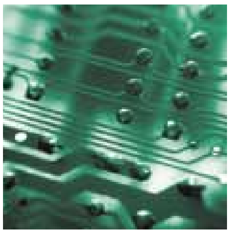
   

ANNUAL REPORT
2011 | TORNOS HOLDING S.A.

KEY FIGURES

Tornos Group (in KCHF, unless stated otherwise)	2011	2010	2009	2008	2007
Bookings	276’320	214’739	85’487	232’143	283’645
Gross sales	271’051	160’069	114’363	262’944	287’384
EBITDA	20’998	–9’663	–25’798	19’851	39’343
Gross sales %	7.7	–6.0	–22.6	7.5	13.7
EBIT	16’646	–13’496	–30’532	13’093	32’746
Gross sales %	6.1	–8.4	–26.7	5.0	11.4
Net profit / (net loss)	10’677	–18’086	–29’584	6’042	35’137
Gross sales %	3.9	–11.3	–25.9	2.3	12.2
Net cash/(net debt)	–19’473	–38’691	–24’571	5’277	27’263
Equity	129’401	111’486	125’414	153’743	160’179
Total balance sheet %	58.6	53.0	67.8	69.2	73.2
Total balance sheet	220’676	210’538	185’006	222’256	218’912
Capital expenditures in tangible fixed assets	1’762	509	524	6’715	9’065




REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ladies and Gentlemen,
Dear Shareholders,
Our goal for 2011 was to target significant growth in turnover, in the range of CHF 250–300 million, with an EBIT margin of 5 to 8%.

I am pleased to report that in spite of the strength of the Swiss franc and a lower level of activity than we anticipated during the second half of the year, we achieved our targets. Gross sales in 2011 were CHF 271.1 million, an increase of 69.3% compared to the previous year. EBIT margin is 6.1%, compared to negative 8.4% in the preceding financial year. Although 2010 was characterized by a steady pick-up in new orders throughout the year, nevertheless, gross sales were still below the break-even point at the close of the 2010 financial year, which marked the end of the recession. The results recorded in 2011 reflect the current positive economic climate in all key market segments, in particular over the first half year, as well as our ability to respond quickly to growing demand through increased production capacity.

The strength of the Swiss franc had a negative impact on results for 2011. With the average euro exchange rate dropping from CHF 1.38 in 2010 to CHF 1.25 in 2011 and the US dollar rate declining from CHF 1.04 to CHF 0.89 over the same period, our Group was confronted with the challenge of declining profit margins. We responded to this challenge with a number of measures, such as higher selling prices in foreign currencies, renegotiating business relations with suppliers and partners, and an improvement in our operational excellence in every sector of the company. With steady exchange rates, our consolidated gross sales for 2011 would have been CHF 291.0 million. Thus, the shortfall in sales revenues due solely to the impact of deteriorating exchange rates is 6.9% and, thanks to the measures taken, we managed to limit the negative impact of exchange rate fluctuations on the EBIT to a decline of approximately CHF 7.3 million.

Looking back on 2011, the economic context in the first half year was very strong, with a pick-up in all our key market segments and in all regions. Over the first six months of the year we received CHF 157.1 million in new orders. Over this whole period, the economic situation in all our target markets was favourable. As a result, we benefitted from customers' investments in capacity renewal and expansion. Business grew very pleasingly in Switzerland and southern Europe, where strong growth in the watchmaking and medical industries was reflected in sustained machine sales. Thanks to our substantial presence in southern Europe, where our customers particularly appreciate our technical support and servicing organizations, we gained market share despite the unfavourable exchange rate situation. In northern Europe, particularly in the second quarter, there was increased demand from the automotive industry for multi-spindle lathes capable of efficiently producing large series of parts. In the United States, we benefited from our customers' expansion of production capacities in the medical technology sector. In Asia, we are focusing on the segment covering high-price, top-of-the-range products, where we have gained a number of new customers, chiefly in the electronic and automotive industries. There was a good level of activity in the second half-year, although market dynamics were less brisk than in the first half. Under these conditions, we booked CHF 119.2 million in orders over this period, slightly in decline. Whereas orders from the watchmaking and medical sectors continued at a high level, our customers in the electronic and automotive sectors became more hesitant to place orders with us. This was particularly evident in southern Europe. The appreciation of the Swiss franc, which pushed up the prices of our products, also contributed to slower decision-making processes by our European customers. Fortunately, as a counter-



balance, our Asian customers, particularly in China and Taiwan, have become increasingly aware of the advantages of multi-spindle machine technology. As a result, they have started placing orders for machines of this type, which will enable them to improve the productivity, reliability and stability of their production processes. This new trend reinforces our confidence in the potential for developing our multi-spindle machine business in these highly competitive Asian markets.

Regarding key figures for 2011, the Group recorded CHF 276.3 million in bookings, an increase of 28.7% compared to 2010. Consolidated gross sales stood at CHF 271.1 million, an increase of 69.3% compared to the previous financial year. Benefiting from an increased volume of activity, EBIT margin has returned to positive territory at 6.1% compared to -8.4% in 2010. The financial year closed with a net profit of CHF 10.7 million, compared to a net loss of CHF 18.1 million the previous year. On 31 December 2011, shareholders' equity stood at CHF 129.4 million, representing 58.6% of the balance sheet total of CHF 220.7 million. At this date, the Group's net debt stood at CHF 19.5 million, compared to CHF 38.7 million the previous year. Free cash-flow of CHF 21.8 million is largely the result of the Group's profit.

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

With regard to our major market segments, the trend in 2011 was positive for each of them, especially in the first half year. The medical and microtechnology sectors registered a good level of activity throughout the year. In the medical sector, customers have become increasingly price-sensitive and they appreciate the advantages they derive from our production systems' high productivity. The growing globalization of their production strategies calls for the presence of global suppliers of machines and related services. Our Group is capable of meeting this need thanks to our worldwide technical support and customer service network. In the watchmaking industry, our customers need high-precision production equipment to produce extremely small parts. This is precisely one of the factors that differentiate Tornos, a Group that has been recognized for over a century for its unique know-how in machining small parts. In the automotive sector, where our multi-spindle machines are particularly well adapted to meet this industry's need for highly productive machines, activity in Europe was strong over the first half of the year, but orders dropped in the second half. In the electronics sector, demand was fairly weak throughout the financial year, mainly due to the fact that the very high volume production takes place mainly in Asia using entry level single-spindle machines, whereas our objective is to focus on high-end applications.

On the product front, the year was marked by the launch of several new products as well as a new technology that reflects our goal of being the leader in our industry in terms of technology and innovation. The new EvoDeco 10 was launched in May 2011 at the MediSIAMS trade fair. It is the second product in our new EvoDeco range, bringing new advantages to our customers. At the EMO trade fair in Hanover, the largest one in our industry, we launched two new machines in September 2011 and presented a new surface treatment technology. The MultiSwiss is a new frontal machine with multiple sliding headstocks. Based on highly innovative technology, it is offered at a very attractive price. It meets a need for entry level machines designed for high-volume production and it allows us to broaden considerably the application areas covered by our product ranges. When it was presented, our customers showed considerable interest and a very favourable reception to this new product. It gives us the advantage of a new machine that can stimulate growth in our activities involving applications for small-diameter components. The second innovation presented at EMO is the Delta 38, a new single-spindle machine capable of machining parts with a diameter of up to 38 mm. Here again, we can appeal to new fields of application because our product offering was previously limited to lathe-processing parts with a maximum diameter of 32 mm. Cyklos is the third innovation presented at EMO to many very interested customers. This is a new surface treatment technology for metallic components that treats the parts while they are kept in motion inside an autonomous enclosure. With this new approach, it is possible to install electroplating production lines that take up relatively little space and can be easily integrated into our customers' machine tooling workshops because they do not require any large treatment infrastructure for dipping. This green technology offers our customers numerous advantages, including reduced costs in the surface treatment operation, high-quality results, and logistics that save both time and money, thanks to a process that dispenses with the cost of outsourcing or with the need for a costly infrastructure to perform the process in-house, in a separate location from the machine tooling workshop.

