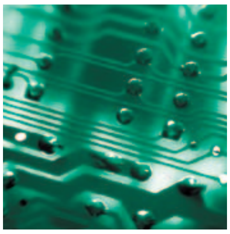




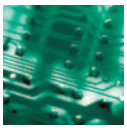

ANNUAL REPORT 2010

TORNOS HOLDING S.A.

KEY FIGURES

Tornos Group (in KCHF unless otherwise stated)	2010	2009	2008	2007	2006
Bookings	214’739	85’487	232’143	283’645	257’269
Gross sales	160’069	114’363	262’944	287’384	250’515
EBITDA	–9’663	–25’798	19’851	39’343	26’475
Gross sales %	–6.0	–22.6	7.5	13.7	10.6
EBIT	–13’496	–30’532	13’093	32’746	17’614
Gross sales %	–8.4	–26.7	5.0	11.4	7.0
Net profit / (Net loss)	–18’086	–29’584	6’042	35’137	17’249
Gross sales %	–11.3	–25.9	2.3	12.2	6.9
Net cash / (Net debt)	–38’691	–24’571	5’277	27’263	–7’375
Equity	111’486	125’414	153’743	160’179	118’458
Total balance sheet %	53.0	67.8	69.2	73.2	61.4
Total balance sheet	210’538	185’006	222’256	218’912	192’972
Capital expenditures in tangible fixed assets	509	524	6’715	9’065	3’254





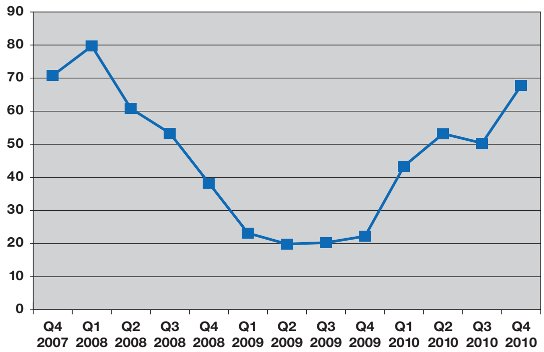

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ladies and Gentlemen,
Dear Shareholders,

31 December 2010 not only marked the end of the financial year, it also saw the end of the 3-year recession we had endured since the start of 2008. Thus, the cycle appears to have bottomed out finally in mid-2009.The trend changed in the first quarter of 2010, following which the recovery progressively gathered strength throughout the year. As regards order flow, the past year ended on a level close to that of 2007. The crisis is now behind us and, despite a highly uncertain macro-economic environment, the future is looking brighter than at any time in the past three years. Although this recession will leave its mark on our financial situation, the essentials have been safe-guarded. The Group is emerging from recession without having mortgaged its future, because it has reinforced its human capital and expanded its product range, and is financially sound. As regards human resources, this is probably the first time that the Group has come through a recession without having to make large-scale redundancies, with all the usual consequences of that strategy in terms of lost know-how and a legacy of demotivation. As regards the product range, no development projects were abandoned as a result of the recession and, in addition to the 2010 product launches, the products that were developed during the crisis will be unveiled in the next few months. After a still profitable 2008, results were substantially negative and the Group has been in debt once more for two years. With support from our banks, that situation is under control and the Group's creditors and shareholders are in a radically different situation from the one experienced during the 2001 recession or the recessions of earlier years, as our shareholders' equity now represents 53% of total assets. The crisis we have just experienced has been unprecedented in its scope. Despite its high cost, we are convinced that the actions we took were in the Group's long-term interest. With sales falling by more than 60% between 2007 and 2009, the impact of this latest economic cycle was especially punishing and is clearly illustrated by the following graph. It shows the quarterly trend of orders received between the record first quarter of 2008 and the last quarter of 2010, when the cycle was completed.

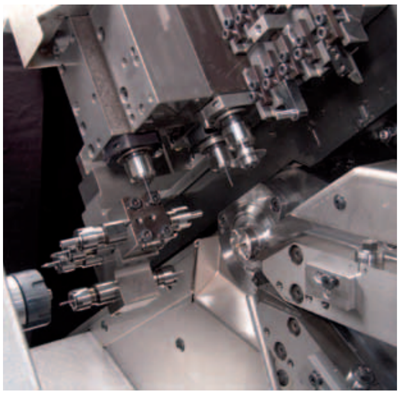
Quarterly bookings

in MCHF



The broad outline of this recession was very close to the one envisaged in the scenario we drew up at the start of 2008, which predicted an economic rather than a structural crisis, followed by a cyclical rebound in mid-2010 and the possibility of a recovery as vigorous as the downturn had been severe. In response to that scenario, the crisis strategy put in place from the first quarter of 2008 had four key aims: preserving our know-how, our production capacity and our geographical coverage, and persevering with product development. That strategy called for large-scale short-time working and consequently entailed a significant loss of earnings for our staff. For our shareholders, it involved incurring losses for the 2009 and 2010 financial years. In exchange for these sacrifices, it was also intended to permit an immediate resumption of business as soon as the first signs of recovery appeared, and to ensure that the Group was competitively positioned in the medium to long term.





How does the situation look at the end of 2010? The upturn began in the middle of 2010 and, as we foresaw three years ago, the rebound proved to be almost as rapid as the collapse. The 2010 recovery started from such a low base that the full-year loss, although 38.9% lower than 2009, was again very substantial. However, the process of re-activating production was completed without problems, and we have been working at full capacity since the fourth quarter with no adverse impact on our delivery deadlines to clients.

As regards the key figures for 2010, the Group booked orders worth CHF 214.7 million, representing an increase of 151.2% over the figure for 2009. Given the three-month time lag between the receipt of an order and the time it is billed, gross sales came to CHF 160.1 million, a rise of 40% over the previous year. The EBIT margin was boosted by the increased level of activity, but it remained heavily negative, at –8.4% compared to –26.7% in 2009. The result for the year was a loss of CHF 18.1 million, against a 2009 loss of CHF 29.6 million. As at 31 December 2010, shareholders' equity stood at CHF 111.5 million or 53.0% of the balance sheet total of CHF 210.5 million. On the same date, the Group's net debt stood at CHF 38.7 million.

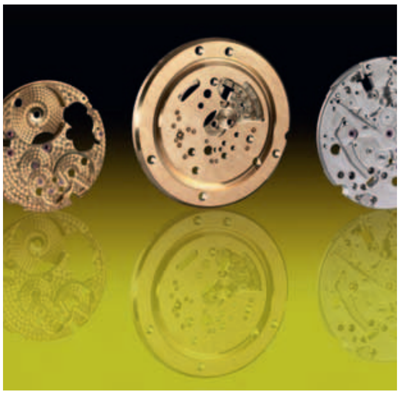
Other significant events during the past financial year are described briefly below, and discussed in greater detail in subsequent pages.

As regards the Group's principal market segments, the 2010 trend was positive in all cases. The medical segment returned to a normal level at the beginning of the year, rapidly followed by the automotive, then the electronics and finally the watchmaking sectors.

In geographical terms, the upturn has also been observed in all markets, albeit with a certain time lag in some cases. By the end of the year, all regions and market segments were on a positive trend.

In terms of products, the year was marked by the launch of the first machine in the new EvoDECO range, which over time is intended to replace the single-spindle DECO machines. As regards the multispindle range, the main focus was on increasing bar diameters, thereby enabling us to access new applications within our traditional market segments. The key focus of the machining and milling centres sector was on presenting integrated robotic solutions.

In terms of strategy, the quantified targets of our 2007–2012 strategic plan have not been met. The tactical adjustments forced upon us by the unprecedented recession we have just experienced do not invalidate any fundamental aspect of the strategy we have been following, and we intend to persevere with it in the future. However, the 2008–2010 crisis has clearly shown that globalization can throw up crises of a dimension never previously experienced. If we concede that simi-

lar recessions cannot be ruled out in the future, we need to draw the appropriate conclusions and to develop an increasingly flexible business model that is able to absorb fluctuations of around 60% from one year to the next, rather than 40% as we have previously imagined and assumed since 2003. This approach will form part of a new strategic plan for 2011 to 2016, which will be published in autumn 2011.

Before concluding, we should again like to mention that in 2007, Messrs Raymond Stauffer, CEO and Managing Director, and Philippe Maquelin, COO/CFO, indicated that they did not intend to continue in a General Management role beyond the spring of 2011. The consequences of that decision prompted an extensive review of the Group's structures, the outcomes of which are reflected in the following changes.

In the General Management, Mr Philippe Jacot, Group CTO, becomes CEO with effect from 1 January 2011. Mr Paul Häring, a Director of Tornos Holding S.A. since 2001, becomes CFO and leaves the Board, while Mr André Chardonnereau, Head of Engineering at Tornos SA, becomes COO. Mr Olivier Marchand, CEO of an engineering firm which has undertaken a number of product development contracts for Tornos, joins the Group as its CTO. The other members of General Management will continue in the same roles as in 2010.

