

TORNOS IS GOING A STEP FURTHER...



Production...

The technology market is developing rapidly. Manufacturers of precision turned parts continually expect increased efficiency, safety and productivity. This is provided by Tornos, a company involved in the continuous development of machines with greater manufacturing output at the best possible price.

Our innovations are borne out of the constant dialogue with our clients, so that they can operate successfully; whether they are active in the automotive, medical, electronics or the watch making sectors.

... is an everyday activity...

Because of its unbeatable quality-to-price ratio, precision turning is a must for executing small parts. Whether for extremely simple or for complex parts, the technological solutions always drive back the limits of traditional operations. What is more, Tornos makes it possible to produce parts that are more and more subtly incorporated in many items of everyday life throughout the world.

...that is becoming more simple!

Many factors have to be taken into account when purchasing a production tool. It must correspond exactly to the manufacturing and precision requirements, provide an excellent service and in some cases have an interesting design. Today, Tornos is going that step further by pushing its solutions towards operational and programming simplicity and ergonomics.

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



Ladies and Gentlemen, Dear Shareholders

Our targets for 2006 were for growth of around 10% in sales with a stable or slightly increased operating margin. We are pleased to be able to inform you that these targets have been exceeded. Our gross sales in 2006 were CHF 250.5 million, or an increase of 12.5% on the previous financial year, and the EBIT margin was 7.0%, compared with 6.4% in 2005. The year closed with net profit of CHF 17.2 million, up 34.4% on the previous year's figure. Return on equity was 14.6%, with equity capital totalling CHF 118.5 million, representing 61.4% of the total balance sheet of CHF 193.0 million. In a year which started with low sales volumes and which saw the business climate steadily improving by the end of the first six months, our strategy of cost flexibility bore fruit. Each quarter made a positive contribution to annual profits, despite significant variations in activity, and we also profited from a phase of overall economic expansion without excessively extending our delivery times.

In addition to these most encouraging figures and the detailed information on our operations that you will find in the following pages, we should also like to share the major events of the year with you in the few lines below.

One of the pillars of our strategy is to offer our clients products incorporating innovation and cutting-edge technology. This is why, since 2004,

considerable effort has been put into technical development and transposing this into actual products. Our R&D costs rose from CHF 5.5 million in 2004 to CHF 12.4 million in 2005, and then to CHF 14.1 million in 2006. The first results of this policy were seen in 2005 with several new product launches, including the first machines from a new product range known as «Sigma». This new line of single-spindle products is targeted at the segment characterized by high-precision parts and average geometrical complexity. This broadening of the product range is a success. Maintaining this technological advance is directly linked to research and development operations and, here again, 2006 was a fruitful year. We designed several new machines for both our Sigma line and our traditional range catering for highly complex applications. These new products will be presented in 2007 at the European machine tool fair (EMO) to be held in Hanover in September. The multispindle machines have benefited from ongoing improvements and are enjoying growing market success. We have continued with the process, initiated in 2004, of making changes to this range, and have seen our role develop from that of a machine manufacturer to that of a production system architect. New multispindle platform developments will also be presented at the next EMO fair.



In terms of geographical coverage, our expansion in Asia has continued at a good pace. Asia now represents nearly 16% of our machine sales, compared with less than 2% only 3 years ago. In North America we have signed a co-operation agreement for our multispindle machines to be distributed by Hydromat USA, a company which has been producing and commercializing transfer machines for this market for 26 years and today occupies a leading position in this field. Hydromat's own products are not in competition with Tornos products and are an ideal complement to our multispindle lathes as the two companies share the same target clientele. This partnership has enabled synergies in the sales network to be exploited and provides us with access to a market segment in which we had only a weak foothold in the past. In this region, multispindle and single-spindle machine clients are quite separate and the latter will continue to be serviced by our subsidiary Tornos Technologies US Corporation, the organization of which has been refocused accordingly.

Excluding economic phenomena out of our control, our aim for 2008 remains unchanged. Our target is to break through the CHF 300 million barrier in 2008 with an operating margin (EBIT) target of 10%. The main impetus for this growth will be the expansion of the product range and a strengthened presence on the Asian and American markets. Our profits should see us pay back our debts entirely in 2007. As the participation plan for management set up in 2004 has now expired, we will propose to the Annual General Meeting on April 3, 2007 that a new plan be put in place.

In conclusion, on behalf of the Board of Directors, my thanks go to our shareholders for the confidence they have placed in us and to our staff, clients and partners who have helped us achieve our objectives.

François Frôté
Chairman of the Board of Directors

KEY FIGURES

Tornos Group (in MCHF unless otherwise stated)	2006	2005	2004	2003	2002
Bookings	257.3	212.5	225.0	170.6	154.1
Gross sales	250.5	222.6	213.0	174.7	180.6
EBITDA	26.5	23.2	19.4	9.7	-85.1
Gross sales %	10.6	10.4	9.1	5.6	-47.1
EBIT	17.6	14.2	11.0	0.4	-176.3
Gross sales %	7.0	6.4	5.1	0.2	-97.6
NET profit (loss)	17.2	12.8	6.8	-2.8	-121.4
Gross sales %	6.9	5.8	3.2	-1.6	-67.2
Net debt	7.4	10.8	28.0	44.9	42.2
Equity	118.5	100.2	83.5	78.4	81.9
Total Balance sheet %	61.4	60.4	48.5	43.7	39.9
Total Balance Sheet	193.0	165.8	172.3	179.5	205.2
Capital expenditures	3.3	2.9	3.6	1.6	6.5



OPERATIONS, RESULTS AND OUTLOOK



Business activities

While 2005 was characterized by a very high level of invoicing in the first six months, followed by a return to an average level and a marked downturn in the market towards the end of the year, almost the exact opposite was the case in 2006. Whereas the breakdown of invoicing in 2005 was 52% in the first half as against 48% in the second half, the figures for 2006 were 46% against 54%. The first half of 2006 continued along the same lines as the last months of the previous year and, in order to adapt our production to demand in real time, we brought forward the start of the holidays by one week in December 2005 and delayed reopening by four days in January 2006.

