

KEY FIGURES

Tornos Group (in KCHF unless otherwise stated)	2007	2006	2005	2004	2003
Bookings	283,645	257,269	212,527	224,972	170,553
Gross sales	287,384	250,515	222,622	212,969	174,683
EBITDA	39,343	26,475	23,208	19,414	9,734
Gross sales %	13.7	10.6	10.4	9.1	5.6
EBIT	32,746	17,614	14,249	10,966	388
Gross sales %	11.4	7.0	6.4	5.1	0.2
NET profit (loss)	35,137	17,249	12,835	6,778	-2,820
Gross sales %	12.2	6.9	5.8	3.2	-1.6
Net cash / (net debt)	27,263	-7,375	-10,793	-28,024	-44,883
Equity	160,179	118,458	100,168	83,538	78,427
Total Balance sheet %	73.2	61.4	60.4	48.5	43.7
Total Balance Sheet	218,912	192,972	165,810	172,273	179,529
Capital expenditures	9,065	3,254	2,867	3,647	1,554



REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



Ladies and Gentlemen, Dear Shareholders

For 2007 our aims were growth of around 10% in sales accompanied by an expected improvement in the EBIT margin of between 7.5% and 8.5%. I am pleased to be able to tell you that these targets have been surpassed. Our gross sales for 2007 were CHF 287.4 million, which represents an increase of 14.7% over the previous year, and the EBIT margin was 11.4%. It should be noted that this result includes CHF 2.9 million in non-recurring income originating from the sale of premises. If we ignore these, the EBIT margin would be 10.4% in comparison with 7.0% in 2006. The year closed with net profit of CHF 35.1, more than double that of the previous year. However, it should be mentioned that the 2007 result includes exceptional items of CHF 6.2 million from the above-mentioned profits on the sale of premises and from tax credits of CHF 3.4 million. At December 31, 2007 return on equity was 21.9% and equity itself was CHF 160.2 million or 73.2% of the balance sheet total of CHF 218.9. In 2007 the group wiped out its debts and had a net cash surplus of CHF 27.3 million at December 31, 2007.

In view of the positive development of these figures, which show growth for a fifth consecutive year, let us briefly retrace the outstanding events of the period.

The 2007 financial year was marked by the launch of several products. After the introduction at the beginning of the year of the DECO 10e, which is

aimed at the connector technology market, one of the highlights in the presentation of this innovations was the EMO European machine tool fair held in September in Hanover. We exhibited three new machines at the fair. The Sigma 32 is an extension of this product line launched in 2005 to complement our machine range for high-precision, averagely geometrically complex parts. The Micro 7, designed for manufacture of watch parts, made its public debut. Available from the second quarter of 2008, it complements the Micro line used for high precision microtechnology applications. The MultiAlpha 8x20 chucker was presented with an automatic feed and palletization system for finished parts. All these products raised keen interest from visitors to the fair and current market reaction is very favourable.

From a geographical point of view, our expansion in Asia continued in the first quarter, but was then halted due to organizational problems. These problems were resolved by autumn and the pace of sales picked up over the last three months of the year. As a result Asia's share of our order book for machines fell to 9% in comparison with the 16% obtained a year ago. Despite this hiccup in growth, it should nonetheless be remembered that Asia represented less than 2% of our sales four years ago. Business grew handsomely in the Americas, however. The commercial alliance signed with Hydromat USA for the distribution of our multi-spindle machines and the restructuring of our Tornos Technologies US Corporation subsidiary have borne fruit. Our sales of machines in this region therefore leapt to 15% of the total, in comparison with 8% one year ago. Europe and the rest of the world's share has been stable at 76% of the total for the last two years.

Since 2003 we have reiterated our aim of achieving sales of CHF 300 million and an EBIT margin of 10% for the 2008 financial year. On October 1, 2007 we communicated our new strategic plan for the period 2007 to 2012. Although we have retained the target of CHF 300 million for 2008 with an EBIT margin of 10% in this new plan, our target sales for 2012 are CHF 400 million. These calculations were based entirely on the Group's organic growth. In view of the strategic alliance signed



with Tsugami in February 2008 and the acquisition of Almac SA in March 2008, these sales targets have been revised upwards. The new targets stand at CHF 320 million and CHF 450 million for 2008 and 2012 respectively. Starting from 2008, the annual EBIT margin target is set at 10%. Fundamentally, the growth strategy for the core business established in 2003 is maintained. This new plan follows on from the line drawn up in the past. The targeted growth is based on continuing the enlargement of the product range, which started in 2005 with the launch of the Sigma and Micro lines, and a better penetration of the markets in Asia, the USA and Eastern Europe. The alliance with Tsugami is perfectly in keeping with this new policy as it enables the new «Delta» product line to enter the market, thereby expanding our range. In addition, our position on the Asian market in regard to single-spindle and multispindle lines will be strengthened. The acquisition of Almac SA will reinforce our position in the microtechnology market segment, particularly in terms of watch-making applications. The group's financial policy for the next few years is also one of continuity. It involves preserving substantial equity and avoiding any structural net debt. An initial distribution to shareholders will be proposed at the Ordinary General Meeting in April 2008. In parallel, a cash reserve equal to between 10 and 15% of annual sales will be accumulated over time and, once this objective has been reached, surplus liquidity will be distributed to shareholders by way of a reduction in the face value of shares and a number of stock buyback programmes still to be defined in

