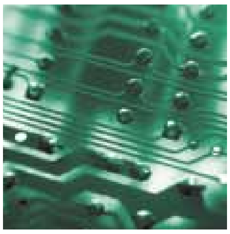
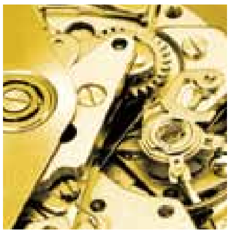
TORNOS



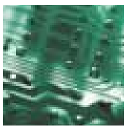
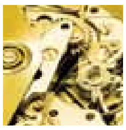
ANNUAL REPORT

2012 | TORNOS HOLDING LTD

KEY FIGURES

Tornos Group (in KCHF, unless stated otherwise)	2012	2011	2010	2009	2008
Bookings	176’607	276’320	214’739	85’487	232’143
Gross sales	184’826	271’051	160’069	114’363	262’944
EBITDA	–10’148	20’998	–9’663	–25’798	19’851
Gross sales %	–5.5	7.7	–6.0	–22.6	7.5
EBIT	–24’906	16’646	–13’496	–30’532	13’093
Gross sales %	–13.5	6.1	–8.4	–26.7	5.0
Net profit / (net loss)	–24’460	10’677	–18’086	–29’584	6’042
Gross sales %	–13.2	3.9	–11.3	–25.9	2.3
Net cash / (net debt)	–23’813	–19’473	–38’691	–24’571	5’277
Equity	103’425	129’401	111’486	125’414	153’743
Total balance sheet %	56.2	58.6	53.0	67.8	69.2
Total balance sheet	184’116	220’676	210’538	185’006	222’256
Capital expenditures in tangible fixed assets	1’216	1’762	509	524	6’715



REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

Ladies and Gentlemen,
Dear Shareholders,

A difficult year came to an end on 31 December 2012. The slowdown in new orders that was initially felt towards the end of 2011 continued in the first quarter of 2012, before experiencing an even more pronounced drop in the second quarter. Continued uncertainty in the major markets also led to new orders that were below expectations during the second half of the year.

In this difficult environment, gross sales totaled CHF 184.8 million, which represents a drop of 31.8% compared to the previous year. In terms of profitability, EBIT recorded a loss of CHF 24.9 million, after a positive result of CHF 16.6 million for the previous financial year. A one-time net negative effect of CHF 14.0 million is included in the company's loss, mainly due to the reorganization carried out in September and the restructuring of the development portfolio. These unsatisfactory results reflect the negative economic trend in the regions where Tornos traditionally has a strong presence. Under these circumstances, short-time working was introduced as early as in the first half of the year. In addition, due to the general economic situation and in light of the Group's reassessment of its global strategy, it was decided to adapt the Swiss companies' capacities and organizational structure.

A review of 2012 shows that the economic climate continued to deteriorate in all regions. Although new orders of CHF 103.3 million were obtained in the first six months of the year, the economic situation had a negative impact on new orders in the second half, which totaled CHF 176.6 million for the year. Southern Europe increasingly suffered from the crisis in public finances that is affecting certain countries, and this had a negative effect on consumption. In particular, subcontractors in the automotive industry responded to this trend by slowing down investments in equipment replacement and development. In spite of positive news in the watchmaking sector, there was no increase in machinery sales because the majority of players had already invested in development the previous year and their priority was to optimize their existing installations. In Northern Europe, the demand for multi-spindle machines remained solid over the first half of the year, due to positive developments in large series production in the automotive industry. Numerous orders were taken, in particular for the MultiSwiss presented at the last EMO. On the other hand, the second half of the year saw a noticeable slowdown in demand in the automotive industry, which in turn led to a slowdown in investments. In North America, political efforts are once again geared to local industrial production, and this significantly stimulated demand. However, new orders have not returned to 2011 levels. In Asia, our high



delivery capacity enabled us to land a number of large orders in the first half of the year. In the second half, the dynamism of the market flattened out, leading to a slowdown in growth compared to the previous year.

Turning to the key figures for 2012, the Group recorded CHF 176.6 million in new orders, which represents a decline of 36.1% compared to the previous year. Consolidated gross sales stood at CHF 184.8 million, equaling a drop of 31.8% below the previous year. EBIT shows a net loss of CHF 24.9 million – including non recurring negative effects of CHF 14.0 million – compared to a positive result of CHF 16.6 million in 2011. The financial year ended with negative net earnings of CHF 24.5 million compared to a profit of CHF 10.7 million the previous year. The SIX Exchange Regulation is conducting an investigation in conjunction with the consolidated interim financial statements as of 30 June 2012, more precisely regarding our applied stock valuation method in the consolidated interim financial statements 2012. The arising conclusions entail a restatement of the consolidated interim financial statements; however, there is no effect on the financial statements 2012. Equity stood at CHF 103.4 million at the end of the 2012 financial year, equivalent to 56.2% of the balance sheet total. At that date, the Group's net debt stood at CHF 23.8 million, compared to CHF 19.5 million the previous year.

Key events of the year are briefly outlined below and discussed in greater detail on the following pages.

The cooling off of the economic climate that emerged during the second half of 2011 continued during the first half of 2012, which prompted Tornos to reduce production capacity by introducing short-time working measures from May. In line with the Group's change in strategic direction and the associated reorganization, we announced a job cut in September that resulted in a headcount reduction of 198.

In conjunction with its restructuring, the Group initiated a change in strategic direction. The factors that led the Group to adapt its strategic plan and realign its product range were a shift in the markets towards countries with emerging economies, an expansion in the mid-range market segment, and ever shorter economic cycles with more extreme fluctuations. Essentially, six strategic priorities have been defined: greater internationalization of our business activities, more flexibility, growth through a focus on innovation, enhanced performance in the services area and increased operational efficiency. In addition, specific solutions and products have to be developed for the targeted market segments. As part of the internationalization of activities, a sliding headstock lathe has been developed specifically for the emerging markets, in collaboration with an Asian



partner. Production of this new Swiss ST 26 product was launched in the fourth quarter. In addition, initial measures were implemented during the fourth quarter to reinforce our distribution structures in Asia and in particular in China.

