



## ANNUAL REPORT 2003

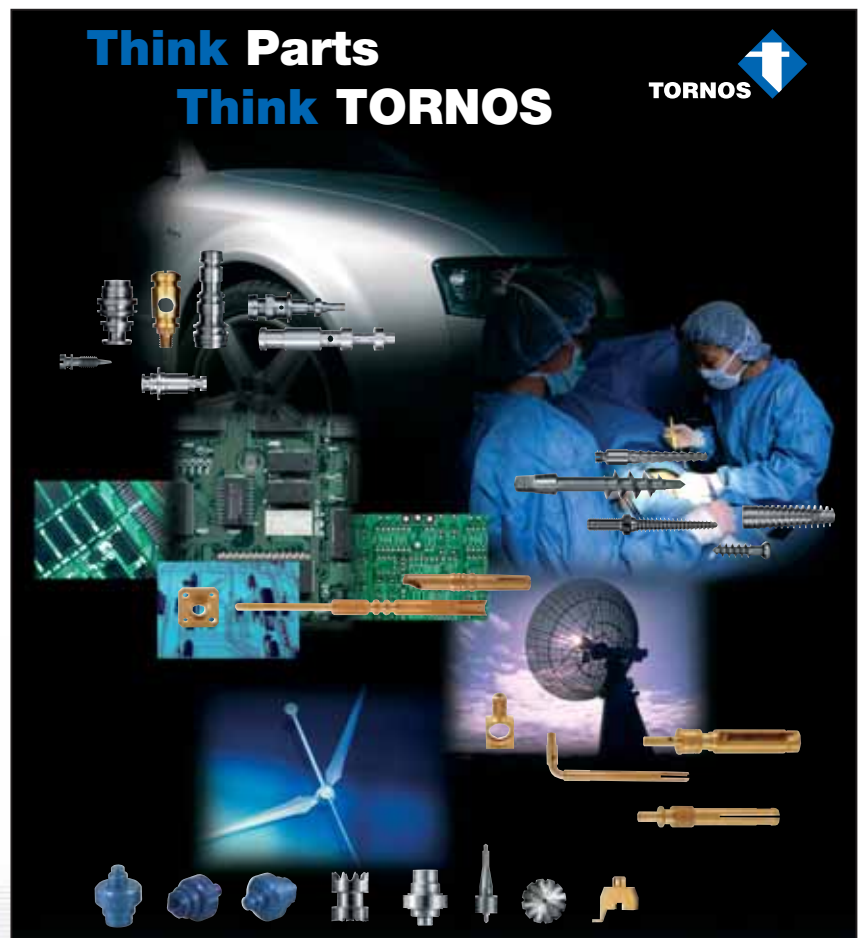


Annual report  
**2003**

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TORNOS HOLDING SA

Automatic lathes :  
a manufacturing sector, which  
moves the whole world!



Through the diverse fields of application and the very good price/performance ratio, automatic turning is probably the most common method of production with the highest number of parts. In the industrial countries there is nobody, who does not use the services of turned parts daily.

Tornos has been present on the automatic lathe market since its inception ; it has constantly expanded the boundaries of possible processes and has been able to offer its client more and more options: more precision, more productivity, more efficiency.

Today, turned parts can be found everywhere, in computers, telephones, cars, watches, coffee makers as well as in the medical technology and countless other equipment...

We benefit from the progress and the strengths of the automatic lathe technology in all spheres of life.

But this is not all! Without today's turning technology, producers would not be able to realize new technological solutions.

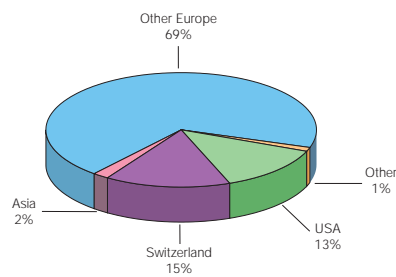


Automatic lathes : a manufacturing sector, which moves the whole world!	2
Tornos – detailed figures	4
Tornos – consolidated figures	5
Tornos – a fascinating development	6
Report of the President of the Board	7
Results for business year 2003 meet objectives	8
The new business plan "With confidence towards the future"	11
Corporate Governance and communication	15
Board of directors & management	18
Tornos subsidiaries	20



