



Report 2002

Annual report
2002

TORNOS HOLDING SA

TORNOS always present for your comfort and your safety

Is this heading too pretentious?

We do not think so! The machine tools produced by TORNOS enable their clients to manufacture millions of small turned parts throughout the world. These parts are then found in numerous sectors where small, precision-turned parts are essential.

The solutions provided by TORNOS enable their clients, (many of them are leaders in their sectors), to guarantee the delivery of parts that comply with all requirements, for all applications. Here are some examples ...



Without turning of small parts, there would be no injection, common-rail, achievements or performance...



Without turning of small parts, there would be no ABS or airbag, no anti-skid system or air-conditioning, no safety or comfort...



And could we simply put the question that without turning of small parts, there would be no car?



Without turning of small parts, there would be no dental implants or special tools, no bone screws or insulin pumps... hence, no health?



Without turning of small parts, there would be no barrel hooks, no crown, axes or rods... hence no watch industry?



Summary



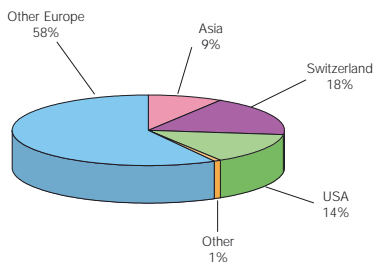
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Without turning of small parts, there would be no connectors or small axes, no hard disks or mobile phones, no hi-fi units or television... no communication?

TORNOS in 2002

Geographic distribution



Turnover CHF 180.6 mio. in 2002

TORNOS is one of the top international suppliers of automatic single-spindle and multispindle lathes. In 2002 the company withstood the world economic crisis by requesting far-reaching sacrifices on the part of its shareholders, suppliers and workforce for a financial and operational restructuring process, which was approved at the general shareholders' meeting.

This economic crisis coupled with factors outside the company's control did not raise doubts about the pertinence of the DECO concept, which allowed the company to grow quite considerably over the last 5 years. The geographical penetration of DECO continued during this crisis as well as its penetration of markets with a high growth potential.

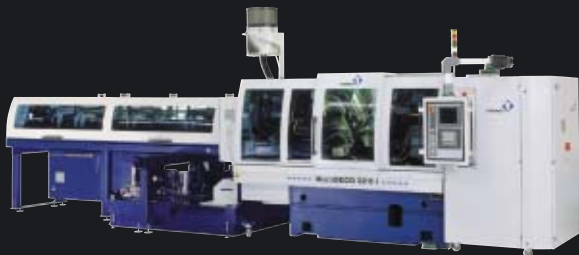
Throughout the world the solutions offered by DECO continue to provide real added value to the company's clientele.

Events in 2002

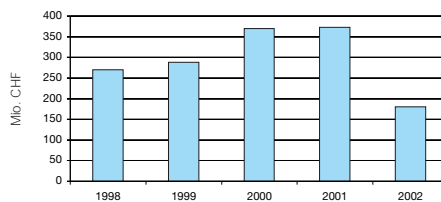
- ◆ First half of 2002: orders received are at a far lower level than it was the case in previous years.
- ◆ June 28th 2002: the general shareholders' meeting confirmed the measures to be adopted to bring the company back on to track.
 - Recovery plan adopted
 - New board of directors
 - New start for TORNOS
- ◆ September 2002: second phase of capital increase completed.
- ◆ November 2002: structural adjustment measures were adopted to adapt the cost structure to the turnover forecast in the 2003 budget.
- ◆ The fourth quarter showed drastically reduced cash loss and an almost breakeven EBITDA.



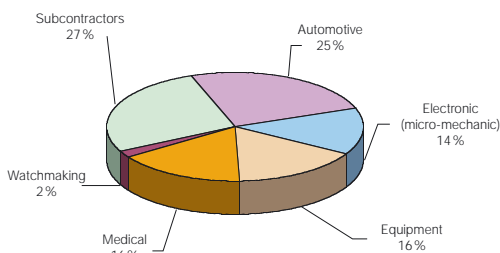
2002



Turnover

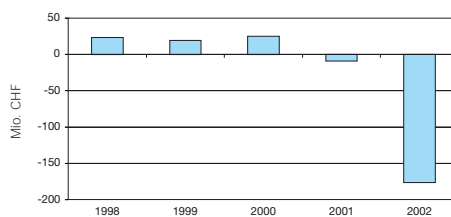


Fields of activities



Turnover CHF 180.6 mio. in 2002

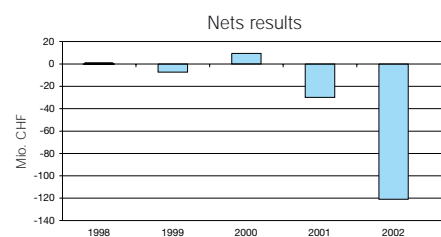
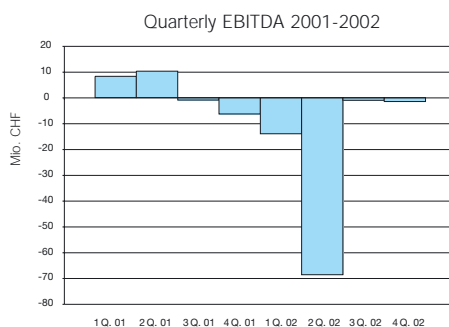
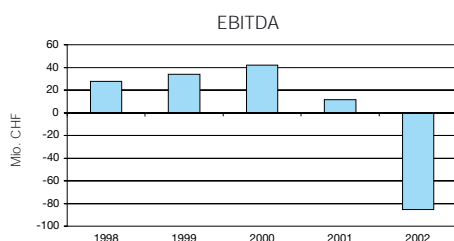
EBIT