At Board level, the following changes will be proposed at the next Ordinary General Meeting of Shareholders scheduled for 12 April 2011. Mr Paul Häring will resign as a Director and Mr Raymond Stauffer will resign as Managing Director, for which his term of office is due to expire, and will submit his application for election to the Board of Directors. Mr Philippe Maquelin will offer himself for election as a Director in place of Mr Paul Häring. Mr Frank Brinken, CEO of StarragHeckert, will offer himself for election as a Director to fill the position left vacant for the past year. The other members of the Board of Directors whose terms of office all expire at the next Ordinary General Meeting of Shareholders, will offer themselves for re-election. If the proposed changes and re-elections are approved at the next Annual General Meeting, the Board of Directors will again comprise six members, and the office of Managing Director will be abolished. These various changes mark the end of a chapter in the Group's history. In 2002, when Messrs Raymond Stauffer, Philippe Maquelin and the undersigned joined Tornos at a time of severe turmoil, the Tornos Group was in a difficult situation requiring a complete review of its strategy and organization. That restructuring was led by the present members of the Board of Directors together with Messrs Raymond Stauffer and Philippe Maquelin. In the intervening period, the General Management has been gradually expanded up to its present composition. With the changes referred to above, the Board of Directors is reaffirming its determination to continue along the strategic direction defined eight years ago, and wishes to ensure stability and continuity in the Group's governance. The Board of Directors

also takes this opportunity of thanking Messrs Raymond Stauffer and Philippe Maquelin for their contribution and commitment at the helm of the Group. It also wishes the new General Management team every success.

In conclusion, on behalf of the Board of Directors, I should like to thank our shareholders, workforce, customers and partners for the confidence they have placed in us.

François Frôté
Chairman of the Board of Directors

OPERATIONS, RESULTS AND OUTLOOK

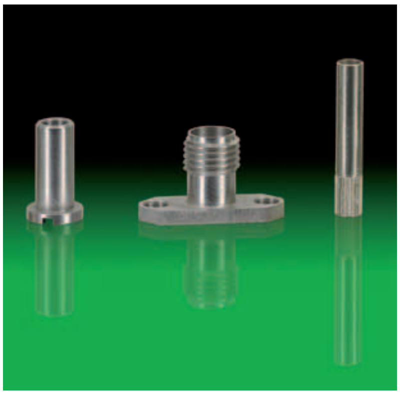
Business activities

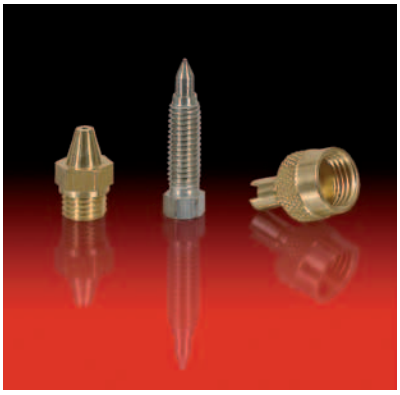
Apart from seasonal variations over the summer, 2010 was marked by a stepping-up in commercial activity. Compared to 2009 when activity had been highly stable but at an extremely low level, the welcome change in the trend appeared from the start of 2010. At the end of the first quarter, the order book was already more than double the level of the previous quarter, and this positive trend continued to gain momentum throughout the year. The recovery began in Asia followed by the medical sector in the US, and subsequently spread to the Latin countries of Europe under the stimulus of the automotive industry. The revival of that region of Europe progressed further during the second quarter. During the third, the rebound spread to the other European economies, and by year-end all regions were progressing in benign economic conditions. Our main market segments followed fairly similar trends, but with timing differences. The medical sector, less affected by the recession, reverted to normal conditions at the start of the year. In the automotive sector, the already satisfactory level of activity in the first quarter accelerated strongly in the subsequent ones. Demand for capital goods from the electronics and microtechnology markets – most notably watchmaking – only recovered towards the end of the year, and the outlook for 2011 is favourable. Thus, the year under review ended in positive general economic conditions. The only negative point was the movement in exchange rates which cannot be fully passed on in prices expressed in foreign currency. New orders received during the year totalled CHF 214.7 million or 2.5 times the previous year's level (CHF 85.5 million).

Finances

The year closed with a consolidated net loss of CHF 18.1 million, which compares with a loss of CHF 29.6 million in 2009. Although this is still a substantial deficit, the improvement over the 2009 financial year is significant. It is a measure of the upturn in activity, which gathered pace as the year progressed. Unfortunately, given the time lag between receipt of an order and invoicing, the impact of the economic revival on the Group's financial results only became apparent at the end of the year. Sales rose 40% from CHF 114.4 million in 2009 to CHF 160.1 million in 2010, one third of which (CHF 54.0 million) was generated in the final three months (2009: CHF 35.5 million). However, on a like-for-like basis in absolute figures, sales for the year barely exceeded half the pre-crisis level. Hence, from a financial viewpoint, the first three quarters were still dominated by recessionary conditions. Only in the fourth quarter did the benefits of the economic recovery really filter through, and it was only from that point onwards that our production capacity was used to a satisfactory extent once more. Thanks to this revival in activity, the gross margin also began to improve, rising from 23% in 2009 to 27% in 2010.

At CHF 56.7 million, total operating costs again showed a slight reduction compared to 2009 (CHF 56.8 million), although the trend varied markedly from one sector to another. Marketing and



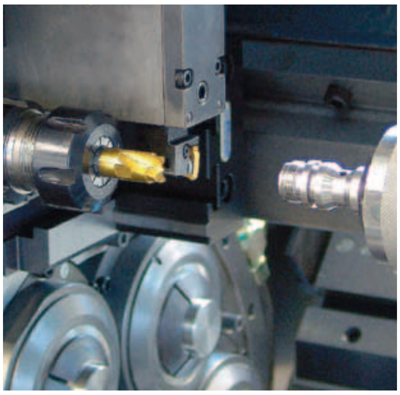


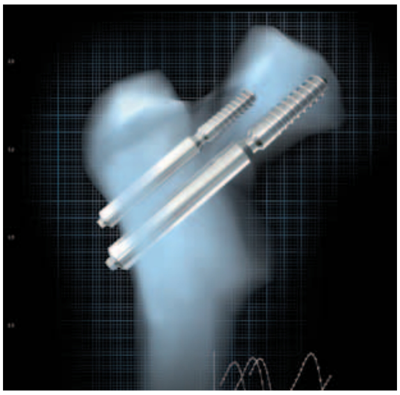
sales expenses were higher at CHF 30.9 million, reflecting the strong increase in commercial activity commencing in the second quarter (2009: CHF 28.7 million). Conversely, general and administrative expenses, at CHF 18.0 million, were again pared back thanks to the numerous cost-cutting programmes implemented throughout the recession and which continued until the end of the year (2009: CHF 19.0 million). R&D expenses fell by CHF 1.2 million to CHF 7.9 million (2009: CHF 9.1 million). However, this reduction is mainly due to an increase in the portion of capitalized development expenses, which amounted to CHF 5.0 million in 2010 (compared to CHF 1.5 million in 2009). Allowing for the capitalization of expenses, R&D costs increased by CHF 2.3 million to CHF 12.9 million (2009: CHF 10.6 million), reflecting the Group's determination to develop new platforms for future products notwithstanding the crisis. Other income and expenses were unchanged at CHF 0.1 million in both financial years. EBIT was negative at CHF 13.5 million, although this represented less than half the 2009 loss of CHF 30.5 million. The substantial reduction in the loss was a reflection of the recovery in activity, and in the fourth quarter EBIT turned marginally positive (CHF 0.1 million). EBITDA also remained heavily negative with a loss of CHF 9.7 million (2009: loss of CHF 25.8 million), although the fourth quarter was firmly into positive territory (CHF 1.1 million). These results show that Group EBIT becomes positive when annual turnover exceeds a range of CHF 200 to 220 million. Financial expenses went from CHF 1.7 million to CHF 3.4 million owing to the increase in the Group's debt level. The substantial revaluation of the Swiss franc triggered foreign exchange losses of CHF 4.0 million (2009: loss of CHF 1.0 million). The pre-tax loss for the year came to CHF 20.9 million, generating tax credits of CHF 3.5 million. Accordingly, tax for the financial year was a credit of CHF 2.8 million. Our 2010 full-year result was a net loss of CHF 18.1 million, compared to a loss of CHF 29.6 million the previous year.

