



# KEY FIGURES

<b>Tornos Group</b> (in KCHF unless otherwise stated)	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Bookings	85'487	232'143	283'645	257'269	212'527
Gross sales	114'363	262'944	287'384	250'515	222'622
EBITDA	-25'798	19'851	39'343	26'475	23'208
Gross sales %	-22.6	7.5	13.7	10.6	10.4
EBIT	-30'532	13'093	32'746	17'614	14'249
Gross sales %	-26.7	5.0	11.4	7.0	6.4
Net profit/(Net loss)	-29'584	6'042	35'137	17'249	12'835
Gross sales %	-25.9	2.3	12.2	6.9	5.8
Net cash/(net debt)	-24'571	5'277	27'263	-7'375	-10'793
Equity	125'414	153'743	160'179	118'458	100'168
Total balance sheet %	67.8	69.2	73.2	61.4	60.4
Total balance sheet	185'006	222'256	218'912	192'972	165'810
Capital expenditures in tangible fixed assets	524	6'715	9'065	3'254	2'867



# REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS



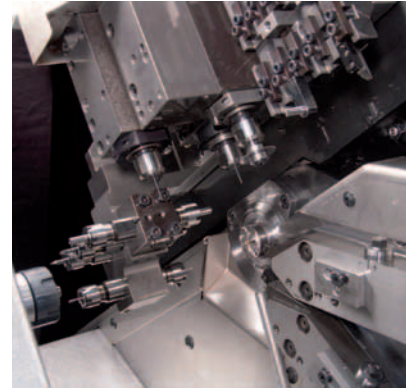
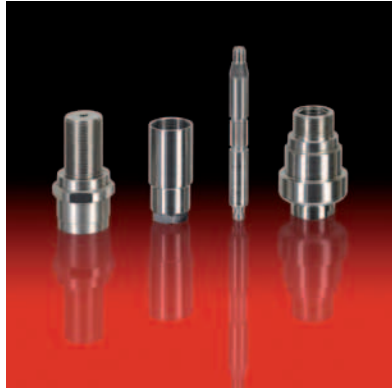
## **Ladies and Gentlemen, Dear Shareholders,**

By 31 December 2009 we had reached the end of our second consecutive year of recession. The crisis we have experienced since the start of 2008 is unprecedented. Business volumes in the machine-tool sector have slumped by around 65% from 2007 levels – the last year with a stable economic background. As we operate in such a highly cyclical business, it has long been our aim to make the cost base as flexible as possible. Our business model was designed to cope with a fall-off in volume of the order of 40% from the cyclical peak, and still produce breakeven at the operating level. It was not, however, able to absorb a 65% drop in the market – a decline never previously seen – without making a loss. In these conditions, business levels fell sharply and, despite all the measures taken, 2009 closed with a substantially negative result. Gross 2009 sales totalled CHF 114.4 million, a fall of 56.5% compared to the previous year, which had already borne the brunt of a severe downturn. This further drop in volume was mirrored by a deterioration in results. The EBIT margin was negative at -26.7%, having been 5.0% in 2008 and 11.4% in 2007. The financial year ended with a loss of CHF 29.6 million, compared to a net profit of CHF 6.0 million in 2008. As at 31 December 2009, shareholders' equity stood at CHF 125.4 million, representing 67.8% of the balance sheet total of CHF 185.0 million. On the same date, the Group's net debt was CHF 24.6 million compared to a positive net cash position of CHF 5.3 million on 31 December 2008.

Faced with these results, what is the Group's

strategy? First of all, we believe that the present crisis is more cyclical than structural. Secondly, the fact that it is of unprecedented severity is possibly because it is the first recession in the era of globalization and hence has affected all countries and all industrial sectors simultaneously, a phenomenon not seen in the past. Finally – and although only time will bear this out – we remain convinced that there will always be a demand for machine tools to meet the needs of increasing numbers of consumers. Although we cannot predict when the recovery will occur, we have no doubt that it will happen, and that there is every chance of it being just as rapid and dramatic as the collapse we have experienced. Accordingly, we need to safeguard our ability to react. That involves preserving our know-how, production capacity and geographical coverage, and extending, improving and updating our product range. Any decision to dismantle our industrial and commercial infrastructure would inevitably hamper our ability to take full advantage of the recovery. It was in this frame of mind that we embarked on this crisis.

Our approach to managing the recession involved a 10% cut in staff numbers during the first half of 2008 and the introduction of tighter controls on external expenses. As regards the workforce, we have implemented methods already used over several years to ensure cost flexibility, namely extensive use of flexible working from 2008 and large-scale use of short-time working from 2009. By making use of the possibilities available under legislation, we introduced numerous staff training initiatives, thereby bolstering the Group's competitiveness and its internal cohesion. Our policy of intensive internal communication helped, to a large extent, to obviate the adverse psychological impact on the workforce of large-scale short-time working. While staff numbers fell from 1,000 FTEs (Full Time Equivalent) at the end of 2007 to 848 at the end of the year under review, it is important to note that the use of short-time working meant that only 63.7% of staff were used in 2009. Payments from unemployment insurance and the loss of salaries suffered by staff amounted to a saving of CHF 20.9 million. Total personnel expenditure fell from CHF 93.9 million in 2008 to CHF 60.6 million



in 2009, a reduction of CHF 33.3 million or 35.4%. Before leaving this topic, it should also be noted that R&D staff have been relatively unaffected by short-time working, in order to give the company the best possible chance of a successful recovery. Other significant events during the past financial year are described briefly below.

As regards markets, all industrial sectors and all geographical regions were affected by the recession throughout 2009.

On the product front, the main effort was focused on designing products to be brought to market in 2010 and 2011. However, we did present one new machine, the Gamma 20, produced in collaboration with our Japanese partner.

Strategically, we continued to follow the same direction. Although it is obvious that the numerical targets of our 2007-2012 strategic plan were not met in 2008 and 2009 – and will not be met in 2010 either – we are convinced that our strategy remains correct. The tactical adjustments forced upon us by this unprecedented recession do not invalidate any fundamental aspect of the strategy we have been following, and we intend to persevere with it in the future.

At the Ordinary General Meeting to be held on 13 April 2010, we shall propose creating an authorised capital of 5,000,000 registered shares of CHF 4.50 each, representing a total face value of CHF 22,500,000. This measure should empower the

Board to increase the share capital of Tornos Holding S.A. up to that sum in one or more share issues on terms and conditions to be defined on each occasion. As at 31 December 2009, the share capital of Tornos Holding S.A. consisted of 15'034'243 registered shares with a face value of CHF 4.50 each, giving a total of CHF 67'654'093.50. The proposal to create this authorised capital is a precautionary move. It is intended to prepare the Group for two types of scenario linked to the uncertain economic climate we are currently experiencing. Firstly, if the current recession should extend beyond 2010, it could prove necessary to refinance the Group with a reinforcement of our shareholders' funds. If this should occur, it will be particularly advantageous to have an authorised capital available. Secondly, in the current economic climate, opportunities may present themselves to complete our product and technology portfolio on attractive terms and conditions. If so, it would be desirable to be able to access funds without delay to finance such an operation, as we did successfully with the acquisition of Almac in 2008.