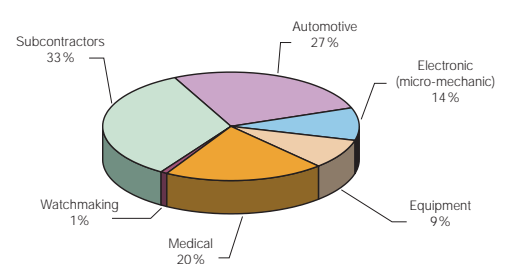


Geographic distribution



Turnover CHF 174.7 mio. in 2003

Fields of activities

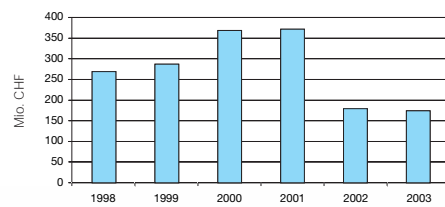


Turnover CHF 174.7 mio. in 2003

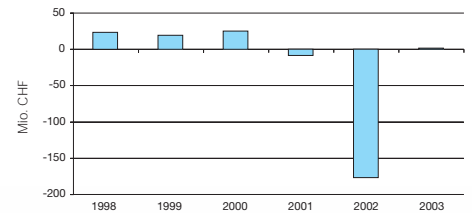


2003

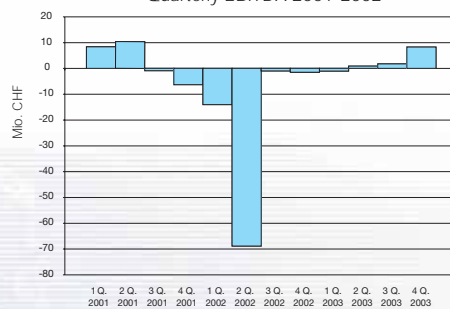
Turnover



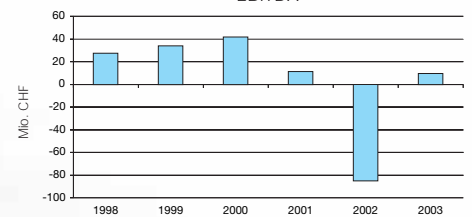
EBIT



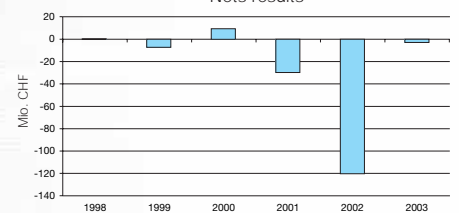
Quarterly EBITDA 2001-2002



EBITDA



Nets results



## Consolidated figures

	1999	2000	2001	2002	2003
<b>Sales Million CHF</b>	288.7	370.1	372.8	180.6	174.7
% change	+ 28	+ 28.2	+ 0.73	– 51.6	– 3.3
<b>EBITDA</b>	34.1	41.9	11.4	– 85.1	9.7
% of sales	11.8	11.3	3.1	– 47.1	5.6
<b>Operating results (EBIT)</b>	19.2	24.9	– 8.4	– 176.3	0.4
% of sales	6.7	6.7	– 2.3	– 97.6	0.2
<b>Net result</b>	– 7.2	9.5	– 29.9	– 121.4	– 2.8
% of sales	– 2.5	2.6	– 8.0	– 67.2	– 1.6
<b>Expenditure on research and development Million CHF</b>	11.0	14.0	13.0	8.2	6.4
% of sales	3.8	3.8	3.5	4.5	3.6
<b>Investments in fixed and intangible assets Million CHF</b>	16.0	10.0	14.8	7.1	1.6
<b>Orders intake Million CHF</b>	212.0	437.0	213.4	154.1	170.6
% variation	–	+ 106.0	– 51.2	– 27.8	+ 10.7
<b>Employees end of year*</b>	963	1231	1293	819	689
<b>Average sales per employee 1000 CHF</b>	307	337	295	171	232

\* Without apprentices

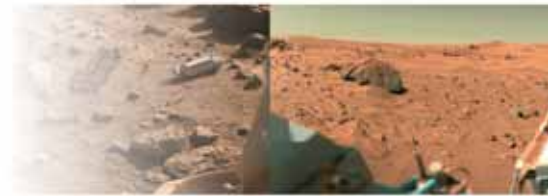






## A fascinating development...

- Technology develops constantly; today deep freezers are connected to the internet, colour photos from Mars are available, alternative energies are being developed...
- At the beginning of the year 2004, certain indicators show a slight recovery in the electronics and electro-technical sectors.
- In the medical market, above all, with regard to implants, signs of growth can be noticed.
- More and more complex operations of the rehabilitative surgery increase the chances of successfully curing patients.
- In the car industry, very demanding technological solutions (electronic support, ABS, multiple airbags) have gained more and more acceptance on a broad basis.
- Automatic domestic equipment is in its first development stages.



All these application areas have one thing in common :  
they use turned parts !

Tornos offers solutions with real added value in all these areas and many others...



## Report of the President of the Board

Ladies and Gentlemen,  
dear Employees,  
dear Customers,  
dear Shareholders,  
dear Suppliers,

In May 2002, when we restructured the share capital of our company, the economic community did put its hopes on an economic revival in the last quarter of 2002. Unfortunately, the economic situation developed differently and therefore, in Autumn 2002, we were forced to take additional restructuring measures. The optimism of the economic community continued with respect to the forecasts for 2003, which, unfortunately, were again refuted, particularly for the investment goods industry. In addition, Europe was confronted with a falling Dollar and all the negative consequences this had on our export industry. In spite of this economic slackness we have been able to regain the confidence of our customers and partners, thanks to:

- the realization of all restructuring measures that had been planned per year-end 2002;
- the achievement of the financial results which were according to budget or slightly exceeded it;
- determining and implementation of a strategy plan, defining our activities and targets for the next years.

With these measures, fundamental changes took place in our company which was able to win back its acknowledged position as a worldwide market leader in the machine tool industry. We are glad to see that the concessions

made by our staff, our suppliers and our financial partners have not been in vain.

On the financial level, the business year 2003 distinguishes itself by the following elements:

Exercise	2002	2003
Sales	180.6	174.7
EBITDA	-85.1	9.7
EBIT	-176.3	0.4
Net results	-121.4	-2.8
Incoming orders	154.1	170.6

Altogether, the improvement achieved compared to 2002 is impressive.

With respect to liquid assets, the situation throughout business year 2003 remained positive and even allowed us an amortization of our bank commitments by CHF 3.0 million.

At the end of business year 2003, which was characterized by a complete and extensive operational restructuring, our company is able to

- present a strategy adjusted to customers' requirements and accordingly an acknowledged closeness to customers;
- offer modern products, which exactly fulfill our customers' specific requirements;
- rely on a new organization, which has been adjusted to the conditions and expectations of the market;
- count on an experienced management, which works as a team and can rely on a staff that has regained its motivation and confidence in the company.

