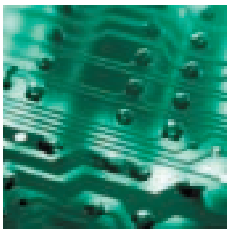
TORNOS





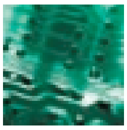

ANNUAL REPORT 2008

TORNOS HOLDING S.A.

KEY FIGURES

Groupe Tornos (in KCHF, unless otherwise stated)	2008	2007	2006	2005	2004
Bookings	232'143	283'645	257'269	212'527	224'972
Gross sales	262'944	287'384	250'515	222'622	212'969
EBITDA	19'851	39'343	26'475	23'208	19'414
Gross sales %	7.5	13.7	10.6	10.4	9.1
EBIT	13'093	32'746	17'614	14'249	10'966
Gross sales %	5.0	11.4	7.0	6.4	5.1
Net profit	6'042	35'137	17'249	12'835	6'778
Gross sales %	2.3	12.2	6.9	5.8	3.2
Net cash / (net debt)	5'277	27'263	-7'375	-10'793	-28'024
Equity	153'743	160'179	118'458	100'168	83'538
Total Balance sheet %	69.2	73.2	61.4	60.4	48.5
Total Balance sheet	222'256	218'912	192'972	165'810	172'273
Capital expenditures in tangible fixed assets	6'715	9'065	3'254	2'867	3'647






REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Ladies and Gentlemen,
Dear Shareholders,

Our strategic aims for 2008 included a sales target of CHF 300 million. Following the acquisition of Almac at the beginning of the year, this target was increased to CHF 320 million, with an unchanged objective for the EBIT margin of 10%.

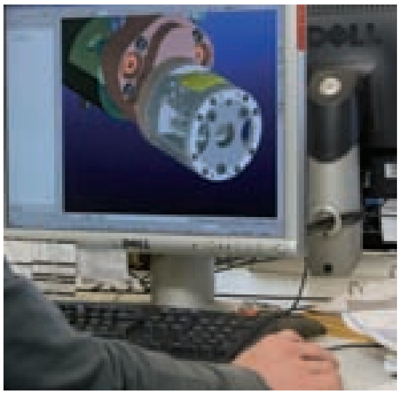
As a result of the present crisis, these aims were not achieved. Our gross sales for 2008 were in fact CHF 262.9 million, a decrease of 8.5% compared to the previous year. Without the contribution of CHF 23.6 million from the acquisition of Almac, Group sales would have fallen by 16.7%. This fall in volume was reflected in a fall in profits. The EBIT margin declined to 5.0%, compared to 11.4% in 2007, or 10.4% if non-recurring revenue items are excluded. The year closed with a net profit of CHF 6.0 million, compared to a prior-year figure of CHF 35.1 million, which included CHF 6.2 million of exceptional items. At 31 December 2008 return on equity was 3.9% and equity itself was CHF 153.7 million or 69.2% of the balance sheet total of CHF 222.3 million. On the same date, the Group's net cash position was CHF 5.3 million, compared to CHF 27.3 million on December 31, 2007. The size of this reduction is mainly the result of the financing and investment operations carried out, which are described in greater detail below, and is not directly linked to the Group's operating result.

To complement these figures, we now briefly retrace the outstanding events of the past financial year. From the point of view of the Group's market segments, the trend for the full year was negative in all key sectors. Electronics was the first area to feel the impact, entering recession at the start of the year. The automotive market followed suit with effect from the second quarter. During the second half of the year, the medical sector showed the first signs of a slowdown and, shortly after mid-September, the Swiss watch making industry also began to contract. With certain timing differences, the recession ultimately hit all industrial sectors during 2008.

In geographical terms, it was mainly the stronger presence of one or other of these market segments that determined the timing of the downturn. With a greater proportion of their business linked to the automotive and electronics sectors, the Northern and Eastern European countries were more rapidly affected than other markets. Conversely, Switzerland and Southern Europe were the last to enter recession, thanks to their high proportion of activities linked to the medical and watch-making sectors. In the USA, business development became increasingly sluggish with the collapse of the automobile market, the weaker dollar and the general climate of economic crisis prevailing throughout the year. In Asia, the slowdown in Chinese growth and the severe recession affecting Japan meant that competitive pressure once again increased.

In terms of products, we continued to extend the Group's single-spindle range. The top end of the range was completed at the beginning of the year with the DECO 13e, 20e and 26e models. The second half was devoted to the launch of the DECO Sigma 32, a mid-range product, and to the marketing of the first entry-level Delta machines presented at SIAMS in May. In the multispindle range, a new product line, MultiSigma, was created. This is a mid-range line which saw the successful launch of the MultiSigma 8x24. As regards Almac, the CU 1007 was launched, a machine intended for the production of watch plates.

As we announced and discussed in our 2007 Annual report, the year under review was also marked by the conclusion at the beginning of the year of a commercial alliance with Tsugami,



followed shortly afterwards by the acquisition of Almac. The alliance with Tsugami enabled us to bring our entry level Delta range rapidly to market, with the first machines delivered as early as October. The immediate results of this alliance appeared extremely promising for both partners. However, the particularly severe economic downturn at the end of the year has deprived the market of any visibility, and it would be premature to draw any initial conclusions on this alliance. As regards Almac, its gradual integration in the Group has progressed extremely successfully. Sales of this product line have begun outside Switzerland through the Group's sales network, and we have been able to generate considerable synergy in terms of procurement and production.

As regards the Group's strategy, we have pressed ahead with implementation of our 2007–2012 plan and the adoption of the underlying policies. Although the economic situation has meant that 2008 – and in all probability the next two financial years – will see significant departures from the quantified targets of the plan, we do not believe that it will need to be revised in any fundamental way. Instead, while adhering to our long-term strategic vision, we shall make the tactical adjustments dictated by the circumstances, with respect for and in the interest of our shareholders, customers and staff. This has been our approach since the start of 2008, when we introduced a precautionary reduction in capacity through the management of flexible working. We then reduced a certain number of jobs from the end of the second quarter, and finally introduced more extensive short-time working in October. Overall, these steps were taken in anticipation of the recession and meant that we have been able to avert its worst consequences to a large extent. Although 2008 results have undeniably fallen short of our expectations twelve months ago, it should also be noted that the EBIT margin, achieved with turnover 16.7% lower than 2007, nonetheless represents a creditable operating performance. We shall persevere with a similar policy in 2009 and take the measures necessary to adapt to the economic environment. In these circumstances, we intend to recommend to shareholders at the Ordinary General Meeting in April 2008 that no dividend be paid.

In conclusion, on behalf of the Board of Directors, I should like to thank our shareholders for the confidence they have placed in us, and to express my gratitude to our workforce, customers and partners whose efforts have enabled us to achieve these results.

François Frôté
Chairman of the Board of Directors

OPERATIONS, RESULTS AND OUTLOOK

Business activities

The transformation of the 2007 financial crisis into a full-blown economic crisis which gradually affected all industrial sectors was the key influence during the financial year under review. From the autumn of 2007, customers were increasingly nervous. However, this uneasy climate did not lead to a significant fall in the order flow at the end of 2007 or in early 2008. The change in the trend occurred at the beginning of the second quarter, with a fall in volume of some 15% across all our markets. For a while it appeared that a new threshold had been reached, but the announcement of the collapse of Lehman Brothers in mid-September was the signal for a further bout of weakness which continued until the year-end. Ultimately, orders taken in the year totalled CHF 232.1 million, a reduction of 18.2% compared to 2007 (CHF 283.6 million). Without the contribution from Almac (CHF 22.1 million) the fall in orders would have been 25.9%.

Sales naturally reflected this trend, and 2008 turnover was CHF 262.9 million, a fall of 8.5% compared to the previous year or 16.7% without the contribution from Almac (CHF 23.6 million). With certain timing differences, the recession gradually spread to all industrial sectors and geographic regions during 2008.

Finances

The year closed with a consolidated net profit of CHF 6.0 million, which compares with CHF 35.1 million in 2007. It should be borne in mind, however, that 2007 was boosted by significant non-recurring profits. The sum of CHF 2.9 million in operating revenues from the sale of business premises and a tax credit of CHF 3.9 million were credited to profit and loss, while the expected tax charge was CHF 7.0 million. This tax revenue related to the use of available tax loss carry forwards and to the capitalization in the balance sheet of deferred taxes, representing total tax credits of CHF 11.0 million. This factor creates a first distortion when comparing 2008 with 2007. The comparison is further distorted by adverse movements in exchange rates in 2008: foreign currency losses rose from CHF 0.6 million in 2007 to CHF 4.3 million in 2008. Conversely, a litigation provision of CHF 2.2 million was released in 2008 following a change in circumstances, thereby boosting the result by an equivalent amount, whereas there had been no movements of any significance in 2007. These four particular factors create an unfavourable base effect for 2008 when comparing it to 2007. Excluding them and recalculating the tax charge at the average expected tax rates for the two years (2008: 14.1%; 2007: 22.5%) comparable net profits would be CHF 22.4 million in 2007 and CHF 8.9 million in 2008.

