

TORNOS

Annual Report 2019

Tornos Group

Key Figures

In CHF 1'000*	2019	2018	Difference	Difference in %
Order intake	135'498	245'009	-109'511	-44.7%
Net sales	205'309	214'864	-9'555	-4.4%
EBITDA**	10'741	19'331	-8'590	-44.4%
<i>in % of net sales</i>	5.2%	9.0%		
EBIT**	6'431	15'486	-9'055	-58.5%
<i>in % of net sales</i>	3.1%	7.2%		
Net result	5'926	15'327	-9'401	-61.3%
<i>in % of net sales</i>	2.9%	7.1%		
Cash flow from operating activities	-26'992	19'116	-46'108	n/a
Cash flow from investing activities	-4'590	-5'661	1'071	18.9%
Free cash flow**	-31'582	13'455	-45'037	n/a
	31.12.2019	31.12.2018		
Net Cash**	-874	35'663	-36'537	n/a
Total equity	107'809	105'356	2'453	2.3%
<i>in % of total balance sheet</i>	64.4%	59.8%		
Total balance sheet	167'507	176'247	-8'740	-5.0%
Employees (full-time equivalents)***	729	728	1	0.1%

* Unless otherwise stated

** Non-GAAP financial measure, refer to page 9

*** Without apprentices

Annual Report 2019

Tornos Group

<i>Financial Review & Management Report</i>	4
<i>Consolidated Financial Statements</i>	10
<i>Notes to the Consolidated Financial Statements</i>	14
<i>Report of the Statutory Auditor</i>	48

Tornos Holding Ltd.

<i>Financial Statements</i>	53
<i>Notes to the Financial Statements</i>	57
<i>Proposed Appropriation of Available Earnings</i>	62
<i>Report of the Statutory Auditor</i>	64

Remuneration Report	69
----------------------------	----

<i>Report of the Statutory Auditor</i>	78
--	----

Corporate Governance	81
-----------------------------	----

Financial Review & Management Report

The global economy cooled noticeably in 2019 after the 2018 boom, and the outlook for fiscal year 2020 appears extremely difficult. Uncertainty is particularly great in the automotive industry. Car sales have declined worldwide in the past year, especially in Asia, the biggest market for automobiles. Many investment projects in the industry have been cancelled or postponed, with most companies now investing only to the extent absolutely necessary. But alongside the automotive industry there are also industries where the investment climate remains positive: medical and dental technology, for example, or the electronics industry. New applications are emerging almost daily in these innovative markets. This can benefit the mechanical engineering sector, including Tornos.

Fiscal year 2019 was a very uneven one for Tornos. After a strong first half with high net sales and encouraging profitability, the situation worsened noticeably in the second half of the year. Order intake from the automotive industry dropped sharply, with new orders from the medical and dental technology and electronics industries unable to offset the pronounced decline. This loss of orders impacted net sales and profitability.

Tornos has initiated extensive measures to achieve an acceptable return despite the anticipated lower net sales in 2020.

Order intake and backlog

The Tornos Group's order intake of CHF 135.5 million for fiscal year 2019 was 44.7% below the previous year's level (CHF 245.0 million). At CHF 58.6 million,

the figure for the second half of the year falls well short of the first half's CHF 76.9 million. Various orders for new Tornos machines from the automotive industry were canceled or postponed. Tornos sold fewer machines than the year before in all regions, with the greatest setbacks occurring in Europe.

The automotive industry has always been the most important market segment for Tornos in recent years. In 2019, however, the segment contributed only 8.6% of total machine order intake (previous year: 42.9%). The medical and dental technology sector's share grew from 12.9% to 28.4% in the same period. Tornos achieved gratifying sales successes in this segment in 2019. Chances are again good for new customer orders in the current year, thanks especially to the innovative Swiss Nano machine line. The percentage share for the electronics market segment rose from 9.6% to 16.6%. In absolute figures, however, Tornos fell somewhat short of the order value from the successful year 2018. The same is even more true of the watchmaking industry market segment. Although its percentage share rose from 9.3% to 9.6%, in absolute figures order value fell by half. The remaining 36.8% (previous year: 25.3%) came from subcontractors (known as job shops) that supply parts to the four industries mentioned above and from smaller markets such as aviation, pneumatics, and hydraulics.

Tornos suffered a decline in sales for most product lines in the year under review, although the Swiss Nano line and two machine types produced in Asia did see gains over the previous year. In unit terms 49% of the machines sold in 2019 came from Asia, and 51% from Switzerland.

As a result of lower order intake in 2019 and higher net sales in the first half of the year, the order backlog contracted significantly. As at December 31, 2019, this figure was CHF 34.2 million (December 31, 2018: CHF 101.0 million).

Net sales

Tornos Group net sales slipped by 4.4% in the year under review, from CHF 214.9 million in 2018 to CHF 205.3 million (CHF -9.6 million; CHF -7.7 million after adjusting for exchange rates). After a very strong first half with sales of CHF 117.2 million, the Group generated a further CHF 88.1 million in sales in the second half of the year. Sales of machines manufactured in Moutier grew by 2%. Tornos saw a slight gain in multispindle machines, a significant gain in (single-spindle) Swiss-type automatic lathes. Sales of Tornos single-spindle machines produced in Asia contracted for the first time since the start of production in the region.

Compared with the previous year, Tornos Group net sales shrank by 7% in Europe, and by 21% in Asia (including the rest of the world). In the Americas net sales were up 53%. Net sales in Switzerland, where Tornos invoiced 13% more than in 2018, were gratifying as well. Overall, the Tornos Group's net sales break down as follows across the different regions: Switzerland 22.8% (previous year: 19.2%), rest of Europe 53.3% (previous year: 59.4%), Asia (including rest of world) 11.2% (previous year: 13.4%), Americas 12.7% (previous year: 8.0%).

In the service and spare parts business, Tornos saw further gains in almost every segment in 2019, with only sales of spare parts declining. Overall, net sales

fell from the previous year's CHF 46.7 million to CHF 45.8 million. In the service, refurbishing, and used machinery subsegments Tornos saw gains over the previous year (CHF +1.7 million). In the coming years Tornos intends to further develop the services segment.

Gross profit

In the fiscal year just ended, the Tornos Group generated a gross profit of CHF 66.4 million (previous year: CHF 73.6 million), of which CHF -3.3 million was attributable to the lower sales volume. The margin declined by 2.0 percentage points, from 34.3% to 32.3%, accounting for CHF -3.9 million of the fall in sales. The main reason for this noticeable deterioration was the building of provisions on inventories due to the increase in inventories (CHF 2.5 million). These provisions are based on calculation and will be released as soon as inventories are reduced. In addition there were moving expenses of roughly CHF 0.3 million from the relocation of a significant portion of raw material inventories to a central distribution point. The remaining CHF 1.2 million consists of expenses which, due to the decline in orders from the automotive industry, can only be reduced or eliminated with a certain delay. These expenses should no longer be incurred in the 2020 fiscal year.

Operating expenses

The Tornos Group's operating expenses increased by CHF 2.2 million in 2019 to CHF 60.0 million (previous year: CHF 57.8 million). Marketing and sales expenses rose by CHF 1.0 million from CHF 30.3 million to CHF 31.3 million. This includes new hiring in the Service unit to further expand services for customers. General administrative expenses grew only slightly. Research and development expenses remained stable. The other expenses item totals CHF 0.6 million, attributable in large part to an increase in doubtful receivables. In the previous year Tornos recognized the sale of trademark rights and production machines in other income.

Research and development

At CHF 10.1 million, research and development expenses in 2019 remained at the same level as in the previous year (2018: CHF 10.1 million). Tornos successfully continued its various innovation projects, both in the multispindle sector as well as on Swiss type automatic lathes.

In 2019 Tornos also advanced the development of its scalable, user-friendly TISIS machine programming and communication software, releasing several product add-ons and updates. These include additional functions for a module with a six-axis robot connected directly to the machine for automatic loading, unloading, palletization and pallet handling. At present 1'800 Tornos machines already feature TISIS.

Non-operating income

Non-operating income comprises expenses and revenues from the Tour Bechler investment property. At present leases have been concluded for all 23 newly built residential units. Tornos plans to sell the property in the foreseeable future.

Tornos sold the factory building in Rue de l'Ecluse, Moutier. Because the final payment for the real estate sale was only received in January 2020 and not in December 2019 as expected, the proceeds in the amount of approximately CHF 3 million will be reflected in Tornos's profit figure only in 2020.

EBITDA and EBIT*

Earnings before financial expenses, tax, depreciation and amortization (EBITDA) came to CHF 10.7 million for 2019 (previous year: CHF 19.3 million), with an EBITDA margin of 5.2% (previous year: 9.0%). Earnings before financial expenses and tax (EBIT) amounted to CHF 6.4 million (previous year: CHF 15.5 million; CHF -9.1 million; CHF -9.6 million after adjusting for exchange rates), resulting in an EBIT margin of 3.1% (previous year: 7.2%).

Financial income

Tornos generated net financial income of CHF -0.2 million in the 2019 fiscal year (previous year: CHF -0.2 million). Currency effects, particularly in relation to the US dollar, had a positive impact of CHF 0.2 million in the year under review; this compares with a positive effect of CHF 0.4 million in the previous year.

Net income

After deducting income tax of CHF 0.5 million, net income came to CHF 5.9 million (previous year: CHF 15.3 million). The margin stood at 2.9% (previous year: 7.1%).

Balance sheet

Compared with the previous year, the balance sheet total as of December 31, 2019 contracted by CHF 8.7 million to CHF 167.5 million.