TORNOS – consolidated figures

	1998	1999	2000	2001	2002
Sales Million CHF	269.3	288.7	370.1	372.8	180.6
% change	+ 28	+ 7.2	+ 28.2	+ 0.73	- 51.6
EBITDA	27.6	34.1	41.9	11.4	- 85.1
% of sales	10.2	11.8	11.3	3.1	- 47.1
Operating results (EBIT)	23.2	19.2	24.9	- 8.4	- 176.3
% of sales	8.6	6.7	6.7	- 2.3	- 97.6
Net result	0.3	- 7.2	9.5	- 29.9	- 121.4
% of sales	0.1	- 2.5	2.6	- 8.0	- 67.2
Expenditure on research and development Million CHF	n.a.	11.0	14.0	13.0	9.8
% of sales	n.a.	3.8	3.8	3.5	5.4
Investments in fixed and intangible assets Million CHF	n.a.	16.0	10.0	14.8	7.1
Orders intake Million CHF	n.a.	212.0	437.0	213.4	154.1
% variation	n.a.	-	+ 106.0	- 51.2	- 27.8
Employees end of year*	917	963	1231	1293	819
Average sales per employee 1000 CHF	293	307	337	295	171

* Without apprentices



TORNOS *always there and always near to you*

The broad spectrum of technical applications, coupled with exceptional output, complexity and the technological sophistication demanded by modern markets, means that TORNOS customers are in a position to provide efficient solutions in all economic sectors. Every day, wherever we look, we are confronted with small turned parts.

Small turned parts are found in all the growing technological sectors.



The car industry



The technological developments, as well as safety and anti-pollution standards, benefit from turning of small parts.

The wider availability of ABS systems, airbags, anti-skid systems and so on... on all models, even the most basic versions, offer great potential.



Medical technology



Dental and medical implants, just like technological developments, ensure great geographical potential.

The wide-spread application of medical solutions in the developing countries is contributing towards the geographical dissemination of turning of small parts.



Watch industry



Despite processes that have been well mastered for many centuries, the DECO solution provides properties that allow the watch industry sector to exceed its limits.



Electronic and Connector industry



World wide development in telecommunication and electronic industry continually pushed the benefits of small-parts turning industry to the production of even smaller and more precise parts.



High precision



Safety and security



In today's environment security and safety take on an ever important role and here too, the industry specialised in turning small parts offers specific applications.

Turning of small parts affects all sectors from the tip of a pen to the screw for a nuclear power station via ball bearings fittings or parts for the gas industry.

Report by the chairman

of the Board of Directors



Ladies and Gentlemen,
Clients and Shareholders

TORNOS looks back on an extremely difficult financial year. Following a successful growth strategy over several years, the collapse in the telecom and electronics sector coupled with the general economic downturn in North America and Europe led to a massive decline in orders received and in cancelled orders from mid 2001 onwards. The consequence of this dramatic turn of events in the key markets of TORNOS has resulted in a decline in Group sales of 51.6% to CHF 180.6 million (previous year: CHF 372.8 million). Despite the measures taken as early as autumn 2001 to reduce cost structures TORNOS faced a serious shortage of liquidity in the first quarter of 2002, which almost brought the entire company to a stop. The task force deployed by the board of directors in April 2002 examined the business model as well as the short and medium-term prospects of TORNOS and worked out a far-reaching operational and financial restructuring in co-operation with the lending banks. Cost structures of the TORNOS Group, which were geared to a sales volume of approx. CHF 400 million had to be adjusted to a sales volume of approx. CHF 200 million. This restructuring, which was approved by the shareholders of TORNOS Holding SA at the General Meeting of 28th June 2002, required far-reaching concessions and sacrifices equally by employees, shareholders, suppliers and banks. I would like to express the thanks of the entire board of directors to all those who have contributed to the success of the restructuring.

The business model, which was set up in spring 2002, envisaged total sales of CHF 175 million for the financial year 2002 and for 2003 anticipated a slight recovery, with total sales of CHF 200 million, taking into account the reduced capacity. Whereas the sales target for 2002 was even slightly improved upon, the board had to peg back expectations for 2003 to total sales of approx. CHF 180 million in November 2002 in the light of the business trend and had to announce a further adjustment of cost structures.

The final year-end accounts for 2002, which now also include costs and provisions for the structural optimisation notified in November 2002, show total sales of CHF 180.6 million and a loss of CHF 121.4 million. It has to be taken into account that the balance sheet of TORNOS SA has been extensively restructured and adjusted to the reduced sales volume. On the one hand depreciation has been applied to current and fixed assets and provisions have been made for restructuring. On the other hand write-offs of loans by banks and release of debts by suppliers have resulted in extraordinary income. The net effect of restructuring amounts to a loss of CHF 75.8 million.