In conclusion, on behalf of the Board of Directors, I should like to thank our shareholders, workforce, customers and partners for the confidence they have placed in us.

**François Frôté**  
Chairman of the Board of Directors

# OPERATIONS, RESULTS AND OUTLOOK



## Business activities

Apart from seasonal variations over the summer, the trend over the year was relatively stable and linear, but with an extremely low volume of business. The Group's key market segments – automotive, medical, electronics and microtechnology – were all in recession throughout the past year. Some industrial sectors saw a gradual increase in the level of production capacity usage from the middle of the year onwards, although this was too small to provide the spur for a new phase of investment. This was exacerbated by a general climate of risk aversion, making it extremely difficult for our clients to finance their projects. Furthermore, the strength of the Swiss franc penalized margins in a market characterized by extreme pressure on prices owing to high levels of stocks of machinery and unutilized production capacity right across our sector. Geographically, the situation was broadly identical in all regions, with business volumes declining everywhere in 2009. Compared to the previous financial year, the slowdown in North America was less severe, as it had been the first to fall into recession; this created a favourable base effect for comparative purposes. In Asia, we failed to benefit from the upturn in activity reported by some machine tool manufacturers, as this only affected very low-priced products, a sector in which we are not involved. Finally, the third quarter appears to have marked the low point of the cycle.

Orders taken in the year totalled CHF 85.5 million, a reduction of 63.2% compared to 2008 (CHF 232.1 million).

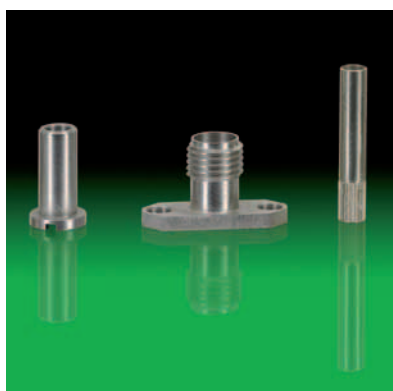
Sales naturally reflected this trend, and 2009 turnover was CHF 114.4 million, a fall of 56.5% compared to the previous year (CHF 262.9 million).

## Finances

The year closed with a consolidated net loss of CHF 29.6 million, which compares with a profit of CHF 6.0 million in 2008. The severity of this deterioration is a consequence of the fall-off in activity. Turnover declined from CHF 262.9 million in 2008 to CHF 114.4 million in 2009, a 56.5% reduction. Compared to 2007, and after allowing for the acquisition of Almac in 2008, the decline is close to 65%. Around one third of potential production capacity was used and, despite the numerous measures taken since 2008, a substantial loss was unavoidable.

The gross margin narrowed from 40.1% in 2007 to 35.8% in 2008 and 23.0% in 2009. Part of the explanation for these successive falls is the under-absorption of fixed production costs by the sharply lower volumes. Additionally, selling prices were under constant pressure as the distributors of our Asian competitors had built up vast stocks, and there was idle production capacity throughout the sector, all of which had a negative impact on the commercial discipline and the tariffs applied to the relatively few sales achieved. In these circumstances, the appreciation of the Swiss franc could not be passed on in selling prices, which further impacted on our margins.

The range of measures taken enabled us to reduce operating costs by 30.0% from CHF 81.1 million to CHF 56.8 million. However, because of



reduced volumes, operating costs represented 49.7% of turnover, compared to 30.8% in 2008 and 28.7% in 2007. At the EBIT level, there was a loss of CHF 30.5 million, compared to profits of CHF 13.1 million and CHF 32.7 million in 2008 and 2007 respectively. EBITDA was CHF 25.8 million negative, compared to positive figures of CHF 19.9 million in 2008 and CHF 39.3 million in 2007.

Financial expenses rose from CHF 0.6 million to CHF 1.7 million because of the Group's increased debt, while the appreciation of the Swiss franc triggered foreign exchange losses of CHF 1.0 million. The pre-tax loss for the year came to CHF 33.3 million, generating a tax credit of CHF 5.6 million. Hence, tax for the financial year was a credit of CHF 3.7 million compared to a charge of CHF 2.2 million in 2008. Our full-year net loss amounted to CHF 29.6 million compared to a net profit of CHF 6.0 million in 2008.

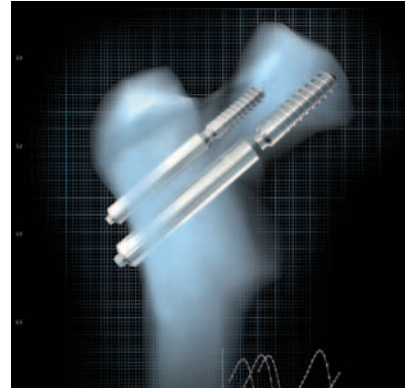
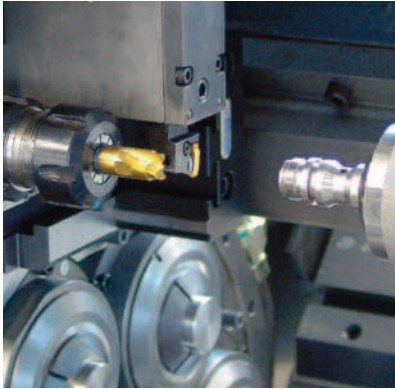
After the inclusion of the 2009 net loss of CHF 29.6 million, and a credit of CHF 1.3 million for certain routine operations of minor significance, shareholders' equity as at 31 December 2009 stood at CHF 125.4 million (2008: CHF 153.7 million). This represented 67.8% (2008: 69.2%) of the balance sheet total of CHF 185.0 million (2008: CHF 222.3 million), which had reduced owing to the fall-off in activity, as there were no disposals in 2009.

During the year under review, 14'542 shares were issued in relation to Management and Board participation plans. By 31 December 2009, the share capital stood at CHF 67.7 million consisting of 15'034'243 shares with a par value of CHF 4.50 each.

The net debt position on 31 December 2009 stood at CHF 24.6 million compared to a positive net cash position of CHF 5.3 million on 31 December 2008. This reduction of CHF 29.8 million is mainly the result of the loss for the year.

