

TORNOS

Annual Report 2017

Tornos Group

Key Figures

| In CHF 1'000* | 2017 | 2016 | Difference | Difference in % |
|--|-------------------|-------------------|------------|-----------------|
| Order intake | 207'025 | 133'494 | 73'531 | 55.1% |
| Net sales | 178'758 | 136'169 | 42'589 | 31.3% |
| EBITDA | 12'856 | -323 | 13'179 | n/a |
| <i>in % of net sales</i> | 7.2% | -0.2% | | |
| EBIT | 9'498 | -2'987 | 12'485 | n/a |
| <i>in % of net sales</i> | 5.3% | -2.2% | | |
| Net result | 8'249 | -3'604 | 11'853 | n/a |
| <i>in % of net sales</i> | 4.6% | -2.6% | | |
| Cash flow from operating activities | 32'439 | -14'206 | 46'645 | n/a |
| Cash flow from investing activities | -4'044 | -1'425 | -2'619 | n/a |
| Free cash flow | 28'395 | -15'631 | 44'026 | n/a |
| | 31.12.2017 | 31.12.2016 | | |
| Net cash | 23'428 | -4'765 | 28'193 | n/a |
| Total equity | 90'240 | 80'352 | 9'888 | 12.3% |
| <i>in % of total balance sheet</i> | 63.0% | 62.6% | | |
| Total balance sheet | 143'310 | 128'283 | 15'027 | 11.7% |
| Employees (full-time equivalents)** | 668 | 631 | 37 | 5.9% |

* Unless otherwise stated

** Without apprentices

Annual Report 2017

Tornos Group

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Financial Review & Management Report

The world economy staged a fundamental recovery in 2017, and demand for high-value capital goods increased significantly. The Tornos Group experienced a marked revival in nearly all of its target markets during the reporting year. This was at its most pronounced in the automotive market segment. In the medical and dental technology sectors, too, the upswing was already evident early in the year, with demand from the watchmaking industry likewise recovering towards the end of last year.

In addition, the Swiss export sector benefited from the weakening of the Swiss franc – particularly against the euro – in the fourth quarter of 2017. The corresponding effects should be even more visible in 2018.

The Tornos Group was exceptionally successful at exploiting the positive trend in overall economic conditions in the year under review: there was a significant improvement in all key figures. This was due to the systematic implementation of the corporate strategy and the associated major drive to improve the profitability of the Tornos Group in recent years: Tornos now boasts an almost entirely revised product portfolio, innovative customer solutions and a newly structured, leading-edge customer service portfolio. Its production sites are internationally focused, and its cost structure significantly more flexible than in previous years.

Order intake and backlog

At CHF 207.0 million, order intake for the Tornos Group in the 2017 financial year was 55.1% above the CHF 133.5 million figure for the previous year. New orders were evenly distributed between the two halves of the year under review, at CHF 103.2 million in the first half and CHF 103.8 million in the second half.

After machinery sales in the higher-price segment of Tornos' target markets had suffered from a very sluggish investment climate in 2016, demand for these products rose markedly in 2017. Order intake for machines produced by Tornos in Moutier (Switzerland) rose disproportionately strongly in 2017. In the medium-price category too, Tornos significantly exceeded the already impressive figure for the previous year. Around half of the machines sold by Tornos were manufactured in Asia.

The automotive industry was once again the most important market segment for Tornos in 2017: the Group generated 45.0% of its order intake (previous year: 28.5%) in this segment. Medical and dental technology accounted for an 18.0% share of Tornos' order intake (previous year: 13.7%). Although Tornos sold more machines than in the previous year in the electronic market segment too, the percentage share of this market segment declined from 12.7% to 7.5%. The percentage share of the watchmaking industry market segment fell from 11.5% to 3.9% in the year under review. The remaining 25.6% (previous year: 33.6%) came from sub-suppliers ("job shops"), which supply parts to the four industries mentioned above, and from smaller industries such as aviation or pneumatics/hydraulics.

At CHF 63.6 million, the Tornos Group's order backlog at the end of the financial year was 109.2% above the figure for the previous year (December 31, 2016: CHF 30.4 million).

Net sales

The Tornos Group improved its net sales in the year under review by 31.3%, from CHF 136.2 million in 2016 to CHF 178.8 million (+ CHF 42.6 million, or + CHF 40.8 million after adjusting for exchange rates). Sales increased across all Tornos machinery ranges. Tornos more than doubled sales of its multi-spindle machines in the year under review compared with 2016. As well as the smaller MultiSwiss machines offered since 2011, the multispindle machines – which have a larger workpiece diameter and were launched at the end of 2016 – enjoyed particularly strong demand in the market. However, Tornos also posted a year-on-year rise in sales of the higher-price Swiss-type automatic lathes (single-spindle) that are manufactured in Moutier. Sales of Swiss-type automatic lathes in the mid-price segment were also highly encouraging: after an already good sales figure in 2016, Tornos once again generated significant growth in sales of these products in 2017.

Compared with the previous year, Tornos increased net sales in all regions: by 34% in Europe, 28% in the Americas and 22% in Asia (including rest of the world). Overall, the net sales of the Tornos Group break down as follows across the different regions: Switzerland 20.2%, rest of Europe 55.0%, Americas 10.0%, Asia (including remaining regions) 14.8%.

In the service and spare parts business, Tornos generated net sales of CHF 40.5 million in 2017 (previous year: CHF 40.4 million).

Gross profit

In the year under review, the Tornos Group generated gross profit of CHF 61.9 million (previous year: CHF 44.5 million). The positive difference of CHF 17.4 million is largely (CHF 13.9 million) attributable to

higher sales volumes. At CHF 3.5 million, the improved margin contributed to the rise in gross profit. This increase was due to the greater proportion of machinery in the higher-price market segment, efficiency improvements and higher average prices. The gross profit margin rose accordingly by 1.9 percentage points from 32.7% to 34.6%.

Operating expenses

The operating expenses of the Tornos Group increased by CHF 5.1 million in 2017 to CHF 53.7 million (previous year: CHF 48.6 million). Marketing and sales expenses rose by CHF 2.4 million due to more extensive sales activities, while research and development costs were up CHF 2.6 million. General and administrative expenses showed a slight increase of CHF 0.4 million. On the other hand, the Tornos Group recorded a gain of CHF 0.4 million from the sale of patents no longer required for operations.

The previous year's sales and operating expense figures were restated. Further details are available in note 2.2.1 on page 13 of this Annual Report.

Research and development

Spending on research and development rose to CHF 10.4 million in 2017 (2016: CHF 7.8 million). This was firstly due to the ramping-up of development work aimed at ensuring constant innovation of the machine program and secondly to further development of machine control systems in the context of Industry 4.0. In addition, Tornos is developing a new Swiss-type automatic lathe in the higher-price segment.

Sale of property surplus to operational requirements

In the reporting year, Tornos sold property surplus to operational requirements for a sum amounting to CHF 3.1 million. This resulted in a gain of CHF 1.4 million in 2017.

EBITDA and EBIT

Earnings before financial expenses, tax, depreciation and amortization (EBITDA) came to CHF 12.9 million for 2017 (previous year: CHF -0.3 million). Earnings before financial expenses and tax (EBIT) amounted to CHF 9.5 million (previous year: CHF -3.0 million). This resulted in an EBIT margin of 5.3% (previous year: -2.2%) and an improvement of CHF 12.5 million versus the previous year (+ CHF 11.8 million after adjusting for exchange rates).

Financial result

Tornos generated net financial income of CHF -0.8 million in the 2017 financial year (previous year: CHF -0.3 million). Interest expenses were on a par with the previous year. Currency effects, particularly in relation to the US dollar, had a negative impact of CHF 0.2 million in the year under review; this compares with a positive effect of CHF 0.3 million in the previous year.

Net result

After deducting income tax of CHF 0.4 million, the net result came to CHF 8.2 million (previous year: CHF -3.6 million). The net result therefore improved by CHF 11.8 million compared with the previous year. The margin was 4.6% (previous year: -2.6%).

Balance sheet

Compared with the previous year, the balance sheet total grew by CHF 15.0 million to CHF 143.3 million as at December 31, 2017.

On the assets side, cash and cash equivalents grew by CHF 14.1 million to CHF 23.7 million, in particular thanks to a marked reduction in net working

capital. Trade receivables increased slightly due to the rise in sales. Inventories were also up as a result of the higher sales. Other receivables and prepaid expenses fell by CHF 4.3 million compared with the end of 2016.

Property, plant and equipment were CHF 2.2 million higher at the end of 2017 than at the end of the previous year. The sale of a property (CHF -1.7 million) was offset by investment (CHF 4.3 million) in the Tour Bechler (Bechler Tower) and Usine Junker (Junker Factory), both of which are surplus to operational requirements, in the renewal of machinery (CHF 1.2 million) and other equipment (CHF 1.3 million).

On the liabilities side, Tornos was able to reduce current financial liabilities by CHF 14.0 million following full repayment of the loan to the principal shareholders. Trade payables grew by CHF 8.8 million as a result of the significantly higher volume of business. Other liabilities also rose massively due to higher customer prepayments. Accrued liabilities and current provisions increased by CHF 1.6 million; under non-current liabilities, provision for pension obligations decreased by CHF 0.8 million and non-current provisions by CHF 0.4 million.

Net working capital fell by CHF 22.8 million to CHF 46.9 million at the end of 2017. Improvements in inventory management, together with rigorous management of accounts receivable, made a significant contribution to this massive improvement. On the other hand, customer prepayments increased by CHF 9.1 million versus the previous year. The net working capital ratio was 26.2% (December 31, 2016: 50.0%).

On December 31, 2017, net cash stood at CHF 23.4 million (December 31, 2016: CHF -4.8 million).

Shareholders' equity was CHF 90.2 million on December 31, 2017 (December 31, 2016: CHF 80.4 million), with minority interests accounting for CHF 0.4 million (December 31, 2016: CHF 0.7 million). The equity ratio increased by 0.4 percentage points to 63.0%.

Cash flow

Liquidity developed very favorably. For the 2017 financial year, the Tornos Group posted free cash flow of CHF 28.4 million (previous year: CHF -15.6 million). This significant cash inflow was attributable to the massive reduction in net working capital by CHF -22.8 million. The latter had increased by CHF 13.5 million in the previous year. Together with the net profit of CHF 8.2 million and other factors, this gives a cash flow from operating activities of CHF 32.4 million (previous year: CHF -14.2 million).

Tornos spent a net CHF 4.0 million on investing activities in 2017 (previous year: CHF 1.4 million).

The sale of a property for CHF 3.1 million was offset by investment in property surplus to operational requirements, machinery and computer hardware of CHF 6.7 million as well as intangible assets (CHF 0.6 million).

The free cash flow of CHF 28.4 million was partly used to repay the remainder of the shareholder loan of CHF 14.0 million. This left net cash flow of CHF 14.1 million at the end of the 2017 financial year (previous year: CHF -11.0 million).

Risk management

The Tornos Group maintains a comprehensive risk assessment system that covers both strategic and operational risks. Further details may be found on pages 21 and 22 of this Annual Report.

Foreign currency translation

The most significant exchange rates against the Swiss franc for the Group in the period under review are shown in the table below.

| Currency | Average rate | | Closing rate | |
|----------|-----------------|-----------------|--------------|------------|
| | 1.1.-31.12.2017 | 1.1.-31.12.2016 | 31.12.2017 | 31.12.2016 |
| 1 EUR | 1.1119 | 1.0899 | 1.1690 | 1.0729 |
| 1 USD | 0.9845 | 0.9853 | 0.9744 | 1.0201 |
| 1 GBP | 1.2686 | 1.3353 | 1.3168 | 1.2586 |
| 1 CNY | 0.1457 | 0.1484 | 0.1497 | 0.1469 |

Employees

On December 31, 2017, Tornos employed 668 people (full-time equivalents) and 40 apprentices. At the end of 2016, it had 631 employees and 41 apprentices. Headcount was increased at the headquarters in Moutier, where Tornos hired temporary staff to deal with the high workload in the fourth quarter. Tornos also took on new employees to handle assembly work in its own premises at the production site in Taiwan.

The average number of employees during the reporting year was 644 (2016: 638).

The employees of the Tornos Group are satisfied with their working conditions and value the commitment shown by their employer in this respect. These were the findings of an employee survey conducted in 2016. Tornos will carry out the next such survey in 2019.

Outlook

The Tornos Group began the new year with full order books, and the strong demand for innovative, high-quality products from Tornos continues in all target markets. The Tornos Group's employees at all sites are tasked with delivering the numerous orders on time and to Tornos' uncompromising standards. At the present time, Tornos is expecting the business to do better in 2018 than in the previous year.