detail. Although Tornos does not rule out the possibility of a strategic acquisition if the opportunity arises, as was the case with Almac SA in March 2008, it is not the group's financial policy to create a liquidity reserve for such an eventuality. Should an opportunity arise, any project having financial consequences of more than CHF 20 million would be submitted to the shareholders.

In conclusion, on behalf of the Board of Directors, my thanks go to our shareholders for the confidence they have placed in us and our workforce and to our customers and partners who have enabled us to achieve our aims. My thanks also go particularly to Mr Hans-Otto Stenzel, Board Director, who has been with us since 2002 and will not be standing for re-election.

François Frôté
Chairman of the Board of Directors

OPERATIONS, RESULTS AND OUTLOOK



Business activities

The trend in 2007 proved to be largely linear thanks to a positive business environment that remained stable throughout the year. Excluding the effects of the summer holidays, activity levels and performances were similar, relatively speaking, whereas in previous years there had been strong fluctuations between quarters. Thanks to this unusual regularity, our flexible working system, under which the working week may fluctuate between 16 and 55 hours, was little used. Although the financial crisis in evidence since summer may have created a certain nervousness among our customers, it had no significant impact on our order book in the second half and did not lead to a slowdown in business, projects or ongoing bids. New orders over the year amounted to CHF 283.6 million, up 10.3% on the previous year, with billings at CHF 287.4 million, an increase of 14.7% on 2006. All segments of key markets, i.e. automotive, medical, electronics and microtechnology, made positive moves in 2007.

Geographically, our development in Asia was penalized by problems within the local sales team. Some of the members of the team left the company at the end of the first quarter and, given the small size of our organization in this region, the negative impact on the order book was felt immediately. The sales structure was topped up by the middle of the year and a return to normality commenced over the final quarter. This structure will be strengthened further over the coming months to reduce its exposure to changes in staffing. As indicated above, the restructuring of our sales

channels in the Americas was a success and enabled us genuinely to launch the CNC multi-spindle machines on this market. All European countries developed positively, with no major differences between them. Overall, this region registered growth of 11% in new machine orders.

Finances

The year closed with a consolidated net profit of CHF 35.1 million, which compares with CHF 17.2 million in 2006. This significant improvement in profits is mainly due to the rise in sales that is attributable in part to the buoyant economy over recent months, a favourable product mix and the effect of the weakening of the Swiss franc against the euro. CHF 6.2 million in non-recurring profits also contributed to this doubling of profits.

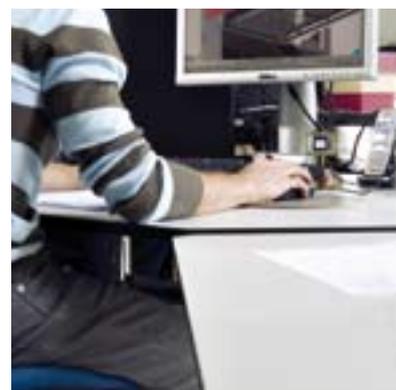
These positive circumstances meant that gross margin was up from 36.2% to 40.1% of gross sales. Operating costs excluding non-recurrent operating income, on the other hand, are increasing more than proportionately to sales. They represent 29.7% of sales, compared with 29.2% in 2006. This increase is due in part to the increase in research and development costs, which rose from 5.6% to 5.9%, and to marketing & sales expenditures, which rose from 15.2% to 15.9% due to the extended sales network. Other income and



expenditure of CHF 2.8 million includes a once-only profit of CHF 2.9 million from the sale of two business premises, one in the USA and the other in Switzerland. EBIT was CHF 32.7 million (2006: CHF 17.6 million) and EBITDA CHF 39.3 million (2006: CHF 26.5 million). It should be noted that the EBIT margin without the real estate profit mentioned above would be 10.4%, a result that not only exceeds targets for the year under review (7.5 to 8.5%) but also the group's long-term objective, which remains at 10% from 2008 onwards. At the end of the year net profit was at CHF 35.1 million. This includes a tax credit of CHF 3.4 million mainly from capitalization in the balance sheet of tax loss carry forwards, available at December 31, 2007. These tax loss carry forwards were not capitalized for the year ending December 31, 2006.

Shareholders' equity of CHF 160.2 million represent 73.2% of the balance sheet total of CHF 218.9 million. The CHF 41.7 million increase in equity over the year is due not only to the operating profit; CHF 7.6 million derives from the issue in 2007 of 953'125 shares from the exercising of stock options granted during restructuring in 2002 and of 239'910 shares issued in relation to group board and management participation plans. This brings the share capital to CHF 74.9 million, represented by 14,983,915 shares.

