

TORNOS

Financial Report 2020

Tornos Group

Key Figures

In CHF 1 000*	2020	2019	Difference	Difference in %
Order Intake	97 984	135 498	-37 514	-27.7%
Net sales	103 388	205 309	-101 921	-49.6%
EBITDA**	-23 576	10 741	-34 317	n/a
<i>in % of Net sales</i>	-22.8%	5.2%		
EBIT**	-27 685	6 431	-34 116	n/a
<i>in % of Net sales</i>	-26.8%	3.1%		
Net result	-29 852	5 926	-35 778	n/a
<i>in % of Net sales</i>	-28.9%	2.9%		
Cash flow from operating activities	-3 440	-26 992	-23 552	n/a
Cash flow from investing activities	304	-4 590	4 894	n/a
Free Cash flow**	-3 136	-31 582	28 446	n/a
	31.12.2020	31.12.2019		
Net cash**	-4 992	-874	-4 118	n/a
Total equity	77 927	107 809	-29 882	-27.7%
<i>in % of total balance sheet</i>	60.8%	64.4%		
Total balance sheet	128 176	167 507	-39 331	-23.5%
Employees (full-time equivalents)***	603	729	-126	-17.3%

* Unless otherwise stated

** Non-GAAP financial measure, refer to pages 4 and 5

*** Without apprentices

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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, Free Cash flow and Net Working Capital.

EBIT and EBITDA

Tornos defines EBITDA as operating result plus non-operating result excluding depreciation on tangible fixed assets and amortization on 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	2020	2019
Operating result	-31 063	6 374
Non-operating result	3 378	57
EBIT	-27 685	6 431
Depreciation and amortization	4 109	4 310
EBITDA	-23 576	10 741

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 Working Capital

Tornos defines Net Working Capital as the total of current assets and liabilities without taking into consideration cash and cash equivalents, interest bearing borrowings and provisions. Tornos considers that Net Working Capital is an important information since it shows whether Tornos has sufficient current assets to meet its current liabilities. Changes in Net Working Capital shown in the Consolidated Statement of Cash flows only include cash-effective changes.

In CHF 1 000	31.12.2020	31.12.2019
Trade receivables	12 244	16 865
Inventories - net	69 375	101 871
Other short-term receivables	2 276	3 356
Prepayments and accrued income	1 572	2 337
Trade payables	-8 722	-23 174
Current tax liabilities	-43	-206
Other liabilities	-9 463	-8 234
Accrued liabilities and deferred income	-5 673	-7 331
Net Working Capital	61 566	85 484

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 takes in consideration of the shareholder loan.

In CHF 1 000	31.12.2020	31.12.2019
Cash and cash equivalents	17 329	14 440
Interest bearing borrowings (current)	-2 195	-15 113
Interest bearing borrowings (non-current)	-20 126	-201
Net cash	-4 992	-874

*Tornos Group
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Consolidated Income Statement

Tornos Group

In CHF 1 000	Notes	2020	2019
Net sales	29	103 388	205 309
Cost of sales	6	-91 466	-138 947
Gross profit		11 922	66 362
<i>in % of net sales</i>		11.5%	32.3%
Marketing and sales	6	-22 426	-31 299
General and administrative expense	6	-15 615	-18 066
Research and development	6	-5 248	-10 111
Other income	8	395	9
Other expense	8	-91	-521
Operating expense		-42 985	-59 988
Operating result		-31 063	6 374
<i>in % of net sales</i>		-30.0%	3.1%
Financial income	9	41	26
Financial expense	9	-141	-239
Exchange result, net	10	-1 664	237
Ordinary result		-32 827	6 398
Non-operating result	11	3 378	57
Earnings before income taxes		-29 449	6 455
Income taxes	12	-403	-529
Net result		-29 852	5 926
<i>in % of net sales</i>		-28.9%	2.9%
Thereof attributable to shareholders of Tornos Holding Ltd.		-29 852	6 040
Thereof attributable to minority interests		-	-114
Result per share	28		
- basic (CHF per share)		-1.52	0.31
- diluted (CHF per share)		-1.52	0.31
Additional information (in CHF 1 000)			
EBITDA		-23 576	10 741
<i>in % of Net sales</i>		-22.8%	5.2%
Depreciation and amortization	18, 19	-4 109	-4 310
EBIT		-27 685	6 431
<i>in % of Net sales</i>		-26.8%	3.1%

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

Consolidated Balance Sheet

Tornos Group

In CHF 1 000	Notes	31.12.2020	in %	31.12.2019	in %
ASSETS					
Cash and cash equivalents	13	17 329		14 440	
Trade receivables	14	12 244		16 865	
Inventories - net	15	69 375		101 871	
Other short-term receivables	16	2 276		3 356	
Prepayments and accrued income	17	1 572		2 337	
Total current assets		102 796	80.2%	138 869	82.9%
Property, plant, and equipment	18	24 067		27 238	
Intangible assets	19	943		950	
Deferred tax assets	20	370		450	
Total non-current assets		25 380	19.8%	28 638	17.1%
Total assets		128 176	100.0%	167 507	100.0%
LIABILITIES AND EQUITY					
Interest bearing borrowings	21	2 195		15 113	
Trade payables		8 722		23 174	
Current tax liabilities		43		206	
Other liabilities	22	9 463		8 234	
Accrued liabilities and deferred income	23	5 673		7 331	
Provisions	24	2 030		3 292	
Total current liabilities		28 126	21.9%	57 350	34.2%
Interest bearing borrowings	21	20 126		201	
Retirement benefit obligations	25	1 829		1 952	
Provisions	24	112		191	
Deferred tax liabilities	20	56		4	
Total non-current liabilities		22 123	17.3%	2 348	1.4%
Total liabilities		50 249	39.2%	59 698	35.6%
Share capital	26	69 572		69 572	
Capital reserve		40 035		40 331	
Treasury shares	26	-1 875		-1 875	
Retained earnings		696		-5 925	
Currency translation adjustments		-649		-747	
Net result		-29 852		6 040	
Equity attributable to shareholders of Tornos Holding Ltd.		77 927	60.8%	107 396	64.1%
Minority interests		-		413	
Total equity		77 927	60.8%	107 809	64.4%
Total liabilities and equity		128 176	100.0%	167 507	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, 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
Net result				-29 852		-29 852		-29 852
Changes in minority interest		-296			-2	-298	-413	-711
Currency translation adjustments					100	100		100
Share-based compensation				581		581		581
As per								
December 31, 2020	69 572	40 035	-1 875	-29 156	-649	77 927	-	77 927