The net working capital of CHF 105.6 million remained virtually unchanged (2008: CHF 108.5 million) as the fall in inventory and debtors was almost exactly matched by the reduction in supplier accounts and trade creditors. Accordingly, the Group had a negative operating cash flow of CHF 27.4 million, as a result of the loss for the year. Investment in tangible fixed assets fell to CHF 0.5 million and the Group had a negative free cash flow of CHF 29.2 million. This shortfall was financed mainly from bank loans under the terms of a credit facility renewed in September 2009 with a CHF 50 million limit. The facility is valid until 30 September 2012 on condition that covenants are not breached.





### Organization

The general organization of the Group did not undergo any major changes in 2009, with the year marked primarily by large-scale recourse to short-time working in Switzerland. Our subsidiaries in France, Italy, Spain and Germany also took steps, albeit to a lesser extent, to reduce working time as far as permitted in their respective jurisdictions, whereas similar measures were not feasible in the USA and Asia.

On 22 December 2009, we established Tornos Management Holding SA, Moutier. The intention in setting up the company is to achieve an alignment between the Group's legal and operating structures. Since the Almac acquisition in 2008 and its integration in the Group, a number of management services have been supplied to it by the industrial company, Tornos SA. For reasons of operational and fiscal transparency in particular, it was desirable to reflect that situation in the Group's legal structure.

### Outlook for 2010

Against the current macroeconomic backdrop, it would be unrealistic to publish any forecasts. However, it is our view that the economic situation should improve from mid-2010, although this is unlikely to have any substantial impact on this year's results. 2011 should, however, see a improvement. In any event, we shall pursue our policy of continuously adapting the company to market conditions, and measures similar to those taken in 2009 will continue to be deployed in response to developments in the economic situation.



# PRIORITY TO INNOVATION: CAPITALIZING ON THE CRISIS



## Innovation

In 2009, the global machine-tools industry was severely buffeted by the economic crisis and all its attendant problems. Tornos was not spared. Our principal markets all fell sharply.

Consumer products and their means of production appear to be under threat, but we remain convinced that machine tools will always be in demand. The near future will see hybrid cars, a general increase in sustainable products, the development of 'flexibility' in all its forms, the decentralization of IT systems and changes in our ways of thinking. The crisis has caused considerable disturbance and disruption to established positions. At the same time, it has opened numerous windows of opportunity for those in a position to take advantage of them. Now, more than ever, the future belongs to the bold.

At Tornos, adversity has not made us timid. Resources available for research and development have been preserved intact. Not content with that, the imagination of our engineers and their managers has responded to the global crisis and to the competition with a welter of ideas. Their creativity in devising the most competitive solutions and optimizing the use of resources has brought about a quantum leap in our ability to innovate.

All our future products have been designed to boost productivity, and to improve cost efficiency and machining quality, all within a context of greater 'flexibility' during start-up, and increased reliability. Over the past few years, we have rapidly expanded our product portfolio to enable us to respond effectively to all the demands and production chal-

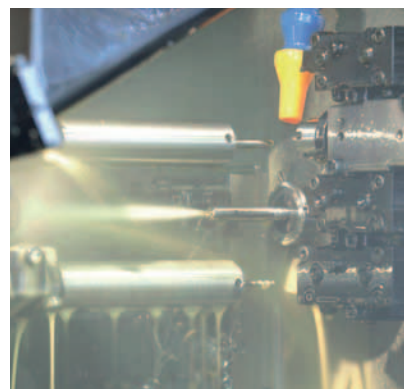
lenges of our customers who, in turn, are having to contend with an extremely difficult situation.

On our 'high-end' machines, we are continuing to expand the concept of 'finished parts' (parts requiring no secondary operation). Increased capacity in terms of the number and types of tools, increased thermal and vibratory stability, a new motion control and intelligent software platform – DECOdrive – running on a PC integrated into the machine, new ergonomic designs, working with or without a guide bush and working with grippers or chucks are all just some of the strategic directions we are following to develop our existing portfolio of products and to devise new ones.

During the first few years of the new decade, Tornos will bring to market innovations capable of introducing new standards of production. Our customers will benefit, as so often in the past, from our ability to invent the future.

Thus during the crisis, Tornos has armed itself with many more ways of innovating. Our sensitivity to the needs of the market, our sound competitive instincts, and our focus on changes in what our customers currently value are all central to our concerns. Our portfolio of innovative products is full of promise. Far from merely sitting out the crisis, Tornos is perfectly in step with the challenges of the time and stands ready to fight its corner in the future.

# 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. It is clear that, because of the recession, the numerical targets of our plan were not met in 2008 and 2009, and will not be met in 2010 either. However, we remain convinced that our strategy is appropriate. The numerous tactical adjustments required in the present economic climate do not invalidate its main components, which 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

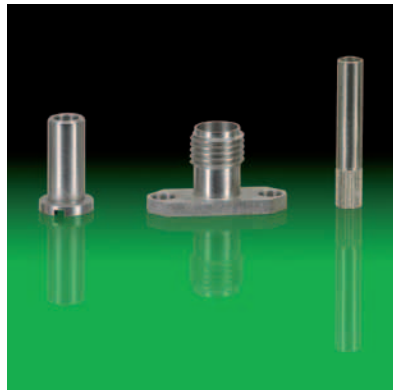
Tornos is a company which develops, manufactures and markets automatic single- and multispindle lathes, machining centres for small parts, and their related products and services.

### 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 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-year period and 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**

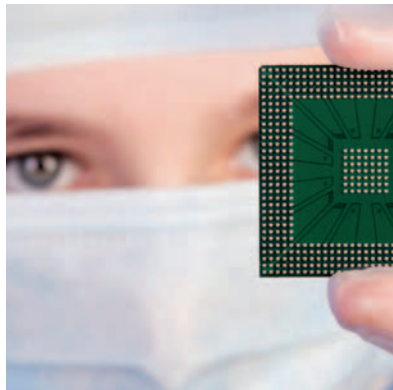
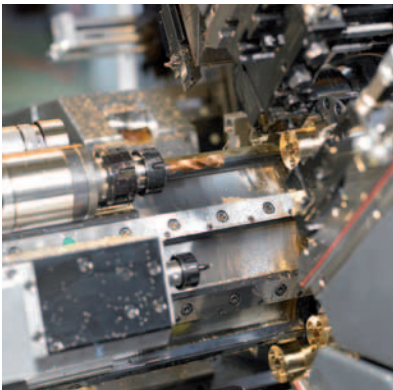
In its development Tornos pays particular attention to its profitability. Over and above a policy of constituting a cash reserve for its operating needs, Tornos practises a policy of total profit distribution to its shareholders.

