  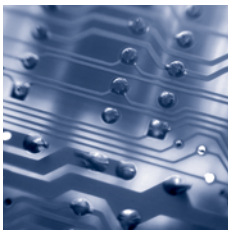 

CONSOLIDATED FINANCIAL STATEMENTS

2006 | TORNOS HOLDING S.A.

PricewaterhouseCoopers

Report of the group auditors
to the general meeting of

Tornos Holding S.A., Moutier

As auditors of the Group, we have audited the consolidated financial statements (income statement, balance sheet, statement of changes in equity, cash flow statement and notes, as presented on pages 5 to 36) of Tornos Holding S.A. for the year ended December 31, 2006. The prior year corresponding figures were audited by other group auditors.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA

M. Perry A. Joly

Auditor in charge

Neuchâtel, February 22, 2007

Enclosure
Consolidated financial statements (income statement, balance sheet, statement of changes in equity, cash flow statement and notes)

In thousands of CHF, except per share data

For the years ended December 31,	Notes	**2006**	**2005**
Gross sales		**250'515**	**222'622**
Rebates and discounts		-2'880	-2'955
Net sales		**247'635**	**219'667**
Cost of sales		-156'876	-140'439
Gross profit		**90'759**	**79'228**
Marketing and sales		-38'116	-32'644
General and administrative expenses		-21'016	-20'179
Research and development		-14'102	-12'442
Operating income		**17'525**	**13'963**
Other non operating income / (expenses) - net		89	286
Earnings before interest and taxes (EBIT)		**17'614**	**14'249**
Financial expenses – net	8	-1'311	-1'860
Exchange gains – net		608	825
Income before income taxes		**16'911**	**13'214**
Income taxes	9	338	-379
Net income		**17'249**	**12'835**
Earnings per share	21		
– basic		1.27	0.96
– diluted		1.21	0.93
Earnings before interest and taxes (EBIT)		**17'614**	**14'249**
Depreciation and amortisation		8'861	8'959
Profit before interest, income taxes, depreciation and amortisation (EBITDA)		**26'475**	**23'208**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

In thousands of CHF

As of December 31,	Notes	2006	2005
ASSETS			
Cash and cash equivalents		9’849	7’574
Trade receivables	10	51’033	41’653
Inventories	11	76’461	60’321
Other receivables and prepayments		13’142	7’896
Total current assets		**150’485**	**117’444**
Property, plant and equipment	12	42’487	48’366
Total non-current assets		**42’487**	**48’366**
Total assets		**192’972**	**165’810**
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Interest bearing loans and borrowings	14	15’584	16’317
Trade payables		22’364	12’583
Other payables	15	21’152	21’661
Current tax liabilities		5	36
Provisions	16	6’896	6’412
Total current liabilities		**66’001**	**57’009**
Interest bearing loans and borrowings	14	1’640	2’050
Retirement benefit obligations	17	1’620	1’498
Provisions	16	4’491	3’996
Deferred tax liabilities	13	762	1’089
Total non-current liabilities		**8’513**	**8’633**
Total liabilities		**74’514**	**65’642**
Total shareholders’ equity		**118’458**	**100’168**
Total liabilities and shareholders’ equity		**192’972**	**165’810**

The accompanying notes form an integral part of these consolidated financial statements.

In thousands of CHF	**Ordinary shares**	**Share premium**	**Treasury shares**	**Retained earnings**	**Currency translation difference**	**Total**
At December 31, 2004	**67'169**	**13'955**	**–**	**4'912**	**-2'498**	**83'538**
Issuance of new shares	719	101				820
Net profit for the year				12'835		12'835
Gain on treasury shares (note 18.3)				1'213		1'213
Currency translation difference					1'762	1'762
Recognised income				*14'048*	*1'762*	*15'810*
At December 31, 2005	**67'888**	**14'056**	**–**	**18'960**	**-736**	**100'168**
Issuance of new shares	1'066	178				1'244
Purchase of treasury shares (note 18.3)			-84			-84
Net profit for the year				17'249		17'249
Share-based compensation				554		554
Other expense (note 18.3)				-45		-45
Currency translation difference					-628	-628
Recognised income / (expense)				*17'758*	*-628*	*17'130*
At December 31, 2006	**68'954**	**14'234**	**-84**	**36'718**	**-1'364**	**118'458**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

