

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	
			2014	2013
Tornos Holding Ltd., Moutier <i>Holding</i>	CHF	89'449'519.50		
└─ Tornos Management Holding Ltd., Moutier <i>Management of shareholdings and holding</i>	CHF	65'000'000	100%	100%
└─ Almac Ltd., La Chaux-de-Fonds <i>Production and sales</i>	CHF	1'175'000	100%	100%
└─ Almatronic Ltd., La Chaux-de-Fonds <i>Dormant company</i>	CHF	50'000	100%	100%
└─ Cyklos Ltd., Yverdon-les-Bains <i>Dormant company</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	n/a	100%
└─ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i>Production</i>	RMB	18'428'471	70%	70%

Organizational structure of the Group

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

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

General Management

Michael Hauser Chair
Bruno Allemand
Luc Widmer

Listed companies in the consolidation

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

Unlisted companies in the consolidation

Tornos Holding Ltd. has no unconsolidated shareholdings.

2014

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

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

2013

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

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

Shareholders

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

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

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

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

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

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

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

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

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:

	31.12.2014			31.12.2013		
	No. of shares	Per value CHF	Share capital CHF	No. of shares	Per value CHF	Share capital CHF
Share capital	19'877'671	4.50	89'449'519.50	19'877'671	4.50	89'449'519.50
Authorized share capital	n/a	n/a	n/a	324'422	4.50	1'459'899.00
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 2014 and 2013. For changes occurring in 2012, please refer to Note 23.1 of the 2012 consolidated accounts, which are available on the website at: http://investors.tornos.com/sites/investors.tornos.com/files/data/publications/2012/e_annual_report_2012.pdf

Authorized capital

2014

The company had authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on April 17, 2012. The Board of Directors could, at any time up to April 17, 2014, increase the share capital by a maximum sum of CHF 1'459'899.00 by issuing no more than 324'422 registered shares with a par value of CHF 4.50 each to be fully paid-up.

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

Contingent capital

2013

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

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

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

2014

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

2013

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

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

Capital changes

In KCHF	Share capital	Reserve from capital contribution – net	Reserve for treasury shares	Retained earnings	Total
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		0
Equity as at 31.12.2013	89'450	29'978	6'771	-2'055	124'144
Net result 2014				-292	-292
Transfer to reserve for treasury shares			-1'529	1'529	0
Readjustment from capital contribution reserve for capital increase costs 2013 set-off		-957		957	0
Equity as at 31.12.2014	89'450	29'021	5'242	139	123'852

Shares and participation certificates

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

There are no participation certificates.

Dividend right certificates

There are no dividend right certificates.

Restrictions on transfer and nominee registration

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

Convertible loans and options

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

Board of Directors



François Frôté	Michel Rollier
Walter Fust	Frank Brinken

François Frôté (1953), Swiss

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

Walter Fust (1941), Swiss

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

Michel Rollier (1959), Swiss

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

Frank Brinken (1948), Swiss

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

Members of the Board of Directors

2014

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

2013

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

Other activities and interest groups

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

Election and term of office

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

Internal organization

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

The Rules of Organization set the following guidelines:

Authorities

The authorities of the various internal bodies are as follows:

The Board of Directors has the following duties and authorities:

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

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

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

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

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

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

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

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

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

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

General Management has the following duties and authorities:

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

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

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

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

Remuneration Committee

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

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

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

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

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

The Committee convened two times in the course of 2014.

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

In particular, the following subjects were covered:

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

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

Audit Committee

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

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

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

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

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

In particular, the following main topics were discussed:

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

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

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

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

Information and control methods for oversight of management

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

Members of General Management

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

No changes took place in General Management in 2014.

Other activities and interest groups

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

Management contracts

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

Guidelines

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

General Management

Michael Hauser (1961), Swiss, German

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



Luc Widmer (1969), Swiss

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



Bruno Allemand (1965), Swiss

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



Participation rights of shareholders

Limitation and representation of voting rights

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

Statutory quorum

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

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

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

Convening General Meetings

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

Entry of items on the agenda

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

Entries in the share register

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

Control and warding-off mechanisms

Obligation to submit an offer

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

Takeover clauses

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

Auditors

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

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

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

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

Audit and additional fees

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

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

Other services include legal and tax services.

Means of receiving information from the external auditors

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

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

Information and disclosure policy

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

The French version of the annual report is definitive.

Contact addresses

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

Mr. Luc Widmer, CFO, Tornos Ltd.
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Phone +41 32 494 44 44
Fax +41 32 494 49 04
E-mail investors@tornos.com

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

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Rue Industrielle 111, 2740 CH-Moutier
Phone +41 32 494 44 44
Fax +41 32 494 49 03
E-mail contact@tornos.com

Tornos Holding Ltd., Moutier

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

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

Board of Directors' responsibility

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

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers SA



*Oliver Kuntze
Audit expert
Auditor in charge*



*Yves Tritten
Audit expert*

Neuchâtel, March 2, 2015