During the second half of 2002 the operational and financial restructuring was implemented according to plan. The board of directors elected at the General Meeting of June 28, 2002 was intensively involved in implementing and designing the new business model. The measures introduced and, in part, already

implemented place strong demands on both management and staff but will steer TORNOS back along the path of success. The package of measures includes the following main aspects:

- ◆ Tightening up of the organisational structure
- ◆ New Group management
- ◆ Tightening up of the product portfolio
- ◆ Utilisation of the installed production capacities
- ◆ Extension of after-sales services
- ◆ Fair market price adjustments for products and services
- ◆ Promoting a quality and performance culture

The purpose of all these measures is further to develop the efficiency of the company. We are sticking to our objective of positioning TORNOS as the world market leader in high-precision turning. We intend the value added and cost structures to be achieved by the Company to be organised in such a way that, even in a difficult environment, the company can achieve at least a break-even result and, under strong economic conditions, attractive results.

For the financial year 2003 we anticipate sales at the previous year's level and a roughly break-even operating result. If these objectives are achieved, then liquidity during the financial year can be regarded as sufficient. We are also confident that the existing loan agreement with the consortium of banks can be extended beyond its normal term of December 31, 2003. If the economic trend and hence the orders received do not match up with the plan, the Board and Group management will immediately introduce corrective measures, so that the solvency of the company can be guaranteed at any time. By virtue of the restructuring undertaken and the strategic measures introduced and in part, already implemented, TORNOS is strengthened and equipped for the future. The company will be able to benefit beyond the level of any economic upturn, even if the process of change introduced takes time. TORNOS has very powerful products, a high degree of technological skill, qualified and committed employees, a loyal customer base and the innovative force required for success.

On behalf of the board of directors, I would like to thank our customers, business partners and suppliers for their loyalty and the employees and management for their great commitment during the past financial year. Special thanks are due to our existing and new shareholders for the confidence they have shown in TORNOS.

François Frôté
Chairman of the Board of Directors

TORNOS – strengthened after the financial year 2002

A summary of the financial year

During the financial year 2002 TORNOS achieved consolidated sales of CHF 180.6 million (previous year: CHF 372.8 million). This corresponds to a reduction of 51.6% compared with the previous year. The company was faced with declining sales in all key markets. The telecom and electronics sectors in particular, which in the previous year made a contribution to sales of CHF 123.0 million, generated only CHF 25.3 million to sales in the year under review.

The financial and operational restructuring has left deep marks in the consolidated profit and loss account of TORNOS. The result before interest, tax and depreciation (EBITDA) for the financial year 2002 is a negative CHF 85.1 million (previous year: plus CHF 11.4 million). In the year under review TORNOS shows an operating loss at EBIT level of CHF 176.3 million (previous year: minus CHF 8.4 million). The net loss stands at CHF 121.4 million (previous year: minus CHF 29.9 million). Without the various positive and negative effects of the restructuring process, the net result would have been better by CHF 75.8 million.

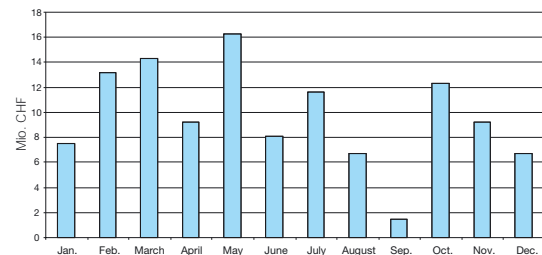
Difficult start of the financial year

During the financial years 1997 to 2000, TORNOS increased sales by an average of 20% a year from CHF 197 million to CHF 370 million. Still in spring 2001 customers complained of excessively long lead times and at that time TORNOS had orders in hand amounting to more than CHF 200 million. It can be stated that the company had built up capacity to cater for a sales volume in excess of CHF 400 million. This expansion, however, led to a dangerously high fixed cost structure, which in the end almost sealed the fate of TORNOS.

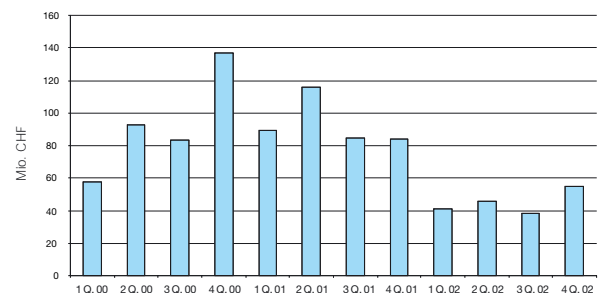
During the second half of 2001 there was a severe decline in orders received. In addition various orders were cancelled so that by the end of 2001 orders in hand had gone down to a value of CHF 70 million. The budget worked out in October 2001 with the sales managers defined a sales target of CHF 350 million. A sensitivity analysis showed that up to a sales volume of CHF 250 million, the liquidity of the Group would still be secured. For this reason the downsizing of capacity introduced in October 2001 with a retrenchment of 200 people, turned out to be relatively moderate and, looking back, even too moderate.