On this healthy basis, business year 2004 will be dedicated to the consolidation of Tornos, i.e. to the «new Tornos». In 2002, our company began a fundamental transformation process, which has now come to an end and which will allows us to be successful again. In this respect, the year 2004 will be characterized by the following priorities:

- innovation;
- increase of our customers' productivity;
- development in Asia and opening of an agency in China;
- constant improvement of processes and structures.

As far as perspectives for business year 2004 are concerned, the realized reconstruction measures will enable us to improve our competitiveness and, at the same time, to strengthen our independence of economic cycles.

We expect sales between CHF 180 and 190 million with a balanced net result.

Finally, on behalf of the Board of Directors, I would like to thank all our employees, our customers, our financial partners and our suppliers for their excellent collaboration, which enabled us to restructure Tornos successfully. I also would like to thank our shareholders for their continuous confidence in us.

*François Frôlé,  
Chairman of the Board of Directors*

## Results for business year 2003 meet objectives



### **A Summary of the business year**

In business year 2003 Tornos reached its targeted results. Gross sales amount to CHF 174.7 million, a slight 3.3% decrease compared to CHF 180.6 million in 2002. In view of the still difficult economic environment and Tornos' starting position at the end of 2002, this may be regarded as a satisfactory result. In spite of this decrease achieved sales are within expectations. In the European markets budgeted targets were exceeded, in North America and Asia, however, they could not be met.

The first positive effects of the restructuring measures and cost-cutting programs introduced in 2002 can be noted in the annual report 2003. All expenditure accounts have been significantly reduced. The target to adjust Tornos' cost structure to a sales volume of approximately CHF 180.0 million has already been met for the most part already in the first year after the restructuring. Further cost savings and measures to increase efficiency will become effective in business year 2004.

The gross profit (net sales minus cost of goods sold) has been considerably increased, mainly thanks to cost savings on goods purchased and price increases on sales. During business year 2003, the result before interest, taxes, depreciation and amortization (EBITDA) amounts to CHF 9.7 million compared to a loss of CHF 27.9 million in 2002 before restructuring effects.

Regarding the operating result (EBIT), in the year under review a profit of CHF 388'000.- (compared to a loss of

43.0 million in 2002 before restructuring effects) has been achieved. Thus, Tornos fulfils its main objective, namely the achievement of a balanced operating result.

Thanks to the measures already mentioned, the net loss of CHF 45.6 million (before restructuring effects) could finally be reduced to CHF 2.8 million.

Since almost all budgeted targets were met, the liquidity was also secured at all times. In December 2003 it was even possible to make a reimbursement of bank loans amounting to CHF 3.0 million, in addition to CHF 4.4 million for financial leasing's reimbursement, thus bringing down total loans to CHF 52.5 million.

### **Difficult outlook at the beginning of the business year**

When the budget for business year 2003 was prepared, numerous uncertainties had to be put up with. Among others, it remained unclear how and above all when the various restructuring measures that had been introduced would finally reflect themselves in the profit and loss statement. In addition, it was difficult to forecast the impact on 2003 results of several organizational measures which had been implemented. Due to the low order backlog at the end of 2002 and in consideration of the expected frictional losses resulting from the restructuring, the persons in charge anticipated a difficult start of business year 2003, a slight economic upturn as well as an improvement of operational processes as of the second half of the year.





### **First quarter 2003 characterized by reorganization measures**

The first quarter 2003 developed better than planned. Sales developed according to plan, more or less in conformity with deliveries. In the first quarter, it was necessary to carry out previously announced staff reductions without frictional losses, to push through budgeted price increases on the market and to conduct negotiations with suppliers regarding a reduction of purchase prices. In parallel, it was necessary to reconsider the organization of the worldwide sales network and to significantly increase productivity of in-house production and assembly. As the existing cash and the low level of orders did not allow for any significant margins, the financial situation was under constant supervision.

### **Reaching objectives after six months**

Thanks to cost-saving measures applied in a consistent way, after the first half of the business year, Tornos

was able to present a result according to plan as of June 30, 2003. However, due to the low level of orders, in May short-time working had to be introduced at the headquarters in Moutier for a period of three weeks for 353 people (production and assembly). After the resumption of work, this measure permitted a production with full capacities.

### **Weak third quarter**

On one hand, the third quarter of the year under review was characterized by the great uncertainties relating to the further economic development, and on the other hand, it was influenced by the Summer holidays, which, traditionally, lead to lower incoming orders. In order to overcome the low utilization of capacities in the Summer months, the plant was closed in July and August for a total of four-week holiday. The increasingly negative development of the US Dollar, which led to sales under budget in North

America and Asia, was an additional problem. Finally, the third quarter had to be concluded with sales under budget and an unsatisfactory result on all levels.

### **Decisive fourth quarter**

During the fourth quarter, a more than proportional increase of sales and gross margin enabled Tornos to meet its annual budget's objectives. The corresponding requirements had been created in the previous months. Finally, it was possible to make up for arrears per September 30 thanks to appropriate efforts of all employees in the last three months, and thus to conclude the business year satisfactorily.

### **Implementation of reorganization measures**

In the whole business year, the operational and structural reorganization was driven forward with priority. Thus, the organizational structure was transformed from a functional structure into a new matrix organization with four business units.

Tornos is now divided into following business units: single spindle machines, multispindle machines, production and spare parts. All main management positions have been reinforced. The distribution network with its six subsidiaries was also reorganized. Until then, subsidiaries had been independent national companies. Products had been delivered and charged to the subsidiaries, who in turn charged them to the end-customer. This organization led to duplications, high administration costs as well as to lacking efficiency and transparency. In future, all deliveries except for the US market will be directly delivered and





charged to the end-customer from Moutier. Through this optimization the subsidiaries (except for the USA) became specialized sales and service companies. In France, this new model already runs successfully since July 1, 2003.