The order book was healthy from the beginning of the year, however, with invoicing levels returning to normal from the second quarter onwards. As orders remained buoyant throughout the first six months, we gradually extended the working week – as is possible with our system of flexible working hours – and hired additional production personnel from the end of the second quarter.

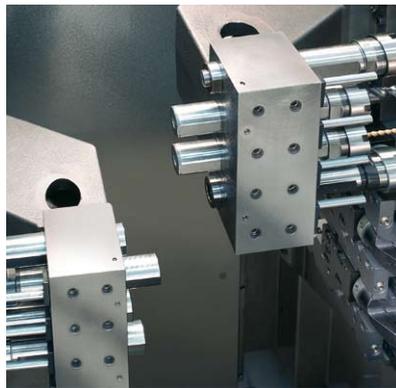
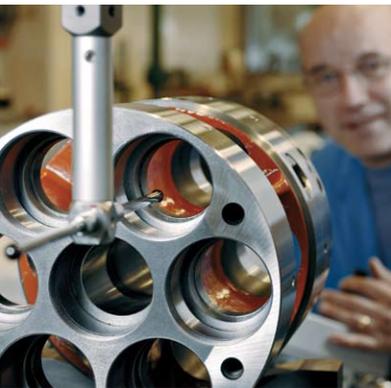
Thanks to the high level of orders over the first six months, sales remained strong in the second half of the year, and the downturn in the economy which made itself felt from September 2006 onwards and prevailed throughout the final quarter had no significant effect on invoicing levels.

Orders received over the year reached CHF 257.3 million (an increase of 21.1% on 2005) and a total of CHF 250.5 million was invoiced (an increase of 12.5% on the previous financial year).

Thanks to the introduction of the Sigma line, our

volume of work increased significantly, and our average production increased from under 500 machines per year to over 700 units. This increase is not reflected in the invoicing, as the price of the Sigma machines is less than that of the DECO machines. The surface area required to manufacture these machines, however, is now insufficient and a new hall will be constructed in 2007. The production areas of the current buildings and those of the new building will be rearranged to optimize the production flow, and a building which no longer corresponds to our requirements will later be sold. The new factory will also mean that our Techno Centre, where we welcome clients for testing, demonstration, training and exhibitions, will be based on a single site.

In geographical terms, and in terms of machine orders received, we posted very high growth figures in Asia (+ 94%) followed by Europe (+18%). Germany suffered notably from the difficulties in the automobile industry and sales fell by 22% compared to the previous year. The same applies to the Americas, where sales decreased by 21%.



Financial results

The financial year closed with consolidated earnings of CHF 17.2 million, compared with CHF 12.9 million in 2005. This significant improvement in profitability is mainly attributable to higher sales. The gross margin is still growing slightly and has risen from 35.6% to 36.2% of gross sales. Operating costs are rising in line with sales and now stand at 29.2% of the latter (2005: 29.3%). The EBIT result is CHF 17.6 million (2005: CHF 14.2 million) and EBITDA comes to CHF 26.5 million (2005: CHF 23.2 million).

The launch of the Sigma line and the high billing volume in the last quarter of 2006 placed significant demands on working capital, which temporarily reduced the pace of net debt reduction. Net debt nevertheless fell by 31.7% during the financial year, from CHF 10.8 million to CHF 7.4 million. On December 31, 2006 the equity capital of CHF 118.5 million came to 61.4% of the consolidated balance sheet total.

Organization

Our company has traditionally had a strong presence in Europe which accounts for 80% of our sales. Our presence in the US has accounted for around 15% of total sales and our marginal presence in Asia for less than 5% of sales. This situation has altered radically over the last three years and is set to continue changing, thus making a reorganization of our internal sales structure necessary.

We are now organized around four sales regions: Southern and Western Europe, Northern and Eastern Europe, the Americas and Asia. Each region is headed by a regionally-based manager who reports to the head of sales and marketing in Moutier. Within the regions the network is composed of subsidiaries or independent agents depending on the size of the market – as has been the case to date – with the exception of the commercial partnership with Hydromat in North America detailed on page 4.

This change to our internal organization is also aimed at developing the group's marketing activities. As for the other fields of operation, the general organizational structure set up in 2003 has not been significantly altered. The organization is subject to regular internal scrutiny to ensure that it remains in line with our size and the genuine requirements of the market, rather than falling victim to routine and excessive bureaucracy. The last audit of this type was carried out in November 2006 and led to a reduction of 30 jobs.