However, the fall in profitability is nonetheless significant. It was mainly the result of the progressive slowdown in activity during the financial year as the economic situation worsened.
This deterioration is obvious if we compare the 2008 sales target – which was realistic and achievable at the start of the year – with the figure actually achieved. The 2008 target was CHF 320 million, while actual turnover was CHF 262.9 million, an adverse variance of CHF 57.1 million or 17.8%. This decline obviously depressed profitability in the year.
Despite measures taken since the start of the year to reduce capacity, the gross margin fell from 40.1% in 2007 to 35.8% in 2008. This decline is the result of the under-absorption of fixed production expenses in a context of falling volumes, and – contrary to the previous year's experience – a strengthening of the Swiss Franc against the main currencies in which invoices are issued. In a market that was on a downward trend from the second quarter onwards, the revaluation of the Swiss Franc could not be fully reflected in selling prices, and resulted in a reduction in the gross margin.
In absolute terms, operating costs fell slightly. However, in view of the slowdown in activity, they represented 30.8% of 2008 turnover compared to 28.7% in the previous year.

EBIT was CHF 13.1 million (2007: CHF 32.7 million) and EBITDA CHF 19.9 million (2007: CHF 39.3 million). Thus, the EBIT margin stood at 5.0% compared to 11.4%.
Financial expenses fell, although the revaluation of the Swiss Franc against the Euro and US Dollar at the end of the year caused foreign exchange losses on our trade receivables; similarly, the revaluation of the Yen over the same period also resulted in significant foreign exchange losses on trade payables. For the full year, foreign exchange losses totalled CHF 4.3 million, compared to CHF 0.6 million in 2007, and pretax profit was CHF 8.3 million (2007: CHF 31.2 million).
As we have already noted, there was no tax charge in 2007, but instead a tax credit of CHF 3.9 million. In 2008, the situation was radically different. The expected Group tax charge is 14.1% of pretax profit, or CHF 1.2 million. In addition, a provision was raised for CHF 1.0 million of deferred tax credits capitalized on the balance sheet, as the possibility of using them now appears uncertain. Hence, the tax charge for the year was CHF 2.2 million.
Full-year net profit stood at CHF 6.0 million (2007: CHF 35.1 million).

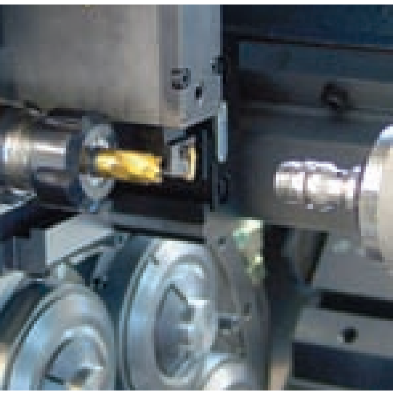
 

As at 31 December 2008, shareholders' equity stood at CHF 153.7 million (2007: CHF 160.2 million) representing 69.2% (2007: 73.2%) of the balance sheet total of CHF 222.3 million (2007: CHF 218.9 million).

After the inclusion of 2008 net profits of CHF 6.0 million, shareholders' equity saw a decline of CHF 6.4 million over the year, primarily due to the following factors: (1) value adjustments totalling CHF 2.8 million were made in respect of price and exchange rate fluctuations on the Group's shareholdings and long-term financial assets; (2) following a number of sales and purchases, holdings of the company's own shares increased from 159'565 at 31 December 2007 to 479'564 one year later, entailing an increase in the consequent neutralization of shareholders' equity of CHF 3.2 million; (3) the repayment of 50 centimes of the par value of shares represented a reduction in capital of CHF 7.5 million; other normal operations of lower value gave rise to an increase of CHF 1.0 million in shareholders' equity.

During the year under review, 35'786 shares were issued in relation to Board and Group management participation plans. By 31 December 2008, the share capital stood at CHF 67.6 million consisting of 15'019'701 shares with a par value of CHF 4.50 each.

On 31 December 2008, the net cash position stood at CHF 5.3 million compared to CHF 27.3 million on 31 December 2007. This reduction of CHF 22.0 million is mainly due to the following non-operational factors: (1) the repayment of part of the par value of shares to shareholders resulted in a net expenditure of CHF 7.4 million; (2) an increase in the numbers of treasury shares held was reflected in a net cash reduction of CHF 3.2 million; (3) in line with the collaboration agreement with Tsugami, 1 million shares in that company were acquired for a total of CHF 3.6 million; (4) the purchase of Almac SA and Almatronic SA resulted in a reduction in the net cash position of CHF 5.9 million. The balance of CHF 1.9 million is the result of the Group's normal operations which generated operating cash flow of CHF 4.5 million and investment in fixed assets of CHF 6.7 million.



Organization

The general organization of the Group did not undergo any major changes in 2008.
Almac was gradually integrated in the Group structure with no major organizational upheaval, and with the main focus on seeking all opportunities to generate additional revenues and to cut the Group's costs rapidly. In terms of the sales network, Almac's products are now fully integrated in the range represented by our subsidiaries and certain of our agents. On the production front, Almac's peak workloads during the first six months were handled by using Group staff transferred between plants. As regards procurement, cost reductions were obtained by concentrating purchases of components on the same suppliers.
In view of the fall in volumes seen throughout the year, action was taken very quickly. Use of flexible working enabled us to cope with the decline in activity in the first half of the year, while in the second half the production department was completely closed for four consecutive weeks around the annual holiday period. In October, a four-week period of short-time working was introduced for one third of the workforce in Moutier. Parallel to this, three organizational reviews were conducted; two during 2008 and the third at the beginning of 2009. The first resulted in the elimination of some fifty jobs within the Group around mid-year, the second affected the sales subsidiary network, where 25 jobs were cut at the end of the year. The third review will result in about thirty redundancies in spring 2009.

Outlook for 2009

Against the current macroeconomic backdrop, it would be unrealistic to publish any forecasts. However, the policy of continuously adapting the company to current market circumstances has continued. January 2009 was marked by a four-week temporary layoff for almost 90% of the workforce and similar steps will be taken throughout the year, depending on how economic activity develops.

THE STRATEGIC VISION OF TORNOS

Strategy, mission and financial objectives

The Group is managed via the systematic implementation of a strategy that is widely disseminated both within the Group and externally. The strategic plan for 2007–2012 was presented during a press conference held on 1 October 2007. The main components of that strategy are summarized below.

Strategy

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

- Predominantly organic growth of core business
- Expand geographical coverage in Asia, the Americas and Eastern Europe
- Broaden the product range and launch new products with innovative technology
- Products to reduce customers' operating costs

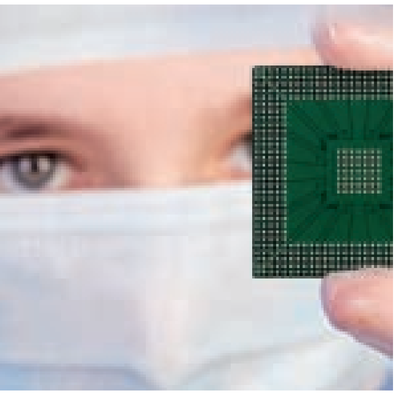
Mission

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

Product company
Tornos is a company which develops, manufactures and markets automatic single- and multispindle lathes, machining centres for small parts, and their related products and services.

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

Global company
Thanks to its decentralized sales and service organization, Tornos covers the entire world. Its principal markets are OEMs and subcontractors of parts used in the automotive, medical, electronics and microtechnology industries.



Cost-flexible company
From an operating point of view, Tornos constantly strives to encourage an organization that ensures maximum cost flexibility in view of the cyclic and volatile nature of its business.

Transparent company
Tornos promotes team spirit and openness and practises a pragmatic management approach aimed at the achievement of clearly identified objectives and results. This stems from the systematic and persistent implementation of a strategy reviewed every four years for the subsequent five years which is openly communicated to the workforce, customers and shareholders.

Growing company
An organic growth strategy has been systematically pursued by Tornos since 2003. This policy does not exclude opportunistic acquisitions if they correspond to pre-determined criteria and strengthen the strategy of profitable growth.

Profitable company for shareholders
In its development, Tornos pays particular attention to its profitability. Over and above a policy of constituting a cash reserve for its operating needs, Tornos practises a policy of total profit distribution to its shareholders.