Consolidated Income Statement

Tornos Group

| In CHF 1'000 | Notes | 2017 | 2016 |
|---|-----------|----------------|----------------|
| | | | restated |
| Net sales | 29 | 178'758 | 136'169 |
| Cost of sales | 6 | -116'884 | -91'685 |
| Gross profit | | 61'874 | 44'484 |
| <i>in % net sales</i> | | 34.6% | 32.7% |
| Marketing and sales | 6 | -27'296 | -24'908 |
| General and administrative expenses | 6 | -16'405 | -15'981 |
| Research and development | 6 | -10'381 | -7'780 |
| Other income - net | 8 | 352 | 91 |
| Operating expenses | | -53'730 | -48'578 |
| Operating result | | 8'144 | -4'094 |
| <i>in % net sales</i> | | 4.6% | -3.0% |
| Financial income | 9 | 5 | 13 |
| Financial expense | 9 | -586 | -610 |
| Exchange result, net | 10 | -221 | 286 |
| Ordinary result | | 7'342 | -4'405 |
| Non-operating result | 11 | 1'354 | 1'107 |
| Earnings before income taxes | | 8'696 | -3'298 |
| Income taxes | 12 | -447 | -306 |
| Net result | | 8'249 | -3'604 |
| <i>in % net sales</i> | | 4.6% | -2.6% |
| Thereof attributable to shareholders of Tornos Holding Ltd. | | 8'493 | -3'553 |
| Thereof attributable to minority interests | | -244 | -51 |
| Result per share | 28 | | |
| - basic (CHF per share) | | 0.45 | -0.19 |
| - diluted (CHF per share) | | 0.44 | -0.19 |
| Additional information (in CHF 1'000) | | | |
| EBITDA | | 12'856 | -323 |
| <i>in % net sales</i> | | 7.2% | -0.2% |
| Depreciation and amortization | 6 | -3'358 | -2'664 |
| EBIT | | 9'498 | -2'987 |
| <i>in % net sales</i> | | 5.3% | -2.2% |

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

Consolidated Balance Sheet

Tornos Group

| In CHF '000 | Notes | 31.12.2017 | in % | 31.12.2016 | in % |
|---|-------|----------------|--------|----------------|--------|
| ASSETS | | | | | |
| Cash and cash equivalents | 13 | 23'664 | | 9'601 | |
| Trade receivables | 14 | 20'545 | | 18'726 | |
| Inventories, net | 15 | 68'197 | | 67'049 | |
| Other short-term receivables | 16 | 3'724 | | 6'132 | |
| Prepayments and accrued income | 17 | 1'128 | | 3'058 | |
| Total current assets | | 117'258 | 81.8% | 104'566 | 81.5% |
| Property, plant and equipment | 18 | 24'853 | | 22'618 | |
| Intangible assets | 19 | 728 | | 707 | |
| Deferred tax assets | 20 | 471 | | 392 | |
| Total non-current assets | | 26'052 | 18.2% | 23'717 | 18.5% |
| Total assets | | 143'310 | 100.0% | 128'283 | 100.0% |
| LIABILITIES AND EQUITY | | | | | |
| Interest bearing borrowings | 21 | 70 | | 14'085 | |
| Trade payables | | 24'304 | | 15'483 | |
| Current tax liabilities | | 203 | | 103 | |
| Other liabilities | 22 | 15'220 | | 5'278 | |
| Accrued liabilities and deferred income | 23 | 6'961 | | 6'030 | |
| Provisions | 24 | 3'325 | | 2'644 | |
| Total current liabilities | | 50'083 | 34.9% | 43'623 | 34.0% |
| Interest bearing borrowings | 21 | 166 | | 281 | |
| Retirement benefit obligations | 25 | 2'599 | | 3'364 | |
| Provisions | 24 | 220 | | 653 | |
| Deferred tax liabilities | 20 | 2 | | 10 | |
| Total non-current liabilities | | 2'987 | 2.1% | 4'308 | 3.4% |
| Total liabilities | | 53'070 | 37.0% | 47'931 | 37.4% |
| Share capital | 26 | 89'450 | | 89'450 | |
| Capital reserve | | 28'814 | | 28'814 | |
| Treasury shares | | -5'452 | | -6'345 | |
| Retained earnings | | -31'195 | | -27'542 | |
| Currency translation adjustments | | -283 | | -1'124 | |
| Net result | | 8'493 | | -3'553 | |
| Equity attributable to shareholders of Tornos Holding Ltd. | | 89'827 | | 79'700 | |
| Minority interests | | 413 | | 652 | |
| Total equity | | 90'240 | 63.0% | 80'352 | 62.6% |
| Total liabilities and equity | | 143'310 | 100.0% | 128'283 | 100.0% |

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

Consolidated Statement of Changes in Equity

Tornos Group

| In CHF 1'000 | Share capital | Capital reserve | Treasury shares | Retained earnings | Currency translation adjustments | Total attributable to shareholders of Tornos Holding Ltd. | Minority interests | Equity |
|---------------------------------------|---------------|-----------------|-----------------|-------------------|----------------------------------|---|--------------------|---------------|
| As per | | | | | | | | |
| December 31, 2015 | 89'450 | 28'814 | -6'734 | -27'485 | -666 | 83'379 | 732 | 84'111 |
| Net result | | | | -3'553 | | -3'553 | -51 | -3'604 |
| Currency translation adjustments | | | | | -458 | -458 | -29 | -487 |
| Proceeds from sale of treasury shares | | | 389 | -251 | | 138 | | 138 |
| Share-based compensation | | | | 194 | | 194 | | 194 |
| As per | | | | | | | | |
| December 31, 2016 | 89'450 | 28'814 | -6'345 | -31'095 | -1'124 | 79'700 | 652 | 80'352 |
| Net result | | | | 8'493 | | 8'493 | -244 | 8'249 |
| Currency translation adjustments | | | | | 841 | 841 | 5 | 846 |
| Proceeds from sale of treasury shares | | | 893 | -567 | | 326 | | 326 |
| Share-based compensation | | | | 467 | | 467 | | 467 |
| As per | | | | | | | | |
| December 31, 2017 | 89'450 | 28'814 | -5'452 | -22'702 | -283 | 89'827 | 413 | 90'240 |

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

Consolidated Statement of Cash Flows

Tornos Group

| In CHF 1'000 | Notes | 2017 | 2016 |
|---|-------|----------------|----------------|
| Net result | | 8'249 | -3'604 |
| Adjustments for expenses and incomes not affecting cash: | | | |
| Income taxes | 12 | 447 | 306 |
| Depreciation of property, plant and equipment | 18 | 2'767 | 2'235 |
| Amortization of intangible assets | 19 | 591 | 429 |
| Result on disposal of property, plant and equipment | 8, 11 | -1'339 | -1'107 |
| Share-based compensation | 27 | 467 | 194 |
| Retirement benefits obligations | 25 | -722 | -2'407 |
| Allowance and write-offs on inventories | 15 | -766 | 3'120 |
| Other non cash items | | -27 | -18 |
| Changes in Net Working Capital | | 22'811 | -13'500 |
| <i>Thereof trade receivables</i> | | -1'922 | 4'550 |
| <i>Thereof other assets and prepayments</i> | | 3'677 | -268 |
| <i>Thereof inventories</i> | | -346 | -5'917 |
| <i>Thereof trade payables</i> | | 9'428 | -9'604 |
| <i>Thereof other current liabilities and provisions</i> | | 11'974 | -2'261 |
| Interest expense | 9 | 368 | 418 |
| Interest income | 9 | -5 | -13 |
| Income taxes paid | | -402 | -259 |
| Cash flow from operating activities | | 32'439 | -14'206 |
| Investment in property, plant and equipment | 18 | -6'620 | -2'762 |
| Disposal of property, plant and equipment | 18 | 3'182 | 1'677 |
| Investment in intangible assets | 19 | -611 | -353 |
| Interests and dividends received | 9 | 5 | 13 |
| Cash flow from investing activities | | -4'044 | -1'425 |
| Free Cash flow | | 28'395 | -15'631 |
| Repayments of borrowings, including finance lease liabilities | 21 | -14'296 | -74 |
| Proceeds from borrowings | 21 | - | 5'000 |
| Proceeds from sale of treasury shares | 26 | 326 | 138 |
| Interest paid | 9 | -368 | -418 |
| Cash flow from financing activities | | -14'338 | 4'646 |
| Net cash flow | | 14'057 | -10'985 |
| Cash and cash equivalents and bank overdrafts at beginning of year | | 9'601 | 20'608 |
| Effects of exchange rate changes | | 6 | -22 |
| Cash and cash equivalents and bank overdrafts at end of year | | 23'664 | 9'601 |

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

Notes to the Consolidated Financial Statements

Tornos Group

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

1 Activity and Group structure

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

These consolidated financial statements have been approved for issue by the Board of Directors on February 27, 2018. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 11, 2018.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and have been applied in a manner consistent to all the years presented. The consolidated financial statements are based on the financial statements of the Tornos Group Companies for the year ended 31 December, prepared in accordance with uniform corporate accounting principles.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the entire existing accounting principles of Swiss GAAP FER (Generally Accepted Accounting Principle FER) and comply with the provisions of the listing rules of the SIX Swiss Exchange and with the Swiss law. The consolidated financial statements are prepared under the historical cost convention with the exception that, as disclosed in the accounting policies below, certain items, including securities and derivatives are shown at fair value. All amounts set out in the consolidated financial statements are presented in Swiss francs (CHF) rounded to the nearest thousand (KCHF) unless otherwise stated.

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

2.2 Change in accounting policies

On January 1 2017, following the changes and updates performed in Tornos' ERP-System, the Group has reviewed the presentation of its income statement based on the activity-based costing method. This analysis also comprised the allocation of the costs to the various profit and loss items. Based on the review, the Group came to the conclusion, that some expenses are more accurately presented within its structure costs and no longer within the gross profit as in previous periods. The Group is convinced that the newly adopted presentation provides a more accurate presentation of its gross profit and operating expenses.

As a result, the effects of the provision for obsolescence on show-room machines attributed to the marketing and sales functions as well as the obsolescence on machines belonging to the R&D functions have been allocated to the demanding cost functions in the income statement. Furthermore, the cost centre related to warehousing activities of the service department has been attributed to the marketing and sales functions under the structural costs. On the other hand, transport costs have been reallocated to the gross profit. These realignments resulted in a decrease in Cost of sales by CHF 3.8 million, an increase in Marketing and sales and R&D of CHF 3.1 million and CHF 0.8 million, respectively. However, operating result and the net result as well as the cash flow statement remained unchanged.

Since financial statements must be presented in a consistent way and show meaningful comparative figures, the prior year figures have been restated accordingly (refer to note 2.2.1).

2.2.1 Impact of the change in accounting presentation

This change in presentation has only an impact on the presentation of the income statement of the Group and is as follows:

| Consolidated Income Statement | 2016 | Change in accounting policy & presentation | 2016 <small>restated</small> |
|-------------------------------------|----------------|--|---------------------------------|
| Net sales | 136'169 | | 136'169 |
| Cost of sales | -95'528 | 3'843 | -91'685 |
| Gross profit | 40'641 | 3'843 | 44'484 |
| <i>in % net sales</i> | <i>29.8%</i> | | <i>32.7%</i> |
| Marketing and sales | -21'845 | -3'063 | -24'908 |
| General and administrative expenses | -15'981 | | -15'981 |
| Research and development | -7'000 | -780 | -7'780 |
| Other income - net | 91 | | 91 |
| Operating expenses | -44'735 | -3'843 | -48'578 |
| Operating result | -4'094 | - | -4'094 |
| <i>in % net sales</i> | <i>-3.0%</i> | | <i>-3.0%</i> |

This change has no impact on the presentation of the expenses by nature.

2.3 Consolidation

2.3.1 Subsidiaries

Subsidiaries are all entities over which Tornos Holding Ltd. has control. Tornos controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Tornos, whereby assets, liabilities, income and expenses are incorporated in the consolidated accounts. They are deconsolidated from the date that control ceases. The net assets acquired are valued at actual values and consolidated applying the purchase method. Previously not capitalized intangible assets are not valued and not recognized. Any minority interest is disclosed separately.

A listing of Tornos subsidiaries is set out in note 5.

2.3.2 Balances and transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Capital consolidation is based on the acquisition method, whereby the acquisition cost of a subsidiary is eliminated at the time of acquisition against the fair value of net assets acquired, determined according to uniform corporate accounting principles.

2.4 Foreign currencies

2.4.1 Functional and presentation currency

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

2.4.2 Foreign currency transactions

Transactions in foreign currencies are translated into CHF at the foreign exchange rate ruling at the date of the transaction or valuations where items are re-measured. Assets and liabilities denominated in foreign currencies at the balance sheet date are translated to CHF at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

2.4.3 Financial statements of foreign operations

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

2.5 Revenue recognition

Revenues include sales of machines and spare parts on one side and services which can be directly charged to customers on the other side. Sales are recognised on the full completion of the delivery or service (upon delivery of products or customer acceptance in the case of "bill and hold" sales, or performance of services), net of sales taxes and discounts, and after eliminating sales within the Tornos Group. Sales are recognized if it is probable that the economic benefit will flow to the Group and the amount can be reliably estimated. Net sales represent total revenues net of rebates and discounts granted after billing.

