

A close-up photograph of a hand about to spin a red and white striped top. The hand is positioned at the top of the frame, with the thumb and index finger gripping the top of the spinning top. The spinning top is red with white horizontal stripes and is positioned at the bottom of the frame. The background is a blurred, light-colored surface.

**TORNOS**

*Annual Report 2014*

*Tornos Holding Ltd.*

# TORNOS



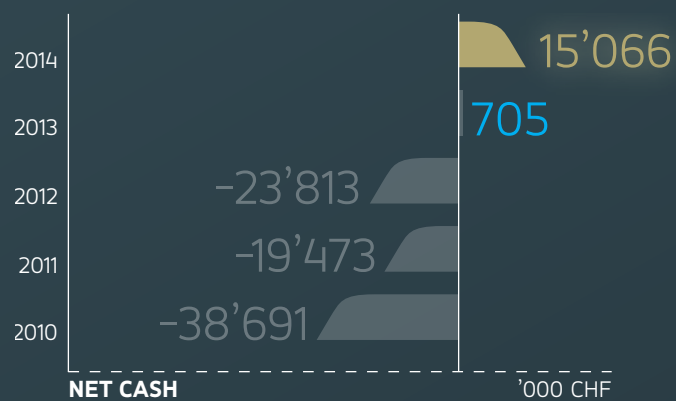
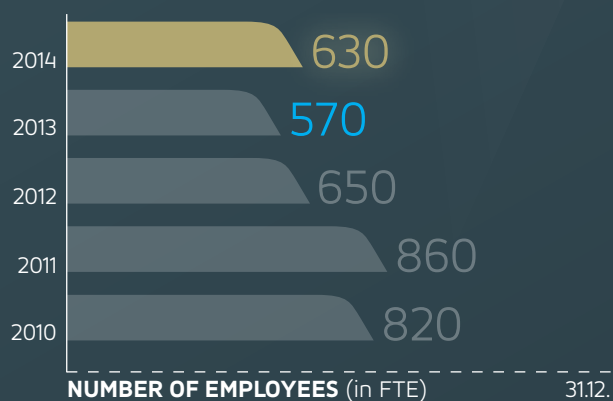
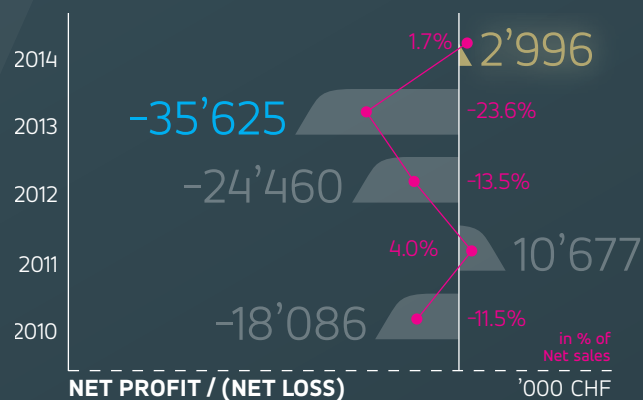
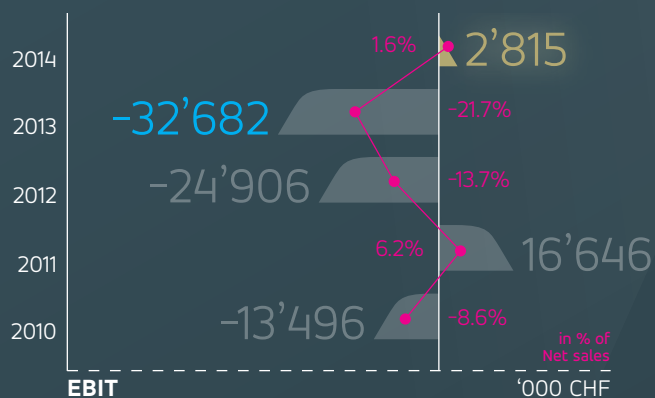
*We keep  
our customers  
turning*



# Table of contents

<i>At a glance</i>	4
<i>Key figures</i>	5
<i>Report of the Chairman of the Board of Directors and the CEO</i>	6
<i>Course of business 2014 and outlook for 2015</i>	11
<i>Micromechanics</i>	16
<i>Strategic plan 2017</i>	18
<i>Medical &amp; Dental</i>	20
<i>Key components</i>	22
<i>Automotive</i>	24
<i>Tornos Service</i>	26
<i>Corporate Governance</i>	29
<i>Remuneration report</i>	54

# At a glance



# Key figures

## ORDER INTAKE

'000 CHF	2014	2013
	183'188	151'868

## NET SALES

'000 CHF	2014	2013
	175'806	150'816

## EBITDA

'000 CHF	2014	2013
	5'473	-25'818

## EBIT

'000 CHF	2014	2013
	2'815	-32'682

## NET PROFIT / (NET LOSS)

'000 CHF	2014	2013
	2'996	-35'625

## NET CASH

'000 CHF	2014	2013
	15'066	705

## EQUITY

'000 CHF	2014	2013
	84'457	80'871

## TOTAL BALANCE SHEET

'000 CHF	2014	2013
	132'432	136'214

## CAPITAL EXPENDITURE IN TANGIBLE FIXED ASSETS

'000 CHF	2014	2013
	844	401

## NUMBER OF EMPLOYEES (in FTE)

31.12.	2014	2013
	630	570



# Report of the Chairman of the Board of Directors and the CEO

*Ladies and gentlemen,  
Dear shareholders,*

*At the end of the 2014 financial year, the Tornos Group reached another milestone. Following the strategic realignment initiated about two-and-a-half years ago, the Group's results returned to the black in the year under review, after two years of heavy losses. Even though the figures reported are still low, the targets set for 2014 were met or even exceeded. This confirms that the Group is on the right path.*

*Net sales increased to CHF 175.8 million in 2014 (2013: CHF 150.8 million), up 16.6% on the previous year. Order intake rose to CHF 183.2 million, an increase of 20.6% on the figure for 2013 (CHF 151.9 million).*

## **New production sites reflect the Group's internationalization**

*In terms of production sites, the Tornos Group's internationalization programme was completed in the autumn with the move into the new production facilities in Xi'an in Shaanxi Province (China) as part of the joint venture with Tornos (Xi'an) Machine Works Co., Ltd. Tornos now has four sites (Moutier and La Chaux-de-Fonds in Switzerland, Xi'an (China) and Taichung (Taiwan)), which places it in a better position to provide its clients with*

*high-end and standard products throughout the world. Geographical proximity to the end customer should not be underestimated as a condition for success in business, especially in Asia, where Japanese competition is strongly supported. During the current year, the focus is now on steadily increasing the production volume in our Asian plants in order to reach the quantitative targets for unit numbers.*

*In the year under review, there was an unexpected leap in new orders in the first quarter. Order intake rose by nearly 40% compared with the last quarter of 2013, leading temporarily to longer delivery times for certain products. This situation was alleviated as the year progressed, thanks to a short-term expansion in production capacity in Switzerland hiring temporary staff. This demonstrates that the company's increased flexibility is having an impact. Significant efforts will be made in the future to strengthen the company's flexibility and to allow adapting to volatile markets. At this point it should be highlighted that two-and-a-half years after the launch of the strategic realignment, the Group's cost structure has significantly improved. Today, the annual cost of personnel and operations*



François Frôté, Chairman and Michael Hauser, CEO

*is more than CHF 40 million lower than previously, despite higher expenditure on outsourcing certain manufacturing processes. This decrease gives us*

*more room for manoeuvre, and has also reduced the break-even point today to around CHF 180 million.*



“The dual strategy initiated two years ago (...) really became effective in the year under review.”

#### **MultiSwiss sets a new industrial standard**

*The MultiSwiss machine, which combines the advantages of a single-spindle Swiss-type lathe with those of a multispindle, made big inroads into the market in the third year since its launch. So far over a hundred machines have been delivered to customers, mainly in Europe and Asia. The growing number of reference installations now means that interested customers can see for themselves how unexpectedly easy it is to operate the MultiSwiss, and how well it performs. It should be noted that over three quarters of new orders are for the MultiSwiss and other recent products.*

*Expanding the product portfolio using a smaller number of platforms and key components that are common to the entire range of machines is the guiding principle for our future development work. With this approach it will be possible to keep the number of reference components comparatively small, while still offering customers a broad range of products that is geared to their needs. On the cost side, this approach should result in larger unit numbers to purchase and in lower prices per unit.*

#### **Responding to the shift in geographical importance**

*The dual strategy initiated two years ago, consisting of strengthening the high-end segment while also developing and manufacturing our own standard machines, really became effective in the year under review. Traditionally, Tornos has been committed to the high-end segment for over a century, as well as driving innovation. The geographical shift in the markets globally—as regards both the manufacture and the consumption of machinery—induced us to take the step of producing our own standard machines. The fact that three quarters of orders, which have risen again, are for high-end products from Switzerland, and that the other quarter of orders stems from standard products manufactured in Asia underlines how well positioned we are in the different markets. The launch of new products that is foreseen in 2015 will enable us to strengthen our position by broadening the product offering in both high-end and standard machines.*

## Financing

The Group was able to improve its liquidity situation significantly in the year under review, and can now finance its operating activities from its own resources. No bank loans or advances were required, in fact, from the third quarter onwards, while a credit line is still available to the company if needed. It has thus been possible to consolidate our situation, despite the difficult environment in recent times.

## Changes in the Board of Directors

Mr. Claude Elsen, member and Deputy Vice-Chairman of the Board of Directors since 2002, and Mr. Philippe Maquelin, member since 2011, did not stand for re-election at the Annual General Meeting 2014. Mr. Walter Fust, who is Tornos' biggest minority shareholder with a 45.03% holding, was newly elected to the Board of Directors.

## Accounting standards switched to Swiss GAAP FER

In autumn 2014, the Board of Directors decided to switch to the Swiss GAAP FER accounting standards, which are better adapted to the needs and characteristics of a medium-sized company and entail less complexity and fewer costs. As a result of this change, Tornos Holding Ltd. is now traded in the Domestic Standard segment, in accordance with the rules of SIX Swiss Exchange.

## Implementation of the strategic plan reaches the halfway point

Some two and a half years after the announcement of the strategic plan for the period 2012 – 2017, we can draw the first interim conclusions. By taking drastic action at the beginning of the strategic realignment in 2012, the Tornos Group adjusted itself to the changed global framework conditions in the machine tool industry. At first, the leaner structures thus achieved resulted in a steady and sustainable improvement in the cost base, which in turn reduced the break-even point. Later, the company gained flexibility, which means that fluctuations in demand—amongst others—can be dealt with more efficiently.

The internationalization of the business with the expansion to four production sites in Europe and Asia enables Tornos to offer a competitive and complete range of its own products, both high-end and standard, on the global market. In the current year, new products from each of the production sites will complement the existing range on offer, underlining the Group's innovative strength. Future product developments will also be aligned with the specific needs of the market segments being targeted, so that our customers can be offered the best possible solutions. Tornos has set itself the goal of offering a complete product range using available platforms.

**“The Tornos Group adjusted itself to the changed global framework conditions in the machine tool industry.”**

*Besides the development of new products, we will focus on optimizing processes in all activities in 2015. The services business will be equally extended this year.*

### **Outlook for 2015**

*From today's perspective the Tornos target markets are globally considered to be in robust condition. The Swiss National Bank's decision of January 15, 2015 makes the economic environment more demanding for all export-oriented Swiss companies. Tornos has already responded with an accelerated efficiency program, the effects of which will be reflected in the result in the course of the next 12 months.*

### **Thanks**

*Finally, on behalf of the Board of Directors and General Management, we should like to thank our shareholders for the confidence they have shown in us. We are also grateful to our customers and partners for their valuable partnership. Lastly, we thank our employees for all the hard work that has recently enabled the Tornos Group's results to edge back into positive figures.*

**François Frôté**  
Chairman of the  
Board of Directors



**Michael Hauser**  
President and Chief  
Executive Officer



# Course of business 2014 and outlook for 2015

Order  
intake  
**+20.6%**

## Order intake

*In reporting year 2014, orders received came to CHF 183.2 million (2013: CHF 151.9 million), which represents a rise of 20.6%. A closer look at the global markets reveals the following picture:*

*The strongest recovery has been in the countries of southern Europe, where a greater willingness to invest is perceptible after two poor years. However, this should not obscure the fact that the financial and economic stability of these countries remains on shaky ground, and some orders have been placed as a result of an investment backlog. Nevertheless it is evident that the upward trend emerging at the beginning of 2014 in these markets, which are traditionally important to Tornos, has continued into the new year. Order intake rose in northern Europe, too, which proves that the efforts to expand in this region are bearing fruit. A regional comparison shows that more single-spindle Swiss-type lathes were sold in the high-end segment in southern Europe, while multispindle machines predominated in northern Europe. Order intake in Asia climbed back to a quarter of the total after a large fall in the previous year. As such, it is now back on course. In south-east Asia and India, increases were recorded which could not have been predicted at the start of the year. China and Taiwan account for the majority of sales in Asia. The alignment of the product offering to high-end and mid-range machines enabled Tornos to participate in this dynamic growth. The change of government early in 2014 caused a considerable degree of uncertainty regarding China's future political environment, but this firmed up noticeably during the year, which boosted demand.*

*In the spring, a new sales and service location with a showroom was opened in Dongguan in southern China.*

*2014 has to be regarded as a transitional year in the United States. Although the dealer network was successfully aligned with the future product mix, the fact that the new standard products only came onto the market towards the end of the year meant that this measure has not yet been translated into the desired orders. Sales efforts concentrated on the core medical technology and automotive segments, where a number of customer projects involving high-end machines were completed. Since the new standard machines will match the local manufacturing practices of the operators more closely, a marked increase in customer interest is expected during the current year, and this should result in more orders.*

*On the products side, 2014 was a turning point in Tornos' history. The second quarter saw the launch of the CT 20 and the Swiss GT 26 as the first two standard products to be manufactured in the Tornos Xi'an and Tornos Taiwan factories respectively, while the last products made by the former alliance partner continued to be delivered until mid-year. In addition to the Swiss ST 26, launched in 2012 and manufactured in the Tornos Taiwan factory, the Group now offers a range of single-spindle Swiss-type lathes with—depending on the model—four to seven axes, which are targeted at the varying requirements of clients in the different market segments. The positive response to the MultiSwiss machine has strengthened the Tornos Group's standing*



in the target market segments. The automotive supply industry, which accounts for around one third of sales, is Tornos' most important market, followed by medical technology and the watch-making industry. This development also reflects the highly globalized nature of the automotive supply and medical technology industries, which have built up significant production capacities outside their historical core markets; investment decisions are therefore no longer made centrally. By contrast, the Swiss watchmakers are an important pillar of our export industry and concentrate their expertise in Switzerland, where production capacities currently need to be fully utilized and there is some reluctance to make new investments. Whereas the automotive industry mainly uses the MultiSwiss and other multispindle machines, the medical technology sector tends to choose products from the powerful, high-performance EvoDECO range, while the watchmaking industry also makes use of the high-precision SwissNano, which is tailored to its specific requirements.