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

Consolidated Statement of Cash Flows

Tornos Group

In CHF 1 000	Notes	2020	2019
Net result		-29 852	5 926
Adjustments for expenses and incomes not affecting cash:			
Income taxes	12	403	529
Depreciation of property, plant and equipment	18	3 508	3 743
Amortization of intangible assets	19	601	567
Result on disposal of property, plant and equipment	18, 19	-3 279	-149
Share-based compensation	27	581	1 357
Retirement benefit obligations	25	-242	55
Allowance and write-offs on inventories	15	17 989	2 341
Interests expense	9	19	84
Interests income	9	-43	-26
Income taxes paid		-408	-437
Changes from operating activities before changes in net working capital		-10 723	13 990
Changes in Net Working Capital			
Thereof trade receivables		7 283	-40 982
Thereof other assets and prepayments		4 397	7 794
Thereof inventories		1 785	437
Thereof trade payables		13 720	-22 766
Thereof other current liabilities and provisions		-14 272	-4 073
Thereof other current liabilities and provisions		1 653	-22 374
Cash flow from operating activities		-3 440	-26 992
Investment in property, plant and equipment			
Investment in property, plant and equipment	18	-1 206	-4 568
Disposal of property, plant and equipment	18	2 058	848
Investment in intangible assets	19	-591	-896
Interests received	9	43	26
Cash flow from investing activities		304	-4 590
Free Cash flow		-3 136	-31 582
Repayments of borrowings, including finance lease liabilities			
Repayments of borrowings, including finance lease liabilities	21	-135	-107
Proceeds from borrowings		7 122	15 000
Purchase of minority in Tornos (Xi'an) Machine Works Co., Ltd.		-711	-
Distribution to shareholders		-	-5 445
Proceeds from sale & purchase of treasury shares	26	-	668
Interests paid	9	-19	-84
Cash flow from financing activities		6 257	10 032
Net cash flow		3 121	-21 550
Cash and cash equivalents and bank overdrafts at beginning of year		14 440	35 926
Effects of exchange rate changes		-232	64
Cash and cash equivalents and bank overdrafts at end of year		17 329	14 440

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, 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 1, 2021. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 14, 2021.

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 December 31, 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.

2.4.4 Foreign currency rates

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.-31.12.2020	1.1.-31.12.2019	31.12.2020	31.12.2019
1 EUR	1.0813	1.1230	1.0946	1.0960
1 USD	0.9501	1.0025	0.8908	0.9778
1 GBP	1.2179	1.2786	1.2130	1.2835
1 CNY	0.1375	0.1450	0.1364	0.1401

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 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 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 discloses 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 Board of Directors on a regular basis. Each of the risks identified is evaluated in order to take appropriate preventive measures if necessary.

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 1.0% in 2019 and 2020 (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 2020 and 2019. 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 1.0% in 2019 and 1.0% in 2020. 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.

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.

4.2 Impact of Covid-19 pandemic

Tornos Group was materially and adversely affected by the consequences of the Covid-19 pandemic, which spread in the first half of 2020. Based on the facts and circumstances known at this moment and the possible scenarios about how the Covid-19 virus and resulting government measures could evolve, an impairment test was performed. As result, no need for an impairment has been stated and management has determined that the use of the going concern assumption is warranted.

Explanations of balance sheet and income statement items affected by Covid-19 can be found in inventories (see Note 15), personnel costs (see Note 7) and interest-bearing loans (see Note 21).

5 Scope of consolidation

Group structure	Share capital	% held*	
		2020	2019
Tornos Holding Ltd., Moutier <i> Holding</i>	CHF 69 571 848.50		
↳ Tornos (Taichung) Machine Works Ltd., Taiwan <i> Production</i>	TWD 60 250 000	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, Rho/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%	100%
↳ Tornos Technologies (Malaysia) Sdn. Bhd., Penang <i> Support services</i>	MYR 40 000	100%	100%
↳ Tornos Technologies (Shanghai) Limited, Shanghai <i> Sales and service</i>	USD 500 000	100%	100%
↳ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i> Production</i>	RMB 25 000 000	100%	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. As of 31.12.2020, the shares as well as the voting rights of all subsidiaries are 100% held by the parent company and hence these subsidiaries are fully controlled and consolidated by the parent company.

Changes in scope

Tornos Ltd. took over the minority of Tornos (Xi'an) Machine Works Co., Ltd. of 30% for KCHF 711, which was held by Shaanxi Robot Automation Technology Co., Ltd. The transaction has taken place in January, 2020. Tornos (Xi'an) Machine Works Co., Ltd. is now fully owned by the Group. The minority interests at the year-end 2019 amounted to KCHF 413 and was solely related to the company Tornos (Xi'an) Machine Works Co., Ltd.

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

6 Expenses by nature

In CHF 1 000	2020	2019
Material expense	-67 679	-92 426
Personnel expense (note 7)	-43 378	-69 060
Depreciation and amortization charges (notes 18, 19)	-4 109	-4 070
Marketing expense and commissions	-1 887	-4 890
Other operating expense	-17 702	-27 977
Total expense	-134 755	-198 423

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

7 Personnel expenses

In CHF 1 000	2020	2019
Personnel expense - gross	-50 593	-69 060
Reimbursement from unemployment insurance (and other governmental institution)	7 215	-
Personnel expense - net	-43 378	-69 060
Of which:		
Pension expense (note 25)	-2 283	-2 881
Share-based compensation (note 27)	-581	-1 357

Tornos Group applied for short-time working in several countries, whereby the major part of the reimbursement from unemployment insurance and other governmental institution was paid in Switzerland (KCHF 6 350).

As of December 31, 2020 the full-time equivalent (FTE) amounted to 603, excluding 32 apprentices (December 31, 2019: 729 excluding 35 apprentices). The average number of employees during the year under review was 641 (2019: 747).

8 Other income and expense

In CHF 1 000	2020	2019
Gain on sale of machinery	29	6
Other income	366	3
Loss on sale of machinery	-4	-17
Changes in bad debt provision	-77	-504
Other expense	-10	-
Other income and expense	304	-512

9 Finance result

In CHF 1 000	2020	2019
Interest income	41	26
Finance income	41	26
Interest expense	-19	-84
Bank charges and other finance expense	-122	-155
Finance expense	-141	-239
Finance result	-100	-213

10 Exchange result

In CHF 1 000	2020	2019
Realized gains and losses	-325	591
Unrealized gains and losses	-1 339	-354
Exchange result	-1 664	237

11 Non-operating result

In CHF 1 000	2020	2019
Gain on sale of land and buildings	3 250	160
Income and expense from non-operating properties	128	-103
Non-operating result	3 378	57

A gain of KCHF 3 250 relates to the sale of a former operating building which has been sold for KCHF 4 000. The final payment of KCHF 2 000 was received in January 2020.

A non-operating building with a net book value of KCHF 6 414 (December 31, 2019: KCHF 6 414) generated rental income of KCHF 240 (2019: KCHF 239) and ancillary costs of KCHF 112 (2019: loss of KCHF 103). This building was completely renovated and reassigned as a non-operating building since then. At the end of December the building is fully let.

12 Income taxes

In CHF 1 000	2020	2019
Current income tax charge	-245	-618
Deferred tax credit/(charge)	-158	89
Income taxes	-403	-529

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2020 ranged between 8% and 31% (2019: between 8% and 31%), in the tax jurisdictions in which the Group operates.