After the inclusion of the 2010 net loss of CHF 18.1 million, a net revaluation surplus of CHF 3.9 million on a financial investment (not credited to profit and loss) and CHF 0.3 million for certain routine operations of minor significance, shareholders' equity as at 31 December 2010 stood at CHF 111.5 million (2009: CHF 125.4 million). This represented 53% (2009: 67.8%) of the balance sheet total of CHF 210.5 million (2009: CHF 185.0 million), which has increased as a result of the higher level of activity at the year-end.

During the year under review, 56'150 shares were issued in relation to Board and Group management participation plans. By 31 December 2010, the share capital stood at CHF 67.9 million represented by 15'090'393 shares with a par value of CHF 4.50 each.

Despite the robust upturn in activity at the year-end, net working capital, at CHF 97.7 million, fell (2009: CHF 105.6 million) as the increase in inventory and debtors was more than offset by the





increase in supplier accounts and trade creditors. However, this fall did not finance the full cash effect of the loss for the year, and the Group's operating cash flow was negative by CHF 6.0 million (compared to a 2009 negative figure of CHF 27.4 million). Investment in tangible fixed assets was restricted to CHF 0.5 million (2009: CHF 0.5 million) and CHF 5.0 million were invested in intangible assets in the form of capitalized development costs for new product platforms (2009: CHF 1.5 million). Accordingly, the Group had a negative free cash flow of CHF 11.3 million (2009: CHF 29.2 million negative). This shortfall was financed predominantly by drawing on a bank credit line which is available up to 30 September 2012, subject to compliance with the respective covenants, as this has been the case since the facility was signed in September 2009.

Organization

The general organization of the Group did not undergo any major changes in 2010, with the year marked primarily by large-scale recourse to short-time working in Switzerland. All areas of the business were affected during the first six months of the year, as they had been throughout 2009. These measures were gradually relaxed in the second half of the year, initially in the sales departments, followed by production and finally by administration. The foreign subsidiaries also resorted to short-time working, albeit to a lesser extent and within limits permitted by the legislation of their particular countries.

On 24 June 2010, we incorporated Tornos' Brazilian subsidiary "Tornos Comércio Importação e Exportação de Mâquinas Ferramenta Ltda" with the aim of improving our penetration of this market with its high growth potential.

Outlook for 2011

While the order flow we have experienced in recent months and the large number of projects now under discussion provide grounds for some optimism, the strength of the Swiss franc together with economic instability in Europe still argue for a degree of caution. Assuming economic growth stabilizes at the end-2010 level, our turnover target is in the range CHF 250–300 million. In this scenario, and with all the reservations necessitated by the highly cyclical and volatile nature of this business, we expect to return to substantially positive results in 2011, although these will be influenced to a large extent by movements in the exchange rate.

THE FUTURE IS NOW

Innovation

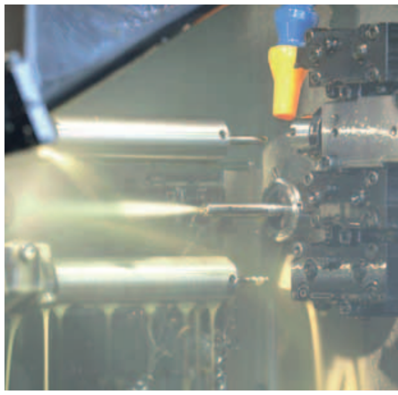
Crisis or no crisis, innovation is not optional. On the contrary, it is when times are difficult that the true drivers of success come to the fore. Thus, when the crisis started in late 2008, we took the decision to equip ourselves with effective means to enable our innovation effort to further a number of aims. Amongst the various measures adopted, we restructured our R&D organization into three distinct groups – design and new technologies, development and industrialization, applications – with a view to bringing these roles into focus and optimizing the results. A number of new products, technologies and applications will soon be ready for market. They have all been designed to boost productivity and enhance machining quality, as well as to improve cost efficiency, all within a context of greater "flexibility" during start-up, and increased reliability. Over the past few years, we have expanded our product portfolio to enable us to respond effectively to all the demands and production challenges we receive from our customers.

However, we are aware that while our markets are always demanding improved productivity and functionality, their overarching need is for reliable solutions to their production needs which are capable of operating on a "24 hours/7 days" basis. Accordingly, we have not limited innovation solely to products, applications or embedded technologies, but have also looked at processes, and especially increased reliability. Our new products are now undergoing extremely demanding reliability enhancement procedures.

Within production environments, prices are also under constant pressure. The majority of our clients (OEM manufacturers and subcontractors for machined parts destined for the automotive, medical, electronic and microtechnology sectors) are having to cut their production costs between 3 and 5% every year. Our own products therefore have to be competitively priced in order to ensure the loyalty of our customers. Innovation has therefore also become part of our design processes and terms such as "design to cost" and "design for manufacturing" have now entered the everyday vocabulary at Tornos.

Thus, at Tornos, innovation is now viewed as part of the process of solving customers' problems. That is the key to improving our relationship with our customers and to working with them to invent a future that is beginning now.

THE STRATEGIC VISION OF TORNOS



Strategy, mission and financial objectives

The Group is managed via the systematic implementation of a strategy that is widely disseminated both within the Group and externally. The strategic plan for 2007–2012 was presented during a press conference held on 1 October 2007. Clearly, the plan's quantified targets have not been met owing to the recession. However, we remain convinced of the validity of this strategy. The numerous tactical adjustments imposed on us by the recession do not invalidate its main components, which are summarized below. However, a new strategic plan will be announced in October 2011 for the period between 2011 and 2016. While representing continuity of the current strategy, the new plan will incorporate the changes that have been made since 2007 and will also draw on the lessons learned during the 2008–2010 recession, the depth of which had previously been considered completely unthinkable. This "unthinkable" will now be factored in, especially in terms of cost flexibility mechanisms and financial objectives that will enable the company to cope with more extreme economic cycles than in the past and to offer its shareholders an adequate return on their investment.

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 the product range and launch new products with innovative technology;
- Products to reduce customers' operating costs.

Mission

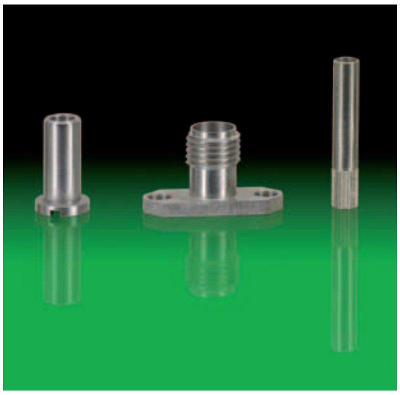
On a more detailed level, Group strategy is expressed in the following mission statements:

Product company

Tornos is a company which develops, manufactures and markets automatic single- and multi-spindle lathes as well as machining centres for small parts, and their 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 subcontractors of parts used in the automotive, medical, electronics and microtechnology industries.

Cost-flexible 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-year period and 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 financially profitable growth.

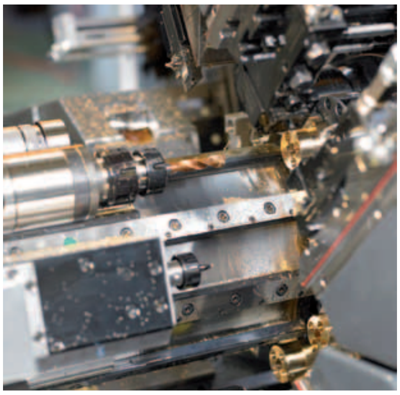
Profitable company for shareholders
In its development, Tornos pays particular attention to its profitability. Over and above a policy of constituting a cash reserve for its operating needs, Tornos practises a policy of total profit distribution to its shareholders provided the economic environment is stable.

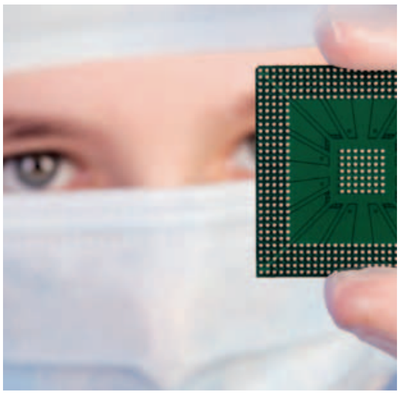
Financial objectives

The Group's strategic plan for 2007–2012 sets out to achieve the following financial targets:

- CHF 450 million sales in 2012 (assuming stable economic conditions);
- 10% EBIT margin;
- 15% return on equity;
- 10% to 15% of annual sales as cash reserve;
- Distribution of surplus cash to shareholders.