Attendance at trade fairs throughout the world, together with increased in-house exhibition activity, have indicated that customers understand why Tornos is expanding its portfolio from high-end products into the standard segment. Customers have additional scope for investment, particularly in markets where operators do not always have sufficient expertise to use high-end machines. This was also observable during appearances at the IMTS trade fair in Chicago (USA), AMB in Stuttgart (Germany), BIMU in Milan (Italy) and Prodex in Basel (Switzerland), which traditionally attract extremely demanding customers. At trade fairs in China, especially EMTE in Shanghai and DMP in Dongguan, as well as in south-east Asia, the main focus was on the newly launched standard products. The MultiSwiss was added to these, since the Asian automotive supplier sector is regarded as a key growth market. A number of additional customer projects were generated as a result.

### Sales

The Tornos Group closed the year under review with consolidated net sales of CHF 175.8 million (2013: CHF 150.8 million), up 16.6% on the previous year. From the geographical perspective, two regions made a particularly positive contribution to the overall result: Europe with growth of 23.6% and Asia with 35.7%, whereas the American continent came in well under expectations with a decline of 27.1% compared to 2013. Increased sales in Asia and Europe were mainly driven by the automotive supply industry updating or expanding its production capacities, especially in the first nine months. The medical technology and electronics segments performed well, resulting in a significant rise in sales. Another strong year-on-year increase was posted by the MultiSwiss in particular, thanks to brisk demand in all the Tornos Group's core segments. The middle-range Swiss-type lathes, which are produced in Tornos factories in Asia, have already

Sales

+16.6%

generated substantial sales since their launch and will replace the products manufactured by the former alliance partner as the latter are discontinued. These factors led to the Group achieving net sales of CHF 90.3 million (2013: CHF 76.3 million) in the first half, and CHF 85.5 million (2013: CHF 74.5 million) in the second half.

### **Profitability**

In the year under review, the Group posted a net profit of CHF 3.0 million (2013: CHF -35.6 million), thus confirming the operational improvements implemented in the first half. In terms of the operating result, a profit of CHF 2.8 million (2013: CHF -32.7 million) was generated, which represents a margin of 1.6% of net sales. In the year under review, a gross profit of CHF 52.5 million (2013: CHF 24.9 million) was posted, while the gross margin improved to 29.9% (2013: 16.5%). This development in the result is attributable to systematic efficiency improvements, higher utilization of production capacity, and improved margins. Furthermore, changing the product mix to include an increasing proportion of new products had a positive impact on the gross margin in the second half. Targeted cost-cutting measures in relation to bought-in components and materials helped boost margins. Despite the strong growth in volumes, operating costs fell to CHF 50.5 million, a drop of CHF 7.3 million compared with the previous year. Although the 2013 figure included short-time working compensation of CHF 1.2 million, this was offset by a sustainable cost reduction of CHF 8.5 million or 14.7% compared with 2013. Other operating income includes CHF 0.8 million from the sale of surplus production equipment. The sustainable improvements achieved made it possible to boost the Group's profitability by CHF 15.2 million compared with the 2013 operating result (adjusted for non-recurring items and one-off expenditure).

Gross profit improved by 110.8% to CHF 52.5 million or 29.9% of net sales (2013: CHF 24.9 million or 16.5% of net sales). Adjusted net result rose by CHF 15.2 million to CHF 3.0 million, equivalent to 1.7% of net sales.

The attractive interest conditions and, in particular, the repayment of the loan at the start of the second half thanks to the very positive cash flow, enabled the Group to reduce its financial expenses to CHF 0.5 million (2013: CHF 2.3 million). The net exchange rate gain of CHF 0.9 million (2013: CHF -0.5 million) resulted firstly from realized gains of CHF 1.0 million and secondly from unrealized losses of CHF 0.2 million.

### **Balance sheet**

Thanks to targeted measures, net working capital was reduced to CHF 54.1 million as of December 31, 2014, despite the marked rise in volume (December 31, 2013: CHF 63.9 million). The length of time during which the net working capital was committed therefore fell year on year by 43 days, or 27.7%, to 112 days. As a result of active accounts receivable management, receivables fell by CHF 4.5 million, which is equivalent to shortening the period during which they were outstanding by 18 days. During the reporting period, inventory levels were reduced year on year by CHF 2.7 million to CHF 57.1 million. The greater number of new products in production helped in this respect, since they have significantly shorter lead times, which in turn results in a lower inventory requirement. Current liabilities decreased by CHF 7.6 million to CHF 40.0 million in the period under review. This was attributable to the repayment of CHF 10.0 million of loans, the CHF 0.6 million increase in trade payables and the rise of CHF 2.7 million in other current liabilities. As a consequence of the focused measures, capital employed was reduced by CHF 6.2 million or 6.7% to CHF 85.6 million compared with the previous year.

**This development in the result is attributable to systematic efficiency improvements, higher utilization of production capacity, and improved margins.**

*A free cash flow of CHF 13.6 million (2013: CHF 1.5 million) was generated for the year just ended. In addition to the positive contribution of the result, the reduction in accounts receivable by CHF 4.7 million, the CHF 1.2 million drop in inventories and the CHF 0.4 million increase in trade payables all helped to generate an operating cash flow of CHF 13.9 million (2013: CHF -3.5 million). Investments in non-current assets amounting to CHF 1.1 million were offset by sales of surplus equipment to a value of CHF 0.8 million and were financed using the Group's own resources. The improvement in cash flow allowed the repayment of outstanding loans at the start of the second half. Consequently, on December 31, 2014 the Group had a net cash position of CHF 15.1 million (December 31, 2013: CHF 0.7 million), plus an unused credit facility of CHF 20.0 million, which puts it on a solid financial footing. The Group's equity rose from CHF 80.9 million as at December 31, 2013 to CHF 84.5 million as at December 31, 2014, corresponding to 63.8% of the balance sheet total (December 31, 2013: 59.4%) of CHF 132.4 million (December 31, 2013: CHF 136.2 million). The increase is attributable to the net profit of CHF 3 million, as well as to the disposal of treasury shares in the context of the Management and Board participation plan, which resulted in a positive impact of CHF 0.6 million. On December 31, 2014, the share capital consisted of 19,877,671 registered shares with a par value of CHF 4.50 (unchanged from the previous year), amounting to CHF 89.4 million.*

## Method of accounting switched to Swiss GAAP FER accounting standards

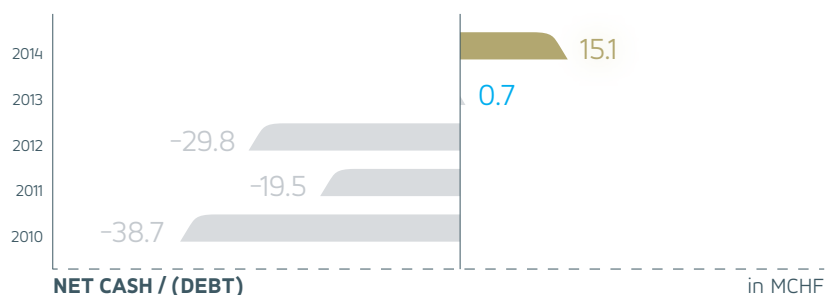
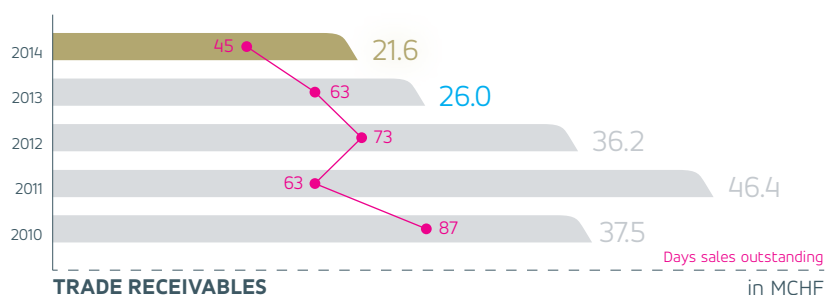
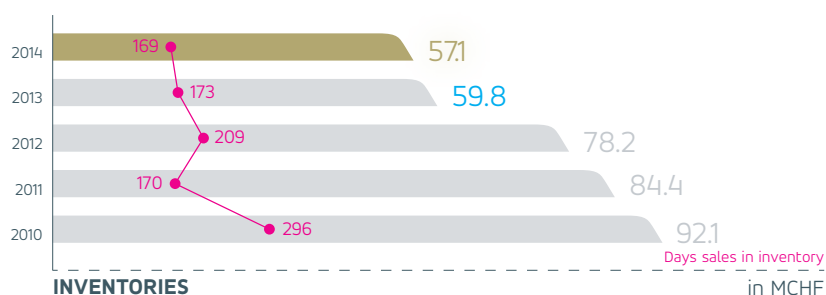
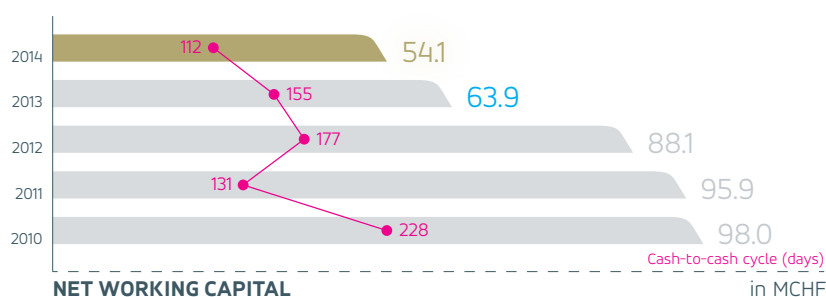
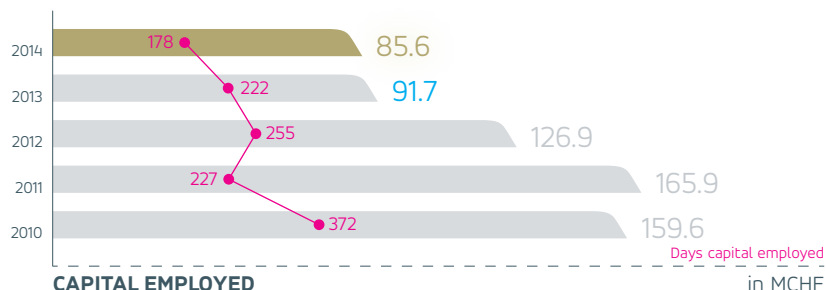
With effect from January 1, 2014, Tornos Holding Ltd. switched its method of accounting to Swiss GAAP FER accounting standards. Swiss GAAP FER replaces the International Financial Reporting Standards (IFRS) previously used. This decision marks Tornos' wish to adopt more pragmatic principles with comparable information content which entail less complexity and fewer costs, and are in line with the requirements of a medium-sized company's business on international level.

Switching the accounting methods from IFRS to Swiss GAAP FER mainly leads to changes in the way pension obligations are entered, and in the capitalization of development costs and deferred tax credits. The restated figures for the previous year are published in the Notes to the consolidated financial statements. The switch led to a reduction in the balance sheet because pension obligations, capitalized deferred tax credits and capitalized development costs were removed from the balance sheet as of January 1, 2013.


On October 30, 2014, SIX Swiss Exchange approved the application from Tornos Holding Ltd. on this subject.

## Outlook for 2015

From today's perspective the Tornos target markets are globally considered to be in robust condition. The Swiss National Bank's decision of January 15, 2015 makes the economic environment more demanding for all export-oriented Swiss companies. Tornos has already responded with an accelerated efficiency program, the effects of which will be reflected in the result in the course of the next 12 months.








*Rising gross domestic product in developing countries accelerates technology diffusion, drives buying power and sparks demand for finest quality luxury goods, including high-value timepieces. For more than 100 years, Tornos' legendary micromechanical expertise has contributed to global brands' allure.*

# Micromechanics

- 
- New framework conditions related to the availability of complete movements by 2019 are forcing manufacturers to create new production units in search of flexible solutions.
  - The surface condition and the quality of parts play a crucial role in watchmaking; this requires manufacturers to deploy new machining solutions.
  - Specific decoration processes supported by machines play an ever more important role.
  - The tolerances allowed in batches of parts are in the nanometer range.



# In quest for constant innovation, MPS turns to Tornos products, expertise



Innovation is at the heart of everything MPS Micro Precision Systems Ltd.'s 400 employees conceive and manufacture. With a singular focus on delivering innovative products and systems that add value for manufacturers across a wide range of industries, MPS turns to Tornos for essential turning technologies and application expertise.

Founded in 1936, Biel/Bienne, Switzerland-based MPS invented the world's first four-point contact bearing in 1948 and continues to evolve as the partner of choice to businesses requiring the utmost in highly precise micro systems, components and instruments. MPS is driven by a strategy of listening closely to customers and innovating to develop and produce the micro systems and components necessary to ensure their success.

"We have come a long way with that strategy in the past 10 years," says MPS CEO Nicola Thibaudeau, a mechanical engineer who took the company's reins in 2003. "Our success lies in our understanding of our customers' processes, their final applications, and how and where our products will be integrated. We produce customized products, so an ongoing dialogue with the customer allows us to develop the precision solution that is best for that customer."