#### **Financial objectives**

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

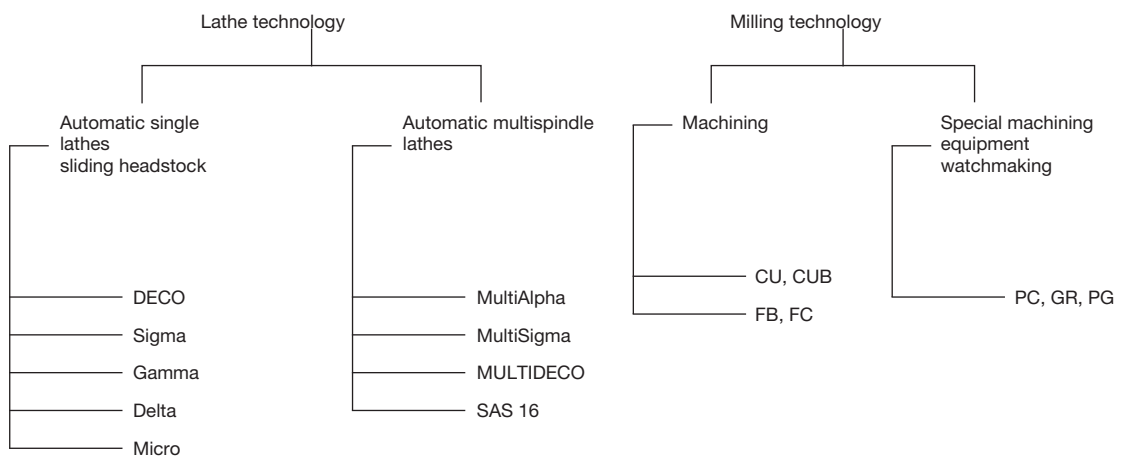
- CHF 450 million sales in 2012 (assuming stable economic conditions);
- 10% EBIT margin;
- 15% return on equity;
- 10% to 15% of annual sales as cash reserve;
- Distribution of surplus cash to shareholders.

# PRODUCTS



## Product lines

Tornos is a leader in several machining technologies used for large production batches of parts requiring extremely high precision and quality. Our product range can be summed up as follows:

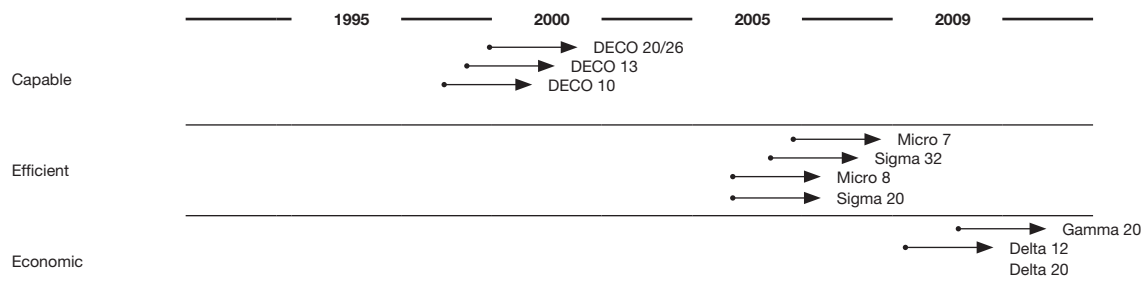


## Two ranges of lathes

In lathe technology, Tornos offers two complete ranges of automatic lathes covering bar diameters from 1 to 32 mm. Single spindle machines with sliding headstock and guide bush, traditionally known as 'strippers', are used for the machining of parts where length exceeds diameter. They are fitted with numerous tool systems and devices enabling the high-speed manufacture of highly complex parts. Multi-spindle machines with 6 or 8 spindles allow for optimal serialization of operations and are capable of production speeds 4 to 6 times higher than single spindle lathes.



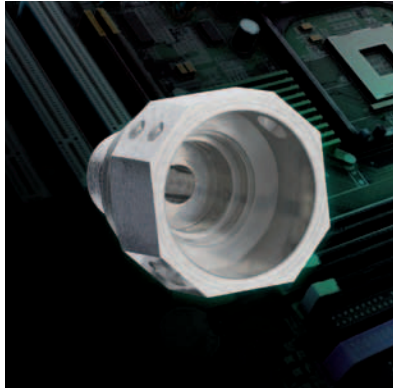
## Single spindle product range



### 2000 – 2007: Productivity without compromising flexibility

The DECO range, still unparalleled for the production of complex high-volume parts (with over 6,000 machines currently installed across all market segments), was completed in 2005 with the Sigma line, with simple kinematics, greater thermal stability and better rigidity for back-machining than any other machine on the market. With these products, we have succeeded in attracting clients looking for slightly lower-cost, more flexible and easy-to-use machines. Significantly, the Sigma 32 has an excellent reputation in automotive applications.

In 2005 and 2007, we launched the Micro line of products, comprising the Micro 8 for short parts and the Micro 7 for long ones. With machining stability of below 2 microns in production, these are among the most precise and rigid machines on the market. Their modularity and kinematics, which allow 2 tools to be used, make them ideal machines for producing a wide range of watch parts in large quantities.

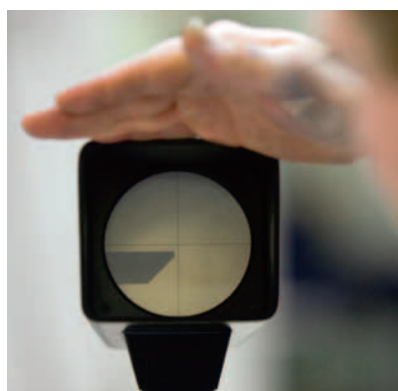
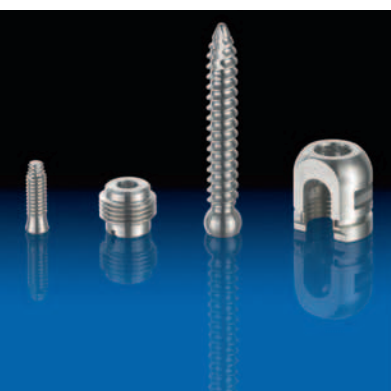


We have recently begun to develop budget-priced machines that are both reliable and simple to use, giving our clients the opportunity to develop a competitive advantage in less complex parts or small production runs.