2.6 Cash and cash equivalents

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

2.7 Trade and other short-term receivables

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

2.8 Derivative financial instruments

Derivative financial instruments are financial assets or liabilities whose value is primarily impacted by the price of one or several underlying basic values, which compared to a direct purchase of an underlying basic values does only require a minor initial investment and which will only be settled in the future. Derivatives are recognised in the balance sheet as soon as they fulfil the definition of an asset or a liability and are valued at actual values for derivatives without hedging purposes or disclosed in the notes for cash flow hedges. Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the assets and settle the liability simultaneously.

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

2.9 Inventories

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

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

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

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

2.10 Property, plant and equipment

2.10.1 Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses, if any (refer to note 2.12). Investment properties are held at cost less depreciation.

2.10.2 Subsequent expenditure

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

2.10.3 Leased assets

Leases with terms for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation and impairment losses, if any (refer to note 2.12).

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

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

2.10.4 Depreciation

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

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

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

Assets acquired under finance leases are depreciated over the useful life of the asset.

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

2.11 Intangible assets

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

2.11.1 Development costs

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

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

2.11.2 Purchased patents and know-how

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

2.12 Impairment of assets

Tangible and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount, being the higher of the asset's net selling price and value in use, is estimated. The carrying amounts of the Group's other assets, other than inventories (refer to note 2.9), deferred tax assets (refer to note 2.13), are reviewed at each balance sheet date to determine whether there is any indication of impairment. For tangible and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.13 Current and deferred income taxes

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

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

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

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

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

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

Any other tax balances other than on income are recognised under the other short-term receivables or under other liabilities.

2.14 Trade payables and other liabilities

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

2.15 Retirement benefit obligations

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

The economical impact of the employee benefit plans is assessed each year. Surpluses or deficits are determined by means of the annual statements of the particular benefit plan, which are based either on Swiss GAAP FER 26 for Swiss plans or on accepted methods in each foreign country for foreign plans. An economical benefit is capitalized if the surplus is used to reduce the employer contributions and in case this is allowed under the relevant law and intended by the Group. An economical obligation is recognized as a liability if the accounting conditions for a liability are met. They are reported under "Retirement benefit obligations". Changes in the economical benefit or economical obligation, as well as the contributions incurred of the period, are recognised in "Personnel expenses" in the income statement.

2.16 Provisions

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

2.17 Contingent liabilities

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

2.18 Interest bearing borrowings

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

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

Interest bearing borrowings are classified on the balance sheet pursuant to the maturity date either under current (due within 12 months after the balance sheet date) or non-current liabilities (beyond 12 months).

2.19 Share-based compensation

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

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

2.20 Treasury shares

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

3 Financial risk management

3.1 Risk assessment

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

3.2 Financial risk factors

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

3.3 Market risks

3.3.1 Currency risks

Tornos Ltd., the Swiss operating company of the Group invoices its revenues to the subsidiaries and to customers located outside Switzerland in local currencies, mainly EUR and USD. Therefore, the currency risk remains with the Swiss operating company. Tornos Ltd. converts the offer in those currencies at an exchange rate which is decided internally. An offer is only valid for 90 days, and only if the exchange rate between CHF and the other currency fluctuates by less than 5%. If parity is stable no foreign exchange contracts are entered into. If a change in the valuation of the CHF is expected a review of the risk is done and appropriate foreign exchange contracts are entered into for all or a portion of the net position in each currency (refer to note 32).

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

3.3.2 Interest rate risks

Since January 2014, the financing of the Group has been reorganized through private loans which bear fixed interest of 3.0% and 4.0% per annum in 2017 (refer to note 21.2). Therefore, the Group is not exposed to changes in interest rates on borrowings bearing interest at floating rates and therefore no hedging on interests' fluctuations is necessary.

3.3.3 Price risks

The Group does not hold any investment and therefore is not exposed to any related securities price risk.

3.4 Credit risk

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

3.5 Liquidity risk

Group treasury policy is to maintain flexibility in funding by keeping sufficient external financial sources available (refer to note 21.1 and note 21.2) as well as sufficient cash balances. In times of an economic downturn and the initial period of recovery thereafter, liquidity requirements may increase and external financial sources may be significantly or fully utilised.

In January 2014, the finance structure of the Group was reevaluated by the Management and the Board and restructured to secure the strategic reorientation of the Group and its independence. Thus, new private loans have been concluded between the Tornos Group and two of its shareholders. The granted credit facility amounts to a total of CHF 20 million at the year-end 2017 and 2016. Furthermore, a credit line of CHF 8 million for the issuance of bank guarantees was also agreed. The facility agreement does not bear any covenants. The interest rates are fixed and amount 3.0% and 4.0% in 2017 and 4.0% in 2016. The facility agreement renews automatically yearly unless a written notice of termination is given six months before the maturity date. Mortgage notes are assigned to the lenders.

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

4 Critical accounting estimates and judgements

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

4.1 Inventory obsolescence

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

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

Raw material, components and semi-finished goods

Management objectives are to carry a quantity in stock that should not exceed 18 months of consumption based on 12 months of consumption. Any excess is fully provided for.

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

Spare parts in the spare parts department

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

5 Scope of consolidation

| Group structure | Share capital | % held* | |
|---|-------------------|---------|------|
| | | 2017 | 2016 |
| Tornos Holding Ltd., Moutier <i>Holding</i> | CHF 89'449'519.50 | | |
| └─ Tornos Management Holding Ltd., Moutier <i>Management of shareholdings and holding</i> | CHF 65'000'000 | 100% | 100% |
| └─ Almac Ltd., La Chaux-de-Fonds <i>Production and sales</i> | CHF 1'175'000 | 100% | 100% |
| └─ Tornos Ltd., Moutier <i>Production and sales</i> | CHF 65'000'000 | 100% | 100% |
| └─ Tornos Technologies Deutschland GmbH, Pforzheim <i>Support services</i> | EUR 511'292 | 100% | 100% |
| └─ Tornos Technologies Iberica SA, Granollers <i>Support services</i> | EUR 60'200 | 100% | 100% |
| └─ Tornos Technologies Italia Srl, Opera/MI <i>Support services</i> | EUR 93'600 | 100% | 100% |
| └─ Tornos Technologies Poland Sp. z o.o., Katy Wroclawskie <i>Support services</i> | PLN 50'000 | 100% | 100% |
| └─ Tornos Technologies UK Ltd., Coalville <i>Support services</i> | GBP 345'000 | 100% | 100% |
| └─ Tornos Technologies France SAS, St-Pierre-en-Faucigny <i>Support services</i> | EUR 310'000 | 100% | 100% |
| └─ Tornos Technologies U.S. Corp. Lombard, IL <i>Sales and service</i> | USD 2'400'000 | 100% | 100% |
| └─ Tornos Technologies Asia Limited, Hong Kong <i>Support services</i> | HKD 10'000 | 100% | 100% |
| └─ Tornos Technologies (Shanghai) Limited, Shanghai <i>Sales and service</i> | USD 500'000 | 100% | 100% |
| └─ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i>Production</i> | RMB 25'000'000 | 70% | 70% |

*percentage held equal to voting rights

Branches

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

All subsidiary undertakings are included in the consolidation. The Group does not hold any investments in associates nor in joint ventures which should be accounted for using the equity method. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company does not differ from the proportion of ordinary share held. Except the company Tornos (Xi'an) Machine Works Co., Ltd., the shares of all subsidiaries as the voting rights are 100% held by the parent company and hence these subsidiaries are fully controlled and consolidated by the parent company. For Tornos (Xi'an) Machine Works Co., Ltd., Tornos Ltd. hold 70% of the shares and voting rights and is having the majority of seats and voting rights at the Board of Directors. Tornos (Xi'an) Machine Works Co., Ltd., is a joint venture with the company Shanxi Robot Automation Technology Co. Ltd. This company is fully consolidated as a subsidiary. The total minorities interests at the year-end 2017 amounts to KCHF 413 (December 31, 2016: KCHF 652) and is solely related to the company Tornos (Xi'an) Machine Works Co., Ltd.

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

Changes in scope

The dormant companies Almatronic Ltd., in La Chaux-de-Fonds, Switzerland and Cyklos Ltd., in Yverdon-les-Bains, Switzerland have been liquidated on April 4, 2017, resp. on May 23, 2017. Furthermore in a reverse merger, the company Tornos Technologies France SAS, St-Pierre-en-Faucigny, France has taken control and merged with the company Tornos Holding France SA, also domiciled in St-Pierre-en-Faucigny, France on June 9, 2017. These changes have been decided in view of the streamlining of the Group structure. The changes mentioned had no significant impact on the consolidated result of the Group.

There are no other changes in scope to be mentioned during the periods under review.

6 Expenses by nature

| In CHF 1'000 | 2017 | 2016 |
|---|-----------------|-----------------|
| Material expense | -77'059 | -59'771 |
| Personnel expense (note 7) | -59'230 | -51'891 |
| Depreciation and amortization charges (note 18, 19) | -3'358 | -2'664 |
| Marketing expenses & commissions | -5'033 | -5'182 |
| Other operating expenses | -26'286 | -20'846 |
| Total expenses | -170'966 | -140'354 |

This shows the detail of costs by nature of the cost of sales, marketing and sales, general and administrative and research and development expenses of the profit and loss of the Group.

7 Personnel expenses

| In CHF 1'000 | 2017 | 2016 |
|---|----------------|----------------|
| Personnel expense - gross | -60'100 | -56'378 |
| Reimbursement from unemployment insurance | - | 1'991 |
| Release of provision for retirement benefit obligations | 870 | 2'496 |
| Personnel expense - net | -59'230 | -51'891 |
| Of which: | | |
| Pension expense (note 25) | -1'824 | -218 |
| Share-based compensation (note 27) | -467 | -194 |

As of December 31, 2017 the headcount (FTE) amounts to 668 and 40 apprentices (December 31, 2016: 631 with 41 apprentices).

8 Other income - net

| In CHF 1'000 | 2017 | 2016 |
|---------------------------|------------|-----------|
| Gain on sale of patents | 350 | - |
| Gain on sale of machinery | -15 | - |
| Other net | 17 | 91 |
| Other income - net | 352 | 91 |

Gain on sale of patents relates to the sale of patents which are not necessary anymore for the operation of the Group.

9 Financial result

| In CHF 1'000 | 2017 | 2016 |
|---|-------------|-------------|
| Interest income | 5 | 13 |
| Finance income | 5 | 13 |
| Interest expense | -368 | -418 |
| Bank charges and other finance expenses | -218 | -192 |
| Finance expenses | -586 | -610 |
| Finance result | -581 | -597 |

10 Exchange result

| In CHF 1'000 | 2017 | 2016 |
|-----------------------------|-------------|------------|
| Realized gains and losses | 119 | 67 |
| Unrealized gains and losses | -340 | 219 |
| Exchange result | -221 | 286 |

11 Non-operating result

| In CHF 1'000 | 2017 | 2016 |
|------------------------------------|--------------|--------------|
| Gain on sale of land and buildings | 1'354 | 1'107 |
| Non-operating result | 1'354 | 1'107 |

The gain of KCHF 1'354 relates to the sale of an operating building which has been sold for KCHF 3'100 and leased back for a period of 5 years. The non-operating result of KCHF 1'107 in 2016 is related to the sale of a non-operating buildings and lands which have been sold for KCHF 1'877 as part of the rationalization of its real property inventory.

12 Income taxes

| In CHF 1'000 | 2017 | 2016 |
|------------------------------|-------------|-------------|
| Current income tax charge | -501 | -264 |
| Deferred tax credit/(charge) | 54 | -42 |
| Income taxes | -447 | -306 |

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2017 ranged between 8% and 33% (2016: between 8% and 35%), in the tax jurisdictions in which the Group operates.

| In CHF 1'000 | 2017 | 2016 |
|--|---------------|---------------|
| Ordinary result before income taxes | 7'342 | -4'405 |
| Expected tax credit / (expense) | -1'839 | 879 |
| Weighted average applicable tax rate | 25.0% | 20.0% |
| Effect of tax deductible expenses/incomes eliminated on consolidation | -725 | 456 |
| Effect of tax on non-operating result | -211 | -177 |
| Utilisation of previously unrecognised tax assets | 3'058 | 22 |
| Current year losses for which no deferred tax asset is recognised | -711 | -1'422 |
| Change in deductible temporary differences for which no deferred tax asset is recognised | - | -96 |
| Expenses & Revenues not deductible for tax purposes | -82 | -36 |
| Other effects | 63 | 68 |
| Income tax credit/(charge) recognised | -447 | -306 |

The expected tax expense is calculated at entity level since the Group does not file consolidated tax returns. As such, profits and losses generated by different entities cannot be offset against each other. The tax rate changes from year to year due to changes in the mix of the taxable results of the individual Group companies.

