

Corporate Governance

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

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Group structure and shareholders

Group structure

| | Share capital | % held | |
|---|-------------------|--------|------|
| | | 2013 | 2012 |
| Tornos Holding Ltd., Moutier <i> Holding</i> | CHF 89'449'519.50 | | |
| ↳ Tornos Management Holding Ltd., Moutier <i> Management of shareholdings and holding company</i> | CHF 65'000'000 | 100% | 100% |
| ↳ Almac Ltd., La Chaux-de-Fonds <i> Production and sales</i> | CHF 1'175'000 | 100% | 100% |
| ↳ Almatronic Ltd., La Chaux-de-Fonds <i> Dormant company</i> | CHF 50'000 | 100% | 100% |
| ↳ Cyklos Ltd., Yverdon-les-Bains <i> Development and sales</i> | CHF 100'000 | 100% | 100% |
| ↳ Tornos Ltd., Moutier <i> Production and sales</i> | CHF 65'000'000 | 100% | 100% |
| ↳ Tornos Technologies Deutschland GmbH, Pforzheim <i> Support services</i> | EUR 511'292 | 100% | 100% |
| ↳ Tornos Technologies Iberica SA, Granollers <i> Support services</i> | EUR 60'200 | 100% | 100% |
| ↳ Tornos Technologies Italia Srl, Opera/MI <i> Support services</i> | EUR 93'600 | 100% | 100% |
| ↳ Tornos Technologies Poland Sp. z o.o., Katy Wroclawskie <i> Support services</i> | PLN 50'000 | 100% | 100% |
| ↳ Tornos Technologies UK Ltd., Coalville <i> Support services</i> | GBP 345'000 | 100% | 100% |
| ↳ Tornos Holding France SA, St-Pierre-en-Faucigny <i> Holding</i> | EUR 12'496'800 | 100% | 100% |
| ↳ Tornos Technologies France SAS, St-Pierre-en-Faucigny <i> Support services</i> | EUR 762'250 | 100% | 100% |
| ↳ Tornos Technologies U.S. Corp. Bethel, CT <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 (HK) Limited, Hong Kong <i> Support services</i> | HKD 10'000 | 100% | 100% |
| ↳ Tornos Technologies (Shanghai) Limited, Shanghai <i> Sales and service</i> | USD 500'000 | 100% | 100% |
| ↳ Tornos Comércio Importação e Exportação de Máquinas Ferramenta Ltda, São Paulo <i> Support services</i> | BRL 370'000 | 100% | 100% |
| ↳ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i> Production</i> | RMB 10'000'000 | 70% | – |

Organizational structure of the Group

The Group's organizational structure is defined by functional areas as follows: sales and marketing, production and development, customer service, and general and financial services. The Group is managed by General Management comprising the three members as listed below:

General Management

Michael Hauser Chair
Bruno Allemand
Luc Widmer

Listed companies in the consolidation

Tornos Holding Ltd. is the only consolidated company within the Group to be listed on the stock exchange. The subsidiaries are not listed. Tornos shares are traded on the SIX Swiss Exchange, Zurich, under securities number TOHN (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 91.8 million.

Unlisted companies in the consolidation

Tornos Holding SA has no unconsolidated shareholdings.

2013

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

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

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

2012

Cyklos Ltd., Port Louis, Mauritius, the company that held the intellectual property rights to the new machine design for the surface treatment of machined parts and that was acquired on May 2, 2011, was liquidated on January 18, 2012. A new company established in Yverdon-les-Bains and also named Cyklos Ltd. was integrated on February 7, 2012 to sell and develop this new technology worldwide.

Tornos Ltd., Moutier, has acquired a minority shareholding of 1% in Tornos Comércio, Importação e Exportação de Máquinas Ferramenta Ltda, São Paulo to increase its participation in the company's share capital to 100%.

Shareholders

As at December 31, 2013, 2'070 shareholders were registered in the share register and held numbers of shares as follows:

| | |
|----------------------------------|--------------------|
| More than 1'000'000 shares | 3 shareholders |
| From 100'001 to 1'000'000 shares | 10 shareholders |
| From 15'001 to 100'000 shares | 34 shareholders |
| From 1 to 15'000 shares | 2'023 shareholders |

As at December 31, 2013, 2'594'771 shares, representing 13.05% of the total number of shares issued, were not registered in the share register (not assigned).