In CHF 1 000	2020	2019
Ordinary result before income taxes	-32 827	6 398
Expected tax credit / (expense)	7 428	-1 338
Weighted average applicable tax rate	22.6%	20.9%
Effect of tax deductible expense/income eliminated on consolidation	-95	-652
Effect of tax on non-operating result	-763	-9
Utilisation of previously unrecognized tax assets	92	2 153
Current year losses for which no deferred tax asset is recognized	-6 883	-406
Expenses not deductible for tax purposes/revenues not taxable	-119	-280
Other effects	-63	3
Income tax credit/(charge) recognized	-403	-529

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 2019. 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 are 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 continue to benefit from reduced effective tax rates due to deductibility of intergroup dividends. Furthermore, tax-related arrangements to promote research and development were introduced from 2020 (patent box and additional deduction for research and development expenditure). The changes mentioned have no significant effect on the annual financial statements.

13 Cash and Cash equivalents

In CHF 1 000	31.12.2020	31.12.2019
Cash at bank and in hand	17 351	14 530
Less bank overdrafts	-22	-90
Cash and cash equivalents	17 329	14 440

14 Trade receivables

In CHF 1 000	31.12.2020	31.12.2019
Trade receivables	12 935	17 867
Less provision for impairment of receivables	-691	-1 002
Trade receivables	12 244	16 865

Trade receivables aging is as follows:

In CHF 1 000	31.12.2020	31.12.2019
Current	7 413	10 169
1 to 30 days overdue	2 964	4 340
31 to 60 days overdue	605	1 082
61 to 90 days overdue	176	411
91 to 180 days overdue	940	895
More than 180 days overdue	837	970
Trade receivables	12 935	17 867

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

In CHF 1 000	2020	2019
At beginning of year	-1 002	-505
Change of bad debt provision	-77	-504
Receivables written off during the year as uncollectible	388	7
At end of year	-691	-1 002

15 Inventories

In CHF 1 000	31.12.2020	31.12.2019
Materials and components	44 389	55 076
Work in progress	17 612	15 106
Spare parts	23 008	22 470
Finished goods	21 406	31 221
Inventories – gross	106 415	123 873
Less allowance for obsolescence	-37 040	-22 002
Inventories – net	69 375	101 871

Lower consumption due to the decline in net sales led to a prolongation of storage which could not be fully offset by measures taken and consequently led to an increase of allowance for obsolescence by KCHF 15 038 in 2020.

The total amount of inventories scrapped or written off in 2020 amounts to KCHF 2 795 (2019: KCHF 3 759). In 2019, about half of the materials and components were moved to a central warehouse at an external logistics company

16 Other short-term receivables

In CHF 1 000	31.12.2020	31.12.2019
VAT receivable	1 284	2 322
Social securities & other related taxes receivable	192	30
Other	800	1 004
Other short-term receivables	2 276	3 356

17 Prepayments and accrued income

In CHF 1 000	31.12.2020	31.12.2019
Advances to suppliers and logistic companies for customs clearance purpose	863	1 297
Negative hours due from employees	67	45
Prepaid expenses	642	995
Prepayments and accrued income	1 572	2 337

18 Property, plant and equipment

In CHF 1 000

	Land	Buildings & installations	Machinery	Other equipment	Total
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Cost

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
Additions	-	547	300	359	1 206
Disposals	-718	-5 660	-1 695	-606	-8 679
Exchange differences	-10	-93	-13	-44	-160
At December 31, 2020	2 788	52 932	10 660	4 947	71 327

Accumulated depreciation

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
Depreciation	-	-2 333	-497	-678	-3 508
Disposals	-	5 643	1 695	573	7 911
Exchange differences	-	29	12	18	59
At December 31, 2020	-	-34 604	-8 760	-3 896	-47 260

Carrying amounts

December 31, 2019	3 516	20 195	2 098	1 429	27 238
December 31, 2020	2 788	18 328	1 900	1 051	24 067

Under the category building & installations, there are buildings held for investment purposes (note 11). As of December 31, 2020, no assets were held for sale (December 31, 2019: KCHF 7 164). In 2020, a building held for sale with a net book value of KCHF 750 was sold (2019: KCHF 640).

In 2020, no depreciation was recognized on buildings & installations used for non-operating activities due to the intention to sell the related real estate (2019: KCHF 240) and is reported in the non-operating result (note 11). In December the sales project was abandoned.

No assets under finance leasing have been acquired in 2020 (2019: KCHF 157). The residual net book value of the assets under finance lease amounts to KCHF 194 (December 31, 2019: KCHF 340). These assets are reported under other equipment.

The fire insurance value of buildings amounts to CHF 92.9 million (December 31, 2019: CHF 107.2 million).

19 Intangible assets

In CHF 1 000	Development costs	Software	Total
Cost			
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
Additions	-	591	591
Disposals	-509	-300	-809
Exchange differences	-9	-	-9
At December 31, 2020	-	2 166	2 166
Accumulated amortization			
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
Amortization charge	-	-601	-601
Disposals	509	300	809
Exchange differences	9	3	12
At December 31, 2020	-	-1 223	-1 223
Carrying amounts			
December 31, 2019	-	950	950
December 31, 2020	-	943	943

The disposal with a gross value of KCHF 519 is the result of the reassessment of the development costs. The development costs no longer provide value for Tornos.

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, 2018	397	28
Additions	64	-
Reversals	-4	-24
Translation adjustments	-7	-
At December 31, 2019	450	4
Additions	-	67
Reversals	-78	-12
Translation adjustments	-2	-3
At December 31, 2020	370	56

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	Thereof	Swiss federal	Thereof
	tax and foreign tax*	cantonal tax and foreign tax*	tax and foreign tax*	cantonal tax and foreign tax*
	31.12.2020	31.12.2020	31.12.2019	31.12.2019
Within 1 year	3 942	3 238	37 199	35 703
Between 1 and 2 years	10 318	3 129	3 774	3 070
Between 2 and 5 years	16 701	3 205	24 186	4 096
After 5 years	43 658	42 274	14 033	13 438
Losses not subject to expiry	319	319	1 573	1 573
Total	74 938	52 165	80 765	57 880

* 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	31.12.2020	31.12.2019
Loan from shareholders (note 21.2)	-	15 000
Government-supported loans (Covid-19)	2 122	-
Short-term lease liabilities (note 21.6)	73	113
Current interest bearing borrowings	2 195	15 113
Loan from shareholders (note 21.2)	20 000	-
Long-term lease liabilities (note 21.6)	126	201
Non-current interest bearing borrowings	20 126	201
Interest bearing borrowings	22 321	15 314

Tornos Group applied for government-supported loans in various countries. In Switzerland, a government-supported loan of CHF 10.5 million has been granted in April 2020. This has not been utilized up to the balance sheet date. For CHF 0.5 million the interest rate is currently set fixed at a rate of zero percent. For CHF 10 million the interest rate is currently set at 0.5%. The interest rates are subject to an annual amendment based on the market developments. For the duration of the Covid-19 loan, the company may not distribute dividends and royalties and may not repay capital contributions. There are also further restrictions regarding the granting and repayment of loans to group companies and owners. Reduction of the credit line will be made quarterly from March 31, 2021 onwards on the basis of the original loan amount and will expire on December 31, 2024.