At the strategic level, we had intended to publish a new business plan for the 2011–2016 period in autumn 2011. Considering the changes that have taken place within General Management, we have decided to defer the publication of this new plan until 2012, to enable the new CEO to participate directly in the development and review of our strategy for 2012–2017. However, we do intend to hold to the broad outlines already defined in our 2007–2012 strategic plan, but with even greater emphasis on product innovation on the one hand, and on business development in emerging countries on the other. In addition, the business model will be reviewed so as to be able to absorb fluctuations of gross sales of 60% from one financial year to the next, rather than 40%, which was the hypothesis we had worked from since 2003.



Before concluding, it is timely to mention once again that Michael Hauser has been the Group's new CEO since 1 September 2011. With the arrival of Michael Hauser, we have been fortunate in enlisting the services of a seasoned CEO with over 20 years of experience in the machine tool industry who has held various general management positions within listed companies. For many years, Michael Hauser has also been active in our industry's professional associations.

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

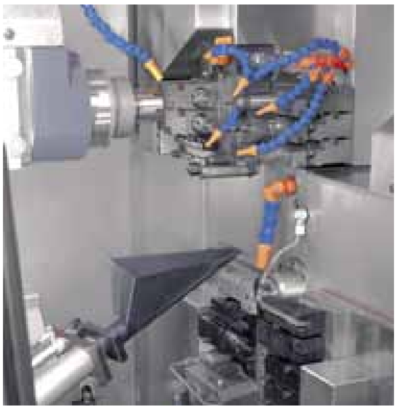
OPERATIONS, RESULTS AND OUTLOOK

Business activities

Overall, 2011 was a satisfactory year. Having gone through a severe recession for two and a half years, the Group was able to take advantage of strong demand for automatic lathes from all the industrial markets. Because Tornos was able to manage the recession without diminishing its production capacities, its personnel and its know-how, while at the same time maintaining its uninterrupted research and development activities, the Group has been able to achieve significant growth in activity, resulting in a 69.3% increase in turnover and a return to profit. Geographically, the first half of the year was characterized by strong demand from Switzerland, southern and eastern Europe, and the USA, whereas Germany and Asia stepped up their levels of activity in the second half. The first three quarters of the year were perfectly in phase with the 2011 financial plan. Only the final quarter came in below forecasts, due to lower demand from southern Europe and the deferral to 2012 of projects originally planned for 2011. In a generally favourable economic environment, one negative point was the movement in exchange rates for the Swiss franc, which could not be fully passed on in list prices expressed in foreign currencies. As a result, special promotional campaigns were launched in the euro and US dollar zones. Order inflow for the year was CHF 276.3 million, an increase of 28.7% over the previous year (CHF 214.7 million).

Finances

The financial year ended with a consolidated net profit of CHF 10.7 million, compared to a loss of CHF 18.1 million in 2010. This significant improvement in results reflects a much more favourable economic environment in 2011 than that of the previous year, in particular through the first half year. The 2010 financial year was still deeply affected by the last recession and it ended with gross consolidated sales of CHF 160.1 million, below the breakeven point of CHF 200 to 220 million. In 2011, the situation was radically different. Consolidated gross sales rose by 69.3% to reach CHF 271.1 million. It is noteworthy here that if this sales figure had been converted at the exchange rates in effect in 2010, it would have been CHF 291.0 million, representing a 81.8% increase over the previous year. This strong upturn in activity allowed for better production capacity utilisation, which in turn resulted in better absorption of fixed costs and, consequently, a significant improvement in profits. Nevertheless, over the year as a whole, the production capacity installed in the factories in Moutier and La Chaux-de-Fonds was never utilized to the saturation point, operating at 75% on average. However, compared to the previous year, the increased utilization of installed capacity allowed for an evident improvement in the gross margin. On the other hand, the appreciation of the Swiss franc had a negative impact on the profit margin, but the combined effect of these two contrary factors nevertheless resulted in a significant rebound of the gross margin, which rose from 27.0% in 2010 to 31.8% in 2011.



Total operating costs of CHF 69.4 million (2010: CHF 56.7 million) represent an increase of 22.5% due to the increased levels of activity. On the other hand, expressed in proportion to sales, these costs have diminished significantly. Their proportional weight dropped from 35.4% of consolidated gross sales in 2010 to 25.6% in 2011. Costs allocated to marketing and sales, including sales commissions, increased by 19.6%, to CHF 37.0 million, and reflect the high level of sales activity experienced over the whole year. General and administrative expenses followed the same trend, rising by 18.4% to CHF 21.3 million. R&D expenses also rose by CHF 3.8 million, to reach CHF 11.7 million (2010: CHF 7.9 million). These figures do not include the development costs that were capitalized on the balance sheet in the amount of CHF 3.1 million (2010: CHF 5.0 million). Allowing for the capitalization of expenses, R&D costs increased to CHF 14.9 million (2010: CHF 12.9 million). This new increase is a testimony to the Group's commitment to develop new technology platforms and innovative products. The other income and expenses of CHF 0.5 million (2010: CHF 0.1 million) are mainly the result of profit from the sale of an old industrial building located in Moutier (CHF 0.5 million).

EBIT is positive, at CHF 16.6 million compared to a loss of CHF 13.5 million in 2010. As mentioned above, this significant improvement reflects the upturn in activity, allowing for better utilization of installed production capacity, thereby generating better absorption of fixed costs than in the previous year. For the full 2011 financial year, the EBIT margin was 6.1% (2010: negative 8.4%) and it was 7.6% and 4.5% respectively for the first and second half-year periods. This reduction reflects the slowdown in activity recorded from the first to the second half year, as well as the increasingly negative impact of the appreciation of the Swiss franc over the second half of the year. EBIT margin of 9.4% recorded in the second quarter confirms that the Group is generating a profit margin in the order of 10% under normal conditions of utilization of its production capacity. Financial expenses of CHF 3.5 million remain at the same level as in 2010 (CHF 3.4 million) due to the fact that the Group used its credit facilities to approximately the same extent as in the previous year to finance the growth in activity experienced in 2011. At the year end, the euro and US dollar exchange rates were fairly close to rates at the same date the previous year. Nevertheless, they triggered exchange losses of CHF 0.5 million, albeit much less than the losses incurred in 2010 (CHF 4.0 million). The Group implemented a currency hedging strategy against the Japanese yen to reduce the currency risk on its purchases of machines from Tsugami, its partner in a strategic alliance. From 1 July 2011, the Group used the hedge accounting method for currency hedging on its future machine purchases.

After the introduction of this method, part of the unrealized exchange rate gain from the evaluation on 31.12.2011 of the value of futures contracts on the yen was accounted for as "Other comprehensive income" and credited directly to shareholders' equity in the amount of CHF 1.9 million. Pretax profit amounted to CHF 12.7 million (2010: loss before taxes of CHF 20.9 million), creating a tax charge of CHF 2.0 million, compared to a tax credit of CHF 2.8 million for the preceding year. For the 2011 financial year, we record a net profit of CHF 10.7 million, compared to a net loss of CHF 18.1 million the preceding year.

