



2004

A N N U A L R E P O R T

Turned parts: everybody draws benefits from this technology

Due to the versatile fields of application of turned parts and the favourable price/performance ratio, today automatic turning is probably one of the most used technologies in the world. In the industrial nations, there is hardly anybody, who does not profit daily from the use of turned parts. Being a lathe technology supplier since its foundation, Tornos was repeatedly able to exceed the boundaries of technical limits for turning parts and thus offering to its customers increased efficiency, productivity and precision. Today, automatically turned parts can be found almost everywhere: in computers, telephones, cars, watches, coffee machines, surgical implants and many others...

All the fields of applications take advantage of the increased power of this technology.

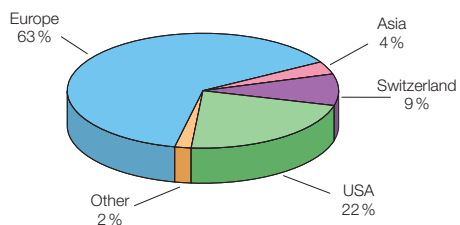
But this is not all! Without today's lathe technology, the realization of today's technological solutions in numerous areas would be impossible.



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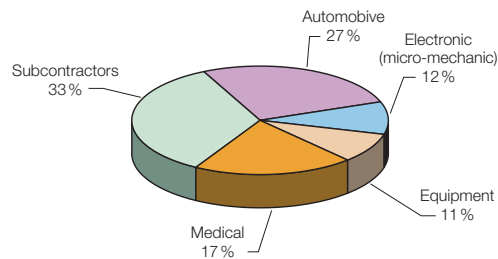


Geographic distribution



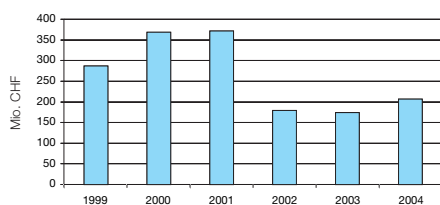
Turnover CHF 205.7 mio. in 2004

Fields of activities

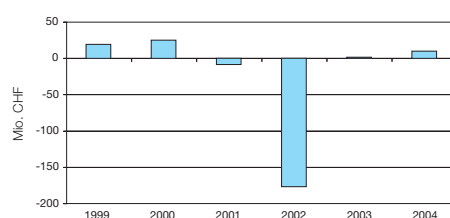


Turnover CHF 205.7 mio. in 2004

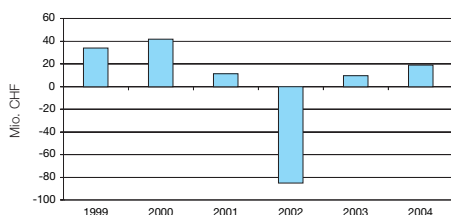
Turnover



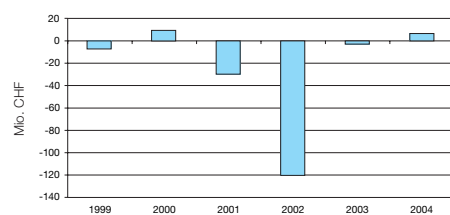
EBIT



EBITDA



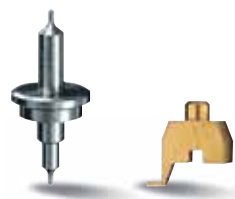
Nets results



Consolidated figures

	2000	2001	2002	2003	2004
Sales Million CHF	370.1	372.8	180.6	174.7	205.7
% change	+ 28.2	+ 0.73	- 51.6	-3.3	+ 17.7
EBITDA	41.9	11.4	- 85.1	9.7	19.4
% of sales	11.3	3.1	- 47.1	5.6	9.4
Operating results (EBIT)	24.9	- 8.4	- 176.3	0.4	11.0
% of sales	6.7	- 2.3	- 97.6	0.2	5.3
Net result	9.5	- 29.9	- 121.4	- 2.8	6.8
% of sales	2.6	- 8.0	- 67.2	- 1.6	3.3
Expenditure on research and development Million CHF	14.0	13.0	8.2	6.4	8.6
% of sales	3.8	3.5	4.5	3.6	4.2
Investments in fixed and intangible assets Million CHF	10.0	14.8	7.1	1.6	3.6
Orders intake Million CHF	437.0	213.4	154.1	170.6	225.0
% variation	+ 106.0	- 51.2	- 27.8	+ 10.7	+ 31.9
Employees end of year*	1231	1293	819	688	698
Average sales per employee 1000 CHF	337	295	171	232	295

* without apprentices





Report of the Chairman of the Board of Directors



Dear Madam, dear Sir,
dear shareholder,

In 2004, the Board of Directors has put first priority on the consolidation of the restructuring measures which were started in 2003. In a rather changeful economic environment, the machine tool industry was confronted with a difficult first quarter. We are therefore very pleased to inform you today that the business year 2004 has been a successful year. The business plan, which served as a basis for the 2002 reorganisation was not only met, but results exceeded all targets. The achieved results with regard to sales, profitability and debt relief have exceeded the objectives by far. Thus, in this business year, a net profit of CHF 6.8 million was achieved, and the company's equity capital as per December 31, 2004 amounted to 48.5 % of the total of the balance sheet.