13 Cash and Cash equivalents

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|----------------------------------|---------------|--------------|
| Cash at bank and in hand | 23'845 | 9'636 |
| Less bank overdrafts | -181 | -35 |
| Cash and cash equivalents | 23'664 | 9'601 |

14 Trade receivables

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--|---------------|---------------|
| Trade receivables | 21'056 | 19'218 |
| Less provision for impairment of receivables | -511 | -492 |
| Trade receivables - net | 20'545 | 18'726 |

Trade receivables aging is as follows:

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|----------------------------|---------------|---------------|
| Current | 11'337 | 7'168 |
| 1 to 30 days overdue | 5'611 | 6'206 |
| 31 to 60 days overdue | 1'909 | 1'881 |
| 61 to 90 days overdue | 539 | 652 |
| 91 to 180 days overdue | 1'074 | 1'683 |
| More than 180 days overdue | 586 | 1'628 |
| Trade receivables | 21'056 | 19'218 |

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

| In CHF 1'000 | 2017 | 2016 |
|--|-------------|-------------|
| At beginning of year | -492 | -561 |
| Provision for receivable impairment | -185 | -140 |
| Receivables written off during the year as uncollectible | 166 | 195 |
| Unused amounts reversed | - | 14 |
| At end of year | -511 | -492 |

15 Inventories

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|---------------------------------|---------------|---------------|
| Materials and components | 39'471 | 36'816 |
| Work in progress | 14'783 | 11'187 |
| Spare parts | 20'417 | 19'477 |
| Finished goods | 20'452 | 27'710 |
| Inventories – gross | 95'123 | 95'190 |
| Less allowance for obsolescence | -26'926 | -28'141 |
| Inventories – net | 68'197 | 67'049 |

Total amount of inventories scrapped or written off in 2017 amounts to KCHF 449 (2016: KCHF 1'908).

16 Other short-term receivables

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--|--------------|--------------|
| VAT receivable | 2'397 | 4'676 |
| Social securities & other related taxes receivable | 291 | 501 |
| Other | 1'036 | 955 |
| Total short-term receivables | 3'724 | 6'132 |

17 Prepayments and accrued income

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--|--------------|--------------|
| Advances to logistic companies for customs clearance purpose | 198 | 1'606 |
| Advances to suppliers | 228 | 135 |
| Negative hours due from employees | 23 | 37 |
| Prepaid expenses | 679 | 1'280 |
| Total prepayment and accrued income | 1'128 | 3'058 |

18 Property, plant and equipment

In CHF 1'000

| | Land | Buildings & installations | Machinery | Assets under construction | Other equipment | Total |
|--|------|---------------------------|-----------|---------------------------|-----------------|-------|
|--|------|---------------------------|-----------|---------------------------|-----------------|-------|

Cost

| | | | | | | |
|-----------------------------|--------------|---------------|---------------|--------------|--------------|----------------|
| At December 31, 2015 | 5'119 | 53'230 | 40'848 | 262 | 6'548 | 106'007 |
| Additions | - | 65 | 84 | 2'112 | 636 | 2'897 |
| Disposals | -756 | -262 | -464 | - | -567 | -2'049 |
| Exchange differences | -30 | -128 | -10 | - | -27 | -195 |
| At December 31, 2016 | 4'333 | 52'905 | 40'458 | 2'374 | 6'590 | 106'660 |
| Additions | - | 1'795 | 1'171 | 2'548 | 1'272 | 6'786 |
| Disposals | -221 | -7'103 | -29'579 | - | -2'250 | -39'153 |
| Transfer between categories | - | 4'922 | - | -4'922 | - | - |
| Exchange differences | 8 | 175 | 29 | - | 78 | 290 |
| At December 31, 2017 | 4'120 | 52'694 | 12'079 | - | 5'690 | 74'583 |

Accumulated depreciation

| | | | | | | |
|-----------------------------|----------|----------------|----------------|----------|---------------|----------------|
| At December 31, 2015 | - | -37'099 | -40'201 | - | -5'854 | -83'154 |
| Depreciation | - | -1'650 | -149 | - | -436 | -2'235 |
| Disposals | - | 225 | 464 | - | 567 | 1'256 |
| Exchange differences | - | 70 | 2 | - | 19 | 91 |
| At December 31, 2016 | - | -38'454 | -39'884 | - | -5'704 | -84'042 |
| Depreciation | - | -1'999 | -173 | - | -595 | -2'767 |
| Disposals | - | 5'525 | 29'536 | - | 2'250 | 37'311 |
| Exchange differences | - | -152 | -22 | - | -58 | -232 |
| At December 31, 2017 | - | -35'080 | -10'543 | - | -4'107 | -49'730 |

Carrying amounts

| | | | | | | |
|--------------------------|--------------|---------------|--------------|----------|--------------|---------------|
| December 31, 2016 | 4'333 | 14'451 | 574 | 2'374 | 886 | 22'618 |
| December 31, 2017 | 4'120 | 17'614 | 1'536 | - | 1'583 | 24'853 |

Under the category Building & Installations, there is a building held for investment purpose. Assets held for sale with a net book value of KCHF 1'356 are included in the schedule above as of December 31, 2017 (December 31, 2016: KCHF 680). The disposal with a total of gross value of KCHF 39'153 are, besides the sale of the building presented under non-operating result, related to the outsourcing of manufacturing production plant.

Assets under finance leasing have been acquired for KCHF 166 in 2017 with a residual net book value of KCHF 141 as at December 31, 2017 (December 31, 2016: KCHF 121).

19 Intangible assets

| In CHF 1'000 | Development costs | Software | Total |
|---------------------------------|----------------------|---------------|---------------|
| Cost | | | |
| At December 31, 2015 | 566 | 2'412 | 2'978 |
| Additions | - | 353 | 353 |
| Disposals | - | - | - |
| Exchange differences | -23 | - | -23 |
| At December 31, 2016 | 543 | 2'765 | 3'308 |
| Additions | - | 611 | 611 |
| Disposals | - | -1'651 | -1'651 |
| Exchange differences | 11 | -1 | 10 |
| At December 31, 2017 | 554 | 1'724 | 2'278 |
| Accumulated amortization | | | |
| At December 31, 2015 | -217 | -1'964 | -2'181 |
| Amortization charge | -109 | -320 | -429 |
| Disposals | - | - | - |
| Exchange differences | 9 | - | 9 |
| At December 31, 2016 | -317 | -2'284 | -2'601 |
| Amortization charge | -108 | -483 | -591 |
| Disposals | - | 1'651 | 1'651 |
| Exchange differences | -9 | - | -9 |
| At December 31, 2017 | -434 | -1'116 | -1'550 |
| Carrying amounts | | | |
| December 31, 2016 | 226 | 481 | 707 |
| December 31, 2017 | 120 | 608 | 728 |

Development costs of KCHF 539 have been recognised as part of the investment brought in by our partner during the incorporation of our new production plant Tornos (Xi'an) Machine Works Co., Ltd., in Xi'an which is a joint venture, and which Tornos Ltd. holds 70% of participation. The recognised development costs correspond to drawings and prototype of a platform which were marketed and launched in 2014. They are amortized over a period of five years. The disposal with the gross value of KCHF 1'651 is the result of the reassessment and upgrade of our software assets. Installations not used anymore or obsolete have been disposed of.

20 Deferred taxes

20.1 Movement in deferred tax assets and liabilities

Movement in deferred tax assets and liabilities is as follows:

| In CHF 1'000 | Deferred tax assets | Deferred tax liabilities |
|-----------------------------|------------------------|-----------------------------|
| At December 31, 2015 | 541 | 105 |
| Additions | 30 | 7 |
| Reversals | -168 | -103 |
| Translation adjustments | -11 | 1 |
| At December 31, 2016 | 392 | 10 |
| Additions | 46 | - |
| Reversals | - | -8 |
| Translation adjustments | 33 | - |
| At December 31, 2017 | 471 | 2 |

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

The expiry dates of tax losses are as follows:

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|------------------------------|----------------|----------------|
| Within 1 year | 1'140 | 23'759 |
| Between 1 and 2 years | 16'004 | 1'471 |
| Between 2 and 5 years | 55'466 | 64'053 |
| After 5 years | 26'346 | 25'365 |
| Losses not subject to expiry | 1'999 | 1'296 |
| Total | 100'955 | 115'944 |

21 Interest bearing borrowings

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--|------------|---------------|
| Loan from shareholders (note 21.2) | - | 14'000 |
| Mortgages (note 21.1) | - | 60 |
| Short-term lease liabilities (note 21.6) | 70 | 25 |
| Current interest bearing borrowings | 70 | 14'085 |
| Mortgages (note 21.1) | - | 185 |
| Long-term lease liabilities (note 21.6) | 166 | 96 |
| Non-current interest bearing borrowings | 166 | 281 |
| Interest bearing borrowings | 236 | 14'366 |

21.1 Credit agreements with banks

Mortgages were granted to subsidiaries at floating rates of 2.05% in 2017 (December 31, 2016: 2.05%).

21.2 Loan from shareholders

Loan Facility Agreements have been granted for a total value of CHF 20 million by our shareholders since 2014. The agreement also include the provision of securities of CHF 8 million for bank guarantees.

The aforementioned shareholder loan facilities granted bear fixed interest rates between 3.0% and 4.0%. The credit line and the securities provided for bank guarantees mature on March 31, 2017 but are renewed automatically for another term of one year if not cancelled six month prior to the maturity date. Mortgage notes of Tornos Ltd. are assigned to the lender as securities to the granted loans. Agreements have not been cancelled at the year-end 2017.

At the end of the year 2017, CHF 5.9 million (December 31, 2016: CHF 2.4 million) were used under the ancillary facilities for guarantees purposes. The credit facilities granted was not used as of December 31, 2017 (December 31, 2016: CHF 14 million).

21.3 Maturity schedule

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|-------------------------|------------|---------------|
| Within 1 year | 70 | 14'085 |
| Between 1 and 2 years | 70 | 114 |
| Between 2 and 5 years | 96 | 167 |
| Total borrowings | 236 | 14'366 |

21.4 Interest rate exposure

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|-------------------|------------|---------------|
| At fixed rates | 236 | 14'121 |
| At floating rates | - | 245 |
| Total | 236 | 14'366 |

21.5 Exchange rate exposure

The original currencies of the Group's borrowings are:

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|-------------------------|------------|---------------|
| Swiss franc | 236 | 14'366 |
| Total borrowings | 236 | 14'366 |

21.6 Finance lease liabilities

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|---|------------|------------|
| Minimum lease payments | | |
| Within 1 year | 70 | 25 |
| Between 1 to 5 years | 166 | 96 |
| Total minimum lease payments | 236 | 121 |
| Future finance charges on finance leases | - | - |
| Present value of finance lease liabilities | 236 | 121 |

The finance lease liabilities of the Group carried an effective interest rate of 1.9% at December 31, 2017 (December 31, 2016: 1.9%).

22 Other liabilities

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--|---------------|--------------|
| Advances received | 11'247 | 2'168 |
| Commissions payable | 1'511 | 1'554 |
| Other taxes and social security payables | 1'714 | 1'302 |
| Other payables | 748 | 254 |
| Total other liabilities | 15'220 | 5'278 |

23 Accrued liabilities and deferred income

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--------------------------------|--------------|--------------|
| Accrued employees remuneration | 4'576 | 3'723 |
| Other accrued expenses | 2'385 | 2'307 |
| Total other liabilities | 6'961 | 6'030 |

Other accrued expenses include liabilities that are due but not yet billed at the balance sheet date and that arise due to goods and services already received at the year-end.

24 Provisions

| In CHF 1'000 | Warranties | Restructuring | Other | Total |
|-----------------------------|--------------|---------------|--------------|--------------|
| At December 31, 2015 | 2'724 | 237 | 1'245 | 4'206 |
| Additions | 1'939 | 77 | 7 | 2'023 |
| Reversals | -36 | - | -187 | -223 |
| Utilization | -2'474 | -237 | - | -2'711 |
| Translation adjustments | 5 | - | -3 | 2 |
| At December 31, 2016 | 2'158 | 77 | 1'062 | 3'297 |
| Additions | 2'550 | 130 | 8 | 2'688 |
| Reversals | - | - | -598 | -598 |
| Utilization | -1'790 | -63 | - | -1'853 |
| Translation adjustments | -6 | - | 17 | 11 |
| At December 31, 2017 | 2'912 | 144 | 489 | 3'545 |

| In CHF 1'000 | 2017 | 2016 |
|--------------|--------------|--------------|
| Current | 3'325 | 2'644 |
| Non-current | 220 | 653 |
| Total | 3'545 | 3'297 |

24.1 Warranties

Tornos gives in general a contractual one year warranty and undertakes to repair or replace items that fail to perform satisfactorily.