On the asset side, cash and cash equivalents declined by CHF 21.5 million. A large portion of the cash

* Non-GAAP financial measure, refer to page 9

was converted to net working capital. Trade receivables fell by CHF 7.8 million due to lower fourth-quarter sales compared to the previous year. Inventories, by contrast, expanded by CHF 20.3 million. The increase took place in raw materials, which accumulated when orders declined while materials and components had already been purchased (CHF +8.0 million), and in finished machines, which increased by CHF 14.8 million. Tornos intends to be prepared for rapid deliveries once the market picks up. Other amounts due and prepaid expenses fell by CHF 0.4 million.

Fixed assets were CHF 0.3 million higher at the end of 2019 than at the end of 2018. In the fiscal year just ended Tornos principally invested in buildings in Moutier (Welcome Center, Tech Center, Tour Bechler). Intangible non-current assets increased by CHF 0.3 million. This item comprises Tornos investments in software and computer hardware.

On the liability side, financial liabilities grew by CHF 15.0 million. As a result of the CHF 41.0 million increase in net working capital, a large portion of cash and cash equivalents shifted into this item. To bridge the gap, Tornos borrowed CHF 15.0 million from its main shareholder. Trade payables fell by CHF 4.1 million in consequence of the contracting business volume. Other liabilities likewise dropped sharply, due in large part to fewer advance payments received (CHF -20.1 million). Deferred income and current provisions declined by CHF 1.0 million. Non-current liabilities remained at the previous year's level.

On December 31, 2019, net cash* stood at CHF -0.9 million (previous year: CHF +35.7 million).

Shareholders' equity was CHF 107.8 million on December 31, 2019 (previous year: CHF 105.4 million), with minority interests accounting for CHF 0.4 million (December 31, 2018: CHF 0.5 million). The decline in the balance sheet total resulted in an increase of 4.6 percentage points in the equity ratio, to 64.4%.

Cash flow

In contrast to previous years, Tornos' cash and cash equivalents developed negatively in 2019. Cash flow from operating activities before change in net working capital came to CHF 14.0 million, only CHF 3.1 million less than the previous year (CHF 17.1 million). A large amount of cash was tied up in the CHF 41.0 million increase in net working capital in the year under review. This was largely the result of the expansion of inventories (CHF 22.8 million) and contraction of other liabilities (CHF 22.4 million). Customer advance payments declined sharply with the fall in order intake. As a result, cash flow from operating activities in 2019 came to CHF -27.0 million (previous year: CHF +19.1 million). Tornos spent a net CHF 4.6 million on investing activities in 2019 (previous year: CHF 5.7 million). Investments were principally undertaken in buildings (Welcome Center, Tech Center, Tour Bechler) as well as in software and computer hardware. Free cash flow* amounted to CHF -31.6 million in 2019 (previous year: CHF 13.5 million).

To cover a portion of this large cash outflow, Tornos turned to its main shareholder for a bridge loan of CHF 15.0 million. In 2019 Tornos Holding AG distributed a dividend totaling CHF 5.4 million (previous year: CHF 2.9 million). In addition the Group sold treasury shares in the amount of CHF 0.7 million (previous year: CHF 1.9 million). Most of these shares went to employees under the Group's Management and Board Participation Plan. This left net cash flow of CHF -21.6 million at the end of the 2019 fiscal year (previous year: CHF 12.3 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 to 23 of the 2019 Annual Report.

* Non-GAAP financial measure, refer to page 9

Employees

On December 31, 2019, Tornos employed 729 people (full-time equivalents) and 35 apprentices. At the end of 2018, it had 728 employees and 44 apprentices. While headcount in Switzerland declined by 16 FTEs due to a reduction in temporary employees, Tornos increased hiring by the same amount in the service category in its foreign subsidiaries. This resulted in a further expansion of services for customers.

The average number of employees during the year under review was 747 (2018: 692). Whereas headcount expanded steadily during the first half of 2019 to keep up with the heavy workload, it contracted again in the second half as order intake declined. Most of the changes took place among temporary staff.

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 2020.

Outlook

The Tornos Group enters the new fiscal year with a significantly slimmer order book than one year ago. Recent geopolitical developments are causing considerable uncertainty, making it extremely difficult to formulate assessments and forecasts at present. However, with a range of products and services carefully tailored to customer requirements, Tornos remains well equipped to respond rapidly and efficiently to developments in each market.

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.-31.12.2019	1.1.-31.12.2018	31.12.2019	31.12.2018
1 EUR	1.1230	1.1536	1.0960	1.1260
1 USD	1.0025	0.9798	0.9778	0.9816
1 GBP	1.2786	1.3038	1.2835	1.2525
1 CNY	0.1450	0.1478	0.1401	0.1427

Non-GAAP Financial Measures

Tornos supplements its Swiss GAAP FER results with non-GAAP financial measures. The main non-GAAP financial measures are EBIT, EBITDA, Net cash and Free Cash flow.

EBIT and EBITDA

Tornos defines EBITDA as operating result plus non-operating result excluding depreciation on tangible fixed assets and amortization on other intangible assets and EBIT as operating result plus non-operating result. Tornos believes that EBITDA and EBIT are important performance indicators because they provide a measure of comparability to other companies with different capital or legal structures, which accordingly may be subject to disparate interest rates and effective tax rates, and to companies which may incur different depreciation and amortization expenses, or impairment charges related to fixed and intangible assets.

In CHF 1'000	2019	2018
Operating result	6'374	15'808
Non-operating result	57	-322
EBIT	6'431	15'486
Depreciation and amortization	4'310	3'845
EBITDA	10'741	19'331

Free Cash flow

Tornos defines Free Cash Flow as cash flow from operating activities plus cash flow from investing activities. Tornos believes that Free Cash Flow is an important information because it represents the cash Tornos is generating after required investment in its asset base are done and therefore can be used to cover financing requirements or be distributed to shareholders.

Net cash

Tornos defines Net cash as cash and cash equivalents less the interest bearing borrowing (current and non-current). Tornos believes that Net cash is an important information because it presents the available cash and take in consideration of the shareholder loan.

In CHF 1'000	2019	2018
Cash and cash equivalents	14'440	35'926
Interest bearing borrowings (current)	-15'113	-84
Interest bearing borrowings (non-current)	-201	-179
Net Cash	-874	35'663

Consolidated Income Statement

Tornos Group

In CHF 1'000	Notes	2019	2018
Net sales	29	205'309	214'864
Cost of sales	6	-138'947	-141'254
Gross profit		66'362	73'610
<i>in % net sales</i>		32.3%	34.3%
Marketing and sales	6	-31'299	-30'300
General and administrative expenses	6	-18'066	-17'850
Research and development	6	-10'111	-10'105
Other income	8	9	652
Other expense	8	-521	-199
Operating expenses		-59'988	-57'802
Operating result		6'374	15'808
<i>in % net sales</i>		3.1%	7.4%
Financial income	9	26	41
Financial expense	9	-239	-236
Exchange result, net	10	237	411
Ordinary result		6'398	16'024
Non-operating result	11	57	-322
Earnings before income taxes		6'455	15'702
Income taxes	12	-529	-375
Net result		5'926	15'327
<i>in % net sales</i>		2.9%	7.1%
Thereof attributable to shareholders of Tornos Holding Ltd.		6'040	15'186
Thereof attributable to minority interests		-114	141
Result per share	28		
- basic (CHF per share)		0.31	0.79
- diluted (CHF per share)		0.31	0.78
Additional information (in CHF 1'000)			
EBITDA		10'741	19'331
<i>in % net sales</i>		5.2%	9.0%
Depreciation and amortization	18, 19	-4'310	-3'845
EBIT		6'431	15'486
<i>in % net sales</i>		3.1%	7.2%

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

Consolidated Balance Sheet

Tornos Group

In CHF '000	Notes	31.12.2019	in %	31.12.2018	in %
ASSETS					
Cash and cash equivalents	13	14'440		35'926	
Trade receivables	14	16'865		24'674	
Inventories, net	15	101'871		81'586	
Other short-term receivables	16	3'356		3'766	
Prepayments and accrued income	17	2'337		2'352	
Total current assets		138'869	82.9%	148'304	84.1%
Property, plant and equipment	18	27'238		26'925	
Intangible assets	19	950		621	
Deferred tax assets	20	450		397	
Total non-current assets		28'638	17.1%	27'943	15.9%
Total assets		167'507	100.0%	176'247	100.0%
LIABILITIES AND EQUITY					
Interest bearing borrowings	21	15'113		84	
Trade payables		23'174		27'240	
Current tax liabilities		206		25	
Other liabilities	22	8'234		29'602	
Accrued liabilities and deferred income	23	7'331		7'511	
Provisions	24	3'292		4'139	
Total current liabilities		57'350	34.2%	68'601	38.9%
Interest bearing borrowings	21	201		179	
Retirement benefit obligations	25	1'952		1'863	
Provisions	24	191		220	
Deferred tax liabilities	20	4		28	
Total non-current liabilities		2'348	1.4%	2'290	1.3%
Total liabilities		59'698	35.6%	70'891	40.2%
Share capital	26	69'572		69'572	
Capital reserve		40'331		45'776	
Treasury shares	26	-1'875		-3'186	
Retained earnings		-5'925		-21'825	
Currency translation adjustments		-747		-696	
Net result		6'040		15'186	
Equity attributable to shareholders of Tornos Holding Ltd.		107'396		104'827	
Minority interests		413		529	
Total equity		107'809	64.4%	105'356	59.8%
Total liabilities and equity		167'507	100.0%	176'247	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, 2017	89'450	28'814	-5'452	-22'702	-283	89'827	413	90'240
Net result				15'186		15'186	141	15'327
Contribution to shareholders	-2'982	66				-2'916		-2'916
Capital restructuration	-16'896	16'896				-		-
Currency translation adjustments					-413	-413	-25	-438
Proceeds from sale and purchase of treasury shares			2'266	-392		1'874		1'874
Share-based compensation				1'269		1'269		1'269
As per December 31, 2018	69'572	45'776	-3'186	-6'639	-696	104'827	529	105'356
Net result				6'040		6'040	-114	5'926
Contribution to shareholders		-5'445				-5'445		-5'445
Currency translation adjustments					-51	-51	-2	-53
Proceeds from sale of treasury shares			1'311	-643		668		668
Share-based compensation				1'357		1'357		1'357
As per December 31, 2019	69'572	40'331	-1'875	115	-747	107'396	413	107'809