Over the first quarter the group wiped out its debts, and its net cash position at December 31, 2007 was CHF 27.3 million, compared with net debt of CHF 7.4 million at December 31, 2006.



Organization

Fundamentally the general organization of the group did not undergo any major changes in 2007. We pursued the setting up of our sales and service network organized into four regions: Southern and Western Europe, Northern and Eastern Europe, the Americas and Asia. In Europe we opened a new subsidiary in Poland. In the USA we moved our main site from Connecticut to the Midwest, preserving our sales offices on the East and West coasts. In Asia we opened sales offices in Malaysia and in China.

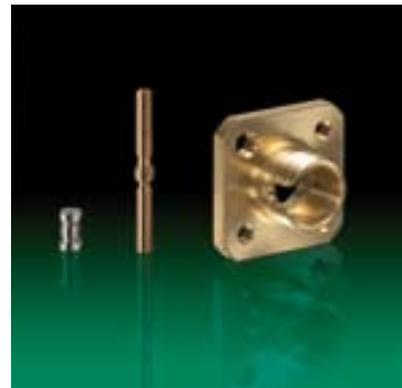
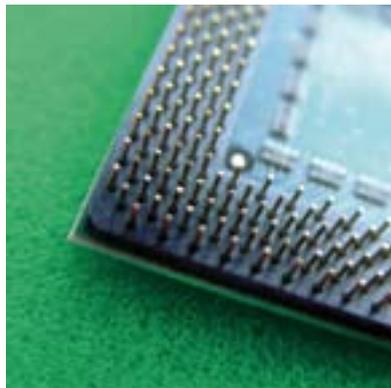
Additionally we also opened four Techno-centers in France, Germany, the USA and China. These centres are technological shop windows for our products. We carry out demonstrations and customer tests in them. In Switzerland, we have constructed new premises in Moutier. In addition to the assembly hall which went into operation at the end of the year, it will house a Techno-center, a showroom and the customer training centre from February 2008.

Outlook for 2008

Since the beginning of this year, the Group has completed two key strategic steps: It began by signing a commercial alliance with Tsugami and later acquired Almac SA. As a result, the forecast for 2008 is now higher than was originally specified in the strategy circulated on October 1, 2007. Assuming that the economy remains stable in relation to the previous year, and taking into account the cyclical nature of our business, we are forecasting sales of CHF 320 million with an EBIT margin of around 10%.

In line with our strategy, our operating priorities will focus on the strengthening of our presence in Asia and product development. As in previous years, particular attention will be paid to the search for cost flexibility and innovation in all its forms.

THE STRATEGIC VISION OF TORNOS



Strategy, mission and financial objectives

The Group is managed via the systematic implementation of a strategy widely disseminated both within Tornos and externally. The strategic plan for 2007-2012 was presented during a press conference held on October first 2007. The main components of that strategy are summarized below.

Strategy

The Group's strategy is focused on the following four priorities:

- Predominantly organic growth of core business
- Expand geographical coverage in Asia, the Americas, and Eastern Europe
- Broaden product range and launch new products with innovative technology
- Products to reduce Customers operating cost

Mission

On a more detailed level, Group strategy is reflected in the following mission statements:

Product company

Tornos is a company which develops, manufactures and markets automatic single- and multispindle lathes and related products and services.

Customer-oriented company

Tornos is customer-oriented in its market approach. It differentiates itself from its competitors by offering production solutions that provide productivity gains to customers and not solely machines that meet a purely technical specification. This approach is based on technical innovation, machine design that minimizes operating costs and particular attention to the ergonomics and ease of use for operators.

Global company

Thanks to its decentralized sales and service organization, Tornos covers the entire world. Its principal markets are OEMs and manufacturers of parts used in the automotive, medical, electronics and microtechnology industries.



Flexible cost company

From an operating point of view, Tornos constantly strives to encourage an organization that ensures maximum cost flexibility in view of the cyclic and volatile nature of its business.

Transparent company

Tornos promotes team spirit and openness and practises a pragmatic management approach aimed at the achievement of clearly identified objectives and results. This stems from the systematic and persistent implementation of a strategy reviewed every four years for the subsequent five years which is openly communicated to the workforce, customers and shareholders.

Growing company

An organic growth strategy has been systematically pursued by Tornos since 2003. This policy does not exclude opportunistic acquisitions if they correspond to pre-determined criteria and strengthen the strategy of profitable growth.

Profitable company for shareholders

In its development Tornos pays particular attention to its profitability. Over and above a policy of constituting a cash reserve for its operating needs, Tornos practises a policy of total profit distribution to its shareholders.