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

24.2 Restructuring

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

24.3 Other Provisions

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

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

25 Retirement benefit obligations

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

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

Pension Fund in Switzerland

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

However, the BVG defines the minimum pensionable salary and the minimum retirement credits. The interest rate applicable to these minimum retirement savings is set by the Swiss Federal Council. In 2017, the rate was at 1.00% (2016: 1.25%). Upon retirement (at age of 65 for men and 64 for women) an individual may choose a lump-sum payment or an annuity based on a conversion factor as specified in the plan's regulation. In case of leaving the company prior to retirement the retirement savings earned will be transferred to the pension plan of the individual's new employer.

Other Pension Plans

The Company in the US operates a company pension fund. Upon retirement the vested rights are transferred to an insurance company and the pension is paid by the insurance company. The Groups operations in France, Italy and Germany are covered by local pension plans in line with local legal requirements. The plans in France and Italy are lump sum plans, the plan in Germany only provides pension payments.

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

25.1 Economic benefit / economic obligation and pensions expenses

| | Surplus/ (deficit) | Economic part of the organization | | Change in the current result | Thereof exchange differences | Contributions concerning the business period | Pension expenses | |
|---|-----------------------|--------------------------------------|---------------|------------------------------------|------------------------------------|---|------------------|------------|
| | | at the end of 2017 | 2016 | | | | 2017 | 2016 |
| Pension plans without surplus/deficit according to Swiss GAAP FER 26 | - | -630 | -1'500 | -870 | - | 2'324 | 1'454 | -63 |
| Other funded pension plans | -672 | -672 | -704 | -32 | -32 | 177 | 177 | 148 |
| Pension plans with-out assets | -1'297 | -1'297 | -1'160 | 137 | 75 | 131 | 193 | 133 |
| Total | -1'969 | -2'599 | -3'364 | -765 | 43 | 2'632 | 1'824 | 218 |

As of December 31, 2017 and as of December 31, 2016 there is no employer's contribution reserve. The information on the economic benefit as at December 31, 2017 for the Swiss- Pension Plan is based on the last annual financial statements of the Tornos pension fund preceding the balance sheet date, i.e. the financial statements as at December 31, 2016. The pension fund reported a coverage rate of 104.15% in its Swiss GAAP FER 26 financial statements 2016, resp. 106.36% in the financial statements 2015. However, the technical interest rate used in the Swiss GAAP FER 26 financial statements of the Swiss Pension plan amounts to 2.50% (in prior year financial statements 2015: 2.75%). The Group assumes that the technical discount rate will decrease in a midterm perspective and therefore still recognised an economic liability. The provision has been revaluated to an amount of KCHF 630 as of December 31, 2017 (December 31, 2016 of KCHF 1'500) considering an expected technical interest rate of 1.75%. The movement of KCHF 870 has been recognised as part of the personnel expenses.

26 Share capital

26.1 Capital structure

| | Issued registered shares | Treasury shares | Total shares in circulation |
|--|--------------------------------|--------------------|--------------------------------|
| Issued and fully paid-in at December 31, 2015 | 19'877'671 | 942'804 | 18'934'867 |
| Sale of treasury shares as part of the management participation program | - | -54'500 | 54'500 |
| Issued and fully paid-in at December 31, 2016 | 19'877'671 | 888'304 | 18'989'367 |
| Sale of treasury shares as part of the management participation program | - | -125'050 | 125'050 |
| Issued and fully paid-in at December 31, 2017 | 19'877'671 | 763'254 | 19'114'417 |

During the year 2017:

- 125'050 treasury shares have been sold at a price of CHF 2.61 each under the Management and Board Participation plan 2007 (MBP07);

During the year 2016:

- 54'500 treasury shares have been sold at a price of CHF 2.54 each under the Management and Board Participation plan 2007 (MBP07);

26.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2017 and as of December 31, 2016 the share capital consisted of 19'877'671 ordinary registered shares with a par value of CHF 4.50 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meetings of shareholders and are entitled to one vote per share at the meetings of shareholders.

26.3 Treasury shares

Movements in treasury shares are as follows:

| | 2017 | | 2016 | |
|-----------------------------|------------------|-----------------------|------------------|-----------------------|
| | Number of shares | Amount (in CHF 1'000) | Number of shares | Amount (in CHF 1'000) |
| At beginning of year | 888'304 | 6'345 | 942'804 | 6'734 |
| Sale of treasury shares* | -125'050 | -893 | -54'500 | -389 |
| At end of year | 763'254 | 5'452 | 888'304 | 6'345 |

* sold as part of the management participation plan, MBP07

Treasury shares are valued at average purchase price.

26.4 Conditional share capital

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

26.5 Authorised share capital

Tornos does not have any authorized capital.

26.6 Significant shareholders

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

| | 31.12.2017 | 31.12.2016 |
|----------------|------------|------------|
| Walter Fust | 46.01% | 45.39% |
| Michel Rollier | 14.36% | 14.36% |

These are the number of shares known by Tornos 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.

27 Stock compensation plans

There is one stock participation plan in 2017, namely the Management and Board Participation Plan (MBP07). Compensation expense under this plan is recognised in accordance with the provisions of Swiss GAAP FER, for options over the vesting period and for shares purchased immediately as the shares do not need to be returned in case the employment contract is terminated. The expense recorded in the income statement spreads the cost of each option equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Compensation expense of KCHF 467 was recorded for the year ended December 31, 2017 (2016: KCHF 194). Compensation expense arising from stock options outstanding at December 31, 2017 to be recognised in future periods amounts to KCHF 248 (December 31, 2016: KCHF 158).

Under this plan, a maximum of 400'000 shares/options may be allocated each year to the participants by the Nomination and Compensation Committee. The possible participants are members of the Board of Directors as well as the management. Each participant chooses on grant date, within the number of shares/options allocated to him by the Nomination and Compensation Committee, to receive options free of charge, to purchase shares with a discount or a combination of receiving options free of charge and purchasing shares with a discount.

27.1 Stock purchasing program under MBP07

Each participant has the right to purchase shares each year, starting on May 1 (within the number of shares/options allocated by the Nomination and Compensation Committee and not used for the stock option program). The purchasing price is the weighted average price paid at SIX within the 12 months (May 1 to April 30) preceding the purchase of the shares minus a discount of 25%. There is a restriction period of two years after purchasing the shares during which the shares are held in an escrow deposit. However, the shares do not need to be returned in case the employment contract is terminated and there is a tag along clause in case of a change of control transaction. In 2017, participants elected to purchase 125'050 shares at a price of CHF 2.61 through the sale of treasury shares (2016: 54'500 shares at CHF 2.54). A compensation expense of KCHF 252 was recorded for these transactions for the year ended December 31, 2017 (December 31, 2016: nil).

27.2 Stock option program under MBP07

Each participant receives free of charge each year starting on May 1 the number of options chosen (within the number of shares/options attributed by the Nomination and Compensation Committee and not used for the share purchasing program). The options vest after two years and can be exercised only in the third year. The exercise price is the weighted average price paid at the SIX Swiss Exchange within the 12 months (May 1 to April 30) preceding the allocation of the options. A possible share capital increase or reduction or dividend payment has no impact on the option rights pursuant to this program as the exercise price will not be adjusted should these events take place in the future. Options not exercised generally need to be returned at the time the employment contract is terminated. However, they can be exercised without any restriction in case of a change of control transaction. Total expenses recorded in the income statement for the year ended December 31, 2017 as part of this option program amounted to KCHF 215 (2016: KCHF 194).

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

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

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

| | 2017 | | | 2016 | | |
|-----------------------------------|----------------|-------------------------|-----------------------------|----------------|-------------------------|-----------------------------|
| | Options | Exercise price in CHF | Contractual life | Options | Exercise price in CHF | Contractual life |
| Outstanding at January 1 | 623'369 | 4.55¹ | | 573'052 | 5.77¹ | |
| Granted | 237'880 | 3.48 | 3 years (April 30, 2020) | 266'250 | 3.38 | 3 years (April 30, 2019) |
| Exercised | -108'500 | 5.83 | | | | |
| Forfeited or expired | -166'286 | | | -215'933 | | |
| Outstanding at December 31 | 586'463 | 3.82¹ | | 623'369 | 4.55¹ | |
| Exercisable at December 31 | 96'500 | 5.83 | | 152'473 | 4.81 | |

¹ weighted average

In 2017, 120'000 options (2016: 110'000) have been granted to the General Management, 32'000 to the Board of Directors (2016: 32'000) and 210'930 to the Senior Management of the Group (2016: 178'750). Out of these options granted, participants elected to purchase 125'050 shares (2016: 54'500 shares) under the Stock purchasing program MBP07.

28 Result per share, basic and fully diluted

28.1 Basic

Basic result per share is calculated by dividing the net income attributable to equity holders of Tornos by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Group and held as treasury shares (note 26.3).

| | 2017 | 2016 |
|--|-------------|--------------|
| Net result attributable to equity holders of Tornos (in CHF 1'000) | 8'493 | -3'553 |
| Weighted average number of ordinary shares in issue (in 1'000) | 19'057 | 18'962 |
| Basic result per share (CHF per share) | 0.45 | -0.19 |

28.2 Diluted

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

| | 2017 | 2016 |
|--|-------------|--------------|
| Net result attributable to equity holders of Tornos (in CHF 1'000) | 8'493 | -3'553 |
| Weighted average number of ordinary shares in issue (in 1'000) | 19'057 | 18'962 |
| Adjustments for share options (in 1'000) | 139 | - |
| Weighted average number of ordinary shares for diluted earnings per share (in 1'000) | 19'196 | 18'962 |
| Diluted result per share (CHF per share) | 0.44 | -0.19 |

Tornos currently disposes of enough own shares to issue in the case share options are exercised.

29 Segment information

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

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

The operating result for the period under review amounts to KCHF 8'144 and for 2016 to KCHF -4'094.

29.1 Analysis of revenues by category

| In CHF 1'000 | 2017 | 2016 |
|--------------------------|----------------|----------------|
| Machines and spare parts | 171'297 | 128'841 |
| Service | 7'461 | 7'328 |
| Net sales | 178'758 | 136'169 |

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

29.2 Net sales by location of customers

| In CHF 1'000 | 2017 | 2016 |
|--------------------------|----------------|----------------|
| Switzerland | 36'135 | 27'323 |
| Other European countries | 98'281 | 73'089 |
| Americas | 17'782 | 13'933 |
| Asia | 26'200 | 21'255 |
| Rest of world | 360 | 569 |
| Total net sales | 178'758 | 136'169 |

29.3 Non-current assets

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

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|--|---------------|---------------|
| Switzerland | 23'945 | 21'984 |
| Other European countries | 659 | 632 |
| Americas | 2 | 8 |
| Asia | 975 | 701 |
| Total non-current assets for geographical area disclosure | 25'581 | 23'325 |
| Reconciling unallocated assets: | | |
| - Deferred tax assets | 471 | 392 |
| Total non-current assets per balance sheet | 26'052 | 23'717 |

30 Commitments and contingencies

30.1 Operating lease commitments

Operating lease liabilities, minimum lease payments:

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|-------------------------------------|--------------|--------------|
| Year 1 | 1'655 | 1'120 |
| Years 2 to 5 | 2'782 | 914 |
| After 5 years | 44 | 31 |
| Total minimum lease payments | 4'481 | 2'065 |

30.2 Pledges

The following assets were pledged to shareholders.

| In CHF 1'000 | 31.12.2017 | 31.12.2016 |
|-----------------------------|---------------|---------------|
| Land and buildings | 15'540 | 17'392 |
| Total assets pledged | 15'540 | 17'392 |

At December 31, 2017 the total value of the pledged mortgage notes related to land and buildings amount to CHF 29.0 million (December 31, 2016: CHF 32.3 million).

30.3 Other commitments and contingent liabilities

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

31 Related party transactions

During 2017, sales to companies in which two of the directors of Tornos Holding Ltd. hold a significant interest amounted to KCHF 231 (2016: KCHF 88). Services provided by a company in which one of the directors of Tornos Holding Ltd. holds a significant interest amounted to KCHF 76 (2016: KCHF 79). As of December 31, 2017, the related outstanding balances receivable and payable amounted to KCHF 160 and KCHF 0 respectively (December 31, 2016: KCHF 51 and KCHF 0 respectively).

No loans or advances were granted to related parties in 2017 and 2016. As of December 31, 2017 no loan was granted from the main shareholders as disclosed in note 21.2 (December 31, 2016: CHF 14 million).

Please refer to note 25 for transactions with the pension funds.

32 Derivatives financial instruments

In appropriate circumstances, the Group uses derivative financial instruments as part of its risk management and commercial strategies. On December 31, 2017 the Group has no open foreign exchange contracts as on December 31, 2016.

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

33 Subsequent event

In January 2018, the Group has signed a provisional sale agreement for the disposal of a building presented as assets held for sale. Following this agreement and provided the fact that the terms of the contract are followed the building will be transferred as of the end of December 2019. Several instalments are planned throughout 2018 and 2019 with a final payment in December 2019 which will trigger the revenue recognition of the sale.