To boost the company's flexibility, a new functional organization was set in place, with the General Management team reduced to seven people. The new structure eliminates duplications in the organization, which had resulted from the combination of product-related responsibilities and duties of a functional nature.

To support these organizational measures, a flexible supply model has been implemented. This means that rapid fluctuations in demand during growth and recession phases can be absorbed by adjusting capacity.

We are able to support the changes in the Group's strategic direction because we have a solid financial base. In light of the capital increase planned for 2013, two industrial shareholders have granted a temporary loan in the amount of CHF 40 million. This has enabled us to reduce bank loans to CHF 25 million. The share capital increase, which will result in an equity increase of CHF 30 million and which is already guaranteed, will be used to reduce shareholder loans. The attractive terms have made it possible to reduce the financing costs.

Cyklos, our solution for surface treatment systems, reached a milestone in the second semester with its first endorsement by a customer involved in the serial production of safety components for vehicles. Having this production process endorsed by the final user demonstrates the industrial capacity of our solution. Our customer confirms the cost savings we had presented and appreciates the simplification of logistical processes that they have achieved.

The year was marked by the introduction of several new products. This was achieved by setting up a cooperation with an Asian company, in parallel with our partnership with Tsugami. The fruit of this collaboration is the new Swiss ST 26 machine, which meets the specific needs of the emerging markets. So effective were our collaborative efforts that we were able to present this innovation at IMTS in Chicago during September, at Thai Metalex in Thailand, as well as at the DMP in Guangdong, China, in November. This machine is available with options that match the specific needs of different market segments, enabling customers to put it to use quickly and effectively. This new product has been well received and has stimulated lively interest. In the context of realigning our product range, we undertook a review of our product development projects, which led us to the decision to abandon two of them. As a result, development costs in the amount of CHF 7.1 million were written down

on the balance sheet. During the fourth quarter, the Almac line was enriched by the addition of new precision machining centers, the CU 2007 and CU 3007, at two specialized trade shows, AMB in Stuttgart and BIMU in Milan. By combining high productivity and precision in a single machine, these machining centers provide users with an economically attractive solution.

During the financial year, Pierre-Yves Müller and Luc Widmer joined the Group's General Management team. Pierre-Yves Müller serves as the Group's COO since 1 April, 2012. With his arrival, we benefit from a new senior manager who has extensive international experience in the machining sector. Luc Widmer joined the Group on 16 August 2012 to take on the role of CFO; he previously served as CFO on the senior management team of an industrial group. He brings several years of experience in the financial and operational management of international corporations. Finally, we wish to thank Bernard Seuret for his forty-three years of service to the Tornos Group, including thirteen years as Head of Production and a member of General Management. Bernard Seuret retired on 31 October 2012.

In conclusion, on behalf of the Board of Directors and the General Management, we 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

Michael Hauser
President and
Chief Executive Officer

OPERATIONS, RESULTS AND OUTLOOK

Business activities

After a relatively calm first quarter, we observed a significant drop in demand in the course of the year and, as a result, it ended below expectations. Our major market segments and geographical zones suffered from the persistent financial crisis. In southern European countries in particular, the momentum visibly slowed over the year, resulting in a deep economic recession. In addition, the demand for less expensive machines increased in this market, which, combined with unfavorable exchange rates, took a toll on profit margins. In North and Latin America, the slowdown in orders proved to be less pronounced. Asia reported a positive change over the previous year, although this did not compensate for the downturn in Europe. After the implementation of short-time working measures in the second quarter, we finally announced that in line with the Group's strategic reorientation, 198 jobs were to be eliminated in the third quarter, caused by the increasingly marked shift in the markets and the economic situation. In parallel with the reduction in our own production capacities, we initiated the development of new supply modes that will enable the Group to react more flexibly to fluctuations in demand.

In spite of a difficult economic environment, we carried out intensive development activities during the past year. In particular, in collaboration with an Asian partner, we were able to produce a remarkable Swiss-type lathe, which will enable us to expand our presence in growing markets. In addition, we inaugurated a new machining center in the second half of the year, which will enable us to expand our position in milling activities, which up to now have focused on micromechanics.

Finances

During the financial year 2012 Tornos achieved consolidated gross sales of CHF 184.8 million (2011: CHF 271.1 million). This corresponds to a decline of 31.8% against the prior year. The drop in sales against the prior year was most dominant in Europe (-42.9%) and North America (-48.9%) and was only partially compensated with substantial growth in Latin America with a year-on-year growth of 29.7% and Asia that grew by 95.4%.

The profit and loss accounts have been substantially impacted by non recurring charges related to the change in business model of the Group. The result before interest, taxes and depreciation (EBITDA) for the financial year 2012 is negative with CHF 10.1 million against a positive result of CHF 21.0 million for the year before. The company shows a loss at EBIT level of CHF 24.9 million for 2012 compared to a positive result of CHF 16.6 million for 2011. The net loss for the year under review stands at CHF 24.5 million (2011: net profit of CHF 10.7 million). Excluding



the various negative impacts of the restructuring and impairment charges as well as the gain on sale of a building, the EBIT would stand at a loss of CHF 10.9 million and the net loss would have been CHF 13.6 million.

Whilst the Group recorded a solid gross sales of CHF 271.1 million for the financial year 2011, market dynamics were experienced to be less brisk in the second half year resulting in a slowdown of orders. Specifically the customers in the electronic and automotive sectors became more hesitant to place orders. Fortunately, Asian customers, particularly in China and Taiwan, became increasingly aware of the competitive advantages of multi-spindle machine technology. Despite the positive development in Asia gross sales for the first half year reached CHF 97.0 million (2011: CHF 143.3 million), this corresponding to a decline of 32.3% compared to the prior year period. In the second half of the year under review a further business slowdown was observed specifically in the southern European market where customers faced, beside the economic adverse development, constraints in raising funds to finance required investments. Although the Asian markets continued to grow against the prior year, it could not compensate the slump in Europe, leading to gross sales for the second half year of CHF 87.8 million (2011: CHF 127.8 million) or a decline of 31.3%.