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

Consolidated Statement of Cash Flows

Tornos Group

In CHF 1'000	Notes	2019	2018
Net result		5'926	15'327
Adjustments for expenses and incomes not affecting cash:			
Income taxes	12	529	375
Depreciation of property, plant and equipment	18	3'743	3'295
Amortization of intangible assets	19	567	550
Result on disposal of property, plant and equipment	18, 19	-149	-278
Share-based compensation	27	1'357	1'269
Retirement benefits obligations	25	55	-703
Allowance and write-offs on inventories	15	2'341	-2'227
Interest expense	9	84	36
Interest income	9	-26	-41
Income taxes paid		-437	-467
Changes from operating activities before changes in net working capital		13'990	17'136
Changes in net working capital		-40'982	1'980
<i>Thereof trade receivables</i>		7'794	-4'147
<i>Thereof other assets and prepayments</i>		437	-1'317
<i>Thereof inventories</i>		-22'766	-11'505
<i>Thereof trade payables</i>		-4'073	3'094
<i>Thereof other current liabilities and provisions</i>		-22'374	15'855
Cash flow from operating activities		-26 992	19'116
Investment in property, plant and equipment	18	-4'568	-5'447
Disposal of property, plant and equipment	18	848	195
Investment in intangible assets	19	-896	-450
Interest received	9	26	41
Cash flow from investing activities		-4'590	-5'661
Free Cash flow		-31'582	13'455
Repayments of borrowings, including finance lease liabilities	21	-107	-75
Proceeds from borrowings		15'000	-
Distribution to shareholder		-5'445	-2'916
Proceeds from sale & purchase of treasury shares	26	668	1'874
Interest paid	9	-84	-36
Cash flow from financing activities		10'032	-1'153
Net cash flow		-21 550	12'302
Cash and cash equivalents and bank overdrafts at beginning of year		35'926	23'664
Effects of exchange rate changes		64	-40
Cash and cash equivalents and bank overdrafts at end of year		14'440	35'926

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 Zurich. 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 March 2, 2020. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 15, 2020.

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

There have been no changes in accounting policy during the year.

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 unrealized 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 recognized 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 recognized 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 recognized 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 recognized in the income statement within other income and expense. 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 underlying basic values does only require a minor initial investment and which will only be settled in the future. Derivatives are recognized 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 recognized 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 recognized, 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 (incl. Investment properties) are stated at cost less accumulated depreciation and impairment losses, if any (refer to note 2.12).

Investment properties, properties that are not considered operating (such as residential buildings or land) or properties that are, based on a strategic decision, no longer used in the operating activity of Tornos, are considered non-operating properties. Income from disposal of such properties and rental income as well as depreciation and impairment losses are therefore recorded in non-operating result.

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 recognized 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 recognized 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 recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized 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 recognized in the income statement except to the extent that it relates to items recognized in equity, in which case it is also recognized 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 recognized 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 recognized 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 not reverse in the foreseeable future.

The amount of deferred tax recognized 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 recognized for tax losses carried forward.

Any other tax balances other than on income are recognized 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 recognized in "Personnel expenses" in the income statement.

2.16 Provisions

A provision is recognized 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 recognized 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 recognized 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 recognized 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 recognized as a personnel 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 recognized 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, USD and CNY. 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 exchange rate 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% in 2018 and 1.0% in 2019 (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 2019 and 2018. Furthermore, a credit line of CHF 10 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% in 2018 and 1.0% in 2019. The facility agreement renews automatically yearly unless a written notice of termination is given 27 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 the Management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, the 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 last 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 last 12 months of consumption. Any excess is fully provided for.

5 Scope of consolidation

Group structure	Share capital	% held*	
		2019	2018
Tornos Holding Ltd., Moutier <i> Holding</i>	CHF 69'571'848.50		
↳ Tornos Ltd., Moutier <i> Production and sales</i>	CHF 65'000'000	100%	100%
↳ Tornos (Taichung) Machine Works Ltd., Taichung <i> Production</i>	TWD 250'000	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. Des Plaines, 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 (Thailand) Co., Ltd., Bangkok <i> Support services</i>	THB 3'000'000	100%	-
↳ Tornos Technologies (Malaysia) Sdn. Bhd., Penang <i> Support services</i>	MYR 40'000	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

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 2019 amounts to KCHF 413 (December 31, 2018: KCHF 529) 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

Tornos Management Holding Ltd, Switzerland and Tornos Holding Ltd., Switzerland merged with retro-active effect from January 1, 2019. This change has been decided in view of the streamlining of the Group structure. The assets and liabilities have been taken over by Tornos Holding Ltd. The operating activities carried out by Tornos Management Holding Ltd. as well as the employees have been transferred to Tornos Ltd., Switzerland. The merger has no financial impact on the consolidated financial statements.

Furthermore, three new companies were incorporated in Asia. Tornos (Taichung) Machine Works Ltd., Taiwan has taken over the production activities of Tornos Management Holding Ltd., Taiwan Branch. The activities of the representative offices, Tornos Ltd. Thailand and Tornos Technologies Asia LTD Malaysia, have been transferred to Tornos Technologies (Thailand) Co, Ltd., Bangkok and Tornos Technologies (Malaysia) Sdn. Bhd., Penang. The companies are fully owned and controlled by the Group. These changes have no impact on the consolidated financial statements and do not alter the scope or the nature of the activities carried out in this region.

There are no other changes in scope to report for the period under review.

6 Expenses by nature

In CHF 1'000	2019	2018
Material expense	-92'426	-96'958
Personnel expense (note 7)	-69'060	-65'112
Depreciation and amortization charges (notes 18, 19)	-4'070	-3'561
Marketing expenses & commissions	-4'890	-6'195
Other operating expenses	-27'977	-27'683
Total expenses	-198'423	-199'509

This shows the costs in the Group income statement by nature: cost of sales, marketing and sales, general and administrative expenses, and research and development expenses.

Depreciation on buildings & installations used for non-operating activities amounts to KCHF 240 (2018: KCHF 284) and is reported in the non-operating result (notes 11, 18).

7 Personnel expenses

In CHF 1'000	2019	2018
Personnel expense - gross	-69'060	-65'742
Release of provision for retirement benefit obligations	-	630
Personnel expense - net	-69'060	-65'112
Of which:		
Pension expense (note 25)	-2'881	-1'994
Share-based compensation (note 27)	-1'357	-1'269

As of December 31, 2019 the headcount (FTE) amounted to 729, with 35 apprentices (December 31, 2018: 728 with 44 apprentices). The average number of employees during the year under review was 747 (2018: 692).

8 Other income and expense

In CHF 1'000	2019	2018
Gain on sale of brand name ("Almac")	-	374
Gain on sale of machinery	6	278
Other income	3	-
Loss on sale of machinery	-17	-
Changes in bad debt provision	-504	-4
Other expense	-	-195
Other income and expense	-512	453

9 Finance result

In CHF 1'000	2019	2018
Interest income	26	41
Finance income	26	41
Interest expense	-84	-36
Bank charges and other finance expenses	-155	-200
Finance expenses	-239	-236
Finance result	-213	-195

10 Exchange result

In CHF 1'000	2019	2018
Realized gains and losses	591	209
Unrealized gains and losses	-354	202
Exchange result	237	411

11 Non-operating result

In CHF 1'000	2019	2018
Gain on sale of land and buildings	160	-
Income and expenses from non-operating properties	-103	-322
Non-operating result	57	-322

The gain on sale of land and buildings of KCHF 160 relates to a building held for sale which was sold for KCHF 800.

The expenses from non-operating properties of KCHF 103 (2018: KCHF 322) relates mainly to a building held for investment purposes with a net book value of KCHF 6'414 and includes rental income of KCHF 239 (2018: KCHF 32), depreciation of KCHF 240 (2018: KCHF 284) and ancillary costs of KCHF 102. This building was completely renovated and reassigned as a non-operating building in since then. At the end of December the building is almost fully let.

12 Income taxes

In CHF 1'000	2019	2018
Current income tax charge	-618	-292
Deferred tax credit/(charge)	89	-83
Income taxes	-529	-375

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2019 ranged between 8% and 31% (2018: between 8% and 32%), in the tax jurisdictions in which the Group operates.

In CHF 1'000	2019	2018
Ordinary result before income taxes	6'398	16'024
Expected tax credit / (expense)	-1'338	-2'729
Weighted average applicable tax rate	20.9%	17.0%
Effect of tax deductible expenses/incomes eliminated on consolidation	-652	-552
Effect of tax on non-operating result	-9	55
Utilisation of previously unrecognized tax assets	2'153	3'215
Current year losses for which no deferred tax asset is recognized	-406	-71
Expenses not deductible for tax purposes/revenues not taxable	-280	-319
Other effects	3	26
Income tax credit/(charge) recognized	-529	-375

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.