During the first quarter of the financial year 2002 budgeted incoming orders were far below expectations. In addition further orders were cancelled, the parent company in Moutier had to battle with insufficient capacity utilisation. In spite of short time working and cost cutting measures, it was not possible to reduce fixed costs sufficiently and quickly enough to prevent a substantial outflow of funds. A market survey conducted by a neutral consultant showed that the collapse in orders received was due not to the loss of market share but rather to the economic environment.

Order intakes for machines 2002



Quarterly turnover 2000-2002



Financial shortage in April 2002

The substantial outflow of funds during the first quarter could no longer be fully financed with the existing credit line and in consequence, from April 2002 a serious shortage of liquidity began to paralyse the company. After the resignation of the managing director and CEO the board of directors appointed a task force with objective to get the company out of its dangerous situation. The task force examined the business model and after close examination of the various alternatives suggested to the Board a thorough financial and operational restructuring of the TORNOS Group. Without these restructuring measures, it would not have been possible for the TORNOS Group to continue.

Financial restructuring

The financial restructuring included a capital write down from CHF 115.0 million to 11.5 million followed by a capital increase to CHF 66.9 million. The banks waived half of the outstanding loans amounting to CHF 60 million. Suppliers with significant claims (totalling approx. CHF 40 million) converted 25% of their claims to shares in TORNOS Holding AG and waived a further 25% of their claims.



The restructuring also included an adjustment of the balance sheet to the reduced sales volume and accumulated amortisation of intangible assets. In addition provisions were made for the operational restructuring.

The financial restructuring was charged to the Group profit and loss account of the TORNOS Group with CHF 75.8 million. Details of the financial restructuring can be seen in the financial section of the annual report on chapter 6.

Operational restructuring

As part of the activities of the task force deployed by the board of directors a new business plan was produced for the TORNOS Group, which took account of the business environment and the anticipated developments in the key markets of TORNOS. This business plan envisaged sales of CHF 175 million for the financial year 2002 and CHF 200 million for 2003 with an improvement of order intake expected for the final quarter of 2002. Therefore, the operational restructuring essentially involved an adjustment of production capacity, which was geared to a sales volume of approx. CHF 400 million, to total sales of CHF 200 million. This downsizing involved a reduction in the workforce by approximately one third of the employees and accompanying measures to improve efficiency, reduce the capital invested and make better use of the remaining capacity.

Volatile second half year

The restructuring announced in June 2002 was rigorously implemented in the second half of the financial year. In this context, it should be noted that the company was practically paralysed as

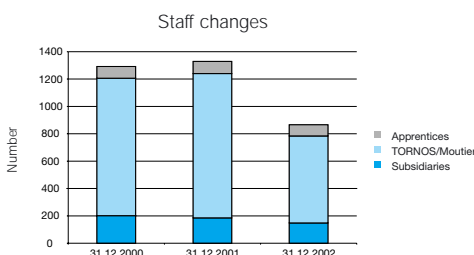
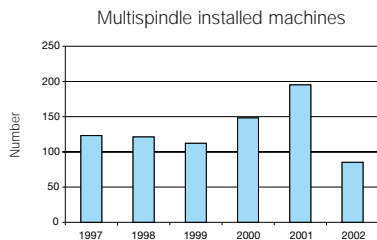
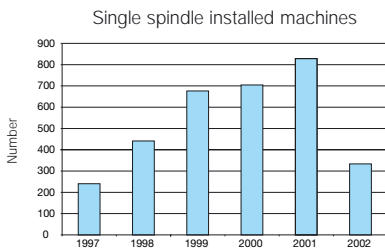
a result of the shortage of liquidity and the resulting uncertainty produced amongst customers and suppliers in the middle of 2002. The revival of production and re-establishment of existing customer and supplier relationships, which presented management with an enormous challenge, were successfully implemented. Thanks to the great efforts of the sales and production force the sales volume in the business plan was achieved for 2002. However, in autumn 2002 it had to be stated that the anticipated revival of incoming orders was not taking place. The world-wide uncertainty with regard to the likely war against Iraq led to diminished inclination by customers to invest.

Optimisation of structures

In view of the business trend during the second half of the financial year the board of directors and group management decided to adjust the structures once again and to adapt them to a sales volume in the order of magnitude of CHF 180 million. This downsizing which involved a further reduction in the workforce of 100 to 150 employees was necessary in order to achieve an approximate breakeven operating result, given the sales volume expected for 2003. In addition to the downsizing the Group management was replaced during the second half of the financial year and the business model was further refined and put into effect.

A strengthened company

The financial year 2002 was a difficult one for TORNOS. The business environment forced the company to adjust its structures and strategy to the changed market conditions. The necessary retrenchment amongst the work-force was painful but allowed TORNOS to survive at the level of sales now achievable and to develop profitably once an upturn will come. In spite of the incisive staff cuts the core skills and key know-how of the company were retained. Finally, thanks to the financial restructuring TORNOS once again has a healthy balance sheet without any goodwill and with an equity ratio of 39.9%. As at the end of the year under review the net debt was of CHF 42.2 million corresponding to a gearing of around 50%.