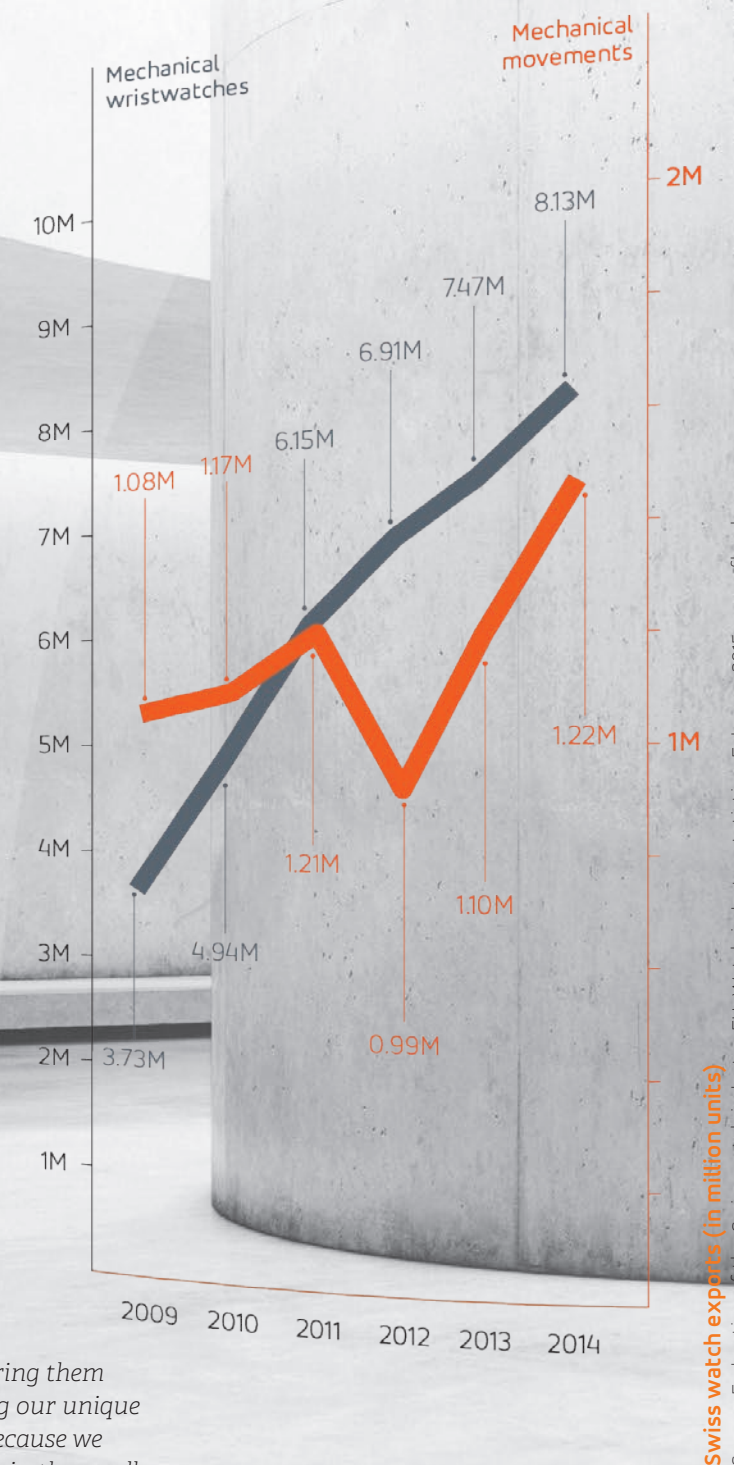
Supporting that dynamic relationship is the company's in-depth knowledge of manufacturers' challenges.

"For example, our customers in medtech face an increasingly demanding regulatory landscape requiring greater quality assurance and traceability, along with the need to reduce health

care costs. Our customers need partners that can bring them innovative solutions," Thibaudeau explains. "Among our unique strengths is our very good multidisciplinary team. Because we are part of the Faulhaber Group, which is very active in the small motor industry, we can integrate full solutions with a motor, shaft and all components. We are a one-stop shop and that has a lot of value as customers in both watchmaking and medtech shorten their supply chains."

MPS's impressive growth—from 2003 turnover of CHF 18 million to CHF 70 million in 2013—evidences the success of its strategy.

"We were always there for our customers when there was a need. We had the expertise in house, or we got the expertise," she says.



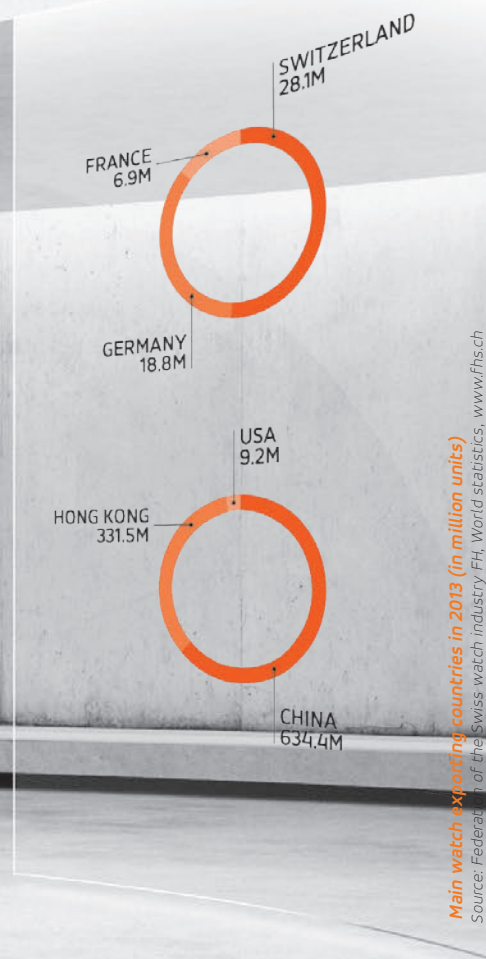


“Our success lies in our understanding of our customers’ processes, their final applications, and how and where our products will be integrated.”

Nicola Thibaudeau, CEO  
MPS Micro Precision Systems Ltd., Biel/Bienne

#### Partnering for success

MPS's relationship with Tornos illustrates a commitment to integrating innovation, reliability and process expertise into MPS's processes across several industries. Most recently, the company bought two high-precision Tornos SwissNano turning machines for extremely precise—in the micron range—turning of a part for a timekeeping movement at its Bonfol, Switzerland site.



But MPS's collaboration with Tornos is far from new.

“For example, in 2010, we began manufacturing a new medical instrument which, at 300 mm, was quite long compared to those we had been producing,” says MPS Production Manager Manuel Nercide. “When we made the first prototypes, there was no problem, but as we began to produce the first series of this instrument, we saw that the process was not optimal. We had to find a solution.” Tornos had the solution: installation of an optional long part extractor for a DECO 13 and an EvoDECO 16 in MPS's turning operation.

“For the prototypes, we needed to produce only five to 10 pieces, but when we have to make a series of 300 to 500 pieces, we can't

have an operator just standing at one machine to remove those parts,” Nercide says. “We needed to automate that task so that the operator could oversee several machines.”

#### The solutions keep coming

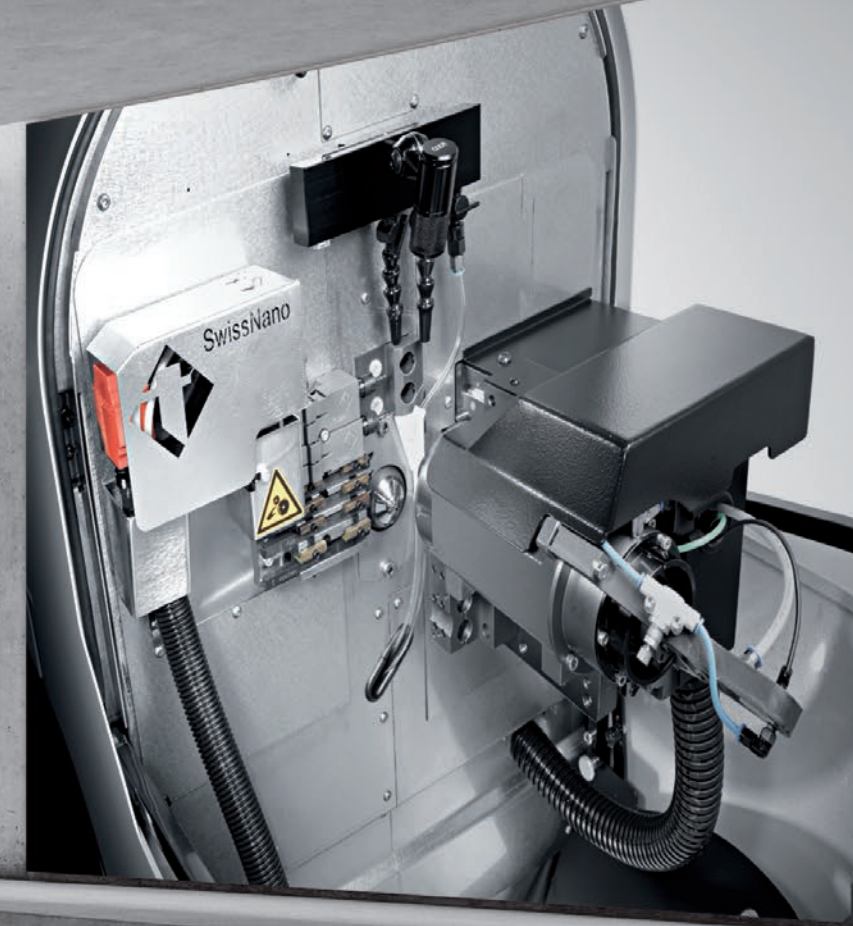
The long part extractor immediately increased MPS's ability to produce special, long parts with shorter cycle times, hastening delivery. Today, it is used not just in the production of that 300 mm-long surgical instrument; it also enables MPS to launch a new, longer microlinear® ball screw this year for use in automation and optical systems and actuators.

“We can always rely on Tornos for turning technology, as well as software and application support like test cuts on special products to help us decide what kind of machine we should use,” he

says. “Our collaboration with Tornos is more like a partnership than a business relationship.”

Nercide says Tornos plays a role in MPS's success.

“Innovation is a tool to our daily success, positioning us at the cutting edge of technology. We can do it alone, but when we work with expert partners like Tornos, we develop our capability to deliver solutions to our customers,” he explains. “Tornos, in a word, is reliable: safe, efficient, serious, strong and trustworthy.”





# Strategic plan 2017

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

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

## **The strategic orientation for the future**

Central Europe, like Japan, plays a pioneering role in terms of innovative capacity based on new products that use cutting-edge technology. However, in many countries it is becoming noticeably more difficult to find well-trained specialist staff who can operate high-end products efficiently and ensure that these capital-intensive investments pay off. Tornos is in a good position thanks to its strong base in Europe: Its employees have excellent technical skills which enable them to develop high-end machines, and the company has a broad range of customers with sophisticated product requirements in Europe's main markets. Comprising the EvoDECO line, the SwissNano, the MultiSwiss and the Almac micro-milling machines, the portfolio fulfills these customer requirements very well, and Tornos is set to retain its position as a key player in the high-end segment.

Nevertheless, it should not be forgotten that standard products have the biggest growth rates in the machine tool industry. An increasingly broad and varied range of machines that are easier to use presents an attractive alternative for a growing customer base.

Against this background, the Tornos Group, which has been a pioneer in turning technology since its founding, launched the Swiss ST 26—its first 7-axis standard product—in 2012, in cooperation with a Taiwanese partner company. In the following year, Tornos created the conditions for developing and manufacturing its own standard products. The joint venture Tornos (Xi'an) Machine Works Co., Ltd. was set up in the Chinese city of Xi'an (Shaanxi Province), with Tornos owning a majority stake. This allows Tornos to offer its own products worldwide. Two other standard machines—the CT 20 and the Swiss GT 26—were successfully launched in 2014 and the Group will continue to expand the product line in the current year.

The focus is now on selling the new products in markets where Tornos already has a strong customer base; new customers will also be sought in growth markets. China has the biggest potential of the BRIC countries being targeted, not least because Swiss technology and expertise continue to be very popular there. Through its joint venture partner, Tornos has access to an extensive network of sales outlets and staff in China with excellent knowledge of regional customer requirements. Demand is more volatile in Brazil, Russia and India, which is why the emphasis is on setting up an efficient network of agents in order to keep structural costs down. Feedback from the market in the United States indicates that the new standard products should generate new sales opportunities.

# —and some achievements in 2014



The 100th MultiSwiss was delivered as early as autumn 2014. Many customers have been won over by the MultiSwiss and have ordered several additional machines. In developing the MultiSwiss, Tornos has created a genuine **innovation** and established a benchmark.



At Medtec China 2014 in Shanghai, the SwissNano won the Ringier Technology Innovation Award. Developed as a **specific solution** for the watchmaking industry, this machine has even been ordered by a customer in Australia.

Since its launch, the SwissNano has attracted widespread interest, which extends well beyond the watchmaking industry. The „NFL look“ of the models exhibited at IMTS, the leading trade fair for machine tools in the USA, attracted plenty of attention, as it also did at the SIAMS fair in Moutier.

The new CT 20 and Swiss GT 26 automatic lathes were successfully launched through trade shows and open houses in Asia, Europe and the USA. This demonstrates the greater **internationalization** of the Group, to which the standard products from the Tornos Xi'an and Tornos Taiwan factories also bear testimony.



In 2014, Tornos Service in Moutier moved into the central complex of buildings. This has already **enhanced efficiency** due to the significantly shorter distances. 18'500 spare parts are available for Tornos customers at short notice.



The TISIS programming software is an important step in the popularization of technology for operators. This **innovation** makes complex machines even more user-friendly.



The preparatory work for lean manufacturing has been completed. During 2015, this manufacturing philosophy will gradually be introduced, starting with the EvoDECO product line. This should lead to a perceptible increase in **operational excellence**.



The new Tornos Xi'an factory in China was inaugurated in October, having been under construction for around six months. It provides optimal conditions for the construction of standard machines. Preparations are on schedule for the launch of a second product this year.



Mid-2014 saw the launch of the Swiss GT 26, the first product in a new line of standard machines that are all based on the same platform. Major components are identical, which reduces complexity, increases **flexibility** and lowers costs.



Overhauling machines is a source of attractive growth potential for Tornos and an add-on to its **service activities**. Customers receive their machines back in as-new condition – straight from the professional hands of the manufacturer – and remain satisfied with Tornos.