Although Tornos is very pleased about these results, the company realizes that within the next 3 to 5 years it will be necessary to master further important challenges. In order to realize this strategy, particular attention has been paid to research and development to allow the Group to recapture its former position as the undisputable technological leader, a position Tornos had acquired in 1996, when it launched the DECO 2000. This favourable position got almost lost during the difficult years which followed and which resulted in a lower pace of innovation. As a result of important development efforts implemented in 2004, new products will be launched in 2005 and 2006. If some of these launches relate to the normal evolution of existing product lines, other new developments target new markets such as the mini HDD field, or niche markets where Tornos has not been active up to now, for example in the sector of parts with medium complexity. With regard to the geographical focus, in spite of our weak presence in Asia, Tornos' high name recognition in this region opens a high growth potential in the medium term, especially in China. In order to tap this potential, a representative office was opened on July 1, 2004 in Shanghai. Tornos' target is to establish its own service and customer support organisation which is an essential prerequisite to a long lasting penetration in this market.

Regarding its strategy, Tornos will pursue its objectives of 2003. Within the context of clearly defined projects, the Board of Directors supports cooperation and alliances; on the other hand, however, large mergers and acquisitions projects are not an option under present conditions except, obviously, in case of real opportunities. In fact, the Board of Directors considers the size of the Group to be correct in order to keep on developing the basic technologies needed by Tornos products and ensuring the geographical coverage for sales and customer support. In addition, the Board of Directors is convinced that the strategy to focus on the companies specialised fields of activity is the best way to guarantee Tornos' future and its development in the shareholders' interest. With regard to the company's organization, the Group is now subdivided into business units. Such structure allows for practical operational units of manageable size with a close contact to customers and products; it favours simple, efficient and fast reacting organisations in direct contact with market reality. In addition, this structure is integral to the Groups' strategy which aims also to improve its ability to react and its flexibility with regard to economic cycles which are part of its activities and which therefore imply a sound financial structure and management tools that enable the company to quickly adjust production capacities up-wards and down-wards. Accordingly, the Board of Directors supports a conservative financial policy which consists in keeping the equity high and to finance the Group's internal growth through its own financial resources. Depending on the debt amortization which will be reached, a regular distribution of dividends to the shareholders for the business year 2006 or 2007 could be considered.

To conclude, on behalf of the Board of Directors, I would like to thank all our employees, customers, financial partners and suppliers who have allowed us to produce better results than we had expected. I would also like to thank our shareholders for their unflinching confidence in Tornos.

*François Frôté,
President of the Board of Directors*

Favourable business environment



With an order backlog of CHF 34.1 million on January 1, 2004, the year started on a rather low level. Under these conditions, January began with a period of short-time work for the complete production staff. This measure, being limited to one month, enabled Tornos to adjust production to market demand and was accompanied by a training program increasing the possibility of moving production and assembly employees between product lines and production means. Although incoming orders in January and February were relatively moderate, the trend changed in March and stabilized quickly on a higher level. In 2004, the total order entry reached CHF 225.0 million, which corresponds to an increase of 32 % compared to last year (2003: CHF 170.6 million). Regarding market development, the business year 2004 was characterised by a recovery in the electronics market (contacts and connectors) and of the subcontracting industry; both segments had still been con-

fronted with a cautious demand in 2003. This positive business environment was noticed in all countries but with different growth rates. In addition to this favourable environment, particular attention must be paid to the very important increase on the American market (+82%), due to two one-off orders (40 machines in total). With regard to the product lines, the single-spindle automatic lathes for bars under 20 mm are the ones which responded best to the business trend. From the third quarter on, sales of multispindle automatic lathes were hit by uncertain demand in the car industry. Tornos Group achieved in the business year 2004 consolidated sales of CHF 205.7 million, which corresponds to a growth of 17.7 % compared to the same period last year (CHF 174.7 million).

Profit, debt redemption and strengthening the equity capital

In this favourable economic environment the numerous long-term cost reductions implemented since 2003 were successful. The business year was concluded with a net profit of CHF 6.8 million, which corresponds to 3.3 % of sales and compares to a net loss of CHF 2.8 million in 2003. The result before taxes and interest amounts to CHF 11.0 million (5.3 % of sales) compared to CHF 0.4 Mio in 2003. The EBITDA reached CHF 19.4 million (2003: 9.7). This recovered profitability associated to active inventory control as well as to a reduction of the terms of payment to 65 days, compared to more than 100 days in 2003, led to a positive cash flow from operations of CHF 23.2 million (2003: CHF 3.6 million). The Group's net interest paying debts (debts minus liquidity) was reduced from CHF 44.9 million as per December 31, 2003 to CHF 28.0 million as per December 31, 2004. The Group's equity capital amounted to CHF 83.5 million as per December 31, 2004 (2003: CHF 78.4 million).