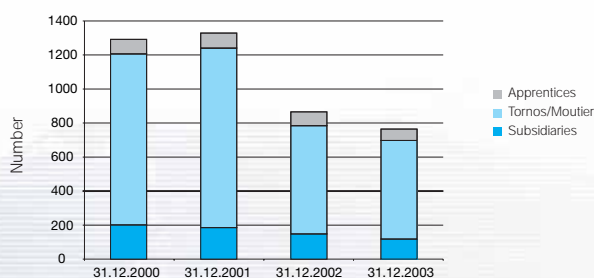
These reorganization measures lead to clear management responsibilities, increased transparency as well as to higher efficiency and at the same time significantly lower costs.

### Prepared for the future thanks to adjusted structures

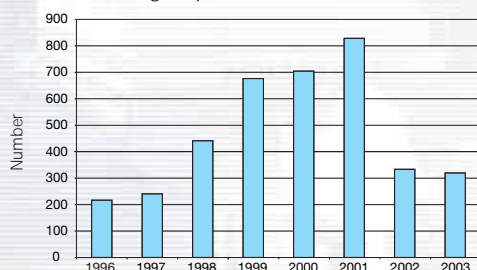
The last business year must be described as a difficult year for Tornos, since under still difficult economic and political conditions, it needed to be proved that after the restructuring in 2002, Tornos would manage the turn-around and thus has a right to continue to exist. With the achieved results, it was possible to provide this evidence. The restructuring and reorganization measures carried out in 2003 led to slimmer structures and more efficient work processes. Thanks to successful cost savings in all areas, it was possible to adjust the cost structure to a sales vol-

ume of approximately CHF 180.0 million. However, in the end, the sales volume reached is not sufficient for achieving profits. The main target for business year 2004 is therefore to consolidate achieved results. Due to today's economic situation, the Board of directors and Management believe that slightly higher sales and a balanced net result can be achieved in business year 2004.

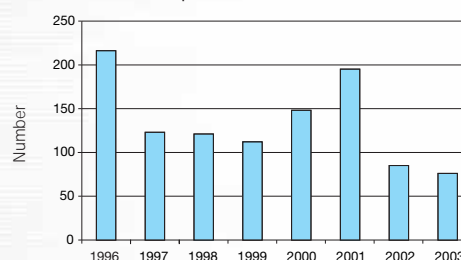
Staff changes



Single spindle installed machines



Multispindle installed machines





## The new business plan "With confidence towards the future"

During 2003 the business plan that had been prepared on the occasion of the restructuring in 2002 under great time pressure and that was affected by numerous uncertain factors was revised and partly newly prepared ; it now contains detailed statements, targets and measurement plans regarding the future strategy as well as their operational implementation. In this context, the Board of directors and Management have defined the following strategic core elements :

### Vision

The vision has not changed : Tornos produces and markets high-precision automatic lathes and aims to be a worldwide technology and market leader in the core of the traditional key segment for work pieces with a diameter of up to 32 mm. Flexible, user-friendly, economic and innovative solutions for the production of small, complex and high-precision turned parts are offered to customers.

### Consistent customer orientation

In future, Tornos plans to fulfil even more consistently its customers' requirements. For that purpose, Tornos will offer complete production units, i.e. automatic lathes including accessories, such as bar feeders, tooling, handling systems as well as engineering services and training.

In terms of organization, Tornos has now four business units :

- Single spindle automatic lathes (DECO).
- Multispindle automatic lathes (MULTI-DECO).
- Spare parts.
- Manufacturing (for the companies' own needs and for third parties).

### Key competences

Tornos continues to provide the following key competences :

- Leading brand in the high industrialised countries of Europe in the traditional product and market areas.
- Competence in the production of small high quality parts.
- High competence in the production of parts of medium and high complexity.
- A leading software platform to drive the machines.
- An excellent selling position through cross selling opportunities (single spindle and multi spindle automatic lathes).

Room for improvement still exist in following areas :

- A marginal market share in the chinese market which is growing at an over average rate.
- Optimization of manufacturing costs.
- Product range to be completed.

In future, a further reinforcement and expansion of the key competences is planned. Identified potentials for improvement will be exploited through targeted measures. Considerable progress was already made in 2003.

### Key markets and market positioning

Tornos has a traditionally strong market position in the technologically highly developed European markets. With respect to the product and market segments it handles, Tornos is a market leader on these markets. It is planned to further strengthen and expand this position based on the new developments underway.

In the important North American market, the turnover and sales budget could not be reached during business year 2003.





This results of both the weak US Dollar and the structural and organizational weaknesses of the US subsidiary. A more efficient handling of the important North American markets is needed in the future. For this purpose, numerous projects are being launched at present. Efforts must focus more strongly on selected regions, market segments and products.



Tornos' present market position in the booming regions of Southeast Asia – above all in China – is still hardly developed. Today, China is the fastest growing market for automatic lathes and forecasts indicate increasing growth dynamics. In order to take a better advantage from this enormous potential, in the future, it will be necessary to give a particularly high attention to the Chinese market. To meet this objective, a sales subsidiary will be opened in Shanghai in the near future. Through numerous projects and activities, the share of sales in Southeast Asia should sizeably grow in the next few years.



### **Customer segments and focus**

In the future, it will be necessary to focus increasingly on fast growing, demanding customer segments and specific applications, in which Tornos may become market leader. Above all, these segments include the following sectors: medical technology, micro mechanics, car supplier industry, watch industry as well as the partial manufacturing of parts in the high-end sector. Tornos already has a strong position in the fast expand-

ing medical technology sector, which can be expanded further and where it is planned to achieve higher sales in the future. As in the past, the greatest part of sales is still achieved in the car supplier industry and with the partial manufacturing.