In Switzerland, changes to the federal and cantonal tax laws were enacted during the year. This tax reform (TRAF) introduced the abolishment of special tax regimes such as the principal and holding status as from January 1, 2020. As a consequence, all Swiss Tornos entities will be ordinarily taxed from 2020 onwards. In prior years the special tax status had no relevance for Tornos due to tax loss carry-forwards. Swiss entities will continue to benefit from reduced effective tax rates due to deductibility of intergroup dividends. Furthermore, tax-related arrangements to promote research and development will be introduced from 2020 (patent box and additional deduction for research and development expenditure). The cantonal implementing regulations are in preparation and the effects on Tornos are being examined. The changes mentioned have no significant effect on the annual financial statements.

13 Cash and Cash equivalents

In CHF 1'000	31.12.2019	31.12.2018
Cash at bank and in hand	14'530	36'060
Less bank overdrafts	-90	-134
Cash and cash equivalents	14'440	35'926

14 Trade receivables

In CHF 1'000	31.12.2019	31.12.2018
Trade receivables	17'867	25'179
Less provision for impairment of receivables	-1'002	-505
Trade receivables - net	16'865	24'674

Trade receivables aging is as follows:

In CHF 1'000	31.12.2019	31.12.2018
Current	10'169	11'233
1 to 30 days overdue	4'340	5'978
31 to 60 days overdue	1'082	1'488
61 to 90 days overdue	411	1'912
91 to 180 days overdue	895	1'432
More than 180 days overdue	970	3'136
Trade receivables	17'867	25'179

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

In CHF 1'000	2019	2018
At beginning of year	-505	-511
Changes in bad debt provision	-504	-1
Receivables written off during the year as uncollectible	7	7
At end of year	-1'002	-505

15 Inventories

In CHF 1'000	31.12.2019	31.12.2018
Materials and components	55'076	49'261
Work in progress	15'106	19'064
Spare parts	22'470	20'298
Finished goods	31'221	16'383
Inventories – gross	123'873	105'006
Less allowance for obsolescence	-22'002	-23'420
Inventories – net	101'871	81'586

In 2019, about half of the materials and components were moved to a central warehouse at an external logistics company. The total amount of inventories scrapped or written off in 2019 amounts to KCHF 3'759 (2018: KCHF 1'279).

16 Other short-term receivables

In CHF 1'000	31.12.2019	31.12.2018
VAT receivable	2'322	2'864
Social securities & other related taxes receivable	30	172
Other	1'004	730
Total short-term receivables	3'356	3'766

17 Prepayments and accrued income

In CHF 1'000	31.12.2019	31.12.2018
Advances to suppliers & logistic companies for customs clearance purpose	1'297	459
Negative hours due from employees	45	25
Prepaid expenses	995	1'868
Total prepayment and accrued income	2'337	2'352

18 Property, plant and equipment

In CHF 1'000	Land	Buildings & installations	Machinery	Other equipment	Total
Cost					
At December 31, 2017	4'120	52'694	12'079	5'690	74'583
Additions	-	3'759	1'131	650	5'540
Disposals	-	-1'380	-1'195	-331	-2'906
Exchange differences	-9	-127	-27	-81	-244
At December 31, 2018	4'111	54'946	11'988	5'928	76'973
Additions	-	3'694	266	765	4'725
Disposals	-600	-460	-170	-1'407	-2'637
Exchange differences	5	-42	-16	-48	-101
At December 31, 2019	3'516	58'138	12'068	5'238	78'960

Accumulated depreciation

At December 31, 2017	-	-35'080	-10'543	-4'107	-49'730
Depreciation	-	-2'200	-360	-735	-3'295
Disposals	-	1'283	1'195	331	2'809
Exchange differences	-	90	16	62	168
At December 31, 2018	-	-35'907	-9'692	-4'449	-50'048
Depreciation	-	-2'515	-457	-771	-3'743
Disposals	-	420	170	1'348	1'938
Exchange differences	-	59	9	63	131
At December 31, 2019	-	-37'943	-9'970	-3'809	-51'722

Carrying amounts

December 31, 2018	4'111	19'039	2'296	1'479	26'925
December 31, 2019	3'516	20'195	2'098	1'429	27'238

Under the category Building & Installations, there are buildings held for investment purposes (note 11). Assets held for sale with a net book value of KCHF 7'164 are included in the schedule above as of December 31, 2019 (December 31, 2018: KCHF 1'356). In 2019, a building held for sale with a net book value of KCHF 640 was sold.

Depreciation on buildings & installations used for non-operating activities amounts to KCHF 240 (2018: KCHF 284) and is reported in the non-operating result (note 11).

Assets under finance leasing have been acquired for KCHF 157 in 2019 (2018: KCHF 93). The residual net book value of the assets under finance lease amounts to KCHF 340 (December 31, 2018: KCHF 288). These assets are reported under other equipment.

The fire insurance value of buildings amounts to CHF 107.2 million (December 31, 2018: CHF 105.5 million).

19 Intangible assets

In CHF 1'000

	Development costs	Software	Total
--	-------------------	----------	-------

Cost

At December 31, 2017	554	1'724	2'278
Additions	-	450	450
Disposals	-	-22	-22
Exchange differences	-26	-5	-31
At December 31, 2018	528	2'147	2'675
Additions	-	896	896
Disposals	-	-1'168	-1'168
Exchange differences	-10	-	-10
At December 31, 2019	518	1'875	2'393

Accumulated amortization

At December 31, 2017	-434	-1'116	-1'550
Amortization charge	-109	-441	-550
Disposals	-	22	22
Exchange differences	24	-	24
At December 31, 2018	-519	-1'535	-2'054
Amortization charge	-9	-558	-567
Disposals	-	1'168	1'168
Exchange differences	10	-	10
At December 31, 2019	-518	-925	-1'443

Carrying amounts

December 31, 2018	9	612	621
December 31, 2019	-	950	950

In the financial year 2013, development costs of KCHF 539 have been recognized 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 in which Tornos Ltd. holds a 70% participation. The recognized development costs correspond to drawings and prototypes of a platform which was marketed and launched in 2014. They are amortized over a period of five years. The disposal with a gross value of KCHF 1'168 is the result of the reassessment and upgrade of our software assets. Installations that are no longer used or are 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	tax assets	tax liabilities
At December 31, 2017	471	2
Additions	1	27
Reversals	-57	-1
Translation adjustments	-18	-
At December 31, 2018	397	28
Additions	64	-
Reversals	-4	-24
Translation adjustments	-7	-
At December 31, 2019	450	4

The movement in deferred tax assets and liabilities is the result of changes in taxable temporary differences.

The expiry dates of tax loss carry-forwards are as follows:

In CHF 1'000	Swiss federal tax and foreign tax* 31.12.2019	Thereof cantonal tax and foreign tax* 31.12.2019	31.12.2018
Within 1 year	37'199	35'703	528
Between 1 and 2 years	3'774	3'070	37'199
Between 2 and 5 years	24'186	4'096	18'281
After 5 years	14'033	13'438	21'081
Losses not subject to expiry	1'573	1'573	1'912
Total	80'765	57'880	79'001

* In Switzerland, changes to the federal and cantonal tax laws were enacted during the year. This tax reform (TRAF) introduced the abolishment of special tax regimes such as the principal and holding status as from January 1, 2020. As a consequence, all Swiss Tornos entities will be ordinarily taxed at federal as well cantonal level from 2020 onwards. Certain tax loss carry-forwards from 2019 and earlier therefore only exist at the federal level (refer to note 12).

21 Interest bearing borrowings

In CHF 1'000	31.12.2019	31.12.2018
Loan from shareholders (note 21.2)	15'000	-
Short-term lease liabilities (note 21.6)	113	84
Current interest bearing borrowings	15'113	84
Long-term lease liabilities (note 21.6)	201	179
Non-current interest bearing borrowings	201	179
Interest bearing borrowings	15'314	263

21.1 Credit agreements with banks

No mortgages were granted to subsidiaries in 2018 or 2019.

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 includes the provision of securities of CHF 8 million for bank guarantees.

The aforementioned shareholder loan facilities granted bear fixed interest rates of 1.0% (2018: 3.0%). The credit line and the securities provided for bank guarantees can be cancelled on each September with a termination period of 27 months. The Agreements have not been cancelled on September 2019. 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 2019.

At the end of the year 2019, CHF 4.2 million (December 31, 2018: CHF 6.9 million) were used under the ancillary facilities for guarantees purposes and CHF 15 million were used as part of the credit facilities granted (December 31, 2018: none).

21.3 Maturity schedule

In CHF 1'000	31.12.2019	31.12.2018
Within 1 year	15'113	84
Between 1 and 2 years	76	84
Between 2 and 5 years	125	95
Total borrowings	15'314	263

21.4 Interest rate exposure

In CHF 1'000	31.12.2019	31.12.2018
At fixed rates	15'314	263
Total	15'314	263

21.5 Exchange rate exposure

The original currencies of the Group's borrowings are:

In CHF 1'000	31.12.2019	31.12.2018
Swiss franc	15'314	263
Total borrowings	15'314	263

21.6 Finance lease liabilities

In CHF 1'000	31.12.2019	31.12.2018
Minimum lease payments		
Within 1 year	113	84
Between 1 to 5 years	201	179
Present value of finance lease liabilities	314	263

The finance lease liabilities of the Group carried an effective interest rate of 2.0% as at December 31, 2019 (December 31, 2018: 2.5%).

22 Other liabilities

In CHF 1'000	31.12.2019	31.12.2018
Advances received	5'530	25'675
Commissions payable	961	1'784
Other taxes and social security payables	1'491	1'824
Other payables	252	319
Total other liabilities	8'234	29'602

Customer advance payments declined sharply with the fall in order intake.