*Driven by changing demographics and increasing health awareness, the medical and dental manufacturing sector is growing and—at the same time—navigating a demanding regulatory landscape. Tornos helps medtech customers cost effectively deliver the highest quality medical devices and instruments.*

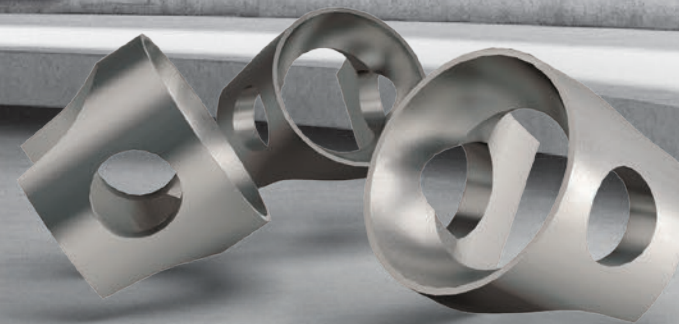
# Medical & Dental



- 
- Population growth in emerging countries and the aging of the population contribute positively to the growth of the medical market.
  - The parts' surface finish must be impeccable to ensure excellent biocompatibility.
  - Medical parts pose a number of technical challenges in terms of process management, managing the material to be machined or even the parts' characteristics.
  - Implants are becoming increasingly personalized; hence it is essential to provide a processing solution as flexible and efficient as possible.



# Kurt Eberle Präzisionstechnik stays close to pioneering roots



Worldwide medtech sales (in billion US\$)  
Source: EvaluateMedTech™, World Preview 2014, Outlook to 2020

Precision turning specialist Kurt Eberle GmbH & Co. KG has come a long way from its humble beginning in 1960, when young tool-maker Kurt Eberle started the business—with an automatic lathe and a vision of independence—in the basement of a restaurant in his childhood hometown of Pforzheim, Germany.

More than 50 years later, much has changed: Kurt Eberle Präzisionstechnik today is based in Wurmberg, Germany, about 20 minutes east of Pforzheim, has 180 employees, and boasts more than 8,000 square meters of production space with—among other brands—more than 35 Tornos turning machines, nine of which are Tornos MultiSwiss machines. What hasn't changed is the company's pioneering spirit: Both leadership and employees are committed to continuously evolving to meet the company's customers' needs in automotive, medical technology, electrical engineering, fluid technology, telecommunication, thermal engineering, and mechanical engineering.

## Innovation power as a driver of further growth

"Historically, we were in electrical engineering and telecommunication, but through computer-numerical control (CNC) and multi-spindle technologies, and the interesting range of parts, automotive became increasingly important to us," says Managing Director Rainer Weninger, who bought the company with Managing Director Gerd Hütter in 2004.

"Automotive is a very good example of innovation power since it is the benchmark in order to remain at the top. This is only possible if we constantly call our processes into question and keep them up to date," Weninger says.

This high demand is a recurring theme in the company history of Kurt Eberle Präzisionstechnik and therefore is an important driver of healthy growth which "is part of our strategic planning,

but only to the extent that it can be well mastered both organically and organizationally," Hütter explains. This means better tapping new markets such as fluid technology and medical technology without neglecting existing markets.

"In medtech, we strengthened our technical sales activities to—among other reasons—compensate for the risks that come with automotive; if the situation in the automotive industry deteriorates, this is noticeable very quickly along the whole value chain, while medtech is in a different economic cycle," Weninger adds.

Medical accessories and turned parts that are applied directly in the body (such as implants) require a high level of precision and cleanliness in the process. This is why companies in medtech only partner with other companies that have an appropriate struc-

ture in terms of machines and organization. A prime illustration of Kurt Eberle Präzisionstechnik's turning competence is a part used in a medicine dosing system produced by a major European pharmaceutical company.

"These parts are less than 10 mm in diameter, of high complexity, and require the highest level of precision and cleanliness. Other medtech parts we produce include stainless steel medical instrument grips and components for minimally invasive surgery," Weninger explains.

Qualitative growth would be unconceivable without skilled personnel. It is becoming increasingly difficult to recruit personnel despite the industry's strong footprint in the Pforzheim/Stuttgart area.





“We need partners who offer innovative solutions flexibly and quickly.”

Gerd Hütter, Managing Director (on the left in the photo)  
Kurt Eberle GmbH & Co. KG

“Our challenge is: Who can we make a project a success with?”

Rainer Weninger, Managing Director  
Kurt Eberle GmbH & Co. KG

“This is why we have to invest even more in the training of young people. Additionally, state-of-the-art workplaces have to be created together with new machine systems and operating equipment. In turn, this will make us an even more attractive employer in the future, enabling us to enter new industries with complex turned parts,” Weninger says.

#### Carefully selected partners

To keep pace with competitors and increasing demand, Kurt Eberle Präzisionstechnik works with a small circle of carefully selected partners in machine tools.

“Our challenge is: Who can we make a project a success with? Who do we start a project with? Who will our longtime partner be? This concerns in particular demanding, advanced machine tool technology and innovation in details. Tornos presented its

compact MultiSwiss at the right time. If Tornos hadn’t launched this product, such machines would not have been part of our evaluation process, and we would not have nine MultiSwiss today,” Weninger says. “We are pleased with our investment in MultiSwiss for their great ability to turn parts with smaller diameters,” he adds, also citing the machines’ maintenance of tolerances, attractive ergonomics, and reliable internal components.

Tornos has been a supplier to Kurt Eberle Präzisionstechnik for more than 40 years, adding value to the production of high-quality parts. “We need professional partners that are close. Tornos Germany is just around the corner, and Tornos headquarters in Moutier is only three hours away,” he says. “Plus, Tornos is ready to cooperate with our other suppliers, whether it is for coolant or tools; and direct cooperation works—many machines are being specifically modified to meet our technical needs.” And Hütter adds: “We need partners who offer innovative solutions flexibly and quickly.”



# Key components: the heart of a Tornos machine

*A good turning machine must not only be extremely accurate, it must above all be able to keep repeating a process continuously. This can only be achieved if high-value components are built into the machines.*

*Key components, especially spindles and guide bushes as well as barrels, are manufactured and assembled at the Moutier site in Switzerland for all Tornos products, before being sent to the other production sites.*

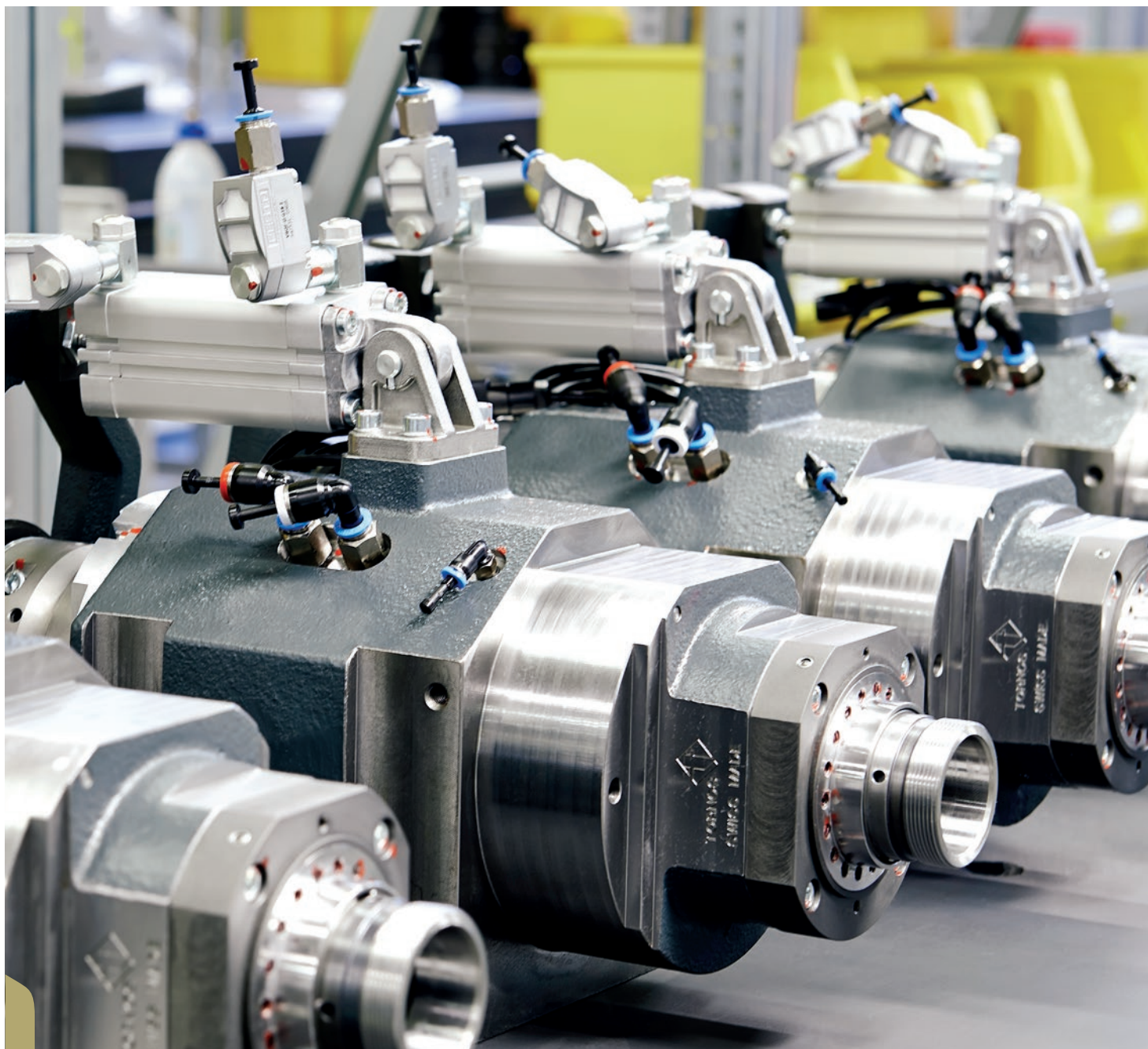
*Such components form the heart of a turning machine and only a team of specialized engineers and technicians has the skills to produce them. Assembly and manufacture are carried out in a closely supervised environment called the "Spindle Center". In order to guarantee the high level of quality for which Tornos machines are renowned, each spindle is thoroughly tested before being built into a machine.*

*Not only are these components known for their quality and performance, they also bear the "Swiss Made" stamp, which is a valuable selling point for the sales teams throughout the world.*

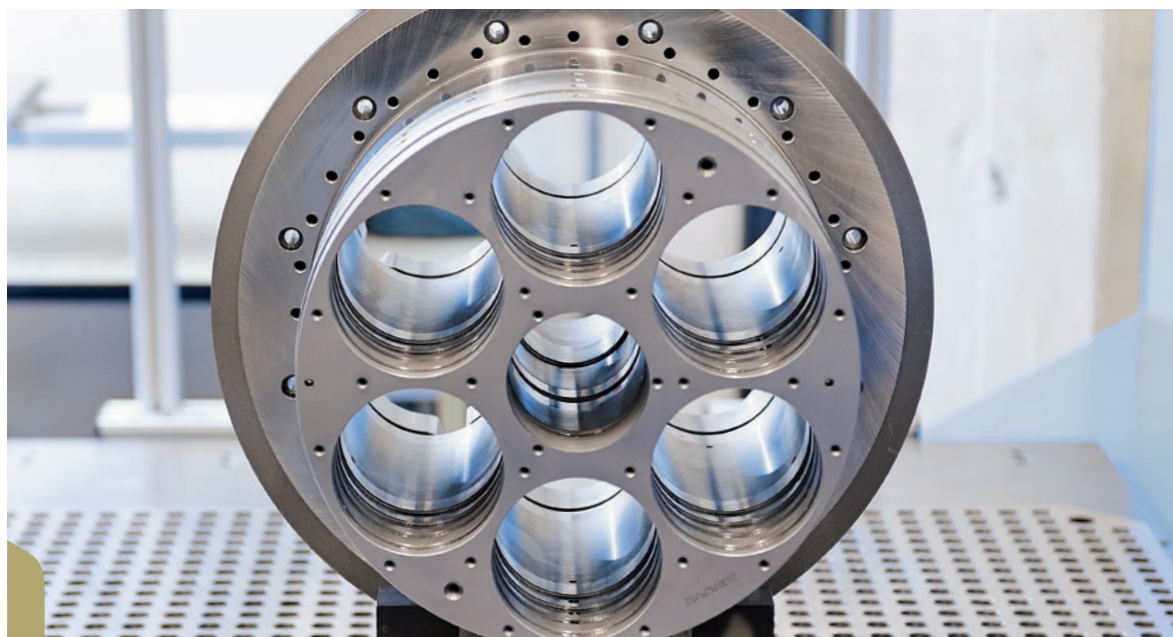
*Each of the four production sites is intelligently connected to the others by means of a particularly efficient logistics chain. This makes it possible to react to market requirements quickly and effectively.*

*In order to control development, production costs, and quality, Tornos has implemented a platform concept that aims to standardize the key components or modules that are used in the different products.*

*Thus, an Almac BA 1008 micro-milling machine is based on the same platform like the SwissNano turning machine. The Swiss GT 26 automatic lathe is the first standard machine that was introduced and manufactured based on the platform concept. In 2015, an additional new product that builds on the same concept will be launched.*




Standard machine spindles  
before run in and quality  
test




Multispindle barrel before  
its check on a coordinate  
measuring machine



- 
- The legal requirements in terms of consumption lead to the use of new and lighter materials and the need for ever higher precision.
  - Accuracy and reliability are requirements that increase every year while parts prices decrease.
  - Zero defect has become the norm for all. Default rates are between 5 and 50 parts per million (ppm).
  - Performing products with highest availability can effectively meet the needs of the market.