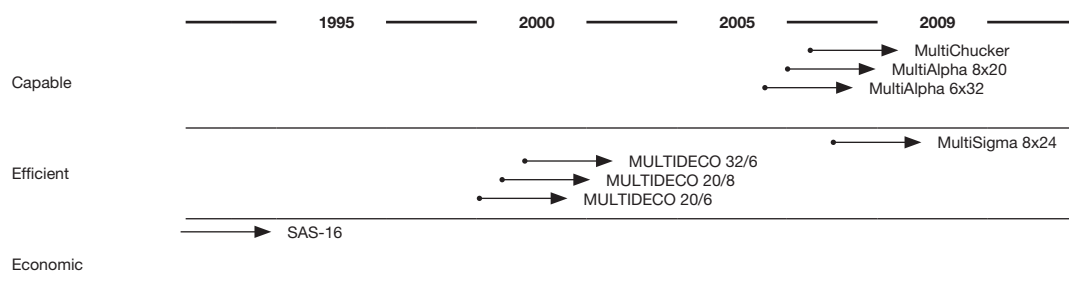
	Ø 8mm	Ø 12mm	Ø 16mm	Ø 20mm	Ø 32mm
Capable	DECO 10	DECO 13	DECO 20	DECO 26	
Efficient	Micro 7 Micro 8	Sigma 20 Gamma 20		Sigma 32	
Economic	Delta 12	Delta 20			

Ø Bar





## Multispindle product range

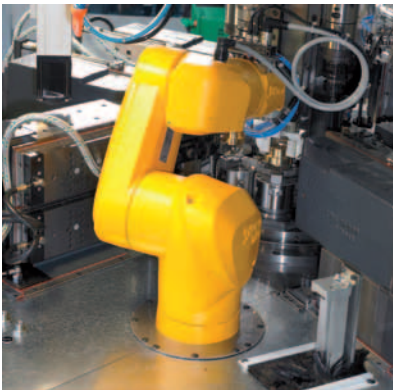


Automatic cam-operated multispindle lathes earned their reputation in high-volume applications. Once set up, these machines work continuously with the regularity and precision of a metronome. Our SAS-16 lathe is undoubtedly the leading example in this category, and its popularity is still undiminished. During the 1990s, Tornos introduced the MULTIDECO multispindle range of products. With its numerical control and TB-Deco programming software, this platform has introduced the flexibility and versatility lacking in cam-driven machines, adapting to the demands of the market, and in particular the automotive sector.

### 2005 – 2008: flexibility, machining capacity and increased productivity open up new horizons

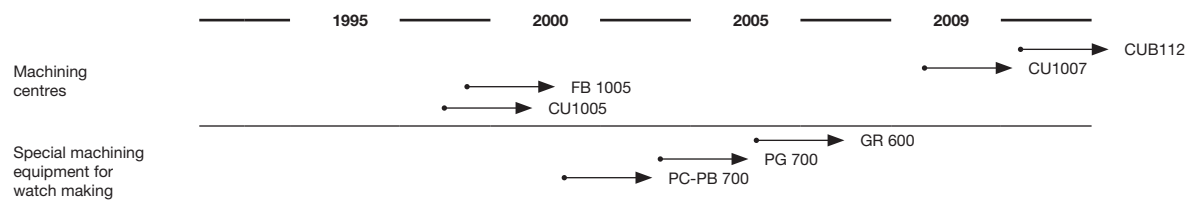
Between 2005 and 2007 we brought the MultiAlpha and MultiSigma range to market. These machines are fitted with 6 or 8 powerful independent motorized spindles. The numerous tools for special machining (thread whirling, polygon turning, etc.) and the wealth of tools for back machining make these into true machining centres with extraordinary productivity, able to finish the most complex parts. Their parallel numerical controls linked to the TB-Deco software make them both accessible and flexible, and increasingly suited for small production runs and a broad product mix. In many cases, these machines represent an advantageous replacement for large numbers of single-spindle machines, or transfer machines. In 2008, we also brought out a 'chucker' version of the MultiSigma. This machine, which is able to work with slugs or moulded parts, helps to reduce significantly the amount of material lost on machined parts.



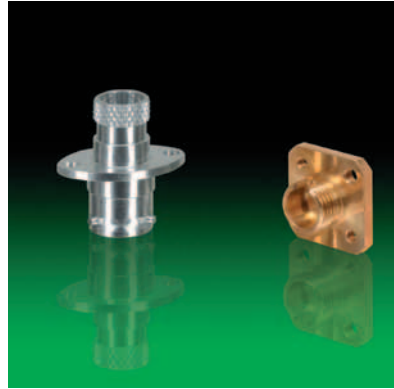
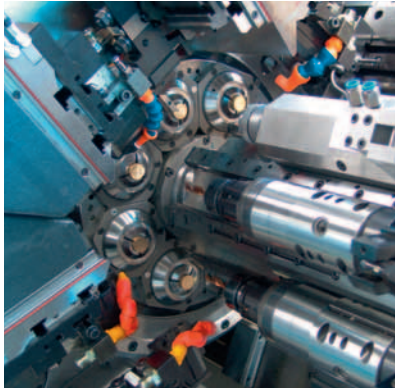


Capable	MultiAlpha 8x20	MultiAlpha 6x32	MultiChucker	
Efficient	MULTIDECO 20/8 MULTIDECO 20/6	MultiSigma 8x24 MULTIDECO 32/6		
Economic	SAS-16			
	Ø 16mm	Ø 20mm	Ø 32mm	Ø 55mm Ø Bar

### Range of milling and machining products for the Watch Making Sector



In 2008, Tornos acquired Almac, a company specializing in milling machines for micro-mechanical applications in the watch making sector, particularly at the top end of the range. This market is characterized by the small size of parts, their extreme precision and the quality of machining required. All Almac's machines meet these requirements.



Since the 1990s, Almac has been the preferred supplier to the watch making sector. With our CU 3005 and CU 1007 machining centres, we have carved out a leadership position in the manufacture of bottom plates and bridges. Our CU 1005 and FC 1105 machining centres make it possible to fully machine irregular-shaped watch cases. PC 700 machines are widely used for drilling dials. As a complement to our machining products, the GR 600 TWIN and PG 700 offer exclusive solutions such as beading or angle planing for finished parts. In 2009, we presented the CUB112, a system with the potential to revolutionize the machining of back plates for timepieces with complications.

#### **2005 – 2009: Out to conquer the world**

With its high-quality know-how and products offering precision and productivity for small parts, Almac is now in search of new markets to conquer. Thus, our CU machining centres and FB bar milling machines are effectively positioned in niche dental and surgical instrument applications. This trend, started by Almac as an independent company, is now gathering pace thanks to the sales force and international reputation of Tornos.