In thousands of CHF

For the years ended December 31,	Notes	2006	2005
Net income		**17'249**	**12'835**
Adjustments for:			
Taxes		-338	379
Depreciation of property, plant and equipment	12	8'861	8'959
Loss / (gain) on disposal of property, plant and equipment		-13	3
Other non cash items		539	-10
Decrease / (increase) in working capital:			
Trade receivables		-9'839	-447
Other receivables		-5'200	1'421
Inventories		-16'511	2'279
Trade payables		9'785	-6'585
Other current payables and provisions		1'077	-209
Interest expenses		705	1'313
Income tax paid		-81	-327
Net cash provided by operating activities		**6'234**	**19'611**
Cash flow from investing activities			
Investment in property, plant and equipment		-3'254	-2'486
Disposal of property, plant and equipment		227	9
Interest received		90	95
Net cash used in investing activities		**-2'937**	**-2'382**
Cash flow from financing activities			
Repayments of borrowings, including finance lease liabilities		-1'229	-33'097
Proceeds from borrowings		–	15'417
Proceeds from issuance of share capital-net		1'244	820
Purchase of treasury shares	18.3	-84	–
Proceeds from sale of treasury shares	18.3	–	1'256
Payment of other financing expense	18.3	-45	-43
Interest paid		-790	-1'789
Net cash used in financing activities		**-904**	**-17'436**
Increase / (decrease) in cash and cash equivalents		2'393	-207
Cash and cash equivalents at beginning of year		7'574	7'589
Effects of exchange rate changes		-118	192
Cash and cash equivalents at end of year		**9'849**	**7'574**

The accompanying notes form an integral part of these consolidated financial statements.

1 Activity and Group structure

Tornos Holding S.A. (the Company) is a company domiciled in Moutier, Switzerland. The Group is active in the development, manufacture, marketing and servicing of machine tools for turning applications. The Group manufactures solely in Moutier, Switzerland and markets the product lines on a worldwide basis. The Group's operations outside of Switzerland principally include European countries, North America and Asia.

These consolidated financial statements have been approved for issue by the Board of Directors on February 22, 2007. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 3, 2007.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These accounting policies have been consistently applied to all the years presented.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law. The consolidated financial statements are prepared under the historical cost convention. All amounts set out in the consolidated financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand (KCHF) unless otherwise stated.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

2.1.1 Amendments to published standards effective in 2006

IAS 19 (Amended), "Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures" The Group has adopted the amendments to IAS 19, which introduces the option of an alternative recognition approach for actuarial gains and losses for defined benefit pension plans. The Group has elected not to apply the option of recognizing actuarial gains and losses arising on its defined benefit plans in full in the statement of recognized income and expense and continues to recognize the amortization of actuarial gains and losses outside the corridor in the income statement.

The other standards, amendments and interpretations effective in 2006 had no impact on the Group's accounts.

2.1.2 Interpretations to existing standards and standards that are not yet effective and

i) have not been early adopted by the Group:

IFRIC 8, Scope of IFRS 2 (effective for annual periods beginning on or after May 1, 2006)
IFRS 7, Financial Instruments: Disclosures
The Group will apply IFRIC 8 and IFRS 7 from January 1, 2007, but it is not expected to have any impact on the Group's accounts.

ii) are not relevant for the Group's operations:

IFRIC 7, Applying the Restatement Approach under IAS 19, Financial Reporting in Hyperinflationary Economies (effective from March 1, 2006)
IFRIC 9, Reassessment of Embedded Derivatives (effective from June 1, 2006)
Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

2.2 Consolidation

2.2.1 Subsidiaries

Subsidiaries are those companies in which the Company, directly or indirectly, holds an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Acquisitions are accounted for using the purchase method. A listing of the Company's subsidiaries is set out in note 5.