In Germany a government-supported loan of KCHF 547 has been granted and disbursed in May 2020. The interest rate is set at 3.03%. Repayment will be made quarterly from September 30, 2022 onwards and will expire on June 30, 2030.

In France a government-supported loan of KCHF 1 095 has been granted and disbursed in May 2020. The interest rate depends on the repayment date. The loan must be repaid within six years. In the United States a government supported loan of KCHF 480 has been granted and disbursed in May 2020. In certain circumstances the loan can be forgiven up to the full amount.

21.1 Credit agreements with banks

In 2019 and 2020 there were no assets pledged in relation to bank agreements.

21.2 Loan from shareholders

Loan Facility Agreements have been granted for a total value of CHF 20 million by shareholders since 2014. The agreement also includes the provision of securities of CHF 10 million for bank guarantees.

The aforementioned shareholder loan facilities granted bear fixed interest rates of 1.0% (2019: 1.0%). The credit line and the securities provided for bank guarantees can be cancelled on each September with a termination period of 27 months. Agreements have not been cancelled on September 2020. Mortgage notes of Tornos Ltd. are assigned to the lender as securities to the granted loans.

At the end of the year 2020, CHF 4.9 million (December 31, 2019: CHF 4.2 million) were used under the ancillary facilities for guarantees purposes and CHF 20 million were used as part of the credit facilities granted (December 31, 2019: CHF 15 million).

21.3 Maturity schedule

In CHF 1 000	31.12.2020	31.12.2019
Within 1 year	2 195	15 113
Between 1 and 2 years	20 037	76
Between 2 and 5 years	89	125
Total borrowings	22 321	15 314

21.4 Interest rate exposure

In CHF 1 000	31.12.2020	31.12.2019
At fixed rates	22 321	15 314
Total	22 321	15 314

21.5 Exchange rate exposure

The original currencies of the Group's borrowings are:

In CHF 1 000	31.12.2020	31.12.2019
Swiss franc	20 199	15 314
Euro	1 642	-
US dollar	480	-
Total borrowings	22 321	15 314

21.6 Finance lease liabilities

In CHF 1 000	31.12.2020	31.12.2019
Minimum lease payments		
Within 1 year	73	113
Between 1 to 5 years	126	201
Present value of finance lease liabilities	199	314

The finance lease liabilities of the Group carried an effective interest rate of 1.8% as at December 31, 2020 (December 31, 2019: 2.0%).

22 Other liabilities

In CHF 1 000	31.12.2020	31.12.2019
Advances received	7 724	5 530
Commissions payable	584	961
Other taxes and social security payables	707	1 491
Other payables	448	252
Total other liabilities	9 463	8 234

Customer advance payments rose slightly towards the end of the year due to the improved order intake situation.

23 Accrued liabilities and deferred income

In CHF 1 000	31.12.2020	31.12.2019
Accrued employees remuneration	3 841	4 977
Other accrued expenses	1 832	2 354
Accrued liabilities and deferred income	5 673	7 331

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, 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
Additions	206	-	-	206
Reversals	-	-	-13	-13
Utilization	-1 558	-	-6	-1 564
Translation adjustments	-5	-	35	30
At December 31, 2020	1 490	-	652	2 142

In CHF 1 000	31.12.2020	31.12.2019
Current	2 030	3 292
Non-current	112	191
Total	2 142	3 483

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 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 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 2020, the rate was at 1.00% (2019: 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 expense

In CHF 1 000	Surplus/ (deficit) 31.12.2020	Economic part of the organization at the end of		Change in the current result	Thereof exchange differences	Contributions concerning the business period	Pension expense	
		2020	2019				2020	2019
Pension plans without surplus/deficit according to Swiss GAAP FER 26	-	-	-	-	-	2 197	2 197	2 454
Other funded pension plans	-713	-713	-880	-167	-72	134	39	332
Pension plans without assets	-1 116	-1 116	-1 072	44	-3	-	47	95
Total	-1 829	-1 829	-1 952	-123	-75	2 331	2 283	2 881

As of December 31, 2020 and as of December 31, 2019 there is no employer's contribution reserve. The information on the economic benefit as at December 31, 2020 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, 2019. The pension fund reported a coverage rate of 111.0% in its Swiss GAAP FER 26 financial statements 2019, resp 102.8% in the financial statements 2018. The technical interest rate used in the Swiss GAAP FER 26 financial statements of the Swiss Pension plan amounts to 1.75% (in prior year financial statements 2018: 2.0%).

26 Share capital

26.1 Capital structure

	Issued registered shares	Treasury shares	Total shares in circulation
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
Movement in treasury shares	-	-	-
Issued and fully paid-in at December 31, 2020	19 877 671	-264 319	19 613 352

26.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2020 and as of December 31, 2019 the share capital consisted of 19 877 671 ordinary registered shares with a par value of CHF 3.50 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meetings of shareholders and are entitled to one vote per share at the meetings of shareholders.

26.3 Treasury shares

Movements in treasury shares are as follows:

	2020		2019	
	Number of shares	Amount (in CHF 1 000)	Number of shares	Amount (in CHF 1 000)
At beginning of year	264 319	1 875	449 269	3 186
Sale of treasury shares	-	-	-184 950	-1 311
Acquisition of treasury shares	-	-	-	-
At end of year	264 319	1 875	264 319	1 875

Treasury shares are valued at average purchase price. The average purchase price as per 31.12.2020 is CHF 7.09 (31.12.2019: CHF 7.09).

During the year 2020:
There were no transactions with the Management and Board.

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).

26.4 Conditional share capital

	2020		2019	
	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	2 473 317
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:

	31.12.2020	31.12.2019
Walter Fust	48.40%	48.40%
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 2020, 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 581 was recorded for the year ended December 31, 2020 (2019: KCHF 1 357). Compensation expense arising from stock options outstanding at December 31, 2020 to be recognized in future periods amounts to KCHF 235 (December 31, 2019: KCHF 802).

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 Remuneration 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 Remuneration 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 2020, participants did not buy any shares (2019: 8 000 shares at CHF 7.34). No compensation expenses were recorded for transactions for the year ended December 31, 2020 (December 31, 2019: KCHF 5).

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 Remuneration 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, 2020 as part of this option program amounted to KCHF 581 (2019: KCHF 1 352).

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:

	2020			2019		
	Options	Exercise price in CHF	Contractual life	Options	Exercise price in CHF	Contractual life
Outstanding at January 1	775 209	9.49*		581 756	7.35*	
Granted	369 583	6.54	3 years (April 30, 2023)	406 583	9.79	3 years (April 30, 2022)
Exercised	-	-		-184 950	3.47*	
Forfeited or expired	-378 999			-28 180		
Outstanding at December 31	765 793	8.69*		775 209	9.49*	
Exercisable at December 31	220 210	10.08		52 750	3.48	

* weighted average

In 2020, 120 000 options (2019: 120 000) have been granted to the General Management, 30 000 to the Board of Directors (2019: 32 000) and 219 583 to the Senior Management of the Group (2019: 254 583). Out of these options granted, no shares have been purchased in 2020 (2019: 8 000 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).