TORNOS – a company with potential



The vision

The vision of TORNOS can be described in a few words: the company wish to become the world-wide technology and market leader in high-precision turning. TORNOS will realize this vision by offering customers throughout the world flexible, user-friendly, economical and innovative solutions for producing of small, complex and high-precision turned parts. The company will achieve its strategic aims through technical innovation and by process and product innovation. In this context, it is always the benefit, for the customer – the efficiency and flexibility of the process – that keeps TORNOS moving.

The business model

The business model of TORNOS is customer-oriented. The customer wants an economic process to manufacture high-precision turned parts. TORNOS offers the complete solution including lathe, tooling, feed, handling, training and support. TORNOS supply not only the machine to the customer but the complete production solution.

TORNOS cultivates a close partnership with its customers; the company advises and assists the customer in all matters of manufacturing high-precision turned parts. This also includes an extensive after-sales service, which, apart from spares and service, also includes technology support and training.

The business activities of TORNOS can be broken down into the following sectors:

- ◆ DECO and MULTIDECO automatic lathes.
- ◆ After-sales services.
- ◆ Subcontracting.

The following activities are emphasised:

DECO: developing market potentials

Nowadays TORNOS enjoys a good market position in Europe and North America. The growing market potential in Asia is to be successively exploited during the coming years. The growth strategy will also include giving high priority to penetrating the world markets in the electronics, medical, automobile and watch-making sectors, including the involvement of product manufacturers, system manufacturers and subcontractors.

DECO: streamlining the product range

As part of the re-examination of the product range the board of directors and group management decided to focus on the two main product lines – i.e. singlespindle and multispindle machines – and to disinvest in activities acquired from Schaublin associated with fixed headstock lathes. An initial step was already done in this direction by selling the Schaublin product line to Schaublin Machines SA. The development of the company's own fixed headstock lathe was given up.

Apart from the main single and multispindle product lines, TORNOS will continue to offer the peripherals to lathes such as bar feeders, chip conveyors, etc., in a global solution philosophy. However, peripherals are to be manufactured only by TORNOS, if buying-in is uneconomical.

DECO: promotion of a quality culture

Within the growth strategy implemented in previous years it was not always possible to pay as much attention to the product and service having quality as was necessary. As part of the strategy review, the board of directors and management agreed on a stringent quality culture. The management gives high priority to the quality of products and services and consistently promotes and establishes the quality culture in the company.

For this purpose it can rely on a staff with a remarkable knowhow.





DECO: fair market prices

The price of products and services is to be primarily oriented towards customer benefit. The aim is that the product and services of TORNOS will guarantee the customer a high return on investment. The pricing strategy defined by the board of directors and the management may result in price adjustments for some products but can be justified to the customer by virtue of the range of services included.

After-sales service

Customers have a large number of still operating lathes. It is worthwhile looking after this base on the one hand by promptly and reliably satisfying the maintenance, inspection and spare part requirements but, on the other hand, also by using the after-sales service as a mean of promoting sales and giving technological advice. As a first step the two existing, independently-operating service organisations at TORNOS SA and TORNOS Services SA were merged. In a second stage the new service organisation will be strengthened with new staff and management in order to be able to perform in a third stage the comprehensive service commission profitably and to the entire satisfaction of the customers.

Subcontracting

Despite the restructuring undertaken TORNOS still has excess manufacturing capacity, particularly with regard to the under-utilised and highly efficient machining centres. The aim is to make better use of these centres with sub-contracting machining jobs. The first successes have already been achieved.

Sales and service organisation

The subsidiaries of the TORNOS Group have, up till now, acted as re-sellers in their market territories. Efficiency and speed in sales and service can be significantly increased by redefining the distribution of these functions between Moutier and the subsidiaries. The customer should be able to benefit from the know-how of TORNOS and be looked after comprehensively and skilfully by local staff when required.

Prospects for 2003

The TORNOS Group started the financial year 2003 with orders (machines only) on hand amounting to CHF 33.3 million. The budget produced in close co-operation with the sales organisations leads to the planned sales in the order of magnitude of CHF 180 million and to an approximate breakeven operating result for the financial year 2003. If the order intake does not develop as planned, the board of directors and group management would immediately implement further measures.

Medium and long-term outlook

TORNOS is ready for the economic upturn. However, the business model provides for controlled growth, which does not gear capacity to maximum output but attempts to cover economic peaks by outsourcing. This growth, which should be of the order of 10% a year, within a stable economic environment, must be organised profitably and must not be to the detriment of quality and customer satisfaction. The quality and performance culture which is to be reinforced within the TORNOS Group, will form the basis for the sustained, healthy development of the company throughout the business cycles.





1. Corporate Governance at TORNOS

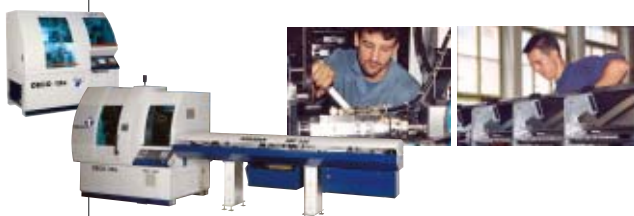
The Board of directors and group management place great value on responsible and transparent corporate management and control in the interests of our shareholders, customers and staff. The disclosure of Corporate Governance takes its model from the Swiss stock exchange and takes account of the best practice rules of the Swiss economy. At TORNOS, Corporate Governance is based on the articles of association and for the Board of directors and its committees, on the rules of organisation.