Financial objectives

The Group's strategic plan for 2007–2012 sets out to achieve the following financial targets:

- CHF 450 million sales in 2012 (assuming stable economic conditions)
- 10% EBIT margin
- 15% return on equity
- 10% to 15% of annual sales as cash reserve
- Distribution of surplus cash to shareholders

SINGLE SPINDLE PRODUCTS

Product portfolio

We offer our customers a complete range of automatic lathes covering bar diameters from 1 to 32 mm. We provide a comprehensive and integrated solution that includes the machine, its programming software, bar feeders and all necessary peripherals.

With 8 different models, machines in the DECO line are used for the high-speed, high-precision manufacturing of complex shapes.

The DECO line is one of the Group's best selling ranges, with over 6'000 machines installed in businesses in the electronics, medical, automotive and microtechnology sectors.

The Sigma range is designed for customers producing parts of average complexity but high precision. The performance of their kinematics, their ease of use and robustness are highly appreciated in manufacturing workshops. In its category, the Sigma 32 is the only machine offering a simultaneous rough and finishing capability, a feature that significantly improves productivity when machining axes.

Thanks to their exceptional performance, lathes in the Micro range are frequently selected for high-speed production of small, extremely high-quality parts. The Micro 8 is a unique product able to work to an accuracy of +/- 1 micron. By launching these products, we have strengthened our position in the production of extremely precise parts, and are particularly well placed in the race to replace cam machines.

With the Delta range we have completed our entry-level suite of products with machines suitable for less complex pieces. These 3-, 4- or 5-axis machines are available in versions from 12 to 20 mm diameter capacity.

Delta machines are produced by a Japanese partner to our specifications under an OEM agreement. They are distributed by our sales network in Europe, the USA and Asia.

All our top- and mid-range machines can be programmed with our TB-DECO ADV software. This software offers an unparalleled solution for handling sequential machining and the precise calculation of the cycle time for each workpiece. Thanks to these programming aids, set-up time can be reduced significantly and production time can be optimized.

Key market segments

Automotive

In this highly competitive sector, our vast range of single spindle products enables us to offer customers the solution most closely tailored to their needs for production runs involving thousands or hundreds of thousands of comparable workpieces. Our complete product range meets all our customers' demands.

Medical

In 2008, we consolidated our leadership position in medical technology. We acquired new customers and new markets thanks to our DECO products, but also through the Sigma and Micro ranges. Our expertise and ability to use special procedures in this leading-edge field enable us to act not only as a supplier of high-technology machines but also as a partner able to support the evolving needs of our customers.

Electronics

Our DECO line proved a great success in 2008. Characterized by an unrivalled price-productivity ratio, it is the ideal tool for this market, which normally produces large batch sizes.

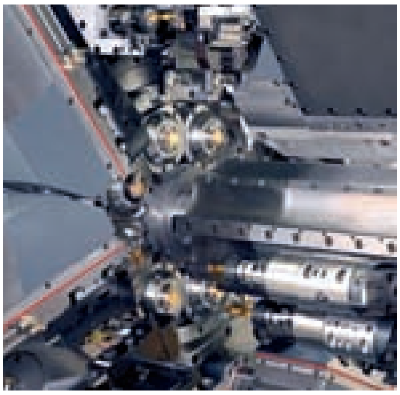
Microtechnology

Many companies are being forced to invest in new means of production owing to a major structural change in prospect for 2011. This change gives us an opportunity to reinforce our leadership position in this very demanding market, helped by our Micro machines, which are recognized for their exceptional performance in terms of both precision and productivity. At the same time, our DECO 10a remains one of our leading products in this sector thanks to its productivity, flexibility and its generation cutting module.

Highlights of 2008

In the wake of the exceptional success of the DECO 10a-derived DECO 10e, we completed this line of products with the DECO 13e, DECO 20e and DECO 26e.
2008 saw the market launch of the Sigma 32, a 32 mm capacity machine offering an exceptional cutting capability. The lathe is the first in the machine tool world to incorporate a cutting fluid filtration device, a feature that enhances ease of use without requiring extra space.
After the intense interest at the time of its presentation at EMO 2007, we launched production of the Micro 7 and began making deliveries of this exceptional machine to our customers with the greatest demands for precision, quality and productivity.
The world’s first presentation of the Delta range took place at SIAMS 2008. Its success was immediate, with many customers placing orders at the stand, impressed by the excellent price/capability ratio of this product.

MULTISPINDLE PRODUCTS



Product portfolio

As with single spindle products, we offer customers a comprehensive range of automatic multispindle lathes for diameters up to 32 mm. While single spindle machines are intended for the batch machining of workpieces ranging from a handful of pieces to several tens of thousands, multispindle machines are intended to produce from a few thousand pieces up to several million. In this range, we also offer a complete and integrated solution consisting of the machine, its programming software, bar feeders, chip removal and handling systems, solutions for handling and palletizing machined workpieces and all the peripherals needed to meet the specific needs of the customer's application.

At the top end of the range, the introduction of the MultiAlpha 8x24 and MultiAlpha 6x32 ushered in a new era. The automatic lathe has evolved into a machining centre. The use of the most powerful motorized spindles in their category, linked to a vast range of new devices, make it possible to carry out operations previously unheard of in a multispindle environment. We have set new standards for counter-spindle working thanks to the option of installing 5 tools, enabling more complex parts to be produced through multiple back-operations while retaining the legendary productivity of multispindle machines thanks to the doubling-up of tools and counter-spindles.

The improved performance obtained with the MultiAlpha line has been replicated in our latest development, the MultiSigma 8x24, launched in March 2008. Thanks to its modular construction, this mid-range product uses concepts tried and tested in the MultiAlpha family and thus offers a more efficient solution for pieces not requiring highly complex back-operations.

Launched in 2008, MultiSigma and MultiAlpha machines have new feeders and new systems for handling fluids and chips.

Thanks to its combination of automatic multispindle cam lathe and CNC technology, the MultiDECO concept still offers the mid-range segment a solution capable of satisfying current demand for pieces of average complexity at the best price.

Lastly, in the range covered by the simplest machines, the top-selling SAS 16.6 continues to dominate the market with first-class productivity from tried and tested mechanical engineering. Its price-performance ratio is highly attractive. Moreover, its high resale value confirms – if confirmation were needed – this product's exceptional competitiveness and reliability.

Key market segments

Automotive
This market is traditionally known for large production runs. Despite the current slowdown, it still offers many opportunities thanks to the demands posed by new safety and pollution standards. These standards are obliging manufacturers to develop new parts with higher specifications in terms of complexity, precision and cost.

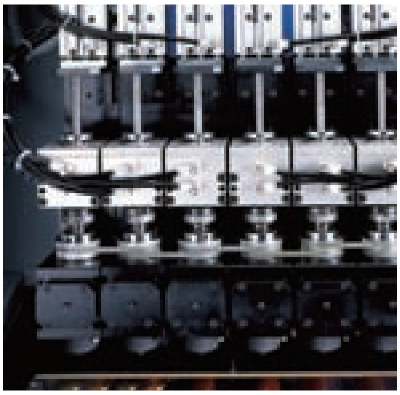
Medical
For certain components produced in large quantities, the market for medical parts is booming. This is a highly challenging field both in terms of the processes and of the machine itself. Our automatic multispindle lathes have benefited from all the expertise and experience we have acquired in this area with single spindle machines. By judiciously combining the two ranges, we are able to provide made-to-measure functionality for the complexity and volumes of pieces required in each application.

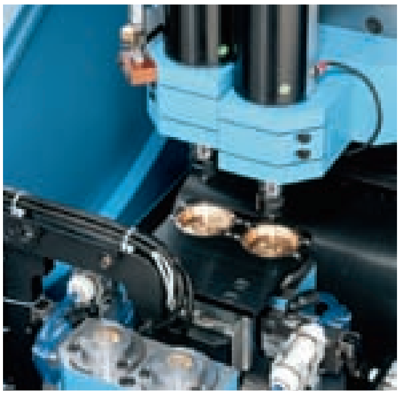
Electronics
In this sector, the ability to produce complex precision parts has allowed us to capture market share from other production tools requiring multiple processes. The fact that workpieces can be finished on a single machine increases quality and responsiveness, while at the same time reducing handling costs, use of space, etc.

Highlights of 2008

In 2008 we completed our mid-range of machines with 8 motorized spindles by adding the MultiSigma 8x24. Although based on the same features that had underpinned the success of the MultiAlpha range, its price makes it more suitable for the production of simpler pieces through back-operation.
We have also consolidated our reputation as innovators in the production of certain high-volume medical parts, thereby reinforcing the already-strong positioning of our single spindle machines in this market, which is growing more competitive each year.
The process of unloading workpieces has also been enhanced by a number of options to respond to new demands for production flow optimization: simple extraction, robot-aided or unaided palletizing for workpiece storage, etc.
To respond to a new trend that has been emerging in certain markets in recent years, the first “Chucker” versions of our multispindle machines have been developed, making it possible to produce workpieces from slugs instead of bars.