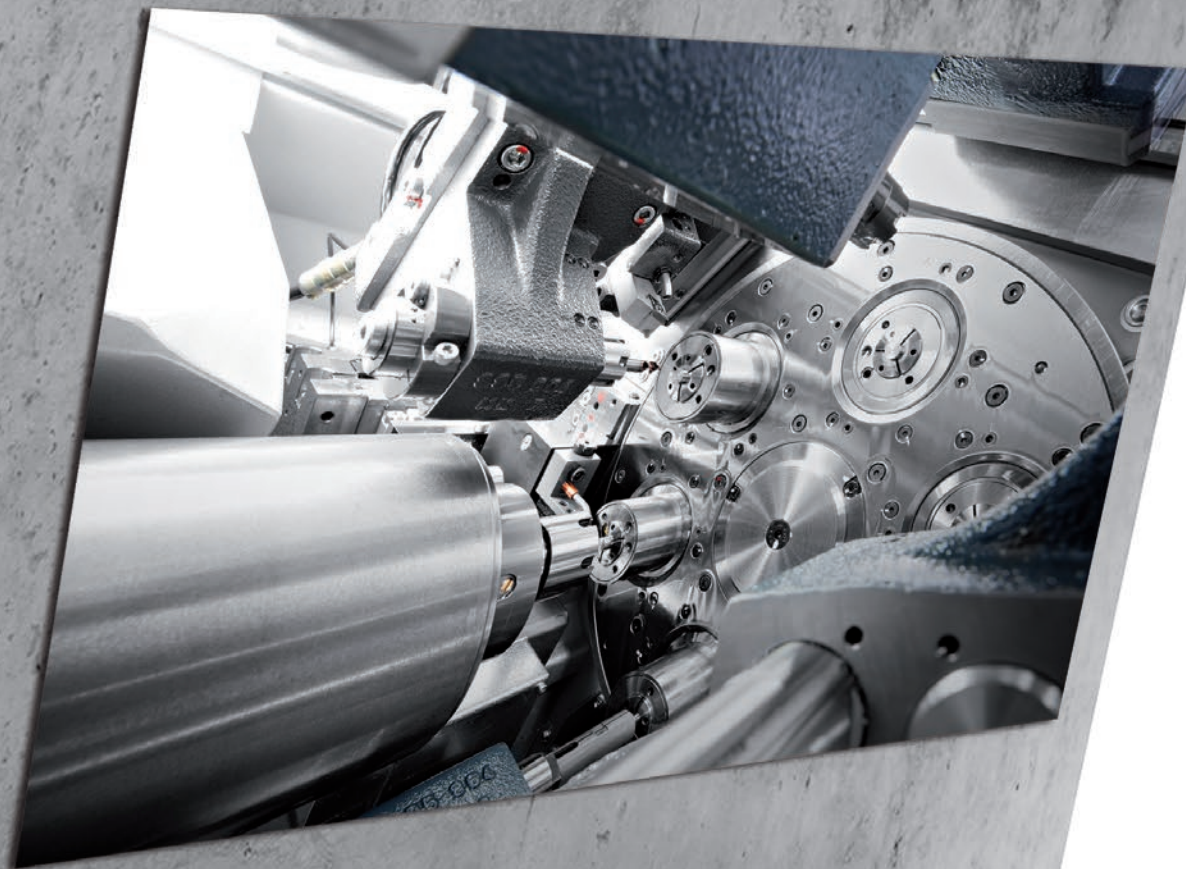


*Today's automotive manufacturing supply chain faces complex challenges, including emerging markets, population growth, urbanization, and safety and environmental regulations. Tornos technologies, know-how and services position customers as value-contributing partners to key industry players.*

# Automotive



# Tornos helps Wuxi Fortune expand in automotive segment



Identifying a business opportunity is one thing, but turning an opportunity into a profit center is quite another. When Wuxi Fortune Technology Co., Ltd. founder and CEO Jian Wang decided to pursue manufacturing certification with one of the world's largest automotive technology powerhouses, he chose Tornos as his partner for turning machines, application and process know-how, and after-sales support.

Established in 2002 with just one horizontal machine center, several vertical machine centers and 30 employees, Wuxi Fortune today has 350 employees—including 38 process engineers and 35 quality engineers. The company's two production sites, both in the booming Wuxi New District industrial center 120 kilometers west of Shanghai, boast production space totaling more than 35,000 square meters.

## A strong will to grow

It's only natural that Wang set his sights on securing a place among Tier 2 suppliers to China's automotive industry: The nation has the world's largest automotive market, with growth of 13.9 percent in 2013. At the same time, it is notoriously difficult—often taking up to three years—for a new player to carve out a place in China's automotive supply chain.

"The newly implemented National Emission Standard V requires qualified and long-term development partners, and there are quite a few in China in terms of technology, ideas, and strategy. For large-scale suppliers with diversified businesses, it is often difficult to meet the rapidly developing requirements," Wang says. "But Wuxi Fortune has automotive industry experience in milling and production of parts for diesel injections. We also had a strong will to further expand our market."

On top of Wuxi Fortune's automotive industry know-how and mastery of milling, Wang identified a gap in the market.

"We saw there was a place for high-end auto parts production by turning and understood the great potential it represented," he says. "We needed high-end, reliable and effective turning machines that would guarantee our ability to serve automotive customers. We knew that using advanced production equipment and technologies would help identify us as an excellent supplier, allow us to deliver parts earlier than expected and even become an exclusive supplier of some specific parts."

## Helping pave the way

Wang knew from the start that he wanted multi-spindle turning machines in order to gain higher efficiency, greater product consistency and lower manpower and production costs.

"At the time, multi-spindle turning machines were quite new in the Chinese market, but we are committed to being at the forefront of technology," says Wang, who visited and compared several turning machine manufacturers before purchasing two Tornos MultiSwiss 6x14 machines and a Tornos MultiSigma 8x28. "Our Tornos machines are reliable and efficient, and Tornos provides completely integrated services—application knowledge, machine maintenance, training, and spare parts—to the Chinese market. Tornos machines and services enable us to serve our high-end customers and maintain our competitiveness."



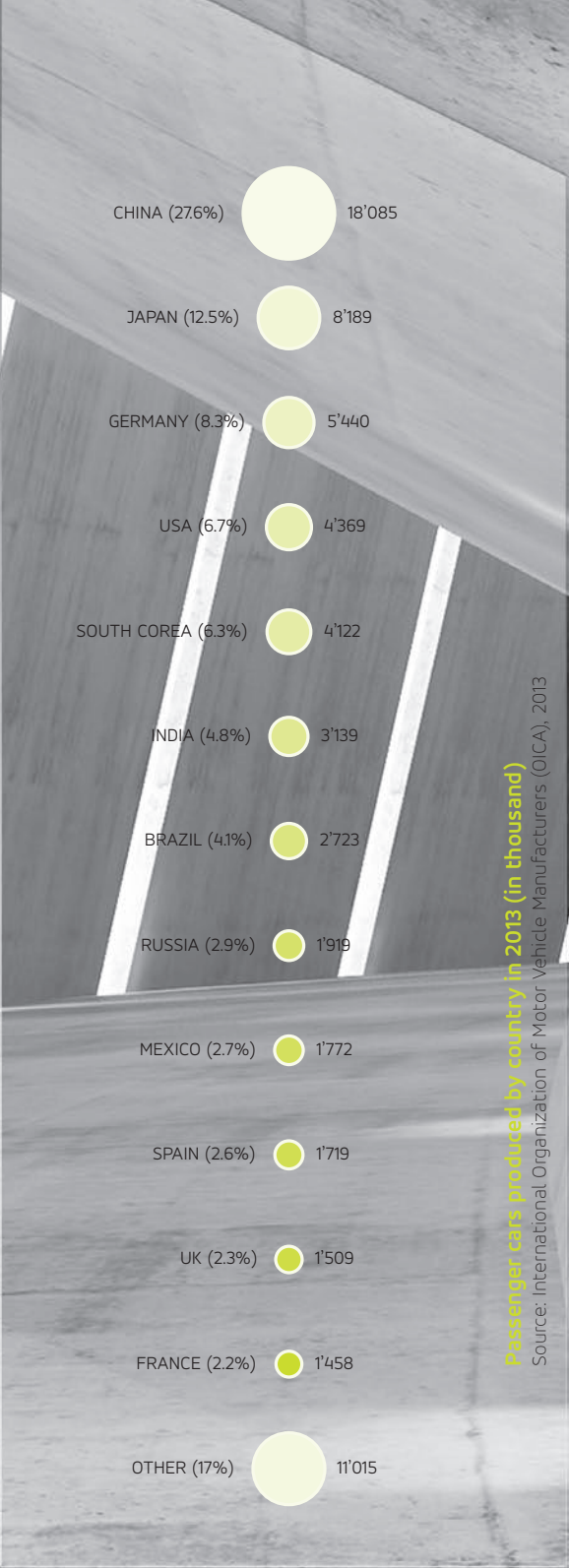
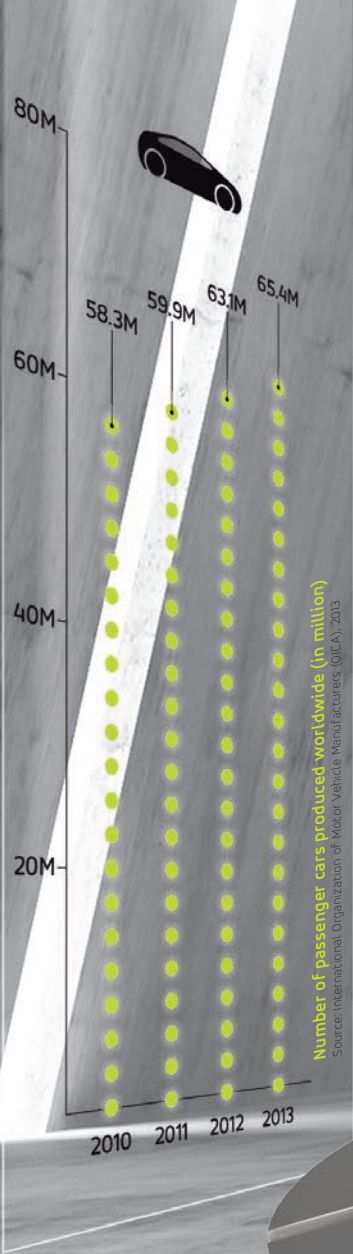
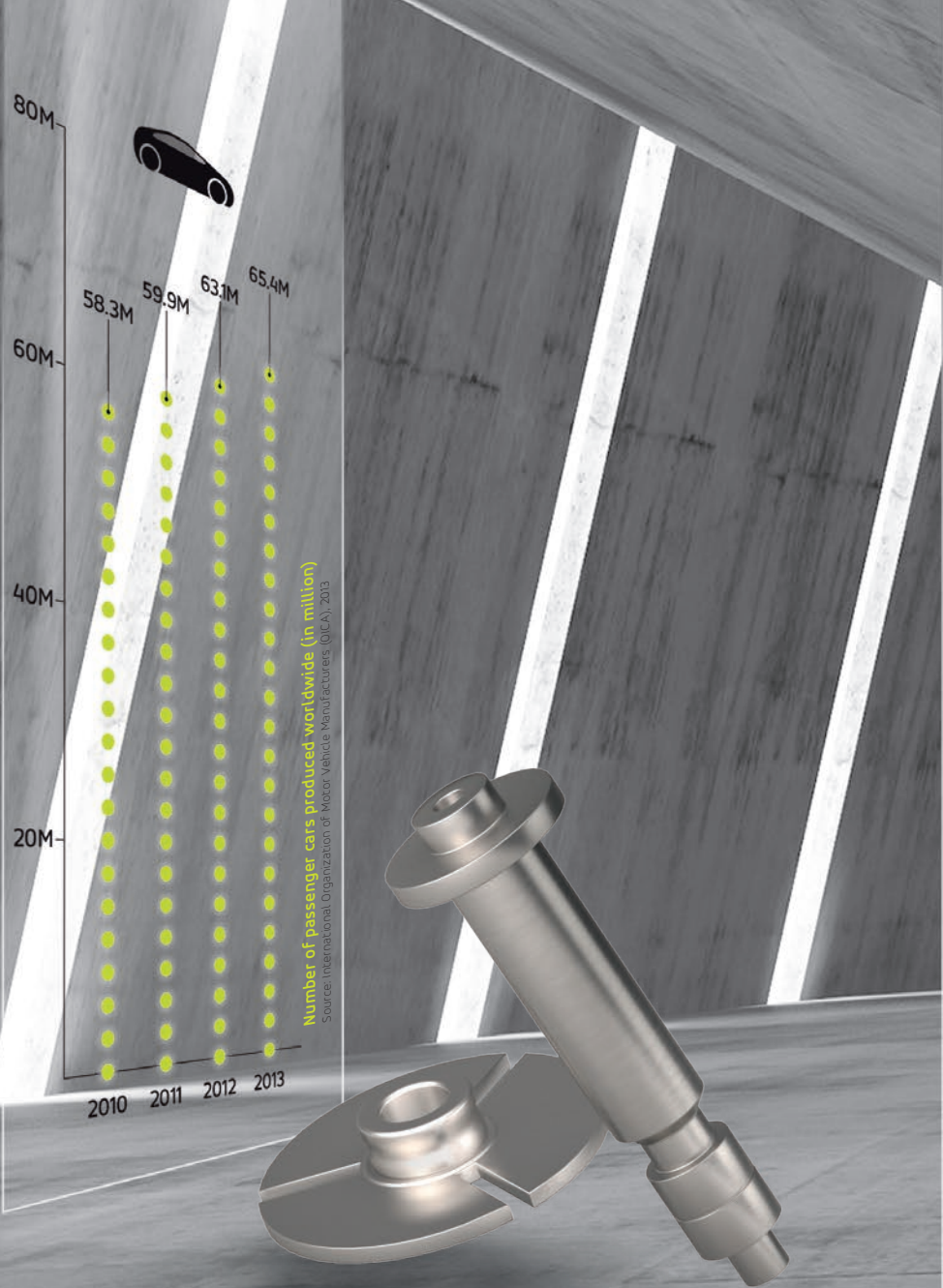
“We knew that using advanced production equipment and technologies would help identify us as an excellent supplier.”

Jian Wang, Founder and CEO  
Wuxi Fortune Technology Co., Ltd.

**A winning collaboration**

The collaboration with Tornos helped pave the way for Wuxi Fortune to become the exclusive, worldwide supplier of a diesel injector pin shaft to a leading automotive technology player with 2013 sales totaling more than 30 billion Euros in 2013. The 23 mm-long part has a maximum outer diameter of 9 mm and a minimum groove diameter of 1.3 mm, and requires a tolerance of plus/minus 0.03 mm of the outer diameter.

“Tornos wouldn’t let us face a brand new machine and all of its challenges alone,” says Wang. “They quickly delivered the machines and helped us produce the sample part. In addition, Tornos supported us in finishing the required quality inspections and smoothly passing our customer’s evaluation. From the first contact between Tornos and Wuxi Fortune to confirmation of the processing solution at the early stage, it took only about two months.”



Dr. Weimin Sun, Tornos General Manager for Greater China, says it isn’t easy for a new supplier to become a certified part manufacturer for a leading supplier to the automotive industry.

“That process can normally take up to two years but we were able to help Wuxi Fortune cement a relationship with just such a customer within one year,” he says.

Wuxi Fortune’s owner couldn’t be happier.

“This is really impressive,” says Jian Wang. “Our partnership with Tornos has built a solid foundation for our development and expansion in the future.”