Financial objectives

The Group's strategic plan sets out to achieve the following financial targets:

- CHF 450 million sales in 2012
- 10% EBIT margin
- 15% return on equity
- 10% to 15% of annual sales as cash reserve
- Distribution of additional cash to shareholders

SINGLE SPINDLE PRODUCTS



Changing markets

Our customers' demands are changing fast. To meet these demands we are continuously initiating new technical developments and modular solutions in tune with their production systems. These innovations are born out of the ongoing dialogue we maintain with our customers in all areas of turning.

Key segments and highlights of 2007

Medical technology

We strengthened our position as leader in this rapidly-growing sector. The technological advance of our machines and mastery of specific processes make it possible to manufacture dental implants, bone screws and spinal hooks.

In 2007 we grew faster than the market. This was due to growth in our DECO products but also to the penetration of the Sigma and Micro range models.

Working together with leading companies in these technologically advanced sectors, notably in the United States and Europe, allows us to provide them with the most effective, innovative and productive solution. Thanks to our global organization we can assist our customer partners with their growth strategies.



Electronics

The DECO 10a's very high productivity has made it the benchmark in the machining of electronic contacts.

The DECO 10e, derived from the DECO 10a, has been adapted to the production requirements of averagely complex electronic parts at a highly competitive price. It has been extraordinarily successful since being launched in early 2007.

Thanks to the Micro 8 we have acquired new market share in this sector, mainly in Asia. This highly innovative product makes it possible to manufacture hard disc drive parts with tolerances of +/- 1 micron. This means that one Micro 8 can replace the work of four machines.

Watchmaking industry

In 2007 we beat the previous year's records. Our machines are used to make very high quality parts for complicated mechanical movements and watch finishing. We have pursued our strategy and added new functions to our products. For example, thanks to the gear generation device, many customers now use the DECO 10a to finish pinions.

The Micro 8, with its exceptional performances in terms of accuracy and productivity, has become a reference in this very demanding market. With the Micro 7 it represents the ideal solution for replacing cam machines.

Automotive and general subcontracting

In these highly competitive sectors we offer our customers the most effective solution. The DECO range machines are used for highly productive manufacture of complex parts, whereas the Sigma range products are used to produce averagely complex parts.

The Micro 8 is different from the rest insofar as it is designed to produce very precise parts from difficult materials.

When precision, power, rigidity and flexibility are needed, all allied to very simple usage, we have the ideal product to manufacture products in small, intermediate or large series.

MULTISPINDLE PRODUCTS



Market trends and needs

A general strong demand for Multi spindle systems could be observed. Especially equipment for highest productivity and systems for complex part production underlined the market trend.

Two ideal products to satisfy this trend

The legendary SAS 16.6 satisfies perfectly the first trend – highest productivity. Due to the inherited cost advantage of this cam machine over CNC equipment, it showed again to be a most attractive solution for relatively simple but precise parts.

The second trend, equipment to finish even most complex parts was satisfied with the new MultiAlpha models; type 8x20 and 6x32. While the sum of a whole package of unique features allowed to make this MultiAlpha an incredible success, it was the independent spindle speed on each station and the controlled part unloading that handle gently the even most delicate parts that gained special attention. But the absolute greatest feature is the double back working operation which allows to use up to 10 tools from the back side, and further to use a double cycle which allows to produce two parts simultaneously.



Key segments and highlights of 2007

Automotive

Another great year for the demands from the automotive industry. The continuous pressure to reduce emissions is pushing the technology for fuel and diesel injection systems upward and increases the demand further on equipment to produce such parts. Most difficult materials to be machined and tightest tolerances keep the challenges high.

Other strong demands came from the automotive security segment such as airbags. Further applications were for hydraulic components and automatic gear box parts.

Electronics

The computer industry and bearing industry showed strong demand which was mainly satisfied by our SAS 16.6, the only cam driven machine from Tornos, which is known for its unbeatable efficiency and shortest cycle times for such parts.

Medical

The realisations of medical parts on a multi spindle machine have been continued in 2007. These parts are typically produced on Tornos single spindle machines but the standardisation has led to increased volumes of certain family of parts which in turn allows to consider the production also on a multi spindle machine. This technology allows also to react to the increasing cost pressure for the most common medical parts.

BOARD OF DIRECTORS



F.I.t.r.

Michel Rollier (1959), Switzerland

Member since 2002 | Elected until 2008 | Previous activities for Tornos: none | Committee: Nomination and Compensation Committee | 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 activities for Tornos: Legal adviser | Committees: Chairman of the Nomination and Compensation Committee; 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: **Law offices of Frôté & Partner: lawyer and board director**

Claude Elsen (1947), Luxembourg

Deputy chairman of the board | Member since 2002 | Elected until 2008 | Previous activities for Tornos: none | Committees: Nomination and Compensation Committee; 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: Ismecha 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 Committee | Training – last grade on completion of studies: Graduate engineer TU (Technical University) Berlin, 1968 | Current list of board membership mandates: none | Professional activities: Unicum SA (GROUPE): Chairman and MD (from 1986 to 1999), **ELB – SCHLIFF WERKZEUGMASCHINEN GmbH: General Manager (since 2000)**

Paul Haering (1957), Switzerland

Member since 2001 | Elected until 2010 | 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, New Schild Holding AG and subsidiaries: Chairman of the Board of Directors; Finecom Telecommunications AG: 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 and 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 General Management place great value on responsible and transparent corporate management and control in the interests of the shareholders, customers and staff. The disclosure of corporate governance as given below takes its model from the Swiss Stock Exchange and complies with the best practice rules of «economiesuisse». At Tornos, Corporate Governance is based on the Articles of Association and, for the Board of Directors and its committees, on the Rules of Organization.

