, Survivors and Disability Pension Plans (BVG) and is equally financed by contributions of the employer and the employees. An individual's benefits are mainly depending on a retirement savings account. The savings account will be credited by the employer's and employee's contributions based on the annual salary and by an interest depending on the performance of the pension fund's plan assets.

However, 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. In 2014, the rate was 1.75% and in 2013 1.5%. Upon retirement (at age of 65 for men and 64 for women) an individual may chose a lump-sum payment or an annuity based on a conversion factor as specified in the plan's regulation. In case of leaving the company prior to retirement the retirement savings earned will be transferred to the pension plan of the individual's new employer.

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 Groups operations in France, Italy and Germany are covered by local pension plans in line with local legal requirements. The plans in France and Italy are lump sum plans, the plan in Germany only provides pension payments.

In Switzerland the company has also a liability to pay a pension to two former directors which is reflected in the retirement benefit obligation.

24.1 Economic benefit / economic obligation and pensions expenses

As of Dec. 31, 2014	Surplus/ (deficit)	Economic part of the organization at the end of		Change in the current result	Thereof exchange differences	Contributions concerning the business period	Pension expenses	
	31.12.2014	2014	2013				2014	2013
Pension plans without surplus/deficit according to Swiss GAAP FER 26	–	–3'996	–3'996	–	–	2'691	**2'691**	**3'041**
Other funded pension plans	–567	–567	–628	–61	–4	25	**–32**	**–194**
Pension plans without assets	–1'406	–1'406	–1'342	64	–15	358	**437**	**432**
Total	**–1'973**	**–5'969**	**–5'966**	**3**	**–19**	**3'074**	**3'096**	**3'279**

As of December 31, 2014 and as of December 31, 2013 there is no employer's contribution reserve. The information on the economic benefit as at December 31, 2014 for the Swiss Pension Plan is based on the last annual financial statements of the Tornos pension fund preceding the balance sheet date, i.e. the financial statements as at December 31, 2013. As at December 31, 2013 the pension fund in Switzerland reported a technical *coverage rate of 105% in its Swiss GAAP FER 26 financial statements. However, the technical interest rate used in the Swiss GAAP FER 26 financial statements of the Swiss Pension plan amounts to 3.5%. The Group assumes that the technical discount rate will decrease significantly in a midterm perspective and therefore recognised an economic liability in the opening of KCHF 3'996 (prior year KCHF 3'996).*

25 Share capital

25.1 Capital structure

	Issued registered shares	Treasury shares	Total shares in circulation
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 program	–	-4'150	-4'150
Issued and fully paid-in at December 31, 2013	**19'877'671**	**500'956**	**19'376'715**
Sale of treasury shares as part of the management participation program	–	-113'100	-113'100
Issued and fully paid-in at December 31, 2014	**19'877'671**	**387'856**	**19'489'815**

During the year 2014:

- *113'100 treasury shares have been sold at a price of CHF 3.60 each under the Management and Board Participation plan 2007 (MBP07);*

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 could, 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.

25.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2014 and 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.

25.3 Treasury shares

Movements in treasury shares are as follows:

	2014		2013	
	Number of shares	Amount	Number of shares	Amount
At beginning of year	**500'956**	**6'771**	**505'106**	**6'827**
Sale	-113'100	-1'529	-4'150	-56
At end of year	**387'856**	**5'242**	**500'956**	**6'771**

Treasury shares are valued at average purchase price.

25.4 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.

25.5 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.

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. The remaining authorized share capital expired on April 17, 2014.

25.6 Significant shareholders

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

	2014	2013
Walter Fust	45.03%	33.32%
Michel Rollier	14.36%	14.36%
Balfidor Fondsleitung AG	5.31%	6.31%

26 Stock compensation plans

There is one stock participation plan in 2014, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense under this plan is recognised in accordance with the provisions of SWISS GAAP FER, for options over the vesting period and for shares purchased immediately in the accounts as the shares do not need to be returned in case the employment contract is terminated. The expense recorded in the income statement spreads the cost of each option equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Compensation expense of KCHF 220 was recorded for the year ended December 31, 2014 (2013: KCHF 292). Compensation expense arising from stock options outstanding at December 31, 2014 to be recognised in future periods amounts to KCHF 257 (December 31, 2013: KCHF 116).

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, 2014, a total of 2'213'156 shares/options were attributed by the Nomination and Compensation Committee since 2007, of which 141'500 options were exercised and 1'188'150 options were forfeited or expired without being exercised (December 31, 2013: 1'927'583 shares/options granted, 141'500 options exercised and 1'047'150 options forfeited or expired without being exercised respectively). Of the total remaining 883'506 shares/options (December 31, 2013: 738'933 shares/options) the participants elected to purchase 363'600 shares immediately and to receive 519'906 options under the stock option program as detailed below (2013: 250'500 shares and 488'433 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 2014, participants elected to purchase 113'100 shares at a price of CHF 3.6 through the sale of treasury shares (2013: 4'150 shares at CHF 4.9). As a result, a loss of KCHF 1'122 out of this transaction was recorded in equity for the year ended December 31, 2014 (2013: KCHF 35 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, 2014 as part of this option program amounted to KCHF 220 (2013: KCHF 292).