### **Innovation**

With respect to innovation, efforts shall be concentrated on the improvement of customer benefits by increasing productivity and availability of machines and







systems. The innovation cycle and the key elements of the corresponding innovation strategy can be defined as follows:

- Annual technological improvements of the product range in order to increase the productivity of machines.
- Launching on the market one new product per year.
- Significant improvement of the product platform every four years.

### **Sales organization**

In the past, Tornos Group subsidiaries acted as resellers in the respective countries. This resulted in high administration costs and partly inefficient

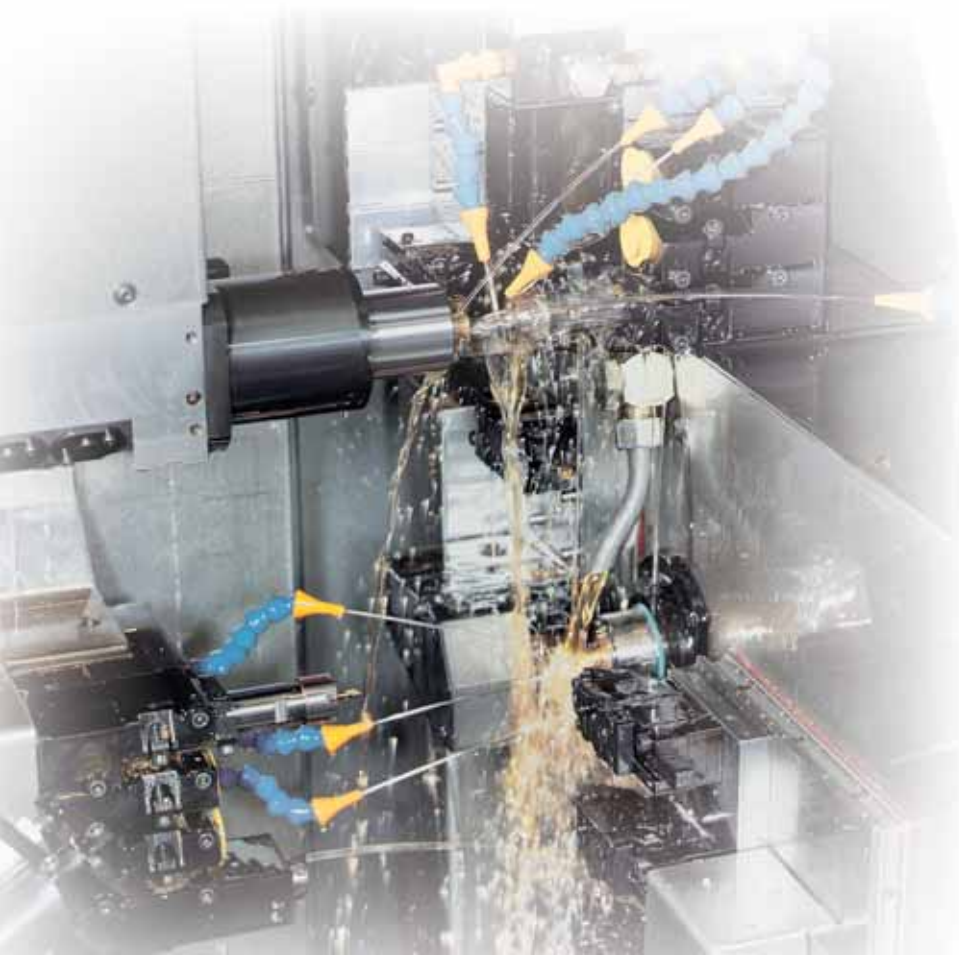
processes as well as in a lack of transparency. After the reorganization of the subsidiaries – except for the subsidiary in the USA – these will act on the market as pure sales and service companies. Machines, spare parts and services will be supplied and charged directly to the customer from Moutier. Administration will be centralized as much as possible. The new organization will bring considerable cost savings, an increase in efficiency and higher transparency. The reorganization of the subsidiary in France was concluded in the middle of 2003. The remaining companies will be reorganized during 2004.

### **Business unit manufacturing**

Tornos has very modern manufacturing equipment with fully automatic, highly efficient processing centres. In the past, this equipment was used almost exclusively for the production of complex parts. Due to a 50% decrease of the sales volume compared to the past, today considerable overcapacities exist, which are now mainly used to produce parts for third parties. For the current business year numerous promising projects exist, which should result in significantly higher sales in this area.

### **Forecast 2004**

For the current business year, the Board of directors approved a sales budget of CHF 180.0 to 190.0 million. Achievement of a balanced net result and permanent securing of cash are of highest priority. Parallel to the financial goals, the reorganization of the Tornos Group and the newly defined strategic projects must be pushed forward with all efforts. The successful





implementation of the newly defined strategy as well as of the operational measures should allow a more than proportional increase of growth and profitability. The restructuring and cost-cutting measures implemented have led to lower fixed costs and a deeper break-even. Thus, in future, Tornos will be less affected by market fluctuations, but will, however, maintain the flexibility necessary to achieve sales with appropriate margin levels to achieve increasing profits.

The risks for the current business year mainly lie in a negative trend of economic developments in the key markets and in an unfavourable development of exchange rates which are unstable; this may lead to sales below budget. Should it be the case, the Board of directors and Management will introduce appropriate measures immediately.

### **Medium and long-term outlook**

With the newly defined strategy and the measures mentioned above, Tornos is ready for the future. With today's structure, the planned, controlled growth in the next years can be accomplished. Possible peak demands can be covered by outsourcing. The projects and measures that have been introduced are suited for achieving sustainable growth in connection with a continuous increase of profitability.