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

| Shareholders | 31.12.2013 | | 31.12.2012 | |
|--|---------------|-------|---------------|-------|
| | No. of shares | % | No. of shares | % |
| Walter Fust | 6'624'263 | 33.32 | 3'898'448 | 25.18 |
| Michel Rollier / Rollomatic Holding SA | 2'853'733 | 14.36 | 1'253'733 | 8.10 |
| Balfidor Fondsleitung AG | 1'254'077 | 6.31 | 978'203 | 6.32 |
| Berner Kantonalbank | 661'545 | 3.33 | 661'545 | 4.27 |
| Tornos Holding Ltd. | 500'956 | 2.52 | 505'106 | 3.26 |
| Tsugami Corporation | 0 | 0.00 | 1'000'000 | 6.46 |

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

The following communications were published according to article 20 of the Federal Law on Stock Exchanges and Security Trading in the course of 2012 and 2013:

| Date | Shareholder | % of voting rights |
|------------|--|---------------------|
| 03.07.2013 | Tsugami Corporation | 2.93 |
| 08.06.2013 | Michel Rollier / Rollomatic Holding SA | 14.36 |
| 07.06.2013 | Tsugami Corporation | 4.93 |
| 05.06.2013 | Walter Fust | 33.12 |
| 31.05.2013 | Tornos Holding Ltd. | 2.54 |
| 18.05.2013 | Michel Rollier / Rollomatic Holding SA | 18.41 ¹⁾ |
| 18.05.2013 | Walter Fust | 42.47 ¹⁾ |
| 23.08.2012 | Walter Fust | 25.17 |
| 19.05.2012 | Tornos Holding Ltd. | 3.12 |
| 17.05.2012 | Raymond Stauffer | 3.06 |
| 03.05.2012 | Tornos Holding Ltd. | 2.53 |
| 03.05.2012 | Raymond Stauffer | 2.96 |
| 22.03.2012 | Balfidor Fondsleitung AG | 5.02 |

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

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

http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=11443

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

Cross participations

There are no cross participations.

Capital structure

Capital

The Tornos Holding Ltd. share capital is as follows:

| | 31.12.2013 | | | 31.12.2012 | | |
|--------------------------|---------------|---------------|-------------------|---------------|---------------|-------------------|
| | No. of shares | Par value CHF | Share capital CHF | No. of shares | Par value CHF | Share capital CHF |
| Share capital | 19'877'671 | 4.50 | 89'449'519.50 | 15'502'093 | 4.50 | 69'759'418.50 |
| Authorized share capital | 324'422 | 4.50 | 1'459'899.00 | 4'700'000 | 4.50 | 21'150'000.00 |
| Contingent share capital | 706'662 | 4.50 | 3'179'979.00 | 706'662 | 4.50 | 3'179'979.00 |

Specifications regarding authorized and contingent capital

The following information relates to the changes in authorized and contingent capital for 2013 and 2012. For changes occurring in 2011, please refer to Note 23.1 of the 2011 consolidated accounts, which are available on the website at: http://investors.tornos.com/sites/investors.tornos.com/files/data/publications/2011/e_tornos_gb11.pdf

Authorized capital

2013

The company has authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on April 17, 2012. The Board of Directors may, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 21'150'000.00 by issuing no more than 4'700'000 registered shares with a par value of CHF 4.50 each to be fully paid-up.

Increasing the share capital by firm underwriting and partial increases is authorized. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the company's best interests. The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

On May 30, 2013, the share capital was increased by issuing 4'375'578 registered shares with a par value of CHF 4.50 per share at CHF 7.00 per share.

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

2012

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

As at December 31, 2012, authorized capital stood at CHF 21'150'000.00 with respect to 4'700'000 shares with a par value of CHF 4.50 per share.