In 2012 the Group recorded a gross profit of CHF 45.2 million (2011: CHF 86.1 million) equivalent to a gross margin of 24.5% on gross sales (2011: 31.8%). Eliminating restructuring charges of CHF 3.4 million and impairment of goodwill in the amount of CHF 2.9 million, gross profit would have been at CHF 51.5 million or 27.9% on gross sales. The weakening of the gross margin is to a large extent due to lower utilization of the installed capacity compared to the previous year as well as due to a continued pressure on margins following fierce competition. Operating expenses for the year under review were at CHF 70.1 million (2011: CHF 69.4 million) which represents an increase of 1.0% against the prior year. However, operating expenses include negative effects of the restructuring of CHF 1.0 million as well as impairment costs of intangible assets of CHF 7.1 million and a positive impact of CHF 0.4 following the sale of a building. Excluding the aforementioned special effects, operating expenses would account for CHF 62.4 million or 33.8% on gross sales (2011: 25.6%) and could consequently be reduced against the prior year by CHF 7.0 million. Research & Development expenses comprise CHF 7.1 million charges for impairment of activated product development costs following the re-alignment of the product portfolio and CHF 0.2 million of restructuring charges, leaving CHF 10.7 million Research & Development expense. The other income and expense net of CHF 0.7 million (2011: CHF 0.5 million) results mainly from the profit of the sale of an industrial building (CHF 0.4 million).

EBIT is negative at CHF 24.9 million, this in contrast to a positive EBIT of CHF 16.6 million in 2011. As mentioned above, the EBIT of the year under review comprises negative effects amounting to a total of CHF 14.0 million for gain on sale of building (CHF 0.4 million), for indemnities related with the reduction of headcount (CHF 4.4 million), impairment charges for goodwill (CHF 2.9 million) as well as impairment costs on activated product development costs (CHF 7.1 million). Eliminating the aforementioned special effects, EBIT would stand at CHF 10.9 million. Thanks to the refinancing of the Group at the beginning of the fourth quarter in the year under review, the Company could reduce its financial expenses to CHF 2.2 million (2011: CHF 3.5 million). Exchange losses net of CHF 0.8 million (2011: CHF 0.5 million loss) mainly origin from losses on normal business activities that were partially compensated with gains on the ineffective part of cash flow hedges of CHF 0.3 million (2011: CHF 0.7 million). The company has abandoned hedge accounting in the course of the financial year 2012. Pre-tax loss amounted to CHF 27.9 million (2011: pre-tax profit CHF 12.7 million) leading to a tax credit of CHF 3.4 million (2011: tax debit CHF 2.0 million). For the financial year the Group recorded a net loss of CHF 24.5 (2011: net profit CHF 10.7 million), that, eliminated for extraordinary charges and gains, would have been reduced to a net loss of CHF 13.6 million.

Shareholder equity at the balance sheet date of the year under review was CHF 103.4 million (2011: CHF 129.4 million) or 56.2% (2011: 58.6%) of the total balance sheet of CHF 184.1 million (2011: CHF 220.7 million). This decline in shareholder equity is mainly due to the net loss of CHF 24.5 million, the negative impact of the realization of cash flow hedges accounting for CHF 1.6 million, fair value losses on financial assets of CHF 0.6 million and to transactions with shareholders accounting in the amount of CHF 0.7 million. Transactions with shareholders are limited to the issuance of shares related to the exercise of the employee stock option scheme in favor of the members of the Board of Directors and the General Management. As of 31 December 2012, the share capital is composed of 15’502’093 shares with a par value of CHF 4.50; it amounts to CHF 69’759’418.50.

The company went into the year under review with a net working capital of CHF 95.8 million that increased by CHF 3.9 million to CHF 99.7 million for the half year before being reduced by CHF 11.6 million during the second half year to close with CHF 88.1 million. Inventories have decreased by CHF 6.2 million during the year and amount to CHF 78.2 million (2011: CHF 84.4 million) as of 31 December 2012. Following the softening of the revenue stream, trade debtors accounted for CHF 36.2 million (2011: CHF 46.4 million) at the end of the financial year and consequently con-

tributed with CHF 10.2 million to the reduction in net working capital. The reduced activity level led to a reduction in trade payables of CHF 11.9 million to close the year with CHF 17.4 million (2011: CHF 29.3 million). Despite the focused management of net working capital resulting in an improvement of CHF 7.7 million for the financial year, cash flow from operating activities remained negative with CHF 7.1 million (2011: positive CHF 25.7 million). Investments in tangible assets amount to CHF 1.2 million (2011: CHF 1.8 million). As a consequence the Group has recorded a negative free cash flow of CHF 8.9 million (2011: positive CHF 21.8 million). Following the cash drain recorded, the Group closes the year with a net debt position of CHF 23.8 million compared to CHF 28.3 million at the interim balance sheet date and CHF 19.5 million in 2011.

At the beginning of the fourth quarter of the year under review, the Group concluded loan agreements with shareholders amounting to CHF 40 million on a transitional basis in view of the share capital increase planned for 2013. The share capital increase – subscription of which is fully guaranteed - will allow the repayment of CHF 30 million of the shareholder loans. In parallel credit limits with banks have been reduced.

Outlook 2013

We are facing an uncertain economic environment, hence visibility on our markets remains poor. Difficulties with public debts in certain countries, highly volatile exchange rates and challenges for our customers to obtain financing have an unpredictable impact on decision making in industrial investments. Under these circumstances we refrain from publishing a forecast for 2013.

THE FUTURE IS NOW

Innovation
The year 2012 was marked by the launch of products designed to meet new market trends, including high-performance, efficient machines that are easy to operate.

In addition, the Group has improved the way it organizes projects in the pipeline, in particular by cutting "time to market" and stepping up the development of partnerships.

Tornos presented the new Swiss ST 26 at the IMTS in Chicago in September 2012. This machine is primarily intended for the American and Asian markets. It is equipped with seven linear axes and is capable of machining bars up to 25.4 mm in diameter. In terms of tool systems and equipment, this product offers a flexibility that is unique in its range.

In the Almac product line, the CU 2007, an attractively priced triple-axis milling machine with 500/400/470 mm travel capable of a vast range of integrated applications and developments, was unveiled at the AMB in Stuttgart in September 2012.

The results of the development work carried out in 2012 demonstrate the ability of the Research and Development department to adapt very quickly to market demands. Future developments will continue to follow this route with the aim of improving our customers' competitive advantage.