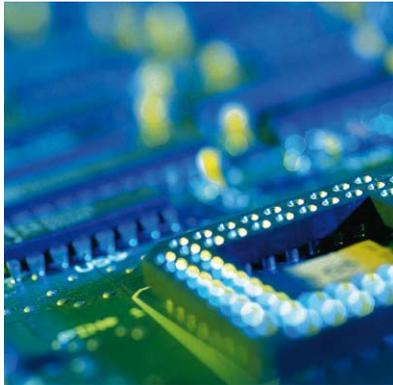


Outlook for 2007

In terms of order intake, the economic context over the first three quarters of 2006 was excellent, with a downturn towards the end of the year. In view of the clear drop in new orders from the end of the third quarter of 2006 onwards, we expect the first half year to be lower than the second in terms of invoicing and, if the overall economic context proves similar to that of 2006, we expect to post an increase in sales of around 10% in 2007. In this scenario, and under reserve of the highly cyclical and volatile nature of this business, the operating margin should improve within a 7.5% to 8.5% range on a sales volume of between CHF 270 and 280 million.

On an operational level, our priorities will be the introduction of new marketing tools to help manage research and development priorities and resources efficiently. Our aim is to ensure that the product range is tailored to market requirements and that new products are launched rapidly, with short lead times between the moment when an opportunity is identified and the time it is converted into a concrete proposal. As usual, we shall be paying particular attention to reducing costs and to seeking flexibility and all forms of innovation.

THE STRATEGIC VISION OF TORNOS



Tornos strategy is essentially based on permanently improving the following:

In-depth knowledge of markets

We have to identify our clients clearly in order to be able to serve them with maximum efficiency. Innovations and technological developments must be governed by an accurate knowledge of market trends and their specific requirements, on the basis of ongoing observations of the market.

Offering clients a good quality product

Only an in-depth knowledge of the client's parameters allows us to offer a product that is fully compatible with his requirements and operating procedures. In this light, Tornos develops products that are specifically dedicated to certain industrial sectors, such as electronics, watchmaking, automotive and, in particular, the medical sector, where we have already established ourselves as a leader.

Apart from supplying machines, it is the ambition of Tornos to become a «production systems» provider, including all the necessary peripherals required for the entire finishing and handling of completed parts.

These services include efficient, rapid and good quality customer care. Consequently, Tornos does not hesitate to regard the «After-Sales Division» as an integral part of its product portfolio.

Research and development

The technological projects carried out by Tornos are based on the above principles. With a view to constantly upgrading our technical skills, we are looking to stimulate the inventive ability of our engineering team with the overriding principle of «technology serving simplicity».

R&D activities are also carried out externally via strategic partnerships with top companies or institutions in their respective sectors.

Operational excellence

Proximity to the client, project management, feasibility studies, reliability, cost analysis, development of skills and quality are the factors to which we pay overriding attention. Mastering them leads to operational excellence which is our permanent goal.

Last, but not least, it goes without saying that good communication management is essential to Tornos – vis-à-vis its clients, shareholders and employees – so that its image is recognizable and remains a symbol for quality and performance across the world.

SINGLE SPINDLE PRODUCTS



Trends

Our clients' requirements are changing fast. To satisfy them, we continuously initiate new technical developments in the shape of modular solutions adapted to the customer's particular manufacturing needs. These innovations arise from the ongoing dialogue between our clients and ourselves in all areas dealing with turning.

Key segments and areas of focus in 2006

Medical technology

We occupy a leading position in this fast-growing sector of activity. The technological excellence of our machines and our mastery of the specific processes involved are key assets in the manufacture of *dental implants*, *bone screws* and *spinal hooks*.

We work with the top companies in these technologically-advanced sector to provide them with innovative solutions and optimum productivity. Our worldwide organization means that we are on hand to assist our clients and partners with their growth strategy.



Electronics

The exceptional productivity of our machines means that they are now the benchmark for the machining of *electronic contacts*. The DECO Sigma 8 has won new market share in this sector, principally in Asia. This highly innovative product makes parts for *hard disc drives* in a very economical manner with tolerances of +/-1 micron. The DECO Sigma 8 replaces no less than four other machines.

Watchmaking industry

2006 was marked by the strengthening of our position in the watchmaking sector. Our sales reached record levels. Our machines are capable of manufacturing extremely high quality parts for complex mechanical watch movements, as well as for casings. In 2006 we pursued our strategy and added new functions to our products, including a milling device which enables highly complex parts such as the *barrel arbour* to be finished directly on the DECO 10a.

The extraordinary performance of the watch industry version of the DECO Sigma 8 has won over the principal players in this sector. Its productivity and accuracy make it the ideal product to replace cam-operated lathes.

Automotive and sub-contracting in general

We can offer our clients the optimal solution in these extremely competitive sectors. The machines in the DECO «a» range produce complex parts where as the DECO Sigma machines are used to manufacture middle complex parts.

Whenever precision, power, rigidity and flexibility are required and ease of use is important, we have the ideal product for producing parts in small, medium or large series runs: the Sigma 20.

MULTISPINDLE PRODUCTS



Market trends and needs

The market is continuously searching for equipment which enables productivity to be increased, thus reducing the cost per part.

Appropriate product range

To respond to this demand, Tornos has not only developed more flexible and more productive machinery but has also brought in new production systems to take account of the customer's entire value chain. The new MultiAlpha product line has several key advantages in addition to its traditional top-of-the-range precision: an independent spindle speed for each position, the capacity for multiple back working operations, and fully integrated automatic unloading and palletizing. This innovative solution, which is a world first, allows our customers to load 2000 kg of bar material into the machine, and to have the parts automatically unloaded and positioned correctly onto their own pallets at the end of the machining process. This constitutes a major step forward in integrating industrial processes.



Highlights in 2006 and key segments

Automotive

The automotive industry remains the dominant sector for multispindle products. Thanks to the new MultiAlpha line, several complex applications are now possible in *diesel injector systems*, as well as in the *gasoline injector* and *electromechanical sectors*. The well established MultiDeco line is also suited to the realization of a wide range of applications, such as automatic *transmission* components, *airbags* and *brake* components.