Shareholder equity rose from CHF 111.5 million as at 31 December 2010 to CHF 129.4 million as at 31 December 2011 and represents 58.6% (2010: 53.0%) of the balance sheet total of CHF 220.7 million (2010: CHF 210.5 million). This increase of CHF 17.9 million is due to the net profit of CHF 10.7 million, to "Other comprehensive income" of CHF 1.7 million related mainly to hedge accounting and to transactions recorded with shareholders in the amount of CHF 5.6 million. These transactions involve (1) the issue of 300'000 shares for the acquisition of Cyklos S.A., Mauritius, which held the technology and intellectual property rights to a new concept for surface treatment machines (CHF 3.8 million); (2) revenues from the issue of 92'000 new shares created through the exercise of options in the employee stock option scheme (CHF 0.8 million); (3) the cross entry of the notional expense related to the stock option scheme in favour of members of the Board of Directors and Group Management (CHF 1.1 million); and (4) a decrease related to the acquisition of treasury shares (CHF 0.2 million). As at 31 December 2011, the share capital is composed of 15'482'393 shares with a nominal value of CHF 4.50; it amounts to CHF 69.7 million.

Net working capital passed from CHF 97.7 million at the end of 2010 to CHF 95.8 million at the end of 2011. Taking into account the high volume of billing in December 2011, inventories have decreased by CHF 7.7 million and amount to CHF 84.4 million as at 31 December 2011 (2010: CHF 92.1 million). This reduction was more than offset by the increase of CHF 8.9 million in receivables that progressed from CHF 37.5 million as at 31 December 2010 to CHF 46.4 million as at 31 December 2011. Payables were reduced by CHF 1.6 million but other liabilities increased by CHF 4.0 million, in line with the high level of activity at the end of 2011. Operational cash flow of CHF 25.7 million is to a large extent derived from profits. Investments in tangible fixed assets amount to CHF 1.8 million and CHF 3.1 million have been invested in intangible assets for development costs of new platforms. As a result of the foregoing, the Group has recorded a positive free cash flow of CHF 21.8 million, whereas it was negative CHF 11.3 million for the preceding year. This has enabled a reduction of the Group's net debt of CHF 19.2 million, going from CHF 38.7 million as at 31 December 2010 to CHF 19.5 million as at 31 December 2011. On the closing date of the financial statements, the Group's credit facilities of CHF 50.0 million –



which had been contractually agreed to in 2009 for a duration to 30 September 2012 – were utilized in the amount of CHF 39.3 million. Given that the duration of the credit line contract is set at nine months from the balance sheet closing date, obligations in relation to this loan are presented under short term debts in the financial statements as at 31 December 2011. In the interim, this line of credit has been extended for one year, until 30 September 2013, and a new line of credit will be put in place during the second half of 2012. It will be based on the new business plan for 2012–2017 that will be issued in October 2012. The current line of credit is subject to financial covenants that have all been adhered to since it was signed in 2009.

Organization

The general organization of the Group did not undergo any major changes in 2011. In response to increased demand, the worldwide sales and service network was reinforced by hiring sales, application, technical support and customer service engineers. To improve operational excellence at the Moutier and La Chaux de Fonds sites, an organizational rationalization programme was launched. As a result, certain positions that were vacant did not need to be filled and some employees who retired were not replaced. It was necessary to proceed with a certain number of individual lay-offs. We did not have recourse to short-time working in the Moutier plant in 2011 and flexible hours were used to continuously adapt production capacity to fluctuations in demand.

In February 2011, the Group acquired the patents and know-how for a new machine concept enabling it to surface-treat machined parts. This acquisition meets a major market need, in particular for customers who want to increase their own share in the value-added chain, shorten their production cycles and directly deliver completely ready-to-use parts. It is also in line with the Group's general strategy of evolving from a machine builder to a system provider.

Outlook for 2012

In the current uncertain economic situation related in particular to the recession and the public debt crisis in Europe, it is difficult to make forecasts for 2012. Any interpretations and conclusions ventured in this regard must be considered with caution and reserve, because given the current volatility, everything can change very quickly. Industrial economic forecasts published for 2012 concord in anticipating relatively modest growth in Europe and more solid growth in the US and emerging markets. In this context, our plan for 2012 is based on slower economic activity than in 2011, compensated, however, by the positive effect of new products launched in the final months of 2011. In addition, we are expecting a good order flow from Asia for multi-spindle machines to replace equipment that was destroyed by the floods in Thailand in 2011. In this perspective, subject to stable exchange rates and to all the reservations inherent in the cyclical nature of our business, we are expecting sales and profits for 2012 to be comparable to the figures achieved in 2011, albeit with



a weaker first half year and a stronger second half than in 2011. In this turbulent economic climate, General Management will be very attentive to the evolution of the economic situation and will immediately adjust the Group's production capacity and organizational structures if need be.

THE FUTURE IS NOW

Innovation

Our research and development department has been very busy with the launch of a number of new products this year. In particular, in 2011, we launched the MultiSwiss, a new frontal machine with multiple sliding headstocks, which is already showing signs of great success. Our single-spindle products are also newsworthy, with two new machines, the EvoDECO 10 and the EvoDECO 16. These innovations are not merely an evolution of our DECO machines, but a complete re-engineering with greatly enhanced performance and efficiency.

Far from concentrating solely on new product development, our design and technology department is busy with R&D aimed at incorporating new technologies into our machines. We are continually improving the vibratory and thermal properties and the performance of our products with the aid of newly developed mechatronic designs.

The creation of the TORNOS RESEARCH CENTER at the Haute Ecole Arc de Saint Imier has enabled us to strengthen our research capacities and enlist considerable support for our development activities. Thanks to the interaction between professors, research assistants and students in the various laboratories working in close collaboration with Tornos' pool of engineers, it has been possible to take a significant step forward in our scientific knowledge relating specifically to the machine tool sector. This knowledge will serve as the foundation for future developments and will enable us to pursue ongoing improvement in the performance of our machines.

At Tornos, development does not only involve the mechanical parts of the machines. Our software group has finished developing the new DECODrive software application, which will be available from 2012 as an option on some of our machines. It will allow for more intuitive programming of these machines, as well as the implementation of valuable tools for control, maintenance and production monitoring.



In addition to the traditional milling machining techniques, we are looking to provide our customers with a complete component manufacturing solution, with pre-processing and post-processing solutions. The creation this year of a surface treatment unit, with the introduction of Cyklos, a revolutionary galvanizing machine, is in line with this strategy of offering our customers complete systems that cover the whole value-creation chain on their own parts.

The continually evolving needs of producers of turned parts, with great pressure on costs, increasingly sophisticated requirements and shrinking batch sizes, incite us to offer innovative solutions to meet these new needs. Our policy of continuous improvement of our machines is in line with these trends. Our guidelines are clear, with ambitious medium-term goals. These are ongoing goals, and we are aiming to make significant improvements every year in each of these areas.

Attentive to customers' current needs and anticipating future needs, Tornos is inarguably a company that is geared to new technologies and always capable of providing innovative solutions that offer its partners important competitive advantages.

TORNOS' STRATEGIC VISION

Strategy, mission and financial objectives

The Group is managed through 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 2012 for the 2012 to 2017 period. While it reflects continuity with 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. The "unthinkable" will now be factored in, especially in terms of cost flexibility mechanisms and financial objectives to 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. The new plan will also take into account the recent turbulence in foreign exchange markets and will include measures to cope with the strength of the Swiss franc.

Strategy

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

- Predominantly organic growth of the core business;
- Expansion of geographical coverage in Asia, the Americas, and eastern Europe;
- Broader product range and new product launches with innovative technology;
- Products that reduce customers' operating costs.

Mission

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

A product company
Tornos is a company that develops, manufactures and markets automatic single- and multi-spindle lathes, machining centres for small parts, and their related products and services.

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



A 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.

A cost-flexible company
From an operating point of view, Tornos constantly strives to achieve maximum cost flexibility within the organization, in view of the cyclical and volatile nature of its business.