PRODUCTS





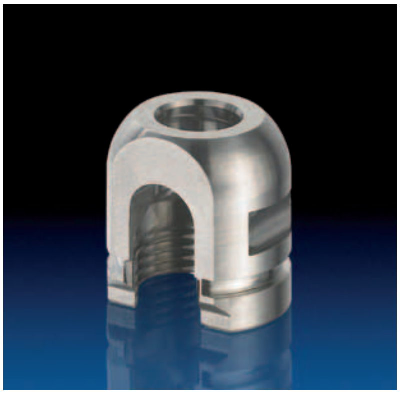
Product lines

Tornos is a leader in several machining technologies used for large production batches of parts requiring extremely high precision and quality. Our product range can be summed up as follows:

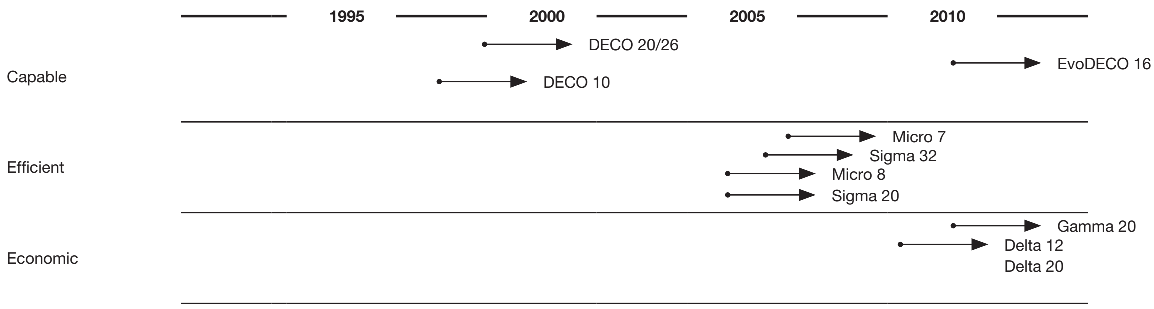
- Lathe technology
  - Automatic single-spindle lathes sliding headstock
    - DECO
    - EvoDECO
    - Sigma
    - Micro
    - Gamma
    - Delta
  - Automatic multispindle lathes
    - MultiAlpha
    - MultiSigma
    - MULTIDECO
    - SAS 16
- Milling technology
  - Machining centres
    - CU, CUB
    - FB, FC
  - Special machining equipment for watchmaking
    - PC, GR, PG

Two ranges of lathes

In lathe technology, Tornos offers two complete ranges of automatic lathes covering bar diameters from 1 to 32 mm. Single-spindle machines with sliding headstock and guide bush, traditionally known as Swiss type automatic lathes, are used for the machining of parts where length exceeds diameter. They are fitted with numerous tool systems and devices enabling the high-speed manufacture of highly complex parts. Multi-spindle machines with 6 or 8 spindles allow for optimum serialization of operations and are capable of production speeds 4 to 6 times higher than single-spindle lathes.



Single spindle product range



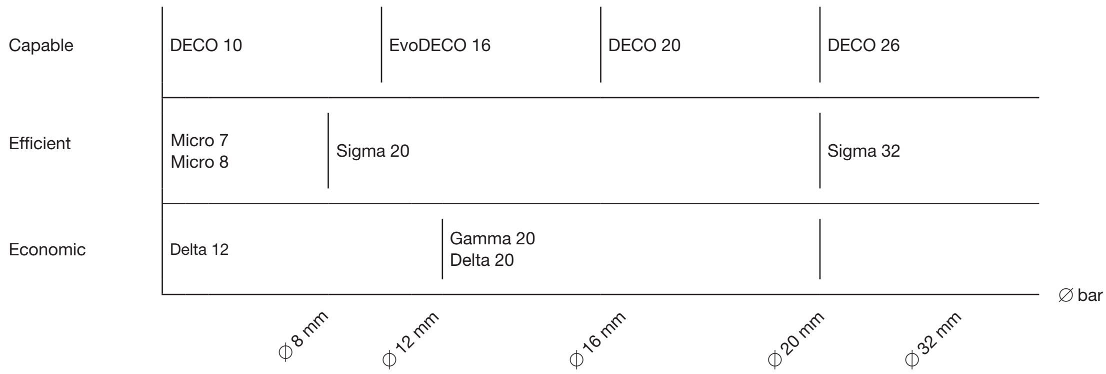
2000–2007: Towards a specific design

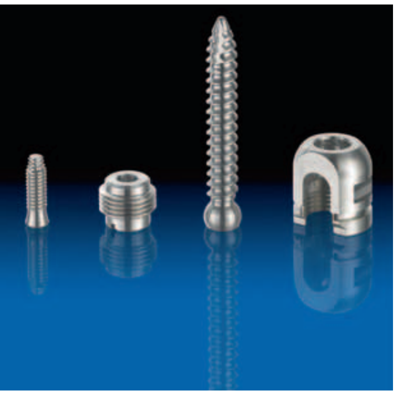
The DECO range, still unparalleled for the production of complex high-volume parts (with over 6’000 machines currently installed across all market segments), was completed in 2005 with the Sigma line, with simple kinematics, greater thermal stability and better rigidity for back-machining than any other machine on the market. With these products, we have succeeded in attracting clients looking for slightly lower-cost, more flexible and easy-to-use machines. The Sigma machines have an excellent reputation in automotive applications.

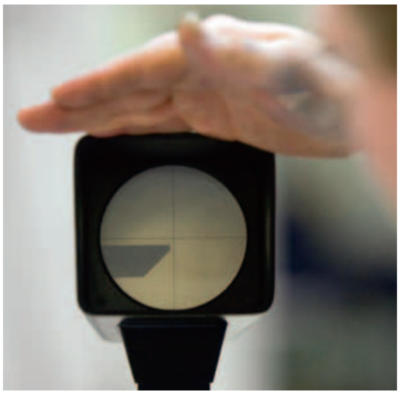
In 2005 and 2007, we launched the Micro line of products, comprising the Micro 8 for short parts and the Micro 7 for long ones. With machining stability of below 2 microns in production, these are among the most precise and rigid machines on the market. Their modularity and kinematics, which allow two tools to be used, make them ideal machines for producing a wide range of watch parts in large quantities.

2008–2009: Towards highly price-competitive products
We have recently begun to develop accessibly priced machines that are both reliable and simple to use, giving our clients the opportunity to develop a competitive advantage in less complex parts or small production runs.
Well aware that we lacked experience in developing and producing high-quality, low-cost machines, we signed an alliance with Tsugami. The result was the Delta line, launched in 2008. At the end of 2009, with the same business model, we launched the Gamma 20, a machine with simple kinematics but well-equipped with tools, enabling customers to machine complex parts in return for a minimum investment.

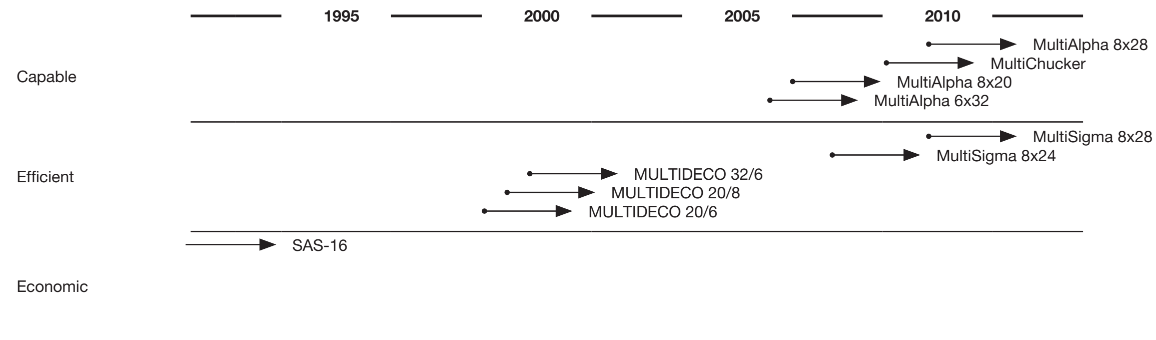
2010: Towards greater flexibility, improved ergonomics and power
In 2010, we launched the first machine from our “EvoDECO” programme, the EvoDECO 16. Using all aspects of the extraordinarily productive kinematics of the DECO 13, the EvoDECO 16 has been fully redesigned in terms of rigidity, thermal stability and spindle technology. These features have been improved by a factor of 3 to 4, making this a silent and incredibly powerful machine. With its 11 kW motorized spindles, it is capable of handling 16 mm bars without preparation, comes equipped with more tools than its predecessor, and can operate without a guide bush. The synchronous motor technology used on our multispindle lathes enables this machine to achieve far higher spindle speeds than any of its competitors.