Contingent capital

2013

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

2012

As at 31 December 2012, the share capital could have been increased by up to CHF 3'179'979.00, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 706'662 shares with the said par value, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

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

Capital changes

| In KCHF | Share capital | Reserve from capital contribution – net | Reserve for treasury shares | Retained earnings | Total |
|---|---------------|---|-----------------------------|-------------------|----------------|
| Equity as at 31.12.2011 | 69'671 | 18'927 | 6'827 | 11'522 | 106'947 |
| Issuance of new shares | 88 | 56 | | | 144 |
| Net result 2012 | | | | -528 | -528 |
| Equity as at 31.12.2012 | 69'759 | 18'983 | 6'827 | 10'994 | 106'563 |
| Capital increase | 19'691 | 10'939 | | | 30'630 |
| Net result 2013 | | | | -13'049 | -13'049 |
| Transfer to reserve for treasury shares | | 56 | -56 | | - |
| Equity as at 31.12.2013 | 89'450 | 29'978 | 6'771 | -2'055 | 124'144 |

Shares and participation certificates

As at December 31, 2013, the ordinary share capital of Tornos Holding Ltd. amounted to CHF 89'449'519.50, and was divided into 19'877'671 fully paid up registered shares with a par value of CHF 4.50 per share, all having equal rights to dividends. There are no preferred shares or limitations with regard to voting rights. Each share corresponds to one vote ('one share, one vote').

There are no participation certificates.

Dividend right certificates

There are no dividend right certificates.

Restrictions on transfer and nominee registration

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

Convertible loans and options

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

Board of Directors



| | |
|----------------|-------------------|
| François Frôté | Michel Rollier |
| Claude Elsen | Frank Brinken |
| | Philippe Maquetin |

François Frôté (1953), Swiss

Chairman of the Board | Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: legal adviser | Committees: Chairman of the Nomination and Compensation Committee; Audit Committee | Training – final qualification on completion of studies: lawyer, law degree, University of Berne, 1979 | Current directorships: Rollomatic Holding SA: Director; Nugerol Holding SA: Director; Esco SA: Director; Bien-Air Holding SA: Director; Gebäudeversicherung Bern (GVB): Director; GVB Privatversicherungen AG: Director; PX Holding SA: Director; Azuréa Holding SA: Director; Coopérative Migros Neuchâtel Fribourg: Vice-Chairman | Professional activities: Law offices of Frôté & Partner: Lawyer and Director (since 1979)

Claude Elsen (1947), Luxembourgger

Deputy Chairman of the Board | Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: none | Committee: none | Training – final qualification on completion of studies: M.Sc.E. Mec. Eng. RWTH (Rheinisch-Westfälische Technische Hochschule), Aachen, Germany, 1973; MBA, INSEAD, Fontainebleau, France, 1974 | Current directorships: BIA Group SA, Belgium: Director; Alpha Trains Group, Luxembourg: Director | Professional activities: DaimlerChrysler AG since 1996: Senior Vice President (from 1998 to 2002); Consilux: Managing Partner (since 2002)

Michel Rollier (1959), Swiss

Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: none | Committee: none | Training – final qualification on completion of studies: EPFL (Swiss Federal Institute of Technology Lausanne) engineer, 1985 | Current directorships: Rollomatic Holding SA, Chairman of the Board; Azuréa Holding SA: Director | Professional activities: Rollomatic SA, various management functions in the Group: Head of R&D (since 1989)

Frank Brinken (1948), Swiss

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

Philippe Maquelin (1951), Swiss

Appointed in 2011 | Elected until 2014 | Previous activities for Tornos: COO & CFO (from 2002 to 2010) | Committees: Chairman of the Audit Committee; Nomination and Compensation Committee | Training – final qualification on completion of studies: Economist (degree in economic sciences), University of Neuchâtel, 1976 | Current directorships: Nugerol Holding SA: Director; Banque Cantonale Neuchâteloise: Director; Previous professional activities: Ismeca Holding SA: CFO (from 1998 to 2002); Independent consultant (since 2002)

Members of the Board of Directors

2013

The Board of Directors comprises five members. At the Annual General Meeting 2013, Mr. Raymond Stauffer resigned as a Board member. No successor was elected.

No member has close business relations with Tornos Holding Ltd. or any Group company.

2012

The composition of the Board of Directors did not change in 2012.

Other activities and interest groups

No member of the Board of Directors has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest group other than those mentioned on page 39. No member holds an official function or political office.

Election and term of office

The Board of Directors of Tornos Holding Ltd. is made up of at least three members (currently five), the majority of whom are independent members with no executive function in the company. Members of the Board are elected individually, as and when necessary, by the General Meeting for a term specified by the latter but which may not exceed three years. They are eligible for reelection. The age limit is 70 years. The Chairman is elected by the Board of Directors. This information is subject to amendments following the introduction of the Ordinance against Excessive Remuneration in Listed Stock Companies Limited by Shares within the foreseen time limits.