2.2.2 Balances and transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

2.3 Foreign currencies

2.3.1 Foreign currency transactions

Transactions in foreign currencies are translated to CHF at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to CHF at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to CHF at the foreign exchange rate ruling at the date of the transaction.

2.3.2 Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to CHF at foreign exchange rates ruling at the balance sheet date. The revenues, expenses and cash flows of foreign operations are translated to CHF at the average exchange rates prevailing during the reporting period. Foreign exchange differences arising on this translation are recognised directly in equity as currency translation difference.

2.4 Revenue recognition

Revenues include sales of machines and service costs which can be directly charged to customers. Sales are recognised on the full completion of the delivery or service (upon delivery of products or customer acceptance in the case of "bill and hold" sales, or performance of services), net of sales taxes and discounts, and after eliminating sales within the Group. Gross sales represent the binding amounts effectively invoiced to customers. Net sales represent gross sales net of rebates and discounts granted after billing.

2.5 Cash and cash equivalents

Cash and cash equivalents consist of cash balances and short-term liquid investments with original maturities of three months or less. They are stated at their nominal amounts.

2.6 Trade and other receivables

Trade and other receivables are stated at anticipated realisable value, being cost less allowances determined based on a review of all outstanding amounts at the year-end.

2.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle.

The cost of inventories includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads, except interest expenses, based on normal operating capacity.

2.8 Property, plant and equipment

2.8.1 Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 2.10). Interest cost on borrowings to finance property, plant and equipment during the course of construction are capitalised.

2.8.2 Subsequent expenditure

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul costs, is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.

2.8.3 Leased assets

Leases with terms for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Plant and equipment acquired by way of finance leases are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the leases, less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 2.10).

Each lease payment is allocated between the liability and financial charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of financial charges, are included in interest bearing borrowings. The interest element of the finance charge is recognised in the income statement over the lease period.

2.8.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows :

- Buildings 20-40 years
- Installations 8-12 years
- Machinery 8-12 years
- Other equipment 3-10 years

2.9 Intangible assets

Internal research costs are charged against income as incurred. Internal development costs are capitalised as intangible assets only when there is an identifiable asset that will generate expected future economic benefits and when the cost of such an asset can be measured reliably. The Group does not currently have any such internal development costs that qualify for capitalisation as intangible assets. Development expenditure which does not meet the criteria above is recognised as an expense as incurred.

2.10 Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy 2.7), deferred tax assets (see accounting policy 2.11) and pension assets (see accounting policy 2.12), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount, being the higher of the asset's net selling price and value in use, is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

2.11 Income taxes

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet liability method on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that sustainable future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

2.12 Employee benefits

The Group has established defined benefit and defined contribution plans around the world. Most of the pension schemes are final salary defined benefit plans and are either funded or unfunded. The assets of the funded plans are held independently of the Group’s assets in separate trustee-administered funds.

The expense and defined benefit obligations for the material defined benefit plans in accordance with IAS 19 are determined using the Projected Unit Credit Method. This takes into account insurance years up to the valuation date. The valuations of the defined benefit obligations are conducted annually by independent actuaries. Valuation of pension assets is done annually, at market value.

Current service cost is recorded in the income statement for the period in which the services are rendered. Past service costs are recognized immediately in the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Actuarial gains and losses arising from changes in actuarial assumptions and experience adjustments in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statement over the employees’ expected average remaining working lives.

A pension asset is only recognized in the balance sheet if the Group has a future economic benefit of this asset. In Switzerland the pension fund is controlled by an equal number of representatives of the management and the employees. The parity of control implies that neither side individually controls the assets in the pension fund. Therefore, the Company cannot dictate on its own that any excess funds will be used for the benefit of the Company (i.e. to reduce future contributions). Hence, no asset is recognized.

Contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

2.13 Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2.14 Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

2.15 Interest bearing borrowings

Interest bearing borrowings are recognised initially at cost, less attributable transaction costs. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest rate basis.