# Tornos Service

*Backed by both geographical proximity to customers and a keen understanding of their processes, applications and market challenges, Tornos Service delivers an unparalleled continuum of support: start-up assistance; expert training and coaching; free hotline; on-site operations and preventive maintenance; original spare parts seamlessly delivered worldwide; complete overhauls to extend the longevity of Tornos machines; and a range of operations and X-change Modules to expand customers' application capabilities and profitability.*

*Buying a Tornos machine is much more than a business transaction. It is the customer's investment in the future. Tornos Service thrives worldwide on securing the high production capability of products carrying the Tornos name.*

*Situated close to customers, as demonstrated by the 12 Tornos Service Centers strategically located across Europe, Asia, and the Americas, Tornos Service offers a full continuum of authoritative support for their Tornos machines, and encompasses the innovation, reliability and attention to detail expected of a premier Swiss brand. And it is all backed by a 100-year legacy of expertise and in-depth understanding of customers' processes, applications and challenges across a wide range of industrial segments, including automotive, medical, electronics and connections, and micro-mechanics.*

## **Start-up assistance**

*From first moment of machine ownership, customers know they are in good hands. With a competent start-up and initial training in the operation and maintenance the foundation is laid for an efficient use of the new machines.*

## **Expert training and coaching**

*Engineered for intuitive and easy use, Tornos machines offer a vast range of options and applications to improve performance. Expert training and coaching help customers' employees become programming, handling and maintenance experts, adding more value to the customers' processes, applications and products*

## **Free Hotline support**

*Where the customer is in the world, highly qualified specialists who speak his language and understand his processes are just a phone call away to quickly support him with handling and programming solutions.*

## **On-site operations**

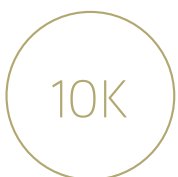
*Fast, efficient on-site operations and preventive maintenance ensure the continuous high performance of Tornos machines. Regular scheduled preventive maintenance can help customers avoid 70 percent of machine breakdowns and keep them on the path to productivity.*



CAM  
machines



CLASSICAL  
NC machines



DECO &  
EVODECO  
machines



MULTI-  
SPINDLE  
machines

Tornos machines Installed worldwide  
(in thousand)

### Certified original spare parts

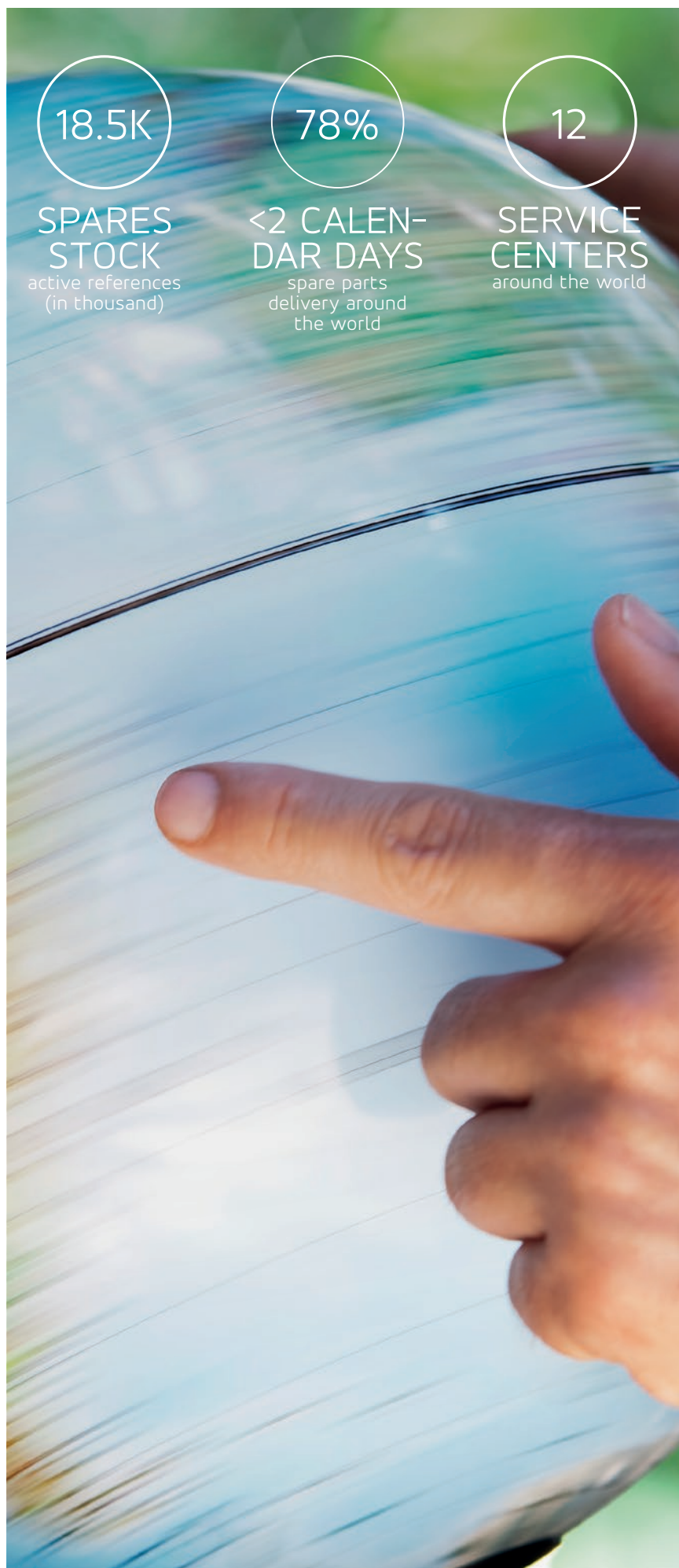
Rapid, reliable, worldwide delivery of certified original Tornos spare parts is a specialty of Tornos Service. Regardless of the age of the customer's Tornos machine, Tornos stocks the essential certified spare parts to keep the machine running at peak performance.

### Machine overhauls

Tornos machines inspire confidence, so it's no surprise that many customers turn to Tornos for complete overhaul of their workhorse machines. Tornos overhaul service returns the machines in good-as-new condition and performance, appreciably extending their longevity.

### Options, upgrades, and X-change Modules

To help customers achieve their manufacturing, productivity and quality objectives for years, Tornos experts collaborate with customers to manage complex machining processes, develop software features for machining complex shapes, design special equipment, and tailor peripherals and upgrades to customers' needs. Tornos' X-change Modules expand customers' application capabilities and profitability.







# Corporate Governance

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

Group structure and shareholders	30
Capital structure	33
Board of Directors	36
General Management	47
Participation rights of shareholders	48
Control and warding-off mechanisms	49
Auditors	50
Information and disclosure policy	51

# Group structure and shareholders

## Group structure

		Share capital	% held	
			2014	2013
<b>Tornos Holding Ltd., Moutier</b> <i>Holding</i>	<b>CHF</b>	89'449'519.50		
└─ <b>Tornos Management Holding Ltd., Moutier</b> <i>Management of shareholdings and holding</i>	<b>CHF</b>	65'000'000	100%	100%
└─ <b>Almac Ltd., La Chaux-de-Fonds</b> <i>Production and sales</i>	<b>CHF</b>	1'175'000	100%	100%
└─ <b>Almatronic Ltd., La Chaux-de-Fonds</b> <i>Dormant company</i>	<b>CHF</b>	50'000	100%	100%
└─ <b>Cyklos Ltd., Yverdon-les-Bains</b> <i>Dormant company</i>	<b>CHF</b>	100'000	100%	100%
└─ <b>Tornos Ltd., Moutier</b> <i>Production and sales</i>	<b>CHF</b>	65'000'000	100%	100%
└─ <b>Tornos Technologies Deutschland GmbH, Pforzheim</b> <i>Support services</i>	<b>EUR</b>	511'292	100%	100%
└─ <b>Tornos Technologies Iberica SA, Granollers</b> <i>Support services</i>	<b>EUR</b>	60'200	100%	100%
└─ <b>Tornos Technologies Italia Srl, Opera/MI</b> <i>Support services</i>	<b>EUR</b>	93'600	100%	100%
└─ <b>Tornos Technologies Poland Sp. z o.o., Katy Wroclawskie</b> <i>Support services</i>	<b>PLN</b>	50'000	100%	100%
└─ <b>Tornos Technologies UK Ltd., Coalville</b> <i>Support services</i>	<b>GBP</b>	345'000	100%	100%
└─ <b>Tornos Holding France SA, St-Pierre-en-Faucigny</b> <i>Holding</i>	<b>EUR</b>	12'496'800	100%	100%
└─ <b>Tornos Technologies France SAS, St-Pierre-en-Faucigny</b> <i>Support services</i>	<b>EUR</b>	762'250	100%	100%
└─ <b>Tornos Technologies U.S. Corp. Bethel, CT</b> <i>Sales and service</i>	<b>USD</b>	2'400'000	100%	100%
└─ <b>Tornos Technologies Asia Limited, Hong Kong</b> <i>Support services</i>	<b>HKD</b>	10'000	100%	100%
└─ <b>Tornos Technologies (HK) Limited, Hong Kong</b> <i>Support services</i>	<b>HKD</b>	10'000	100%	100%
└─ <b>Tornos Technologies (Shanghai) Limited, Shanghai</b> <i>Sales and service</i>	<b>USD</b>	500'000	100%	100%
└─ <b>Tornos Comércio Importação e Exportação de Máquinas Ferramenta Ltda, São Paulo</b> <i>Support services</i>	<b>BRL</b>	370'000	n/a	100%
└─ <b>Tornos (Xi'an) Machine Works Co., Ltd., Xi'an</b> <i>Production</i>	<b>RMB</b>	18'428'471	70%	70%

## Organizational structure of the Group

The Group's organizational structure is defined by functional areas as follows: sales and marketing, production and development, customer service, and general and financial services.

The Group is managed by General Management comprising the three members as listed below:

### General Management

Michael Hauser                      Chair  
Bruno Allemand  
Luc Widmer

### Listed companies in the consolidation

Tornos Holding Ltd. is the only consolidated company within the Group to be listed on the stock exchange. The subsidiaries are not listed. Tornos shares are traded on the SIX Swiss Exchange, Zurich, under securities number TOHN (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 113.9 million.

### Unlisted companies in the consolidation

Tornos Holding Ltd. has no unconsolidated shareholdings.

#### 2014

Tornos Comércio Importação e Exportação de Máquinas Ferramenta Ltda, São Paulo was liquidated on October 17, 2014.

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

#### 2013

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

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

## Shareholders

As at December 31, 2014, 1'683 shareholders were registered in the share register and held numbers of shares as follows:

More than 1'000'000 shares	3 shareholders
From 100'001 to 1'000'000 shares	7 shareholders
From 15'001 to 100'000 shares	28 shareholders
From 1 to 15'000 shares	1'645 shareholders

As at December 31, 2014, 1'742'180 shares, representing 8.76% of the total number of shares issued, were not registered in the share register (not assigned).

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

Shareholders	31.12.2014		31.12.2013	
	No. of shares	%	No. of shares	%
Walter Fust	8'950'955	45.03	6'624'263	33.32
Michel Rollier / Rollomatic Holding SA	2'853'733	14.36	2'853'733	14.36
Balfidor Fondsleitung AG	1'055'454	5.31	1'254'077	6.31
Berner Kantonalbank AG	0	0.00	661'545	3.33

Number of shares known by the company or according to the latest declaration made to SIX Swiss Exchange Ltd. The percentages are based on the real number of shares at balance sheet date.

The following communications were published according to article 20 of the Federal Law on Stock Exchange and Security Trading in the course of 2014 and 2013:

Date	Shareholder	% of voting rights
11.02.2014	Berner Kantonalbank AG	< 3.00
07.02.2014	Walter Fust	42.88
04.02.2014	Tornos Holding Ltd.	2.52
03.07.2013	Tsugami Corporation	2.93
08.06.2013	Michel Rollier / Rollomatic Holding SA	14.36
07.06.2013	Tsugami Corporation	4.93
05.06.2013	Walter Fust	33.12
31.05.2013	Tornos Holding Ltd.	2.54
18.05.2013	Michel Rollier / Rollomatic Holding SA	18.41 <sup>1)</sup>
18.05.2013	Walter Fust	42.47 <sup>1)</sup>

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

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

[http://www.six-swiss-exchange.com/shares/companies/major\\_shareholders\\_en.html?from](http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?from)

Date=19980101&issuer=11443

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

### Cross participations

There are no cross participations.



# Capital structure

## Capital

The Tornos Holding Ltd. share capital is as follows:

31.12.2014			31.12.2013		
	No. of shares	Per value CHF	Share capital CHF	No. of shares	Per value CHF
Share capital	19'877'671	4.50	89'449'519.50	19'877'671	4.50
Authorized share capital	n/a	n/a	n/a	324'422	4.50
Contingent share capital	706'662	4.50	3'179'979.00	706'662	4.50

## Specifications regarding authorized and contingent capital

The following information relates to the changes in authorized and contingent capital for 2014 and 2013. For changes occurring in 2012, please refer to Note 23.1 of the 2012 consolidated accounts, which are available on the website at:  
[http://investors.tornos.com/sites/investors.tornos.com/files/data/publications/2012/e\\_annual\\_report\\_2012.pdf](http://investors.tornos.com/sites/investors.tornos.com/files/data/publications/2012/e_annual_report_2012.pdf)

## Authorized capital

### 2014

The company had authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on April 17, 2012. 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 no more than 324'422 registered shares with a par value of CHF 4.50 each to be fully paid-up.

Following the authorized capital's expiry as per April 17, 2014, the company does not have authorized capital anymore as per December 31, 2014.

## Contingent capital

### 2013

The company has authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on April 17, 2012. The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 21'150'000.00 by issuing no more than 4'700'000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by firm underwriting and partial increases is authorized. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the company's best interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions. On May 30, 2013, the share capital was increased by issuing 4'375'578 registered shares with a par value of CHF 4.50 per share at CHF 7.00 per share.