23 Accrued liabilities and deferred income

In CHF 1'000	31.12.2019	31.12.2018
Accrued employees remuneration	4'977	5'085
Other accrued expenses	2'354	2'426
Total other liabilities	7'331	7'511

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

24 Provisions

In CHF 1'000	Warranties	Restructuring	Other	Total
At December 31, 2017	2'912	144	489	3'545
Additions	3'178	-	717	3'895
Reversals	-	-	-100	-100
Utilization	-2'708	-103	-159	-2'970
Translation adjustments	-3	-	-8	-11
At December 31, 2018	3'379	41	939	4'359
Additions	1'844	-	230	2'074
Reversals	-34	-	-496	-530
Utilization	-2'337	-41	-31	-2'409
Translation adjustments	-5	-	-6	-11
At December 31, 2019	2'847	-	636	3'483

In CHF 1'000	2019	2018
Current	3'292	4'139
Non-current	191	220
Total	3'483	4'359

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 recognized 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 2019, the rate was at 1.00% (2018: 1.00%). 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.

25.1 Economic benefit / economic obligation and pensions expenses

In CHF 1'000	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 2019	2018				2019	2018
Pension plans without surplus/deficit according to Swiss GAAP FER 26	-	-	-	-	-	2'454	2'454	1'934
Other funded pension plans	-880	-880	-815	65	-5	262	332	199
Pension plans without assets	-1'072	-1'072	-1'048	24	-29	42	95	-139
Total	-1'952	-1'952	-1'863	89	-34	2'758	2'881	1'994

As of December 31, 2019 and as of December 31, 2018 there is no employer's contribution reserve. The information on the economic benefit as at December 31, 2019 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, 2018. The pension fund reported a coverage rate of 102.8% in its Swiss GAAP FER 26 financial statements 2018, resp 108.4% in the financial statements 2017. The technical interest rate used in the Swiss GAAP FER 26 financial statements of the Swiss Pension plan amounts to 2.00% (in prior year financial statements 2017: 2.00%). In December the Foundation Board decided to lower the technical interest rate to 1.75% as of December 31, 2019.

In 2018, the provision was revaluated and completely released due to the fact, that even with a technical interest rate of 1.75% there is no shortfall between the plan assets and the defined benefit obligations. The movement of KCHF 630 was recognized 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, 2017	19'877'671	-763'254	19'114'417
Movement in treasury shares	-	313'985	313'985
Issued and fully paid-in at December 31, 2018	19'877'671	-449'269	19'428'402
Movement in treasury shares	-	184'950	184'950
Issued and fully paid-in at December 31, 2019	19'877'671	-264'319	19'613'352

26.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2019 and as of December 31, 2018 the share capital consisted of 19'877'671 ordinary registered shares with a par value of CHF 3.50 each. The nominal value was reduced by CHF 1.00 to CHF 3.50 in the financial year 2018. 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:

	2019		2018	
	Number of shares	Amount (in CHF 1'000)	Number of shares	Amount (in CHF 1'000)
At beginning of year	449'269	3'186	763'254	5'452
Sale of treasury shares	-184'950	-1'311	-339'825	-2'427
Acquisition of treasury shares	-	-	25'840	161
At end of year	264'319	1'875	449'269	3'186

Treasury shares are valued at average purchase price. The average purchase price as per 31.12.2019 is CHF 7.09 (31.12.2018: CHF 7.09).

During the year 2019:

- 184'950 treasury shares have been transferred to the Management and Board at the weighted average price of CHF 3.64 under the Management and Board Participation plan 2007 (MBP07);

During the year 2018:

- 285'966 treasury shares have been transferred to the Management and Board at the weighted average price of CHF 4.14 under the Management and Board Participation plan 2007 (MBP07);
- 53'859 treasury shares were sold to the market at the weighted average price of CHF 15.77
- 25'840 treasury shares were bought from the market at the weighted average price of CHF 6.27

26.4 Conditional share capital

	2019		2018	
	Number of shares	Amount (in CHF 1'000)	Number of shares	Amount (in CHF 1'000)
At beginning of year	706'662	2'473'317	706'662	3'179'979
Utilisation	-	-	-	-
At end of year	706'662	2'473'317	706'662	2'473'317

The conditional share capital therefore amounts to CHF 2'473'317 (previous year: CHF 2'473'317) and is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock option plans in favor 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:

	31.12.2019	31.12.2018
Walter Fust	48.40%	48.15%
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 effective number of shares at balance sheet date.

27 Stock compensation plans

There is one stock participation plan in 2019, namely the Management and Board Participation Plan (MBP07). Compensation expense under this plan is recognized 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 1'357 was recorded for the year ended December 31, 2019 (2018: KCHF 1'269). Compensation expense arising from stock options outstanding at December 31, 2019 to be recognized in future periods amounts to KCHF 802 (December 31, 2018: KCHF 1'514)..

Under this plan, a maximum of 450'000 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 2019, participants elected to purchase 8'000 shares at a price of CHF 7.34 through the sale of treasury shares (2018: 47'883 shares at CHF 7.56). A compensation expense of KCHF 5 was recorded for these transactions for the year ended December 31, 2019 (December 31, 2018: KCHF 359).

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, 2019 as part of this option program amounted to KCHF 1'352 (2018: KCHF 910).

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:

	2019			2018		
	Options	Exercise price in CHF	Contractual life	Options	Exercise price in CHF	Contractual life
Outstanding at January 1	581'756	7.35¹		586'463	3.82¹	
Granted	406 583	9.79	3 years (April 30, 2022)	361'876	10.08	3 years (April 30, 2021)
Exercised	-184 950	3.47 ¹		-280'583	3.82 ¹	
Forfeited or expired	-28'180			-86'000		
Outstanding at December 31	775'209	9.49¹		581'756	7.35¹	
Exercisable at December 31	52'750	3.48		27'000	3.38	

¹ weighted average

In 2019, 120'000 options (2018: 120'000) have been granted to the General Management, 32'000 to the Board of Directors (2018: 32'000) and 254'583 to the Senior Management of the Group (2018: 257'759). Out of these options granted, participants elected to purchase 8'000 shares (2018: 47'883 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).

	2019	2018
Net result attributable to equity holders of Tornos (in CHF 1'000)	6'040	15'186
Weighted average number of ordinary shares in issue (in 1'000)	19'545	19'314
Basic result per share (CHF per share)	0.31	0.79

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.

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

	2019	2018
Net result attributable to equity holders of Tornos (in CHF 1'000)	6'040	15'186
Weighted average number of ordinary shares in issue (in 1'000)	19'545	19'314
Adjustments for share options (in 1'000)	60	213
Weighted average number of ordinary shares for diluted earnings per share (in 1'000)	19'605	19'527
Diluted result per share (CHF per share)	0.31	0.78

29 Segment information

The Tornos Group's core activity is the development, manufacture, marketing, sale and servicing of machines. The Management is responsible for steering the business and regularly reviewing the Group's internal reporting for its only operating segment, "machines", in order to assess performance and identify resource needs. The primary internal reporting to the 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 Management assesses the performance of the machines based on operating results. Additional reporting based on such criteria as geographical areas is also made available to the Management though such reporting is of secondary importance when it comes to strategic decisions, allocation or planning of resources or monitoring the Group's operational performance. These operational decisions are all executed by the Management based on internal reporting of the core activity.

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

The operating result for the period under review amounts to KCHF 6'374 and for 2018 to KCHF 15'808.

29.1 Analysis of revenues by category

In CHF 1'000	2019	2018
Machines	159'533	168'169
Service and spares parts	45'776	46'695
Net sales	205'309	214'864

Switzerland is the domicile of the parent company and of the main operating and distribution companies. Swiss operating companies conduct all main development and manufacturing activities. Subsidiaries which are located in the other European countries (France, Germany, Italy, Poland, Spain and the United Kingdom), the Americas and Asia, except for the production companies in Taiwan and Xi'an, run support or sales and distribution activities. Production sites in Taiwan and Xi'an work on development of new products, as assigned by the Tornos Group, and these new products are marketed through the Group's distribution network. The transactions between the Group companies are conducted based on internationally recognized transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. Management reviews sales in four main 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	2019	2018
Switzerland	46'752	41'318
Other European countries	109'557	127'519
Americas	26'081	17'083
Asia	22'919	28'922
Rest of world	-	22
Total net sales	205'309	214'864

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	31.12.2019	31.12.2018
Switzerland	25'759	25'302
Other European countries	948	638
Americas	298	174
Asia	1'183	1'432
Total non-current assets for geographical area disclosure	28'188	27'546
Reconciling unallocated assets:		
- Deferred tax assets	450	397
Total non-current assets per balance sheet	28'638	27'943

30 Commitments and contingencies

30.1 Operating lease commitments

Operating lease liabilities, minimum lease payments:

In CHF 1'000	31.12.2019	31.12.2018
Year 1	2'285	1'768
Years 2 to 5	4'130	3'326
After 5 years	1'174	327
Total minimum lease payments	7'589	5'421

30.2 Pledges

The following assets were pledged to shareholders.

In CHF 1'000	31.12.2019	31.12.2018
Land and buildings	14'400	15'540
Total assets pledged	14'400	15'540

At December 31, 2019 the total value of the pledged mortgage notes related to land and buildings amount to CHF 23.2 million (December 31, 2018: CHF 29.0 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 2019, sales to companies in which two of the directors of Tornos Holding Ltd. hold a significant interest amounted to KCHF 1'333 (2018: KCHF 139). In 2019, goods provided by a company in which two of the directors of Tornos Holding Ltd. hold a significant interest amounted to KCHF 2'424 (2018: KCHF 1'158). As of December 31, 2019, the related outstanding balances receivable and payable amounted to KCHF 88 and KCHF 389 respectively (December 31, 2018: KCHF 29 and KCHF 6 respectively).