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

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:

	2014			2013		
	Options	Exercise price (CHF)	Contractual life	Options	Exercise price (CHF)	Contractual life
Outstanding at January 1,	**488'433**	**8.63**[1]		**508'316**	**9.76**[1]	
Granted	285'573	4.81	3 years (April 30, 2017)	265'917	6.53	3 years (April 30, 2016)
Exercised	–113'100	3.60		–4'150	4.90	
Forfeited or expired	–141'000			–281'650		
Outstanding at December 31,	**519'906**	**7.05**[1]		**488'433**	**8.63**[1]	
Exercisable at December 31,	**168'166**	**9.78**		**103'500**	**10.99**	

([1]weighted average)

27 Result 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 25.3).

	2014	2013
		Restated
Net result attributable to equity holders of the Company	2'996	–35'625
Weighted average number of ordinary shares in issue (thousands)	19'432	17'583
Basic result per share (CHF per share)	**0.15**	**–2.03**

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.

	2014	2013
		Restated
Net result attributable to equity holders of the Company	2'996	–35'625
Weighted average number of ordinary shares in issue (thousands)	19'432	17'583
Adjustments for share options (thousands)	23	–
Weighted average number of ordinary shares for diluted earnings per share (thousands)	19'455	17'583
Diluted result per share (CHF per share)	**0.15**	**–2.03**

28 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The top management level is responsible to steer the business and 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 top management is presented on the same basis as the Group's consolidated income statement and consolidated balance sheet and is reported on a consistent basis over the periods presented. The top management assesses the performance of the business based on operating result. Additional reporting such as geographical area are also provided to the top management but they are not considered as substantial information to make strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the top management based on internal reporting of the core activity.

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

The operating result for the period under review amounts to KCHF 2'815 and for 2013 to an operating loss of KCHF 32'682.

28.1 Analysis of revenues by category

	2014	2013
		Restated
Machines and spare parts	168’463	144’687
Service	7’343	6’129
Net sales	**175’806**	**150’816**

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 top management reviews sales for the four material geographical areas, namely, Switzerland, Other European countries, the Americas and Asia. For the purpose of presenting net sales by location of customers, one other geographical region, namely Rest of world, is identified.

28.2 Net sales by location of customers

	2014	2013
		Restated
Switzerland	34‘973	35’ 512
Other European countries	96’295	70’716
North America	12’198	16’736
Asia	28’521	21’014
Rest of world	3’819	6’838
Total net sales	**175’806**	**150’816**

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:

	Dec 31, 2014	Dec 31, 2013
		Restated
Switzerland	23‘218	25‘299
Other European countries	1’216	962
North America	37	60
Asia	1’059	635
Rest of the world	–	–
Total non-current assets for geographical area disclosure	**25’530**	**26’956**
Reconciling unallocated assets:		
– Deferred tax assets	1’187	1’080
Total non-current assets per balance sheet	**26’717**	**28’036**

29 Commitments and contingencies

29.1 Operating lease commitments

Operating lease liabilities, minimum lease payments:

	2014	2013
		Restated
Year 1	1’318	1’103
Years 2 to 5	1’509	2’010
After 5 years	–	145
Total minimum lease payments	**2’827**	**3’258**

29.2 Pledges

At December 31, 2014 and 2013 the following assets were pledged to banks or leasing companies:

	2014	2013
		Restated
Trade receivables	–	22’329
Land and buildings	22’006	23’349
Total assets pledged	**22’006**	**45’678**

At December 31, 2014 the total value of the pledged mortgage notes related to land and buildings amount to CHF 35.4 million (December 31, 2013: CHF 40.5 million).

At December 31, 2013 430’000 treasury shares and all the shares in Tornos Management Holding Ltd. were pledged in favour of the banks which granted the Amendment to the Facility Agreement to the Group. However, 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

During 2014, sales to companies in which two of the directors of the Company hold a significant interest amounted to KCHF 1’321 (2013: KCHF 789). Services provided by a company in which one of the directors of the Company holds a significant interest amounted to KCHF 132 (2013: KCHF 146). As of December 31, 2014, the related outstanding balances receivable and payable amounted to KCHF 146 and KCHF 0 respectively (December 31, 2013: KCHF 384 and KCHF 0 respectively).

No loans or advances were granted to related parties in 2014 and 2013. 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. This loan has been paid back during the year 2014.