ALMAC PRODUCTS





Product portfolio

Apart from applications requiring a lathe process, we also offer our customers a complete range of CNC machines for use in the high-precision machining of small technical items and components.
The range of machines is based on the following five product lines:

- the CU 1005 and FC 1105 3 – 5 axis machining centres
- the FB 1005 bar milling machines
- the PC 700 dial drilling machines
- the GR 600TWIN and PG 700 engraving, finishing and decorating machines
- the MCT 644 rotary transfer machines

Key market segments

Automotive

In this sector we supply machines for mechatronic applications in small or medium-sized series where the aesthetic and functional characteristics of the parts require perfect regularity combined with full compliance with demanding tolerances and maximum uniformity in the production of very high-quality surfaces.

Medical

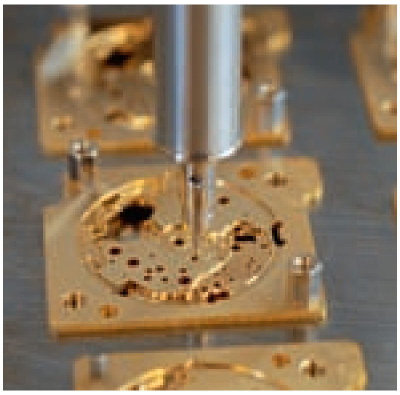
Whatever the shapes and sizes of the workpieces or materials used (high-alloy steels, titanium, ceramics and zirconium) we offer customized solutions for the machining of surgical complex-geometry instrument parts for dental and medical applications. Special versions of the basic CU 1005 and FB 1005 machines are available in stainless steel for some of these applications.

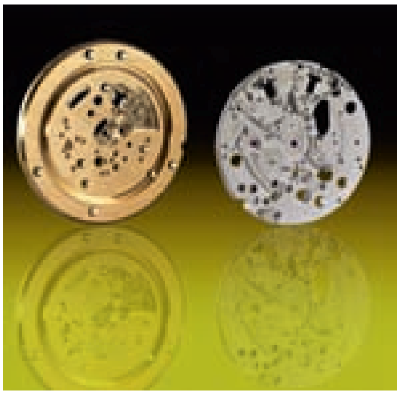
Electronics

The production of certain connectors entails relocations, for which our machines are perfectly suitable.

Microtechnology

The watch-making industry is the major sector of industry in this market segment. Through constant contact with this highly demanding industry, we have acquired an in-depth knowledge of its requirements and can anticipate its needs and produce customized solutions. Thanks to our vast product range, we are the watch- making sector's partner of choice for the manufacture of virtually all milled pieces.
For movement manufacturers, we have designed, with the CU 3005 robotically assisted machining centre, a highly capable machine for bottom plates and bridges, guaranteeing respect for tolerances and ensuring perfectly uniform surfaces. The launch of the CU 1007 machining centre at the end of 2008 further consolidated our leadership in this segment, which requires precision, productivity and





flexibility in an environment where costs are coming under increasing scrutiny. We can thus meet the expectations of large numbers of companies creating or expanding their production centre in advance of the important structural changes due to take place in 2011.
Thanks to our close relations with the most prestigious watchmakers, we have developed CNC machines for the decoration of the components produced on our machining tools. These specialized machines, GR 600TWIN and PG 700, offer exclusive pioneering solutions for finishing operations such as beading, mechanical printing and the planing of diamond polished angles, which all add value to the finished piece.
PC 700 machines are available for drilling dials. Thanks to their rigidity, these machines are particularly suitable for the diamond polishing of recesses and counters. For the manufacture and diamond polishing of indexes and appliques we offer a fully automated solution capable of working with either profiled bars or rough-finished pieces. Recognition by camera of the position of the pieces and its instantaneous transcription into digital code removes the need for any handling and thereby eliminates the risk of damage to particularly fragile diamond polished surfaces.

The CU 1005 and FC 1105 5-axis simultaneous machining centres make it possible to fully machine irregular-shaped watch cases in 316L steel, titanium or precious metals. The dynamic performance and the dividing head with the lowered turning axis make these centres particularly suitable for mechanical preparation for stone setting (mitraillage and the milling of grooves).
Also in the microtechnology field, but outside the watch making sector, we have an established positioning in the manufacture of frames for spectacles. With over ten years experience, we produce customized solutions for the machining of hinges and side-pieces. These machines are based on our standard CU 1005 machining centres or FB 1005 bar milling machines.

Strong points and 2008 highlights
2008 saw the market launch of the CU 1007 machining centre. Having delivered and installed, on an exclusive basis, over fifty machines of this type in less than two years for one of its partner-customers, Almac created a stir at the 2008 Prodex machine-tool fair in Basel when it presented this new machine. The CU 1007 range marks a major step forward in high-precision machining centres. The design, ergonomics, technical design and level of industrialization, combined with its ease of use and attractive price, aroused keen interest even from the most demanding customers.

BOARD OF DIRECTORS

F.l.t.r.

Michel Rollier (1959), Switzerland
Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committees: Nomination and Compensation Committee; Ad hoc Alliance Committee | Training – last grade on completion of studies: EPFL engineer (Ecole Polytechnique Fédérale), Lausanne, 1985 | Current list of board membership mandates: Rollomatic Holding SA, Chairman of the Board of Directors | Professional activities: **Rollomatic SA,** various management functions in the Group, **R&D Manager (since 1989)**

Paul Häring (1957), Switzerland
Member since 2001 | Elected until 2010 | Previous activities for Tornos: none | Committee: Chairman of the Audit Committee | Training – last grade on completion of studies: MBA, University of California, Los Angeles, 1989, B.A., University Golden Gate, San Francisco, 1987 | Current list of board membership mandates: Ruag Holding AG: Board director, member of the Audit Committee, New Schild Holding AG and subsidiaries: Chairman of the Board of Directors; Finecom Telecommunications AG: Board director; Kongress + Kursaal Bern AG: Board director | Professional activities: Feintool International Holding: CFO (from 1996 to 2003); **AWR AG für Wirtschaft und Recht: Partner (since 2003)**

Claude Elsen (1947), Luxemburg
Deputy chairman of the board | Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committee: Ad hoc Alliance Committee | Training – last grade on completion of studies: MBA, Insead, Fontainebleau, 1974; Master Sc., Master Mec. Engineer from RWTH, Aachen, Germany, 1972 | Current list of board membership mandates: Tuthill Corporation, Inc., Illinois, USA, non executive board member (since 2006); BIA Group S.A., non executive director (since 2008), Belgium | Professional activities: DaimlerChrysler AG since 1996: Senior Vice President (from 1998 to 2002); **Consilux: Managing Partner (since 2002);**

François Frôté (1953), Switzerland
Chairman of the Board | Member since 2002 | Elected until 2011 | Previous activities for Tornos: Legal adviser | Committees: Chairman of the Nomination and Compensation Committee; Audit Committee | Training – last grade on completion of studies: lawyer, law degree at the University of Bern, 1979 | Current list of board membership mandates: Rollomatic Holding SA: Board director; Nugerol Holding SA: Board director; Esco SA: Board director; Bien-Air Holding SA: Board Director; Professional activities: **Law offices of Frôté & Partner: lawyer and board director (since 1979)**

François Gabella (1958), Switzerland
Member since 2008 | Elected until 2011 | Previous activities for Tornos: none | Committee: none | Training – last grade on completion of studies: EPFL engineer (Ecole Polytechnique Fédérale), Lausanne, 1982 | Current list of board membership mandates: TESA SA: Chairman of the Board of Directors; JMTC Ltd: Chairman of the Board of Directors | Professional activities: ABB: General Manager Power Transformers (from 1995 to 1999); TPG: CEO Landys & Gyr Communications inc. (from 1999 to 2001) Areva T&D: Division Manager (from 2003 to 2005); Hexagon Metrology: **Tesa SA: CEO (since 2006)**

Raymond Stauffer (1954), Switzerland
Managing Director and Chief Executive Officer in 2002 | Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committee: Chairman of the Ad hoc Alliance Committee | Training – last grade on completion of studies: ETS engineer (Engineering college), Le Locle, 1975 | Current list of board membership mandates: none | Professional activities: Ismeca Holding SA: different functions in the Group since 1976, COO (from 1993 to 2001), CTO (2001); **Tornos SA: CEO (since 2002)**

GENERAL MANAGEMENT

F.l.t.r.