Cyklos, a company that produces surface treatment machines, is developing positively. Customers are very satisfied with the machines already delivered and the future is promising.

The Tornos Research Center at the Haute Ecole Arc in Saint-Imier has been in operation for a little over a year. This laboratory not only makes it possible to carry out research projects at the school, it enables Tornos development staff to collaborate with the professors, assistants and students at the school.

In conclusion, with a significant R&D budget of over 5% of sales, ongoing development of new products and the constant desire to improve the performance of its existing products, Tornos stands firmly as a company at the cutting edge of technology that is committed to continuous innovation as a way of best serving the needs of its customers.

TORNOS' STRATEGIC VISION

New strategic plan

The Group's General Management has implemented a new five-year strategic plan.

A new environment

Realignment of the strategic plan proved necessary to take account of new realities: shorter and more pronounced economic cycles; a stagnant market in Europe, increased activity in emerging economies, particularly in Asia; and growth in mid-range machines to the detriment of the high-end segment.

Flexibility, internationalization and innovation

To meet the challenges of the current economic environment, the Group will need greater flexibility.

This means internationalization of the business model so as to track the growth of emerging markets, while still responding to cyclical fluctuations.

The structure of the Group will be adapted to expand its innovative capacity, while optimization of its financial structure will provide a solid foundation for the future.

The strategy has been developed comprising the following six major axes:

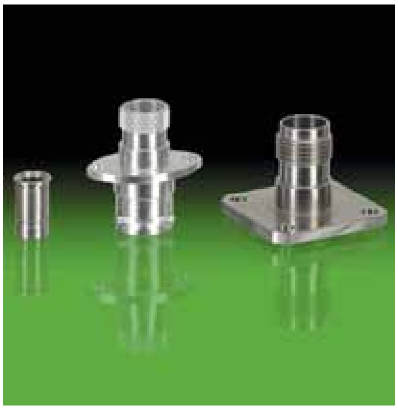
- Internationalization of activities;
- Greater flexibility;
- Growth through innovation;
- Increased revenue from service activities;
- Operational excellence;
- Introduction of specific solutions for targeted market segments.

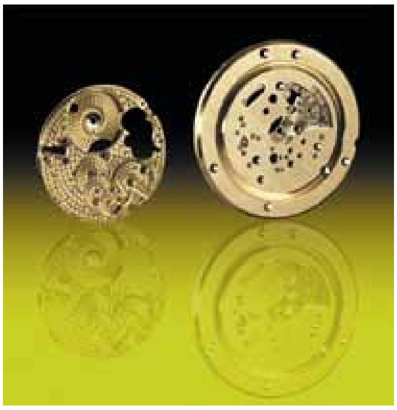
Financial objectives

Increased flexibility should enable the Group to overcome economic cycles, with the goal of absorbing fluctuations of up to 50% without financial losses. The Group strategy aims to generate average sales revenues of CHF 320 million and an average operating margin of 5% to 6% in the next few years over a complete business cycle.

Strategic programs

Greater internationalization of the business model will be achieved through several strategic programs.





The first step was the reorganization of activities in Switzerland with the aim of slimming down the cost structure by downsizing the organization by approximately one-third, including General Management. This was followed by the creation of a new "Market & Sales Support" department and the reorganization of the other departments. Optimization of the structure and processes will continue in 2013 to increase its efficiency. Furthermore, changes in the operating structure are expected to help boost the Group's productivity.

To remain competitive, the Group will have to increase its innovative capacity by launching new dedicated products to cover the mid-range and high-end market segments. The specific needs of the targeted customer segments will be addressed by means of modules.

The Group must continue to consolidate its position as a European market leader while also strengthening its sales and service structure in the expanding markets to significantly boost growth.

The sales network will be reinforced in the emerging market countries as well as in the United States. The strongest market growth is expected to be seen in Asia. The range of services offered to customers will be extended to generate higher revenue.

The strengthening of the industrial structure, which has already been mentioned, is already a step in this direction. At the same time, and in addition to our strategic partnership with the Japanese company Tsugami, we have started to collaborate with a new Asian partner.

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, Tornos has developed Cyklos, a range of surface treatment products. Our product range can be summed up as follows:

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 (Swiss-type) machines, traditionally known as 'strippers', 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 Swiss-type lathes. The MultiSwiss product has broken new ground. It is the perfect synthesis between single-spindles and multi-spindles based on sliding headstock technology.

Single-spindle (Swiss-type) product range

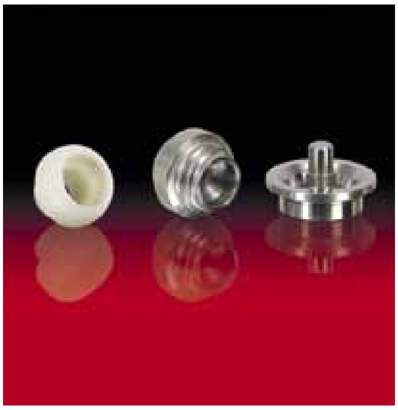
2000–2007: Towards a specific design

The DECO range, still unparalleled for the high-volume production of complex parts (with over 6'000 machines installed across all market segments), was completed in 2005 by the addition of the Sigma line, which offers 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 customers looking for 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 dimensional stability of below 2 microns in production, these are among the most precise and rigid machines on the market.

Their modularity, which allows two tools to be used, makes them ideal machines for producing a wide range of watch parts in large quantities.

2008–2009: Towards highly price-competitive products

Over this period, we began to develop accessibly priced machines that are both reliable and simple to use, giving our customers the opportunity to develop a competitive advantage in less complex parts or small production runs. Well aware that we lacked experience in developing and producing straightforward, high-quality, low-cost machines, we signed an alliance with the Japanese company Tsugami. As a result, in 2008 the Delta line was created and at the end of 2009, 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.

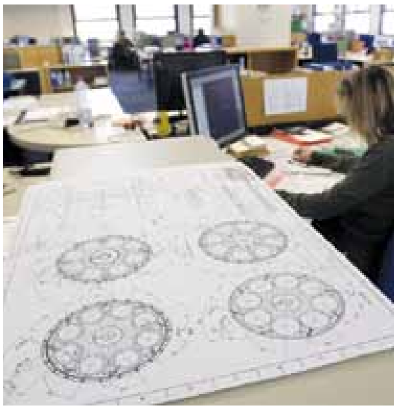


2010–2011: Towards greater flexibility, improved ergonomics and power

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 remarkable productive kinematics of that model. The EvoDECO range is characterized by three to four times greater rigidity and thermal performance. The integrated-motor spindles with which these machines are equipped are incredibly quiet and permit 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 rounded out 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.