# Corporate Governance and communication



## 1. Corporate Governance at Tornos

The Board of Directors and Group Management place great value on a responsible and transparent corporate management and control in the interest of company's 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 organization.

## 2. Group structure, capital structure and shareholding

### 2.1. Group structure

Besides Tornos Holding SA, there is no further company which belongs to the consolidation circle of the group and which is listed on the stock exchange. Management structure corresponds to juridical structure. Each subsidiary is run by a managing director. The subsidiaries are subordinated to Group Management.

### 2.3 Listing

Tornos shares are traded on the Swiss SWX Stock Exchange in Zurich under securities number 1160768 (symbol: TOHN). The market capitalization value as on the balance sheet date was CHF 61.8 million.

### 2.4 Capital structure

Per December 31, 2003 the ordinary share capital of Tornos Holding SA amounted to CHF 66,918,775.00 and was divided into 13,383,755 fully paid up registered shares with a nominal value of CHF 5.00 each. As of the balance sheet date, the company has a contingent share capital of CHF 11,750,000.00 and an authorized share capital of CHF 4,581,235.00. There are no participating or dividend right certificates and no convertible loans.

### Contingent capital

For serious reasons (restructuring of the company) the share capital will be increased to a maximum amount of CHF 11,750,000.00 and,

which were granted to the shareholders in connection with the capital reduction by reducing the nominal value. Two of the options granted to the shareholders give entitlement to subscribe to one registered share. These options must be exercised until September 2004.

- b) up to 1,200,000 shares with a nominal value of CHF 5.00 each, up to an amount of CHF 6,000,000.00 by exercising option rights which were 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 at the time the restructuring took place. Each of these options gives entitlement to subscribe to a registered share at an issue price of CHF 6.00. The options will be exercised until July 2007.

Name	Purpose	Share capital	Ownership in % 2003	2002
<b>Tornos Holding SA,</b> Moutier	Holding	CHF 66'918'775	100.0	100.0
<b>L Tornos SA,</b> Moutier	Sales/manufacturing	CHF 65'000'000	100.0	100.0
<b>Tornos Services SA,</b> Moutier	Inactive	CHF 1'000'000	100.0	100.0
<b>Tornos Technologies Deutschland GmbH,</b> Pforzheim	Sales	EUR 511'000	100.0	100.0
<b>Tornos Technologies Iberica SA,</b> Granollers	Sales	EUR 60'000	100.0	100.0
<b>Tornos Technologies Italia Srl,</b> Assago	Sales	EUR 93'000	100.0	100.0
<b>Tornos Technologies UK Ltd.,</b> Coalville	Sales	GBP 345'000	100.0	100.0
<b>Tornos Technologies U.S. Corp</b> Brookfield CT	Sales	USD 6'000'000	100.0	100.0
<b>L Tornos Holding France,</b> Paris	Holding	EUR 12'500'000	100.0	100.0
<b>L Tornos-Technologies France,</b> St Pierre	Sales	EUR 762'000	100.0	100.0

### 2.2 The share and shareholders

Tornos Holding SA has only one type of shares. There are no restrictions of transfer or voting right with respect to these shares. The 13,383,755 registered shares are distributed amongst 1,825 shareholders. Shareholders with a share of the votes exceeding 5% are listed in the financial report under point 24.6. There are no relevant cross-participations and no binding contracts between shareholders known to the company.

in the case of paragraph b), under the exclusion of the subscription right or priority subscription right of the shareholders, by issuing fully paid up registered shares, each with a par value of CHF 5.00, of which:

- a) up to 1,150,000 shares with a nominal value of CHF 5.00 each, up to an amount of CHF 5,750,000.00 by exercising option rights

The detailed terms of the options will be decided upon by the Board of Directors, taking into account the above mentioned requirements.

### Authorized share capital

The Board of Directors may increase the share capital of the company until September 26, 2004 (within two years after the entry date of the amended Articles of association into the Companies' register) by a maximum amount of CHF 4,581,235.00 by issuing a maximum of 916,247 registered shares with a nominal value of CHF 5.00 each. An increase by instalments is possible. 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 the subscription rights not exercised. The Board of Directors can limit the right of shareholders to subscribe in the event that the shares are used in connection with the restructuring of the company or of the group (creditors' waiver of claims), with a takeover of companies, of parts of companies or of participations, and for financing such transactions or for financing capital investment projects.



**Capital changes during the last three years (statutory statement Tornos Holding SA)**

in TCHF	Share capital	Premium	Balance sheet profit / (loss)	Total
<b>Equity as of December 31, 2000</b>	<b>65'000</b>	<b>-</b>	<b>(363)</b>	<b>64'637</b>
Capital increase	50'000	44'055	685	94'055
Annual result 2001			685	685
<b>Equity as of December 31, 2001</b>	<b>115'000</b>	<b>44'055</b>	<b>322</b>	<b>159'377</b>
Capital reduction	(103'500)	(44'055)	147'555	-
Capital increase	55'419	15'419		70'838
Cost of capital increase		(1'476)	975	(501)
Annual result 2002			(148'775)	(148'775)
<b>Equity as of December 31, 2002</b>	<b>66'919</b>	<b>13'943</b>	<b>77</b>	<b>80'939</b>
Annual result 2003			452	452
<b>Equity as of December 31, 2003</b>	<b>66'919</b>	<b>13'943</b>	<b>529</b>	<b>81'391</b>

**2.5 Options**

The following call options with respect to Tornos Holding SA shares are outstanding:

Number	Type	Due date	Exercise price
2'300'000	In favour of shareholders - restructuring 2002, subscription ratio 2:1	September 2004	CHF 10.00
1'175'000	In favour of banking syndicate / other creditors, subscription ratio 1:1	July 2007	CHF 6.00

**3. The Board of Directors**

**3.1 Members of the Board of Directors**

In the period under review, due to the resignation of Patrick Smulders, the Board of Directors was reduced from seven to six members (see page 18). The only executive member is Raymond Stauffer, who, in his function as Chief Executive Officer, is the Delegate of the Board of Directors.