No loans or advances were granted to related parties in 2019 and 2018. As of December 31, the main shareholders granted a loan of CHF 15 million (December 31, 2018: MCHF 0) in accordance with note 21.2.

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, 2019 the Group has no open foreign exchange contracts as on December 31, 2018.

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

33 Subsequent event

In 2019, Tornos Ltd. intended to take over the minority of Tornos (Xi'an) Machine Works Co., Ltd., which is held by Shanxi Robot Automation Technology Co. Ltd. The transaction has taken place in January, 2020.

Because the final payment for a disposal of real estate was only received in January 2020 and not in December 2019 as agreed, the gain of the sale in the amount of approximately CHF 3 million will only be reflected in Tornos's profit figure in January 2020.

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Tornos Holding Ltd. and its subsidiaries (the Group), which comprise the consolidated income statement and the consolidated balance sheet as at 31 December 2019, consolidated statement of changes in equity and consolidated statement of cash flows 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 10 to 47) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 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.

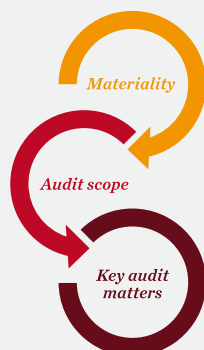
Basis for opinion

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 2'000'000

- 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 in revenue were performed on one further reporting unit in one additional country representing a further 12% of the Group’s revenue.

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

- Valuation of inventories

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.

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.

Overall Group materiality	CHF 2'000'000
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.

We agreed with the Board of Directors that we would report to them misstatements above CHF 100'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

Valuation of inventories

Key audit matter

How our audit addressed the key audit matter

We consider the valuation of inventory to be a key audit matter because inventory amounted to CHF 101'871 million in the balance sheet as at 31 December 2019 and therefore represents a significant share of total assets (about 61%).

Sales of industrial machines (incl. services) are subject to market fluctuations. These fluctuations along with the complex structure of inventories – materials and components, work in progress, spare parts and finished goods – mean that there is a judgmental factor in testing inventories for impairment and recoverability.

We identified the following risks in connection with the valuation of inventory:

- Inventories are not stated at the lower of cost and net realizable value.
- Write-downs for obsolete inventory or stock that exceeds the usual sales volume (e.g. slow moving or excess inventory) are inadequate.

Please refer to page 17 (Summary of significant accounting policies, Note 2.9 Inventory) and page 30 (Notes to the consolidated financial statements, Note 15 Inventories) in the 2019 annual report.

We performed the following audit procedures to assess the appropriateness of the valuation of the inventories:

- Sample-based testing of whether the accounting principle related to lower of cost and net realizable value has been applied.
- Sample-based testing of the mathematical correctness and appropriateness of Management's calculation of write-downs of obsolete inventory.
- Moreover, we verified that the method for determining write-downs of inventories was consistently applied.
- Further, at Group level, we checked the process to eliminate unrealised gains and losses from transactions between Group companies. In doing so, we checked that the valuation of inventories in the consolidated financial statements did not include material unrealised gains.
- We discussed the results of our work and movements in inventory and in the write-downs with Management and the Board of Directors.

In performing these audit procedures, we addressed the risk of error in the valuation of inventory. We have no findings to report.

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.
- 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



Astrit Mehmeti
Audit expert

Neuchâtel, March 2, 2020

*Tornos Holding Ltd.
Statutory Financial
Statements 2019*

Income Statement

Tornos Holding Ltd.

In CHF 1'000	Notes	2019	2018
Sales group		7'881	-
Sales third parties		5	-
Total income	3	7'886	-
Cost of sales		-7'365	-
Gross profit	3	521	-
Marketing and sales		-40	-
Administrative expenses		-1'293	-568
Research and development		-116	-
Taxes other than on income		-18	-27
Total expenses	3	-1'467	-595
Reversal on impairment on loans to subsidiaries	7	-	20'000
Finance income/(expenses) - net		68	-
Exchange gains/(losses) - net		-38	-
Result before income taxes		-916	19'405
Income taxes		-17	-
Net result		-933	19'405

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

Balance Sheet

Tornos Holding Ltd.

In CHF 1'000	Notes	31.12.2019	in %	31.12.2018	in %
ASSETS					
Cash and cash equivalents		499		232	
Receivables from Group Companies		5'474		392	
Other current assets		20		8	
Total current assets		5'993	5.1%	632	0.6%
Loans to subsidiaries	7	43'784		43'212	
Investment in a subsidiary	3	66'713		65'000	
Total non-current assets		110'497	94.9%	108'212	99.4%
Total assets		116'490	100.0%	108'844	100.0%
LIABILITIES AND EQUITY					
Payables to third parties		128		83	
Payables to Group Companies		13'549		322	
Accrued expenses		71		33	
Total current liabilities		13'748	11.8%	438	0.4%
Share capital	4	69'572		69'572	
Statutory retained earnings		46		-	
Statutory capital reserve					
Reserve from capital contribution		40'538		45'983	
Accumulated losses		-5'539		-3'963	
Treasury shares	5	-1'875		-3'186	
Total equity		102'742	88.2%	108'406	99.6%
Total liabilities and equity		116'490	100.0%	108'844	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	Statutory retained earnings	Reserve from capital contribution	Accumulated losses	Treasury shares	Total
At December 31, 2017	89'450	-	29'021	-22'976	-5'452	90'043
Net result				19'405		19'405
Contribution to shareholders	-2'982		66			-2'916
Capital reduction	-16'896		16'896			-
Sales & purchases of treasury shares				-392	2'266	1'874
At December 31, 2018	69'572	-	45'983	-3'963	-3'186	108'406
Changes due to merge		46				46
Net result				-933		-933
Contribution to shareholders			-5'445			-5'445
Capital reduction						-
Sales of treasury shares				-643	1'311	668
At December 31, 2019	69'572	46	40'538	-5'539	-1'875	102'742

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 recognized 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 recognized 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		2019	2018
		in '000		% held/ voting rights	% held/ voting rights
Tornos Management Holding Ltd., Moutier, Switzerland	Management of shareholdings and holding company	CHF	65'000	-	100
Tornos Ltd., Moutier Switzerland	Production and sales	CHF	65'000	100	-
Tornos (Taichung) Machine Works Ltd., Taiwan	Production	TWD	250	100	-

A list of all subsidiaries indirectly held by Tornos Holding Ltd. is found in the note 5 of the consolidated financial statements 2019 of Tornos Group.

Tornos Management Holding Ltd, Switzerland and Tornos Holding Ltd., Switzerland merged with retroactive effect from January 1, 2019. The assets and liabilities have been taken over by Tornos Holding Ltd. The operating activities carried out by Tornos Management Holding Ltd. as well as the employees have been transferred to Tornos Ltd., Switzerland. This change has been decided in view of the streamlining of the Group structure. The assets and liabilities have been taken over by Tornos Holding Ltd. The operating activities carried out by Tornos Management Holding Ltd. have been transferred to Tornos Ltd., Switzerland. Furthermore, Tornos (Taichung) Machine Works Ltd., Taiwan took over the production activities of Tornos Management Holding Ltd., Taiwan Branch in June 2019. Sales, cost of sales and expenses for the first five months of 2019 are reported in Tornos Holding Ltd. and are non-recurring.

4 Share capital, conditional capital and authorised capital

4.1 Share capital

	Issued registered shares	Treasury shares	Total shares in circulation
Issued and fully paid-in at December 31, 2017	19'877'671	-763'254	19'114'417
Movement in treasury shares	-	313'985	313'985
Issued and fully paid-in at December 31, 2018	19'877'671	-449'269	19'428'402
Movement in treasury shares	-	184'950	184'950
Issued and fully paid-in at December 31, 2019	19'877'671	-264'319	19'613'352

As of December 31, 2019 and as of December 31, 2018 the share capital consisted of 19'877'671 ordinary registered

shares with a par value of CHF 3.50 each. The nominal value was reduced by CHF 1.00 to CHF 3.50 in the financial year 2018. 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.

4.2 Conditional share capital

	2019		2018	
	Number of shares	Amount (in CHF '000)	Number of shares	Amount (in CHF '000)
At beginning of year	706'662	2'473'317	706'662	3'179'979
Utilisation	-	-	-	-
At end of year	706'662	2'473'317	706'662	2'473'317

The conditional share capital therefore amounts to CHF 2'473'317 (previous year: CHF 2'473'317) and is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock option plans in favor of eligible members defined by the Board of Directors.

4.3 Authorised share capital

Tornos does not have any authorized capital.

5 Treasury shares

Movements in treasury shares are as follows:

	2019		2018	
	Number of shares	Amount (in CHF '000)	Number of shares	Amount (in CHF '000)
At beginning of year	449'269	3'186	763'254	5'452
Sale of treasury shares	-184'950	-1'311	-339'825	-2'427
Acquisition of treasury shares	-	-	25'840	161
At end of year	264'319	1'875	449'269	3'186

Treasury shares are valued at average purchase price. The average purchase price as per 31.12.2019 is CHF 7.09 (31.12.2018: CHF 7.09).

During the year 2019:

- 184'850 treasury shares have been transferred to the Management and Board at the weighted average price of CHF 3.64 under the Management and Board Participation plan 2007 (MBP07);

During the year 2018:

- 285'966 treasury shares have been transferred to the Management and Board at the weighted average price of CHF 4.14 under the Management and Board Participation plan 2007 (MBP07);
- 53'859 treasury shares were sold to the market at the weighted average price of CHF 15.77
- 25'840 treasury shares were bought from the market at the weighted average price of CHF 6.27

6 Significant shareholders

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

	31.12.2019	31.12.2018
Walter Fust	48.40%	48.15%
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 effective number of shares at balance sheet date.