Internal organization

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

The information provided in the regulations are subject to amendments following the introduction of the Ordinance against Excessive Compensation in Listed Stock Companies Limited by Shares within the foreseen time limits.

The Rules of Organization set the following guidelines:

Authorities

The authorities of the various internal bodies are as follows:

The Board of Directors has the following duties and authorities:

- To exercise overall management of the company and issue the necessary instructions, including the approval of company policy and strategy;
- To determine the company's organization;
- To establish the accounting, financial control and planning principles and approve the annual plans and budgets (including investments);
- To appoint members of the General Management;
- To appoint and dismiss persons responsible for representing the company;
- To supervise the individuals entrusted with the management of the business, ensuring in particular that they comply with the provisions of law, and of the Articles of Association and regulations, and with the instructions issued;

- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the annual report, Group accounts, annual financial statements and resolutions for the appropriation of profits, and to carry out the decisions of the General Meeting;
- To inform the court in the event of over-indebtedness;
- To decide on calls to be made on partly-paid shares;
- To record capital increases and amend the Articles of Association appropriately;
- To determine the financial policy;
- To set guidelines for the company's information policy;
- To approve operations with major legal implications, exceptional transactions or unbudgeted financial commitments, where potential foreseeable risks exceed CHF 1 million, and in particular:
 - Contracts with third parties in areas outside the company's normal sphere of business;
 - Decisions to enter new business sectors or abandon existing ones;
 - The acquisition or sale of minority shareholdings;
 - Decisions to commence or terminate legal actions, or to enter into negotiated settlements.
- To approve unbudgeted investments in excess of CHF 250'000;
- To decide on the issuance of public loans and other capital market transactions;
- To decide on the establishment and liquidation of subsidiaries, and the acquisition or disposal of majority shareholdings;

- To decide on the purchase, mortgaging or sale of properties where the amount of the individual transaction is in excess of CHF 1 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.

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

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

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

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

- To chair the General Meeting and meetings of the Board of Directors;
- To represent the Board of Directors to the public and before the authorities, shareholders and General Management;
- To brief the Board in a timely manner on all matters of importance to the company;

- To supervise the work of the General Management, and in particular the implementation of decisions of the Board of Directors;
- To advise the General Management;
- To carry out all tasks falling within his remit under the terms of the law, Articles of Association and Rules of Organization.

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

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

The Board of Directors meets as often as necessary, but at least four times a year. During 2013, eight meetings of various duration were held, as well as two conference calls. The Board of Directors regularly invited members of General Management to attend its meetings and, where necessary, invited external advisers when the items on the agenda required their expertise. Members of General Management also attended committee meetings.

General Management has the following duties and authorities:

- To manage the company in such a way as to ensure sound and sustainable development of the Tornos Group;
- To define the management tools to be used throughout the Group, in particular the planning, accounting, IT systems and internal control systems;

- To carry out regular analyses of company strategy and annual planning as well as their implementation; to submit proposals to the Board of Directors;
- To develop the corporate culture;
- To prepare all matters falling within the remit of the Board of Directors or its committees, and to implement their decisions;
- To approve job descriptions, instructions and guidelines issued within the organizational framework defined by the Board of Directors; approval of the job descriptions of members of General Management is the responsibility of the Board of Directors;
- To enter into contracts with third parties where the interests of several divisions of the company are involved or where the contracts are of importance to the Group;
- In general, to take decisions within all areas of the company's activity, within the scope of its delegated authority;
- To introduce the innovation process and examine development projects to be submitted to the Board as a whole;
- To define the portfolio of products and markets for approval by the Board of Directors;
- To examine acquisitions and disposals;
- To propose innovations to the Board of Directors for approval.

With the efficient allocation of duties in mind, the Board of Directors appointed Mr. François Frôté as Chairman and Mr. Claude Elsen as Deputy Chairman. It also set up the following committees:

Nomination and Compensation Committee

François Frôté (Chairman), Claude Elsen (member of the Committee up to the General Meeting on April 16, 2013), Philippe Maquelin

Under article 7.2 of the Rules of Organization of Tornos Holding Ltd, the Nomination and Compensation Committee has the following duties:

- *Recommendations to the Board of Directors on the recruitment and selection of members of the General Management;*
- *Defining and setting terms and conditions for the recruitment and compensation of members of General Management;*
- *Evaluating the members of the General Management and setting the annual increases in remuneration to be awarded;*
- *Recommendations to the Board of Directors for the compensation arrangements of the Chairman of the Board and other directors;*
- *Recruitment, with a view to submitting recommendations to the Board of Directors or General Meeting with respect to new Board members;*
- *Approval of general principles of remuneration and other terms and conditions of employment for all staff;*
- *Approval of guidelines for annual salary increases for all staff;*
- *Reporting to the Board of Directors on the work of the Nomination and Compensation Committee.*

During the 2013 financial year, article 7.1 of the Rules of Organization of Tornos Holding Ltd. relating to the composition of the Nomination and Compensation Committee was amended with effect from April 17, 2013. Under the said Rules, the Nomination and Compensation Committee now has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO have to be permanent invitees of the Committee with

consultative votes, and, lastly, the CFO may be invited to participate, with a consultative vote, either fully or partly in the Committee, depending on the decisions of the CEO. With respect to decisions, the rules also stipulate that in the event of an equally split vote on a decision, the Committee Chairman shall henceforth have the casting vote.

The Committee sat five times in the course of 2013 and held several informal sessions regarding the redimensioning of General Management (reduction to three members as from December 1, 2013). In this context, the Committee discussed in particular with regard to the nomination procedure for Mr. Bruno Allemant (Head of Sales) and the stepping down of Messrs. Carlos Cancer, Pierre-Yves Müller, Olivier Marchand, and André Chardonnerau from General Management. The decisions relating to these changes were made directly by the Board of Directors.

Mr. Michael Hauser (CEO) attended five meetings as a permanent guest. Mr. Frank Brinken attended the meeting on December 9, 2013 as a permanent guest. Mr. Luc Widmer (CFO) partially attended the meetings on October 7 and December 9, 2013, as a guest.

In particular, the following subjects were covered:

- *Management of the nomination procedure for the new Head of Sales and preparation of the appointment of Mr. Bruno Allemant as Head of Sales;*
- *Issue of reducing the number of members of the Board of Directors;*
- *Identification of the individuals to participate in the "Management and Board Participation Plan 2007 (MBP 07)";*
- *Evaluation of the evolution of General Management;*
- *Issue of adapting employment contracts to the requirements of the Ordinance against Excessive Compensation in Listed Companies Limited by Shares;*

- Investigate modifying the "Management and Board Participation Plan 2007 (MBP 07)";
- Investigate redesigning the pension fund for the members of the General Management;
- Assessment and review of Management and senior staff salaries for 2014;
- Remuneration for the members of the Board of Directors for 2014 and 2015.
- On the instructions of the Board of Directors, monitoring particular operational or financial matters of the Group;
- Recommendation to the Board of Directors concerning the financial and dividend policy of the Tornos Group;
- Reporting to the Board of Directors on the work of the Audit Committee.

The Chairman of the Nomination and Compensation Committee provided regular reports on the Committee's meetings to the Board of Directors; he also submitted resolutions for a decision. The minutes of committee meetings were distributed to the Directors.

Audit Committee

Philippe Maquelin (Chairman), Claude Elsen (member of the Committee up to the General Meeting on April 16, 2013), François Frôté

Under article 8.2 of the Rules of Organization of Tornos Holding Ltd., the Audit Committee has the following powers and duties:

- Recommendation to the Board of Directors concerning the appointment of auditors;
- Definition and interpretation of accounting standards;
- Reviewing and putting together the annual and semi-annual reports and presenting them to the Board as a whole;
- Reviewing and structuring capital market transactions for submission to the Board as a whole;
- Overseeing the compliance with the SIX Swiss Exchange directives;
- Overseeing the work of the auditors;

During the 2013 financial year, article 8.1 of the Rules of Organization of Tornos Holding Ltd. relating to the composition of the Audit Committee was amended with effect from April 17, 2013. Under the said Rules, the Audit Committee now has to consist of at least two non-executive directors, the other members of the Board of Directors and the CEO have to be permanent invitees of the Committee with consultative votes, and, lastly, the CFO may be invited to participate, with a consultative vote, either fully or partly in the Committee, depending on the decisions of the CEO. If required, the auditor may participate with a consultative vote. The Committee meets as often as necessary, but at least once a year. With respect to decision, the rules also stipulate that in the event of an equally split vote on a decision, the Committee Chairman shall henceforth have the casting vote.