A transparent company
Tornos promotes team spirit and openness among staff members, and practises a pragmatic management approach aimed at achieving 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.

A growing company
Tornos has systematically pursued a strategy of organic growth since 2003. This policy does not exclude opportunistic acquisitions if they correspond to pre-determined criteria and strengthen the strategy of financially profitable growth.

A profitable company for shareholders
In its development Tornos pays particular attention to its profitability. Over and above its 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 financial objectives will be redefined in the context of the new strategic plan for 2012–2017.

PRODUCTS

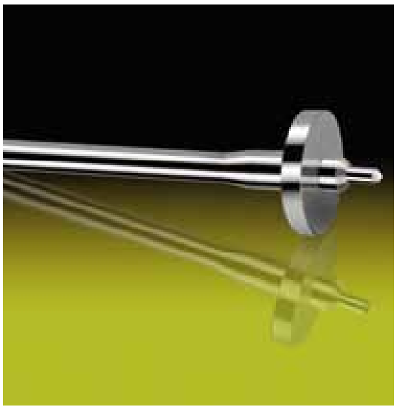
Product lines

Tornos is a leader in several machining technologies used for large production batches of parts requiring extremely high precision and quality. In addition to milling technologies, this year Tornos has developed CYKLOS, a new range of surface treatment products. Our product range can be summed up as follows:

- Lathe technology
  - Automatic single-spindle lathes with sliding headstock
    - DECO
    - EvoDECO
    - Sigma
    - Micro
    - Gamma
    - Delta
  - Automatic multi-spindle lathes
    - MultiAlpha
    - MultiSigma
    - MultiDECO
    - SAS-16
  - MultiSwiss
- Milling technology
  - Machining centres
    - CU, CUB
    - FB, FC
  - Special machining equipment for watchmaking
    - PC, GR, PG
- Surface treatment
  - Cyklos
    - A300

Three ranges of lathes

In lathe technology, Tornos offers three complete ranges of automatic lathes covering bar diameters from 1 to 38 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 six or eight spindles allow for optimum serialization of operations and are capable of production speeds four to six times higher than single-spindle lathes. The new MultiSwiss machine opens up a new product range. It is the perfect synthesis between single-spindles and multi-spindles based on sliding headstock technology.



Single-spindle product range

2000–2007: Towards a specific design

The DECO range, still unparalleled for the high-volume production of complex parts (with over 6,000 machines currently installed across all market segments), was completed in 2005 by the addition of the Sigma line, which offer 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, enabling our customers to develop a competitive advantage in less complex parts or small production runs.



Well aware that we lacked experience in developing and producing straightforward, 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.

2010–2011: Towards greater flexibility, improved ergonomics and power

After successfully launching the EvoDECO 16, in 2011 we undertook the revamp of the DECO range with the launch of its little sister, the EvoDECO 10. A worthy successor to the legendary DECO 10, it has preserved the remarkably productive kinematics with the addition of a setting axis to improve its ergonomics. The EvoDECO range is characterized by three to four times greater rigidity and thermal performance. The motorized spindles with which these machines are equipped are incredibly quiet and allow for far higher spindle speeds than any of their competitors. The EvoDECO 10 is now capable of handling 10 mm bars without preparation and it comes equipped with more tools than its predecessor.

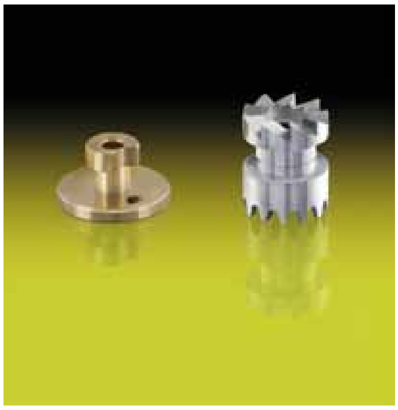
In 2011, we also completed the Delta line by adding the Delta 38. This product is a new outcome of our alliance with Tsugami. With the Delta 38, we can meet the need for a simple and economical machine to produce moderately complex parts up to 38 mm.

Thanks to the Delta, Gamma, Micro, Sigma, DECO and EvoDECO product lines, the single-spindle range covers all the normal diameters with a choice between entry-level, mid-range and top-of-the range machines that can produce parts of low, medium and high levels of complexity.

Multi-spindle product range

Automatic cam-operated multi-spindle lathes earned their reputation in high-volume applications. Once set up, these machines work continuously with the regularity and precision of a metronome. In this category our SAS-16 lathe is undoubtedly the perfect example, as is evidenced by the very high and sustained market demand for this machine, a testimony to its popularity and its continued success.

During the 1990s, Tornos introduced the MULTIDECO multi-spindle range of products. With digital 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, in particular from 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 six or eight powerful independent motorized spindles. The numerous tools for special machining (thread whirling, polygon turning, etc.) and the wealth of tools for backside-machining make these into true machining centres with extraordinary productivity, able to finish the most complex parts. Their parallel digital 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 slugs 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 bars over 1 inch in diameter.

The MultiSwiss product range

The market for turned parts is constantly evolving. To meet market demands, which are becoming increasingly stringent in terms of complexity and productivity, Tornos has developed the MultiSwiss range, a high-tech product with extremely advanced capability.

The MultiSwiss is a new avant-garde product line launched in 2011: it is the perfect synthesis that combines the technologies of the single- and multi-spindle lines. This new machine is another spearhead product for Tornos, and it opens the way to a new product range. The MultiSwiss is equipped with revolutionary and highly innovative technologies, making it a machine that offers high productivity and exceptional performance while remaining very user-friendly. The MultiSwiss is fitted with six motorized sliding spindles (as on the single-spindles) operated using hydrostatic technology, and the cylinder of the machine is indexed using a torque motor couple.

With perfect integration of its peripherals, the MultiSwiss has a smaller footprint and can be installed easily in the space originally dedicated to a single-spindle machine.

This product is ideal both for small turning workshops that have to change their set-up frequently and for large companies that produce significant volumes of identical parts. Launched in 2011 and presented in a world premiere at EMO in Hanover last September, the MultiSwiss was very well received both by the market and by the trade press.

Milling product range

With the Almac product range, we offer a wide selection of milling solutions for needs in the micro-mechanical sector and, in particular, high-end watchmaking components. This market is characterized by the small size of parts, their extreme precision and the quality of surfaces required. All Almac's machines meet these requirements.

Working in the midst of the key players in the watchmaking industry, Almac has become a privileged partner in this highly demanding 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. The market launch in 2010 of the flexible CU 1007 TANDEM manufacturing unit, a combination of two CU 1007 machining centres interfaced with a robotically assisted automation unit, enables us to do the machining and finishing of extremely complex parts, including related operations such as softening or washing using ultrasound. The CUB 112 unit for lathe work and milling, previewed in 2009, will be capable of machining complete kits, base plates and bridges, without reworking. As a complement to our machining products, the GR 600 TWIN and PG 700 offer exclusive solutions for finishing parts for the luxury watchmaking sector, such as industrial beading or planing diamond polished angles. With the launch in 2011 of the CU 1007 five-axis dividing head lathe machining unit, we can also meet the need for machining cases and casing rings.

Surface treatment product range

Cyklos is the first autonomous machine capable of surface-treating mass-machined parts that is ready to install in a standard mechanical workshop. Unlike the traditional process that works with vertical immersion, Cyklos operates by rotation, thereby ensuring higher quality results. The first product was developed in 2011 in response to demand from the automotive industry for anodizing machined parts.