Watchmaking industry

A new multispindle application for the watchmaking industry has also been launched successfully. The challenges were not only tight tolerances but also the tiny dimensions of the parts and the need for a visually impeccable surface finish. This enables the client to produce a flawless part with a rapidity that bears no relation to the processes formerly used.

Electronics

The SAS 16.6, the only cam-driven machine from Tornos, again showed its unbeatable efficiency for certain applications, above all in the *computer* industry, where huge quantities are required. As a consequence, the shortest possible cycle time, rather than flexibility, is the dominant requirement for these customers.

Fundamental shift in manufacturing

Medical

Medical parts are often made out of titanium, since it is lightweight and mechanically strong. These parts are fairly complex to manufacture because of the numerous operations required and the particular properties of the material: all in all, typical parts for a Tornos single-spindle machine. The MultiAlpha machine is the first multispindle machine capable of carrying out these applications. Its success represents a *fundamental shift* in the manufacturing of medical parts... acting as an incentive to repeat this success for other applications too.

BOARD OF DIRECTORS



F.I.t.r.

Michel Rollier (1959), Switzerland

Member since 2002 | Elected until 2008 | Previous / current activities for Tornos: none | Committee: Nomination and Compensation | Training – last grade on completion of studies: EPFL engineer (Ecole Polytechnique Fédérale), Lausanne, 1985 | Current list of board membership mandates: Rollomatic Holding SA, Chairman of the Board of Directors | Professional activities: Rollomatic SA, various management functions in the Group **since 1989, R&D Manager**

François Frôté (1953), Switzerland

Chairman of the Board | Member since 2002 | Elected until 2008 | Previous / current activities for Tornos: authority to act as legal adviser | Committees: Nomination and Compensation Committee and Audit Committee | Training – last grade on completion of studies: lawyer, law degree at the University of Bern 1979 | Current list of board membership mandates: Rollomatic Holding SA: Board director, Nugerol Holding SA: Board director, Esco SA: Board director | Professional activities: From 1979 to the present: **Lawyers' offices of Frôté & Partner: lawyer and board director**

Claude Elsen (1947), Luxemburg

Deputy chairman of the board | Member since 2002 | Elected until 2008 | Previous activities for Tornos: none | Committees: Nomination and Compensation Committee and Audit Committee | Training – last grade on completion of studies: MBA, Insead, Fontainebleau 1974: graduate engineer from the RWTH (Rheinisch-Westfälische Technische Hochschule), Aachen, Germany, 1972 | Professional activities: DaimlerChrysler AG since 1996: Senior Vice-President, (from 1998 to 2002): **Consilux: Managing Partner (since 2002); Tuthill Corporation, Inc, Illinois USA, Non Executive Director (since 2006)**

Raymond Stauffer (1954), Switzerland

Managing Director and Chief Executive Officer since 2002 | Member since 2002 | Elected until 2008 | Previous activities for Tornos: none | Training – last grade on completion of studies: ETS engineering (Engineering College), Le Locle, 1975 | Current list of board membership mandates: none | Professional activities: Ismeca Holding SA: different functions in the Group since 1976, COO (from 1993 to 2001), CTO (2001); **Tornos S.A.: CEO**

Hans-Otto Stenzel (1941), Germany

Member since 2002 | Elected until 2008 | Previous activities for Tornos: Chairman and managing director of Tornos Holding, France (from 1993 to 1999) | Committee: Nomination and Compensation | Training – last grade on completion of studies: Graduate engineer TU (Technical University) Berlin, 1968 | Current list of board membership mandates: Wirth & Gruffat SA: Board director | Professional activities: Unicum SA (GROUPE): Chairman and MD (from 1996 to 1999), **ELB – SCHLIFF WERKZEUGMASCHINEN GmbH: General Manager (since 2000)**

Paul Haering (1957), Switzerland

Member since 2001 | Elected until 2007 | Previous activities for Tornos: none | Committees: Chairman of the Audit Committee | Training – last grade on completion of studies: MBA University of California, Los Angeles, 1989, BA – Golden Gate University, San Francisco, 1987 | Current list of board membership mandates: Ruag Holding AG: Board director, member of the Audit Committee, Alu Menziken Holding AG: Board director, New Schild Holding AG and subsidiaries: Board director | Professional activities: Feintool International Holding: CFO (from 1996 to 2003); **AWR AG für Wirtschaft und Recht: Partner (since 2003)**

GENERAL MANAGEMENT



Michael Op de Hipt (1966), Germany

Head of R&D | Appointed in 2005 | Training – last grade on completion of studies: Dr. in sciences RWTH (Rheinisch-Westfälische Technische Hochschule), Aachen, Germany, 1997; MBA, HTA, Bern, 2003. | Current list of board membership mandates: none | Previous professional activities: RWTH at Aachen, Germany: scientific assistant (from 1993 to 1997); CSEM SA: Project Manager (from 1997 to 1999); Feintool Technologie SA: R&D Manager, Head of Engineering «presses and systems» (from 1999 to 2005)

Bernard Seuret (1947), Switzerland

Head of production | Appointed in 1999 | Training – last grade on completion of studies: ETS engineer (Engineering college) Freiburg, 1968 | Current list of board membership mandates: none | Previous professional activities: Tornos S.A.: Various positions in the Group since 1969; R&D project manager (from 1990 to 1998), Production manager since 1999