2.16 Segment reporting

The Group is engaged in the development, manufacture, marketing and servicing of machine tools for turning applications. The Group's products primarily include sliding headstock lathes and multi-spindle lathes. These products are mainly purchased by companies active in the electronic, automotive, connector, watch and medical engineering industries, as well as other specialised manufacturers of high precision turned parts.

The products of the Group require similar materials and production processes. Management does not consider that there is currently a clear distinction of risks and returns among the products and therefore concluded that the Group operates in one business segment, i.e. automatic lathes.

In view of the foregoing management has chosen the geographical segmentation for the purposes of the Group's primary segment reporting.

Switzerland is the domicile of the parent company and the main operating and distribution company. The Swiss operating company conducts all development and manufacture activities. The subsidiaries located in the other European countries (France, Germany, Italy, Spain and the United Kingdom), the United States and in Hong Kong only have support or sales and distribution activities. This organisation has the effect that the risks and returns of each geographical location are dependent to a large extent on the operating company in Switzerland. Management has identified four geographical segments, namely, Switzerland, Other European countries, North America and Asia. For the purpose of presenting net sales by location of customers, one other geographical segment, namely Rest of world, is identified.

3 Financial risk management

3.1 Interest rate risks

The Group is exposed to changes in interest rates on borrowings bearing interest at floating rates. At December 31, 2006 and 2005 the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group.

3.2 Foreign currency risk

Tornos SA, the Swiss operating company of the Group invoices its revenues to the subsidiaries and to customers located outside Switzerland in local currencies. Therefore, the currency risk is transferred to the Swiss operating company. The Group decided not to follow any systematic hedging policy against currency risk through financial instruments but to adjust sales prices when exchange rates between CHF and other currencies fluctuate by more than 5%.

3.3 Credit risk

The Group has no significant concentration of credit risk.

3.4 Liquidity risk

Group treasury policy is to maintain flexibility in funding by keeping committed credit lines available.

3.5 Fair values

The carrying amounts of the following financial assets and financial liabilities approximate their fair values : cash, trade receivables, net of specific provisions for impairment and trade payables, other receivables and payables, loans, short-term borrowings and long-term borrowings predominantly negotiated at variable interest rates.

4 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluate the estimates, including those related to provisions for warranty purpose and other provisions resulting from pending litigation and patent disputes as well as other present obligations of uncertain timing, inventory obsolescence, bad debts and the assessment of income taxes and retirement benefit obligations. Management bases the estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies reflect the most significant judgments and estimates that are used in the preparation of the consolidated financial statements.

4.1 Bad debts

Allowances are made for estimated losses resulting from the inability of the customers to make required payments. If the financial condition of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances might be needed.

4.2 Inventory obsolescence

Machines, including work in progress machines on the assembly floors, are reviewed individually and recorded at the lower of cost and estimated net realisable value based upon assumptions about future demand and market conditions.

For raw material, component, semi-finished goods and spare parts the following inventory obsolescence and write-offs methodologies are applied for any slow moving or any otherwise obsolete inventory :

Raw material, components and semi-finished goods
For any article, the quantity of articles in stock cannot exceed 18 months of consumption based on the last 12 months of consumption. Any excess is fully provided for.

After 24 months without movement, the individual stock of articles is written-off. Once written-off, the articles are transferred to the Spare Parts department upon their request at NIL value.

After 48 months without movement, the stock is physically disposed of after second opinion from the Spare Parts department.

In case of a machine phase out all the related stocks of articles are fully written-off.

Spare parts in the spare parts department
For any article, the quantity of articles in stock cannot exceed 36 months of consumption based on the last 24 months of consumption. Any excess is fully provided for.

After 36 months without movement, the stock of articles is written-off.

After 72 months without movement, the stock is physically disposed of upon selective review.

If actual market conditions are less favourable than those projected, additional inventory write-downs may be needed.