BOARD OF DIRECTORS

F. l. t. r.

Raymond Stauffer (1954), Switzerland
Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: CEO and Managing Director from 2002 to 2010 | Committees: Chairman of the Products Committee; Alliance Committee | Training – final qualification on completion of studies: ETS (Ecole Technique Supérieure) engineer, Le Locle, 1975 | Current directorships: none | Previous professional activities: Ismeca Holding SA, various functions in the group since 1976, COO (from 1993 to 2001), CTO (from 2001 to 2002)

Philippe Maquelin (1951), Switzerland
Appointed in 2011 | Elected until 2014 | Previous activities for Tornos: COO & CFO (from 2002 to 2010) | Committees: Chairman of the Audit Committee; Nomination and Compensation Committee; | Training – final qualification on completion of studies: Economist (degrees in economic science), University of Neuchâtel, 1976 | Current directorships: Nugerol Holding SA: Director | Previous professional activities: Ismeca Holding SA: CFO (from 1998 to 2002); **Independent consultant (since 2002)**

François Frôté (1953), Switzerland
Chairman of the Board | Appointed in 2002 | Elected until 2014 | 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, University of Berne, 1979 | Current directorships: Rollomatic Holding SA: Director; Nugerol Holding SA: Director; Esco SA: Director; Bien-Air Holding SA: Director; Gebäudeversicherung Bern (GVB): Director; GVB Privatversicherungen AG: Director; PX Holding SA: Director; Coopérative Migros Neuchâtel Fribourg: Deputy Chairman | Professional activities: **Law offices of Frôté & Partner: Lawyer and Director (since 1979)**

Claude Elsen (1947), Luxembourg
Deputy Chairman of the Board | Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: none | Committees: Audit Committee; Nomination and Compensation Committee | Training – final qualification on completion of studies: M.Sc.E. Mec. Eng. RWTH (Rheinisch-Westfälische Technische Hochschule), Aachen, Germany, 1973; MBA, Insead, Fontainebleau, 1974 | Current directorships: BIA Group S.A., Belgium: Director; Alpha Trains Group, Luxembourg: Director | Professional activities: DaimlerChrysler AG since 1996: Senior Vice President (from 1998 to 2002); **Consilux: Managing Partner (since 2002)**

Frank Brinken (1948), Switzerland
Appointed in 2011 | Elected until 2014 | Previous activities for Tornos: none | Committees: Products Committee; Alliance Committee | Training – final qualification on completion of studies: Engineer, Doctorate in Engineering, Polytechnic University of Aachen (RWTH), 1979 | Current directorships: Calorifer AG: Director | Other professional bodies: CECIMO "European Committee for Cooperation of the Machine Tool Industries": President of the Economic Committee | Professional activities: Maag Pump Textron Systems: CEO (from 1995 to 2004); **Starrag Heckert Holding AG: CEO (since 2005)**

Michel Rollier (1959), Switzerland
Appointed in 2002 | Elected until 2014 | Previous activities for Tornos: none | Committees: Chairman of the Alliance Committee; Products Committee | Training – final qualification on completion of studies: EPFL (Swiss Federal Institute of Technology, Lausanne) engineer, Lausanne, 1985 | Current directorships: Rollomatic Holding SA, Chairman of the Board | Professional activity: **Rollomatic SA,** various management functions in the Group; **R&D Manager (since 1989)**

GENERAL MANAGEMENT

F. l. t. r.

Bernard Seuret (1947), Switzerland

Head of Production | Appointed in 1999 | Training – final qualification on completion of studies: ETS (Ecole Technique Supérieure) engineer, Fribourg, 1968 | Current directorships: none | Previous professional activities: Tornos SA: various functions in the Group since 1969; R&D project leader (from 1990 to 1998)

Roland Gutknecht (1957), Switzerland

Head of Micro Milling Products | Appointed in 2008 | Training – final qualification on completion of studies: ETS (Ecole Technique Supérieure) engineer, Bienne, 1980 | Current directorships: none | Previous professional activities: Almac SA, La Chaux de Fonds: Manager (from 1997 to 2008)

André Chardonnereau (1965), Switzerland and France

Chief Operation Officer | Appointed in 2011 | Training – final qualification on completion of studies: ETHZ (Swiss Federal Institute of Technology, Zurich) engineer, 1991 | Current directorships: none | Previous professional activities: Deckel Maho Geretsried GmbH, Head of R&D (from 2000 to 2002); Robert Seckler AG, Technical Manager (from 2002 to 2004); Tornos SA, various functions in the Group since 2004, including Head of Engineering (2009 to 2010)

Paul Häring (1957), Switzerland

Chief Financial Officer | Appointed in 2011 | Training – final qualification on completion of studies: MBA, University of California, Los Angeles, 1989 | Current directorships: Ruag Holding AG: Director; Schild Group: Director; Papierfabrik Utzenstorf AG: Board Deputy Chairman | Professional activities: Feintool International Holding: CFO (from 1996 to 2003); AWR AG für Wirtschaft und Recht: Partner (from 2003 to 2010)

F. l. t. r.: Bernard Seuret; Roland Gutknecht; André Chardonnereau; Paul Häring; Michael Hauser; Willi Nef; Carlos Cancer; Iwan Von Rotz; Olivier Marchand; Sandor Sipos

Michael Hauser (1961), Switzerland and Germany

Chief Executive Officer | Appointed in 2011 | Training – final qualification on completion of studies: Dipl. Kfm., University of Mannheim, 1988 | Current directorships: none | Other professional bodies: President of SWISSMEM's "Machine tools and manufacturing technology" group; CECIMO "European Committee for Cooperation of the Machine Tool Industries", Board Member and Vice President (Chairman from 2009 to 2011) | Previous professional activities: Groupe Agie Charmilles: Mikron AgieCharmilles SA, Bostomatic Inc., Step Tec AG, Head of the Milling Division and Group Management member (from 2000 to 2008); Head of GF AgieCharmilles; Georg Fischer AG, Executive Committee member (from 2008 to 2010)

Willi Nef (1960), Switzerland

Head of Sales and Marketing | Appointed in 2008 | Training – final qualification on completion of studies: ETS (Ecole Technique Supérieure) engineer, Rapperswil, 1985; Doctorate in 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. Italy: Managing Director (from 2002 to 2003); Tornos SA: Head of Multi-spindle 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 (Haute Ecole Spécialisée) engineer, 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 (Ecole Technique Supérieure) engineer, 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)

Marchand Olivier (1964), Switzerland

Chief Technology Officer | Appointed in 2011 | Training – final qualification on completion of studies: Master of Science in Mechanical Engineering, EPF Lausanne, 1990 | Current directorships: none | Previous professional activities: Macor Engineering SA, Director (from 1994 to 2004); Dolima Sàrl: CEO and Managing Director (from 2004 to 2010)

Sandor Sipos (1952), Switzerland

Head of Customer Service | Appointed in 2004 | Training – final qualification on completion of studies: ETS (Ecole Technique Supérieure) engineer, St. Gallen, 1976 | Current directorships: none | Previous professional activities: Ismeca Semiconducteur SA: Head of Technical Services (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 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 CEO presides over the General Management. The functional areas are: (1) research and development, (2) single-spindle products, (3) multi-spindle products, (4) milling products (5) installation, after-sales service and spare parts, (6) sales and marketing, (7) operations, (8) production and (9) 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 127.6 million.