7 Impairment on loans to subsidiaries

The carrying amount of the loans to subsidiaries are reviewed at the year-end 2019 and, pursuant to the triggering event analysis performed, no adjustment is necessary (December 31, 2018: reversal on impairment by CHF 20.0 million).

8 Number of full-time equivalents

In 2019, the annual average number of full-time equivalent, including the branch, is at 24 FTE without apprentices (prior year: none).

9 Leasing liabilities and liabilities to pension plans

There are none (previous year: none).

10 Assets pledged

None of the Company's assets are pledged (previous year: none).

11 Contingent liabilities

There are no contingent liabilities at the end of 2019 (previous year: none).

12 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 31.12.2019		Number at 31.12.2018	
	Shares	Options	Shares	Options
François Frôté	208'649	8'000	208'649	-
Frank Brinken*	-	-	41'000	-
Michel Rollier / Rollomatic Holding SA	2'853'733	16'000	2'853'733	16'000
Walter Fust	9'620'529	-	9'570'659	-
Till Fust**	-	-	-	-
Total Board of Directors	12'682'911	24'000	12'674'041	16'000
Michael Hauser (CEO)	89'805	60'000	89'805	50'000
Luc Widmer	-	70'000	50'000	40'000
Bruno Allemant	-	67'000	14'500	52'500
Bruno Edelmann	-	60'000	10'000	55'000
Total General Management	89'805	257'000	164'305	197'500

* until April 10, 2019, ** from April 10, 2019

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.

13 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.

14 Subsequent event

There are no subsequent events to be mentioned.

Proposed Appropriation of Available Earnings & Contribution to Shareholders

Tornos Holding Ltd.

The Board of Directors proposes to the Annual General Meeting that the balance sheet result as at December 31, 2019, be carried forward to new account.

Proposed Appropriation of Available Earnings

In CHF 1'000	31.12.2019	31.12.2018
Accumulated losses carried forward from prior year	-3'963	-22'976
Net result	-933	19'405
Sales & purchases of treasury shares	-643	-392
Balance to be carried forward	-5'539	-3'963

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 income statement, balance sheet as at 31 December 2019, statement of changes in equity and notes to the financial statements for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 54 to 61) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

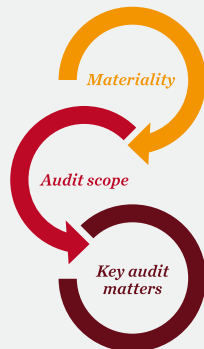
Basis for opinion

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 1'000'000

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.

We have not identified a key audit matter.

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.

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.

Overall materiality	CHF 1'000'000
How we determined it	1% of 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.

We agreed with the Board of Directors that we would report to them misstatements above CHF 100'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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

We have determined that there are no key audit matters to communicate in our report.

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 recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Oliver Kuntze
Audit expert
Auditor in charge



Astrit Mehmeti
Audit expert

Neuchâtel, March 2, 2020

Remuneration Report 2019

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 program.

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 blocked 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 2019

Overview of functions

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

	Board of Directors			Remuneration Committee	
	Chairman	Vice-Chairman	Member	Chairman	Member
François Frôté	■				■
Frank Brinken*					■
Michel Rollier			■		■
Walter Fust			■	■	
Till Fust**			■		■

* until April 10, 2019, ** From April 10, 2019

Following the decision of the Board of Directors on December 17, 2019, the Audit Committee was dissolved as of December 31, 2019. The size and the composition of the Board of Directors affords it to advise and take decisions on all questions and matters as a full Board of Directors and henceforth it relinquishes the Audit Committee.

As of December 31, 2019 no Vice-Chairman was appointed.

Remuneration

In CHF 1'000	Remuneration	Other	Total	Shares	Stock	Total
	fixed	remuneration		(acquired)	options (granted)	
François Frôté	160	19	179	0	13	192
Frank Brinken*	22	2	24	0	0	24
Michel Rollier	80	10	90	0	13	103
Walter Fust	80	9	89	11	0	100
Till Fust**	60	7	67	0	0	67
Total Board of Directors	402	47	449	11	26	486

* until April 10, 2019, ** From April 10, 2019

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 2019 and may not be exercised until April 30, 2021.

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 2019 members of the Board of Directors were granted 32'000 options with a fair value of CHF 1.63. Out of these options granted, members of the Board of Directors acquired under the Stock purchasing program MBP07 a total of 8'000 shares at an acquisition price of CHF 7.34 per share with a remuneration benefit of CHF 1.37 per share.

Remuneration paid to the Board of Directors in 2018

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	47	0	226
Frank Brinken	80	9	89	47	0	136
Michel Rollier	80	10	90	0	49	139
Walter Fust	80	9	89	47	0	136
Total Board of Directors	400	47	447	141	49	637

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 2018 and may not be exercised until April 30, 2020.

The above information includes all the remuneration paid to the members of the Board of Directors. During the period 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 2018 members of the Board of Directors were granted 32'000 options with a fair value of CHF 6.12. 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 7.56 per share with a remuneration benefit of CHF 5.83 per share.

Remuneration paid to members of the General Management in 2019

The remuneration paid to the members of the General Management during the financial year under review came to CHF 2.0 million. These remuneration figures are the amounts booked during the period under review, although the variable cash remuneration will not be paid until May 2020.

In CHF 1'000	Remuneration	Remuneration	Contribution	Other	Paid	Shares	Stock	Total
	fixed	variable	in kind	remuneration	remuneration	(acquired)	options (granted)	
Michael Hauser (CEO)	556	53	7	96	712	0	49	761
Other members of General Management	776	123	21	144	1'064	0	147	1'211
Total General Management	1'332	176	28	240	1'776	0	196	1'972

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 2019 and may not be exercised until April 30, 2021.

Contribution in kind comprise the Tornos' vehicles used by General Management.

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 2019 no member of General Management acquired shares. On the other hand, they were granted 120'000 option with a fair value of CHF 1.63.

Remuneration paid to members of the General Management in 2018

The remuneration paid to the members of the General Management during the financial year under review came to CHF 2.9 million. These remuneration figures are the amounts booked during the period under review, although the variable cash remuneration will not be paid until May 2019.

In CHF 1'000	Remuneration	Remuneration	Contribution	Other	Paid	Shares	Stock	Total
	fixed	variable	in kind	remuneration	remuneration	(acquired)	options (granted)	
Michael Hauser (CEO)	556	170	7	113	846	0	184	1'030
Other members of General Management	776	295	19	195	1'285	0	551	1'836
Total General Management	1'332	465	26	308	2'131	0	735	2'866

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 2018 and may not be exercised until April 30, 2020.

Contribution in kind comprise the Tornos' vehicles used by General Management.

The above information includes all the remuneration paid to the members of the General Management. During the period 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 2018 no member of General Management acquired shares. On the other hand, they were granted 120'000 option with a fair value of CHF 6.12.

Comparison between approved and paid remuneration in 2019

In CHF 1'000	Approved by the General Assembly 2019			
	Remuneration	Remuneration	Total	Number
	fixed	variable	remuneration	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 2019					
	Remuneration	Remuneration	Contribution	Other	Total	Number
	fixed	variable	in kind	remuneration	remuneration	of participation rights
Board of Directors	402	0	0	47	449	32'000
General Management	1'332	176	28	240	1'776	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 KCHF 310. The options granted to the Board of Directors and General Management represent a value of KCHF 222.

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 31.12.2019		Number at 31.12.2018	
	Shares	Options	Shares	Options
François Frôté	208'649	8'000	208'649	0
Frank Brinken*	-	-	41'000	0
Michel Rollier / Rollomatic Holding SA	2'853'733	16'000	2'853'733	16'000
Walter Fust	9'620'529	0	9'570'659	0
Till Fust**	0	0	-	-
Total Board of Directors	12'682'911	24'000	12'674'041	16'000
Michael Hauser (CEO)	89'805	60'000	89'805	50'000
Luc Widmer	0	70'000	50'000	40'000
Bruno Allemann	0	67'000	14'500	52'500
Bruno Edelmann	0	60'000	10'000	55'000
Total General Management	89'805	257'000	164'305	197'500

* until April 10, 2019, ** from April 10, 2019

Tornos Holding Ltd., Moutier

**Report of the statutory auditor to the
General Meeting Meeting of Tornos Holding Ltd.
Moutier on the remuneration report 2019**

We have audited the remuneration report of Tornos Holding Ltd. for the year ended 31 December 2019. 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 72 to 77 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 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA



Oliver Kuntze
Audit expert
Auditor in charge



Astrit Mehmeti
Audit expert

Neuchâtel, March 2, 2020

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 2019

1	<i>Group Structure and Shareholders</i>	82
2	<i>Capital Structure</i>	85
3	<i>Board of Directors</i>	88
4	<i>General Management</i>	96
5	<i>Compensation, Shareholdings and Loans</i>	100
6	<i>Shareholders' Participation Rights</i>	101
7	<i>Changes on Control and Defense Measures</i>	103
8	<i>Auditors</i>	104
9	<i>Information Policy</i>	105

1 Group Structure and Shareholders

1.1 Group structure

	Share capital	% held*	
		2019	2018
Tornos Holding Ltd., Moutier <i> Holding</i>	CHF 69'571'848.50		
↳ Tornos Ltd., Moutier <i> Production and sales</i>	CHF 65'000'000	100%	100%
↳ Tornos (Taichung) Machine Works Ltd., Taichung <i> Production</i>	TWD 250'000	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. Des Plaines, 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 (Thailand) Co., Ltd., Bangkok <i> Support services</i>	THB 3'000'000	100%	-
↳ Tornos Technologies (Malaysia) Sdn. Bhd., Penang <i> Support services</i>	MYR 40'000	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

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 as on the balance sheet date amounted to CHF 133.8 million.