2012: Emerging markets

In 2012 we launched the first product developed under our partnership with an Asian company. Designed for emerging markets, the Swiss ST 26 is a competitive mid-range machine that is capable of producing relatively complex parts. We have every reason to believe that this machine, with its seven linear axes, two C axes, excellent machining capacities and very competitive price will meet expectations. Tornos has already taken a number of orders and made the first deliveries of this product.



Thanks to the Delta, Gamma, Micro, Sigma, DECO, EvoDECO and Swiss ST product lines, the Swiss-type 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 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 its numerical control and TB-DECO programming software, this platform has introduced the flexibility and versatility lacking in cam-driven machines, adapting to the demands of the market, and in particular the automotive sector.

2005–2012: 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 and independent integrated-motor spindles. The numerous tools for special machining (thread whirling, polygon turning, etc.) and the large array of tools make these into true machining centers 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 even more suited for small production runs and a wide range of products. In many cases, these machines represent an advantageous replacement for large numbers of Swiss-type or transfer machines. 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.

In 2011 and 2012 we focused on applications and efficiency. To maintain our technological lead, our applications engineers have developed numerous processes that enhance machining performance and efficiency on multi-spindle machines. For example, it is now possible for us to detect the wear and tear on tools by monitoring the power and torque of different motors. The peripheral systems have been very precisely optimized to increase machine productivity and to maximize operating time without human intervention, even when handling the most challenging materials.

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 performance. The MultiSwiss is an entirely new avant-garde product line launched in 2011: it is the perfect synthesis, combining the technologies of the single- and multi-spindle lines.

This machine is another spearhead product for Tornos, opening 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 Swiss-type 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, the MultiSwiss has met every expectation during its first year of operation, both commercially and technically. Extremely precise and productive, it is capable of producing surface finishes that have previously been very difficult to achieve in lathe work. In 2012, we also brought out a 'chucker' version of the MultiSwiss. This machine, which is able to work with slugs or molded parts, helps to reduce significantly the amount of material lost on machined parts.

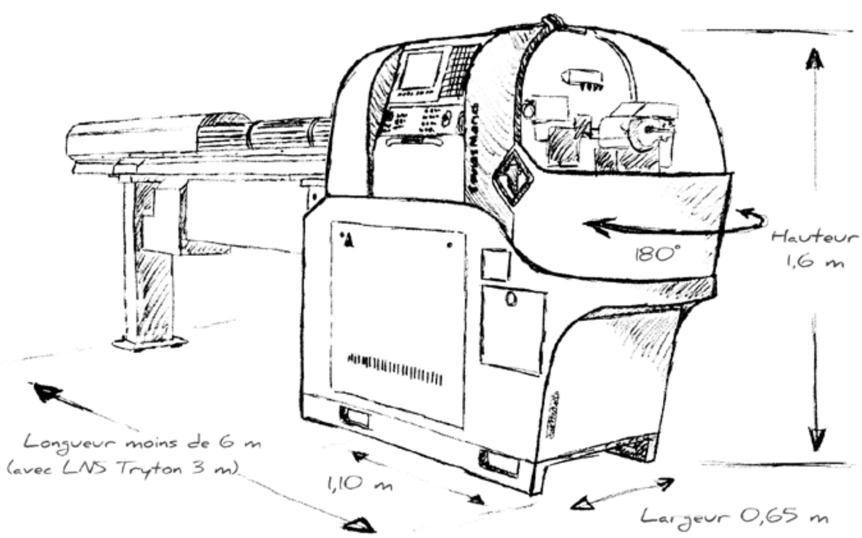
Milling product range

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, their productivity 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 1005, CU 1007 and CU 3005 machining centers, we have carved out a position as a major player 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 centers interfaced with a robotically assisted automation unit, enables us to machine and finish extremely complex parts, including related operations such as softening or ultrasonic cleaning. As a complement to our machining products,

the GR 600 TWIN and CU 1007 PERLAGE and CU 1007 CADRAN offer exclusive solutions for finishing parts for the luxury watchmaking sector, such as industrial beading, fine engraving 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.

In 2012, Tornos presented its Almac milling product line at major trade fairs in Germany (AMB in Stuttgart) and in Italy (BIMU in Milan). Two new models attracted great interest from customers by virtue of the excellent quality they offer for the price. The two machines, known as the CU 2007 and CU 3007, round out the Almac product range perfectly. They have greater travel than the CU 1007, and complete Almac's watchmaking and medical product range by offering an entry-level machine, completing the current range on known applications such as the machining of back plates but also opening up new complementary applications, such as tool production, for example. In addition to rounding out the watchmaking offering, the CU 2007 and CU 3007 machines will open doors to new sectors of activity such as the automotive and medical industries and mechanical sub-contracting.



Surface treatment product range

Cyklos is the first equipment in the world to enable small turning workshops to surface treat parts that they have just machined. The unique and immediate advantages of the Cyklos solution include no waste materials to handle on the premises, no knowledge of chemicals to be acquired, lower treatment costs and better treatment quality. The first product was developed in 2011 in response to demand from the automotive industry for anodizing machined parts. Today, a number of manufacturers of turned parts use this solution in the series production (5 to 10 million units annually) of aluminum parts made for gearboxes or brake systems. On the back of this success, we are confident that the Cyklos solution has a bright future and will expand out into other sectors, such as the aeronautical and medical industries.