Carlos Cancer (1959), Spain

Head of Single Spindle Products | Appointed in 2003 | Training – last grade on completion of studies: HES engineer (University of Applied Sciences) Bienne, 1982 | Current list of board membership mandates: none | Previous professional activities: Tornos Technologies Italia SRL: Manager (from 1993 to 2002), Gildemeister Italiana S.p.A: Marketing / Sales Manager (from 2002 to 2003)

Sandor Sipos (1952), Switzerland

Head of Customer Service | Appointed in 2004 | Training – last grade on completion of studies: ETS engineer (Engineering college) St. Gallen, 1976 | Current list of board membership mandates: none | Previous professional activities: Kodak SA: Technical Services Manager (from 1988 to 1996); Danka Suisse SA: Technical Services Manager Switzerland (from 1997 to 1998), Ismeca Semiconducteur SA: Technical Services Manager (from 1998 to 2004)

Philippe Maquelin (1951), Switzerland

Chief Operating Officer & Chief Financial Officer | Appointed in 2002 | Training – last grade on completion of studies: Economist (degree in economic science) University of Neuchâtel, 1976 | Current list of board membership mandates: none | Previous professional activities: Portescap: CFO (from 1991 to 1997), API: Vice-President administration and finance (from 1997 to 1998), Ismeca Holding SA: CFO (from 1998 to 2002)

Willi Nef (1960), Switzerland

Head of Multispindle Products | Appointed in 2003 | Training – last grade on completion of studies: ETS engineer (Technicum) Rapperswil, 1985; MBA National University, Singapore, 1999 | Dr. of business administration MSM Maastricht, Netherlands, 2005 | Current list of board membership mandates: none | Previous professional activities: Mikron PVT Ltd, India: General Manager (from 1997 to 1999), Mikron Lugano / Agno: Sales Manager (from 1999 to 2001), Bodine Europe SA: Manager (from 2001 to 2002); Lascor S.p.A. Italy: Managing Director (from 2002 to 2003)

Urs Hirsiger (1958), Switzerland

Head of Sales and Marketing | Appointed in 2006 | Training – last grade on completion of studies: Betriebsökonom dipl Oek (presently completing an Executive MBA) | Current list of board membership mandates: none | Previous professional activities: Assignments in Sales and Marketing Asia, for Machine and White goods, Hong Kong (from 1988 to 1994); Agie Asia Ltd, Hong Kong: Division Manager Asia (from 1995 to 1997); Mikron China, Beijing: Managing Director Greater China and Marketing Manager Asia (from 1997 to 2002); Alphasem AG, Berg, Switzerland: Vice President Sales, Marketing and Service Worldwide (from 2003 to 2006)

F.I.t.r.

CORPORATE GOVERNANCE AND COMMUNICATIONS

The Board of Directors and the Group Management place great value on responsible and transparent corporate management and control in the interest of the shareholders, customers and staff. The disclosure of Corporate Governance as given below takes its model from the Swiss Stock Exchange and takes account of the best practice rules of the Swiss economy. At Tornos, corporate governance is based on the articles of association and, for the Board of Directors and its committees, on the rules of organisation.

1 Group structure and shareholding

1.1 Group structure

1.1.1 Organisational structure of the Group

For a description of the Group's organisational structure, please refer to pages 14 to 15.

1.1.2 Company quoted on the stock exchange

Tornos Holding S.A., is the only consolidated company of the group to be quoted on the stock exchange. The subsidiaries are not quoted. Tornos shares are traded on the Swiss SWX Stock Exchange Zurich, under securities number TOHN / 001160768 (symbol ISIN CH0011607683). The market capitalisation value as on the balance sheet date amounted to CHF 192.4 million.

The consolidated companies of the group are shown below:

Name	Purpose	Share capital	% retained	
			2006	2005
Tornos Holding S.A., Moutier	Holding	CHF 68,954,400		
└─ Tornos S.A., Moutier	Manufacturing and sales	CHF 65,000,000	100.0	100.0
└─ Tornos Technologies Deutschland GmbH, Pforzheim	Support services	EUR 511,292	100.0	100.0
└─ Tornos Technologies Iberica SA, Granollers	Support services	EUR 60,200	100.0	100.0
└─ Tornos Technologies Italia Srl, Opera/MI	Support services	EUR 93,600	100.0	100.0
└─ Tornos Technologies UK Ltd., Coalville	Support services	GBP 345,000	100.0	100.0
└─ Tornos Holding France SA, St Pierre-en-Faucigny	Holding	EUR 12,496,800	100.0	100.0
└─ Tornos Technologies France SAS, St Pierre-en-Faucigny	Support services	EUR 762,250	100.0	100.0
└─ Tornos Technologies U.S. Corp. Brookfield CT	Sales and services	USD 2,400,000	100.0	100.0
└─ Tornos Technologies Asia Limited, Hong Kong	Sales and support	HKD 10,000	100.0	100.0

Tornos Services S.A. (in liquidation), which was 100%-owned as at 31 December 2005, was liquidated and deleted from the commercial register during the 2006 financial year.

1.2. Major shareholders

The list of shareholders with a share of votes exceeding 5% is mentioned in the financial report under paragraph 18.5

See also section 5.5 "Ownership of shares and options".

1.3. Cross participations

The holding company has no cross participations.

2 Capital structure

2.1 Capital structure as on the balance sheet date

The ordinary share capital of Tornos Holding S.A. amounted to CHF 68,954,400 as at 31 December 2006. As at the close of the financial year, the company had a contingent share capital of CHF 6,214,375. It has no authorised share capital.