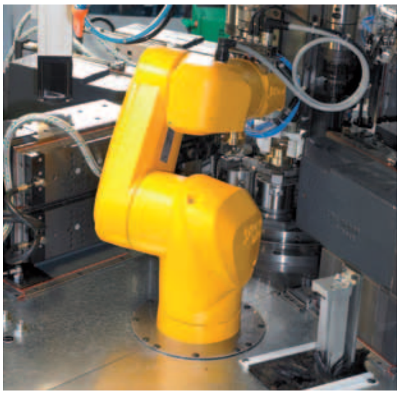




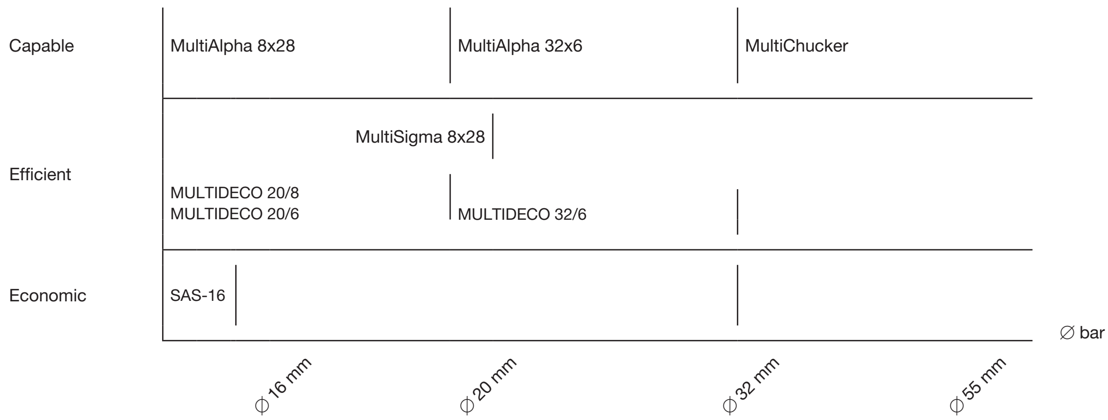
Multispindle product range

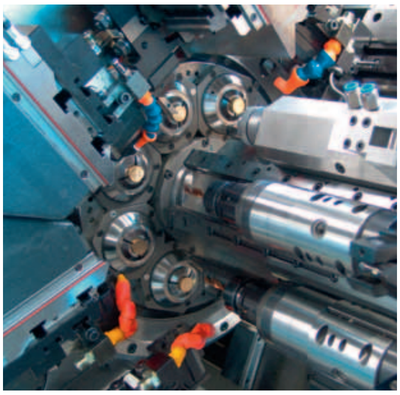
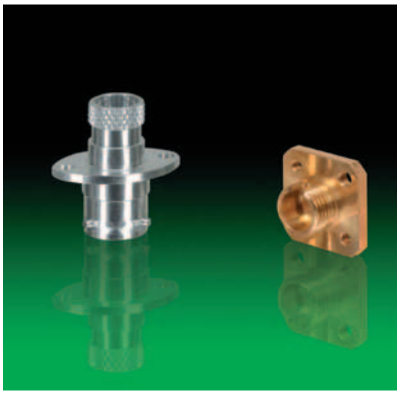


Automatic cam-operated multispindle lathes earned their reputation in high-volume applications. Once set up, these machines work continuously with the regularity and precision of a metronome. Our SAS-16 lathe is undoubtedly the leading example in this category, and its popularity is still undiminished. During the 1990s, Tornos introduced the MULTIDECO multispindle range of products. With its numerical control and TB-DECO programming software, this platform has introduced the flexibility and versatility lacking in cam-driven machines, adapting to the demands of the market, and in particular to the demands of the automotive sector.

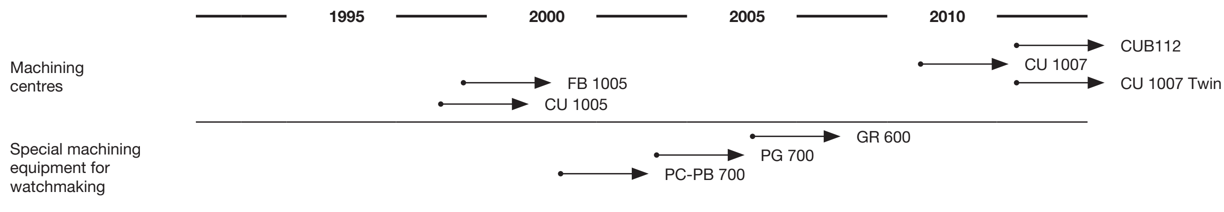
 

2005–2010: Flexibility, machining capacity and increased productivity open up new horizons
Between 2005 and 2007, we brought the MultiAlpha and MultiSigma range to market. These machines are fitted with 6 or 8 powerful independent motorized spindles. The numerous tools for special machining (thread whirling, polygon turning, etc.) and the wealth of tools for back-machining make these into true machining centres with extraordinary productivity, able to finish the most complex parts. Their parallel numerical controls linked to the TB-DECO software make them both accessible and flexible, and increasingly suited for small production runs and a wide range of products. In many cases, these machines represent an advantageous replacement for large numbers of single-spindle machines, or transfer machines. In 2008, we also brought out a "chucker" version of the MultiSigma. This machine, which is able to work with blanks or moulded parts, helps to reduce significantly the amount of material lost on machined parts. In 2010, we extended the bar diameter capacity of the MultiAlpha and MultiSigma machines to 28 mm. That opens the door to applications requiring 1.5 inch bars.




Range of milling and machining products for the watchmaking sector



In 2008, Tornos acquired Almac, a company specializing in milling solutions for micro-mechanical applications in the watchmaking sector, particularly at the top end of the range. This market is characterized by the small size of parts, their extreme precision and the quality of machining required. All Almac's machines meet these requirements.

Since the 1990s, Almac has been the supplier of choice to the watchmaking sector. With our CU 3005 and CU 1007 machining centres, we have carved out a leadership position in the manufacture of base plates and bridges. Our CU 1005 and FC 1105 machining centres make it possible to fully machine irregular-shaped watch cases. PC 700 machines are widely used for drilling dials. As a complement to our machining products, the GR 600 Twin and PG 700 offer exclusive solutions such as beading or angle planing for finished parts. In 2009, we presented the CUB 112, a system with the potential to revolutionize the machining of backplates for timepieces with complications. In 2010, Almac introduced the CU 1007 Twin, a product comprising two CU 1007 cells interfaced with a robot, that is capable of machining and finishing extremely complex parts for precision micro-engineering in the watchmaking sector.

2005–2010: Out to conquer the world

With its know-how and products offering high quality, precision and productivity for small parts, Almac is now in search of new markets to conquer. Thus, our CU machining centres and FB bar milling machines are effectively positioned in niche dental and surgical instrument applications. This trend, started by Almac as an independent company, is now gathering pace thanks to the sales force and international reputation of Tornos.

BOARD OF DIRECTORS

Left to right

Michel Rollier (1959), Switzerland

Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committees: Nomination and Compensation Committee; Alliance Committee | Training – final qualification on completion of studies: EPFL engineer (Ecole Polytechnique Fédérale), Lausanne, 1985 | Current directorships: **Rollomatic Holding SA,** Chairman of the Board of Directors | Professional activities: Rollomatic SA, various management functions in the Group, **R&D Manager (since 1989)**

Paul Häring (1957), Switzerland

Member since 2001 | Elected until 2013 | Previous activities for Tornos: none | Committee: Chairman of the Audit Committee | Training – final qualification on completion of studies: MBA, University of California, Los Angeles, 1989, B.A., Golden Gate University, San Francisco, 1987 | Current directorships: Ruag Holding AG: Board director, New Schild Holding AG: Board director, Nugerol Holding SA: Board director; Papierfabrik Utzenstorf AG: Vice-Chairman | Professional activities: Feintool International Holding: CFO (from 1996 to 2003); **AWR AG für Wirtschaft und Recht: Partner (since 2003)**

Claude Elsen (1947), Luxembourg

Deputy Chairman of the Board | Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committee: Alliance Committee | Training – final qualification on completion of studies: MBA, Insead, Fontainebleau, 1974; Master Sc., Master Mec. Engineer from RWTH (Rheinisch-Westfälische Technische Hochschule), Aachen, Germany, 1972 | Current directorships: BIA Group S.A., Director (since 2008), Belgium | Professional activities: DaimlerChrysler AG since 1996: Senior Vice President (from 1998 to 2002); **Consilux: Managing Partner (since 2002)**

François Frôté (1953), Switzerland

Chairman of the Board | Member since 2002 | Elected until 2011 | Previous activities for Tornos: Legal adviser | Committees: Chairman of the Nomination and Compensation Committee; Audit Committee | Training – final qualification on completion of studies: lawyer, law degree at the University of Berne, 1979 | Current directorships: Rollomatic Holding SA: Board director; Nugerol Holding SA: Board director; Esco SA: Board director; Bien-Air Holding SA: Board Director; Coopérative Migros Neuchâtel Fribourg: Vice-Chairman | Professional activities: **Law offices of Frôté & Partner: lawyer and Board director (since 1979)**