Please refer to note 24 for transactions with the pension funds.

31 Derivatives financial instruments

As at the balance sheet date, the Group held the following derivatives:

	Replacement Value		Contract equivalent in CHF
	Positive	Negative	
Foreign exchange contracts	–	273	3'400
Total at December 31, 2013	**–**	**273**	**3'400**
Foreign exchange contracts	–	–	–
Total at December 31, 2014	**–**	**–**	**–**

In appropriate circumstances, the Group uses derivative financial instruments as part of its risk management and commercial strategies. On December 31, 2013 the Group had open foreign exchange contracts to acquire a total of KJPY 369'600 against KCHF 3'400 with maturity in 2014. At December 31, 2014 there were no open positions.

The instruments aforementioned are used as hedging instruments and are pursuant to the accounting policy chosen by the Group only recognised when the contracts are realized.

32 Subsequent event

On January 15, 2015 the Swiss National Bank (SNB) has discontinued maintaining the minimum exchange rate of CHF 1.20 per Euro. This event is a non-adjusting event, since it arose after the balance sheet date. The SNB announcement negatively impacted the EUR / CHF exchange rate. As a result, the Group assessed the impact on assets and liabilities denominated in foreign currencies and came to the conclusion, that the impact on the net assets will not be significant since the assets and liabilities are principally denominated in CHF. For sure, the announcement will impact the economic environment of the Group. It is however not possible to assess the impact this will have on the market position of Tornos.

Furthermore, on January 27, 2015 Balfidor Fondsleitung AG, Basel notified to have lowered its shareholding in the company to 4.98%.

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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 financial statements of Tornos Holding Ltd., which comprise the balance sheet, income statement and notes (pages 52 to 61), for the year ended December 31, 2014.

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, 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers SA

Oliver Kuntze *Audit expert* *Auditor in charge*	*Yves Tritten* *Audit expert*

Neuchâtel, March 2, 2015

Income statement

In thousands of CHF

For the years ended December 31,	Notes	2014	2013
Dividend income		–	56
Gains on sale of investments	3	–	1'726
Gain on valuation of treasury shares	6	412	–
Total income		**412**	**1'782**
Administrative expenses		–555	–459
Impairment on loan to subsidiary	9	–	–12'844
Loss on valuation of treasury shares	6	–	–512
Loss on sale of treasury shares	6	–122	–36
Costs related to the capital increase 2013		–	–953
Taxes other than on income		–27	–27
Total expenses		**–704**	**–14'831**
Loss before income taxes		**–292**	**–13'049**
Income taxes		–	–
Net Loss		**–292**	**–13'049**

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

Balance sheet

In thousands of CHF As of December 31,	Notes		2014	2013
ASSETS				
Cash and cash equivalents			314	30
Treasury shares	6, 8		2'223	2'341
Group receivables			3'925	4'347
Other current assets			6	4
Total current assets			**6'468**	**6'722**
Investment in a subsidiary	2		65'000	65'000
Loan to a subsidiary	9		22'712	22'712
Long term loan to a subsidiary			30'000	30'000
Total non-current assets			**117'712**	**117'712**
Total assets			**124'180**	**124'434**
LIABILITIES AND EQUITY				
Group payables			243	262
Accrued expenses			85	28
Total current liabilities			**328**	**290**
Ordinary shares	4		89'450	89'450
Legal reserves				
General reserve				
Reserve from capital contribution - net	5		29'021	29'978
Reserve from capital contribution - gross *	5	81'465		
Loss carry forward set off *	5	-44'055		
Capital increase costs set off *	5	-8'389		
Reserve for treasury shares	6		5'242	6'771
Retained earnings	10		139	-2'055
Total equity			**123'852**	**124'144**
Total liabilities and equity			**124'180**	**124'434**

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

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

Statement of changes in equity

In thousands of CHF	Ordinary shares (note 4)	Reserve from capital contribution – net (note 5)	Reserve for treasury shares (note 6)	Retained earnings	Total
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**
Net loss	–	–	–	–292	–292
Transfer from reserve treasury shares	–	–	–1’529	1’529	–
Readjustment capital contribution reserve for capital increase costs 2013 set-off	–	–957	–	957	–
At December 31, 2014	**89’450**	**29’021**	**5’242**	**139**	**123’852**

The accompanying notes form an integral part of these consolidated 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	2014	2013
		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

4.1 Share capital

During the year 2014:

- *113'100 treasury shares have been sold at a price of CHF 3.60 each under the Management and Board Participation plan 2007 (MBP07);*

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 could, 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.*

4.2 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.

4.3 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.

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 May 30, 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. The remaining authorized share capital expired on April 17, 2014.