	2020	2019
Net result attributable to equity holders of Tornos (in CHF 1 000)	-29 852	6 040
Weighted average number of ordinary shares in issue (in 1 000)	19 613	19 545
Basic result per share (CHF per share)	-1.52	0.31

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.

	2020	2019
Net result attributable to equity holders of Tornos (in CHF 1 000)	-29 852	6 040
Weighted average number of ordinary shares in issue (in 1 000)	19 613	19 545
Adjustment for share options (in 1 000)	-	60
Weighted average number of ordinary shares for diluted earnings per share (in 1 000)	19 613	19 605
Diluted result per share (CHF per share)	-1.52	0.31

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 -31 063 and for 2019 to KCHF 6 374.

29.1 Analysis of revenues by category

In CHF 1 000	2020	2019
Machines	71 378	159 533
Service and spares parts	32 010	45 776
Total net sales	103 388	205 309

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	2020	2019
Switzerland	24 925	46 752
Other European countries	43 916	109 557
Americas	14 666	26 081
Asia	19 881	22 919
Total net sales	103 388	205 309

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	31.12.2020	31.12.2019
Switzerland	22 540	25 759
Other European countries	1 130	948
Americas	240	298
Asia	1 100	1 183
Total non-current assets for geographical area disclosure	25 010	28 188
Reconciling unallocated assets:		
- Deferred tax assets	370	450
Total non-current assets per balance sheet	25 380	28 638

30 Commitments and contingencies

30.1 Operating lease commitments

Operating lease liabilities, minimum lease payments:

In CHF 1 000	31.12.2020	31.12.2019
Year 1	1 763	2 285
Years 2 to 5	3 074	4 130
After 5 years	788	1 174
Total minimum lease payments	5 625	7 589

30.2 Pledges

The following assets were pledged to shareholders.

In CHF 1 000	31.12.2020	31.12.2019
Land and buildings	11 100	14 400
Total assets pledged	11 100	14 400

At December 31, 2020 the total value of the pledged mortgage notes related to land and buildings amount to CHF 23.2 million (December 31, 2019: CHF 23.2 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 2020, sales to companies in which two of the directors of Tornos Holding Ltd. hold a significant interest amounted to KCHF 380 (2019: KCHF 1 333). In 2020, goods provided by a company in which two of the directors of Tornos Holding Ltd. hold a significant interest amounted to KCHF 2 295 (2019: KCHF 2 424). As of December 31, 2020, the related outstanding balances receivable and payable amounted to KCHF 15 and KCHF 17 respectively (December 31, 2019: KCHF 88 and KCHF 389 respectively).

No loans or advances were granted to related parties in 2020 and 2019. As of December 31, the main shareholders granted a loan of CHF 20 million (December 31, 2019: CHF 15 million) in accordance with note 21.2.

In 2020, a related party entered into a mandate to perform financial transactions on behalf of Tornos, backed by securities held by the related party and a loss cover clause in favor of Tornos. The volume of the transactions with the related party amounted to KCHF 4 992 with a zero net effect on the financial result as well as on cash flows. The mandate has been terminated by mutual consent in 2020.

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, 2020 the Group has no open foreign exchange contracts as on December 31, 2019.

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

There were no significant subsequent events.

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 2020, 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 consolidated financial statements (pages 8 to 47) give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview



Overall Group materiality: CHF 1 030 000

- We concluded full scope audit work at 2 reporting units in Switzerland. Our audit scope addressed over 79% of the Group’s revenue.
- In addition, specified procedures in revenue were performed on one further reporting unit in one country representing a further 12% of the Group’s revenue.

As key audit matters the following areas of focus have been identified:

- Valuation of inventories
- Impairment assessment of assets

Materiality

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

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

Overall Group materiality

CHF 1 030 000

How we determined it

1.0% 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 with negative net results.

We agreed with the Board of Directors that we would report to them misstatements above CHF 45 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

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 state-

ments 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 69.4 million in the balance sheet as at 31 December 2020 and therefore represents a significant share of total assets (about 54%).

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 realisable 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 15 (Summary of significant accounting policies, Note 2.9 Inventories) and page 29 (Notes to the consolidated financial statements, Note 15 Inventories) in the 2020 Financial 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 realisable 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.

Impairment assessment of assets

Key audit matter

We focused on this area because of the existence of an indicator of impairment and because of the level of judgement inherent in management's assessment.

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

Assets such as property, plant and equipment (CHF 24.1 million) and intangible assets (CHF 0.9 million) require an assessment for impairment. The assessment of impairment is performed by comparing the carrying values (book values) of those assets to their recoverable amounts.

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

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

Please refer to page 17 (Summary of significant accounting policies, Note 2.12 Impairment of assets)

How our audit addressed the key audit matter

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

The following audit procedures were performed:

- We reviewed the outcome of prior period assumptions (reliability of the prior year forecast against actual achieved).
- We compared the forecasts used to the budget 2021, which has been approved by the Board of Directors.
- We assessed the revenue growth rates by comparing them to external market data.
- We tested the mathematical accuracy of the calculation derived from the forecast model.
- The WACC (weighted average cost of capital) which was used in the discount rate calculation was assessed with the support of our valuation experts, by assessing the risk adjusted cost of capital used to derive at the discount rate for the Group and comparable organisations.

Based on our audit work, the key assumptions used by management were supportable and appropriate in light of the current environment as at 31 December 2020.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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



Gerhard Siegrist
Audit expert
Auditor in charge



Astrit Mehmeti
Audit expert

Neuchâtel, March 1, 2021

*Tornos Holding Ltd.
Statutory Financial
Statements 2020*

Income Statement

Tornos Holding Ltd.

In CHF 1 000	Notes	2020	2019
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 expense		-916	-1 293
Research and development		-	-116
Taxes other than on income		-34	-18
Total expense	3	-950	-1 467
Impairment on loans to subsidiaries	7	-35 000	-
Finance income/(expense) - net		-5	68
Exchange gains/(losses) - net		-429	-38
Result before income taxes		-36 384	-916
Income taxes		-	-17
Net result		-36 384	-933

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

Balance Sheet

Tornos Holding Ltd.

In CHF 1 000	Notes	31.12.2020	in %	31.12.2019	in %
ASSETS					
Cash and cash equivalents		78		499	
Receivables from Group Companies		3 076		5 474	
Other current assets		38		20	
Total current assets		3 192	4.0%	5 993	5.1%
Loans to subsidiaries	7	8 784		43 784	
Investment in a subsidiary	3	68 683		66 713	
Total non-current assets		77 467	96.0%	110 497	94.9%
Total assets		80 659	100.0%	116 490	100.0%
LIABILITIES AND EQUITY					
Payables to third parties		-		128	
Payables to Group Companies		14 273		13 549	
Accrued expenses		28		71	
Total current liabilities		14 301	17.7%	13 748	11.8%
Share capital	4	69 572		69 572	
Statutory retained earnings		46		46	
Statutory capital reserve					
Reserve from capital contribution		40 538		40 538	
Accumulated losses		-41 923		-5 539	
Treasury shares	5	-1 875		-1 875	
Total equity		66 358	82.3%	102 742	88.2%
Total liabilities and equity		80 659	100.0%	116 490	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, 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
Sales & purchases of treasury shares				-643	1 311	668
At December 31, 2019	69 572	46	40 538	-5 539	-1 875	102 742
Net result				-36 384		-36 384
Contribution to shareholders						-
Sales & purchases of treasury shares						-
At December 31, 2020	69 572	46	40 538	-41 923	-1 875	66 358

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		2020	2019
		in 1 000		% held/ voting rights	% held/ voting rights
Tornos Ltd., Moutier Switzerland	Production and sales	CHF	65 000	100	100
Tornos (Taichung) Machine Works Ltd., Taiwan	Production	TWD	60 250	100	100

A list of all subsidiaries indirectly held by Tornos Holding Ltd. is found in the note 5 of the consolidated financial statements 2020 of Tornos Group.