Report of the statutory auditor to the General Meeting of Tornos Holding SA, Moutier

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Tornos Holding SA and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2017 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 8 to 46) give a true and fair view of the consolidated financial position of the Group as at December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 1'780'000

- We concluded full scope audit work at 2 reporting units in Switzerland. Our audit scope addressed over 85% of the Group’s revenue.
- In addition, specified procedures were performed on a further 2 reporting units in 2 countries representing a further 10% of the Group’s revenue.

As key audit matter the following area of focus has been identified:

- Impairment assessment of assets

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

| | |
|--|--|
| Overall Group materiality | CHF 1'780'000 |
| How we determined it | 1% of total revenues |
| Rationale for the materiality benchmark applied | We chose total revenues as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark for companies that are in the turnaround-phase. |

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements

of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of assets

Key audit matter

How our audit addressed the key audit matter

We focused on this area because of the level of judgement inherent in management's assessment.

We obtained, understood and evaluated the appropriateness and reasonableness of management's impairment assessment model.

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. This is the only operating segment.

The following audit procedures were performed:

Assets such as property, plant and equipment (CHF 24.9m) require an assessment for impairment. The assessment of impairment is performed by comparing the carrying values (book values) of those assets to their recoverable amounts.

- We reviewed the outcome of prior period assumptions (reliability of the prior year forecast against actual achieved).

The recoverable amount is the higher of value in use and fair value less costs of disposal, which management has calculated at the level of a cash generating unit. The value in use is determined based on the discounted future cash flows forecasted to be generated by the cash generating unit. Key inputs such as the discount rate and revenue growth rates used in the preparation of the said forecast are subject to significant judgment of Management.

- We compared the forecasts to the Board approved 2018 Budget.

Management has calculated the recoverable amount at a cash generating unit level.

- We assessed the revenue growth rates by comparing them to external industry data and the outcome of prior period assumptions.

Market capitalisation is used to compute the fair value less costs of disposals.

- We tested the mathematical accuracy of the calculation derived from the forecast model.

- We compared the market capitalisation to the consolidated book value of equity.

- The WACC (weighted average cost of capital) which was used in the discount rate calculation was assessed by our internal valuation specialists for reasonableness by comparing it to comparable organisations as well as considering territory specific factors.

Refer to note 2.12 (Accounting policies).

We focused on these key assumptions because a small subjective change could have a material impact in the derivation of the value in use.

Based on our audit work, the key assumptions used by management were supportable and appropriate in light of the current environment as at December 31, 2017.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA



Oliver Kuntze
Audit expert
Auditor in charge



Fanny Chapuis
Audit expert

Neuchâtel, February 27, 2018

*Tornos Holding Ltd.
Statutory Financial
Statements 2017*

Income Statement

Tornos Holding Ltd.

| In CHF 1'000 | Notes | 2017 | 2016 |
|---|-------|--------------|---------------|
| Other income | 7 | 350 | - |
| Total income | | 350 | - |
| Administrative expenses | | -488 | -347 |
| Taxes other than on income | | 8 | -40 |
| Total expenses | | -480 | -387 |
| Impairment on loans to subsidiaries | 8 | - | -5'500 |
| Reversal on impairment on loans to subsidiaries | 8 | 10'000 | - |
| Result before income taxes | | 9'870 | -5'887 |
| Income taxes | | - | -35 |
| Net result | | 9'870 | -5'922 |

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

Balance Sheet

Tornos Holding Ltd.

| In CHF 1'000 | Notes | 31.12.2017 | in % | 31.12.2016 | in % |
|-------------------------------------|-------|---------------|--------|---------------|--------|
| ASSETS | | | | | |
| Cash and cash equivalents | | 243 | | 45 | |
| Receivables from Group Companies | | 1'923 | | 2'127 | |
| Other current assets | | 249 | | 6 | |
| Total current assets | | 2'415 | 2.7% | 2'178 | 2.7% |
| Loans to subsidiaries | 8 | 23'212 | | 13'212 | |
| Investment in a subsidiary | 3 | 65'000 | | 65'000 | |
| Total non-current assets | | 88'212 | 97.3% | 78'212 | 97.3% |
| Total assets | | 90'627 | 100.0% | 80'390 | 100.0% |
| LIABILITIES AND EQUITY | | | | | |
| Payables to third parties | | 53 | | 53 | |
| Payables to Group Companies | | 488 | | 457 | |
| Accrued expenses | | 43 | | 33 | |
| Total current liabilities | | 584 | 0.6% | 543 | 0.7% |
| Share capital | 4 | 89'450 | | 89'450 | |
| Statutory capital reserve | | | | | |
| Reserve from capital contribution | | 29'021 | | 29'021 | |
| Voluntary retained earnings | | -22'976 | | -32'279 | |
| Treasury shares | 5 | -5'452 | | -6'345 | |
| Total equity | | 90'043 | 99.4% | 79'847 | 99.3% |
| Total liabilities and equity | | 90'627 | 100.0% | 80'390 | 100.0% |

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

Statement of Changes in Equity

Tornos Holding Ltd.

| In CHF 1'000 | Share capital | Reserve from capital contribution | Voluntary retained earnings | Treasury shares | Total |
|-----------------------------|---------------|-----------------------------------|-----------------------------|-----------------|---------------|
| At December 31, 2015 | 89'450 | 29'021 | -26'106 | -6'734 | 85'631 |
| Net loss | | | -5'922 | | -5'922 |
| Sales of treasury shares | | | -251 | 389 | 138 |
| At December 31, 2016 | 89'450 | 29'021 | -32'279 | -6'345 | 79'847 |
| Net result | | | 9'870 | | 9'870 |
| Sales of treasury shares | | | -567 | 893 | 326 |
| At December 31, 2017 | 89'450 | 29'021 | -22'976 | -5'452 | 90'043 |

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

Notes to the Financial Statement

Tornos Holding Ltd.

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

1 Basis of preparation

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

2 Accounting principles applied in the preparation of the financial statements

Significant balance sheet items are accounted for as follows:

Cash and cash equivalents which include cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less are stated at their nominal amounts.

Group receivables are carried at their nominal value. Impairment charges, if any, are calculated for these assets on an individual basis based on a review and assessment of the recoverability of the outstanding balances. The carrying amount of the asset is reduced through the use of an impairment charge, and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited in the income statement and presented separately.

Investments and loans to subsidiaries are recognised at acquisition costs. The carrying amount of the investments and loans are assessed individually after the first recognition on the balance sheet provided that due to their similarity they are not usually combined as a group for valuation. They are reviewed for impairment on a regular basis. Prudence is applied when assessing the valuation. Impairment losses are recognized in the income statement. Assets that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Treasury shares are valued at historical acquisition value without subsequent valuation. Gains and losses from disposals of treasury shares, including transaction costs, are recorded directly in retained earnings.

All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognized in the income statement.

3 Subsidiary

| Name | Purpose | Share capital | 2017 | 2016 |
|---|---|---------------|--------------------------|--------------------------|
| | | in CHF '000 | % held/ voting rights | % held/ voting rights |
| Tornos Management Holding Ltd., Moutier, Switzerland | Management of shareholdings and holding company | 65'000 | 100 | 100 |

A list of all subsidiaries indirectly held by Tornos Holding Ltd. is found in the note 5 of the consolidated financial statements 2017 of Tornos Group.

4 Share capital, conditional capital and authorised capital

4.1 Share capital

During the year 2017:

- 125'050 treasury shares have been sold at a price of CHF 2.61 each under the Management and Board Participation plan 2007 (MBP07);

During the year 2016:

- 54'500 treasury shares have been sold at a price of CHF 2.54 each under the Management and Board Participation plan 2007 (MBP07);

The share capital amounts to CHF 89'449'519.50 divided into 19'877'671 registered shares of CHF 4.50 nominal value each.

4.2 Conditional share capital

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

4.3 Authorised share capital

The company does not have any authorized capital.

5 Treasury shares

Movements in treasury shares are as follows:

| | 2017 | | 2016 | |
|-----------------------------|------------------|--|------------------|--|
| | Number of shares | Total of average purchase price (in CHF '000) | Number of shares | Total of average purchase price (in CHF '000) |
| At beginning of year | 888'304 | 6'345 | 942'804 | 6'734 |
| Sale of treasury shares* | -125'050 | -893 | -54'500 | 389 |
| At end of year | 763'254 | 5'452 | 888'304 | 6'345 |

* sold as part of the management participation plan, MBP07

Treasury shares are valued at average purchase price.

6 Significant shareholders

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

| | 31.12.2017 | 31.12.2016 |
|----------------|------------|------------|
| Walter Fust | 46.01% | 45.39% |
| Michel Rollier | 14.36% | 14.36% |

These are the 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.

7 Other income

Other income of KCHF 350 relates to the sale of patents which are not necessary anymore for the operation of the Group.

8 Impairment on loans to subsidiaries

The carrying amount of the loans to subsidiaries have been reviewed at the year-end 2017 and, pursuant to the impairment test performed, reevaluated by CHF 10.0 million (December 31, 2016: impairment by CHF 5.5 million).

9 Number of full-time equivalents

The Company as a holding does not have any employees.

10 Leasing liabilities and liabilities to pension plans

There are none.

11 Assets pledged

None of the Company's assets are pledged.

12 Contingent liabilities

There are no contingent liabilities at the end of 2017 (previous year: none).

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

The disclosures required by articles 663b bis and 663c of the Swiss Code of Obligations on the Board of Directors and General Management compensation are reflected in the Corporate Governance section of the Annual Report.

| | Number at 31.12.2017 | | Number at 31.12.2016 | |
|--|----------------------|----------------|----------------------|----------------|
| | Shares | Options | Shares | Options |
| François Frôté | 214'567 | 8'000 | 206'567 | 8'000 |
| Frank Brinken | 33'000 | 8'000 | 25'000 | 8'000 |
| Michel Rollier / Rollomatic Holding SA | 2'853'733 | 24'000 | 2'853'733 | 24'000 |
| Walter Fust | 9'145'516 | 0 | 9'022'747 | 0 |
| Total Board of Directors | 12'246'816 | 40'000 | 12'108'047 | 40'000 |
| Michael Hauser (CEO) | 89'792 | 45'000 | 16'000 | 75'000 |
| Luc Widmer | 20'000 | 40'000 | 15'000 | 75'000 |
| Bruno Allemann | 12'500 | 52'500 | 15'000 | 55'000 |
| Bruno Edelmann | 6'100 | 44'000 | 1'100 | 19'000 |
| Total General Management | 128'392 | 181'500 | 47'100 | 224'000 |

In addition, article 959c paragraph 2 item 11 of the Swiss Code of Obligations require disclosure of the number and value of shares and options granted to members of the Board of Directors and Group Management as well as to employees. This information is disclosed in note 27 of the Consolidated Financial Statements of Tornos Group.

14 Additional information, cash flow statement and management report

According to Article 961d paragraph 1 of the Swiss Code of Obligations, additional information, the statement of cash flows and the management report are dispensed with, as the Tornos Holding Ltd. prepares the consolidated financial statements in accordance with a recognized financial reporting standard.

15 Subsequent event

There are no subsequent events to be mentioned.

Proposed Appropriation of Available Earnings

Tornos Holding Ltd.

In CHF 1'000

31.12.2017

Accumulated losses

-22'976

To be carried forward

-22'976

Report of the statutory auditor to the General Meeting of Tornos Holding Ltd, Moutier

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Tornos Holding Ltd, which comprise the balance sheet as at December 31, 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 54 to 61) as at December 31, 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 800'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter the following area of focus has been identified:

- Impairment of investments and intercompany loans

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

| | |
|--|---|
| Overall materiality | CHF 800'000 |
| How we determined it | total assets |
| Rationale for the materiality benchmark applied | We chose total assets as the benchmark because, in our view, it is the most appropriate benchmark for a holding company which has limited operating activities and which holds mainly investments in subsidiaries and intercompany loans. |

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the

current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of investments and intercompany loans

Key audit matter

How our audit addressed the key audit matter

We focused on this area because of the level of judgement inherent in management's assessment.

The Group's core activity is the development, manufacture, marketing, sale and servicing of machines. This is the only operating segment.

Investments and intercompany loans (CHF 88.2m) require an assessment for impairment. The assessment of impairment is performed by comparing the carrying values (book values) of those investments and loans to their recoverable amounts.

The recoverable amount is the higher of value in use and fair value less costs of disposal, which management has calculated at the level of a cash generating unit. The value in use is determined based on the discounted future cash flows forecasted to be generated by the cash generating unit. Key inputs such as the discount rate and revenue growth rates used in the preparation of the said forecast are subject to significant judgment of Management.

Management has calculated the recoverable amount at a cash generating unit level.

Refer to note 8, p.59.