Efficient, flexible and responsible organization

The matrix organization that was introduced last year was completed on April 1, 2004 with the introduction of a new management system based on the organizational structure by product lines. Each Business Unit (in the following referred to as BU) has its own index and the profitability of each machine delivered is known. This system follows the order flow from the pre-sale of a machine through its manufacturing and its after sale





and reinforces the customer orientation of the organisation. (Page 8) At the same time, the business management system which enables to trace back the data per machine sold, also emphasizes the result orientation of each BU; it also allows to increase the identification and the sense of responsibility of each employee at his level within the company. The simplification of the sales channel resulting from the reorganization of the European sales subsidiaries into companies offering pure sales and product support plus after sales service has been concluded. This measure resulted in the elimination of inefficient work routines and now allows for a fast and highly quality communication with customers. In addition, significant cost reductions in entering the market have been achieved. These measures were not applied to the American subsidiary, Tornos Technologies USA, which still acts as a reseller. In Asia, on July 1, 2004, a representation office was opened in Shanghai which today has 8 employees; its objective is to build the service and sales support organisation for China. With regard to production, the main emphasis is to increase the versatility of employees to ease quick transfers directly related to actual work load of the different product lines. This increased flexibility of work resources has led to better delivery to customers, without increasing personnel while demand by product lines showed very important swings in the short term.

In order to improve even more Tornos' reactivity to economic fluctuations, the parent company now contracts temporary agency personnel. Similarly a flexible working hours system has been introduced at the beginning of 2005.

As a result of various internal reorganization measures and a progressive policy change applied to the policy in sub-contracting, the Group intends to reduce its exposure to the negative impacts it is being confronted with as a result of the basic cyclical nature of its business. Due to this organization form, the Group will also fully profit in times of an economic boom, without negative future consequences in case of an important and sudden reversal of the trend.

Forecast 2005

With an order backlog of 48.9 million, per January 1, 2005 Tornos has a favourable starting point. In a stable economic environment, Tornos expects slightly higher incoming orders than in 2004 and slightly higher profitability. A significant part of the earnings resulting from these increased sales will be redirected to R&D to enable development of new products. The launch of new machines is planned for the second quarter and will peak at the EMO 2005. Product launches will continue on a regular basis until 2006. These new products will start to have a measurable impact on sales only during the 4th quarter and will therefore only have a slight influence on year 2005 sales. On an operational level, the optimisation of after sales services, the development of the Asian organisation and of flexible reactions to economic fluctuations are priorities.



A product-oriented organisation

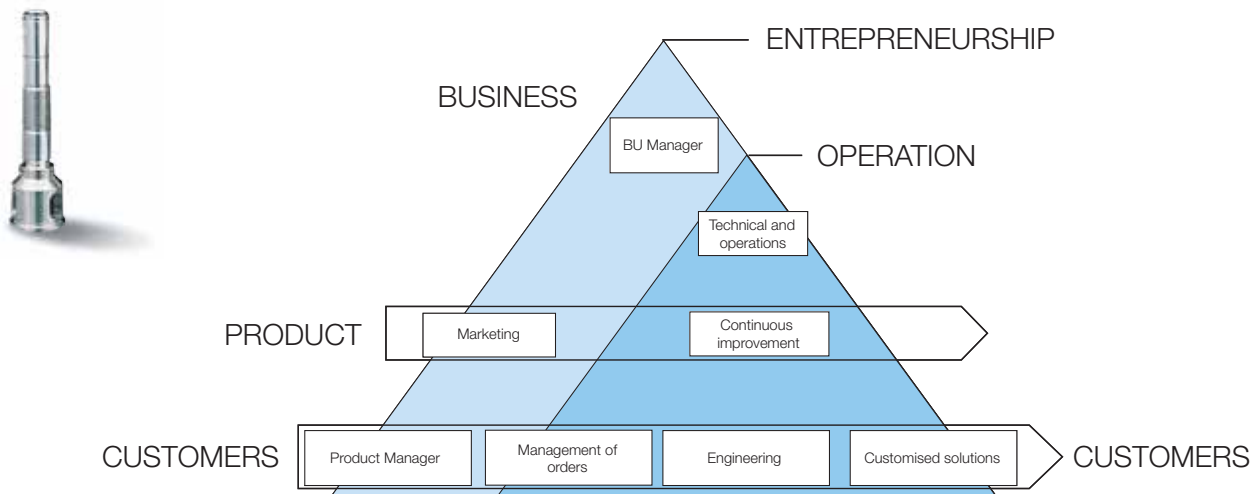
A structure based on Business Units

During the last two years, Tornos has fundamentally changed its form of organization from a relatively strictly function-orientated work process to a more flexible matrix organization both within the company and towards customers.

So-called business units (corporate units, in the following referred to as BU) were established. Each BU is solely responsible for a product line (single-spindle and multispindle lathes).

BU is the customer's privileged contact in terms of the necessary technical support to solution its problems and to optimise its production. At all time, they are the customers' favoured contact, to give him the necessary technical support, to solve problems and to optimise its production.

In the matrix organization, the BUs make use of the common services the company offers, e.g. sales, production, research and development, after sales service and administration.



Listening to customers

The primary target of a BU is to ensure constant proximity to the Group's customers. With a staff of approximately 30 employees, the BU is the link between the customer and the company. The BU acts as an entrepreneur, which tries to understand market requirements and defines the products to be developed, taking into consideration the know-how of the company and its technical capabilities. The BU's task is to define the product's profile and afterwards to supervise their introduction and distribution on the market.

Technical and commercial support

BU's are responsible for the follow-up of customer orders, starting with the editing of the offer, continuing with the installation and the use of the machines, both in a technical and commercial sense. In each case, the

They can be regarded as a kind of "entrepreneurial cells" in the company. As a result of a direct and personal contact, customers have the impression to work with a small dynamic company and not with a large, impersonal entity with many different services being difficult to access.