The Committee met eight times in 2013, including once via conference call. Meetings lasted three and a half hours on average. Mr. Michael Hauser (CEO and permanent guest) and Mr. Luc Widmer (CFO and guest) attended all the meetings. Mr. Claude Elsen attended the conference call on July 25 as a permanent guest; Mr. Frank Brinken partially attended the meetings on November 11 and December 9 as a permanent guest; the auditors attended one meeting.

In particular, the following main topics were discussed:

- Review of the financial statements and annual report for 2012;

- Review of the Group auditor's report to the Audit Committee;
- Periodic review of the utilization of the authorized capital and the contingent capital of Tornos Holding Ltd.;
- Review of the capital increase of May 29, 2013;
- Review of the financial plan 2013–2017;
- Periodic review of impairment tests and extraordinary amortization and depreciation relating to the strategic and operational reorientation of the Group;
- Periodic review of the Group's long-term financing and lines of credit;
- Review of the intermediate financial statements on June 30 and the half-year report 2013;
- Review of the risk management map;
- Review of the internal control system of the Tornos Group;
- Review of the audit plan;
- Review of the Tornos Holding Ltd. Board of Directors report with regard to article 29 SESTA (Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act) and the interim financial statements as at September 30, 2013, that were published in the scope of the public tender offer by Mr. Walter Fust on November 27, 2013.

The Audit Committee also reviewed the quarterly financial results, the forecast for 2013 and the budget 2014. It reviewed the information to be released to the financial community. It examined certain specific points related to financial, accounting and taxation issues, as well as the interpretation, adaptation and implementation of accounting standards for the Group, IFRS 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 participated in the tender offer regarding the auditors for 2014. It also assessed the performance of the auditors and its own work.

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

Alliances Committee

The Alliances Committee was instituted by the Board of Directors at its meeting on April 29, 2008, in connection with the alliance with Tsugami. Due to the end of this partnership, the Board of Directors decided during the year under review to dissolve the Committee.

Products Committee

In the year under review, the Board of Directors decided to dissolve the Products Committee and to take on its duties.

Information and control methods for oversight of management

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

Members of General Management

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

In the course of 2013, the following changes took place:

- *On January 28, 2013, Mr. Willi Nef, Head of Sales, resigned and left General Management and the company at the end of May 2013.*
- *On August 13, 2013, Mr. Carlos Cancer, Head of Market & Sales Support, resigned and left General Management at the end of November 2013; he left the company at the end of December 2013.*
- *On September 2, 2013, Mr. Bruno Allemand assumed his duties as Head of Sales & Marketing.*
- *On November 5, 2013, the redimensioning to three members was announced by General Management, with effect on December 1, 2013. Mr. Pierre-Yves Müller, COO, and Mr. Olivier Marchand, CTO, resigned and left the Group. Mr. André Chardonnerau, Head of Development and Engineering, was appointed Head of Product Development at Almac Ltd. as from December 1, 2013. Consequently, he left the Group's General Management.*

Other activities and interest groups

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

Management contracts

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

Guidelines

The compensation paid to the members of the Board of Directors and General Management during the 2013 financial year is shown below. The provisions of the Ordinance of November 20, 2013 against Excessive Compensation in Listed Companies Limited by Shares that cover reporting on compensation had not yet come into force during the 2013 financial year. However, the information given below is set out in line with the requirements of the said Ordinance. The Remuneration Report gives a complete picture of the principles and elements applied by the Tornos Group, and of the structure and responsibilities relating to compensation. It contains detailed information about the remuneration, shares and loans of the Board of Directors and General Management.

General Management

Michael Hauser (1961), Swiss, German

Chief Executive Officer | Appointed in 2011 | Training – final qualification on completion of studies: Diplom-Kaufmann, University of Mannheim, 1988 | Current directorship: none | Other professional bodies: SWISSMEM, Council member and chairman of the “Machine tools and manufacturing technology” division; CECIMO “European Committee for Co-operation of the Machine Tool Industries”, Board member and Vice Chairman (Chairman from 2009 to 2011) | Previous professional activities: Agie Charmilles Group (CH): Mikron Agie Charmilles Ltd. (CH), Bostomatic Inc. (US), Step Tec AG (CH): Head of Milling Division and Group Management member (from 2000 to 2008); Head of GF AgieCharmilles; Georg Fischer Ltd. (CH): Member of the Executive Committee (from 2008 to 2010)



Luc Widmer (1969), Swiss

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



Bruno Allemand (1965), Swiss

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