Bernard Seuret (1947), Switzerland

Head of Production | Appointed in **1999** | Training – last grade on completion of studies: ETS engineer (Engineering college), Freiburg, 1968 | Current list of board membership mandates: none | Previous professional activities: Tornos SA: various positions in the Group since 1969; R&D project manager (from 1990 to 1998)

Philippe Maquelin (1951), Switzerland

Chief Operating Officer & Chief Financial Officer | Appointed in 2002 | Training – last grade on completion of studies: Economist (degree in economic science), University of Neuchâtel, 1976 | Current list of board membership mandates: none | Previous professional activities: Ismeca Holding SA: CFO (from 1998 to 2002)

Willi Nef (1960), Switzerland

Head of Sales and Marketing | Appointed in **2008** | Training – last grade on completion of studies: ETS engineer (Technicum), Rapperswil, 1985; MBA National University of Singapore, 1999 | Dr. of business administration MSM Maastricht, Netherlands, 2005 | Current list of board membership mandates: none | Previous professional activities: Mikron PVT. Ltd, India: General Manager (from 1997 to 1999); Mikron SA, Agno: Sales Manager (from 1999 to 2001); Bodine Europe SA: Manager (from 2001 to 2002); Lascor S.p.A. Italia: Managing Director (from 2002 to 2003); Tornos SA: Head of Multispindle Products (from 2003 to 2008)

Carlos Cancer (1959), Spain

Head of Single Spindle Products | Appointed in **2003** | Training – last grade on completion of studies: HES engineer (University of Applied Sciences), Bienne, 1982 | Current list of board membership mandates: none | Previous professional activities: Tornos Technologies Italia SRL: Manager (from 1993 to 2002); Gildemeister Italiana S.p.A.: Marketing and Sales Manager (from 2002 to 2003)

Iwan von Rotz (1973), Switzerland

Head of Multispindle Products | Appointed in **2008** | Training – last grade on completion of studies: ETS engineer (Engineering college), Horw, 1996; MBA, Luzern, 2003 | Current list of board membership mandates: none | Previous professional activities: Mikron SA in Agno, Head of production and Head of de Business Unit (from 1997 to 2006); Tornos SA, Head of operations in Multispindle products (from 2006 to 2007); Etienne SA, Head of Business Unit (from 2007 to 2008)

Roland Gutknecht (1957), Switzerland

Head of Almac Products | Appointed in **2008** | Training – last grade on completion of studies: ETS engineer (Engineering college), Bienne, 1980 | Current list of board membership: none | Previous professional activities: Schaublin SA in Bévilard: Sales Export Manager (from 1993 to 1997); Almac SA in La Chaux-de-Fonds: Managing Director (from 1997 to 2008).

Philippe Jacot (1963), Switzerland

Chief Technology Officer | Appointed in **2008** | Training – last grade on completion of studies: Master in physical sciences, University of Neuchâtel, 1992 | Current list of board membership: none | Previous professional activities: Motorola in Scottsdale, USA, R&D engineer in advanced technologies (from 1998 to 1999); SPTec in Bevaix, Managing Director (from 1999 to 2001); Unaxis in Neuchâtel, Strategic Marketing & Innovation Manager (from 2001 to 2004), Adonite Research in Neuchâtel, Managing Partner (from 2005 to 2008)

Sandor Sipos (1952), Switzerland

Head of Customer Service | Appointed in **2004** | Training – last grade on completion of studies: ETS engineer (Engineering college), St-Gallen, 1976 | Current list of board membership mandates: none | Previous professional activities: Ismeca Semiconducteur SA: Technical Services Manager (from 1998 to 2004)

CORPORATE GOVERNANCE AND COMMUNICATIONS

The Board of Directors and General Management place great value on responsible and transparent corporate management and control in the interests of the shareholders, customers and staff. The disclosure of corporate governance as given below takes its model from the Swiss Stock Exchange and complies with the best practice rules of "economiesuisse". 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

The Group's organizational structure is defined by functional areas. Each area is managed by one member of General Management. The Managing Director acts as CEO and oversees General Management. The functional areas are: (1) research and development, (2) singlespindle products, (3) multispindle products, (4) Almac products, (5) installation, after-sales service and spares, (6) sales and marketing, (7) production, (8) operations, general services and finance.

1.1.2 Company quoted on the stock exchange

Tornos Holding S.A. is the only consolidated company within the Group to be quoted on the stock exchange. The subsidiaries are not quoted. Tornos shares are traded on SIX Swiss Exchange, Zurich, under securities number TOHN/001160768 (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 117.2 million.

The consolidated companies of the Group are shown below:

Name	Purpose		Share capital	% held 2008	% held 2007
Tornos Holding S.A., Moutier	Holding	CHF	67'588'655		
Almac SA, La Chaux-de-Fonds	Manufacturing & sales	CHF	1'175'000	100.0	–
Almatronic SA, La Chaux-de-Fonds	Dormant company	CHF	50'000	100.0	–
Tornos SA, Moutier	Manufacturing & sales	CHF	65'000'000	100.0	100.0
Tornos Technologies Deutschland GmbH, Pforzheim	Support services	EUR	511'292	100.0	100.0
Tornos Technologies Iberica SA, Granollers	Support services	EUR	60'200	100.0	100.0
Tornos Technologies Italia Srl, Opera/MI	Support services	EUR	93'600	100.0	100.0
Tornos Technologies Poland Sp. z o.o., Warsaw	Support services	PLN	50'000	100.0	100.0
Tornos Technologies UK Ltd., Coalville	Support services	GBP	345'000	100.0	100.0
Tornos Holding France SA, St-Pierre-en-Faucigny	Holding	EUR	12'496'800	100.0	100.0
Tornos Technologies France SAS, St Pierre-en-Faucigny	Support services	EUR	762'250	100.0	100.0
Tornos Technologies U.S. Corp. Bethel, CT	Sales and service	USD	2'400'000	100.0	100.0
Tornos Technologies Asia Limited, Hong Kong	Sales and support	HKD	10'000	100.0	100.0
Tornos Technologies (HK) Limited, Hong Kong	Sales and service	HKD	10'000	100.0	–
Tornos Technologies (Shanghai) Limited, Shanghai	Sales and service	USD	500'000	100.0	–

Tornos Technologies (Shanghai) Limited was established on 2 April 2008.
Tornos Technologies (HK) Limited was established on 29 July 2008.
95% of Almac SA and 100% of Almatronic SA were acquired on 12 March 2008 with retroactive effect to 1 January 2008. Subsequently, 5% of Almac was also acquired.

1.1.3 Unlisted unconsolidated companies

Tornos Holding S.A. has no unconsolidated shareholdings.

1.2 Major shareholders

On 31 December 2006, 3V Asset Management AG, Zurich (CH), held 8.0% of the shares. On 23 November 2007, 3V Asset Management AG notified the company that its shareholding had been reduced below the threshold of 5% of voting rights. On 7 April 2008, 3 V Asset Management AG notified the company that its shareholding had been reduced below the threshold of 3% of voting rights following a disposal of shares on 4 April 2008.

Schroders plc, London (GB), notified the company on 29 March 2007 that it held 702'444 registered shares and that its shareholding stood at 5.09% of voting rights. On 29 January 2008, Schroders plc, London, notified the company that it held 740'331 registered shares with a nominal value of CHF 5.– each and that its shareholding stood at 4.94% of voting rights following a sale of shares on 24 January 2008.

With the introduction of the obligation to disclose a shareholding of more than 3%, the Berner Kantonalbank, Berne (CH), made an announcement in December 2007. The Berner Kantonalbank notified the company on 12 December 2007 that it held 661'545 registered shares and that its shareholding stood at 4.80% of the voting rights.

With the introduction of the obligation to disclose a shareholding of more than 3%, Mr. Michel Rollier, Le Landeron (CH), made an announcement in December 2007. Michel Rollier notified the company on 20 December 2007, that he held 525'496 registered shares and options under an employee stock option scheme, and that his shareholding stood at 3.81%.

Tornos Holding S.A., Moutier (CH) indicated on 22 January 2008, that it held 465'000 registered shares and that its shareholding stood at 3.10% of the voting rights following an acquisition made on 18 January 2008. Tornos Holding S.A., Moutier indicated on 14 February 2008 that it held 756'250 registered shares and that its shareholding stood at 5.04% of the voting rights following an acquisition made on 12 February 2008. Tornos Holding S.A., Moutier indicated on 21 April 2008, that its shareholding stood at 4.99% of the voting rights following a sale of shares on 16 April 2008.

On 2 April 2008, Tsugami Corporation, Tokyo (Japan), notified the company that it held 456'397 registered shares, representing 3.04% of the voting rights, following an acquisition on 1 April 2008. Tsugami Corporation, Tokyo notified the company on 20 May 2008 that it held 765'981 registered shares representing 5.10% of the voting rights following an acquisition on 19 May 2008.

Walter Fust, Freienbach (CH), notified the company on 11 November 2008 that he held 450'000 registered shares representing 3.00% of the voting rights following an acquisition on 11 November 2008.