Forecast 2005

After having realized the client focus with the new structure, in 2005 Tornos is devoted to innovation. Not less than six new products will be launched within the next 12 months. These products are based on customer needs as defined by market studies; they are the first concrete results of constant dialogue with the R&D department. Thus, Tornos will not only be able to strengthen and widen its market position, but also to create new perspectives for the future.

Business unit single-spindle



A performing tool to service customers

In terms of customer orientation, the BU single-spindle automatic lathes strives to listen permanently to customers' needs and to bring individualised answers to them by segment of activity. The product managers' target is to develop the product portfolio for each clearly defined segment. The most important segments are the medical, electronics and car industry, as well as the sub-contracting industry. The objective is to define precisely the customer needs in each particular segment and to propose them specific solutions to allow them to increase their productivity and profitability.



Medical

This economic sector belongs to the sectors with a high potential. It benefits from the increasing life expectancy of populations and of improved quality of life. Its annual average growth amounts to approximately 10% (up to 16% for dental implants). It is only subject to economic cycles to a minor extent. Today, parts manufactured by Tornos' automatic lathes are mainly used in orthopaedics, as dental implants, in heart supporting systems, and in small devices for medical diffusion. The unconditional functionality of Tornos machines and the tech-



nological leadership in the specific manufacturing proceeds allows the company to be the market leader in this sector.



Electronics

After several difficult years, sales of computers, leisure and telecommunication equipment have experienced a boom in 2004.

Due to very high productivity, Tornos' machines are a reference in the connecting technology, which leads to a significant growth of this segment.



Car and sub-contracting industry

The sales of vehicles remained almost constant during the last few years. For the BU, the importance of this sector and of the sub-contracting industry is on a constant level. But as lot's sizes have been sizeably cut, customers belonging to these segments require highly flexible and productive manufacturing equipment. TB-DECO, Tornos' programming software, is unreachable in this domain.



TORNOS

Business unit multispindle

The multispindle automatic lathes – The solution for mass production requirement

Customer requirements

When a customer needs to produce a great volume of parts or so-called families of parts, multispindle machines are definitely at advantage. For such manufacturing, the trend goes towards the integration of systems. The machine becomes the core of the complete industrial process which includes the loading of bars and conveyance of chips. Such systems are often an integral part of a multi-level manufacturing process which includes a variety of individual processes where a very close contact between the customer



and the manufacturer is a must to obtain perfect integration.

Main market segments

Main market segments of multispindle machines are the car industry and components for the electric, electronic and hydraulic industries. The car industry is the most important segment, requiring large amounts of parts,



to be manufactured in great quantities, with high precision and very often using material which are difficult to machine. Such requirements exist to manufacture components used for security reasons, such as for airbags, or find their use in environmental protection, e.g. the new generation of fuel-injectors, or which are used on equipments that serve as an improvement of comfort, e.g. air conditioning or automatic gears. In all these

areas, Tornos' multispindle machines were able to obtain a strong position.



Products

The present product range comprises three CNC multispindle automatic models and a cam-operated multispindle machine. The MULTIDECO 20/6b, 20/8b and 32/6i launched between 2001 and 2004 are high productivity, very reliable and high-precision machines. The machines have high ergonomics and very user-friendly. In 2005, the product range will be completed with new machines.

BU single-spindle: A double strategy to achieve higher performance

Market analyses undertaken by the BU, showed that Tornos' single-spindle automatic machines have a very high market share in the production of complex work-pieces from 2 to 32 mm, but that customers also require simpler machines with a price adapted to the manufacturing of simpler parts.

Based on this premise, Tornos decided to implement a double innovative strategy:

- **Strengthening of the leader position in the field of complex work-pieces:**

By means of further developments of the product line «DECO a», especially also with new releases of the programming software TB-DECO; the development of specific possibilities of use which include new equipment, macro programs and other devices in order to enable customers to improve their productivity.

- **Market penetration in the area of work-pieces of medium complexity:**

With the launching of a new product line of machines that covers the production of very small work-pieces of up to a diameter of 32 mm. The price/performance ratio is decisive in this area. In order to make the innovation a success, all departments of the company have been involved. From conception to production priority was given to the price/performance ratio.

A perfect adaptation to demand

Within the next 12 months, Tornos is going to launch three new single-spindle products. In spring, a small high precision and high performance machine will be launched for the production of mini HDDs (0.85", 1" et 1.8"). Electronic equipments have increased calculation power and higher memory capacities. Currently, the HDD market for the sizes 2.5" and 3.5" is estimated to approximately 200 million units per year. Worldwide market leaders expect a further important increase in their production of HDDs.

[a-line]

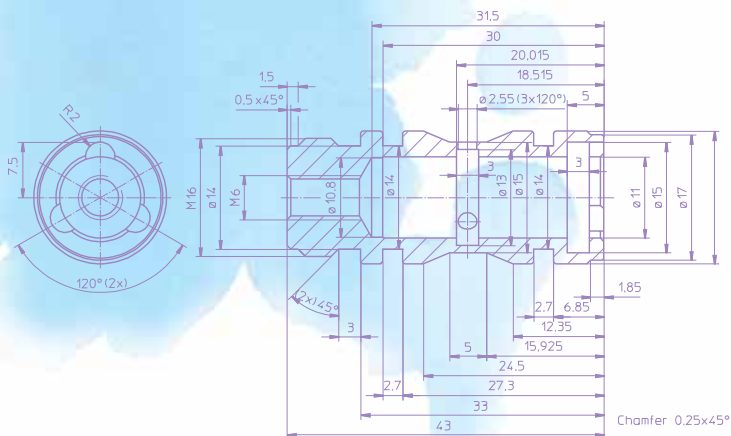
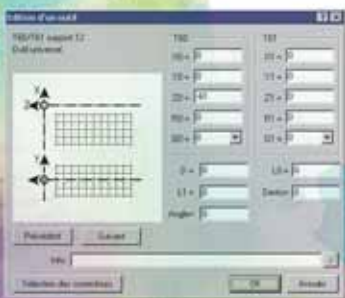




[S-line]

Two additional new products will be launched within 12 months: A small very precise and flexible automatic lathe for the watch industry and a machine for bars with a diameter up to 20 mm capacity for the automotive industry.