2.2 Contingent and authorised share capital

The following information relates to the changes in contingent and authorised capital for the years 2006 and 2005. Regarding the changes that occurred during the year 2004, please refer to note 23.1 of the consolidated accounts 2004, which are available on the website at: <http://www.tornos.ch/dnld/invest-pdf/tornos-2004cfs-conso-finan-statement-uk.pdf>.

Contingent capital

2006

For serious reasons (restructuring of the company) the share capital was increased to CHF 6,214,375 and, in the case of paragraph a), under the exclusion of the subscription right or priority subscription right of the shareholders, by issuing fully paid up registered shares, with a par value of CHF 5.00, of which:

a) Up to 978,125 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 4,890,625, by exercising option rights granted to the creditor banks and specific creditors under the restructuring concept as part of the consideration for a partial waiver of debt repayments in connection with outstanding loans or as part of a settlement of a pending legal dispute, thus complying with the market conditions at the time the restructuring took place. Each of these options gives entitlement to subscribe to a registered share at an issue price of CHF 6.00. The options must be exercised within a maximum period of five years, i.e. by July 2007.

b) Up to 264,750 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 1,323,750, for shares to be issued by the Board of Directors to satisfy the plans to buy shares or options on behalf of individuals defined by the Board of Directors (see section 5.4 regarding the methods and periods during the financial year).

The detailed terms of the options are defined by the Board of Directors, taking into account the above-mentioned requirements.

2005

For serious reasons (restructuring of the company) the share capital was increased to CHF 7,281,250 and, in the case of paragraph a), under the exclusion of the subscription right or priority subscription right of the shareholders, by issuing fully paid up registered shares, with a par value of CHF 5.00, of which:

a) Up to 1,106,250 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 5,531,250, by exercising option rights granted to the creditor banks and specific creditors under the restructuring concept as part of the consideration for a partial waiver of debt repayments in connection with outstanding loans or as part of a settlement of a pending legal dispute, thus complying with the market conditions at the time the restructuring took place. Each of these options gives entitlement to subscribe to a registered share at an issue price of CHF 6.00. The options must be exercised within a maximum period of five years, i.e. by July 2007.

b) Up to 350,000 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 1,750,000, for shares to be issued by the Board of Directors to satisfy the plans to buy shares or options on behalf of individuals defined by the Board of Directors (see section 5.4 regarding the methods and periods during the financial year).

The detailed terms of the options are defined by the Board of Directors, taking into account the above-mentioned requirements.

Authorised share capital

The company has no authorised share capital.

2.3 Capital changes during the last three years under review (statutory statement of Tornos Holding S.A.)

In T CHF	Share capital	Premium	Reserve for own shares	Balance sheet profit	Total
<i>Equity as at 31.12.2003</i>	<i>66,919</i>	<i>13,943</i>	–	<i>529</i>	<i>81,391</i>
Capital increase	250	12			262
2004 annual result				–	–
<i>Equity as at 31.12.2004</i>	<i>67,169</i>	<i>13,955</i>	–	<i>529</i>	<i>81,653</i>
Capital increase	719	101			820
2005 annual result				834	834
<i>Equity as at 31.12.2005</i>	<i>67,888</i>	<i>14,056</i>	–	<i>1,363</i>	<i>83,307</i>
Capital increase	1,066	178			1,244
2006 annual result				5,138	5,138
Transfer to reserve for own shares			84	-84	
<i>Equity as at 31.12.2006</i>	<i>68,954</i>	<i>14,234</i>	<i>84</i>	<i>6,417</i>	<i>89,689</i>

2.4 Shares

Tornos Holding S.A. has only one type of share. These shares are not subject to any restrictions of sale; “nominee” registrations are not permitted. There are no privileged shares or limitation with regard to voting right. Each share corresponds to one vote (“one share, one vote”). As at 31 December 2006, the ordinary share capital of Tornos Holding S.A. amounted to CHF 68,954,400 and was divided into 13,790,880 fully paid up registered shares with a par value of CHF 5.00.

There are no participation certificates and no outstanding convertible loan.

2.5 Call options issued to shareholders as part of the reduction in capital and to creditor banks and certain creditors with regard to restructuring

The following call options on shares of Tornos Holding S.A. issued to creditor banks and certain creditors, as part of the restructuring plan, in exchange for waiving part of their claims and as part of a conciliation on a pending legal dispute, in accordance with market conditions at the time of restructuring, were issued as at 31 December 2006 and guaranteed by contingent capital of up to CHF 4,890,625:

Number	Type	Due date	Exercise price
953'125	In favour of the banking syndicate and other creditors, subscription ratio 1:1	July 2007	CHF 6.00

During the financial year 2006, 128,125 options were exercised (2005: 93,750)

2.6 Shareholding plan for individuals designated by the Board of Directors

See section 5.4 "Assignment of shares and options during the financial year" with regard to the provisions of the shareholding plan in favour of individuals designated by the Board of Directors.

3 Board of Directors

3.1 Members of the Board of Directors

The Board of Directors has remained unchanged for the period under review (see page 14). The only executive member is Mr. Raymond Stauffer who, in his capacity as Managing Director, holds the position of Chief Executive Officer.

3.2 Election and term of office

The Board of Directors of Tornos Holding S.A. is made up of at least 3 members (currently 6), the majority of whom are independent, non-executive members. There are no cross-participations within the meaning of the Corporate Governance guideline (see page 14 regarding the other activities and groups of interest). The Board of Directors is elected by the General Meeting for a term specified by the latter but which may not exceed 3 years. The members can be re-elected. The age limit is 70 years. The Chairman is elected by the Board of Directors.