4.3 Deferred taxes

The Group's financial and operating performance, as well as that of its competitors within the machine tool manufacturing sector, is significantly influenced by the short-medium term economic cycles.

In times of economic growth, customers will buy and even place speculative purchase orders. However, in an economic downturn, demand typically falls with customers often seeking to postpone deliveries or cancel orders.

The aforementioned results in management not being able to reliably forecast short-medium term profitability.

Following the financial restructuring of 2002, the Group has unused tax losses carried forward of CHF 203.0 million (note 13.2) which, in the past and present, have not resulted into the recognition of deferred tax assets. In the past, the Group had not demonstrated that it could sustain profitability at a sufficient level to be able to use the available tax losses. At present, the Group is profitable ; however, taking into account that the majority of the tax losses will expire in 2009 and the high volatility and cyclical nature of the business, management does not consider it appropriate to recognise any deferred tax asset resulting from tax losses available for carryforward as at December 31, 2006.

4.4 Postretirement benefits and other long-term employee benefits

The Group has established defined benefit and defined contribution plans around the world. Most of the pension schemes are final salary defined benefit plans and are either funded or unfunded. The assets of the funded plans are held independently of the Group's assets in separate trustee-administered funds. The expense incurred under the defined benefit retirement plans is based upon statistical and actuarial calculations, and is impacted by assumptions on discount rates used to determine the present value of future pension liabilities, expected returns that will be made on existing pension assets, future salary increases as well as future pension increases. Furthermore, the independent actuaries of the Group use statistical based assumptions covering future withdrawals of participants from the plan and estimates on life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences could impact significantly the amount of pension income or expense recognised in future periods.

4.5 Warranty provision

Warranty provision of CHF 7.2 million reflects management assessment of warranty claims. It is based on the level of sales as well as punctual quality issues which may be discovered. The total warranty provision takes into consideration all possible legally enforceable claims as well as actions undertaken for commercial reasons. Actual results may fluctuate significantly.

4.6 Other provisions and contingencies

Other provisions amounting to CHF 4.2 million principally comprise the expected costs of pending litigation and patent disputes as well as other present obligations of uncertain timing, the outcome of which may prove to be more or less favourable than management currently believes.

Several of the Group subsidiaries are parties to various legal proceedings which are an ongoing feature of the business of the Group. As a result, claims could be made against them which might not be covered by existing provisions or by insurance. There can be no assurance that there will not be an increase in the scope of these matters or that any future lawsuits, claims, including those resulting from tax inspections, proceedings or investigations will not be material. Management does not believe that during the next few years, the aggregate impact, beyond current provisions, of these and other legal matters affecting the Group could be material to the Group's results of operations and cash flows, and to its financial condition and liquidity.

5 Scope of consolidation

Subsidiaries

Name	Domicile	Purpose
Tornos SA, Moutier	Switzerland	Production and sales
Tornos Technologies Deutschland GmbH, Pforzheim	Germany	Support services
Tornos Technologies Iberica SA, Granollers	Spain	Support services
Tornos Holding France, St-Pierre-en-Faucigny	France	Holding company
Tornos Technologies France SAS, St-Pierre-en-Faucigny	France	Support services
Tornos Technologies Italia Srl, Opera / MI	Italy	Support services
Tornos Technologies UK Ltd., Coalville	United Kingdom	Support services
Tornos Technologies U.S. Corp., Brookfield CT	United States	Sales & services
Tornos Technologies Asia Limited	Hong Kong	Sales & support services

At December 31, 2006 and 2005 Tornos Holding S.A. held 100% of the shares of Tornos SA, Moutier, all the other Group companies being wholly-owned subsidiaries of Tornos SA, Moutier.

Changes in scope

2006

Tornos Services S.A. en liquidation, Moutier was dissolved during the year. This is the only change in the scope of consolidation which occurred in the period under review.