1 Group structure and shareholding

1.1 Group structure

1.1.1 Organisational structure of the Group

The Group's organizational structure is defined by functional areas. Each area is managed by one member of General Management. The Managing Director acts as CEO and oversees General Management. The functional areas are: (1) research and development, (2) single-spindle products, (3) multispindle products, (4) installation, after-sales service and spare parts, (5) sales and marketing, (6) production, (7) operations, general services and finance.

1.1.2 Company quoted on the stock exchange

Tornos Holding S.A. is the only consolidated company within 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 (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 257.7 million.

The consolidated companies of the group are shown below:

Name	Purpose	Share capital	% held	
			2007	2006
Tornos Holding S.A., Moutier	Holding company	CHF 74'919'575		
└─ 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 Poland Sp. z o.o., Warsaw	Support services	PLN 50'000	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	Sales and service	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 Technologies Poland Sp. z o.o., was established on 30 October 2007.

1.2. Major shareholders

On 31 December 2006, a group of shareholders comprising Messrs. François Frôté, La Neuveville (CH), Claude Elsen, Luxembourg (L), Raymond Stauffer, La Chaux-de-Fonds (CH), Paul Häring, Wünnewil FR (CH), Rollomatic Holding S.A., Le Landeron (CH) [beneficial owner Mr Michel Rollier, Le Landeron (CH)], Hanz-Otto Stenzel, Strasbourg (F), and Philippe Maquelin, Gorgier (CH) owned 11.1% of the capital. This group was dissolved, as announced in a press release dated 6 June 2007.

On 31 December 2006, 3V Asset Management AG, Zurich (CH) held 8% of the shares.

On 23 November 2007, 3V Asset Management AG notified the company that its shareholding had been reduced below the threshold of 5% of voting rights.

On 29 March 2007, Schroders plc, London (GB) advised the company that it held 702,444 registered shares and that its shareholding stood at 5.09% of voting rights.

With the introduction of the obligation to disclose a shareholding of more than 3%, the Berner Kantonalbank, Bern (CH), and Mr. Michel Rollier, Le Landeron (CH) made announcements in December 2007. The Berner Kantonalbank notified the company on 12 December 2007 that it held 661,545 registered shares and that its shareholding amounted to 4.80% of the voting rights. Michel Rollier notified the company on 20 December 2007 that he held 525,496 registered shares and options held under an employee stock option scheme, and that his shareholding was 3.81%

The company received no other disclosures of shareholdings within the meaning of Article 20 LBVM for the financial year 2007.

Tornos Holding S.A., Moutier (CH) indicated on 22 January 2008 that it held 465,000 registered shares and that its shareholding amounted to 3.10% of the voting rights following an acquisition made on 18 January 2008.

Tornos Holding S.A., Moutier (CH) indicated on 14 February 2008 that it held 756,250 registered shares and that its shareholding amounted to 5.04% of the voting rights following an acquisition made on 12 February 2008.

Schroders plc, London (GB) notified the company on 29 January 2008 that it held 740,331 registered shares and that its shareholding stood at 4.94% of the voting rights following a sale of options on 24 January 2008.

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 74,919,575 as at 31 December 2007. As at the close of the financial year, the company had a contingent share capital of CHF 4,749,200. 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 2007 and 2006. For changes occurring in 2005, please refer to Note 18.1 of the consolidated accounts 2005, which are available on the website at:

<http://www.tornos.com/dnld/invest-pdf/tornos-2005cfs-conso-finan-statement-uk.pdf>.

Contingent capital

2007

As at 31 December 2007, the share capital could have been increased by up to CHF 4,749,200, in the cases covered in paragraphs a) and b) below, under the exclusion of the subscription right or priority subscription right of the shareholders for serious reasons (restructuring the company or the acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 5.00, of which:

a) up to 25,000 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 125,000, by exercising option rights granted to creditor banks and to specific creditors under the terms of the restructuring plan, as consideration for a partial waiver of debt repayments or as part of a settlement of a pending legal dispute, in accordance with market conditions at the time the restructuring took place. Each of these options gives entitlement to subscribe to one registered share at an issue price of CHF 6.00. The options had to be exercised within a maximum period of five years, i.e. by July 2007. As there is no longer any need for this capital, it will be cancelled in 2008;

b) up to 924,840 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 4,624,200, by exercising option rights granted to individuals defined by the Board of Directors under the terms of the Employees' Stock Option Schemes MBP04 and MBP07.