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.

3.3 Internal organisation

The rules of organisation of Tornos Holding S.A. lay down the responsibilities of the Board of Directors and Group Management. The Board of Directors is responsible for the overall management of the company and Group, in particular, for establishing the objectives, the Group strategy, approving the business plan, for organising the principles of accounting, financial control and financial planning, appointing and dismissing the CEO and Group Management members, convening the general meeting, deciding on and amending the organisation of the company and notifying the judge in the event of insolvency. It supervises the individuals entrusted with the management of the business. As far as is legally permitted and subject to the responsibilities mentioned above, the Board of Directors delegates the overall management to the Managing Director as CEO and Chairman of the Group Management.

With the efficient allocation of duties in mind, the Board of Directors appointed François Frôté as Chairman, Claude Elsen as Vice-Chairman and Raymond Stauffer as Managing Director and CEO. It also set up the following committees:

Nomination and Compensation Committee: F. Frôté (chairman), C. Elsen, M. Rollier and H.-O. Stenzel
In the period under review, the Nomination and Compensation Committee met 3 times. The CEO and CFO attended these meetings as consultants. During these meetings, the Committee studied the Management reports and worked out proposals to be put before the Board of Directors for its decision.

The following subjects were covered:

- Appointment of the Head of Sales & Marketing
- Assessment and remuneration of the directors and top management for 2006
- Determining the amount to be allocated to salary increases
- Reviewing and interpreting the stock option plan.

Audit Committee: P. Häring (chairman), F. Frôté, C. Elsen

In the year under review, the Audit Committee met six times and held one conference call. These meetings were attended by the CEO and CFO in their consultative capacity and, where required, by the auditors.

The Audit Committee dealt with the following main subjects:

- Review of the financial statements and annual report for 2005
- Review of the Group auditor's management letter
- Interim audit 2006
- Tax audit
- Review of the risk management map
- Internal controlling procedures
- Executive stock option plan of the Tornos Group
- Financial competencies
- Dividend policy
- Legal structure of the Tornos Group
- Investor relations.

The Audit Committee also reviewed the quarterly reports, forecasts, the budget for 2007 and the information released to the financial community. It reviewed some specific financial and accounting issues as well as the interpretation and implementation of accounting principles and standards (IFRS). The Committee also assessed the performance of the auditors.

At each Board Meeting, the chairman of the Audit Committee gave an account of its work and submitted proposals for the approval of the Board of Directors. The minutes of the Committee meetings were given to the Board Members.

The Board of Directors meets as required, but at least four times a year. During the financial year 2006, it held seven meetings lasting on average four-and-a-half hours and also participated in one conference call. The Board of Directors regularly called in members of the management and outside consultants, where necessary, if the agenda came within their spheres of responsibility. The Committees also met together with members of the management.

3.4 Information and control instruments vis-a-vis the management

At its meetings, the Board of Directors is regularly kept verbally informed by the management on the progress of business. In addition, a periodic management information system is in place, whereby the most important key indicators are compared on a weekly basis (orders received) or monthly (profit and loss account and balance sheet) against the budget. The Audit Committee also oversees the work of the auditors.

4 General management

4.1 Members of the Management

The Group management consists of seven members plus Mr. Raymond Stauffer who, as the Managing Director, also acts as Chief Executive Officer (see page 15). None of the members performs any activity for other major organisations.

4.2 Management contracts

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

5 Remunerations, shareholdings and loans

5.1 Content and procedure for definition

The remuneration of the members of the Group Management is fixed by the Nomination and Compensation Committee. The fees of the Board of Directors are fixed by the entire Board of Directors on the proposal of the Nomination and Compensation Committee. Since 2004, a shareholding plan for individuals nominated by the Board of Directors has been in place.

The Directors are given a lump sum remuneration for their work and participation on the Board and in Committees. If they are also involved in project work, then this work will be remunerated on a time basis. The same applies to the work of the chairman of the Audit Committee, which is paid for separately.

5.2 Remuneration paid to officiating officers of the company

In the year under review, the total amount paid to non-executive members of the Board of Directors amounted to CHF 341,884. The executive members of the Board of Directors and members of the Group Management received a total of CHF 2,481,332 for the year under review.

In the year under review, the member of the Board of Directors with the highest remuneration was entitled to payments of CHF 492,447. This member acquired 3,700 registered shares according to the guidelines of the shareholding plan for Board members and Group management 2004 and, in consideration of the same plan, he also received 7,272 options for the subscription of shares.

5.3 Remuneration to former officers of the company

No remuneration was paid to former executive officers of the company during 2006.

5.4 Assignment of shares during the period under review

The General Meeting convened on 13 April 2004 agreed on the issue of 450,000 contingent shares, which could be issued by the Board of Directors with respect to a shareholding plan for individuals designated by the Board of Directors. The conditions of this shareholding plan are as follows:

Share purchase plan

According to the shareholding plan for members of the Board of Directors and Management Board 2004, the individuals designated by the Board of Directors have the opportunity to purchase 150,000 registered shares at a price of CHF 5.30 each, in three equal tranches, within a period of three years. The purchase price corresponded to the market value at the time the elected individual made his decision to purchase. During the financial year 2006, 50,000 registered shares were issued under this plan, of which 18,500 were in favour of non-executive members of the Board of Directors and 31,500 in favour of executive members of the Board of Directors and Group Management. As at 31 December 2006, 150,000 registered shares were issued under this plan, of which 59,612 shares were in favour of non-executive members of the Board of Directors and 90,388 in favour of the executive members of the Board of Directors and Group Management. There is a non-disposal period of two years after the effected transfer of shares.