Tornos Holding S.A. is unaware of any shareholder's pact.

1.3 Cross participations
There are no cross participations.

2 Capital structure

2.1 Capital structure as on the balance sheet date
The ordinary share capital of Tornos Holding S.A. amounted to CHF 67’588’654.50 as at 31 December 2008. As at the close of the financial year, the company had a contingent share capital of CHF 4’000’743. It has no authorized share capital.

2.2 Contingent and authorized share capital
The following information relates to the changes in contingent and authorized capital for 2008 and 2007. For changes occurring in 2006, please refer to Note 18.1 of the consolidated accounts 2006, which are available on the website at: http://tornos.com/dnld/invest-pdf/tornos-2006cfs-conso-finan-statement-uk.pdf .

Contingent capital

2008
As at 31 December 2008, the share capital could have been increased by up to CHF 4’000’743, under the exclusion of the subscription right or priority subscription right of the shareholders, for important reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 889’054 shares with the said par value for a total sum of CHF 4’000’743, through the exercise of option rights granted to members of the Board of Directors and to employees and contracted staff under an employee stock option scheme.

The detailed terms of the options are defined by the Board of Directors taking into account the abovementioned requirements.

2007
As at 31 December 2007, the share capital could have been increased by an amount up to CHF 4’749’200 and, in the cases covered in paragraphs a) and b) below, under the exclusion of the subscription right or priority subscription right of the shareholders, and for serious reasons (restructuring the company or the acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 5.00, of which:

a) up to 25’000 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 125’000, by exercising option rights granted to creditor banks and to specific creditors under the terms of the restructuring plan, as consideration for a partial waiver of debt repayments or as part of a settlement of a pending legal dispute, in accordance with market conditions at the time the restructuring took place. Each of these options gives entitlement to subscribe to one registered share at an issue price of CHF 6.00. The options had to be exercised within a maximum period of five years, i.e. by July 2007. As there is no longer any need for this capital, it will be cancelled in 2008.

b) up to 924’840 shares with a par value of CHF 5.00 each, to a maximum amount of CHF 4’624’200, by exercising option rights granted to individuals defined by the Board of Directors under the terms of the Employees’ Stock Option Schemes MBP04 and MBP07.

The detailed terms of the options are defined by the Board of Directors taking into account the abovementioned requirements.

Authorized capital
The company has no authorized share capital.

2.3 Capital changes during the last three years (Statutory statement of Tornos Holding S.A.)

CHF 1000s	Share capital	Share premium	Reserve for own shares	Balance sheet profit	Total
Equity as at 31.12.05	*67'888*	*14'056*	*–*	*1'363*	*83'307*
Capital increase	1'066	178			1'244
2006 annual result				5'138	5'138
Transfer to reserve for own shares			84	–84	–
Equity as at 31.12.06	*68'954*	*14'234*	*84*	*6'417*	*89'689*
Capital increase	5'966	1'676			7'642
2007 annual result				176	176
Transfer to reserve for own shares			1'986	–1'986	–
Equity as at 31.12.07	*74'920*	*15'910*	*2'070*	*4'607*	*97'507*
Capital increase	168	46			214
Reduction of the shares' par value	–7'499			230	–7'269
2008 annual result				7'499	7'499
Transfer to reserve for own shares			4'499	–4'499	–
Equity as at 31.12.08	*67'589*	*15'956*	*6'569*	*7'837*	*97'951*

2.4 Shares

Tornos Holding S.A. has only one type of share. These shares are not subject to any restrictions on sale. Nominee registrations are not permitted. There are no privileged shares or limitations with regard to voting rights. Each share corresponds to one vote ("one share, one vote"). The General Meeting of shareholders held on April 8, 2008 approved a resolution to reduce the share capital via a repayment made on 30 June 2008 to those holding shares as at 27 June 2008, being the proceeds of a reduction of CHF 0.50 in the par value of each share from CHF 5.00 to CHF 4.50. As at 31 December 2008, the ordinary share capital of Tornos Holding S.A. amounted to CHF 67'588'654.50, and was divided into 15'019'701 fully paid up registered shares with a par value of CHF 4.50 each.

There are no participation or dividend-right certificates and no outstanding convertible loans.

2.5 Shareholding plan for individuals designated by the Board of Directors

See note 25 in the financial report with regard to the provisions of the shareholding plan in favour of individuals designated by the Board of Directors.

3 Board of Directors

See page 18

3.1 Members of the Board of Directors

Membership of the Board of Directors changed in 2008: Mr. Hans-Otto Stenzel, a director since 2002, did not apply for re-election at the Ordinary General Meeting held on 8 April 2008. That meeting re-elected for a further period of three years Messrs. François Frôté, Claude Elsen, Raymond Stauffer and Michel Rollier whose terms of office as directors had also expired. It also elected Mr. François Gabella as a director for a period of three years. Mr. Gabella, of Swiss nationality and aged fifty, graduated in mechanical engineering from EPFL (Ecole Polytechnique Féderale [Swiss Federal Institute of Technology], Lausanne). He then completed his training by attending a number of post-graduate management courses. In the past 10 years he has held management posts at ABB, Texas Pacific Group and Areva. He is currently CEO of Tesa. The only executive member is Mr. Raymond Stauffer who, in his capacity as Managing Director, holds the position of Chief Executive Officer. No non-executive member has close business relations with Tornos Holding S.A. or a member company of the Tornos Group. No member holds an official or political post.

3.2 *Election and term of office*

The Board of Directors of Tornos Holding S.A. is made up of at least 3 members (currently 6), the majority of whom are independent, non-executive members. Members of the Board are elected individually as and when necessary by the General Meeting for a term specified by the latter but which may not exceed 3 years. They are eligible for re-election. The age limit is 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 S.A. lay down regulations for the company's operations, as follows:

The Board of Directors has the following duties and authorities:

- To exercise overall management of the company and issue the necessary instructions, including the approval of company policy and strategy;
- To determine the company's organization;
- To establish the accounting and financial control principles, draw up the financial plan and approve the annual plans and budgets (including capital expenditures);
- To appoint members of the General Management;
- To appoint and dismiss persons responsible for representing the company;
- To supervise the individuals entrusted with the management of the business, ensuring in particular that they comply with the provisions of law, and of the Articles of Association and regulations, and with the instructions issued;
- To convene the General Meeting and to prepare all matters falling within its remit, including preparation of the management report, Group accounts, annual financial statements and resolutions for the appropriation of profits, and to carry out the decisions of the General Meeting;
- To inform the court in the event of over-indebtedness;
- To decide on calls to be made on partly-paid shares;
- To record capital increases and amend the Articles of Association appropriately;
- To determine the financial policy;
- To set guidelines for the company's information policy;
- To approve operations with major legal implications, exceptional transactions and unbudgeted financial commitments, where the potential risks exceed CHF 1 million, and in particular:
  - Contracts with third parties in areas outside the company's normal sphere of business;
  - Decisions to enter new business sectors or abandon existing ones;
  - The acquisition or sale of minority shareholdings;
  - Decisions to commence or terminate legal actions, or to enter into negotiated settlements;
- To approve unbudgeted investments in excess of CHF 250'000;
- To decide on the issuance of public loans and other capital market transactions;
- To decide on the establishment and liquidation of subsidiaries, and the acquisition or disposal of majority shareholdings;
- To decide on the purchase, mortgaging or sale of properties where the amount of the individual transaction is in excess of CHF 1 million;
- To oversee the activity of the General Management and in particular the implementation of the Board's decisions;
- Where the law requires auditors to be used, to ensure that they have the requisite professional skill;
- To provide advice to the General Management in all cases where the Board of Directors or the General Management itself deem it necessary or appropriate.

In the event of doubt as to whether the Board of Directors or General Management has responsibility for a particular matter, the Board will decide. As far as is legally permitted, and subject to the responsibilities mentioned above, the Board of Directors delegates all aspects of management to the Managing Director in his capacity of CEO and Chairman of the General Management.

Accordingly, the Managing Director is responsible for all management and representation of the company. Hence, in matters falling within his remit, he will take the final decision.

The Chairman of the Board of Directors has the following duties and authorities:
- To chair the General Meeting and meetings of the Board of Directors;
- To represent the Board of Directors to the public and before the authorities, shareholders and General Management;
- To brief the Board in a timely manner on all matters of importance to the company;
- To supervise the work of the General Management, and in particular the implementation of decisions of the Board of Directors;
- To advise the General Management;
- To carry out all tasks falling within his remit under the terms of the law, Articles of Association and Rules of Organization.

The Managing Director's duties and responsibilities include overseeing the company, representing the General Management on the Board of Directors, with the public and before the authorities; submitting proposals to the Board of Directors on all matters falling within the latter's remit, and organizing and overseeing the General Management.