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

### 2014

As at 31 December 2014, the share capital could have been increased by up to CHF 3'179'979.00, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 706'662 shares with the said par value, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

### 2013

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

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

## Capital changes

In KCHF	Share capital	Reserve from capital contribution – net	Reserve for treasury shares	Retained earnings	Total
<b>Equity as at 31.12.2012</b>	<b>69'759</b>	<b>18'983</b>	<b>6'827</b>	<b>10'994</b>	<b>106'563</b>
Capital increase	19'691	10'939			30'630
Net result 2013				-13'049	-13'049
Transfer to reserve for treasury shares		56	-56		0
<b>Equity as at 31.12.2013</b>	<b>89'450</b>	<b>29'978</b>	<b>6'771</b>	<b>-2'055</b>	<b>124'144</b>
Net result 2014				-292	-292
Transfer to reserve for treasury shares			-1'529	1'529	0
Readjustment from capital contribution reserve for capital increase costs 2013 set-off		-957		957	0
<b>Equity as at 31.12.2014</b>	<b>89'450</b>	<b>29'021</b>	<b>5'242</b>	<b>139</b>	<b>123'852</b>

## Shares and participation certificates

As at December 31, 2014, the ordinary share capital of Tornos Holding Ltd. amounted to CHF 89'449'519.50, and was divided into 19'877'671 fully paid up registered shares with a par value of CHF 4.50 per share, all having equal rights to dividends. There are no preferred shares or limitations with regard to voting rights. Each share corresponds to one vote ('one share, one vote').

There are no participation certificates.

## Dividend right certificates

There are no dividend right certificates.

## Restrictions on transfer and nominee registration

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

## Convertible loans and options

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

# *Board of Directors*



François Frôté	Michel Rollier
Walter Fust	Frank Brinken

#### **François Frôté (1953), Swiss**

*Chairman | Appointed in 2002 | Elected until 2015 | Previous activities for Tornos: legal adviser | Committees: Remuneration Committee; Audit Committee | Training – final qualification on completion of studies: lawyer, law degree, University of Berne, 1979 | Current directorships: Rollomatic Holding SA: Director; Nugerol Holding SA: Director; Esco SA: Director; Bien-Air Holding SA: Director; Gebäudeversicherung Bern (GVB): Director; GVB Privatversicherungen AG: Director; PX Holding SA: Director; Azurée Holding SA: Director; Coopérative Migros Neuchâtel Fribourg: Vice-Chairman | Professional activities: Law offices of Frôté & Partner: Lawyer and Director (since 1979)*

#### **Walter Fust (1941), Swiss**

*Appointed in 2014 | Elected until 2015 | Previous activities for Tornos: none | Committees: Chairman of the Remuneration Committee; Audit Committee | Training – final qualification on completion of studies: Engineer ETHZ (Swiss Federal Institute of Technology Zurich), 1964 | Current directorships: Starrag Group Holding Ltd.: Chairman; Immofust Ltd.: Chairman; Waltair Ltd.: Chairman | Other bodies: Member of the Inspire foundation council, ETHZ | Former professional activities: Dipl. Ing. Fust Ltd.: Founder (1966); Jelmoli Holding Ltd.: Director (from 1997 to 2009, Chairman until 2007)*

#### **Michel Rollier (1959), Swiss**

*Appointed in 2002 | Elected until 2015 | Previous activities for Tornos: none | Committees: Remuneration Committee; Audit Committee | Training – final qualification on completion of studies: EPFL (Swiss Federal Institute of Technology Lausanne) engineer, 1985 | Current directorships: Rollomatic Holding SA: Chairman; Azurée Holding SA: Director | Professional activities: Rollomatic SA, various management functions in the Group: Head of R&D (since 1989)*

#### **Frank Brinken (1948), Swiss**

*Vice-Chairman | Appointed in 2011 | Elected until 2015 | Previous activities for Tornos: none | Committees: Remuneration Committee; Chairman of the Audit Committee | Training – final qualification on completion of studies: Engineer, Doctorate in Engineering, Polytechnic University of Aachen (RWTH), 1979; Honorary professor at Chemnitz University of Technology, Germany, 2013 | Current directorships: Calorifer AG: Director; Starrag Group Holding AG: Vice-Chairman | Other professional bodies: CECIMO “European Committee for Cooperation of the Machine Tool Industries”: Chairman of the Economic Committee | Professional activities: Maag Pump Textron Systems: CEO (from 1995 to 2004); Starrag Group Holding AG: CEO (from 2005 to 2014)*

## Members of the Board of Directors

### 2014

*The Board of Directors comprises four members. At the Annual General Meeting 2014, Messrs. Claude Elsen and Philippe Maquelin resigned as Board members. A successor, Mr. Walter Fust, was elected. No member has close business relations with Tornos Holding Ltd. or any Group company.*

### 2013

*The Board of Directors comprises five members. At the Annual General Meeting 2013, Mr. Raymond Stauffer resigned as a Board member. No successor was elected. No member has close business relations with Tornos Holding Ltd. or any Group company.*

## Other activities and interest groups

*No member of the Board of Directors has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest group other than those mentioned on page 37. No member holds an official function or political office.*

## Election and term of office

*The Board of Directors of Tornos Holding Ltd. is made up of at least three members (currently four), all of whom are independent members with no executive function in the company. Members of the Board are elected individually by the General Meeting for a term that ends with the conclusion of the next Ordinary General Meeting. They are eligible for reelection. The Chairman is elected by the General Meeting.*

## Internal organization

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

*The Rules of Organization set the following guidelines:*



## Authorities

*The authorities of the various internal bodies are as follows:*

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

- To exercise overall management of the company and issue the necessary instructions, including the approval of company policy and strategy;*
- To determine the company's organization;*
- To establish the accounting, financial control and planning principles and approve the annual plans and budgets (including investments);*
- To appoint members of the General Management;*
- To appoint and dismiss persons responsible for representing the company;*
- To supervise the individuals entrusted with the management of the business, ensuring in particular that they comply with the provisions of law, and of the Articles of Association and regulations, and with the instructions issued;*
- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the annual report and the remuneration report, Group accounts, annual financial statements and resolutions for the appropriation of profits, and to carry out the decisions of the General Meeting;*
- To inform the court in the event of over-indebtedness;*
- To decide on calls to be made on partly-paid shares;*
- To record capital increases and amend the Articles of Association appropriately;*
- To determine the financial policy;*
- To set guidelines for the company's information policy;*
- To approve operations with major legal implications, exceptional transactions or unbudgeted financial commitments, where potential foreseeable risks exceed CHF 1.0 million, and in particular:*
  - Contracts with third parties in areas outside the company's normal sphere of business;*
  - Decisions to enter new business sectors or abandon existing ones;*
  - The acquisition or sale of minority shareholdings;*
  - The acquisition or sale of shareholdings;*
  - Decisions to commence or terminate legal actions, or to enter into negotiated settlements.*

- To approve unbudgeted investments in excess of CHF 250'000;
- To decide on the issuance of public loans and other capital market transactions;
- To decide on the establishment and liquidation of subsidiaries, and the acquisition or disposal of majority shareholdings;
- To decide on the purchase, mortgaging or sale of properties where the amount of the individual transaction is in excess of CHF 1.0 million;
- To oversee the activity of the General Management and in particular the implementation of the Board's decisions;
- Where the law requires auditors to be used, to ensure that they have the requisite professional skill;
- To provide advice to the General Management in all cases where the Board of Directors or the General Management itself deem it necessary or appropriate;
- To recruit and select members of the General Management;
- To assess the members of the General Management;
- To approve employment conditions that are not related to a remuneration;
- To recruit members of the Board of Directors in view of proposals to the General Meeting.

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

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

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

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

- To chair the General Meeting and meetings of the Board of Directors;
- To represent the Board of Directors in the public and with authorities, shareholders and General Management;
- To brief the Board in a timely manner on all matters of importance to the company;
- To supervise the work of the General Management, and in particular the implementation of decisions of the Board of Directors;
- To advise the General Management;
- To carry out all tasks falling within his remit under the terms of the law, Articles of Association and Rules of Organization.

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

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

*The Board of Directors meets as often as necessary, but at least four times a year. During 2014, nine meetings of varying duration were held, of which two conference calls. The Board of Directors regularly invited members of General Management as well as other members of the Management to attend its meetings when the items on the agenda required their expertise. Members of General Management also attended committee meetings.*

**General Management** has the following duties and authorities:

- *To manage the company in such a way as to ensure sound and sustainable development of the Tornos Group;*
- *To define the management tools to be used throughout the Group, in particular the planning, accounting, IT systems and internal control systems;*
- *To carry out regular analyses of company strategy and annual planning as well as their implementation; to submit proposals to the Board of Directors;*
- *To develop the corporate culture;*
- *To prepare all matters falling within the remit of the Board of Directors or its committees, and to implement their decisions;*
- *To approve job descriptions, instructions and guidelines issued within the organizational framework defined by the Board of Directors; approval of the job descriptions of members of General Management is the responsibility of the Board of Directors;*
- *To enter into contracts with third parties where the interests of several divisions of the company are involved or where the contracts are of importance to the Group;*

- In general, to take decisions within all areas of the company's activity, within the scope of its delegated authority;
- To introduce the innovation process and examine development projects to be submitted to the Board as a whole;
- To define the portfolio of products and markets for approval by the Board of Directors;
- To examine acquisitions and disposals;
- To propose innovations to the Board of Directors for approval.

With the efficient allocation of duties in mind, the Board of Directors appointed Mr. Frank Brinken as Vice-Chairman.

All members of the Board of Directors were elected members of the Remuneration Committee by the General Meeting for a term ending with the next Ordinary General Meeting. The Remuneration Committee appointed Mr. Walter Fust as its Chairman.

### **Remuneration Committee**

François Frôté (Committee Chairman up to the General Meeting on April 16, 2014, member since the General Meeting on April 16, 2014), Walter Fust (Committee Chairman since the General Meeting on April 16, 2014), Frank Brinken (Committee member since the General Meeting on April 16, 2014), Michel Rollier (Committee member since the General Meeting on April 16, 2014), Philippe Maquelin (Committee member up to the General Meeting on April 16, 2014).

Under article 8.2 of the Rules of Organization of Tornos Holding Ltd, the Remuneration Committee has the following duties:

- Definition and periodic review of the remuneration policy and principals, of goals and allowance criteria of further remuneration related to the results; periodic review in terms of their implementation and submission of related proposals and recommendations to the Board of Directors;
- Submission of proposals to the Board of Directors concerning the grant of remunerations to members of the Board of Directors and General Management within the meaning of article 14 al. 2 of the Ordinance against Excessive Compensation in Listed Companies Limited by Shares;
- Submission of proposals to the Board of Directors regarding the participation plan;



- *Reviewing and putting together the remuneration report and presenting it to the Board of directors as a whole;*
- *Defining and setting terms and conditions for the recruitment and compensation of members of General Management;*
- *Defining the annual remuneration increases for the members of General Management;*
- *Recommendations to the Board of Directors for the compensation arrangements of the Chairman of the Board and other directors;*

*During the 2014 financial year, article 8.1 of the Rules of Organization of Tornos Holding Ltd. relating to the composition of the Audit Committee was amended with effect from June 10, 2014. Under the said Rules, the Remuneration Committee now has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO have to be permanent invitees of the Committee with consultative votes, and, lastly, the CFO may be invited to participate, with a consultative vote, either fully or partly in the Committee, depending on the decisions of the CEO. With respect to decisions, the rules also stipulate that in the event of an equally split vote on a decision, the Committee Chairman shall henceforth have the casting vote.*

*The Committee convened two times in the course of 2014.*

*Mr. Michael Hauser (CEO) attended all meetings as a permanent guest.*

*In particular, the following subjects were covered:*

- *Identification of the individuals to participate in the "Management and Board Participation Plan 2007 (MBP 07)";*
- *Issue of adapting employment contracts to the requirements of the Ordinance against Excessive Compensation in Listed Companies Limited by Shares;*
- *Investigate modifying the "Management and Board Participation Plan 2007 (MBP 07)";*
- *Benchmarking the remuneration for the General Management against a peer group of 20 publicly listed small and mid cap Swiss industrial companies;*
- *Approval of the pension fund scheme for the members of the General Management;*
- *Assessment and review of Management and senior staff salaries for 2015;*
- *Review of the calculated variable remuneration table related to the EBIT margin.*

*The minutes of committee meetings were distributed to the Directors, who are all committee members.*

### **Audit Committee**

Frank Brinken (Chairman since the General Meeting on April 16, 2014), Philippe Maquelin (Chairman up to the General Meeting on April 16, 2014), Walter Fust (Member since the General Meeting on April 16, 2014), Michel Rollier (Member since the General Meeting on April 16, 2014), François Frôté.

Under article 9.2 of the Rules of Organization of Tornos Holding Ltd., the Audit Committee has the following powers and duties:

- Recommendation to the Board of Directors concerning the appointment of auditors;
- Definition and interpretation of accounting standards;
- Reviewing and putting together the annual and semi-annual reports and presenting them to the Board as a whole;
- Reviewing and structuring capital market transactions for submission to the Board as a whole;
- Overseeing the compliance with the SIX Swiss Exchange directives;
- Overseeing the work of the auditors;
- On the instructions of the Board of Directors, monitoring particular operational or financial matters of the Group;
- Recommendation to the Board of Directors concerning the financial and dividend policy of the Tornos Group;
- Reporting to the Board of Directors on the work of the Audit Committee.

During the 2014 financial year, article 9.1 of the Rules of Organization of Tornos Holding Ltd. relating to the composition of the Audit Committee was amended with effect from June 10, 2014. Under the said Rules, the Audit Committee now has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO have to be permanent invitees of the Committee with consultative votes, and, lastly, the CFO may be invited to participate, with a consultative vote, either fully or partly in the Committee, depending on the decisions of the CEO. If required, the auditor may participate with a consultative vote. The Committee meets as often as necessary, but at least once a year. With respect to decision, the rules also stipulate that in the event of an equally split vote on a decision, the Committee Chairman shall henceforth have the casting vote.

The Committee met seven times in 2014, including once via conference call. Meetings lasted two hours on average. Mr. Michael Hauser (CEO and permanent guest) and Mr. Luc Widmer (CFO and guest) attended all the meetings.

In particular, the following main topics were discussed:

- Review of the financial statements and annual report for 2013;
- Review of the Group auditor's report to the Audit Committee;
- Periodic review of the utilization of the authorized capital and the contingent capital of Tornos Holding Ltd.;
- Review of the financial plan 2014–2017;

- Periodic review of impairment tests and extraordinary amortization and depreciation relating to the strategic and operational reorientation of the Group;
- Periodic review of the Group's financing and lines of credit;
- Review of the intermediate financial statements on June 30 and the half-year report 2014;
- Review of the risk management map;
- Change from IFRS to Swiss GAAP FER accounting standards;
- Review of the internal control system of the Tornos Group;
- Review of the audit plan.