2. Group structure, Capital structure and shareholding

2.1. Group structure

Management structure corresponds to juridical structure. Each subsidiary is driven by a managing director. These are subordinated to the Group management.

Name	Purpose	Share capital	Ownership %	
			2002	2001
TORNOS Holding SA, Moutier	Holding	CHF 66'918'775	100.00	100.00
TORNOS SA, Moutier	Sales/ Manufacturing	CHF 65'000'000	100.00	100.00
TORNOS Services SA, Moutier	Sales	CHF 1'000'000	100.00	100.00
TORNOS Technologies US, Inc., Brookfield, USA	Sales	USD 6'000'000	100.00	100.00
TORNOS Technologies UK Ltd., Coalville, GB	Sales	GBP 345'000	100.00	100.00
TORNOS Technologies Deutschland GmbH, Pforzheim, D	Sales	EUR 511'000	100.00	100.00
TORNOS Technologies s.r.l., Assagio, I	Sales	EUR 93'000	100.00	100.00
TORNOS Technologies Iberica SA, Granollers, E	Sales	EUR 60'000	100.00	100.00
TORNOS Holding France SA, Paris, F	Holding	EUR 12'500'000	100.00	100.00
TORNOS Technologies France SA, St-Pierre, F <small>(as a 100% subsidiary of TORNOS Holding France SA)</small>	Sales	EUR 762'000	100.00	100.00



2.2 The share and shareholders

There are no restrictions of transfer or voting right with respect to the ordinary share of TORNOS Holding SA. The 13,383,755 nominal shares are distributed amongst 1,632 shareholders. Shareholders with a share of the votes exceeding 5% can be seen in the financial report under point 23.5. There are no relevant cross-participations.

2.3 Listing

The TORNOS shares are traded on the Swiss SWX Stock Exchange Zurich, under securities number 1160768 (symbol: TOHN). The market capitalisation value as on the balance sheet date was CHF 31.5 mio.

2.4 Capital structure

TORNOS Holding SA has the following capital structure as at 31st December 2002:

In CHF thousand	Ordinary capital	Contingent capital	Authorised capital
As at 31.12.1999	10'000	-	-
Formation	-	-	-
Drawing	-	-	-
As at 31.12.2000	10'000	-	-
Formation	105'000	2'500	-
Drawing	-	-	-
As at 31.12.2001	115'000	2'500	-
Formation	55'419	11'750	10'000
Drawing	- 103'500	- 2'500	- 5'419
As at 31.12.2002	66'919	11'750	4'581

Contingent capital

For serious reasons (restructuring of the company) the share capital was being increased to a maximum amount of CHF 11,750,000.- and, in the case of bb to the exclusion of the subscription right or advance subscription right of the shareholders, by issuing fully paid up registered shares, each with a par value of CHF 5.-, of which

- aa up to 1,150,000 shares each with a nominal value of CHF 5.- up to an amount of CHF 5,750,000.- by exercising option rights, which were granted to the shareholders in connection with the capital reduction by reducing the nominal value. In each case, two of the options granted to the shareholders give entitlement to subscribe to one registered share at an issue price of CHF 10.-. These options must be exercised within a maximum period of two years.
- bb up to 1,200,000 shares each with a nominal value of CHF 5.- up to an amount of CHF 6,000,000.- by exercising option rights, which are granted to the creditor banks and specific creditors under the restructuring concept as part of the consideration for a partial waiver of debt repayments in connection with outstanding loans or as part of a settlement of a pending legal dispute, thus complying with the market conditions in the restructuring situation. Each of these options gives entitlement to subscribe to a registered share at an issue price of CHF 6.-. The options will be exercised within a maximum period of five years.

The detailed terms of the options will be decided upon by the Board of directors and will take account of the above-mentioned requirements.

Authorised share capital

The Board of directors can increase the share capital of the company within two years by a maximum of CHF 4,581,235.- by issuing a maximum 916,247 new registered shares at a nominal value of CHF 5.-. An increase by instalments is allowed. The Board of directors will decide on the time of issue, the issue price, the type of contributions to be made, the time of entitlement to dividends and the allocation of subscription rights not taken up. The Board of directors can limit or cancel the right of shareholders to subscribe in the event that the shares are used in connection with the restructuring of the company or group (creditors' waiver of claims), with the take-over of companies, parts of companies or participations, and for financing such transactions or for financing capital investment projects.

2.5 Options

The following call options in respect of TORNOS Holding SA shares are outstanding:

Number	Type	Due date	Exercise price
2'300'000	In favour of existing shareholders Subscription ratio - 1 for 2	September 2004	10.00
1'175'000	In favour of banking syndicate / other creditor	July 2007	6.00

3. The Board of directors

3.1. Members of the Board of directors

See page 14.