All these products have common performance characteristics: an exceptional price/performance ratio perfectly adapted to work-pieces of medium complexity, easy to use due to latest versions of our programming software TB-DECO or, for customers with corresponding requirements, direct programming on the machine using the ISO standard.





Innovations during 2005: New multispindle products

To define the specifications of the new machines, the BUs carried out strict market analysis in close cooperation with its customer. The market tendencies have clearly shown the need to expand the product range in the following two areas:

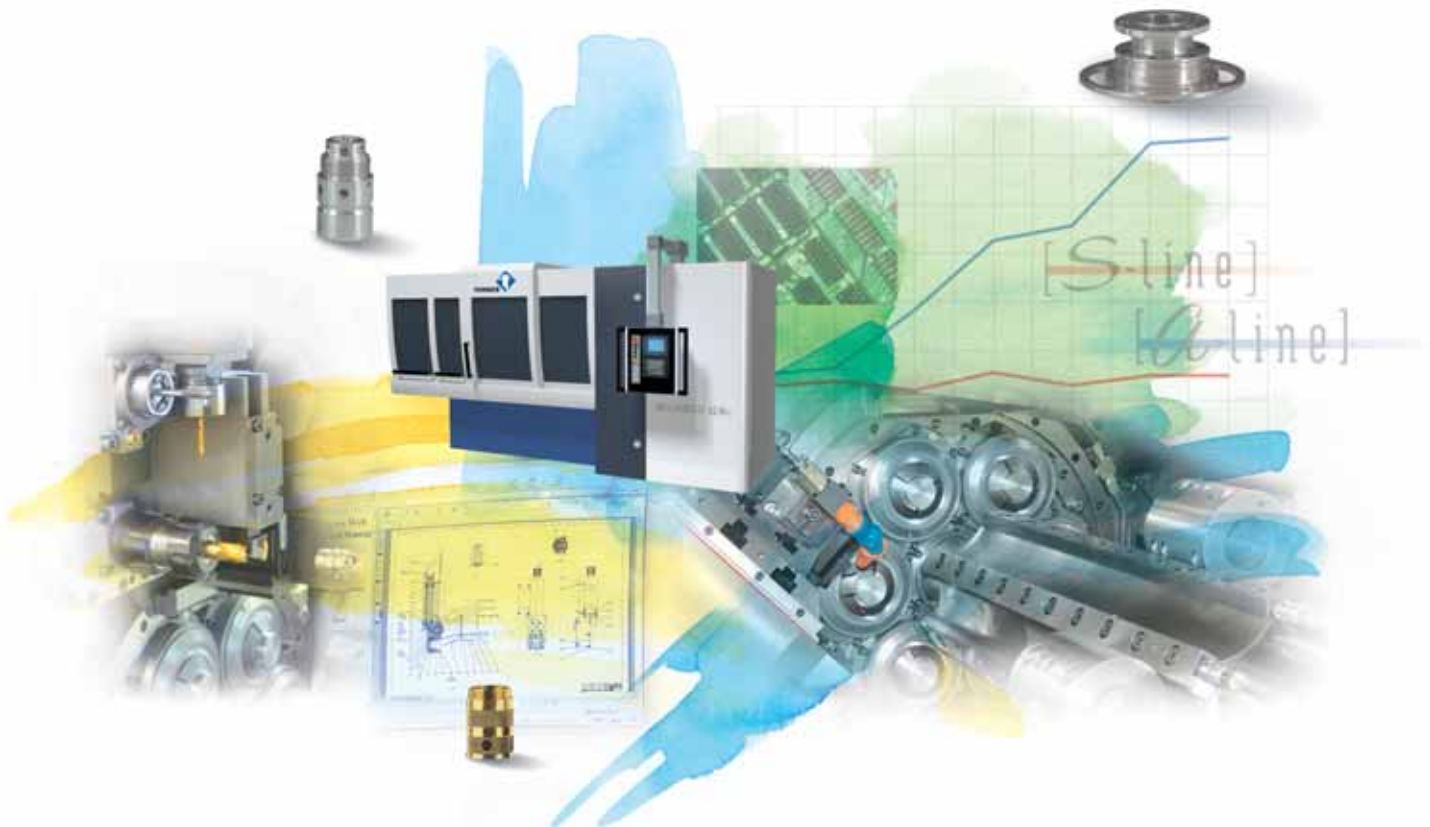
- **Individual unload and palletization of work-pieces**

The demand for integrated systems for the manufacture of complex work-pieces, which are able to machine complete work-pieces and to prepare them for their incorporation into a complete industrial process have induced Tornos to develop new solutions. The MULTIDECO 32/6c with 6 spindles for bar diameters up to 32 mm is equipped with complex back-operations, unloading and palletisation. This new machine will be presented in an in-house exhibition in April 2005. At the EMO, in September, in Hanover, Tornos will introduce the new MULTIDECO 20/8d with 8 spindles and bar diameters of up to 20 mm. These two new products will offer perfect solutions to requirements for integrated systems.