In 2020, the share capital of Tornos (Taichung) Machine Works Ltd., Taiwan, was increased by TWD 60 million to meet local capital requirements.

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. 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, 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
Movement in treasury shares	-	-	-
Issued and fully paid-in at December 31, 2020	19 877 671	-264 319	19 613 352

As of December 31, 2020 and as of December 31, 2019 the share capital consisted of 19 877 671 ordinary registered shares with a par value of CHF 3.50 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meetings of shareholders and are entitled to one vote per share at the meetings of shareholders.

4.2 Conditional share capital

	2020		2019	
	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	2 473 317
Utilisation	-	-	-	-
At end of year	706 662	2 473 317	706 662	2 473 317

The conditional share capital amounts to CHF 2 473 317 (2019: 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:

	2020		2019	
	Number of shares	Amount (in CHF 1 000)	Number of shares	Amount (in CHF 1 000)
At beginning of year	264 319	1 875	449 269	3 186
Sale of treasury shares	-	-	-184 950	-1 311
Acquisition of treasury shares	-	-	-	-
At end of year	264 319	1 875	264 319	1 875

Treasury shares are valued at average purchase price. The average purchase price as per 31.12.2020 is CHF 7.09 (31.12.2019: CHF 7.09).

During the year 2020:

There were no transactions with the Management and Board.

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).

6 Significant shareholders

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

	31.12.2020	31.12.2019
Walter Fust	48.40%	48.40%
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

Pursuant to the impairment test performed, the loans to subsidiaries have been reevaluated by CHF 35.0 million (December 31, 2019: no impairment).

8 Number of full-time equivalents

The Company as a holding does not have any employees. In 2019, the annual average number of full-time equivalent, including the branch, was 24 FTE without apprentices.

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 2020 (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 Financial Report.

	Number at 31.12.2020		Number at 31.12.2019	
	Shares	Options	Shares	Options
François Frôté	208 649	16 000	208 649	8 000
Walter Fust	9 620 529	8 000	9 620 529	-
Michel Rollier/Rollomatic Holding SA	2 853 733	24 000	2 853 733	16 000
Till Fust	-	6 000	-	-
Total Board of Directors	12 682 911	54 000	12 682 911	24 000
Michael Hauser (CEO)	89 805	90 000	89 805	60 000
Luc Widmer	-	90 000	-	70 000
Bruno Allemant*	-	-	-	67 000
Bruno Edelmann**	-	-	-	60 000
Jens Thing***	-	-	-	-
Total General Management	89 805	180 000	89 805	257 000

* until October 30, 2020, ** until September 30, 2020

*** since November 1, 2020

In addition, article 959c paragraph 2 item 11 of the Swiss Code of Obligations requires 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, 2020, be carried forward to new account.

Proposed Appropriation of Available Earnings

In CHF 1 000	31.12.2020	31.12.2019
Accumulated losses carried forward from prior year	-5 539	-3 963
Net result	-36 384	-933
Sales & purchases of treasury shares	-	-643
Balance to be carried forward	-41 923	-5 539

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 2020, 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 financial statements (pages 56 to 63) as at 31 December 2020 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 806 000

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

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

- Impairment of investments and intercompany loans

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 806 000
How we determined it	1.0% 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 45 000 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment of investments and intercompany loans

Key audit matter

How our audit addressed the key audit matter

We focused on this area because of the existence of an indicator of impairment and because of the level of judgement inherent in management's assessment.

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

Investments and intercompany loans (CHF 77.5 million) require an assessment for impairment. The assessment of impairment is performed by comparing the carrying values (book values) of those investments and loans to their recoverable amounts.

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

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

Please refer to page 59 (Note 2 Accounting principles applied in the preparation of the financial statements) and page 62 (Note 7 Impairment on loans to subsidiaries).

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

The following audit procedures were performed:

- We reviewed the outcome of prior period assumptions (reliability of the prior year forecast against actual achieved).
- We compared the forecasts used to the budget 2021, which has been approved by the Board of Directors.
- We assessed the revenue growth rates by comparing them to external market data.
- We tested the mathematical accuracy of the calculation derived from the forecast model.
- The WACC (weighted average cost of capital) which was used in the discount rate calculation was assessed with the support of our valuation experts, by assessing the risk adjusted cost of capital used to derive at the discount rate for the Group and comparable organisations.

Based on our audit work, the key assumptions used by management were supportable and appropriate in light of the current environment as at 31 December 2020.

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 communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we deter-

mine 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



Gerhard Siegrist
Audit expert
Auditor in charge



Astrit Mehmeti
Audit expert

Neuchâtel, March 1, 2021

Remuneration Report 2020

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. Moreover, 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 through 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 2020

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	■				■
Walter Fust			■	■	
Michel Rollier			■		■
Till Fust		■			■

Remuneration

In CHF 1 000	Remuneration		Other remuneration	Total	Shares (acquired)	Stock options (granted)	Total remuneration
	fixed						
François Frôté	152	-		152	-	6	158
Walter Fust	72	4		76	-	6	82
Michel Rollier	72	5		77	-	6	83
Till Fust	72	5		77	-	6	83
Total Board of Directors	368	14		382	-	26	408

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 2020 and may not be exercised until April 30, 2022.

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 2020 members of the Board of Directors were granted 32 000 options with a fair value of CHF 0.81. Out of these options granted, members of the Board of Directors acquired no shares under the Stock purchasing program MBP07.

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	■				■
Walter Fust			■	■	
Michel Rollier			■		■
Till Fust**			■		■
Frank Brinken*			■		■

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

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 a total of 8 000 shares under the Stock purchasing program MBP07 at an acquisition price of CHF 7.34 per share with a remuneration benefit of CHF 1.37 per share.

Remuneration paid to members of the General Management in 2020

The remuneration paid to the members of the General Management during the financial year under review came to CHF 1.5 million. These remuneration figures are the amounts booked during the period under review. In view of the COVID-19 pandemic, the General Management agreed to a temporary reduction of the members' remuneration by 10% and renounced its variable cash remuneration.