# BOARD OF DIRECTORS



Left to right

## **Michel Rollier (1959), Switzerland**

Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committees: Nomination and Compensation Committee; Alliance Committee | Training – final qualification on completion of studies: EPFL engineer (Ecole Polytechnique Fédérale), Lausanne, 1985 | Current directorships: **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 – final qualification on completion of studies: MBA, University of California, Los Angeles, 1989, B.A., Golden Gate University, San Francisco, 1987 | Current directorships: RUAG Holding AG: Board director, member of the Audit Committee, New Schild Holding AG and subsidiaries: Chairman of the Board of Directors; Nugerol Holding SA: Director | Professional activities: Feintool International Holding: CFO (from 1996 to 2003); **AWR AG für Wirtschaft und Recht: Partner (since 2003)**

## **Claude Elsen (1947), Luxembourg**

Deputy Chairman of the Board | Member since 2002 | Elected until 2011 | Previous activities for Tornos: none | Committee: Alliance Committee | Training – final qualification on completion of studies: MBA, Insead, Fontainebleau, 1974; Master Sc., Master Mec. Engineer from RWTH, Aachen, Germany, 1972 | Current directorships: BIA Group S.A., Belgium: Director (since 2008), | 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 – final qualification on completion of studies: lawyer, law degree at the University of Bern, 1979 | Current directorships: Rollomatic Holding SA: Board director; Nugerol Holding SA: Board director; Esco SA: Board director; Bien-Air Holding SA: Board Director; Coopérative Migros Neuchâtel Fribourg :Vice-Chairman | Professional activities: **Law offices of Frôté & Partner: lawyer and board director (since 1979)**

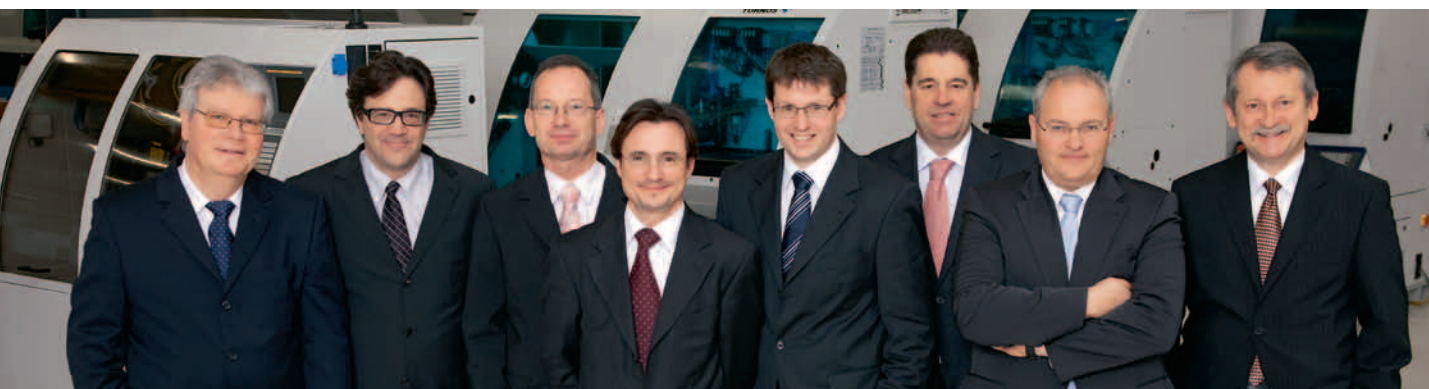
## **François Gabella (1958), Switzerland**

Member since 2008 | Elected until 2011 | Previous activities for Tornos: none | Committee: none | Training – final qualification on completion of studies: EPFL engineer (Ecole Polytechnique Fédérale), Lausanne, 1982 | Current directorships: 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 2003) Areva T&D: Divisional Manager (from 2003 to 2005); Hexagon Metrology: **Tesa SA: CEO (since 2006)**

## **Raymond Stauffer (1954), Switzerland**

Managing Director and Chief Executive Officer | Member since 2002, appointed in 2002 | Elected until 2011 | Previous activities for Tornos: none | Committee: Chairman of the Alliance Committee | Training – final qualification on completion of studies: ETS engineer (engineering college), Le Locle, 1975 | Current directorships: none | Professional activities: Ismecha Holding SA: different functions in the Group since 1976, COO (from 1993 to 2001), CTO (2001); **Tornos SA: CEO (since 2002)**

# GENERAL MANAGEMENT



## **Bernard Seuret (1947), Switzerland**

**Head of Production** | Appointed in **1999** | Training – final qualification on completion of studies: ETS engineer (engineering college), Freiburg, 1968 | Current directorships: 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 – final qualification on completion of studies: Economist (degree in economic science), University of Neuchâtel, 1976 | Current directorships: none | Previous professional activities: Ismecca Holding SA: CFO (from 1998 to 2002)

## **Willi Nef (1960), Switzerland**

**Head of Sales and Marketing** | Appointed in **2008** | Training – final qualification on completion of studies: ETS engineer (Technicum), Rapperswil, 1985; MBA National University of Singapore, 1999 | Dr. of business administration MSM Maastricht, Netherlands, 2005 | Current directorships: 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 – final qualification on completion of studies: HES engineer (University of Applied Sciences), Bienne, 1982 | Current directorships: none | Previous professional activities: Tornos Technologies Italia SRL: Manager (from 1993 to 2002); Gildemeister Italiana S.p.A.: Marketing and Sales Manager (from 2002 to 2003)

## **Iwan von Rotz (1973), Switzerland**

**Head of Multispindle Products** | Appointed in **2008** | Training – final qualification on completion of studies: ETS engineer (engineering college), Horw, 1996; MBA, Lucerne, 2003 | Current directorships: none | Previous professional activities: Mikron SA in Agno, Head of Production and Head of 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 – final qualification on completion of studies: ETS engineer (engineering college), Bienne, 1980 | Current directorships: none | Previous professional activities: Schaublin SA in Bévillard: 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 – final qualification on completion of studies: Master in physical sciences, University of Neuchâtel, 1992 | Current directorships: 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 – final qualification on completion of studies: ETS engineer (engineering college), St-Gallen, 1976 | Current directorships: none | Previous professional activities: Ismecca Semiconducteur SA: Technical Services Manager (from 1998 to 2004)

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# CORPORATE GOVERNANCE AND COMMUNICATIONS

The Board of Directors and General Management place great value on responsible and transparent corporate governance and control in the interests of shareholders, customers and staff. The disclosure of corporate governance as given below takes its model from the Swiss Stock Exchange and complies with the corporate governance best practice rules of 'economiesuisse'. At Tornos, corporate governance is based on the Articles of Association and the Rules of Organization.

## 1 1 Group structure and shareholders

### 1.1 Group structure

#### 1.1.1 Organizational structure of the Group

The Group's organizational structure is defined by functional areas. Each area is managed by one member of General Management. The Managing Director acts as CEO and oversees General Management. The functional areas are: (1) research and development, (2) single-spindle 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 Listed companies in the consolidation

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 the SIX Swiss Exchange, Zurich, under securities n° TOHN (ISIN code CH0011607683). The market capitalization value as on the balance sheet date amounted to CHF 108.4 million.

#### 1.1.3 Unlisted companies in the consolidation

Tornos Holding S.A. has no unconsolidated shareholdings.