Raymond Stauffer (1954), Switzerland

Managing Director and Chief Executive Officer | Member since 2002, appointed in 2002 | Elected until 2011 | Previous activities for Tornos: none | Committee: Chairman of the Alliance Committee | Training – final qualification on completion of studies: ETS engineer (engineering college), Le Locle, 1975 | Current directorships: none | Professional activities: Ismeca Holding SA: different functions in the Group since 1976, COO (from 1993 to 2001), CTO (2001); **Tornos SA: CEO (since 2002)**

GENERAL MANAGEMENT

Left to right

Bernard Seuret (1947), Switzerland
Head of Production | Appointed in **1999** | Training – final qualification on completion of studies: ETS engineer (engineering college), Freiburg, 1968 | Current directorships: none | Previous professional activities: Tornos SA: various positions in the Group since 1969; R&D project manager (from 1990 to 1998)

Philippe Maquelin (1951), Switzerland
Chief Operating Officer & Chief Financial Officer | Appointed in **2002** | Training – final qualification on completion of studies: Economist (degree in economic science), University of Neuchâtel, 1976 | Current directorships: none | Previous professional activities: Ismeca Holding SA: CFO (from 1998 to 2002)

Willi Nef (1960), Switzerland
Head of Sales and Marketing | Appointed in **2008** | Training – final qualification on completion of studies: ETS engineer (Technicum), Rapperswil, 1985; MBA National University of Singapore, 1999 | Dr. of business administration MSM Maastricht, Netherlands, 2005 | Current directorships: none | Previous professional activities: Mikron SA,, Agno: Sales Manager (from 1999 to 2001); Bodine Europe SA: Manager (from 2001 to 2002); Lascor S.p.A. Italia: Managing Director (from 2002 to 2003); Tornos SA: Head of Multispindle Products (from 2003 to 2008)

Carlos Cancer (1959), Spain
Head of Single-Spindle Products | Appointed in **2003** | Training – final qualification on completion of studies: HES engineer (University of Applied Sciences), Bienne, 1982 | Current directorships: 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)

Iwan von Rotz (1973), Switzerland
Head of Multispindle Products | Appointed in **2008** | Training – final qualification on completion of studies: ETS engineer (engineering college), Horw, 1996; MBA, Lucerne, 2003 | Current directorships: none | Previous professional activities: Mikron SA in Agno, Head of Production and Head of Business Unit (from 1997 to 2006); Tornos SA, Head of Operations in Multispindle Products (from 2006 to 2007); Etienne SA, Head of Business Unit (from 2007 to 2008)

Roland Gutknecht (1957), Switzerland
Head of Machining Center Products | Appointed in **2008** | Training – final qualification on completion of studies: ETS engineer (engineering college), Bienne, 1980 | Current directorships: none | Previous professional activities: Schaublin SA in Bévilard: Export Sales Manager (from 1993 to 1997); Almac SA in La Chaux-de-Fonds: Managing Director (from 1997 to 2008)

Philippe Jacot (1963), Switzerland
Chief Technology Officer | Appointed in **2008** | Training – final qualification on completion of studies: Master in physical sciences, University of Neuchâtel, 1992 | Current directorships: none | Previous professional activities: SPTec in Bevaix, Managing Director (from 1999 to 2001); Unaxis in Neuchâtel, Strategic Marketing & Innovation Manager (from 2001 to 2004), Adonite Research in Neuchâtel, Managing Partner (from 2005 to 2008)

Sandor Sipos (1952), Switzerland
Head of Customer Service | Appointed in **2004** | Training – final qualification on completion of studies: ETS engineer (engineering college), St. Gallen, 1976 | Current directorships: none | Previous professional activities: Ismeca Semiconducteur SA: Technical Services Manager (from 1998 to 2004)

CORPORATE GOVERNANCE AND COMMUNICATIONS

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

1 1 Group structure and shareholders

1.1 Group structure

1.1.1 Organizational 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) milling products (5) installation, after-sales service and spares, (6) sales and marketing, (7) production, (8) operations, general services and finance.

1.1.2 Listed companies in the consolidation

Tornos Holding S.A. is the only consolidated company within the Group to be listed on the stock exchange. The subsidiaries are not listed. Tornos shares are traded on the SIX Swiss Exchange, Zurich, under securities number TOHN (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 194.7 million.

The consolidated companies of the Group are shown below:

Name	Purpose		Share capital	% held 2010	% held 2009
Tornos Holding S.A., Moutier	Holding	CHF	67'906'769		
Tornos Management Holding SA, Moutier	Management of shareholdings and holding company	CHF	65'000'000	100.0	100.0
Almac S.A., La Chaux-de-Fonds	Production and sales	CHF	1'175'000	100.0	100.0
Almatronic S.A., La Chaux-de-Fonds	Dormant company	CHF	50'000	100.0	100.0
Tornos SA, Moutier	Production 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	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 company	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. Bethel, CT	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 (HK) Limited, Hong Kong	Sales and service	HKD	10'000	100.0	100.0
Tornos Technologies (Shanghai) Limited, Shanghai	Sales and service	USD	500'000	100.0	100.0
Tornos Comércio Importação e Exportação de Mâquinas Ferramenta Ltda, São Paulo	Sales and service	BRL	370'000	99.0	–

Tornos Comércio Importação e Exportação de Mâquinas Ferramenta Ltda was established on 24 June 2010. The minority shareholder holding 1% of the company, as agreed by contract, has transferred all his shareholder's rights to the Tornos Group.
Tornos Management Holding SA was established on 22 December 2009.
Tornos Technologies (Shanghai) Limited was established on 2 April 2008.
Tornos Technologies (HK) Limited was established on 29 July 2008.
95% of Almac S.A. and 100% of Almatronic S.A. were acquired on 12 March 2008 with retroactive effect to 1 January 2008. Subsequently, 5% of Almac S.A. was also acquired.

1.1.3 Unlisted companies in the consolidation
Tornos Holding S.A. has no unconsolidated shareholdings.

1.2 Major shareholders
The following communications were published:
Schroders plc, London (GB), notified the company on 29 March 2007 that it held 702'444 registered shares and that its shareholding stood at 5.09% of voting rights. On 29 January 2008, Schroders plc, London, notified the company that it held 740'331 registered shares with a nominal value of CHF 5 each, and that its shareholding stood at 4.94% of voting rights following a sale of shares on 24 January 2008. No communications were received from Schroders plc during 2009 and 2010.

With the introduction of the obligation to disclose a shareholding of more than 3%, the Berner Kantonalbank, Berne (CH), made an announcement in December 2007. The Berner Kantonalbank notified the company on 12 December 2007 that it held 661'545 registered shares and that its shareholding stood at 4.80% of the voting rights. No communications were received from the Berner Kantonalbank during 2008, 2009 and 2010.

With the introduction of the obligation to disclose a shareholding of more than 3%, Mr Michel Rollier, Le Landeron (CH), made an announcement in December 2007. Michel Rollier notified the company on 20 December 2007 that he held 525'496 registered shares and options under an employee stock option scheme, and that his shareholding stood at 3.81%. No communications were received from Mr Michel Rollier during 2008, 2009 and 2010.

Tornos Holding S.A., Moutier (CH), indicated on 22 January 2008 that it held 465'000 registered shares and that its shareholding stood at 3.10% of the voting rights following an acquisition made on 18 January 2008. Tornos Holding S.A., Moutier, indicated on 14 February 2008 that it held 756'250 registered shares and that its shareholding stood at 5.04% of the voting rights following an acquisition made on 12 February 2008. Tornos Holding S.A., Moutier, indicated on 21 April 2008 that its shareholding stood at 4.99% of the voting rights following a sale of shares on 16 April 2008. No communications were received from Tornos Holding S.A. during 2009. On 19 April 2010, Tornos Holding S.A. made an ex post disclosure of its sale positions, indicating that they represented 4.21% of voting rights.

On 2 April 2008, Tsugami Corporation, Tokyo (Japan), notified the company that it held 456'397 registered shares, representing 3.04% of the voting rights, following an acquisition on 1 April 2008. Tsugami Corporation, Tokyo, notified the company on 20 May 2008 that it held 765'981 registered shares representing 5.10% of the voting rights following an acquisition on 19 May 2008. No communications were received from Tsugami Corporation during 2009 and 2010.