The consolidated companies of the Group are shown below:

Name	Purpose		Share capital	% held 2011	% held 2010
Tornos Holding S.A., Moutier	Holding	CHF	69'670'768		
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
Cyklos S.A., Port Louis, Mauritius (in liquidation)	Holding of intellectual property rights	CHF	3'870'000	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., Katy Wroclawskie	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	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 service	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	99.0

- Cyklos S.A.: At the time of the authorized share capital increase of 2 May 2011, and as per the contribution agreement of the same date, Tornos Holding S.A. acquired from Golden Eagle Trading Ltd., constituted as a private company under the laws of Mauritius, with its headquarters in Port Louis (Mauritius), 3'870'000 registered shares in Cyklos S.A., a company under the laws of Mauritius headquartered in Port Louis, with a nominal value of CHF 1.00 per share, for a total price of CHF 3'870'000.00, in exchange for which Golden Eagle Trading Ltd. received 300'000 registered shares in Tornos Holding SA, fully paid up, at a par value of CHF 4.50 per share. Subsequently, all the patents held by Cyklos S.A. were transferred to Tornos Management Holding S.A. and the Mauritius company Cyklos S.A. was liquidated. This liquidation was underway on 31 December 2011.
- Tornos Comércio Importação e Exportaçao de Mâquinas Ferramenta Ltda, São Paulo, Brazil, was established on 24 June 2010. The minority shareholder owning 1.0% of the company transferred under contract all rights as a shareholder to the Tornos Group. The process of formally transferring this 1.0% to Tornos Management Holding S.A. was underway on 31 December 2011.

1.1.3 Unlisted companies in the consolidation

Tornos Holding S.A. has no unconsolidated shareholdings. For the list of consolidated companies see 1.1.2.

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, notified the company that it held 740'331 registered shares with a nominal value of CHF 5 per share, 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. Schroders plc reduced its participation to less than 3% and this change was published on 16 November 2011.

With the introduction of the obligation to disclose shareholdings 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. From 2008 to 2011, there were no communications from the Berner Kantonalbank.

With the introduction of the obligation to disclose shareholdings of more than 3%, Mr Michel Rollier, Le Landeron (CH), made an announcement in December 2007. Mr 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%. During 2008, 2009 and 2010, there were no communications from Mr Michel Rollier. Mr Michel Rollier increased his participation to 5.75% of the voting rights with a holding of 868'988 registered shares and this change was published on 25 March 2011.

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. 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 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. In 2011, there were no communications from Tornos Holding SA.

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. In 2009, 2010 and 2011, there were no communications from Tsugami Corporation.

Mr Walter Fust, Freienbach (CH), notified the company on 11 November 2008 that he held 450'000 registered shares representing 3.00% 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 Walter Fust increased his participation to 20.01% of the voting rights with a holding of 3'079'748 registered shares and this change was published on 18 November 2011.

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%. During 2010 and 2011, there were no communications from Mr Raymond Stauffer.

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. Balfidor Fondsleitung AG reduced its participation below 3%, which was published on 13 January 2011. It subsequently increased its participation to a holding of 474'218 registered shares or 3.14% of the voting rights, and this change was published on 14 April 2011.

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 69'670'768.50 as at 31 December 2011. As at the close of the financial year, the company had an authorized share capital of CHF 21'150'000.00 and a contingent share capital of CHF 3'268'629.00.

2.2 Contingent and authorized share capital

The following information relates to the changes in authorized and contingent capital for 2011 and 2010. For changes occurring in 2009, please refer to Note 22.1 of the 2009 consolidated accounts, which are available on the website at: http://www.tornos.com/sites/www.tornos.com/files/uploads/Data/Investors/Rapports-semestriels/2009/tornos-2009cfs-conso-finan-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.

At the time of the share capital increase from authorized capital of 2 May 2011, and as per the contribution agreement of the same date, Tornos Holding S.A. received from Golden Eagle Trading Ltd., constituted as a private company under the laws of Mauritius, with its headquarters in Port Louis (Mauritius), 3'870'000 registered shares of Cyklos S.A., a company under the laws of Mauritius, with its headquarters in Port Louis, with a nominal value of CHF 1.00 per share, for a total price of CHF 3'870'000.00, in exchange for which Golden Eagle Trading Ltd. received 300'000 registered shares of Tornos Holding SA, fully paid up, at a par value of CHF 4.50 per share.

On 31 December 2011, the authorized capital stood at CHF 21'150'000 with respect to 4'700'000 shares with a par value of CHF 4.50 per share.

2.2.2 Contingent capital

2011

As at 31 December 2011, the share capital could have been increased by up to CHF 3'268'629, 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 per share, up to a maximum of 726'362 shares with the said par value for a total sum of CHF 3'268'629, 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.

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.

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 from capital contribution – net*	Reserve for treasury shares	Retained earnings	Total
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 to reserve 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***
Transfer to reserve from capital contribution – net		–16'049	16'049			
Issuance of new shares	1'764		2'878			4'642
Net loss in 2011					–1'140	–1'140
Transfer to reserve for treasury shares				154	–154	–
Equity as at 31.12.2011	***69'671***	–	***18'927***	***6'827***	***11'522***	***106'947***

** Please refer to balance sheet and note 5 of Tornos Holding S.A., Moutier, Statutory Financial Statements section included in the financial report for additional details*

2.4 *Shares and participation certificates*

As at 31 December 2011, the ordinary share capital of Tornos Holding S.A. amounted to CHF 69'670'768.50, and was divided into 15'482'393 fully paid up registered shares with a par value of CHF 4.50 per share, all having equal rights to dividends. There are no preferred shares or limitations with regard to voting rights. Each share corresponds to one vote ('one share, one vote').

There are no participation certificates.

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. These shares are not subject to any restriction on transfer.

2.7 *Convertible loans and options*

There are no convertible loans. Shareholding plans for persons designated by the Board of Directors exist. See Note 25 to the consolidated financial statements 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 25.

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 remained vacant. The only executive member was Mr Raymond Stauffer who, in his capacity as Managing Director, held the position of Chief Executive Officer.

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 appointments to the Board of Directors that were approved by the Ordinary General Meeting of Shareholders of Tornos Holding S.A. on 12 April 2011. In view of his appointment as Group CFO, Mr Paul Häring resigned as a Director. Mr Raymond Stauffer gave up his position as Managing Director and was elected as a Director. Mr Philippe Maquelin, who until then had served as COO/CFO, stood for election to the Board in place of Mr Paul Häring. Mr Frank Brinken, CEO of Starrag Heckert, stood as a candidate and was elected 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 expired at the Ordinary General Meeting of Shareholders, namely Messrs François Frôté, Chairman, Claude Elsen, Deputy Chairman, and Michel Rollier, Director, were re-elected. Consequently, the Board of Directors is once again composed of six members and does not include a Managing Director.

No member of the Board of Directors has close business relations with Tornos Holding S.A. or any Group company.

3.2 *Other activities and interest groups*

With the exception of Mr Frank Brinken, who chairs the Economic Committee of CECIMO (European Committee for Cooperation of the Machine Tool Industries), no member of the Board has a permanent or temporary mangerial, 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 six), the majority of whom (currently all members) are independent members with no executive function in the company. Members of the Board are elected individually 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 the regulations for the company's operations, which are published on the website: http://www.tornos.com/sites/www.tornos.com/files/uploads/Data/Investors/Reglement-dorganisation/tornos-reglement-d-organisation-fr.pdf.

The Rules of Organization set the following guidelines.

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, financial control and planning principles and approve the annual plans and budgets (including investments);
- To appoint members of the General Management;
- To appoint and dismiss persons responsible for representing the company;
- To supervise the individuals entrusted with the management of the business, ensuring in particular that they comply with the provisions of law, and of the Articles of Association and regulations, and with the instructions issued;
- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the annual report, Group accounts, annual financial statements and resolutions for the appropriation of profits, and to carry out the decisions of the General Meeting;
- To inform the court in the event of over-indebtedness;
- To decide on calls to be made on partly-paid shares;
- To record capital increases and amend the Articles of Association appropriately;
- To determine the financial policy;
- To set guidelines for the company's information policy;
- To approve operations with major legal implications, exceptional transactions or unbudgeted financial commitments, where potential foreseeable risks exceed CHF 1 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 cases where it is uncertain whether an issue falls within the remit of the General Management of the Board of Directors, the question is to be put to the Board of Directors for a ruling.