The consolidated companies of the Group are shown below:

Name	Purpose	Share capital	% held	
			2009	2008
■ Tornos Holding S.A., Moutier	Holding	CHF 67'654'094		
■ Tornos Management Holding SA, Moutier	Management of shareholdings and holding company	CHF 65'000'000	100.0	–
■ Almac S.A., La Chaux-de-Fonds	Production and sales	CHF 1'175'000	100.0	100.0
■ Almatronic S.A., La Chaux-de-Fonds	Dormant company	CHF 50'000	100.0	100.0
■ Tornos SA, Moutier	Production and sales	CHF 65'000'000	100.0	100.0
■ Tornos Technologies Deutschland GmbH, Pforzheim	Support services	EUR 511'292	100.0	100.0
■ Tornos Technologies Iberica SA, Granollers	Support services	EUR 60'200	100.0	100.0
■ Tornos Technologies Italia Srl, Opera/MI	Support services	EUR 93'600	100.0	100.0
■ Tornos Technologies Poland Sp. z o.o., Varsovie	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 company	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	100.0
■ Tornos Technologies (Shanghai) Limited, Shanghai	Sales and service	USD 500'000	100.0	100.0



Tornos Management Holding SA was established on 22 December 2009.  
Tornos Technologies (Shanghai) Limited was established on 2 April 2008.  
Tornos Technologies (HK) Limited was established on 29 July 2008.  
95% of Almac S.A. and 100% of Almatronic S.A. were acquired on 12 March 2008 with retroactive effect to 1 January 2008. Subsequently, 5% of Almac S.A. was also acquired.

## **1.2 Major shareholders**

### ***The following communications were published:***

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, 3V 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. During 2009, there were no communications from 3V Asset Management AG.

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. During 2009, there were no communications from Schroders plc.

With the introduction of the obligation to disclose a shareholding of more than 3%, Berner Kantonalbank, Berne (CH), made an announcement in December 2007. 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. During 2008 and 2009, there were no communications from Berner Kantonalbank.

With the introduction of the obligation to disclose a shareholding of more than 3%, Mr. Michel Rollier, Le Landeron (CH), made an announcement in December 2007. 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%. During 2008 and 2009, there were no communications from Mr. Michel Rollier.

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. In 2009, there were no communications from Tornos Holding S.A.

On 2 April 2008, Tsugami Corporation, Tokyo (Japan), notified the company that it held 456'397 registered shares, representing 3.04% of the voting rights, following an acquisition on 1 April 2008. Tsugami Corporation, Tokyo notified the company on 20 May 2008 that it held 765'981 registered shares representing 5.10% of the voting rights following an acquisition on 19 May 2008. In 2009, there were no communications from Tsugami Corporation.

Mr. Walter Fust, Freienbach (CH), notified the company on 11 November 2008 that he held 450'000 registered shares representing 3.00% of the voting rights following an acquisition on 11 November 2008. Mr. Walter Fust notified the company on 15 April 2009 that he held 769'102 registered shares representing 5.12% of the voting rights.

Monsieur Raymond Stauffer, La Chaux-de-Fonds (CH), notified the company on 11 June 2009 that he held 457'933 registered shares and options under an employee stock option scheme, and that his shareholding stood at 3.4%

Tornos Holding S.A. is unaware of any shareholders' pact.

### **1.3 Cross participations**

There are no cross participations.

## **2 Capital structure**

### **2.1 Share capital**

The ordinary share capital of Tornos Holding S.A. amounted to CHF 67'654'093.50 as at 31 December 2009. As at the close of the financial year, the company had a contingent share capital of CHF 3'935'304. It has no authorised share capital.

### **2.2 Contingent and authorised share capital**

The following information relates to the changes in contingent and authorised capital for the years 2009 and 2008. For changes occurring in 2007, please refer to Note 22.1 of the 2007 consolidated accounts, which are available on the website at: <http://tornos.com/dnld/invest-pdf/tornos-2007cfs-conso-finan-statement-uk.pdf>.

#### **2.2.1 Authorized capital**

As at 31 December 2009, the company had no authorised share capital. A proposal to create authorised capital will be submitted to the Ordinary General Meeting of Shareholders on 13 April 2010.

#### **2.2.2 Contingent capital**

### **2009**

As at 31 December 2008, the share capital could have been increased by up to CHF 3'935'304, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 874'512 shares with the said par value for a total sum of CHF 3'935'304, 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.

### **2008**

As at 31 December 2008, the share capital could have been increased by up to CHF 4'000'743, to the exclusion of the subscription right or priority subscription right of the shareholders, for good reasons (acquisition of shareholdings by employees), by issuing fully paid-up registered shares with a par value of CHF 4.50 each, up to a maximum of 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 have to be defined by the Board of Directors taking into account the above-mentioned requirements.



## 2.3 Capital changes

In thousands of CHF	Ordinary shares	Additional paid-in capital	Reserve for treasury shares	Retained earnings	Total
<i>Equity as at 31.12.2006</i>	<i>68'954</i>	<i>14'234</i>	<i>84</i>	<i>6'417</i>	<i>89'689</i>
Issuance of new shares	5'966	1'676			7'642
Net income for the year				176	176
Transfer to treasury shares			1'986	-1'986	-
<i>Equity as at 31.12.2007</i>	<i>74'920</i>	<i>15'910</i>	<i>2'070</i>	<i>4'607</i>	<i>97'507</i>
Issuance of new shares	168	46			214
Reduction of par value of shares	-7'499			230	-7'269
Net income for the year				7'499	7'499
Transfer for treasury shares			4'499	-4'499	-
<i>Equity as at 31.12.2008</i>	<i>67'589</i>	<i>15'956</i>	<i>6'569</i>	<i>7'837</i>	<i>97'951</i>
Issuance of new shares	65	22			87
Net income for the year				2'016	2'016
Transfer for treasury shares			104	-104	-
<i>Equity as at 31.12.2009</i>	<i>67'654</i>	<i>15'978</i>	<i>6'673</i>	<i>9'749</i>	<i>100'054</i>

## 2.4 Shares and participation certificates

As at 31 December 2009, the ordinary share capital of Tornos Holding S.A. amounted to CHF 67'654'093.50, and was divided into 15'034'243 fully paid up registered shares with a par value of CHF 4.50 each.

There are no participation certificates.

## 2.5 Dividend right certificates

There are no dividend-right certificates.

## 2.6 Restrictions on transfer and nominee registration

Tornos Holding S.A. has only one type of share. Shares are not subject to any restriction on sale. There are no preferred shares or limitations with regard to voting rights. Each share corresponds to one vote ('one share, one vote').

## 2.7 Convertible loans and options

There are no convertible loans. Shareholding plans for persons designated by the Board of Directors exist. See note 24 in the financial report with regard to the provisions of the share ownership plan in favour of individuals designated by the Board of Directors.