- **Machines for the manufacture of simple work-pieces**

To satisfy the demand for simple but extremely fast and reliable machines, which are able to manufacture work-pieces at a very high rate, Tornos will launch the new MULTIDECO 20/6s, with a very high production capacity for simple work-pieces and an optimal price/performance ratio.

In general, the current product range will be extended both with integrated manufacturing systems able to manufacture complex work-pieces and with simpler machines for markets with different requirements. This will allow Tornos to offer appropriate solutions for all types of work-pieces that its customers must manufacture.





Corporate Governance and communication

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

1. Group structure and shareholding

1.1 Group structure

1.1.1 Organizational structure of the Group

For a description of the Group's organizational structure please refer to pages 9.

1.1.2 Companies of the consolidation circle

Besides Tornos Holding SA, no further companies that are listed on the stock exchange belong to the consolidation circle. The Tornos shares are traded on the Swiss SWX Stock Exchange Zurich under securities number TOHN/00 1160768 (symbol: ISIN CH0011607683). The market capitalization value as of the balance sheet date amounted to CHF 73.9 million.

Name	Purpose	Share capital	Ownership in % 2004	2003
Tornos Holding SA, Moutier	Holding	CHF 67'168'775	100.0	100.0
L Tornos SA, Moutier	Sales, Manufacturing	CHF 65'000'000	100.0	100.0
Tornos Services SA, Moutier	Inactive	CHF 1'000'000	100.0	100.0
Tornos Technologies Deutschland GmbH, Pforzheim	Sales and support	EUR 511'292	100.0	100.0
Tornos Technologies Iberica SA, Granollers	Sales and support	EUR 60'200	100.0	100.0
Tornos Technologies Italia Srl, Assago	Sales and support	EUR 93'600	100.0	100.0
Tornos Technologies UK Ltd., Coalville	Sales and support	GBP 345'000	100.0	100.0
Tornos Technologies U.S. Corp Brookfield CT	Sales	USD 2'400'000	100.0	100.0
Tornos Holding France SA, Paris	Holding	EUR 12'496'800	100.0	100.0
L Tornos-Technologies France SAS, St Pierre-en-Faucigny	Support services	EUR 762'250	100.0	100.0

1.2 Important shareholders and cross-participations

Shareholders with a share of votes that exceed 5% are mentioned in the financial report under paragraph 23.5. There are no cross-participations and no binding contracts between shareholders known to the company.

2. Capital structure

2.1 Capital structure as of the balance sheet date

Per December 31, 2004, the ordinary share capital of Tornos Holding SA amounted to CHF 67,168,775. As of the balance sheet date, the company has a contingent capital of CHF 8,000,000, but no authorized capital.

2.2 Contingent and authorized share capital Contingent capital

For serious reasons (restructuring of the company) the share capital will be increased to a maximum amount of CHF 8,000,000 and, in the case of paragraph a), under the exclusion of the subscription right or priority subscription right of the shareholders, by issuing fully paid up registered shares, with a par value of CHF 5.00 each, of which:

- up to 1,200,000 shares with a par value of CHF 5.00 each, up to an amount of CHF 6,000,000, by exercising option rights, 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 must be exercised within a maximum period of five years.

- up to 400,000 shares with a par value of CHF 5.00 each, up to an amount of CHF 2,000,000, for shares to be issued by the Board of Directors and which may be granted by the Board of Directors to selected individuals (see section 5.4) in connection with a plan to buy shares or options.

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 had the right to increase the share capital of the company until September 26, 2004 by a maximum amount of CHF 4,581,235 by issuing a maximum of 916,247 new registered shares with a par value of CHF 5.00 each. The Board of Directors did not make use of this right within two years after of the date of entry of the amended statutes into the Commercial register. Therefore the company no longer has any authorized share capital.

2.3 Capital changes during the last three years under review (statutory statement of Tornos Holding SA)

in TCHF	Share capital	Premium	Balance sheet profit/(-loss)	Total
Equity as of December 31, 2001	115'000	44'055	322	159'377
Capital reduction	(103'500)	(44'055)	147'555	-
Capital increase	55'419	15'419	975	70'838
Expenses of capital increase		(1'476)		(501)
Annual result 2002			(148'775)	(148'775)
Equity as of December 31, 2002	66'919	13'943	77	80'939
Annual result 2003			452	452
Equity as of December 31, 2003	66'919	13'943	529	81'391
Capital increase	250	12	-	262
Annual result 2004			-	-
Equity as of December 31, 2004	67'169	13'955	529	81'653

2.4 Shares

Tornos Holding has only one type of shares. The shares are not subject to any restrictions of sale or limitations with regard to the voting right. Per December 31, 2004, the ordinary share capital of Tornos Holding SA amounted to CHF 67,168,775 and was divided into 13,433,755, fully paid up registered shares with a par value of CHF 5.00 each.

There are no participation certificates and no outstanding convertible loan.