BOARD OF DIRECTORS

F. l. t. r.

Michel Rollier (1959), Swiss citizen
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; Azuréa Holding SA: Director| Professional activities: **Rollomatic SA,** various management functions in the Group: **Head of R&D (since 1989)**

Raymond Stauffer (1954), Swiss citizen
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), Swiss citizen
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 | Banque Cantonale Neuchâteloise, Director | Previous professional activities: Ismeca Holding SA: CFO (from 1998 to 2002); **Independent consultant (since 2002)**

François Frôté (1953), Swiss citizen
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; Azuréa Holding SA: Director; Coopérative Migros Neuchâtel Fribourg: Vice-Chairman | Professional activities: **Law offices of Frôté & Partner: Lawyer and Director (since 1979)**

Claude Elsen (1947), Luxembourger citizen
Vice-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, France, 1974 | Current directorships: BIA Group SA, 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), Swiss citizen
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": Chairman of the Economic Committee | Professional activities: Maag Pump Textron Systems: CEO (from 1995 to 2004); **Starrag Heckert Holding AG: CEO (from 2005)**

GENERAL MANAGEMENT

F. l. t. r.

Willi Nef (1960), Swiss citizen
Head of Sales | 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 1988 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)

Pierre-Yves Müller (1961), Swiss citizen
Chief Operations Officer | Appointed in 2012 | Training – final qualification on completion of studies: Engineer ETS (Ecole Technique Supérieure), Yverdon, 1984 | Current directorships: Durox SA; FAM SA | Previous professional activities: Bobst Lausanne: Head of Production at the Prilly site (from 1999 to 2004), Head of Production for Bobst SA (Switzerland) (from 2004 to 2007), Procurement, Production and Logistics Manager for Bobst SA (Switzerland) (from 2007 to 2009), and Bobst Group (from 2009 to 2011), Site Manager Bobst SA (Switzerland) and Procurement, Production and Logistics Manager for Bobst SA (Switzerland) and Bobst Group (from 2011 to 2012); Member of Group General Management

Carlos Cancer (1959), Spanish citizen
Head Market & Sales Support | Appointed in 2003 | Training – final qualification on completion of studies: HES (University of Applied Sciences) engineer, Biel, 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)

F. l. t. r.: Willi Nef; Pierre-Yves Müller; Carlos Cancer; Michael Hauser; André Chardonnereau; Luc Widmer; Olivier Marchand

Michael Hauser (1961), Swiss and German citizen
Chief Executive Officer | Appointed in 2011 | Training – final qualification on completion of studies: Diplom-Kaufmann, University of Mannheim, 1988 | Current directorships: none | Other professional bodies: SWISSMEM Council member and chairman of the "Machine tools and manufacturing technology" division; CECIMO "European Committee for Cooperation of the Machine Tool Industries", Board Member and Vice Chairman (Chairman from 2009 to 2011) | Previous professional activities: Mikron AG Nidau: Managing Director; Agie Charmilles Group (CH): Mikron Agie Charmilles SA (CH), Bostomatic Inc. (US), Step Tec AG (CH), Head of the Milling Division and Group Management member (from 2000 to 2008); Head of GF AgieCharmilles; Georg Fischer AG (CH), Executive Committee member (from 2008 to 2010)

André Chardonnereau (1965), Swiss and French citizen
Development and Engineering Manager | Appointed in 2011 | Training – final qualification on completion of studies: ETHZ (Swiss Federal Institute of Technology, Zurich) engineer | 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 (2004 to 2010)

Luc Widmer (1969), Swiss citizen
Chief Financial Officer | Appointed in 2012 | Training – final qualification on completion of studies: Business economist, University of Applied Sciences, Olten, 1998 | Current directorships: none | Previous professional activities: ALSTOM (Switzerland) Ltd.: Chief Financial Officer Gas Segment Manufacturing (from 2001 to 2002), Managing Director Gas Turbine Logistics (from 2003 to 2004); Mikron Technology Group: Division Controller (2005); Forteq Group (from 2006 to 2012): Chief Financial Officer

Olivier Marchand (1964), Swiss citizen
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)

CORPORATE GOVERNANCE AND COMMUNICATIONS

Name	Purpose		Share capital	% held 2012	% held 2011
Tornos Holding Ltd, Moutier	Holding	CHF	69'759'418		
Tornos Management Holding Ltd, Moutier	Management of shareholdings and holding company	CHF	65'000'000	100.0	100.0
Almac Ltd, La Chaux-de-Fonds	Production and sales	CHF	1'175'000	100.0	100.0
Almatronic Ltd, La Chaux-de-Fonds	Dormant company	CHF	50'000	100.0	100.0
Cyklos Ltd, Yverdon-les-Bains	Development and sales	CHF	100'000	100.0	-
Tornos Ltd, 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	100.0	99.0

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) sales, (3) market and sales support, (4) operations, manufacturing and production, and (5) general services and finance.

1.1.2 Listed companies in the consolidation

Tornos Holding Ltd 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 89.3 million.

The consolidated companies of the Group are shown below:

2012
Cyklos Ltd, Port Louis, Mauritius, the company that held the intellectual property rights to the new machine design for the surface treatment of machined parts and that was acquired on 2 May 2011, was liquidated on 18 January 2012. A new company established in Yverdon-les-Bains and also named Cyklos Ltd was integrated on 7 February 2012 to sell and develop this new technology worldwide.

Tornos Management Holding Ltd, Moutier acquired the minority holding of 1% in Tornos Comercio, Importaçao e Exportaçao de Maquinas Ferramenta Ltda, Brazil.

These are the only changes that have taken place in the scope of the consolidation during the year under review.

2011
Cyklos Ltd, Port Louis, Mauritius, the start-up company that holds the intellectual property rights to the new machine design for the surface treatment of machined parts was acquired on 2 May 2011 and is now being liquidated.

Tornos Management Holding Ltd, Moutier is acquiring the minority holding of 1% in Tornos Comercio, Importaçao e Exportaçao de Maquinas Ferramenta Ltda, Brazil.

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

1.2 Major shareholders
The following communications were published:
Schroders plc notified the company on 16 November 2011 that it had reduced its shareholding to below 3%. There were no communications from Schroders plc in 2012.

With the introduction of the obligation to disclose a shareholding of more than 3%, the Berner Kantonalbank, Berne (CH), made an announcement in December 2007. The Berner Kantonalbank notified the company on 12 December 2007 that it held 661'545 registered shares and that its shareholding stood at 4.80% of the voting rights. From 2008 to 2012, there were no communications from the Berner Kantonalbank.

With the introduction of the obligation to disclose a shareholding of more than 3%, Mr Michel Rollier, Le Landeron (CH), made an announcement in December 2007. 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. There were no communications from Mr Michel Rollier in 2012.