Mr Walter Fust, Freienbach (CH), notified the company on 11 November 2008 that he held 450’000 registered shares representing 3% of the voting rights following an acquisition on 11 November 2008. Mr Walter Fust notified the company on 15 April 2009 that he held 769’102 registered shares representing 5.12% of the voting rights. Mr Walter Fust notified the company on 18 August 2010 that he held 1’591’886 registered shares representing 10.61% of the voting rights. Mr Walter Fust notified the company on 22 November 2010 that he held 2’262’298 registered shares representing 15.05% of the voting rights.

Mr Raymond Stauffer, La Chaux-de-Fonds (CH), notified the company on 11 June 2009 that he held 457’933 registered shares and options under an employee stock option scheme, and that his shareholding stood at 3.04%. No communications were received from Mr Raymond Stauffer during 2010.

Balfidor Fondsleitung AG, Basel, notified the company on 10 August 2010 that it held 454’815 registered shares representing 3.03% of the voting rights. Balfidor Fondsleitung AG, Basel, notified the company on 14 September 2010 that it held 434’815 registered shares representing 2.89% of the voting rights. Balfidor Fondsleitung AG, Basel, notified the company on 6 December 2010 that it held 453’734 registered shares representing 3.01% of the voting rights.

Tornos Holding S.A. is unaware of any shareholders’ pact.

1.3 Cross participations

There are no cross participations.

2 Capital structure

2.1 Share capital

The ordinary share capital of Tornos Holding S.A. amounted to CHF 67’906’768.50 as at 31 December 2010. As at the close of the financial year, the company had an authorized share capital of CHF 22’500’000.00 and a contingent share capital of CHF 3’682’629.00.

2.2 Contingent and authorised share capital

The following information relates to the changes in authorized and contingent capital for 2010 and 2009. For changes occurring in 2008, please refer to note 23.1 of the consolidated accounts 2008, which are available on the website at: http://tornos.com/dnld/invest-pdf/tornos-2008cfs-consofinan-statement-uk.pdf.

2.2.1 Authorized capital

The company has authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on 13 April 2010. The Board of Directors may, at any time up to 12 April 2012, increase the share capital by a maximum sum of CHF 22’500’000.00 by issuing no more than 5’000’000 registered shares with a par value of CHF 4.50 each to be fully paid up. Increasing the share capital by firm underwriting and partial increases are authorized. The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the company’s best interests. The Board of Directors may exclude shareholders’ preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

2.2.2 Contingent capital

2010

As at 31 December 2010, the share capital could have been increased by up to CHF 3'682'629, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 818'362 shares with the said par value for a total sum of CHF 3'682'629, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

2009

As at 31 December 2009, the share capital could have been increased by up to CHF 3'935'304, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 874'512 shares with the said par value for a total sum of CHF 3'935'304, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

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

2.3 Capital changes

In thousands of CHF	Ordinary shares	Additional paid-in capital	Reserve for treasury shares	Retained earnings	Total
Equity as at 31.12.2007	*74'920*	*15'910*	*2'070*	*4'607*	*97'507*
Issuance of new shares	168	46			214
Reduction of par value of shares	–7'499			230	–7'269
Net income in 2008				7'499	7'499
Transfer to treasury shares			4'499	–4'499	–
Equity as at 31.12.2008	*67'589*	*15'956*	*6'569*	*7'837*	*97'951*
Issuance of new shares	65	22			87
Net income in 2009				2'016	2'016
Transfer for treasury shares			104	104	–
Equity as at 31.12.2009	*67'654*	*15'978*	*6'673*	*9'749*	*100'054*
Issuance of new shares	253	71			324
Net income in 2010				3'067	3'067
Equity as at 31.12.2010	*67'907*	*16'049*	*6'673*	*12'816*	*103'445*

2.4 Shares and participation certificates

As at 31 December 2010, the ordinary share capital of Tornos Holding S.A. amounted to CHF 67'906'768.50, and was divided into 15'090'393 fully paid up registered shares with a par value of CHF 4.50 each.

There are no participation certificates.

2.5 Dividend right certificates

There are no dividend right certificates.

2.6 Restrictions on transfer and nominee registration

Tornos Holding S.A. has only one type of share. Shares are not subject to any restriction on sale. There are no preferred shares or limitations with regard to voting rights. Each share corresponds to one vote ("one share, one vote").

2.7 Convertible loans and options

There are no convertible loans. Shareholding plans for persons designated by the Board of Directors exist. See note 24 in the financial report with regard to the provisions of the share ownership plan in favour of individuals designated by the Board of Directors.

3 Board of Directors

See page 20.

3.1 Members of the Board of Directors

2010

The composition of the Board of Directors changed in 2010. Owing to a change of professional activity, Mr François Gabella resigned as a director with effect from 13 April 2010 following the AGM. The Board of Directors did not propose any replacement and the seat remains vacant. The only executive member is Mr Raymond Stauffer who, in his capacity as Managing Director, holds the position of Chief Executive Officer. No non-executive member has close business relations with Tornos Holding S.A. or any Group company.

Board of Directors' proposals 2011

Messrs Raymond Stauffer, CEO and Managing Director, and Philippe Maquelin, COO/CFO, had indicated in October 2007 that they did not intend to continue in a General Management role beyond the spring of 2011. That decision resulted in changes in the composition of General Management (see below) with effect from 1 January 2011, and in the proposed alteration in the make-up of the Board of Directors which will be submitted to the next Ordinary General Meeting of Shareholders of Tornos Holding S.A. scheduled for 12 April 2011. In view of his appointment as Group CFO, Mr Paul Häring will resign as a Director. Mr Raymond Stauffer, currently CEO, will resign as Managing Director on expiry of his term of office, and will offer himself for election as a Director. Mr Philippe Maquelin, the current COO/CFO, will offer himself for election as a Director in place of Mr Paul Häring. Mr Frank Brinken, CEO of StarragHeckert, will offer himself for election as a Director to fill the vacant Board position created by the resignation of Mr François Gabella. The other members of the Board of Directors whose terms of office all expire at the next Ordinary General Meeting of Shareholders, namely Messrs François Frôté, Chairman, Claude Elsen, Deputy Chairman, and Michel Rollier, Director, will offer themselves for re-election. If the proposed changes and re-elections are approved at the next Ordinary General Meeting, the Board of Directors will again comprise six members, and the office of Managing Director will have been abolished.

3.2 Other activities and interest groups

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

3.3 Election and term of office

The Board of Directors of Tornos Holding S.A. is made up of at least three members (currently five), 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 three years. They are eligible for re-election. The age limit is 70 years. The Chairman is elected by the Board of Directors.

3.4 Internal organization

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

3.5 Duties and authorities

The duties and authorities of the various internal bodies are as follows:

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

- To exercise overall management of the company and issue the necessary instructions, including the approval of company policy and strategy.
- To determine the company's organization;
- To establish the accounting 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, and of the Articles of Association and regulations, and with the instructions issued;
- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the 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 increase the share capital out of the authorized capital (see 2.2.1);
- To record capital increases and amend the Articles of Association appropriately;
- To determine the financial policy;
- To set guidelines for the company's information policy;
- To approve operations with major legal implications, exceptional transactions or unbudgeted financial commitments, where potential foreseeable risks exceed CHF 1 million, and in particular:
  - Contracts with third parties in areas outside the company's normal sphere of business;
  - Decisions to enter new business sectors or abandon existing ones;
  - The acquisition or sale of minority shareholdings;
  - Decisions to commence or terminate legal actions, or to enter into negotiated settlements;
- To approve unbudgeted investments in excess of CHF 250'000;
- To decide on the issuance of public loans and other capital market transactions;
- To decide on the establishment and liquidation of subsidiaries, and the acquisition or disposal of majority shareholdings;
- To decide on the purchase, mortgaging or sale of properties where the amount of the individual transaction is in excess of CHF 1 million;
- To oversee the activity of the General Management and in particular the implementation of the Board's decisions;
- Where the law requires auditors to be used, to ensure that they have the requisite professional skill;
- To provide advice to the General Management in all cases where the Board of Directors or the General Management itself deem it necessary or appropriate.

In 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.

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

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

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

The 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 2010, six meetings were held, lasting on average five hours each, as well as three conference calls. The Board of Directors regularly invited members of General Management to attend its meetings and, where necessary, invited external advisers when the items on the agenda required their expertise. Members of General Management also attended committee meetings.

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

With the efficient allocation of duties in mind, the Board of Directors appointed Mr François Frôté as Chairman, 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) and M. Rollier

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

It is also the responsibility of the Nomination and Compensation Committee to determine the participants in the Management and Board Participation Plan.

During 2010, the Committee met on three occasions. Messrs R. Stauffer (Managing Director and CEO) and P. Maquelin (COO/CFO) each attended two of these meetings as invitees.

During its meetings, the Committee studied the management reports and drew up proposals which were submitted to the Board of Directors for a decision; it also took decisions on matters within its own remit. Meetings lasted two hours on average.