2.5 Call options issued to shareholders, to creditor banks and to some creditors within the scope of respectively the capital reduction and the restructuring plan

The following call options on shares of Tornos Holding SA were issued on December 31, 2004 and guaranteed by a contingent capital up to CHF 6,000,000. These call options were issued to the shareholders in relation to the reduction of the share capital, or to creditor banks and to some creditors which waived part of their claims within the scope of the restructuring plan and of a conciliation on a pending legal dispute, in accordance with market conditions at the time of the restructuring:

Number	Type	Due date	Exercise price
1'175'000	favour of banking syndicate/ other creditors, subscription ratio 1:1	July 2007	CHF 6.00

Until their expiration date on September 9, 2004, the 2,300,000 options, issued on December 31, 2003 in favour of the shareholders within the scope of the restructuring plan of 2002, had not been exercised.

2.6 Share-owning plan for individuals defined by the Board of Directors

Please refer to paragraph 5.4 "options and share allocation during the business year" with regard to the provisions of the share-owning plan in favour of individuals designated by the Board of Directors.



3. Board of Directors

3.1 Members of the Board of Directors

In the period under review, the Board of Directors has remained unchanged (see page 18). The only executive member is Raymond Stauffer, who, in his function of Managing Director, holds the position of Chief Executive Officer.

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-memberships 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 by the General Meeting at the time of election. Re-election is permitted. There is an age limit of 70 years. The Chairman is elected by the Board of Directors. In order to form a quorum, the majority of the members of the Board of Directors must be present at a meeting. If the votes are equal, the Chairman has the casting vote.

3.3 Internal organization

The rules of organization of Tornos Holding SA lay down the responsibilities of the Board of Directors and the Group Management. The Board of Directors is responsible for the overall management of the company and the Group, in particular for establishing the objectives, the Group strategy, approving the business plan, for organizing the principles 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 supervises the individuals entrusted with the management of the business. As far as it 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, in October 2002 the Board of Directors appointed François Frôté as Chairman, Claude Elsen as Vice Chairman and Raymond Stauffer as Managing Director 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 four times. During these meetings, the Committee studied the management reports and elaborated decision-making fundamentals for the Board of Directors.

It dealt with the following topics:

- Filling the vacancy of the Manager "Customer Service"
- Implementation of a salary and wages policy for the staff on the basis of a salary and wages grid
- Budget and review of the salary and wages regulations 2005 for the staff and lower management
- Determination of contracts and remuneration of the Group Management and the upper management for 2005
- Compensation of the Board of Directors.

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

In the year under review, the Audit Committee met seven times and held two conference calls. These meetings were attended by the CEO and the CFO with consultative status and, when required, by the auditor. The Audit Committee dealt with following main topics:

- Handling of the annual financial statement 2003 and discussion of the financial reporting with the Group auditors
- Survey of the Group auditors' management letter
- Reduction of the current assets (inventory, accounts receivable)
- Control of the physical inventory
- Report on the redesign of SAP (flow of values)
- Financial planning
- Policy on coverage of currency fluctuation risks
- Interim audit 2004
- Tax audit 2004
- Risk assessment
- Preparation and planning of the annual report and the auditing work 2004.

In addition, the Audit Committee reviewed quarterly reports, forecasts, the budget for 2005 as well as information to the financial community. It reviewed some specific financial and accounting points and the interpretation and implementation of accounting principles and standards (IFRS). The Committee also assessed the performance of the auditors and its own work.

At each Board Meeting, the "Audit Committee" informed the Board of Directors about its work and elaborated decision-making fundamentals for the Board of Directors. The minutes of the Committee's meetings were given to the Board Members.

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

In the year under review, the Strategy and Product Committee developed brisk activities. It handled the following topics:

- Approved the new developments plans (roadmaps) of the single and multi-spindle products
- Attended approximately ten project presentations and technical presentations of the research and development department
- Committed or commissioned several outside experts to review technical projects
- Attended various machine tool manufacturer exhibitions in the US, Japan and Europe
- Supported the BU with regard to their product strategy.

These activities and the conducted surveys have enabled to revive innovation, to plan the launch of six new products as well as a technical continuous improvement plan of the existing product range.

The Board of Directors meets as required, but at least four times a year. During the business year 2004, it met seven times for an average period of four hours, in addition, two conference calls were held. The members of the Management were regularly called to participate 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 representative of the Group Management, the Committees also met together with members of the Management.

3.4 Information and control instruments vis-à-vis Management

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

4. Management

4.1 Members of the Management

The Group Management consists of six members plus Mr. Raymond Stauffer who, in his position as Managing Director also acts as Chief Executive Officer (see page 18). None of the members performs any activities for other major organisations.

5. Compensation, participations and loans

5.1 Content and procedure for definition

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 whole Board of Directors on proposals of the Nomination and Compensation Committee. Since 2004, a participation plan for individuals designated by the Board of Directors exists.

A lump sum remuneration is allocated to the members of the Board of Directors, covering their work and their participation in the Board and in Committees. If, in addition, they participate to project work, this work is remunerated on an hourly basis.

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 355,304 and the executive members of the Board of Directors and the members of Group Management received a total remuneration of CHF 1,747,406. In the year under review, there were no compensation payments to the former officer of the company whose duties came to an end during the year.