Unlisted companies in the consolidation

Tornos Holding SA has no unconsolidated shareholdings.

2019

Tornos Management Holding Ltd, Switzerland and Tornos Holding Ltd., Switzerland merged with retroactive effect from January 1, 2019. This change has been decided in view of the streamlining of the Group structure. The assets and liabilities have been taken over by Tornos Holding Ltd. The operating activities carried out by Tornos Management Holding Ltd. have been transferred to Tornos Ltd., Switzerland. The merger has no financial impact on the consolidated financial statements.

Furthermore, three new companies were incorporated in Asia. Tornos (Taichung) Machine Works Ltd., Taiwan has taken over the production activities of Tornos Management Holding Ltd., Taiwan Branch. The activities of the representative offices, Tornos Ltd. Thailand and Tornos Technologies Asia LTD Malaysia, have been transferred to Tornos Technologies (Thailand) Co, Ltd., Bangkok and Tornos Technologies (Malaysia) Sdn. Bhd., Penang. The companies are fully owned and controlled by the Group. These changes have no impact on the consolidated financial statements and do not alter the scope or the nature of the activities carried out in this region.

Tornos Ltd. intended to take over the minority of Tornos (Xi'an) Machine Works Co., Ltd., which is held by Shanxi Robot Automation Technology Co. Ltd. in 2019. The transaction took place in 2020.

There are no other changes in scope to report for the period under review.

2018

The company Almac Ltd., in La Chaux-de-Fonds, Switzerland has been merged with Tornos Ltd., Moutier, Switzerland by way of a merger by absorption retroactively on January 1, 2018. This change has been decided in view of the streamlining of the Group structure. The brand name Almac is extinct and the milling machines are sold under the brand name Tornos. The change mentioned has no impact on the consolidated result of the Group.

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

1.2 Significant Shareholders

As at December 31, 2019, 1'800 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	7 shareholders
From 15'001 to 100'000 shares	51 shareholders
From 1 to 15'000 shares	1'740 shareholders

As at December 31, 2019, 1'570'008 shares, representing 7.9% 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	31.12.2019		31.12.2018	
	No. of shares	%	No. of shares	%
Walter Fust	9'620'529	48.4	9'570'659	48.15
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 effective 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 2019 and 2018.

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:

	31.12.2019			31.12.2018		
	No. of shares	Par value CHF	Share capital CHF	No. of shares	Par value CHF	Share capital CHF
Share capital	19'877'671	3.50	69'571'848.50	19'877'671	3.50	69'571'848.50
Authorized share capital	n/a	n/a	n/a	n/a	n/a	n/a
Conditional share capital	706'662	3.50	2'473'317.00	706'662	3.50	2'473'317.00

2.2 Authorized and conditional capital in particular

2.2.1 Authorized capital

2019

As at December 31, 2019, Tornos did not have any authorized capital.

2018

As at December 31, 2018, Tornos did not have any authorized capital.

2.2.2 Conditional capital

2019

As at December 31, 2019, the share capital could have been increased by up to CHF 2'473'317.00, 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 3.50 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.

2018

As at December 31, 2018, the share capital could have been increased by up to CHF 2'473'317.00, 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 3.50 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, 2017	19'877'671		4.5	89'450
At December 31, 2018	19'877'671		3.5	69'572
At December 31, 2019	19'877'671		3.5	69'572

In 2018, Tornos Holding SA reduced the share capital by CHF 19,877,671.00, i.e. from CHF 89,449,519.50 to CHF 69,571,848.50, by reducing the par value of registered shares from CHF 4.50 to CHF 3.50.

Authorized Capital	Number of shares	Increase/ decrease in capital	Par value (in CHF)	Authorized capital (in CHF 1'000)
At December 31, 2017	-		-	-
At December 31, 2018	-		-	-
At December 31, 2019	-		-	-

Conditional Share Capital	Number of shares	Increase/ decrease	Par value (in CHF)	Conditional capital (in CHF '000)
At December 31, 2017	706'662		4.5	3'180
At December 31, 2018	706'662		3.5	2'473
At December 31, 2019	706'662		3.5	2'473

In 2018, Tornos Holding SA reduced the conditional share capital by CHF 706'662.00, i.e. from CHF 3'179'979.00 to CHF 2'473'317.00, by reducing the par value of registered shares from CHF 4.50 to CHF 3.50.

2.4 Shares and participation certificates

As at December 31, 2019, the ordinary share capital of Tornos Holding SA amounted to CHF 69'571'848.50 and, was divided into 19'877'671 fully paid up registered shares with a par value of CHF 3.50 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 Frôté (1953), Swiss

Chairman | Appointed in 2002 | Elected until 2020

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; 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 2020

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

Michel Rollier (1959), Swiss

Appointed in 2002 | Elected until 2020

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; Rollomatic SA: Chairman; Azurée Holding SA: Board member | Professional activities: Rollomatic SA, various management functions in the Group (from 1989 to 2018)*

Till Fust (1993), Swiss

Appointed in 2019 | Elected until 2020

Previous activities for Tornos: none | Committees: Remuneration Committee; Audit Committee | Training – final qualification on completion of studies: Master in International Economics, Graduate Institute Geneva | Current directorships: none | Other bodies: Center for Student Entrepreneurship IHEID, Co-Founder | Former professional activities: Kreislauf Bern, Co-Founder*

* Following the decision of the Board of Directors on December 17, 2019, the Audit Committee was dissolved

3.1 Members of the Board of Directors

2019

The Board of Directors comprises four members which are all non-executives. In 2019, there has been one alternation in the composition of the Board of Directors. At the General Meeting of Shareholders on April 10, 2019, Frank Brinken had decided to not stand for re-election. The General Meeting elected Till Fust as his successor. 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.

2018

The Board of Directors comprises four members which are all non-executives. In 2018, 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 89. 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)

In accordance with Article 16 of the Articles of Association, the Board of Directors will, with the exception of its Chairman, create its own composition. It chooses, if necessary, one or more Vice Chairmen, deputies, as well as the Secretary. The Secretary need not be a member of the Board of Directors.

Due to the size and composition of the Board of Directors, it can offer advice and make decisions on all questions as a full Board of Directors and it therefore can dispense with the creation of further committees, with the exception of the compensation committee. However, it can transfer individual powers to an executive committee.

In the financial year, François Frôté held the office of Chairman. No Vice Chairmen is currently appointed. Bruno Edelmann (CFO) serves as Secretary to the Board of Directors.

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 2019, eight 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, Michel Rollier, Till Fust.

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 Remuneration Committee convened three times in the course of 2019.

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)";
- Assessment and review of Management and senior staff salaries for 2020;
- Benchmarking the remuneration for the Board of Directors as well as for the General Management;

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

Audit Committee

François Frôté, Walter Fust, Michel Rollier, Till Fust.

Following the decision of the Board of Directors on December 17, 2019, the Audit Committee was dissolved. The size and the composition of the Board of Directors affords it to advise and take decisions on all questions and matters as a full Board of Directors and henceforth it relinquishes the Audit Committee. The Audit Committee was fully operational for the duration of the year in question.

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. 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 2019, including two via conference call.

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

In particular, the following main topics were discussed:

- *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 2019;*
- *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 2019 and the detailed budget for 2020. 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.

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. Three times 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 (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; Starrag Group Holding AG: Board member | Other professional bodies: SWISSMEM, Board 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 AG, Nidau (CH): Managing Director (from 1996 to 2000); Agie Charmilles Group (CH): Head of Milling Division [Mikron Agie Charmilles AG (CH), Bostomatic Inc. (US), Step Tec AG (CH)] and Group Management member (from 2000 to 2008); Georg Fischer AG (CH): President of GF AgieCharmilles and Member of the Executive Committee (from 2008 to 2010)

Bruno Edelmann (1966), Swiss

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: Téléski SA Les Prés-d’Orvin: Board member | Previous professional activities: Ernst & Young AG, Biel (CH): Senior Manager Audit (from 1992 to 2001); Feldschlösschen Beverages AG, 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 Allemand (1965), Swiss

Head of Sales & Marketing | Appointed in 2013

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

Luc Widmer (1969), Swiss

Head of Global Supply Chain Management | Appointed in 2015

(CFO of Tornos Group from 2012 - 2015) Training – final qualification on completion of studies: Business economist, University of Applied Sciences, Olten, 1998 | Current directorship: Memeg AG: Board Member | Previous professional activities: ALSTOM (Suisse) AG: 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)

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 97. 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/e_20180807_statuts_tornos_holding_sa.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 2019 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 Shareholders' 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	2019	2018
Auditing	171'300	172'000

8.3 Additional fees

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

in CHF	2019	2018
Other services	47'000	43'000

Other services include tax and other assurance 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 2019, 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: <http://investors.tornos.com/ar19>

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

- 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

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

Mr. Bruno Edelmann, CFO
Tornos Management Holding Ltd.
Rue Industrielle 111, CH-2740 Moutier
Phone +41 32 494 44 44
E-mail investors@tornos.com

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

Tornos Ltd.
Rue Industrielle 111, 2740 CH-Moutier
Phone +41 32 494 44 44
E-mail contact@tornos.com

tornos.com

TORNOS HOLDING LTD

Rue Industrielle 111
P.O. Box 960
2740 Moutier / Switzerland
T +41 (0)32 494 44 44
contact@tornos.com

Tornos
throughout
the world