The following subjects were covered:
- Identification of the individuals to participate in the Management and Board Participation Plan 2007 (MBP 07) and the number of shares available for 2010 under the programme;
- Discussion on continuation of MBP 07 in 2011;
- Interviews with candidates and preparation of proposals for submission to the Board of Directors concerning the composition of the new General Management with effect from 2011;
- Formalization of the contracts for the new CEO and CFO within the new General Management effective from 2011;
- Proposals to the Board of Directors concerning Directors' fees for 2010 and 2011;
- Assessment and review Management and senior staff salaries for 2010;
- Discussion and preparation of a proposal for submission to the Board of Directors concerning the role of the Nomination and Compensation Committee as part of a review of the Rules of Organization of Tornos Holding S.A.

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

Audit Committee:
P. Häring (Chairman), F. Frôté

The Audit Committee has the following duties and authorities:
- Recommendation to the Board of Directors concerning the appointment of auditors;
- Definition and interpretation of accounting standards;
- Reviewing the annual and semi-annual reports and presenting them to the Board as a whole;
- Reviewing and structuring capital market transactions for submission to the Board as a whole;
- Overseeing the work of the auditors;
- On the instructions of the Board of Directors, monitoring particular operational or financial matters;
- Recommendation to the Board of Directors concerning the financial and dividend policy of the Tornos Group.

The Committee met on six occasions. Messrs R. Stauffer (Managing Director and CEO) and P. Maquelin (COO/CFO) attended these meetings in a consultative capacity whenever necessary. The auditors also attended as necessary.

The following main topics were discussed:
- Review of the financial statements and annual report for 2009;
- Review of the Group auditor's report to the Audit Committee;
- Review of the risk management map;
- Review of the internal control system of the Tornos Group;
- Review of the establishment of the authorized capital of Tornos Holding S.A.;
- Analysis of the financial crisis and its impact on the Tornos Group's business plan;
- Review of risks and strategies in connection with the development of the Euro.

The Audit Committee also reviewed the quarterly financial statements, forecasts, the budget for 2011 and the information to be released to the financial community. It reviewed some specific financial and accounting issues as well as the interpretation and implementation of IFRS. The Committee also assessed the performance of the auditors and its own work.

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

Alliance Committee:
R. Stauffer (Chairman), M. Rollier, C. Elsen, members of the Board of Directors of Tornos Holding S.A., and T. Nishijima, representing Tsugami

The Alliance Committee was instituted by the Board of Directors at its meeting on 29 April 2008, in connection with the alliance with Tsugami. It comprises three members of the Board of Directors and one representative of Tsugami. When necessary, members of management or executives of Tornos may attend as invitees.

The **Alliance Committee** has the following duties and authorities:
- To apply and implement the agreements entered into as part of the alliance with Tsugami;
- To make recommendations for decision by the Board of Directors on potential new agreements within the framework of the alliance between Tornos and Tsugami;
- To report to the Board of Directors on progress with the alliance and, in particular, on any important and/or exceptional matters.

The Alliance Committee met on two occasions in 2010.
It oversaw integration of the Delta and Gamma lines in the Tornos Single-Spindle Roadmap and considered the addition of a 32 mm capacity Delta to the product portfolio.

3.6 Information and control methods for oversight of management
At its meetings, the Board of Directors is regularly kept verbally informed by General Management on the progress of business. In addition, a periodic management information system is in place, distributed to all members of the Board, whereby the most important indicators are compared on a weekly basis (orders received) or quarterly (profit and loss account and balance sheet) against the budget and prior year's figures. A written commentary is published each quarter and the budget is revised twice a year. General Management also identifies and quantifies risks on an annual basis, defining appropriate preventive measures. The Audit Committee submits this document to the Board for approval.

4 General Management

See page 21.

4.1 Members of the Management

2010

The composition of General Management remained unchanged in 2010. In accordance with the Group's organizational structure described in section 1.1.1, General Management consists of eight members plus Mr Raymond Stauffer who, as Managing Director, also acts as Chief Executive Officer (page 20).

General Management 2011

The following changes occurred within General Management on 1 January 2011.
Mr Philippe Jacot, formerly CTO of the Tornos Group, was appointed CEO, although without becoming Managing Director, a role that has now been abolished.
Mr Paul Häring, a Director of Tornos Holding SA, was appointed CFO, and will resign as a Director with effect from the Annual General Meeting of Shareholders on 12 April 2011.
Mr André Chardonnereau, formerly Head of Engineering at Tornos SA was appointed COO.
Mr Olivier Marchand, formerly CEO of Dolima Sàrl, an engineering company which has undertaken a number of product development contracts for Tornos, was appointed CTO.
As at present, the other members of General Management will be Messrs Carlos Cancer, Head of Single-Spindle Products, Roland Gutknecht, Head of Machining Center Products, Willi Nef, Head of Sales and Marketing, Bernard Seuret, Head of Production, Sandor Sipos, Head of Customer Service, and Iwan von Rotz, Head of Multispindle Products.
Messrs Raymond Stauffer and Philippe Maquelin will be available to General Management until 30 April 2011 to ensure that the transition is as smooth as possible.

4.2 Other activities and interest groups

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

4.3 Management contracts

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

5 Remuneration, 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 Composition of remuneration and terms of the share ownership programmes, and procedures for defining them

5.1.1 Non-executive Directors

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 receive no variable remuneration in addition to their lump sum fee, apart from their participation in the stock option and purchase schemes described in note 24 of the financial report.
In 2009 and 2010, the directors waived 15% of their fixed remuneration in view of the economic crisis.

5.1.2 Executive Director and members of General Management

The Executive Director and members of General Management receive a compensation package comprising three components: (1) fixed remuneration, (2) variable remuneration, and (3) participation in the stock option and purchase schemes described in note 24 of the financial report. Fixed remuneration is determined annually, firstly on a comparative basis using a survey of executive salaries in Switzerland (Compensation Report Switzerland, Watson Wyatt Data Services), and secondly on the basis of personal capabilities as assessed by the Nomination and Compensation Committee. That Committee is responsible for setting remuneration, and it informs the Board of its decisions. 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.

In 2009 and 2010, the Executive Director, in respect of this part of his remuneration, and members of General Management saw a reduction in their fixed remuneration of some 10% in view of the short-time working measures introduced, and of the waiver of part of their remuneration in view of the economic crisis.

The Executive Director and members of General Management received only marginal levels of variable remuneration in 2009 and 2010, these relating exclusively to the achievement of their personal objectives (see note 29 of Consolidated financial statements).

5.1.3 Severance pay

With effect from 1 January 2011, the CEO and CFO are contractually entitled to a single severance payment in the sole event of their contract of employment being terminated by the employer for a reason other than just cause within the meaning of Article 337 of the Swiss Code of Obligations, in which case one year's fixed remuneration plus the variable remuneration from the previous financial year is payable at the end of the six-month notice period.

There are no agreements for severance pay in the employment contracts of the other members of General Management, and their notice period is six months.

6 Participation rights of shareholders

6.1 Limitation and representation of voting rights

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

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 General Meetings

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

6.4 Entry of items on the agenda

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

6.5 Entries in the share register

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

7 Control and warding-off mechanisms

7.1 Obligation to submit 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 lock-in period stipulated for shares and options under the employee share option schemes will become null and void, and a "Take me along" clause shall apply. There are no other clauses relating to takeovers in favour of members of the Board of Directors and members of General Management.

8 Auditors

Since financial year 2006, the auditors of the Holding Company and Group have been PricewaterhouseCoopers S.A., Neuchâtel.

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

The auditors are appointed annually by the General Meeting of Shareholders. Mr Michael Foley (Fellow of the Institute of Chartered Accountants) has been the senior auditor responsible since 2007. Every three to five years, a call for tenders is issued to duly qualified accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading the assignment, and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee, and by feedback from management on the way the audits are conducted. The same procedure applies to the evaluation of additional non-audit services supplied.

8.2 Audit fees

The audit fees invoiced by PricewaterhouseCoopers S.A. for auditing the annual financial statements for 2010 were CHF 203'480.

8.3 Additional fees

Additionally, during 2010 PricewaterhouseCoopers provided tax and legal advice on a number of occasions at a cost of CHF 90'898.

8.4 Means of providing information on the external auditors

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 SA keeps the Audit Committee regularly advised of its activity, and participates in one meeting of the Committee. It is kept informed of the work of the Audit Committee by receiving a copy of the minutes. The auditors also submit a report to the Audit Committee. At the end of the year, the Audit Committee examines, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the Group and holding company together with the report (see section 3.5).

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 and half-yearly reports, and, on a quarterly basis or as required, by way of press releases to the media. All important information can be consulted on the company's Internet site: www.tornos.com.

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The French version of the annual report is binding.

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