In the year under review, the member of the Board of Directors with the highest remuneration was entitled to payments of CHF 415,098. This member acquired 4,334 Tornos registered shares according to the guidelines of the share-owning plan for Board Members and Group Management launched in 2004 and in consideration of the same plan, he received additionally 8,500 options for the subscription of shares.

5.3 Compensation to former officers of the company

In the year under review, a total amount of CHF 29,167 was paid to one former officer of the company.



5.4 Share allocation during the period under review

The General Meeting convened on April 13, 2004 agreed on the issue of 450,000 contingent shares. These shares may be issued by the Board of Directors within a share-owning plan for individuals designated by the Board of Directors. The conditions of this share-owning plan are as follows:

Plan for the purchase of shares

According to the guidelines of the share-owning plan of 2004 for members of the Board of Directors and members of the Management, individuals selected by the Board of Directors have the opportunity to purchase 150,000 registered shares at a price of CHF 5.30 each in three equal tranches within a period of three years. The purchase price was corresponding to the market value at the time the elected individual made his decision to purchase. On December 31, 2004, 50,000 registered shares were issued under the above plan - 21,668 shares in favour of non-executive members of the Board of Directors and 28,332 shares in favour of executive members of the Board of Directors and members of the Group Management. 79,992 registered shares, which had also been subscribed for on December 31, 2004, will be issued in two equal tranches on May 1, 2005, and May 1, 2006 - 33,330 in favour of non-executive members of the Board of Directors and 46,662 in favour of executive members of the Board of Directors and members of the Group Management. The remaining 20,008 shares under this plan will be offered to the selected individuals in two equal tranches on May 1, 2005, and May 1, 2006. A non-disposal period of two years after the effected transfer of the shares is planned.

Plan on options to purchase shares

In order to realize the share-owning plan for members of the Board of Directors and members of the Group Management, options have been granted to the individual selected by the Board of Directors in 2004, giving them entitlement to subscribe for registered shares of the company. Each registered share subscribed for entitles to an option to purchase an additional share at a price of CHF 6.00 (option A), this price exceeded the market value on the issue date. Furthermore, every individual selected by the Board of Directors is entitled to his share of the 50,000 additionally issued options (option B). The terms of issue of these options have been determined by the Board of Directors of the company which is in charge of the share-owning plan. The options can only be realized in the third year of their validity. Unredeemed options will be reassigned when the Board member terminates his mandate or on the last working day of the selected individual. This regulation does not apply in the event of the Board member's or the selected individual's death, invalidity or retirement or in case of change to the controlling majority. The reassignment will take place on the last day of the mandate or on the last working day. According to this plan, 300,000 registered shares may be issued under this plan. On December 31, 2004, 100,000 options with an expiration date of April 30, 2007 were issued according to this plan - 42,500 in favour of non-executive members of the Board of Directors and 57,500 in favour of executive members of the Board of Directors and members of the Group Management. 79,992 registered shares, also subscribed for on December 31, 2004, will be issued in two equal tranches on May 1, 2005 and May 1, 2006 and give entitlement to 159,984 options, half of which will be issued on May 1, 2005 and on May 1, 2006 and will expire on April 30, 2008 and on April 30, 2009, respectively. The remaining 20,008 registered shares under this plan will be offered to the entitled members on May 1, 2005 and May 1, 2006. If a subscription takes place, these shares will also give entitlement to 40,016 options according to the above mentioned conditions.

5.5 Ownership of shares and options

As stated under paragraph 5.4, in 2004, a share-owning plan for individuals selected by the Board of Directors came into force. In the period under review, a total of 50,000 shares have been issued and 100,000 options have been granted under this plan. In consideration of this fact, on December 31, 2004, the non-executive members of the Board of Directors and related persons owned a total of 25,018 registered shares and 42,500 options for the subscription. On the same date, the executive members of the Board of Directors and the members of Management owned together total 73,843 registered shares and 57,500 options of shares of Tornos Holding SA.

5.6 Additional fees and remuneration

In the period under review, no additional remuneration and no additional fees in excess of half of the compensation agreed upon was paid to the members of the Board of Directors and of the Group Management.

5.7 Loans to Board members and to members of the Management

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

6. Auditors

Since the business year 2003, the auditors of the holding company and of the Group have been BDO Visura, 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 the audit of the annual statement, amount to CHF 220,567. In the year under review, no additional services were rendered by BDO Visura.

The Audit Committee monitors the external auditors on behalf of the Board of Directors. BDO Visura attended the Audit Committee's meetings 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 concerning the current state of business and events relevant to the stock exchange. All essential information is also available on the homepage www.tornos.ch.

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8. Participation 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. Under certain conditions, fiduciary-managed shares may also be entered in the share register with a 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 or more, may demand that an item to be discussed is 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 legal limit values apply with regard to the obligation to submit a public offer. No special controlling or warding-off mechanisms exist.

In the event of a takeover, the time limits defined in the 2004 share-owning plan for Board members and members of the Group Management will become null and void, and in that case, a take me along clause will be applied.



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), Luxembourgish
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 Ismeca 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 until end of March 2003. Independent advisor, partner awr AG für Wirtschaft und Recht, various directorships.



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.



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.



Sandor Sipos (1952), Swiss
Worldwide Customer Service Manager
Hired in September 2004
Professional experience: Mechanical engineer, ETS. Was involved in various managerial duties in machine design, sales and after-sales, with Bühler, Mikron, Farco, Kodak and Ismeca in particular.



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 Cancar (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 multispindle 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).



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