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:

	Dec 31, 2014	Dec 31, 2013
Reserve from capital contribution – gross	**81'465**	**81'465**
Loss carry forward set off	-44'055	-44'055
Capital increase costs set off	-8'389	-7'432
Reserve from capital contributions – net	**29'021**	**29'978**

6 Treasury shares

Movements in treasury shares are as follows:

	2014		2013	
	Number of shares	Total of average purchase price	Number of shares	Total of average purchase price
At beginning of year	**500'956**	**6'771**	**505'106**	**6'827**
Sale of treasury shares*	-113'100	-1'529	-4'150	-56
At end of year	**387'856**	**5'242**	**500'956**	**6'771**

(* 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.

7 Significant shareholders

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

	2014	2013
Walter Fust	45.03%	33.32%
Michel Rollier	14.36%	14.36%
Balfidor Fondsleitung AG	5.31%	6.31%

8 Pledges

Up to September 30, 2013 the Company acted as guarantor within a Facility Agreement with two banks. Under this Facility Agreement the banks granted to Tornos Ltd. as borrower, with Tornos Holding Ltd. as guarantor, a credit facility. The major conditions relate to Tornos Holding Ltd. pledging its shares in Tornos Ltd. and 430'000 treasury shares.

The aforementioned Facility Agreement with the two banks expired on September 30, 2014 and consequently Tornos Holding Ltd. was released in its role of guarantor. With the same date, pledges on the shares in Tornos Ltd. as well as the one in its 430'000 treasury shares were released back to the Company.

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 in 2013.

10 Retained earnings/(loss)

The accumulated gains and losses of the Company are from a statutory point of view as follows:

In thousands of CHF

For the years ended December 31,	2014	2013
Retained earnings brought forward	-2'055	10'994
Transfer from reserve treasury shares	1'529	–
Readjustment for capital increase costs 2013	957	–
Net loss	-292	-13'049
Available earnings/(loss)	**139**	**-2'055**

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

The disclosures required by articles 663c of the Swiss Code of Obligations on share and option held by the Board of Directors and General Management is as follows:

	Number at 31.12.2014		Number at 31.12.2013	
	Shares	Share options	Shares	Share options
François Frôté (Chairman of BoD and member of Audit Committee and Remuneration Committee)	198'567	16'000	190'567	16'000
Frank Brinken (Vice-Chairman of BoD, Chairman of Audit Committee and member of Remuneration Committee)	17'000	8'000	9'000	8'000
Walter Fust** (Chairman of Remuneration Committee and member of Audit Committee)	8'950'955	0	not applicable	
Michel Rollier (Member of Audit Committee and Remuneration Committee)	2'853'733	16'000	2'853'733	8'000
Claude Elsen*	55'218	24'000	55'218	16'000
Philippe Maquelin*	27'214	31'333	59'975	53'333
Raymond Stauffer**	not applicable		457'933	23'333
Total Board of Directors	**12'102'687**	**95'333**	**3'626'426**	**124'666**
Michael Hauser (CEO)	11'000	79'000	1'000	59'000
Luc Widmer	15'000	15'000	0	0
Bruno Allemand	15'000	5'000	0	0
Total General Management	**41'000**	**99'000**	**1'000**	**59'000**

* These persons were not members of the Board of Directors as at 31.12.2014
** These persons were not members of the Board of Directors as at 31.12.2013.

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 Disclosure Swiss Law

Applying the transitional provisions of the new accounting law, these financial statements have been prepared in accordance with the provisions on accounting and financial reporting of the Swiss Code of Obligations effective until 31 December 2012.

14 Subsequent event

On January 15, 2015 the Swiss National Bank (SNB) has discontinued maintaining the minimum exchange rate of CHF 1.20 per Euro. This event is a non-adjusting event, since it arose after the balance sheet date. The SNB announcement negatively impacted the EUR / CHF exchange rate. As a result, the Group assessed the impact on assets and liabilities denominated in foreign currencies and came to the conclusion, that the impact on the net assets will not be significant since the assets and liabilities are principally denominated in CHF. For sure, the announcement will impact the economic environment of the Group. It is however not possible to assess the impact this will have on the market position of Tornos.

Furthermore, on January 27, 2015 Balfidor Fondsleitung AG, Basel notified to have lowered its shareholding in the company to 4.98%.

Proposed appropriation of available earnings

In thousands of CHF For the years ended December 31,	2014	2013
Retained earnings brought forward	–2’055	10’994
Net result	–292	–13’049
Transfer from reserve for treasury shares	1’529	–
Readjustment from capital contribution reserve for capital increase costs 2013 set-off	957	–
Available earnings/(losses)	**139**	**–2’055**

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

In thousands of CHF For the years ended December 31,	2014	2013
	Proposal	n.a
Available earnings	139	n.a
To be carried forward	**139**	**n.a**

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