In CHF 1 000	Remuneration fixed	Remuneration variable	Contribution in kind	Other remuneration	Paid remuneration	Stock		Total remuneration
						Shares (acquired)	options (granted)	
Michael Hauser (CEO)	530	-	7	90	627	-	24	651
Other members of General Management	669	-	18	122	809	-	73	882
Total General Management	1 199	-	25	212	1 436	-	97	1 533

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 2020 and may not be exercised until April 30, 2022.

Contribution in kind comprise the Tornos vehicles used by the 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 2020 no member of the General Management acquired shares. On the other hand, they were granted 120,000 options with a fair value of CHF 0.81 of which 60 000 were withdrawn from the members of the General Management having left the company during the year.

In 2020 KCHF 502 total remuneration was paid to members of the General Management having left the company in the course of the year.

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 was not paid until December 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	-	49	761
Other members of General Management	776	123	21	144	1 064	-	147	1 211
Total General Management	1 332	176	28	240	1 776	-	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 the 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 the General Management acquired shares. On the other hand, they were granted 120,000 options with a fair value of CHF 1.63.

Comparison between approved and paid remuneration in 2020

In CHF 1 000	Approved by the General Assembly 2020			
	Remuneration	Remuneration	Total	Number
	fixed	variable	remuneration	of participation rights
Board of Directors	500	-	500	40 000
General Management	1 500	800	2 300	150 000

In CHF 1 000	Remuneration paid in 2020					
	Remuneration	Remuneration	Contribution	Other	Total	Number
	fixed	variable	in kind	remuneration	remuneration	of participation rights
Board of Directors	368	-	-	14	382	32 000
General Management	1 199	-	25	212	1 436	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 154. The options granted to the Board of Directors and General Management represent a value of KCHF 123.

Actual remuneration paid to the Board of Directors and the General Management was within the approved amounts, and 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 31.12.2020		Number at 31.12.2019	
	Shares	Options	Shares	Options
François Frôté	208 649	16 000	208 649	8 000
Walter Fust	9 620 529	8 000	9 620 529	-
Michel Rollier/Rollomatic Holding SA	2 853 733	24 000	2 853 733	16 000
Till Fust	-	6 000	-	-
Total Board of Directors	12 682 911	54 000	12 682 911	24 000
Michael Hauser (CEO)	89 805	90 000	89 805	60 000
Luc Widmer	-	90 000	-	70 000
Bruno Allemant*	-	-	-	67 000
Bruno Edelmann**	-	-	-	60 000
Jens Thing***	-	-	-	-
Total General Management	89 805	180 000	89 805	257 000

* until October 30, 2020, ** until September 30, 2020

*** since November 1, 2020

Tornos Holding Ltd., Moutier

**Report of the statutory auditor to the
General Meeting of Tornos Holding Ltd.
Moutier on the remuneration report 2020**

We have audited the remuneration report of Tornos Holding Ltd. for the year ended 31 December 2020. 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 74 to 79 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 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA



Gerhard Siegrist
Audit expert
Auditor in charge



Astrit Mehmeti
Audit expert

Neuchâtel, March 1, 2021

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 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 2020

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1 Group Structure and Shareholders

1.1 Group structure

	Share capital	% held*	
		2020	2019
Tornos Holding Ltd., Moutier <i> Holding</i>	CHF 69 571 848.50		
↳ Tornos (Taichung) Machine Works Ltd., Taiwan <i> Production</i>	TWD 60 250 000	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, Rho/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%	100%
↳ Tornos Technologies (Malaysia) Sdn. Bhd., Penang <i> Support services</i>	MYR 40 000	100%	100%
↳ Tornos Technologies (Shanghai) Limited, Shanghai <i> Sales and service</i>	USD 500 000	100%	100%
↳ Tornos (Xi'an) Machine Works Co., Ltd., Xi'an <i> Production</i>	RMB 25 000 000	100%	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, and general and financial services.

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

General Management

Michael Hauser, chair

Luc Widmer

Jens Thing

Listed companies in the consolidation

Tornos Holding Ltd. is the only consolidated company within the Group listed on the stock exchange. The subsidiaries are not listed. Tornos shares are traded on SIX Swiss Exchange, Zurich, under securities number TOHN (ISIN code CH0011607683). The market capitalization as at the balance sheet date amounted to CHF 82.3 million.

Unlisted companies in the consolidation

Tornos Holding Ltd. has no unconsolidated shareholdings.

2020

Tornos Ltd. took over the minority stake in Tornos (Xi'an) Machine Works Co., Ltd., which was held by Shanxi Robot Automation Technology Co. Ltd. in January of the year under review and has since been fully consolidated.

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

2019

Tornos Management Holding Ltd, Switzerland and Tornos Holding Ltd., Switzerland merged with retroactive effect from January 1, 2019. This change was 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 was 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.

1.2 Significant Shareholders

As at December 31, 2020, 1,806 shareholders were registered in the share register and held the following numbers of shares:

More than 1 000 000 shares	2 shareholders
From 100 001 to 1 000 000 shares	9 shareholders
From 15 001 to 100 000 shares	43 shareholders
From 1 to 15 000 shares	1 752 shareholders

As at December 31, 2020, 1,448,064 shares, representing 7.3% 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	31.12.2020		31.12.2019	
	No. of shares	%	No. of shares	%
Walter Fust	9 620 529	48.40	9 620 529	48.40
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 the balance sheet date.

According to Article 20 of the Federal Law on Stock Exchange and Security Trading, there were no notifications published in 2020 and 2019.

Detailed information regarding the 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 Ltd is unaware of any shareholders' pact.

1.3 Cross-shareholdings

There are no cross-shareholdings.

2 Capital Structure

2.1 Capital

The Tornos Holding Ltd. share capital is as follows:

	31.12.2020			31.12.2019		
	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	19 877 671	3.50	69 571 848
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	706 662	3.50	2 473 317

2.2 Authorized and conditional capital in particular

2.2.1 Authorized capital

2020

As at December 31, 2020, Tornos did not have any authorized capital.

2019

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

2.2.2 Conditional capital

2020

As at December 31, 2020, 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.

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.

2.3 Changes in Capital

Share Capital	Number of shares	Source of share capital	Par value (in CHF)	Share capital (in CHF 1000)
At December 31, 2018	19 877 671		3.5	69 572
At December 31, 2019	19 877 671		3.5	69 572
At December 31, 2020	19 877 671		3.5	69 572

There were no changes in share capital, authorized capital or conditional capital recorded in the year 2020 and 2019.