2005

Tornos Technologies Asia Limited, Hong Kong was founded on May 21, 2005 and is acting as a spare parts distributor and support services company in Asia. This is the only change in the scope of consolidation which occurred in the period under review.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

6 Expenses by nature

	2006	2005
Personnel expenses (note 7)	-86'703	-75'706
Changes in inventories of finished goods and work in progress, raw materials and consumables used	-92'734	-85'534
Depreciation and amortisation charges	-8'861	-8'959
Other expenses	-41'812	-35'505
Total cost of sales, marketing and sales, general and administrative and research and development expenses	**-230'110**	**-205'704**

7 Personnel expenses

	2006	2005
Total personnel expenses	**-86'703**	**-75'706**
Of which:		
Defined benefit plans (note 17.2.1)	-3'818	-3'522
Defined contribution plans (note 17.3)	-38	-54

8 Financial expenses - net

	2006	2005
Interest income from third party	90	96
Other financial income	–	2
Interest expenses to third parties	-795	-1'409
Bank charges and other financial expenses	-606	-549
Financial expenses - net	**-1'311**	**-1'860**

9 Income taxes

	2006	2005
Current income tax credit / (expense)	11	-315
Deferred tax credit / (expense)	327	-64
Income tax credit / (expense)	**338**	**-379**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The Group's expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2006 ranged between 8% and 42% (2005 : between 8% and 42 %), in the tax jurisdictions in which the Group operates. The reconciliation of the expected and the effective income tax expense is as follows :

	2006	**2005**
Profit before tax	**16'911**	**13'214**
Expected tax expense	**-1'970**	**-2'216**
Weighted average applicable tax rate	11.6%	16.8%
Utilisation of previously unrecognised tax loss carryforwards	3'386	2'462
Effect of tax debuctible expenses (taxable income) eliminated on consolidation	424	-542
Write-down of deferred tax assets / Unrecognised tax losses	-1'033	22
Expenses not deductible for tax purposes	-573	-104
Other effects	104	-1
Income tax credit / (expense) recognised	**338**	**-379**

The expected tax expense is calculated at entity level since the Group does not file consolidated tax returns. As such, profits and losses generated by different entities cannot be offset against each other. The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

10 Trade receivables

	2006	**2005**
Trade receivables	51'606	42'870
Less provision for impairment of receivables	-573	-1'217
Trade receivables – net	**51'033**	**41'653**

11 Inventories

	2006	**2005**
Materials and components	25'280	21'267
Work in progress	25'231	20'636
Finished goods and spare parts	38'198	31'915
Total inventories – gross	**88'709**	**73'818**
Less allowance for obsolescence	-12'248	-13'497
Total inventories – net	**76'461**	**60'321**

Total write-offs and obsolescence charged to the income statement during the year 2006 amount to KCHF 2'014 (2005 : KCHF 954).

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

12 Property, plant and equipment

	Land buildings & installations	Machinery	Other equipment	Total
Cost				
At December 31, 2004	**65'771**	**67'188**	**9'328**	**142'287**
Additions	447	253	2'167	2'867
Disposals	-647	-348	-3'105	-4'100
Transfers between categories	-241	–	241	–
Translation adjustment	581	91	167	839
At December 31, 2005	**65'911**	**67'184**	**8'798**	**141'893**
Additions	775	233	2'246	3'254
Disposals	-67	-2'310	-218	-2'595
Translation adjustment	-117	-29	20	-126
At December 31, 2006	**66'502**	**65'078**	**10'846**	**142'426**
Accumulated depreciation				
At December 31, 2004	**-28'015**	**-52'913**	**-7'349**	**-88'277**
Charge for the year	-2'579	-5'104	-1'276	-8'959
Written back on disposal	647	345	3'096	4'088
Transfers between categories	54	–	-54	–
Translation adjustment	-169	-82	-128	-379
At December 31, 2005	**-30'062**	**-57'754**	**-5'711**	**-93'527**
Charge for the year	-2'612	-4'373	-1'876	-8'861
Written back on disposal	21	2'173	188	2'382
Translation adjustment	41	28	-2	67
At December 31, 2006	**-32'612**	**-59'926**	**-7'401**	**-99'939**
Carrying amounts				
December 31, 2005	**35'849**	**9'430**	**3'087**	**48'366**
December 31, 2006	**33'890**	**5'152**	**3'445**	**42'487**

Of which related to leased assets:

	Land buildings & installations	Machinery	Other equipment	Total
Additions				
December 31, 2005	–	–	381	381
December 31, 2006	–	–	–	–
Carrying amounts				
December 31, 2005	1'052	3'313	379	4'744
December 31, 2006	945	–	176	1'121

The fire insurance value of PP&E and inventories amounts to CHF 376 million (2005 : CHF 367 million).