The Audit Committee also reviewed the quarterly financial results, the forecast for 2014 and the detailed budget for 2015. It reviewed the information to be released to the financial community prior to publication. It examined certain specific points related to financial, accounting and taxation issues, as well as the interpretation, adaptation and implementation of accounting standards for the Group, IFRS, Swiss GAAP FER and the SIX Swiss Exchange directives as they relate to the preparation and publication of the Group's financial statements. The Committee examined and followed up with numerous operational questions potentially having a significant impact on the Group's financial statement. It also assessed the performance of the auditors and its own work.

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

## Information and control methods for oversight of management

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

## **Members of General Management**

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

*No changes took place in General Management in 2014.*

## **Other activities and interest groups**

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

## **Management contracts**

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

## **Guidelines**

*The compensation paid to the members of the Board of Directors and General Management during the 2014 financial year is shown below. The Remuneration Report gives a complete picture of the principles and elements applied by the Tornos Group, and of the structure and responsibilities relating to compensation. It contains detailed information about the remuneration, shares and loans of the Board of Directors and General Management.*



# General Management

## **Michael Hauser (1961), Swiss, German**

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



## **Luc Widmer (1969), Swiss**

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



## **Bruno Allemand (1965), Swiss**

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



# Participation rights of shareholders

## Limitation and representation of voting rights

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

## Statutory quorum

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

- the modification of the purpose;
- the introduction of shares with privileged voting rights;
- the restriction of the transferability of registered shares;
- the restriction of the exercise of the right to vote and any modification to or waiver of such restriction;
- the increase in authorized or conditional share capital;

- the increase of the share capital through equity, against contribution in kind or for acquisition of assets and the granting of special rights;
- the limitation or waiver of preferential subscription rights;
- the transfer of the company's headquarters;
- the dissolution of the company.

## Convening General Meetings

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

## Entry of items on the agenda

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

## Entries in the share register

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



# Control and warding-off mechanisms

## **Obligation to submit an offer**

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

## **Takeover clauses**

*In the event of a takeover, the lock-in period stipulated for shares and options under the employee share option schemes will become null and void. There are no other clauses relating to takeovers in favor of members of the Board of Directors and members of General Management.*

# Auditors

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

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

*The auditors are appointed annually by the General Meeting of Shareholders. Mr. Olivier Kuntze, Chartered Public Accountant, is the auditor responsible since 2013. Every three to five years a call for tenders is issued to duly qualified accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading the assignment,*

*and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee, and by feedback from management on the way the audits are conducted. The same procedure applies to the evaluation of additional non-audit services supplied.*

## **Audit and additional fees**

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

<b>Fees in CHF</b>	<b>2014</b>	<b>2013</b>
Auditing	179'750.00	185'000.00
Other services	46'143.00	61'182.00

*Other services include legal and tax services.*

## **Means of receiving information from the external auditors**

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

*Committee as required. It is kept informed of the work of the Audit Committee by receiving a copy of the minutes. In 2014, the auditors attended one meeting of the Audit Committee and submitted two reports to the members of the Audit Committee and the members of the Board of Directors respectively. At the end of the year, the Audit Committee examines, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the holding and Group company together with the financial report.*

# Information and disclosure policy

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

***The French version of the annual report is definitive.***

## **Contact addresses**

*For enquiries relating to shareholders, investors and financial matters, please contact:*

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Phone +41 32 494 44 44  
Fax +41 32 494 49 04  
E-mail [investors@tornos.com](mailto:investors@tornos.com)

*For all other general enquiries, requests for information, etc., please contact:*

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**Tornos Holding Ltd., Moutier**

**Report of the statutory auditor  
to the General Meeting on the  
remuneration report 2014**

We have audited the accompanying remuneration report dated March 2, 2015 of Tornos Holding Ltd. for the year ended 31 December 2014.

**Board of Directors' responsibility**

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

**Auditor's responsibility**

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

*In our opinion, the remuneration report of Tornos Holding Ltd. for the year ended December 31, 2014 complies with Swiss law and articles 14–16 of the Ordinance.*

**PricewaterhouseCoopers SA**

A stylized, handwritten signature in black ink, consisting of several fluid, connected strokes.

Oliver Kuntze  
Audit expert  
Auditor in charge

A handwritten signature in black ink, featuring a prominent, looped initial 'Y' followed by several connected strokes.

Yves Tritten  
Audit expert

*Neuchâtel, March 2, 2015*

# Remuneration report

## Remuneration system

### Principles

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

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

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

### Remuneration of the members of the Board of Directors

The remuneration of the members of the Board of Directors is set annually by the Board of Directors on the basis of a proposal made by the Remuneration Committee. In this respect, the role played by the member concerned within the organization of the Board of Directors on the one hand, and their participation in the committees of the Board of Directors on the other, are of crucial importance. On this basis, and taking into account the experience of previous years with regard to the time

spent in meetings of the Board of Directors and committees, and on advisory and preparatory work, an estimate of the time spent is calculated for the various post holders, on the basis of which lump sum fees payable in cash are calculated.

The basis for calculating these lump sum fees is therefore an estimate of the time spent and a daily rate based on the fees charged by a consultant for similar services (senior strategy and management consultant). In addition to the fixed remuneration, members of the Board of Directors may be allocated options or shares as part of the shareholding plan. Members of the Board of Directors do not have the right to severance pay or any benefits relating to the termination of their mandate.

### Remuneration of the members of the General Management

The fixed remuneration paid to members of the General Management is determined annually with reference to the Towers Watson Data Services survey of the salaries of Swiss managers ("Compensation Report Switzerland") on the one hand; however, contractual matters are withheld. On the other, the individual performance of the person concerned is evaluated by the Nomination and Compensation Committee. That committee sets the remuneration of each member of the General Management and informs the Board of Directors of its decisions. The variable components are factored in when determining the fixed remuneration.



ation. Variable remuneration is dependent on profitability criteria and on the achievement of annual individual qualitative and quantitative targets by the person concerned. The applicable financial criteria for the members of the General Management are the EBIT margin and new orders. Depending on the position in question, part of the variable remuneration may be linked to specific financial or non-financial targets. On average, variable remuneration ranges between 20% and 25% of the fixed salary. However, it may be twice as high and reach nearly 55% of the fixed remuneration if the individual targets are significantly exceeded, the EBIT margin is 12% or more, or new orders exceed the target by 20% or more.

Until October 14, 2014 the CEO and CFO benefited from a contractual clause that provides for a one-off severance allowance to be paid only in the event of the employer terminating the contract for reasons other than termination of the employment relationship without notice pursuant to article 337 of the Code of Obligations. This contractual clause that provides for a one-off severance allowance was voided due to the Ordinance against Excessive Compensation in Listed Stock Companies Limited by Shares. They have twelve-month notice period. There is no such clause that provides for a one-off severance allowance for the other members of the General Management. They have six-month notice period.

#### **Validation of "Management and Board Participation Plan 2007 (MBP 07)"**

The remuneration for shares acquired is based on the number of shares acquired multiplied by the difference of the actual market price of the share minus a discount of 11% for the vesting period, and the acquisition price paid by the management. The purchasing price is the weighted average price paid at SIX Swiss Exchange 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.

The remuneration through options acquired is based on the number of options granted free of charge multiplied by the fair value of the option. The fair value of the option is estimated applying the Black-Scholes valuation model. The options are vested for two years and can only be exercised during the third year following the acquisition of the options.

## Remuneration paid to the Board of Directors in 2014

### Overview of functions

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

	Board of Directors			Remuneration Committee		Audit Committee	
	Chairman	Vice-Chairman	Member	Chairman	Member	Chairman	Member
François Frôté							
Frank Brinken							
Michel Rollier							
Walter Fust							
Claude Elsen*							
Philippe Maquelin*							

\* Messrs. Claude Elsen and Philippe Maquelin resigned with effect as of the Ordinary General Meeting 2014.

### Remuneration

	Remuneration fixed	Other remuneration	Total remuneration	Shares (acquired)	Stock options (granted)	Total remuneration
Figures in KCHF						
François Frôté	172	10	182	20	0	202
Frank Brinken	80	5	85	20	0	105
Michel Rollier	80	5	85	0	17	102
Walter Fust	57	4	61	0	0	61
<b>Current Board of Directors</b>	<b>389</b>	<b>24</b>	<b>413</b>	<b>40</b>	<b>17</b>	<b>470</b>
Claude Elsen*	23	1	24	0	17	41
Philippe Maquelin*	41	2	43	0	17	60
Raymond Stauffer**	0	0	0	0	5	5
<b>Total Board of Directors</b>	<b>453</b>	<b>27</b>	<b>480</b>	<b>40</b>	<b>56</b>	<b>576</b>

\* Messrs. Claude Elsen and Philippe Maquelin resigned with effect as of the Ordinary General Meeting 2014.

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

Other remuneration comprises payments made in respect of social security contributions. Shares and options on shares were allocated within the framework of the company's option and stock purchasing program in 2014 and may not be exercised until April 30, 2016.

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

In 2014 Members of the Board of Directors acquired 16'000 shares at an acquisition price of CHF 3.60 per share with a remuneration benefit of CHF 2.54 per share and they were granted 8'000 options with a fair value of CHF 2.10. Former Members of the Board of Directors were granted 18'323 options with the same fair value.

## Remuneration paid to the Board of Directors in 2013

### Overview of functions

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

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

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

### Remuneration

	Remuneration	Other	Total	Shares	Stock options	Total
Figures in KCHF	fixed	remuneration	remuneration	(acquired)	(granted)	remuneration
François Frôté	200	26	226	0	4	230
Claude Elsen	80	11	91	0	4	95
Philippe Maquelin	140	18	158	0	4	162
Michel Rollier	80	11	91	0	4	95
Frank Brinken	80	11	91	0	4	95
<b>Current Board of Directors</b>	<b>580</b>	<b>77</b>	<b>657</b>	<b>0</b>	<b>20</b>	<b>677</b>
Raymond Stauffer*	27	4	31	0	4	35
<b>Total Board of Directors</b>	<b>607</b>	<b>81</b>	<b>688</b>	<b>0</b>	<b>24</b>	<b>712</b>

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

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

In 2013 members of the Board of Directors did not acquire shares and were granted 40'000 options with a fair value of CHF 0.46. A former member of the Board of Directors was granted 8'000 options with the same fair value.

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



## Remuneration paid to members of the General Management in 2014

*The remuneration paid to the members of the General Management during the financial year under review came to CHF 1.3 million. These remuneration figures are the amounts booked during the period under review, although the variable cash remuneration will not be paid until May 2015.*

	Remuneration	Remuneration	Other	Total	Shares	Stock	Total
Figures in KCHF	fixed	variable	remuneration	remuneration	(acquired)	options (granted)	remuneration
Michael Hauser (CEO)	536	0	96	632	25	42	699
Other members of General Management	508	87	104	699	76	42	817
<b>Total General Management</b>	<b>1'044</b>	<b>87</b>	<b>200</b>	<b>1'331</b>	<b>101</b>	<b>84</b>	<b>1'516</b>

*Other remuneration comprises payments made in respect of retirement pensions and social security contributions. Shares and options on shares were allocated within the framework of the company's option and stock purchasing program in 2014 and may not be exercised until April 30, 2016.*

*In 2014 members of the General Management acquired 40'000 shares at an acquisition price of CHF 3.60 per share with a remuneration benefit of CHF 2.54 per share and they were granted 40'000 options with a fair value of CHF 2.10.*

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

## Remuneration paid to members of the General Management in 2013

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

during the period under review, although the variable cash remuneration was only paid in May 2014.

	Remuneration fixed	Remuneration variable	Other remuneration	Total remuneration	Shares (acquired)	Stock options (granted)	Total remuneration
Figures in KCHF							
Michael Hauser (CEO)	573	0	104	677	0	14	691
Other members of General Management	366	0	70	436	0	0	436
<b>Current General Management</b>	<b>939</b>	<b>0</b>	<b>174</b>	<b>1'113</b>	<b>0</b>	<b>14</b>	<b>1'127</b>
Former members of General Management	1'465	51	285	1'801	0	24	1'825
<b>Total General Management</b>	<b>2'404</b>	<b>51</b>	<b>459</b>	<b>2'914</b>	<b>0</b>	<b>38</b>	<b>2'952</b>

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

In 2013 members of the General Management did not acquire shares and were granted 30'000 options with a fair value of CHF 0.46. Former members of the General Management were granted 52'917 options with the same fair value.

## Comparison between approved and paid remuneration in 2014

Figures in KCHF

	Approved by the General Assembly 2014				Remuneration paid in 2014				
	Remuneration	Remuneration	Total	Number	Remuneration	Remuneration	Other	Total	Number
	fixed	variable	remuneration	of participation rights	fixed	variable	remuneration	remuneration	of participation rights
Board of Directors	654	0	654	40'000	389	0	24	413	24'000
General Management	1'287	602	1'889	80'000	1'044	87	200	1'331	80'000

According to art. 9 lit. 9 of the Articles of Incorporation of Tornos Holding Ltd. the General Assembly of Shareholders has, prospectively for the period up to the next General Assembly of Shareholders, approved the maximum remuneration for the Board of Directors of CHF 0.7 million and of CHF 1.9 million for the General Management. In addition it approved the grant of a maximum of 40'000 options or shares in the context of the company's Management and Board Participation Plan 2007 to members of the Board of Directors and of 80'000 options or shares to members of the Group Management.

Actual remunerations paid to the Board of Directors and the Group Management were within the approved amounts as well as the number of options and shares granted to the Board of Directors and the Group Management respected the approved maximum number.

The company did not pay any remuneration made available through art. 30 of the Articles of Incorporation.



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

	Number at 31.12.2014		Number at 31.12.2013	
	Shares	Options	Shares	Options
François Frôté	198'567	16'000	190'567	16'000
Frank Brinken	17'000	8'000	9'000	8'000
Michel Rollier	2'853'733	16'000	2'853'733	8'000
Walter Fust**	8'950'955	0		0
Claude Elsen*	55'218	24'000	55'218	16'000
Philippe Maquelin*	27'214	31'333	59'975	53'333
Raymond Stauffer**	-	-	457'933	23'333
<b>Total Board of Directors</b>	<b>12'102'687</b>	<b>95'333</b>	<b>3'626'426</b>	<b>124'666</b>
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
<b>Total General Management</b>	<b>41'000</b>	<b>99'000</b>	<b>1'000</b>	<b>59'000</b>

\* 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.



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