3.2 Election and term of office


The Board of directors of TORNOS Holding SA consists of at least 3 members, currently 7, and comprises mainly independent, non-executive members. There are no cross-memberships within the meaning of the Corporate Governance guideline. The Board of directors is elected by the general meeting for a maximum term of 3 years and the term of office is decided at the time of election by the General Meeting. Re-election is permitted. There is an age limit of 70 years. The chairman is elected by the Board of directors.

The Board of directors is quorate if the majority of members is present. If the votes are equal, the chairman has the casting vote.

3.3 Internal organisation

The rules of organisation of TORNOS Holding SA lay down the responsibilities of the Board of directors and group management. The Board of directors is responsible for the overall management of the company and the Group (in particular for establishing the aims and Group strategy and approving the business plan), for organising the method of accounting, financial control and financial planning, appointing and dismissing the CEO and Group management members, convening the General Meeting, deciding on and amending the organisation of the company and notifying the judge in the event of absolute insolvency. It exercises supervision of





the individuals entrusted with the management of the business. In so far as is legally permitted and, subject to the responsibilities mentioned above, the Board of directors delegates the overall management to the managing director as CEO and chairman of the group management.

With the efficient allocation of duties in mind, the board of director appointed François Frôté as Chairman, Claude Elsen as Vice-chairman and Raymond Stauffer as Managing director and CEO plus the following committees in October 2002:

– **Nomination and Compensation Committee: F. Frôté, C. Elsen, R. Stauffer**

This recruits members of the group management and specifies their remuneration. It makes application to the Board of directors as a whole regarding the compensation of the members of the Board of directors (including the managing director and CEO). During the period under review, it met once for a duration of 5 hours.

– **Audit Committee: P. Häring, F. Frôté**

Monitors the work of the auditors and handles business deals on behalf of the Board of directors. During the period under review, it met twice following completion of the accounts for the year under review for an average period of 3 hours.

– **Strategy and Products Committee: R. Stauffer, M. Rollier, H.-O. Stenzel**

It reviews group strategy and makes requests to the Board of directors for strategy adjustments or changes. During the period under review, no meeting took place.

The Board of directors meets as required, but at least four times a year. During the financial year 2002, on account of the emergency situation, it met 11 times, for an average period of 8 hours. The members of the management were regularly consulted with regard to discussions held by the Board of directors, and, in particular during meetings prior to the reorganisation of the company, outside consultants were also brought in if the agendas came within their areas of responsibility. With the exception of the nomination committee, on which only Raymond Stauffer sits as representative of group management, the committees also met together with members of the company management.

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

At its meetings, the Board of directors will be regularly kept verbally informed by the management concerning the progress of business. In addition, there is a periodic Management Information System (MIS), in which the most important key figures are compared weekly (orders received) or monthly (profit and loss account and balance sheet) against the budget. Furthermore, the Audit Committee oversees the work of the auditors, as described in point 3.3.

4. Management

4.1 Members of Management

See page 14.

4.2 Management contracts

There were no management contracts between the company and third parties during the year under review.

5. Compensation, participations and loans

5.1 Content and fixing procedure


The remuneration of the members of the group management is defined by the Nomination and Compensation Committee. The fees of the Board of directors are fixed by the Board of directors as a whole (at the request of the Compensation Committee).

A lump sum was allocated to the Board of directors, covering the work of the Board of directors and that done in the committees, as well as additional remuneration in relation to projects and expenditure (e.g. in connection with the restructuring).

5.2 Compensation paid to officiating officers of the company

No fees were paid to the current members of the Board of directors during the accounting year 2002 for reasons of liquidity.

The non-executive members of the board, however, had a right to fees totalling CHF 185,000.– during the year under review and these will be paid out at a later date depending on the liquidity situation. The former President of the board abandoned an important part of his board fees for 2002.



In the year under review, a total of CHF 1,657,151.– was allocated to the executive members of the Board of directors and the members of the group management. As part of the financial and operational restructuring of the TORNOS Group, members of the Board of directors have taken on executive functions. The total cost of these activities amounts to CHF 270,025.– and haven't been paid yet.

The member of the Board of directors with the highest total compensation (fees and compensation for expenses) had a right to payments of CHF 196,469.– during the year under review.

The company currently has no employee share-owning plan. In the year under review, no shares were allocated to members of the Board of directors and the group management. As a whole, the executive members of the Board of directors and of the group management owned a total of 9,320 registered shares and 18640 share options in TORNOS Holding AG as at 31.12.2002. The non-executive members of the Board of directors and persons closely associated with them, owned 51,903 registered shares and 103,806 share options.

5.3 Compensation to former officers of the company

During the report's year, no compensation was paid to former officers of the company.

5.4 Additional fees and remuneration

The total fees, which Prof. Dr. Franz Kellerhals invoiced for the legal consultancy services of his team during the year under review and up until the time of his departure from the Board of directors at the end of June 2002, amounts to CHF 107,103.75.

The total fees to be paid to Frôté & Partner for legal consultancy services during the year under review amount CHF 290,171.63.

5.5 Company loans

The company has no outstanding loans to members of the Board of directors and group management.