Share purchase option plan

In order to satisfy the obligations under the Shareholding Plan for members of the Board of Directors and Group Management 2004, the individuals designated by the Board of Directors were given options in 2004, 2005 and 2006 to allow them to purchase registered shares. Each registered share subscribed for gives entitlement to an option to purchase at a price of CHF 6.00 (Option A). In addition, each individual designated by the Board of Directors is entitled to his share of 50,000 additional options (Option B). The conditions of issue of these options have been determined by the Board of Directors of the company, which manages the plan. These options can only be realised in the third year of their validity. Unredeemed options will be reassigned when the board member terminates his mandate or on the last working day of the designated individual. This regulation does not apply in the event of the Board member's or designated individual's death, invalidity or retirement or in the case of a change to the controlling majority. The reassignment will take place on the last day of the mandate or on the last working day.

During the financial year 2006, 100,000 options were issued under this plan, of which 36,360 were in favour of non-executive members of the Board of Directors and 63,640 in favour of the executive members of the Board of Directors and Group Management.

As at 31 December 2006, 300,000 options were issued under this plan, of which one third will expire on 30 April 2007, one third on 30 April 2008 and the final third on 30 April 2009. 117,535 options were issued in favour of non-executive members of the Board of Directors and 182,465 in favour of executive members of the Board of Directors and the Group Management.

5.5 Ownership of shares and options

1,532,504 shares in Tornos Holding S.A. were held as at 31 December 2006 by a group of shareholders made up of members of the Tornos Board of Directors and Group Management. This group of shareholders signed a shareholding agreement. Apart from this group of shareholders, the members of the Board of Directors and Tornos Group Management held 82,004 shares in Tornos Holding S.A. In total, this represents 1,614,508 shares that are held by members of the Board of Directors and Tornos Group Management. Of this total, which includes those shares purchased through the shareholding plan for members of the Board of Directors and Group Management 2004, 907,339 shares were held by non-executive members of the Board of Directors and 707,169 by executive

members of the Board of Directors and members of the Group Management. In addition, at the reference date, the non-executive members of the Board of Directors held 109,035 share subscription options in Tornos Holding S.A. and the executive members of the Board of Directors and Group Management members retained 155,715. These share options were granted as part of the shareholding plan for members of the Board of Directors and Group Management 2004.

5.6 Additional fees and remuneration

Apart from the board director acting as chairman of the Audit Committee, who receives separate remuneration (see section 5.1) and who received fees amounting to CHF 26,437 in addition to his lump sum fees as board director, no additional remuneration and fees in excess of half the agreed remuneration was paid to the members of the Board of Directors and Group Management.

5.7 Loans to board members and management

The company has no outstanding loans to members of the board and management.

6 Auditors

Since the financial year 2006, the auditors of the holding company and Group have been PricewaterhouseCoopers S.A., Neuchâtel. Mr. Miguel Perry (UK Certified Accountant) is the senior auditor responsible. Previously, the auditors of the holding company and Group were BDO Visura, Bern. The change did not take place in consequence of any disagreement with the previous auditors. The auditors are elected annually by the General Meeting. The auditing fees invoiced by PricewaterhouseCoopers SA for the year 2006 and for auditing the annual statement amount to CHF 225,000. PricewaterhouseCoopers S.A. did not provide additional services in the year under review.

The Audit Committee monitors the external auditors on behalf of the Board of Directors. PricewaterhouseCoopers attended one meeting of the Audit Committee and provided information about its work. Otherwise, the auditors submitted a management letter to the Committee. On completion of the year under review, the Audit Committee will examine, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the group and holding company together with the report (see section 3.3).

7 Information and disclosure policy

Tornos keeps its shareholders informed of the state of business and events relevant to the stock exchange through the annual, half-yearly and quarterly report, or as required by way of press releases to the media. All important information can be consulted on the company's Internet site at www.tornos.com.

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8 Participation rights of shareholders

8.1 *Voting restriction and proxy voting*

In accordance with Article 10 of the articles of association, there are no voting restrictions, with each share giving rise to one vote. Only shareholders whose names appear in the share register may vote by proxy. The articles of association provide that the shareholders may only be represented at the General Meeting by their legal representative, another shareholder with voting right, the independent proxy, the company representative or a securities representative. Under certain conditions, fiduciary-managed shares may also be entered in the share register with a voting right.

8.2 *Statutory quorum*

Apart from the quorums specified in Article 704 CO, article 11, the articles of association provide for a qualified quorum of at least two thirds of the votes represented and an absolute majority of the nominal value of the shares represented for limiting the exercise of the voting right and any change and cancellation of such limitation.

8.3 *Convening the General Meeting and producing the agenda*

Convening the General Meeting according to article 8 of the articles of association must comply with statutory prescriptions. Shareholders representing a nominal value of CHF 1,000,000 or more may demand that an item to be discussed be entered on the agenda. This must be done at least 45 days before the meeting, in writing, quoting the items to be discussed and the motions.

8.4 *Entries in the share register*

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

9 Controlling and warding-off mechanisms

9.1 *Obligation to provide an offer*

The legal thresholds apply with regard to the obligation to submit a public offer. No special controlling or warding off mechanism exists.

9.2 *Takeover clauses*

In the event of a takeover, the time limits provided with respect to the shares and options in the shareholding plan for members of the Board of Directors and Management 2004 will become null and void and a “Take me along” clause shall apply. There are no clauses relating to taking control in favour of members of the Board of Directors and members of the Group Management.

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