**3.2 Election and term of office**

The Board of Directors of Tornos Holding SA consists of at least three members, currently six, and comprises mainly independent, non-executive members. There are no cross-participations within the meaning of the Corporate Governance guideline. The Board of Directors is elected by the General Meeting for a maximum term of three years and the term of office is decided at the time of election of the General Meeting. Re-election is permitted. There is an age limit of 70 years. The Chairman is elected by the Board of Directors.

To be in the position to validly deliberate, the majority of Board members must be present at the Board of Directors' meeting. If the votes are equal, the Chairman has the casting vote.

**3.3 Internal organization**

The rules of organization of Tornos Holding SA lay down the responsibilities of the Board of Directors and of Group Management. The Board of Directors is responsible for the overall management of the company and of the group, in particu-

lar for establishing the aims and group strategy and approving the business plan), for organizing the methods of accounting, financial control and financial planning, appointing and dismissing the CEO and the Group Management members, convening the General Meeting, deciding on and amending the organization of the company and notifying the judge in the event of insolvency. It exercises supervision of the individuals entrusted with the management. As far as it is legally permitted and subject to the responsibilities mentioned above, the Board of Directors delegates the overall management to the Delegate of the Board as CEO and Chairman of the Group Management.

With the efficient allocation of duties in mind, in October 2002 the Board of Directors appointed François Frôté as Chairman, Claude Elsen as Vice Chairman and Raymond Stauffer as Delegate and CEO plus the following Committees:

**Nomination and Compensation Committee: F. Frôté (Chairman), C. Elsen, R. Stauffer**

In the period under review, the Nomination and Compensation Committee met three times. During these meetings the Committee:

- prepared the filling of vacant management positions and worked out decision-making fundamentals for the Board of Directors, particularly with respect to filling the vacant positions of Manager Business Unit Mono, Manager Business Unit Multi as well as Manager Customer Services,
- reviewed and coordinated the remuneration of the Group Management and the higher man-

agement for 2004 according to new management regulations,

- reviewed the compensation of the Board of Directors.

In addition, for 2004 it plans to introduce together with the Audit Committee a participation model for employees.

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

In the year under review, the Audit Committee met eight times. These meetings were attended by the CEO and the CFO in an advisory capacity as well as by the auditor, when required. In the year under review, the Audit Committee dealt with the following important topics:

- handling of the annual financial statement 2002 and discussion of the financial report with the group auditors,
- organizing the financial and accounting department including arrangements regarding the succession of the temporary CFO,
- inviting tenders for submission for the auditing mandate,
- updating accounting principles including new valuation guidelines for pricing inventories,
- preparation and planning of the annual report and of the auditing work 2003.

In addition to these important topics, the Audit Committee, together with Management, reviewed some financial business as well as, in individual cases, the interpretation of accounting principles relating to the presentation of accounts.

AAt the end of the Audit Committee's first year of action, its tasks were reviewed and rewritten in form of functional specifications. Regarding the implementation of an effective corporate governance, the Audit Committee will be reinforced in 2004 with an additional member, Mr. Claude Elsen. Furthermore, the activities of the Committee will be expanded in the areas of controlling the financial development and risk management of the Tornos Group.

**Strategy and Innovation Committee: R. Stauffer (Chairman), M. Rollier, H.O. Stenzel**

In the year under review, the Strategy and Innovation Committee specially handled the following important topics in the year under review:

- establishment of an innovation management including the business units as well as R&D, which combines customer orientation with technical feasibility,
- definition of development projects as well as planning their realization in 2004.

The Board of Directors meets as required, but at least four times a year. During the fiscal year 2003 it met 12 times, for an average period of seven hours.



The members of Management were regularly invited with regard to discussions held by the Board of Directors and if necessary, outside consultants were also brought in, if the agendas were within their areas of responsibility. With the exception of the Nomination Committee, on which Raymond Stauffer sits as sole representative of Group Management, the Committees also met together with members of Management.

### **3.4 Information and control instruments vis-à-vis Management**

At its meetings, the Board of Directors is regularly kept verbally informed by Management on the progress of the business. In addition, there is a periodic Management Information System, 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.

## **4. Management**

### **4.1 Members of Management**

By introducing a new organizational structure oriented on the sectors of activity, Group Management was increased from four to six members (see page 18).

### **4.2 Management contracts**

In the year under review, there were no outside management contracts between the company and third parties.

## **5. Compensation, participations and loans**

### **5.1 Content and fixing procedure**

The remuneration of the members of 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 based on suggestions of the Nomination and Compensation Committee.

A lump sum is allocated to the Board of Directors, covering their work and their participation in the Committees. Additional remuneration is paid for project work based on actual time.

### **5.2. Compensation paid to officiating officers of the company**

In the year under review, the amount paid to non-executive members of the Board of Directors totalled CHF 408,500.00. The executive member of the Board of Directors and of Group Management received a total remuneration of CHF 1,569,427.00.

The member of the Board of Directors with the

highest remuneration was entitled to payments of CHF 384,217.00 in the year under review.

### **5.3 Compensation to former officers of the company**

In the year under review, a total amount of CHF 504,223.00 was paid to three former officers of the company.