Authorized Capital	Number of shares	Increase/ decrease in capital	Par value (in CHF)	Authorized capital (in CHF 1000)
At December 31, 2018	-		-	-
At December 31, 2019	-		-	-
At December 31, 2020	-		-	-

Conditional Share Capital	Number of shares	Increase/decrease	Par value (in CHF)	Conditional capital (in CHF 1000)
At December 31, 2018	706 662		3.5	2 473
At December 31, 2019	706 662		3.5	2 473
At December 31, 2020	706 662		3.5	2 473

2.4 Shares and participation certificates

As at December 31, 2020, the ordinary share capital of Tornos Holding Ltd. 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 Ltd. 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

3.1 Members of the Board of Directors

François Frôté (1953), Swiss

Chairman | Appointed in 2002 | Elected until 2021

Previous activities for Tornos: legal adviser | Committees: Remuneration Committee | Training – final qualification on completion of studies: lawyer, law degree, University of Bern, 1979 | Current directorships: Rollomatic Holding SA: Board member; Esco SA: Vice-Chairman; Bien-Air Holding SA: Board member; Azuréa Holding SA: Chairman; | Professional activities: Law offices of Frôté & Partner: Lawyer and Chairman (since 1979)

Walter Fust (1941), Swiss

Appointed in 2014 | Elected until 2021

Previous activities for Tornos: none | Committees: Chairman of the Remuneration Committee; | Training – final qualification on completion of studies: Engineer ETHZ (Swiss Federal Institute of Technology Zurich), 1964 | Current directorships: Starrag Group Holding AG: Member of the Board; ImmoFust AG: Chairman | Otherbodies: 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 2021

Previous activities for Tornos: none | Committees: Remuneration 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; Azuréa Holding SA: Board member | Professional activities: Rollomatic SA, various management functions in the Group (from 1989 to 2018)

Till Fust (1993), Swiss

Vice-Chairman | Appointed in 2019 | Elected until 2021

Previous activities for Tornos: none | Committees: Remuneration Committee | Training – final qualification on completion of studies: Master in International Economics, Graduate Institute Geneva, 2020 | Current directorships: none | Professional activities: UN75, Research Analyst | Former professional activities: Kreislauf Bern, Co-Founder

2020

The Board of Directors comprises four members who are all non-executives. In 2020, there was no change in the composition of the Board of Directors. No member has close business relations with Tornos Holding Ltd or any Group company.

2019

The Board of Directors comprises four members who are all non-executives. In 2019, there was one change in the composition of the Board of Directors. At the General Meeting of Shareholders on April 10, 2019, Frank Brinken decided to not stand for reelection. The General Meeting elected Till Fust as his successor. No member has close business relations with Tornos Holding Ltd 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 90. 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 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 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 Ltd. 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/reglement_dorganisation_fe_2020-12-17.pdf

In accordance with Article 16 of the Articles of Association, the Board of Directors will, with the exception of its Chairman, constitute itself. 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 can therefore dispense with the creation of further committees, with the exception of the Remuneration Committee. However, it can transfer individual powers to an executive committee.

In the financial year, François Frôté held the office of Chairman. Till Fust was nominated Vice-Chairman. Luc Widmer (CFO) acts 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 competencies:

- 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 the strategic objectives of 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 Financial 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 acts, 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 relation to the professional financial management of the Group, the Board of Directors has the following competencies
- Proposal of the financial auditors to the General Assembly of Shareholders
- Definition and interpretation of the accounting standards
- Validating and drafting the Financial Report as well as the half-year report
- Validates and structures transactions on the financial markets
- Oversees compliance with directives of SIX
- Oversees the work performed by the financial audit body
- Oversees the management of the administration group and the financial operations.
- Defines the financial strategy and dividend of the Tornos Group

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. 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 2020, nine meetings of varying duration were held, of which five 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 competencies:

- To chair the General Meeting of Shareholders and meetings of the Board of Directors;
- To represent the Board of Directors in 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 principles, 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 granting 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 preparing 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 the General Management;
- Defining the annual remuneration increases for the members of the 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 have the casting vote.

The Remuneration Committee convened three times in the course of 2020.

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

In particular, the following subjects were covered:

- *Identification of the individuals to participate in the “Management and Board Participation Plan 2007 (MBP 07)”;*
- *Benchmarking the remuneration for the Board of Directors as well as for the General Management;*
- *Assessment and review of Management and senior staff salaries for 2021;*
- *Recommendations to the Board of Directors on the recruitment and selection of members of the General Management;*

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. Forecasts are compiled on a monthly basis and distributed to all members of the Board of Directors. The General Management also identifies and quantifies risks on an annual basis, defining appropriate preventive measures.

4 General Management

4.1 Members of the 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: Chairman of the Board | 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),

Luc Widmer (1969), Swiss

Chief Financial Officer | Appointed in 2020

(Head of Global Supply Chain Management of Tornos 2015 – 2020, CFO of Tornos Group from 2012 - 2015) Training – final qualification on completion of studies: Business economist, University of Applied Sciences, Olten, 1998 | Current directorship: none | Previous professional activities: ALSTOM (Suisse) 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)

Jens Thing (1964), Danish

Chief Sales Officer | Appointed in 2020

Training – final qualification on completion of studies: Executive Master of business administration (MBA) University of Toronto, St. Gallen and Rotman School of Management 2009 | Current directorship: Haas Automation Europe NV: Board Member | Previous professional activities: Mikron Ltd., Nidau: Regional Sales Manager (1987 – 1994); Mikron Ltd., Hanover: Managing Director (1994 – 2000); Mikron Agie Charmilles Ltd., Nidau: Head of Marketing and Sales Support Milling (2000 – 2008); GF Agie Charmilles Management Ltd., Geneva: Head of Global Marketing (2008 – 2011), Head of Business Unit Services and Group Management Member (2011 – 2014); Haas Automation Europe NV, Brussels: Managing Director (2014 – 2020)

In accordance with the Tornos Group's organizational structure described above, General Management consists of two 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 96. No member holds an official function or political office.

4.3 Additionally for issuers subject to the OaEC

The Articles of Association of Tornos Group are 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.

Competencies

The **General Management** has the following duties and competencies:

- 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 2020 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 the 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, in accordance 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 the 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. Gerhard Siegrist, Chartered Public Accountant, took over the audit responsibility in the year under review from Mr. Oliver Kuntze, this for a maximum period of 7 years. Every three to five years a call for tender 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 Board of Directors, 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 Audit fees

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

in CHF	2020	2019
Audit	189 100	171 300

8.3 Additional fees

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

in CHF	2020	2019
Other services	21 600	47 000

Other services include tax and other assurance services.

8.4 Information instruments pertaining to the external audit

The audit plan is submitted by the auditors to the Board of Directors for approval of the areas to be the object of particular scrutiny in the year under review. The Board of Directors 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 Board of Directors regularly advised of its activity, and participates in its meetings as required. In 2020, the auditors attended one meeting of the Board of Directors and submitted two reports to it. At the end of the year, the Board of Directors examines, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the holding and the Group 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 <http://investors.tornos.com/ar20> and <http://investors.tornos.com/fr20>

One institute is currently publishing reports on Tornos' business performance:

- *Research Partners, Robin Seydoux*

No hard copy of the Financial Report is being dispatched.

The Corporate Governance report is only available in English.

Financial calendar

14.04.2021

Annual General Meeting

10.08.2021

Publication Mid-Year Report 2021

19.01.2022

Publication order intake and sales 2021

07.03.2022

Publication Annual Report 2021 | Financial Report 2021

07.03.2022

Media and analysts' conference

Contact addresses

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

*Mr. Luc Widmer, CFO
Tornos Holding Ltd.
Rue Industrielle 111, CH-2740 Moutier
Phone +41 32 494 44 44
Email 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
Email 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