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

2006

As at 31 December 2006, the share capital could have been increased by an amount up to CHF 6,214,375, in the cases of paragraphs a) and b) below, under the exclusion of the subscription right or priority subscription right of the shareholders for serious reasons (restructuring the company or the acquisition of shareholdings by employees), 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 creditor banks and to specific creditors under the terms of the restructuring plan, as consideration for a partial waiver of debt repayments or as part of a settlement of a pending legal dispute, in accordance with market conditions at the time the restructuring took place. Each of these options gives entitlement to subscribe to one registered share at an issue price of CHF 6.00. The options had to 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, by the exercise of option rights granted to individuals defined by the Board of Directors under the terms of the Employees' Stock Option Scheme MBP04.

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

Authorized capital

The company has no authorized share capital.

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

CHF 000s	Share capital	Share premium	Reserve for own shares	Balance sheet profit	Total
<i>Equity as at 31/12/2004</i>	67,169	13,955	–	529	81,653
Capital increase	719	101			820
2005 annual result				834	834
<i>Equity as at 31/12/2005</i>	67,888	14,056	–	1,363	83,307
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>	68,954	14,234	84	6,417	89,689
Capital increase	5,966	1,676			7,642
2007 annual result				176	176
Transfer to reserve for own shares			1,986	-1,986	–
<i>Equity as at 31/12/2007</i>	74,920	15,910	2,070	4,607	97,507

2.4 Shares

Tornos Holding S.A. has only one type of shares. These shares are not subject to any restrictions of sale. Nominee registrations are not permitted. There are no privileged shares or limitations with regard to voting rights. Each share corresponds to one vote («one share, one vote»). As at 31 December 2007, the ordinary share capital of Tornos Holding S.A. amounted to CHF 74,919,575, and was divided into 14,983,915 fully paid in registered shares with a par value of CHF 5.00 each.

There are no participation or dividend-right certificates and no outstanding convertible loans.

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

During 2007, all 953,125 call options on shares of Tornos Holding S.A. which were outstanding on 31 December 2006, issued to creditor banks and to certain creditors as part of the restructuring plan, in exchange for waiving part of their debt repayments and as part of a conciliation on a pending legal dispute, in accordance with market conditions prevailing at the time of the restructuring, were exercised (2006: 128,125 options). For further information, please see note 2.5 on page 19 of the 2006 Annual Report, which is available on the website at:

<http://www.tornos.com/dnld/invest-pdf/tornos-2006ar-annual-report.pdf>

2.6 Shareholding plan for individuals designated by the Board of Directors

See note 24 in the financial report 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. 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. Members of the Board are elected individually as and when necessary by the General Meeting for a term specified by the latter but which may not exceed 3 years. They are eligible for re-election. 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 organization

The Rules of Organization of Tornos Holding S.A. lay down regulations for the company's operations, as follows:

The Board of Directors has the following duties and authorities:

- To exercise overall management of the company and issue the necessary instructions, including the approval of company policy and strategy;
- To determine the company's organization;
- To establish the accounting and financial control principles, draw up the financial plan and approve the annual plans and budgets (including investments);
- To appoint members of the General Management;
- To appoint and dismiss persons responsible for representing the company;
- To supervise the individuals entrusted with the management of the business, ensuring in particular that they comply with the provisions of law, the Articles of Association and regulations and with the instructions issued;
- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the management report, Group accounts, annual financial statements and resolutions for the appropriation of profits, and to carry out the decisions of the General Meeting;
- To inform the court in the event of over-indebtedness;
- To decide on calls to be made on partly-paid shares;
- To record capital increases and amend the Articles of Association appropriately;
- To determine the financial policy;
- To set guidelines for the company's information policy;
- To approve transactions with major legal implications, exceptional transactions and unbudgeted financial commitments, where the potential risks exceed CHF 1 million, and in particular:
 - Contracts with third parties in areas outside the company's normal sphere of business;
 - Decisions to enter new business sectors or abandon existing ones;
 - The acquisition or sale of minority shareholdings;
 - The acquisition or sale of shareholdings;
 - Decisions to commence or terminate legal actions, or to enter into negotiated settlements;
- To approve unbudgeted investments in excess of CHF 250,000;
- To decide on the issuance of public loans and other capital market transactions;
- To decide on the establishment and liquidation of subsidiaries, and the acquisition or disposal of majority shareholdings;
- To decide on the purchase, mortgaging or sale of properties where the amount of the individual transaction is in excess of CHF 1 million;
- To oversee the activity of 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 General Management in all cases where the Board of Directors or the General Management itself deem it necessary or appropriate.

In the event of doubt as to whether the Board of Directors or General Management has responsibility for a particular matter, the Board will decide.

As far as is legally permitted, and subject to the responsibilities mentioned above, the Board of Directors delegates all aspects of management to the Managing Director in his capacity of CEO and Chairman of the General Management.