## 3 Board of Directors

See page 18

### 3.1 Members of the Board of Directors

Membership of the Board of Directors was unchanged in 2009. 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 any Group company.

### 3.2 Other activities and interest groups

No member of the Board of Directors has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest groups. No member holds an official function or political office.

### **3.3 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.

### **3.4 Internal organization**

The Rules of Organization of Tornos Holding S.A. lay down regulations for the company's operations, as follows:

### **3.5 Duties and authorities**

The duties and authorities of the various internal bodies are as follows:

**The Board of Directors** has the following duties and authorities:

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

In 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.

In order to form a quorum, the majority of the members of the Board of Directors must be present at a meeting. If the votes are equal, the Chairman has the casting vote.

**The Chairman of the Board of Directors has the following duties and authorities:**

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

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

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

The Board of Directors meets as often as necessary, but at least four times a year. During 2009, seven meetings were held, lasting on average 5 hours each, as well as two conference calls. The Board of Directors regularly invited members of General Management to attend its meetings and, where necessary, invited external advisers when the items on the agenda required their expertise. Members of General Management also attended committee meetings.

**General Management** has the following duties and authorities:

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

With the efficient allocation of duties in mind, the Board of Directors appointed Mr. François Frôté as Chairman, 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:***

*F. Frôté (Chairman) and 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;
- Definition of 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, with a view to submitting recommendations to the Board of Directors respectively General Meeting in respect of new Board members;
- Approval of general principles of remuneration and other terms and conditions of employment for all staff;
- Approval of guidelines for annual salary rises for all staff.

It is also the responsibility of the Nomination and Compensation Committee to determine the participants in the Management and Board participation plans.

During 2009, the committee met on eight occasions. Messrs R. Stauffer (Managing Director and CEO) and P. Maquelin (COO/CFO) attended seven of these meetings as invitees.

During its meetings, the Committee studied the management reports and drew up proposals which were submitted to the Board of Directors for a decision; it also took decisions on matters within its own remit. Meetings lasted one and a quarter hours on average. Two meetings were held by conference call.

The following subjects were covered:

- Identification of the individuals to participate in the Management and Board Participation Plan 2007 (MBP 07) and the number of shares available for 2009 under the programme;
- Submission to the Board of Directors of a number of ideas and proposals concerning the modification or composition of the General Management;
- Determination and approval of the 2010 compensation policy;
- Appraisal and remuneration of management and senior staff in 2009.

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

**Audit Committee:**

*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.

The committee met on eight 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 2008;
- 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 new framework contract with banks;
- Review of inventory management;
- Review of the incorporation and establishment of Tornos Management Holding SA.

The Audit Committee also reviewed the quarterly financial statements, forecasts, the budget for 2010 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 the Committee's work and submitted proposals for a decision. The minutes of committee meetings were distributed to the Board members.

**Alliance Committee:**

*R. Stauffer (Chairman), M. Rollier, C. Elsen, members of the Board of Directors of Tornos Holding S.A., and T. Nishijima, representing Tsugami*

The 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 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 Alliance Committee met on two occasions in 2009.

It covered product strategy and, in particular, launched the Gamma range. This addition to the Delta line is a mid-range machine for which marketing began at the end of 2009 and which completes the company's range of single-spindle products.

Studies were also undertaken on promoting Tsugami products in Europe, and on the possibility of Tsugami manufacturing Tornos machines in China. Both of these points are still under discussion at the time of writing.

### **3.6 Information and control methods for oversight of management**

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

## **4 General Management**

See page 19

### **4.1 Members of the Management**

The composition of General Management remained unchanged in 2009. 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 18).

### **4.2 Other activities and interest groups**

No member of General Management has a permanent or temporary managerial, supervisory or consultative role in any significant undertakings or interest groups. No member holds an official function or political office.

### **4.3 Management contracts**

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

## **5 Remuneration, shareholdings and loans**

See notes 24, 29 and 30 of the financial report for details of remuneration, shareholdings and loans to members of the Board of Directors and General Management.

### **5.1 Composition of remuneration and terms of the participation plans, and procedures for defining them**

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 and share purchase schemes described in Note 24 of 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 and share purchase schemes described in Note 24 of 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. That committee is responsible for setting remuneration, and it informs the Board of its decisions. Fixed remuneration takes account of the potential remuneration arising from the variable component. Variable remuneration is dependent on profitability criteria and on annual personal objectives of both a qualitative and quantitative nature. 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 Limitation and representation of voting rights**

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

### **6.2 Statutory quorum**

Apart from the quorums specified in Article 704 CO, Article 11 of the Articles of Association provides for a qualified quorum of at least 2/3 of the votes represented and an absolute majority of the nominal value of the shares represented in the case of a vote on the limitation of the exercise of voting rights or any change or cancellation of such limitation.

### **6.3 Convening General Meetings**

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

### **6.4 Entry of items on the agenda**

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

### **6.5 Entries in the share register**

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

## **7 Control and warding-off mechanisms**

### **7.1 Obligation to submit an offer**

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

### **7.2 Takeover clauses**

In the event of a takeover, the lock-in period stipulated for shares and options under the Management and Board participation plans will become null and void, and a 'Take me along' clause shall apply. There are no other clauses relating to takeovers in favour of members of the Board of Directors and members of General Management.



## 8 Auditors

Since financial year 2006, the auditors of the holding company and Group have been PricewaterhouseCoopers S.A., Neuchâtel.

### **8.1 Term of office of the auditors and of the senior auditor responsible**

The auditors are appointed annually by the General Meeting of Shareholders. Mr. Michael Foley (Fellow of the Institute of Chartered Accountants) has been the senior auditor responsible since 2007. Every 3 to 5 years a call for tenders is issued to duly qualified accountants. The decision is based on the quality of the bid, its presentation by the auditors who will be leading the assignment, and the proposed audit fee. Audit services provided are evaluated on the basis of the written and oral reports provided by the auditors to the Audit Committee, and by feedback from management on the way the audits are conducted. The same procedure applies to the evaluation of additional non-audit services supplied.

### **8.2 Audit fees**

The audit fees invoiced by PricewaterhouseCoopers S.A. for the year 2009 and for auditing the annual financial statements were CHF 180'734.

### **8.3 Additional fees**

Additionally, during 2009 PricewaterhouseCoopers provided tax and legal advice on a number of occasions at a cost of CHF 153'710.

### **8.4 Means of providing information on the external auditors**

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. At the end of the year, the Audit Committee examines, together with the auditors and in the presence of the CEO and CFO, the annual accounts of the 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: [www.tornos.com](http://www.tornos.com).

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The French version of the annual report is the official one.





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