Tornos Holding Ltd, 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 Ltd, Moutier, indicated on 14 February 2008 that it held 756'250 registered shares and that its shareholding stood at 5.04% of the voting rights following an acquisition made on 12 February 2008. Tornos Holding Ltd, Moutier, indicated on 21 April 2008 that its shareholding stood at 4.99% of the voting rights following a sale of shares on 16 April 2008. No communications were received from Tornos Holding Ltd during 2009. On 19 April 2010, Tornos Holding Ltd made an ex post disclosure of its sale positions, indicating that they represented 4.21% of the voting rights. In 2011, there were no communications from Tornos Holding Ltd. On 3 May 2012, Tornos Holding Ltd made an ex post disclosure of its sale positions, indicating that they represented 2.53% of the voting rights. On 19 May 2012, Tornos Holding Ltd made an ex post disclosure of its acquisition positions, indicating that they represented 3.12% of the voting rights.

On 2 April 2008, Tsugami Corporation, Tokyo (Japan), notified the company that it held 456'397 registered shares, representing 3.04% of the voting rights, following an acquisition on 1 April 2008. Tsugami Corporation, Tokyo notified the company on 20 May 2008 that it held 765'981 registered shares representing 5.10% of the voting rights following an acquisition on 19 May 2008. In 2009, 2010, 2011 and 2012, 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 Walter Fust increased his participation to 25.17% of the voting rights with a holding of 3'897'448 registered shares and this change was published on 23 August 2012.

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, 2011 and 2012, 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. Balfidor Fondsleitung AG, Basel, notified the company on 22 March 2012 that it held 776'557 registered shares representing 5.02% of the voting rights.

Tornos Holding Ltd 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 Ltd amounted to CHF 69'759'418.50 as at 31 December 2012. 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 3'179'979.00.

2.2 Contingent and authorized share capital

The following information relates to the changes in authorized and contingent capital for 2012 and 2011. For changes occurring in 2010, please refer to Note 22.1 of the 2010 consolidated accounts, which are available on the website at: http://www.tornos.com/sites/www.tornos.com/files/uploads/Data/Investors/Rapports-annuels/2010/EN_rapport-financier-2010.pdf.

2.2.1 Authorized capital

2012

The company has authorized share capital pursuant to a decision of the Ordinary General Meeting of Shareholders held on 17 April 2012. The Board of Directors may, at any time up to 17 April 2014, increase the share capital by a maximum sum of CHF 21'150'000.00 by issuing no more than 4'700'000 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 is 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.

On 31 December 2012, 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.

2011

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 is 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 SA 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 Ltd, 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 Ltd, 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

2012

As at 31 December 2012, the share capital could have been increased by up to CHF 3’179’979, 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 706’662 shares with the said par value, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

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 each, up to a maximum of 726’362 shares with the said par value, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

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 31.12.2010	*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 income 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*
Issuance of new shares	88		56			144
Net income in 2012					–528	–528
Equity as at 31.12.2012	*69'759*	–	*18'983*	*6'827*	*10'994*	*106'563*

2.4 Shares and participation certificates

As at 31 December 2012, the ordinary share capital of Tornos Holding Ltd amounted to CHF 69'759'418.50, and was divided into 15'502'093 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 Ltd 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 23

3.1 Members of the Board of Directors

2012

The composition of the Board of Directors did not change in 2012. No member has close business relations with Tornos Holding Ltd or any Group company.

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 Ltd 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 the Managing Director anymore.

3.2 Other activities and interest Groups

No member of the Board of Directors has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest group other than those mentioned on page 23. No member holds an official function or political office.

3.3 Election and term of office

The Board of Directors of Tornos Holding Ltd is made up of at least three members (currently six), the majority of whom are independent members with no executive function in the company. Members of the Board are elected individually, as and when necessary, by the General Meeting for a term specified by the latter but which may not exceed three years. They are eligible for re-election. The age limit is 70 years. The Chairman is elected by the Board of Directors.

3.4 Internal organization

The Rules of Organization of Tornos Holding Ltd lay down the regulations for the company's operations, which are published on the website (in French only):
www.tornos.com/reglementorganisation

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 or the Board of Directors, the question is to be put to the Board of Directors for a ruling.

As far as is legally permitted, and subject to the responsibilities mentioned above, the Board of Directors delegates all aspects of management to the CEO and 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 2012, eight meetings of various duration were held, as well as two conference calls. The Board of Directors regularly invited members of General Management to attend its meetings and, where necessary, invited external advisers when the items on the agenda required their expertise. Members of General Management also attended committee meetings.

General Management has the following duties and authorities:

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

With the efficient allocation of duties in mind, the Board of Directors appointed Mr François Frôté as Chairman and Mr Claude Elsen as Deputy Chairman. It also set up the following committees:

Nomination and Compensation Committee
François Frôté (Chairman), Claude Elsen, Philippe Maquelin

Under article 7.2 of the Rules of Organization of Tornos Holding Ltd, 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;

The Committee sat three times in the course of 2012 and held several informal sessions, in particular with regard to the nomination procedure for Mr Luc Widmer (CFO).

The Committee also informally discussed the nomination procedure for Mr Pierre-Yves Müller (COO), the implications of the company reorganization on management, in light of the stepping down of Messrs Iwan Von Rotz, Roland Gutknecht and Sandor Sipos, who had served in General Management positions and the consequences of the retirement of Bernard Seuret (Head of Production). The decisions relating to these changes were made directly by the Board of Directors.

Mr Michael Hauser (CEO) attended three meetings as a guest. Mr Paul Häring (CFO until 30 April 2012) and Mr Luc Widmer (CFO since 16 August 2012) each attended one meeting as a guest.

During its meetings, the Committee studied the reports submitted by Management in collaboration with Human Resources and drew up proposals that were submitted to the Board of Directors; 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);
- Evaluation of the evolution of General Management;
- Management of the nomination procedure for the new CFO and preparation of the appointment of Mr Luc Widmer as CFO;
- Decision on the remuneration policy for employees for 2013;
- Assessment and review of Management and senior staff salaries for 2013;
- Discussion of the future constitution of the Board of Directors and on the Board remuneration system.