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

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

The Chairman of the Board of Directors has the following duties and authorities:
- To chair the General Meeting and meetings of the Board of Directors;
- To represent the Board of Directors 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 CEO's duties and responsibilities include overseeing the company; representing the General Management to the Board of Directors, to the public and before the authorities; submitting proposals to the Board of Directors on all matters falling within the latter's remit; and organizing and overseeing the General Management.

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

The Board of Directors meets as often as necessary, but at least four times a year. During 2011, ten meetings were held, lasting on average six 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 F. Frôté as Chairman and Mr C. Elsen as Deputy Chairman. It also set up the following committees:

Nomination and Compensation Committee:
F. Frôté (Chairman), C. Elsen and P. Maquelin

Under article 7.2 of the Rules of Organization of Tornos Holding SA, the Nomination and Compensation Committee has the following duties:
- Recommendations to the Board of Directors on the recruitment and selection of members of the General Management;
- Defining and setting terms and conditions for the recruitment and compensation of members of General Management;
- Evaluating the members of the General Management and setting the annual increases in remuneration to be awarded;
- Recommendations to the Board of Directors for the compensation arrangements of the Chairman of the Board 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;
- Reporting to the Board of Directors on the work of the Nomination and Compensation Committee.

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

The Committee sat five times in the course of 2011. Meetings lasted 2.5 hours on average. Mr P. Jacot (CEO until 8 August 2011) and Mr M. Hauser (CEO since 1 September 2011) each attended one meeting as a guest. Mr P. Häring (CFO) attended two meetings as a guest.

During its meetings, the Committee studied the reports submitted by management in connection with Human Resources and drew up proposals that were submitted to the Board of Directors for a decision; it also took decisions on matters within its own remit. Meetings were of varying duration.

In particular, 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 2012 under the programme;
- Evaluation of the evolution of General Management;
- Management of the nomination procedure for the new CEO and preparation of the appointment of Mr M. Hauser as CEO;
- Decision on the remuneration policy for employees for 2012;
- Decision on the information policy for employees for 2012;
- Assessment and review of Management and senior staff salaries for 2012;
- Determination of the information relating to the resignation of Mr P. Häring as CFO.

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 Directors.

Audit Committee:
From 1 January 2011 to 12 April 2011: P. Häring (Chairman), F. Frôté
From 13 April 2011 to 31 December 2011: P. Maquelin (Chairman), F. Frôté and C. Elsen

Under article 8 of the Rules of Organization of Tornos Holding SA, the Audit Committee has the following duties:
- 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 markets 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 of the Group;
- Recommendation to the Board of Directors concerning the financial and dividend policy of the Tornos Group;
- Reporting to the Board of Directors on the work of the Audit Committee.

Between 1 January 2011 and 12 April 2011, the Committee comprised Messrs P. Häring (Chairman) and F. Frôté. It met four times in this form, including one conference call.

Pursuant to Article 6.1 of the Rules of Organization, and in view of the changes that have taken place in the composition of the Board of Directors and the General Management in the course of the 2011 financial year, the composition of the Audit Committee was altered by the Board of Directors at its meeting on 12 April 2011. With effect from that date the new composition of the committee comprised Messrs. P. Maquelin (Chairman), F. Frôté and C. Elsen. The Committee met in that new form on four occasions.

The Committee sat eight times in the course of 2011. Meetings lasted 3.5 hours on average. Mr Philippe Jacot (CEO until 8 August 2011) took part in six sessions in an advisory role; Mr Michael Hauser (CEO since 1 September 2011) took part in two sessions in an advisory role; Mr R. Stauffer (Managing Director) took part in four sessions as a guest in an advisory role in the period up to 12 April 2011; Paul Häring (CFO) took part in four sessions in an advisory role in the period after 13 April 2011; Messrs. P. Maquelin and C. Elsen took part in four meetings as guests in an advisory role in the period up to 12 April 2011; when necessary, the auditor also attended.

In particular, the following main topics were discussed:
- Review of the financial statements and annual report for 2010;
- 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 financial aspects of the acquisition of a surface treatment technology;
- Review of the utilisation of the authorized capital and the contingent capital of Tornos Holding S.A.;
- Review of the investor relations policy;
- Review of the currency hedging policy;
- Review of recession risk strategies in relation to the appreciation of the Swiss franc and the public debt crisis;
- Review of loan agreements.

The Audit Committee also reviewed the quarterly financial statements, the 2011 forecasts, the budget for 2012 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 Directors.

Alliance Committee:
M. Rollier (Chairman), R. Stauffer; F. Brinken

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 is composed of three members of the Tornos Board of Directors. As required, members of the management team or senior executives take part as guests. An annual meeting is held with the management of Tsugami.

Under article 9 of the Rules of Organization of Tornos Holding SA, the Alliance Committee has the following duties:
- To apply and implement the agreements entered into as part of the alliance with Tsugami or with other partners;
- 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 Committee sat six times in the course of 2011. Meetings lasted 2.5 hours on average. Mr P. Jacot (CEO until 8 August 2011) and Mr M. Hauser (CEO from 1 September 2011) attended the meetings as guests. Mr P. Häring (CFO) attended two meetings as a guest and, as needed, other members of management and senior executives also took part in sessions as guests for specific items on the agenda.

Essentially, the Committee followed the developments in the alliance with Tsugami.

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

Products Committee
R. Stauffer (Chairman), M. Rollier, F. Brinken

In application of article 10 of the Rules of Organization, the Board of Directors decided at its meeting on 9 November 2010 to establish a Products Committee as of 2011. It has the following duties and authorities:
- To verify on an annual basis the validity of the Products strategy and the corresponding roadmaps and, as required, to propose changes to the whole Board of Directors;
- To verify on an annual basis the validity of the Technologies roadmap and, as required, to propose changes to the whole Board of Directors;
- To define the portfolio of products and markets for approval by the Board of Directors;
- To examine acquisitions and divestments in light of the product portfolio;
- To report to the Board of Directors on the work of the Products Committee.

The Committee sat six times in the course of 2011. Meetings lasted three hours on average. Mr P. Jacot (CEO until 8 August 2011) and Mr M. Hauser (CEO from 1 September 2011) attended the meetings as guests. Mr P. Häring (CFO) attended two meetings as a guest and, as needed, other members of management and senior executives also took part in sessions as guests for specific items on the agenda.

In particular, the following main topics were discussed:
- Roadmap for the single-spindle product line, in particular an analysis of a new platform and the development of the existing products;
- An analysis of products earmarked for manufacture in Asia for the Asian market and the ways of producing them or having them produced locally;
- Roadmap for the multi-spindle product line, in particular the development of existing products;
- Roadmap for a new line of MultiSwiss products;
- Commencement of the development of a Roadmap for the milling product range and a study concentrating on existing products or the means of expanding this range;
- Monitoring the development of the technology and the prototypes for the Cyklos product range currently being created;
- Monitoring the development of the Decodrive software and its introduction on the product platforms;
- Coordination of product ranges with the Alliance Committee.

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

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 pages 26 and 27.

4.1 Members of the Management

In accordance with the Group's organizational structure described in section 1.1.1, General Management consists of nine members plus Mr Michael Hauser, who also acts as Chief Executive Officer (page 27)

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 been abolished.
- Mr Paul Häring, a Director of Tornos Holding SA, was appointed CFO, and resigned 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 that has undertaken a number of product development contracts for Tornos, was appointed CTO.
- The other members of General Management are Messrs Carlos Cancer, Head of Single-spindle Products, Roland Gutknecht, Head of Micro Milling 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.