We obtained, understood and evaluated the appropriateness and reasonableness of management's impairment assessment model.

The following audit procedures were performed:

- We reviewed the outcome of prior period assumptions (reliability of the prior year forecast against actual achieved).
- We compared the forecasts to the Board approved 2018 Budget.
- We assessed the revenue growth rates by comparing them to external industry data and the outcome of prior period assumptions.
- We tested the mathematical accuracy of the calculation derived from the forecast model.
- We compared the market capitalisation to the consolidated book value of equity.
- The WACC (weighted average cost of capital) which was used in the discount rate calculation was assessed by our internal valuation specialists for reasonableness by comparing it to comparable organisations as well as considering territory specific factors.

We focused on these key assumptions because a small subjective change could have a material impact in the derivation of the value in use.

Based on our audit work, the key assumptions used by management were supportable and appropriate in light of the current environment as at December 31, 2017.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due

to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers SA



Oliver Kuntze
Audit expert
Auditor in charge



Fanny Chapuis
Audit expert

Neuchâtel, February 27, 2018

Remuneration Report 2017

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"). However, the individual performance of the person concerned is evaluated by the Remuneration Committee, which assesses the remuneration of each member of the General Management and submits a proposal to the Board

of Directors for approval. The variable components are factored in when determining the fixed remuneration. Variable remuneration is dependent on profitability criteria and on the achievement of annual individual qualitative and quantitative targets by the person concerned. The applicable financial criteria for the members of the General Management are the EBIT margin, new orders, and operational performance. 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.

Evaluation 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 2017

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 | | | ■ | ■ | | | ■ |

Remuneration

| In CHF 1'000 | Remuneration fixed | Other remuneration | Total | Shares (acquired) | Stock options (granted) | Total remuneration |
|---------------------------------|--------------------|--------------------|------------|-------------------|-------------------------|--------------------|
| François Frôté | 160 | 19 | 179 | 13 | 0 | 192 |
| Frank Brinken | 80 | 9 | 89 | 13 | 0 | 102 |
| Michel Rollier | 80 | 10 | 90 | 0 | 10 | 100 |
| Walter Fust | 80 | 9 | 89 | 13 | 0 | 102 |
| Total Board of Directors | 400 | 47 | 447 | 39 | 10 | 496 |

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 2017 and may not be exercised until April 30, 2019.

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 2017 members of the Board of Directors were granted 32'000 options with a fair value of CHF 1.29. Out of these options granted, members of the Board of Directors acquired under the Stock purchasing program MBP07 a total of 24'000 shares at an acquisition price of CHF 2.61 per share with a remuneration benefit of CHF 1.62 per share.

Remuneration paid to the Board of Directors in 2016

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 | | | ■ | ■ | | | ■ |

Remuneration

| In CHF 1'000 | Remuneration fixed | Other remuneration | Total | Shares (acquired) | Stock options (granted) | Total remuneration |
|---------------------------------|--------------------|--------------------|------------|-------------------|-------------------------|--------------------|
| François Frôté | 160 | 19 | 179 | 2 | 0 | 181 |
| Frank Brinken | 80 | 9 | 89 | 2 | 0 | 91 |
| Michel Rollier | 80 | 10 | 90 | 0 | 6 | 96 |
| Walter Fust | 80 | 9 | 89 | 2 | 0 | 91 |
| Total Board of Directors | 400 | 47 | 447 | 6 | 6 | 459 |

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 2016 and may not be exercised until April 30, 2018.

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 2016 members of the Board of Directors were granted 32'000 options with a fair value of CHF 0.71. Out of these options granted, members of the Board of Directors acquired under the Stock purchasing program MBP07 a total of 24'000 shares at an acquisition price of CHF 2.54 per share with a remuneration benefit of CHF 0.26 per share.

Remuneration paid to members of the General Management in 2017

The remuneration paid to the members of the General Management during the financial year under review came to CHF 2.2 million. These remuneration figures are the amounts booked during the period under review, although the variable cash remuneration will not be paid until May 2018.

| In CHF 1'000 | Remuneration fixed | Remuneration variable | Other remuneration | Paid remuneration | Shares (acquired) | Stock options (granted) | Total remuneration |
|---|-----------------------|--------------------------|-----------------------|----------------------|----------------------|-------------------------------|-----------------------|
| Michael Hauser (CEO) | 556 | 124 | 101 | 781 | 16 | 26 | 823 |
| Other members of General Management | 776 | 279 | 172 | 1'227 | 53 | 74 | 1'354 |
| Total General Management | 1'332 | 403 | 273 | 2'008 | 69 | 100 | 2'177 |

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 2017 and may not be exercised until April 30, 2019.

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 2017 members of the General Management were granted 120'000 options with a fair value of CHF 1.29. Out of these options granted, members of the General Management acquired under the Stock purchasing program MBP07 a total of 42'500 shares at an acquisition price of CHF 2.61 per share with a remuneration benefit of CHF 1.62 per share.

Remuneration paid to members of the General Management in 2016

The remuneration paid to the members of the General Management during the financial year under review came to CHF 1.7 million. These remuneration figures are the amounts booked during the period under review, although the variable cash remuneration will not be paid until May 2017.

| In CHF 1'000 | Remuneration fixed | Remuneration variable | Other remuneration | Paid remuneration | Shares (acquired) | Stock options (granted) | Total remuneration |
|---|-----------------------|--------------------------|-----------------------|----------------------|----------------------|-------------------------------|-----------------------|
| Michael Hauser (CEO) | 556 | 0 | 87 | 643 | 1 | 18 | 662 |
| Other members of General Management | 776 | 64 | 137 | 977 | 1 | 56 | 1'034 |
| Total General Management | 1'332 | 64 | 224 | 1'620 | 2 | 74 | 1'696 |

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 2016 and may not be exercised until April 30, 2018.

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 2016 members of the General Management were granted 110'000 options with a fair value of CHF 0.71. Out of these options granted, members of the General Management acquired under the Stock purchasing program MBP07 a total of 6'000 shares at an acquisition price of CHF 2.54 per share with a remuneration benefit of CHF 0.26 per share.

Comparison between approved and paid remuneration in 2017

in CHF 1'000

Approved by the General Assembly 2017

| | Remuneration fixed | Remuneration variable | Total remuneration | Number of participation rights |
|--------------------|-----------------------|--------------------------|-----------------------|--------------------------------------|
| Board of Directors | 500 | 0 | 500 | 40'000 |
| General Management | 1'500 | 800 | 2'300 | 150'000 |

in CHF 1'000

Remuneration paid in 2017

| | Remuneration fixed | Remuneration variable | Other remuneration | Total remuneration | Number of participation rights |
|--------------------|-----------------------|--------------------------|-----------------------|-----------------------|--------------------------------------|
| Board of Directors | 400 | 0 | 47 | 447 | 32'000 |
| General Management | 1'332 | 403 | 273 | 2'008 | 120'000 |

According to art. 9 lit. 9 of the Articles of Association 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 0.5 million and of CHF 2.3 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 150'000 options or shares to members of the Group Management.

The 40'000 and 150'000 options approved by the General Assembly of Shareholders represent a fair value of TCHF 245. The options granted to the Board of Directors and General Management represent a value of TCHF 196.

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 Association.

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

| | Number at 31.12.2017 | | Number at 31.12.2016 | |
|--|----------------------|----------------|----------------------|----------------|
| | Shares | Options | Shares | Options |
| François Frôté | 214'567 | 8'000 | 206'567 | 8'000 |
| Frank Brinken | 33'000 | 8'000 | 25'000 | 8'000 |
| Michel Rollier / Rollomatic Holding SA | 2'853'733 | 24'000 | 2'853'733 | 24'000 |
| Walter Fust | 9'145'516 | 0 | 9'022'747 | 0 |
| Total Board of Directors | 12'246'816 | 40'000 | 12'108'047 | 40'000 |
| Michael Hauser (CEO) | 89'792 | 45'000 | 16'000 | 75'000 |
| Luc Widmer | 20'000 | 40'000 | 15'000 | 75'000 |
| Bruno Allemant | 12'500 | 52'500 | 15'000 | 55'000 |
| Bruno Edelmann | 6'100 | 44'000 | 1'100 | 19'000 |
| Total General Management | 128'392 | 181'500 | 47'100 | 224'000 |

Tornos Holding Ltd., Moutier

**Report of the statutory auditor to the
General Meeting Meeting of Tornos Holding Ltd.
Moutier on the remuneration report 2017**

We have audited the remuneration report of Tornos Holding Ltd. for the year ended December 31, 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 70 to 75 of the remuneration report.

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, 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA



Oliver Kuntze
Audit expert
Auditor in charge



Fanny Chapuis
Audit expert

Neuchâtel, February 27, 2018

The Board of Directors and the 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.

Corporate Governance

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1 Group Structure and Shareholders

1.1 Group structure

| | Share capital | % held* | |
|--|-------------------|---------|------|
| | | 2017 | 2016 |
| Tornos Holding Ltd., Moutier <i> Holding</i> | CHF 89'449'519.50 | | |
| └─ Tornos Management Holding Ltd., Moutier <i> Management of shareholdings and holding</i> | CHF 65'000'000 | 100% | 100% |
| └─ Almac Ltd., La Chaux-de-Fonds <i> Production and sales</i> | CHF 1'175'000 | 100% | 100% |
| └─ Tornos Ltd., Moutier <i> Production and sales</i> | CHF 65'000'000 | 100% | 100% |
| └─ Tornos Technologies Deutschland GmbH, Pforzheim <i> Support services</i> | EUR 511'292 | 100% | 100% |
| └─ Tornos Technologies Iberica SA, Granollers <i> Support services</i> | EUR 60'200 | 100% | 100% |
| └─ Tornos Technologies Italia Srl, Opera/MI <i> Support services</i> | EUR 93'600 | 100% | 100% |
| └─ Tornos Technologies Poland Sp. z o.o., Katy Wroclawskie <i> Support services</i> | PLN 50'000 | 100% | 100% |
| └─ Tornos Technologies UK Ltd., Coalville <i> Support services</i> | GBP 345'000 | 100% | 100% |
| └─ Tornos Technologies France SAS, St-Pierre-en-Faucigny <i> Support services</i> | EUR 310'000 | 100% | 100% |
| └─ Tornos Technologies U.S. Corp. Lombard, IL <i> Sales and service</i> | USD 2'400'000 | 100% | 100% |
| └─ Tornos Technologies Asia Limited, Hong Kong <i> Support services</i> | HKD 10'000 | 100% | 100% |
| └─ Tornos Technologies (Shanghai) Limited, Shanghai <i> Sales and service</i> | USD 500'000 | 100% | 100% |
| └─ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i> Production</i> | RMB 25'000'000 | 70% | 70% |

*percentage held equal to voting rights

Branches

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

Organizational structure of the Group

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

Tornos Group is managed by the General Management comprising the four members as listed below:

General Management

Michael Hauser, chair

Bruno Edelmann

Bruno Allemand

Luc Widmer

Listed companies in the consolidation

Tornos Holding SA 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 120.9 million.

Unlisted companies in the consolidation

Tornos Holding SA has no unconsolidated shareholdings.

2017

The dormant companies Almatronic Ltd., in La Chaux-de-Fonds, Switzerland and Cyklos Ltd., in Yverdon-les-Bains, Switzerland have been liquidated on April 4, 2017, resp. on May 23, 2017. Furthermore, in a reverse merger, the company Tornos Technologies France SAS, St-Pierre-en-Faucigny, France has taken control and merged with the company Tornos Holding France SA, also domiciled in St-Pierre-en-Faucigny, France on June 9, 2017. These changes have been decided in view of the streamlining of the Group structure. The changes mentioned had no significant impact on the consolidated result of the Group.

2016

Tornos Technologies (HK) Ltd., Hong Kong was liquidated on January 29, 2016.

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

1.2 Significant Shareholders

As at December 31, 2017, 1'525 shareholders were registered in the share register and held numbers of shares as follows:

| | |
|----------------------------------|--------------------|
| More than 1'000'000 shares | 2 shareholders |
| From 100'001 to 1'000'000 shares | 6 shareholders |
| From 15'001 to 100'000 shares | 53 shareholders |
| From 1 to 15'000 shares | 1'464 shareholders |

As at December 31, 2017, 1'632'690 shares, representing 8.21% of the total number of shares issued, were not registered in the share register (not assigned).

Significant shareholders registered in the share register (i. e., representing 5% or more of the company's voting rights) are the following:

| Shareholders | 31.12.2017 | | 31.12.2016 | |
|--|---------------|-------|---------------|-------|
| | No. of shares | % | No. of shares | % |
| Walter Fust | 9'145'516 | 46.01 | 9'022'747 | 45.39 |
| Michel Rollier / Rollomatic Holding SA | 2'853'733 | 14.36 | 2'853'733 | 14.36 |

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.

According with the article 20 of the Federal Law on Stock Exchange and Security Trading, there were no notification published in 2017 and 2016.