Accordingly, the Managing Director is responsible for all management and representation of the company. Hence, in matters falling within his remit, he will take the final decision.

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

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

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

The Managing Director's duties and responsibilities include overseeing the company, representing the General Management on the Board of Directors, with 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 Managing Director may delegate management to certain members of General Management and other employees, as well as arrange for a deputy to represent him in case of absence, although this shall not absolve him from his responsibilities.

The Board of Directors meets as often as necessary, but at least four times a year. During 2007, six meetings were held, lasting on average 4.5 hours each, as well as two conference calls. The Board of Directors regularly invited members of General Management to attend its meetings and, where necessary, invited external advisers where the items on the agenda required their expertise. Committees also met with the participation of members of the General Management.

General Management has the following duties and authorities:

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

With the efficient allocation of duties in mind, the Board of Directors appointed Mr. François Frôté as Chairman, Mr. Claude Elsen as Vice-Chairman and Mr. 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.

The Nomination and Compensation Committee has the following duties and authorities:

- Recommendations to the Board of Directors on the recruitment and selection of members of the General Management;
- Defining terms and conditions for the recruitment and compensation of members of General Management, and the annual increases to be awarded;
- Recommendations to the Board of Directors for the compensation arrangements of the Chairman of the Board, Managing Director/CEO and other directors;

- Recruitment of new Board members, with a view to submitting recommendations to the Board of Directors respectively to the General Meeting;
- Approval of general principles of remuneration and other terms and conditions of employment for all staff;
- Approval of guidelines for annual salary rises for all staff.

In the period under review, the Nomination and Compensation Committee met twice. The CEO and CFO attended both meetings in a consultative capacity. During these meetings, the Committee studied the management reports and worked out proposals to be put before the Board of Directors for its decision. Meetings lasted 1.5 hours on average.

The following subjects were covered:

- Identification of the individuals to participate in the stock compensation plans and the amounts available for 2007;
- Assessment and remuneration of management and senior staff in 2007;
- Determining the amount to be allocated to salary increases;
- Directors' remuneration;
- Proposal of the shareholders' independent representative at the General Meeting.

The Chairman of the Nomination and Compensation Committee made a report on the committee's activity to each meeting of the Board; he also submitted resolutions for a decision. The minutes of committee meetings were distributed to the directors.

Audit Committee:

P. Häring (Chairman), F. Frôté, C. Elsen

The Audit Committee proposes the auditors to the Board of Directors, defines and interprets accounting standards, reviews and formats the annual and semi-annual reports and presents them to the full Board. It also monitors and structures capital market transactions for approval by the full Board of Directors and supervises the work of the audit body. On the request of the Board of Directors it monitors particular operational and financial matters. It recommends the financial and dividend policy of the Tornos Group to the Board.

During 2007, the Audit Committee met 5 times. These meetings were attended by the CEO and CFO in a consultative capacity. The auditors also attended as necessary.

The Audit Committee dealt with the following main topics:

- Review of the financial statements and annual report for 2006;
- Review of the Group auditor's Audit Committee report;
- Interim audit 2007;
- Tax strategy;
- Review of the risk management map;
- Internal control system of the Tornos Group;
- Rules of organization of Tornos Holding S.A.;
- Review of the VAT situation in Switzerland for Tornos S.A.;
- Loan agreement with the banking syndicate;
- External IT audit;
- Business plan 2008-2012;
- Investor relations.

The Audit Committee also reviewed the quarterly financial statements, forecasts, the budget for 2008 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 a decision. The minutes of committee meetings were distributed to the Board members.

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 and prior year's figures. A written commentary is published each month and a budget revision is undertaken twice a year. General Management also identifies and quantifies risks on an annual basis, defining appropriate preventive measures. That document is submitted to the Board for its approval.

4 General management

4.1 Members of the Management

In accordance with the Group's organizational structure described in section 1.1.1, General Management consists of seven members plus Mr. Raymond Stauffer who, as Managing Director, also acts as Chief Executive Officer (page 14). None of the members performs any activity for other major organizations.

Mr. Michael Op de Hipt, Head of R&D, left the Group on 31 December 2007. After his departure, which was announced on 15 November 2007 and took effect on 31 December 2007, the R&D function was reorganized and placed under the direct responsibility of the CEO, Mr. Raymond Stauffer. As part of this reorganization, a new role was created within Group management, that of CTO (Chief Technical Officer), to which Mr. Philippe Jacot was appointed on 7 February 2008.

Mr. Philippe Jacot, 45, is an engineer and physicist who rounded off his training with a number of postgraduate management courses. In the last ten years he has worked for Micronas, Motorola, SPTec and Unaxis, holding the roles of R&D Engineer, Process Engineer, Chief Production Engineer, Technology Development Manager and Strategic Marketing and Innovation Manager. In 2005, he established Adonite Research, a consultancy firm specializing in innovation management.