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

The Board of Directors meets as often as necessary, but at least four times a year. During 2008, seven meetings were held, lasting on average 5 hours each, as well as two conference calls. The Board of Directors regularly invited members of the General Management to attend its meetings and, where necessary, invited external advisers when the items on the agenda required their expertise. Committees also met with the participation of members of the General Management.

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

With the efficient allocation of duties in mind, the Board of Directors appointed Mr. François Frôté as Chairman, Mr. Claude Elsen as Vice-Chairman and Mr. Raymond Stauffer as Managing Director and CEO. It also set up the following committees:

Nomination and Compensation Committee:
From 1 January 2008 to 28 April 2008: F. Frôté (Chairman), C. Elsen, M. Rollier and H.-O. Stenzel.
From 29 April 2008 to 31 December 2008: F. Frôté (Chairman), M. Rollier

The Nomination and Compensation Committee has the following duties and authorities:
- Recommendations to the Board of Directors on the recruitment and selection of members of the General Management;
- Defining terms and conditions for the recruitment and compensation of members of General Management, and the annual increases to be awarded;
- Recommendations to the Board of Directors for the compensation arrangements of the Chairman of the Board, Managing Director/CEO and other directors;
- Recruitment of new Board members, with a view to submitting recommendations to the Board of Directors or General Meeting;
- Approval of general principles of remuneration and other terms and conditions of employment for all staff;
- Approval of guidelines for annual salary rises for all staff.

Between 1 January 2008 and 28 April 2008, the Committee comprised Messrs. F Frôté (Chairman), C. Elsen, M. Rollier and H.-O. Stenzel and met on three occasions. Messrs R. Stauffer (Managing Director and CEO) and P. Maquelin (COO/CFO) attended as invitees.

Pursuant to Article 6.1 of the Rules of Organization, and as part of a reorganization of all committees, the composition of the Nomination and Compensation Committee was altered by the Board of Directors at its meeting on 29 April 2008. With effect from that date, members of the committee were Messrs. F. Frôté (Chairman) and M. Rollier. Messrs. R. Stauffer (Managing Director and CEO) and P. Maquelin (COO/CFO) attended in a consultative capacity. The Committee met once with its new membership.

During its meetings, the Committee studied the management reports and worked out proposals which were submitted to the Board of Directors for a decision, and took decisions on matters within its own remit. Meetings lasted one hour on average. Two meetings were held by conference call followed by decisions taken by circulation of a written proposal.

The following subjects were covered:
- Submission to the Board of Directors of a number of proposals concerning the modification or composition of the General Management;
- Recruitment and proposal to the Board of Directors or General Meeting to appoint a new member to replace Mr. Hans-Otto Stenzel;
- Identification of the individuals to participate in the stock compensation plan [Management and Board Participation Plan 2007–2009 (MBP 07)] and the number of shares to be distributed for 2008 under the programme;
- Proposals to the Board of Directors concerning the composition of committees and the establishment of an ad hoc Alliance Committee;
- Assessment and remuneration of management and senior staff in 2008;
- Proposal concerning directors' remuneration.

The Chairman of the Nomination and Compensation Committee made a report on the committee's activity to each meeting of the Board; he also submitted resolutions for a decision. The minutes of committee meetings were distributed to the directors.

Audit Committee:
From 1 January 2008 to 28 April 2008: P. Häring (Chairman), F. Frôté, C. Elsen
From 29 April 2008 to 31 December 2008: P. Häring (Chairman), F. Frôté

The Audit Committee has the following duties and authorities:
- Recommendation to the Board of Directors concerning the appointment of auditors;
- Definition and interpretation of accounting standards;
- Reviewing the annual and semi-annual reports and presenting them to the Board as a whole;
- Reviewing and structuring capital markets transactions for submission to the Board as a whole;
- Overseeing the work of the auditors;
- On the instructions of the Board of Directors, monitoring particular operational or financial matters;
- Recommendation to the Board of Directors concerning the financial and dividend policy of the Tornos Group.

Between 1 January 2008 and 28 April 2008 the Committee comprised Messrs P. Häring (Chairman), F. Frôté and C. Elsen. It met twice in this form.

Pursuant to Article 6.1 of the Rules of Organization, and as part of a reorganization of all committees, the composition of the Audit Committee was altered by the Board of Directors at its meeting on 29 April 2008. With effect from that date the committee comprised Messrs. P. Häring (Chairman) and F. Frôté, meeting in that new form on three occasions.

These meetings were attended by Messrs R. Stauffer (Managing Director and CEO) and P. Maquelin (COO/CFO) in a consultative capacity. The auditors also attended as necessary.

The following main topics were discussed:

- Review of the financial statements and annual report for 2007;
- Review of the Group auditor's report to the Audit Committee;
- Review of the risk management map;
- Review of the internal control system of the Tornos Group;
- Review of the financial aspects of the acquisition of Almac SA and Almatronic SA;
- Review of the financial aspects of the cooperation with Tsugami;
- Review of the management of inventories and debtors;
- Review of the investor relations policy.

The Audit Committee also reviewed the quarterly financial statements, forecasts, the budget for 2009 and the information to be released to the financial community.

It reviewed some specific financial and accounting issues as well as the interpretation and implementation of IFRS. The Committee also assessed the performance of the auditors.

At each Board meeting, the Chairman of the Audit Committee gave an account of its work and submitted proposals for a decision. The minutes of committee meetings were distributed to the Board members.

Ad hoc Alliance Committee:
From 29 April 2008 to 31 December 2008: R. Stauffer (Chairman), M. Rollier, C. Elsen, members of the Board of Directors of Tornos Holding S.A., and T. Nishijima, representing Tsugami

The ad hoc Alliance Committee was instituted by the Board of Directors at its meeting on 29 April 2008 in connection with the alliance with Tsugami. It comprises three members of the Board of Directors and one representative of Tsugami. When necessary, members of management or executives of Tornos may attend as invitees.

The ad hoc Alliance Committee has the following duties and authorities:

- To apply and implement the agreements entered into as part of the alliance with Tsugami;
- To make recommendations for decision by the Board of Directors on potential new agreements within the framework of the alliance between Tornos and Tsugami.
- To report to the Board of Directors on progress with the alliance and, in particular, on any exceptional and/or particularly important matters.

The ad hoc Alliance Committee did not meet in 2008. Decisions on matters of principle relating to the launch of the Tsugami alliance were handled directly at Board level.

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

At its meetings, the Board of Directors is regularly kept verbally informed by the management on the progress of business. In addition, a periodic management information system with a reporting that is distributed to all members of the Board is in place, whereby the most important key indicators are compared on a weekly basis (orders received) or monthly (profit and loss account and balance sheet) against the budget and prior year's figures. A written commentary is published each month and a budget revision is undertaken twice a year. General Management also identifies and quantifies risks on an annual basis, defining appropriate preventive measures. That document is submitted by the Audit Committed to the Board for its approval.

4 General Management

4.1 Members of the Management

In accordance with the Group's organizational structure described in section 1.1.1, General Management consists of eight members plus Mr. Raymond Stauffer who, as Managing Director, also acts as Chief Executive Officer (page 17). None of the members performs any activity for other major organizations or holds an official or political post and has any function in major interest groups.

Mr. Michael Op de Hipt, Head of R&D, left the Group on 31 December 2007. After his departure, which was announced on 15 November 2007 and took effect on 31 December 2007, the R&D function was reorganized and placed under the direct responsibility of the CEO, Mr. Raymond Stauffer. As part of this reorganization, the new role of CTO (Chief Technology Officer) was created within Group management. Mr. Philip Jacot was appointed to this new role on 7 February 2008.

There have also been changes in Sales & Marketing, with the departure of Mr. Urs Hirsiger, Head of Sales & Marketing, on 31 August 2008. He has been replaced in that role by Mr. Willi Nef, who has been a member of Group management since 2003 as Head of Multispindle Products.

The new Head of Multispindle Products with effect from 1 May 2008 was Mr. Iwan von Rotz who, after a short period with a machine distributor, rejoined the Tornos Group in which he was formerly Head of Operations in Multispindle Products in 2006 and 2007.

Following the acquisition of Almac in March 2008, Mr. Roland Gutknecht, 51, an ETS (Engineering College) graduate, joined management as Head of Almac Products. From 1993 to 1997, Mr. Gutknecht worked for Schaublin SA at Bévilard as head of export sales, and took over as head of Almac in 1997.

4.2 Management contracts

There are no management contracts with companies or individuals outside the Group.

5 Remuneration, shareholdings and loans

See notes 25, 30 and 31 of the financial report for details of remuneration, shareholdings and loans to members of the Board of Directors and General Management.