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

<https://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html?companyId=TORNOS>

Tornos Holding SA is unaware of any shareholders' pact.

1.3 Cross-shareholdings

There are no cross-shareholdings.

2 Capital Structure

2.1 Capital

The Tornos Holding SA share capital is as follows:

| | 31.12.2017 | | | 31.12.2016 | | |
|---------------------------|---------------|------------------|----------------------|---------------|------------------|----------------------|
| | No. of shares | Par value CHF | Share capital CHF | No. of shares | Par value CHF | Share capital CHF |
| Share capital | 19'877'671 | 4.50 | 89'449'519.50 | 19'877'671 | 4.50 | 89'449'519.50 |
| Authorized share capital | n/a | n/a | n/a | n/a | n/a | n/a |
| Conditional share capital | 706'662 | 4.50 | 3'179'979.00 | 706'662 | 4.50 | 3'179'979.00 |

Specifications regarding authorized and conditional capital

The following information relates to the changes in authorized and conditional capital for 2017 and 2016.

2.2 Authorized and conditional capital in particular

2.2.1 Authorized capital

2017

As at December 31, 2017, Tornos did not have any authorized capital.

2016

As at December 31, 2016, Tornos did not have any authorized capital.

2.2.2 Conditional capital

2017

As at December 31, 2017, 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.

2016

As at December 31, 2016, 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.

2.3 Changes in Capital

| Share Capital | Number of shares | Source of share capital | Par value (in CHF) | Share capital (in CHF 1'000) |
|----------------------|------------------|-------------------------|--------------------|------------------------------|
| At December 31, 2015 | 19'877'671 | | 4.5 | 89'450 |
| At December 31, 2016 | 19'877'671 | | 4.5 | 89'450 |
| At December 31, 2017 | 19'877'671 | | 4.5 | 89'450 |

| Authorized Capital | Number of shares | Increase/ decrease in capital | Par value (in CHF) | Authorized capital (in CHF 1'000) |
|----------------------|------------------|-------------------------------|--------------------|-----------------------------------|
| At December 31, 2015 | - | | - | - |
| At December 31, 2016 | - | | - | - |
| At December 31, 2017 | - | | - | - |

| Conditional Share Capital | Number of shares | Increase/ decrease | Par value (in CHF) | Conditional capital (in CHF '000) |
|----------------------------------|---------------------|-----------------------|-----------------------|---|
| At December 31, 2015 | 706'662 | | 4.5 | 3'180 |
| At December 31, 2016 | 706'662 | | 4.5 | 3'180 |
| At December 31, 2017 | 706'662 | | 4.5 | 3'180 |

2.4 Shares and participation certificates

As at December 31, 2017, the ordinary share capital of Tornos Holding SA 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.

2.5 Dividend-right certificates

There are no dividend-right certificates.

2.6 Limitations on transferability and nominee registration

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

2.7 Convertible bonds and options

There are no convertible bonds. Shareholding plans for persons designated by the Board of Directors exist. See Note 27 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.

3 Board of Directors



| | |
|-------------------|-------------------|
| François Frôte | Michel Rollier |
| Walter Fust | Frank Brinken |

François Frôté (1953), Swiss

Chairman | Appointed in 2002 | Elected until 2018

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: Board member; Esco SA: Vice-Chairman; Bien-Air Holding SA: Board member; Gebäudeversicherung Bern (GVB): Board member; GVB Privatversicherungen AG: Board member; PX Holding SA: Board member; Azurée Holding SA: Chairman; | Professional activities: Law offices of Frôté & Partner: Lawyer and Chairman (since 1979)

Walter Fust (1941), Swiss

Appointed in 2014 | Elected until 2018

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.: Board member; Immofust Ltd.: Chairman; Waltair Ltd.: Chairman | Other bodies: Fraunhofer Institute IWU University of Chemnitz: Member of the council | Former professional activities: Dipl. Ing. Fust Ltd.: Founder (1966); Jelmoli Holding Ltd.: Board member (from 1997 to 2009, Chairman until 2007)

Michel Rollier (1959), Swiss

Appointed in 2002 | Elected until 2017

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: Board member | 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 2017

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: Fastems Oy AB, Board member; Starrag Group Holding AG: Vice-Chairman; Foundation Inspire/ETHZ: 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)

3.1 Members of the Board of Directors

2017

The Board of Directors comprises four members which are all non-executives. In 2017, there has been no alteration in the composition of the Board of Directors. No member has close business relations with Tornos Holding SA or any Group company.

None of these people was a member of the management of Tornos Group within the last 3 years.

2016

The Board of Directors comprises four members which are all non-executives. In 2016, there has been no alteration in the composition of the Board of Directors. No member has close business relations with Tornos Holding SA or any Group company.

None of these people was a member of the management of Tornos Group within the last 3 years.

3.2 Other activities and vested interests

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 87. No member holds an official function or political office.

3.3 Additionally for issuers subject to the Ordinance against Excessive Compensation at Listed Joint-Stock Companies (OaEC)

The members of the Board of Directors may hold a maximum of five offices as directors or members of the senior management of another listed company.

3.4 Election and terms of office

The Board of Directors of Tornos Holding SA 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 of Shareholders for a term that ends with the conclusion of the next ordinary General Meeting of Shareholders. They are eligible for reelection. The Chairman is elected by the General Meeting of Shareholders.

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

3.5 Internal organization

The Rules of Organization of Tornos Holding SA lay down the regulations for the company's operation, which are published on the website:

<https://investors.tornos.com/sites/investors.tornos.com/files/data/governance/corporatedocuments/tornos-reglement-d-organisation-fr.pdf> (French version only)

3.6 Definition of areas of responsibility

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 define strategic objectives for Tornos Group;
- 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 of Shareholders 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 of Shareholders;
- 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 share holdings;
 - The acquisition or sale of shareholdings;
 - Decisions to commence or terminate legal ac, 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 assess the members of the General Management;
- To approve employment conditions that are not related to remuneration;
- To recruit members of the Board of Directors in view of proposals to the General Meeting of Shareholders.

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 Board of Directors meets as often as necessary, but at least four times a year. During 2017, seven meetings of varying duration were held, of which two conference calls. The Board of Directors regularly invited members of the 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 the General Management also attended committee meetings.

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

- To chair the General Meeting of Shareholders 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.

Remuneration Committee

Walter Fust (Chairman), François Frôté, Frank Brinken, Michel Rollier.

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 the 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;

The Remuneration Committee has to consist of at least two non-executive directors. The CEO is a permanent invitee of the Committee with consultative vote, 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 four times in the course of 2017.

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)";
- Benchmarking the remuneration for the General Management against a peer group of 20 publicly listed small and mid cap Swiss industrial companies;
- Assessment and review of Management and senior staff salaries for 2018;

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

Audit Committee

Frank Brinken (Chairman), Walter Fust, Michel Rollier, 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 Tornos 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.*

The Audit Committee has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO are 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 auditors 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 six times in 2017, including two via conference call.

Michael Hauser (CEO and permanent guest) attended all meetings, together with Bruno Edelmann (CFO and permanent guest).

In particular, the following main topics were discussed:

- *Review of the financial statements and annual report for 2016;*
- *Review of the Group auditor's report to the Audit Committee;*
- *Periodic review of the utilization of the authorized capital and the conditional capital of Tornos Holding Ltd.;*
- *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 Forex policy*
- *Review of the intermediate financial statements on June 30 and the half-year report 2017;*
- *Review of the risk management map;*
- *Monitoring of future changes in the field of corporate governance and financial regulations;*
- *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 2017 and the detailed budget for 2018. 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, 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 Board of Directors, who are all committee members.

3.7 Information and control instruments vis-à-vis the General Management

At its meetings, the Board of Directors is regularly kept verbally informed by the 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, supply chain management, and operations. Twice a year, the General Management establishes a forecast that is to be approved by the Audit Committee. The 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.

4 General Management



| | |
|-------------------|-------------------|
| Michael Hauser | Bruno Edelmann |
| Luc Widmer | Bruno Allemann |

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: Schlatter Industries AG: Board member | 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”, Swiss Delegate (Board member from 2007 until 2017, Chairman from 2009 to 2011) | Previous professional activities: Mikron Ltd., Nidau (CH): Managing Director (from 1996 to 2000); Agie Charmilles Group (CH): Head of Milling Division [Mikron Agie Charmilles Ltd. (CH), Bostomatic Inc. (US), Step Tec AG (CH)] and Group Management member (from 2000 to 2008); Georg Fischer Ltd. (CH): President of GF AgieCharmilles and Member of the General Management (from 2008 to 2010)

Luc Widmer (1969), Swiss

Head of Global Supply Chain Management

Appointed in 2015 (CFO from 2012 - 2015) 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 Edelmann (1966), Swiss

Chief Financial Officer | Appointed in 2015

Chief Financial Officer | Appointed in 2015 Training – final qualification on completion of studies: Swiss Certified Accountant at vocational business school, Biel, 1993; Swiss Certified Public Accountant at Swiss Institute of Certified Accountants, Bern, 1996 | Current directorship: none | Previous professional activities: Ernst & Young Ltd., Biel (CH): Senior Manager Audit (from 1992 to 2001); Feldschlösschen Beverages Ltd., Rheinfelden (CH): Head of Controlling (from 2001 to 2002); Saia-Burgess Group, Murten (CH): Project leader / Controller (from 2005 to 2006); Feintool Group, Lyss (CH): Head of Group Finance and Controlling (from 2002 to 2005 and from 2006 to 2015)

Bruno Allemann (1965), Swiss

Head of Sales & Marketing | Appointed in 2013

Training – final qualification on completion of studies: Diploma SME-HSG, University of St. Gallen, 2004 | Current directorship: none | Previous professional activities: Mikron Ltd., Nidau (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)

4.1 Members of the General Management

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

4.2 Other activities and vested interests

No member of the 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 95. No member holds an official function or political office.

4.3 Additionally for issuers subject to the OaEC

The Article of Association of Tornos Group is published on the website https://investors.tornos.com/sites/investors.tornos.com/files/data/governance/corporatedocuments/articles_of_association_tornos_holding.pdf

4.4 Management contracts

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

Authorities

*The **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 the 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.

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 the 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.

5 Compensation, Shareholdings and Loans

Guidelines

The compensation paid to the members of the Board of Directors and the General Management during the 2017 financial year is shown in the remuneration report. It 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.

6 Shareholder's Participation Rights

6.1 Voting rights restrictions and representation

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 of Shareholders by their legal representative, another shareholder with voting rights or the independent proxy.

6.2 Quorums required by articles of association

Apart from the quorums specified in Article 704 CO, according with Article 11 of the Articles of Association a decision of the General Meeting of Shareholders adopted by at least two thirds of the votes attributed to the shares represented and an absolute majority of the par value represented is required for:

- *modification of the Company purpose;*
- *creation of shares with preferred voting rights;*
- *restriction of the transferability of registered shares;*
- *restriction of the exercise of the right to vote and any modification or elimination of such restriction;*
- *an authorized or contingent increase in the capital stock;*
- *increasing the capital stock using own capital, on the basis of a contribution in kind or for the purpose of acquisition of assets and of a granting of special advantages;*
- *a limitation or elimination of preemptive subscription rights;*
- *moving the main office of the company;*
- *dissolution of the company.*

6.3 Convocation of the General Meetings of Shareholders

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

6.4 Inclusion 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 General Meeting of Shareholders in writing, quoting the items to be discussed and the motions.

6.5 Entries in the share register

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

7 Changes of Control and Defense Measures

7.1 Duty to make an offer

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

7.2 Clauses on changes of control

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.

8 Auditors

8.1 Duration of the mandate and term of office of the lead auditor

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

The auditors are appointed annually by the General Meeting of Shareholders. Mr. Oliver Kuntze, Chartered Public Accountant, is the auditor responsible since 2013 with a maximum mandate of 7 years. 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.

8.2 Auditing fees

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

| in CHF | 2017 | 2016 |
|----------|---------|---------|
| Auditing | 173'000 | 161'900 |

8.3 Additional fees

The additional services paid to PricewaterhouseCoopers Ltd. are as follows:

| in CHF | 2017 | 2016 |
|----------------|------|------|
| Other services | 0 | 0 |

Other services include legal and tax services.

8.4 Information instruments pertaining to the external audit

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 2017, 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.

9 Information 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 by way of media releases to the media. All important information can be consulted on the company's website at www.tornos.com. The annual report as well as the financial report containing information relating to the remuneration of members of the Board of Directors and the General Management may be downloaded via the following link: <https://investors.tornos.com/en/ar17>

Three institutes are currently publishing report on Tornos' business performance:

- Bank Vontobel AG, Pascal Furger;
- Zürcher Kantonalbank, Alexander Koller
- Research Partners, Robin Seydoux

No hardcopy of the annual report is being dispatched.

The Corporate Governance report is only available in English.

Contact addresses

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