In the course of 2011, the following changes took place:

- Mr Michael Hauser replaced Mr Philippe Jacot as CEO on 1 September 2011.
- Mr Paul Häring resigned as CFO on 21 December 2011, but remains in charge of this function, to ensure a smooth transition.

4.2 Other activities and interest groups

With the exception of Mr Michael Hauser, who is President of SWISSMEM's machine tools and manufacturing technology group and a Board member and Vice President of CECIMO (European Committee for Cooperation of the Machine Tool Industries), no member of the General Management assumes a temporary or permanent function in a management, monitoring or consulting capacity for 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 25, 29 and 30 to the consolidated financial statements in 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 set annually by the Board, based on a proposal from the Nomination and Compensation Committee according to the role of each director in the organization of the Board on the one hand, and on the other, based on participation 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, to be paid in cash. 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 senior consultants in Switzerland providing similar strategic and management 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 25 to the consolidated financial statements in the financial report. In the framework of this programme, each Board Director has the right to purchase a given number of shares each year or, at his or her discretion, to receive the same number of options conferring the right to purchase one share for each option. If the Board Director elects to purchase the shares, their price is the weighted average purchase price on the SIX over the 12 months preceding the granting of the rights, minus 25%, subject to a two-year lock-up period. If the Board Director elects not to purchase the shares, options will automatically be granted that may be exercised during the third year after the date of granting, at the weighted average share purchase price on the SIX during the 12 months preceding the granting of the rights. The rights are granted on 1 May each year and the beneficiaries have three weeks to decide on the share purchase, for which payment will then be due within 15 days. The Nomination and Compensation Committee determines the number of shares or options that are granted to the Board Directors. Over past years, 8'000 shares have been granted annually to each Board Director, which represents generally between 26.7 and 40% of the number of shares granted to each member of the General Management. The option strike price and the share purchase price are the same for the Board Directors as for the members of the General Management, as is set out in Note 25 to the consolidated financial statements in the financial report. The fair value of the options granted in the past has varied between CHF 1.08 and CHF 5.80 per option and the programme, depending on the share price movement of Tornos Holding S.A., has represented between 10 and 50% of Board Directors' fees.

Details on fixed and variable remunerations for Directors as well as the evolution of Directors' fees in 2010 and 2011 are set out in Note 30 to the consolidated financial statements in the financial report.

In 2009 and 2010, the Directors waived 15% of their fixed remuneration in view of the recession. In fact, in solidarity with the employees and General Management, whose remuneration was scaled back through measures to reduce work hours, the Board of Directors decided to reduce their own remuneration over the two years during which the Group reported losses.

In 2011, in light of the restructuring of the Board and Board committees, remuneration was reviewed on a new basis.

5.1.2 Managing Director and members of General Management

The Managing Director (in office until 30 April 2011) and members of General Management receive a compensation package comprising three components: (1) fixed cash remuneration, (2) variable cash remuneration, and (3) participation in the stock option and share purchase schemes described in Notes 25 and 30 to the consolidated financial statements in the financial report. As of 1 May 2011, the position of Managing Director no longer exists.

Fixed remuneration is determined annually, firstly on a comparative basis using a survey of executive salaries in Switzerland (General Industry Compensation - Switzerland, Towers Watson Data Services), and secondly on the basis of personal capabilities as assessed by the Nomination and Compensation Committee. Only the CEO and CFO take part in an advisory capacity in the meetings of the Nomination and Compensation Committee. No other members of the General Management are involved in the process of determining the remuneration of members of the General Management. This Committee is responsible for setting remuneration for all members of General Management, 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. EBIT margin and bookings are the financial criteria applied for the members of General Management. Depending on the position, part of the variable remuneration may refer to specific financial or non-financial targets. If non-financial criteria are applied, for example “time to market” for new products and, more generally, results obtained according to performance indicators for specific activities, the degree to which targets have been achieved is measured according to quantifiable criteria. For members of the General Management who receive variable remuneration, 75 to 100% of the total variable remuneration is related to EBIT or bookings. 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 are significantly exceeded, if the EBIT margin is 15% or higher or if orders exceeding the sales target by 20% or more are obtained.

In addition to variable and fixed remuneration, each member of General Management has the right to purchase a given number of shares each year or, at his or her discretion, to receive the same number of options conferring the right to purchase one share for each option. If a member of the General Management elects to purchase the shares, their price is the weighted average purchase price on the SIX over the 12 months preceding the granting of the rights, minus 25%, subject to a two-year lock-up period. If a member of the General Management elects not to purchase the shares, options will automatically be granted that may be exercised during the third year after the date of granting, at the weighted average share purchase price on the SIX during the 12 months preceding the granting of the rights. The rights are granted on 1 May each year and the beneficiaries have three weeks to decide on the share purchase, for which payment will then be due within 15 days. The Nomination and Compensation Committee determines the number of shares or options granted to members of the General Management. Over past years, 20’000 or 30’000 shares have generally been granted annually to each member of the General Management, depending on the beneficiary’s hierarchical position and contribution to the Group’s results. The option strike price and the share purchase price are the same for Board Directors as for members of the General Management, as is set out in Note 25 to the consolidated financial statements in the financial report. The fair value of the options granted in the past has varied between CHF 1.08 and CHF 5.80 per option, and depending on the share price movement of Tornos Holding S.A., the programme has represented between 5 and 30% of the reference remuneration of the members of the General Management.

In 2009 and 2010, the fixed remuneration of the Managing Director and the members of General Management was reduced by some 10%, in light of measures to reduce working hours and the renunciation of part of their remuneration due to the recession.

In 2010, the variable remuneration of the Managing Director and the members of General Management was very small and, due to the recession, was only based on the achievement of specific personal targets. In 2011, the variable remuneration paid to the Managing Director (until 30 April 2011) and to General Management reflects better business conditions compared to the previous year. (See Note 30 to the consolidated financial statements in the financial report).

5.1.3 Severance pay

With effect from 1 January 2011, the CEO and CFO are contractually entitled to a single severance payment limited to 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. This clause was applied on the occasion of the change of the CEO in August 2011.

There are no severance pay agreements in the employment contracts of the other members of General Management, and their notice period is six months. Members of the Board of Directors do not have the right to severance pay or any benefits relating to the termination of their mandate.

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. 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 complies 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. They must submit their request 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.

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. There are no other clauses relating to takeovers in favour of members of the Board of Directors and members of General Management, other than the severance payments set out in item 5.1.3.

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 five to seven 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 2011 were CHF 239'454.

8.3 Additional fees

Additionally, during 2011 PricewaterhouseCoopers provided advice beyond the scope of the audit mission at a cost of CHF 152'634 This expense is related to advice in connection with tax issues (CHF 58'634) and transactional and consulting services (CHF 94'000).

8.4 Means of recieving information from the external auditors

The Audit Committee monitors the external auditors on behalf of the Board of Directors. The audit plan is submitted by the auditors to the Audit Committee for approval of the areas to be the object of particular scrutiny in the year under review. The Audit Committee also asks the auditors to carry out reviews of specific areas that are not included in the audit plan but for which particular reassurance is sought. PricewaterhouseCoopers SA keeps the Audit Committee regularly advised of its activity, and participates in meetings of the Committee as required. It is kept informed of the work of the Audit Committee by receiving a copy of the minutes. In 2011, the auditors attended one meeting of the Audit Committee and submitted two reports to the members of the Audit Committee respectively to the members of the Board of Directors. 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 financial 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 at www.tornos.com. The annual report as well as the financial report containing information relating to the remuneration of members of the Board of Directors and General Management may be ordered from Tornos SA, Investor Relations, rue Industrielle 111, 2740 Moutier.

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The French version of the annual report is definitive.

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