5.1 Content and procedure for definition

Directors' remuneration is determined annually in relation both to the role of each Director within the activity of the Board and to their involvement in Board committees. On that basis, and in the light of established practice based on past experience, a calculation is made of the time spent in meetings of the Board and Board committees, as well as consultancy supplied and preparation work, on the basis of which a lump-sum fee is calculated. The estimate of time spent constitutes the basis for the calculation, with per diem remuneration based on fees invoiced on a time-spent basis by consultants providing similar services. Directors have no variable remuneration in addition to their lump sum fee, apart from their participation in the stock option schemes MBP04 and MBP07 described in Note 25 in the financial report.

Members of general management have a compensation package with 3 components: (1) fixed remuneration, (2) variable remuneration, and (3) participation in the stock option schemes MBP04 and MBP07 described in Note 25 in the financial report. Fixed remuneration is determined annually, firstly on a comparative basis using an executive salary survey (Compensation Report Switzerland, Watson Wyatt Data Services), and secondly on the basis of personal capabilities as assessed by the Nomination and Compensation Committee, which produces a recommendation for the Board, which then has responsibility for the decision. Fixed remuneration takes account of the potential remuneration arising from the variable component. Variable remuneration is dependent on profitability criteria and on annual personal objectives of both qualitative and quantitative nature. On average, expected variable remuneration represents between 20 and 25% of fixed remuneration. It could be doubled to represent almost 50% of fixed remuneration if individual objectives were significantly exceeded, if the EBIT margin were 15% or higher or if orders exceeding the sales target by 20% or more were obtained.

6 Participation rights of shareholders

6.1 Voting restriction and proxy voting

In accordance with Article 10 of the Articles of Association, there are no voting restrictions, with each share giving the right to one vote. Only shareholders whose names appear in the share register may vote by proxy. Under the Articles of Association, shareholders may only be represented at the General Meeting by their legal representative, another shareholder with voting rights, the independent proxy, the company representative or a securities representative.

6.2 Statutory quorum

Apart from the quorums specified in Article 704 CO, Article 11 of the Articles of Association provides for a qualified quorum of at least ⅔ of the votes represented and an absolute majority of the nominal value of the shares represented in the case of a vote on the limitation of the exercise of voting rights or any change or cancellation of such limitation.

6.3 Convening the General Meeting and producing the agenda

Convening the General Meeting according to Article 8 of the Articles of Association must comply with statutory prescriptions. Shareholders representing a nominal value of CHF 1'000'000 or more may demand that an item to be discussed be entered 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.

6.4 Entries in the share register

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

7 Control and warding-off mechanisms

7.1 Obligation to provide an offer
The legal thresholds apply with regard to the obligation to submit a public offer. No special controlling or warding-off mechanism exists.

7.2 Takeover clauses
In the event of a takeover, the time limits provided with respect to the shares and options in the employees' share option schemes MBP04 and MBP07 will become null and void, and a "Take me along" clause shall apply. There are no other clauses relating to taking control in favour of members of the Board of Directors and members of General Management.

8 Auditors
Since the financial year 2006, the auditors of the holding company and Group have been PricewaterhouseCoopers SA, Neuchâtel. Mr. Michael Foley (Fellow of the Institute of Chartered Accountants) has been the senior auditor responsible since 2007. The auditors are appointed annually by the General Meeting. The audit fees invoiced by PricewaterhouseCoopers for the year 2008 and for auditing the annual financial statements amount to CHF 237'550. Additionally, during 2008 PricewaterhouseCoopers provided tax and legal advice on a number of occasions at a cost of CHF 223'199.
Every three to five years a call for tenders is issued to duly qualified accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading the assignment, and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee and by feedback from management on the way the audits are conducted. The same procedure applies to the evaluation of additional non-audit services supplied.
The Audit Committee monitors the external auditors on behalf of the Board of Directors. The audit plan is submitted to the Audit Committee for approval of the areas to be the object of particular scrutiny in the year under review. The Audit Committee also asks the auditors to carry out reviews of specific areas which are not included in the audit plan but for which particular reassurance is sought. PricewaterhouseCoopers SA keeps the Audit Committee regularly advised of its activity, and participates in one meeting of the Committee. It is kept informed of the work of the Audit Committee by receiving a copy of the minutes. The auditors also submit a report to the Audit Committee. On completion of the year under review, the Audit Committee examines, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the Group and holding company together with the report (see section 3.3).

9 Information and disclosure policy
Tornos keeps its shareholders informed of the state of business and events relevant to the stock exchange through the annual and half-yearly reports, and, on a quarterly basis or as required, by way of press releases to the media. All important information can be consulted on the company's Internet site at www.tornos.com.

Contact addresses:
For enquiries concerning shareholders, investors and financial matters, please contact:
Mr. Philippe Maquelin CFO, Tornos SA, Rue Industrielle 111, 2740 Moutier, tel. +41 32 494 4444, fax +41 32 494 4904, e-mail: maquelin.p@tornos.com

For all other general enquiries, requests for information etc., please contact:
Ms. Véronique Beuchat, Tornos SA, Rue Industrielle 111, 2740 Moutier, tel. +41 32 494 4444, fax +41 32 494 4907, e-mail: beuchat.v@tornos.com

The French version of the Annual Report is the definitive one.

TORNOS S.A.
Rue Industrielle 111
CH-2740 Moutier
Phone +41 (0)32 494 44 44
Fax +41 (0)32 494 49 03
contact@tornos.com
www.tornos.com

TORNOS-TECHNOLOGIES DEUTSCHLAND
Karlsruher Str. 38
D-75179 Pforzheim
Phone +49 (0)7231/910 70
Fax +49 (0)7231/910 750
contact@tornos.de

TORNOS TECHNOLOGIES FRANCE
Boîte postale 330
St-Pierre en Faucigny
F-74807 La Roche
s / Foron Cedex
Phone +33 (0)4 50 038 333
Fax +33 (0)4 50 038 907
contact@tornos.fr

TORNOS TECHNOLOGIES IBERICA
Pol. Ind. El Congost
Avda. St Julia, 206 Nave 8
E-08403 Granollers
Phone +34 93 846 59 43
Fax +34 93 849 66 00
commercial.tti@tornos.com

TORNOS TECHNOLOGIES ITALIA SRL
Via Cesare Pavese 21
I-20090 Opera / MI
Phone +39 02 5768-1501
Fax +39 02 5768-15230
contact@tornos.it

TORNOS TECHNOLOGIES US CORPORATION
1 Parklawn Drive
US-Bethel, CT 06801
Phone +1 203 775-4319
Fax +1 203 775-4281
info-us@tornos.com

TORNOS TECHNOLOGIES UK LTD
Tornos House
Whitwick Business Park
Coalville
UK-Leicestershire LE67 4JQ
Phone +44 (0) 1530 513100
Fax +44 (0) 1530 814212
sales@tornos.co.uk

TORNOS TECHNOLOGIES POLAND Sp. z o.o.
Ul. Brukselska 44 lok. 21A
PL - 03-973 Warsawa
Poland
Phone +48 226 72 91 81
Fax +48 226 16 55 81
poland.contact@tornos.com

TORNOS TECHNOLOGIES (SHANGHAI) LIMITED
Hui Feng Creativity Garden
Feng Yu Building, 1-2F
No. 239, Xitai Rd. Xu Hui District.
CN - Shanghai 200232
Phone +86 21 6235 1235
Fax +86 21 6235 1938
china.contact@tornos.com

ALMAC SA/ALMATRONIC SA
39, Bd des Eplatures
CH-2300 La Chaux-de-Fonds
Phone +41 (0) 32 925 35 50
Fax +41 (0) 32 925 35 60
info@almac.ch
www.almac.ch

TORNOS TECHNOLOGIES ASIA LIMITED
Unit 4, G/F, Transport City Builiding
1-7 Shing Wan road
Tai Wai, Shatin.N.T.
Hong Kong
Phone +852 2691 2633
Fax +852 2691 2133
asiapacific.contact@tornos.com

TORNOS TECHNOLOGIES (HK) LIMITED
Unit 4 G/F, Transport City Building
1-7 Shing Wan road
Tai Wai, Shatin N.T.
Hong Kong
Phone +852 2691 2633
Fax +852 2691 2133

TORNOS S.A. THAILAND REPRESENTATIVE OFFICE
Flat 1B, The U.N. Residence
27/28 Sukhumvit Soi 33
Bangkok 10110
Thailand
Phone +66 2 662 3908
Fax +66 2 662 3910
thailand.contact@tornos.com

TORNOS TECHNOLOGIES ASIA LTD MALAYSIA REPRESENTATIVE OFFICE
Suite 8.07, 8th Floor, MWE Plaza
No. 8, Lebuh Farquhar
10200 Penang
Malaysia
Phone +6 04 2630118/2635118
Fax +6 04 2624118
malaysia.contact@tornos.com