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

Philippe Maquelin (Chairman), François Frôté, Claude Elsen

Under article 8 of the Rules of Organization of Tornos Holding Ltd, the Audit Committee has the following powers and 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.

The Committee met nine times in 2012, including three times via conference calls. Meetings lasted three and a half hours on average. Mr Michael Hauser (CEO) attended all the meetings in an advisory role; Mr Paul Häring (CFO until 30 April 2012) attended three meetings in an advisory role, Ms Sabine Magnollay (acting CFO from 1 May to 15 August 2012) attended two meetings in an advisory role, and Mr Luc Widmer (CFO since 16 August 2012) attended three meetings in an advisory role. The auditors attended one meeting.

In particular, the following main topics were discussed:

- Review of the financial statements and annual report for 2011;
- 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 audit plan;
- Review of the utilization of the authorized capital and the contingent capital of Tornos Holding Ltd;
- Review of the investor relations policy;
- Review of the currency hedging policy;
- Review of the Group's long-term financing and lines of credit;
- Consideration of the incorporation and establishment of Cyklos Ltd.

The Audit Committee also reviewed the quarterly financial results, the interim financial statements as at 30 June 2012 and the report on the first half of 2012, the forecasts for 2012 and the financial plans, the 2013 budget and the information to be released to the financial community. It examined certain specific points related to financial, accounting and taxation issues, as well as the interpretation, adaptation and implementation of accounting standards for the Group, IFRS and the SIX Swiss Exchange directives as they relate to the preparation and publication of the Group's financial statements. 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.

Alliances Committee

Michel Rollier (Chairman), Raymond Stauffer, Frank Brinken

The Alliances 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.

The Alliances Committee has the following duties and authorities:

- To review the potential alliances that might strengthen the competitiveness of Tornos;
- To make recommendations for decision by the Board of Directors on new alliances;
- To make recommendations for decision by the Board of Directors on new agreements within the framework of the existing alliances;
- To report to the Board of Directors on the work of the Alliances Committee.

The Alliances Committee did not meet in 2012. The related matters of business were dealt with at the meetings of the Board of Directors.

Products Committee
Raymond Stauffer (Chairman), Michel Rollier, Frank Brinken

Under article 10.2 of the Rules of Organization of Tornos Holding SA, the Products Committee 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 Products Committee met three times during 2012. Mr Michael Hauser (CEO) attended in the sessions as a guest. As required, other members of Management and senior executives also took part in the meetings as guests for specific agenda items.

In particular, the following main topics were discussed:

- Roadmap for the Swiss-type product line, in particular monitoring a new platform and the development of the existing products;
- Monitoring of the products earmarked for manufacture in Asia for the Asian market and 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 the milling product line, monitoring the focus on existing products and expanding the range by adding Asian OEM products;
- Coordination of product ranges with the Alliances 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 Products 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 24 and 25

4.1 Members of the Management

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

In the course of 2012, the following changes took place:

- On 1 April 2012, Mr Pierre-Yves Müller assumed his duties as COO.
- On 16 August 2012, Mr Luc Widmer assumed the duties of CFO, replacing Mr Paul Häring, who had resigned on 21 December 2011 and left the company on 30 June 2012. It is to be noted that Ms Sabine Magnolley carried out the duties of acting CFO from 1 May 2012 until Mr Luc Widmer's arrival.

The following changes took effect on 7 September 2012:

- Mr Carlos Cancer, formerly Head of Single Spindle Products, took over Market & Sales Support.
- Mr Sandor Sipos, formerly Head of Customer Service, left General Management to look after strategic projects for the Group.
- Mr Iwan von Rotz, Head of Multi-spindle Products, left the company.
- Mr Roland Gutknecht, Head of Micro Milling Products, left the company.
- Mr Bernard Seuret reached retirement age and as a result left General Management.

4.2 Other activities and interest groups

No member of General Management has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest groups, other than those mentioned on pages 24 and 25. 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 programs, 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 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. Details on fixed and variable remunerations for Directors as well as the evolution of Directors' fees in 2011 and 2012 are described in Note 30 to the consolidated financial statements in the financial report.

5.1.2 Members of General Management

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. Fixed remuneration is determined annually, firstly on a comparative basis using a survey of executive salaries in Switzerland (Compensation Report Switzerland, Watson Wyatt Data Services), and secondly on the basis of personal capabilities as assessed by the Nomination and Compensation Committee. This Committee is responsible for setting remuneration for all members of General Management, and it informs the Board of Directors 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. 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.

Details on the remuneration of General Management are disclosed in Note 30 to the consolidated financial statements in the financial report.

5.1.3 Severance pay
With effect from 1 January 2011, the CEO, COO 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.

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 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 two-thirds of the votes represented and an absolute majority of the nominal value of the shares represented in the case of a vote on the limitation of the exercise of voting rights or any change or cancellation of such limitation.

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

6.4 Entry of items on the agenda
Shareholders representing a nominal value of CHF 1'000'000 or more may demand that an item for discussion be entered on the agenda. 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 SA, Neuchâtel.

8.1 Term of office of the auditors and of the senior auditor responsible
The auditors are appointed annually by the General Meeting of Shareholders. Mr Michael Foley (Fellow of the Institute of Chartered Accountants) has been the senior auditor responsible since 2007. Every three to five years a call for tenders is issued to duly qualified accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading

the assignment, and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee, and by feedback from management on the way the audits are conducted. The same procedure applies to the evaluation of additional non-audit services supplied.

8.2 Audit fees

The audit fees invoiced by PricewaterhouseCoopers SA for auditing the annual financial statements for 2012 were CHF 228'000.

8.3 Additional fees

Additionally, during 2012 PricewaterhouseCoopers provided tax and legal advice on a number of occasions at a cost of CHF 144'782.50.

8.4 Means of receiving 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 2012, the auditors attended one meeting of the Audit Committee and submitted two reports to the members of the Audit Committee and the members of the Board of Directors respectively. 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 holding and Group company together with the financial report.

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 website at www.tornos.com. The annual report as well as the financial report containing information relating to the remuneration of members of the Board of Directors and General Management may be ordered from Tornos Ltd, Investor Relations, rue Industrielle 111, 2740 Moutier.

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The French version of the annual report is definitive.

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