### **5.4 Share allocation and ownership**

Currently, the company does not have a share-owning plan for employees. In the year under review, no shares were allocated to members of the Board of Directors and of Group Management. On December 31, 2003, the executive members of the Board of Directors and the Group Management owned as a whole a total of 10,120 registered shares and 18,640 share options of Tornos Holding SA. The non-executive members of the Board of Directors and persons closely associated with them owned 1,350 registered shares and 2,000 share options. In connection with the reduction of the company's capital during restructuring in 2002, the total 20,640 share options were allocated to the then existing shareholders. The term of these share options is until September 2004, they have a subscription ratio of 2:1 and an exercise price of CHF 10.00 per share.

### **5.5 Additional fees and remuneration**

The total amount of fees invoiced by the law firm Frôte & Partner for legal services and secretarial services for the Board of Directors amounts to CHF 99,602.95.

### **5.6 Loans to Board members, officers and members of Management**

The company has no outstanding loans to members of the Board of Directors or to Management.

## **6. Auditors**

Since business year 2003, the auditors of the holding company and of the Group have been BDO Visura, Bern, which replaced KPMG Fides Peat, Bern, with Mr. André Fässler being the senior auditor responsible. The auditors are elected annually by the General Meeting. Total auditing fees, invoiced by BDO Visura in the year under review for auditing the annual statement, amount to CHF 201,995.00. No additional services were rendered by BDO Visura in the year under review.

The Audit Committee oversees the external auditors on behalf of the Board of Directors. KPMG Fides Peat attended the Audit Committee's meetings twice and BDO Visura once and provided

information on their work. In addition, the auditors submitted a management letter to the Committee.

## **7. Information and disclosure policy**

Tornos keeps its shareholders informed through the annual report, the half-yearly statement and, quarterly, - or as required - through media releases on the current state of business and events relevant to the stock exchange. All essential information is also available on the homepage [www.tornos.ch](http://www.tornos.ch).

Regarding communication issues, please contact Mr. Pierre-Yves Kohler, Tornos SA, Rue Industrielle 111, 2740 Moutier, Tel. +41 32 494 4444, Fax +41 32 494 4907, e-mail: [kohler.p@tornos.ch](mailto:kohler.p@tornos.ch).

## **8. Participation rights of shareholders**

### **8.1 Voting restrictions and proxy voting**

There are no voting restrictions. Only shareholders whose names appear in the Share register may act as 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 officer representing the Board or a representative of a securities custodian. Under defined conditions, fiduciary-managed shares may also be entered in the Share register with voting right.

### **8.2 Statutory quorum**

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 establishment of the agenda**

Shareholders, representing a nominal value of CHF 1,000,000.00 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 the 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. No special controlling or warding-off mechanisms exist.



## 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 Bauek Cantonale de Berne, mandates as board member in the industry.



**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 Ismeca Group, different mandates in the industry.



**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.



**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.



**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 until end of March 2003. Independent advisor, partner awr AG für Wirtschaft und Recht



**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



**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 Ismeca La Chaux-de-Fonds as Head of Finances, MIS and HR for the Group.



**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.



**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.



**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.



**Carlos Cancer** (1959), Spanish  
Head of the business unit single spindle automatic lathes  
Nominated in July 2003  
Professional background: Engineer (College of Applied Science). Many years of management experience with industrial companies in Switzerland and in Europe. Chairman of the Board of Directors of the Tornos' Italian subsidiary for approximately 9 years.



**Willi Nef** (1960), Swiss  
Head of the business unit multi spindle automatic lathes  
Since November 2003  
Professional background: Mechanical Engineer ETH, MBA National University of Singapore. Worldwide experience in the machine tool and manufacturing industry (Mikron, Bodine). Broad experience in managing production plants (Swatch).





TORNOS S.A.  
CH-2740 MOUTIER / SUISSE  
Rue Industrielle 111  
Tél. 032 494 44 44  
Fax 032 494 49 03  
E-mail: [contact@tornos.ch](mailto:contact@tornos.ch)  
[www.tornos.ch](http://www.tornos.ch)

TORNOS-TECHNOLOGIES  
DEUTSCHLAND GmbH  
Karlsruher Str. 38  
D-75179 PFORZHEIM  
Tél. 07231 / 910 70  
Fax 07231 / 910 750  
E-mail: [contact@tornos.de](mailto:contact@tornos.de)

TORNOS TECHNOLOGIES  
FRANCE  
Boite postale 330  
ST-PIERRE EN FAUCIGNY  
F74807 LA ROCHE  
S / FORON CEDEX  
Tél. 04 50 038 333  
Fax 04 50 038 907  
E-mail: [contact@tornos.fr](mailto:contact@tornos.fr)

TORNOS TECHNOLOGIES UK Ltd  
Tornos House  
Whitwick Business Park  
Coalville  
Leicestershire  
LE67 4JQ  
Tél. 01530 513100  
Fax 01530 814212  
E-mail: [sales@tornos.co.uk](mailto:sales@tornos.co.uk)

TORNOS TECHNOLOGIES  
IBERICA SA  
Pol. Ind. El Congost  
Avda. St Julia, 206 Nave 8  
E-08400 GRANOLLERS  
Tél. (34) 93 846 59 43  
Fax (34) 93 849 66 00

TORNOS TECHNOLOGIES  
ITALIA SRL  
Via Einstein, 24  
I-20090 ASSAGO / MI  
Tél. 02 45 77 17 01  
Fax 02 45 70 16 48  
E-mail: [contact@tornos.it](mailto:contact@tornos.it)

TORNOS TECHNOLOGIES  
US CORPORATION  
70 Pocono Road  
P.O. Box 325  
BROOKFIELD CT 06804 / USA  
Tél. (203) 775-4319  
Fax (203) 775-4281  
E-mail: [contact@tornosusa.com](mailto:contact@tornosusa.com)