Changes have also occurred in the Group's Sales and Marketing area. Mr. Urs Hirsiger, Head of Sales and Marketing, will leave the Group on 31 August 2008. He is being replaced in that role by Mr Willi Nef, who has been a member of Group management since 2003 as Head of Multispindle Products.

The new Head of Multispindle Products will be Mr. Iwan von Rotz who, after a short period with a machine distributor, is rejoining the Tornos Group in which he was formerly Head of Operations in Multispindle Products in 2006 and 2007. Mr Iwan von Rotz, 35, a mechanical engineer, completed his training with a number of postgraduate management courses. From 1997 to 2006 he worked at Mikron in Agno, where he held a number of posts as Machinery Designer, Project Manager, Head of Production and Head of Business Unit.

4.2 Management contracts

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

5 Remunerations, shareholdings and loans

See notes 24, 28 and 29 of the financial report for details of remuneration, shareholdings and loans to members of the Board of Directors and General Management.

5.1 Content and procedure for definition

Directors' remuneration is determined annually in relation both to the role of each Director within the activity of the Board and to their involvement in Board committees. On that basis, and in the light of established practice based on past experience, a calculation is made of the time spent in meetings of the Board and Board committees, as well as consultancy supplied and preparation work, on the basis of which a lump-sum fee is calculated. The estimate of time spent constitutes the basis for the calculation, with *per diem* remuneration based on fees invoiced on a time-spent basis by consultants providing similar services. Directors have no variable remuneration in addition to their lump sum fee, apart from their participation in the stock option schemes MBP04 and MBP07 described in Note 24 in the financial report.

Members of general management have a compensation package with 3 components: (1) fixed remuneration, (2) variable remuneration, and (3) participation in the stock option schemes MBP04

and MBP07 described in Note 24 in the financial report. Fixed remuneration is determined annually, firstly on a comparative basis using an executive salary survey (Compensation Report Switzerland, Watson Wyatt Data Services), and secondly on the basis of personal capabilities as assessed by the Nomination and Compensation Committee, which produces a recommendation for the Board which then has responsibility for the decision. Fixed remuneration takes account of the potential remuneration arising from the variable component. Variable remuneration is dependent on profitability criteria and on annual personal objectives of both a qualitative and quantitative nature. On average, expected variable remuneration represents between 20 and 25% of fixed remuneration. It could be doubled to represent almost 50% of fixed remuneration if individual objectives were significantly exceeded, if the EBIT margin were 15% or higher or if orders exceeding the sales target by 20% or more were obtained.

6 Participation rights of shareholders

6.1 Voting restriction and proxy voting

In accordance with Article 10 of the Articles of Association, there are no voting restrictions, with each share giving the right to one vote. Only shareholders whose names appear in the share register may vote by proxy. Under the Articles of Association, shareholders may only be represented at the General Meeting by their legal representative, another shareholder with voting rights, the independent proxy, the company representative or a securities representative.

6.2 Statutory quorum

Apart from the quorums specified in Article 704 CO, Article 11 of the Articles of Association provides for a qualified quorum of at least 2/3 of the votes represented and an absolute majority of the nominal value of the shares represented in the case of a vote on the limitation of the exercise of voting rights or any change or cancellation of such limitation.

6.3 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.

6.4 Entries in the share register

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

7 Control and warding-off mechanisms

7.1 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.

7.2 Takeover clauses

In the event of a takeover, the time limits provided with respect to the shares and options in the employees' share option schemes MBP04 and MBP07 will become null and void, and a «Take me along» clause shall apply. There are no other clauses relating to taking control in favour of members of the Board of Directors and members of General Management.

8 Auditors

Since the financial year 2006, the auditors of the holding company and Group have been PricewaterhouseCoopers S.A., Neuchâtel. Mr. Michael Foley (Fellow of the Institute of Chartered Accountants) has been the senior auditor responsible since 2007. The Auditors are appointed annually by the General Meeting. The audit fees invoiced by PricewaterhouseCoopers for the year

2007 and for auditing the annual financial statements amount to CHF 223,000. Additionally, during 2007 PricewaterhouseCoopers provided tax and legal advice on a number of occasions at a cost of CHF 407,000.

Every three to five years, a call for tenders is issued to duly qualified accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading the assignment, and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee and by feedback from management on the way the audits are conducted. The same applies to the evaluation of additional non-audit services supplied.

The Audit Committee monitors the external auditors on behalf of the Board of Directors. The audit plan is submitted to the Audit Committee for approval of the areas to be the object of particular scrutiny in the year under review. The Audit Committee also asks the auditors to carry out reviews of specific areas which are not included in the audit plan but for which particular reassurance is sought. PricewaterhouseCoopers has kept the Audit Committee regularly advised of its activity, and participated in one meeting of the Committee. It has been kept informed of the work of the Audit Committee by receiving a copy of the minutes. The auditors also submitted a Report to the Audit 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).

9 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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