6. Auditors

The auditors of the holding company and of the Group since the financial year 2000 has been KPMG Fides Peat, Bern, with Mr. Elmar Ittensohn, as the senior auditor responsible since 2000. The auditors are elected annually by the general meeting. The total auditing fees, which KPMG invoiced during the year under review amounts to CHF 1,205,216.–

For additional services, in particular for checking the information in the issue brochure for increasing the company's capital, KPMG invoiced CHF 427,127.– during the year under review.

The Audit Committee monitors the external auditors on behalf of the Board of directors in that KPMG attended its meetings on two occasions and provided information on its work. In addition the latter submitted a management letter to the Committee. The senior auditor also attended numerous ad hoc meetings in connection with the restructuring.

7. Information and disclosure policy

TORNOS keeps the shareholders informed through the statement of account, the half yearly report and, quarterly or as required, through media releases concerning the current state of business and events relevant to the stock exchange. All essential information is also available on our homepage www.tornos.ch.

Please contact Mr. Pierre-Yves Kohler regarding communications.

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8. Co-operation rights of shareholders

8.1 Voting restriction and proxy voting

There are no voting restrictions. Only shareholders whose names appear in the share register may vote by proxy. The articles of association provide that the shareholders may only be represented at the general meeting by their legal representative, another shareholder entitled to vote, the independent proxy, the company representative or a securities representative. Fiduciarily-managed shares, even with voting right, can be entered under defined conditions.

8.2 Statutory quora

The articles of association provide for a qualified quorum of at least 2/3rds of the votes represented and an absolute majority of the nominal value of the shares represented for limiting the exercise of the voting right and any change or cancellation of such limitation.

8.3 Convening the general meeting and agenda

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

8.4 Entries in the share register

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

9. Controlling and warding off mechanisms

The statutory limit values apply with regard to the obligation to submit a public offer. There are no special controlling or warding-off mechanisms in place.



Officers and Directors

Board of Directors

François Frôté (*1953), Swiss

Chairman of the board
Member since 2002
Elected until 2005
Former activities on behalf of /current business relationship with TORNOS: none
Committees: Nomination and Compensation Committee and Audit Committee
Professional background: Lawyer, Vice-President of the Banque Cantonale de Berne, mandates as board member in the industry.



Claude Elsen (*1947), Luxemburgish

Vice-chairman of the board
Member since 2002
Elected until 2005
Former activities on behalf of /current business relationship with TORNOS: none
Committees: Nomination and Compensation Committee
Professional background: B Sc.; Master of M.E., RWTH; MBA INSEAD; Held various management positions in European and overseas industries, economic advisor to the government of the Grand Duchy of Luxembourg, Managing Partner Consilux, various directorships.



Raymond Stauffer (*1954), Swiss

Delegate of the board, Chief Executive Officer since November 2002
Member since 2002
Elected until 2005
Former activities on behalf of TORNOS: none
Committees: Nomination and Compensation Committee, Strategy and Products Committee
Professional background: Graduated engineer, graduated manager, different leading positions within the Ismecca Group, different mandates in the industry.



Paul Haering (*1957), Swiss

Member since 2001
Elected until 2004
Former activities on behalf of /current business relationship with TORNOS: none
Committees: Audit Committee
Professional background: Business economist, MBA, CFO of the Feintool Group



Michel Rollier (*1959), Swiss

Member since 2002
Elected until 2005
Former activities on behalf of /current business relationship with TORNOS: none
Committees: Strategy and Product Committee
Professional background: Graduated engineer EPFL, founder and shareholder of Rollomatic SA.



Patrick Smulders (*1965), English

Member since 2001
Elected until 2004
Former activities on behalf of TORNOS: Representative of Doughty Hanson Ltd.
Committees: none
Professional background: BA and MBA in Harvard, General Manager of Doughty Hanson



Hans-Otto Stenzel (*1941), German

Member since 2002
Elected until 2005
Former activities on behalf of TORNOS: Chairman and CEO of TORNOS holding France, member of the board of TORNOS K'MX and of Wirth & Gruffat
Committees: Strategy and Products Committee
Professional background: Graduated engineer, CEO ELB-SCHLIFF Werkzeugmaschinen GmbH

Group Management



Francis Koller (*1948), Swiss

Head of sales
Appointed in 2002
Professional background: Technical degrees, joined the company in 1965 and served different positions in the field of development and sales. Wide experience as head of product, head of marketing, head of business unit, head of sales and sales administration.



Philippe Maquelin (*1951), Swiss

Chief Operating Officer
Appointed in November 2002
Professional background: Degrees in economic science, wide experience with the management of industrial companies, member of the General Manager of Ismecca La Chaux-de-Fonds as Head of Finances, MIS and HR for the Group.



Bernard Seuret (*1947), Swiss

Head of production
Appointed in 2000
Professional background: Graduated engineer for electronics, joined the company in 1969 and served different positions in the field of development and production.



Martin Tschumi (*1966), Swiss

Chief Financial Officer
Appointed in November 2002
Professional background: Degrees in economical and commercial science in the field of management earned at the University of Bern, graduated financial auditor. Independent consultant. Wide experience in the field of turnaround, stabilization and restructuring. Numerous mandates as CFO and/or CEO ad interim in turnaround situations and as member of boards.



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