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

13 Deferred taxes

13.1 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2006		2005	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trade and other receivables	–	–	–	8
Inventories	8	–	–	–
Property, plant and equipment	–	902	135	1'129
Investments in subsidiaries	–	309	–	438
Trade and other payables	–	191	–	82
Retirement benefit obligations	10	10	14	80
Provisions	–	–	9	–
Borrowings	341	–	490	–
Tax losses carried forward	291	–	–	–
Tax assets / liabilities	**650**	**1'412**	**648**	**1'737**
Set off	-650	-650	-648	-648
Net tax assets / liabilities	**–**	**762**	**–**	**1'089**

A deferred tax liability related to unrecoverable withholding taxes on retained earnings of subsidiaries has been recognised.

Deferred tax assets and deferred tax liabilities were set off where there is a legally enforceable right to set off these taxes as they relate to the same tax authorities.

There are no deferred taxes which have been recognised directly in equity.

13.2 Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

	2006	**2005**
Deductible temporary differences	3'634	4'256
Tax losses carried forward	199'325	224'550
Total	**202'959**	**228'806**

Following the financial restructuring of 2002, the Group has unused tax losses carried forward which, in the past and present, have not resulted into the recognition of deferred tax assets. In the past, the Group had not demonstrated that it could sustain profitability at a sufficient level to be able to use the available tax losses. At present, the Group is profitable ; however, taking into account that the majority of the tax losses will expire in 2009 and the high volatility and cyclical nature of the business, management does not consider it appropriate to recognise any deferred tax asset resulting from tax losses available for carryforward as at December 31, 2006.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The expiry dates of unrecognised tax losses carried forward are as follows :

	2006	2005
Year 2008	–	4'591
Year 2009	188'773	209'686
After 2009	7'818	6'969
Losses not subject to expiry	2'734	3'304
Total	**199'325**	**224'550**

Tax losses include CHF 142.4 million (2005 : CHF 147.5 million) relating to Tornos Holding S.A.

The deductible temporary differences for which no deferred tax asset has been recognised do not expire.

13.3 *Tax rulings*

On July 5, 2000, tax rulings were obtained from the tax authorities of the Canton of Bern and the local authorities of Moutier whereby tax holidays were granted to the Swiss operating companies.

Tornos SA was 100% tax exempted for the years 2000 to 2001, 80% tax exempted from 2002 to 2003 and 60% tax exempted from 2004 to 2006.

14 Interest bearing loans and borrowings

	2006	2005
Current portion:		
Current portion of credit facility	15'000	15'000
Mortgage	95	77
Other short-term bank borrowings	259	731
Short-term lease liabilities (note 14.6)	230	509
Current portion	**15'584**	**16'317**
Non-current portion:		
Long-term lease liabilities (note 14.6)	874	1'222
Mortgage	766	828
Non-current portion	**1'640**	**2'050**
Total interest bearing loans and borrowings	**17'224**	**18'367**

14.1 *Credit agreement with banks*

Most interest bearing loans and borrowings are drawn down by the Swiss operating company. Mortgage is granted to a subsidiary at a floating rate of 6.125% at December 31, 2006 (December 31, 2005 : 6.625%).

On April 25, 2005 the Group concluded a new Credit Facility Agreement with a new syndicate of banks. Under this agreement the syndicate of banks grants to Tornos SA as borrower, with Tornos Holding S.A. acting as guarantor, a credit facility in the aggregate of CHF 42.5 million. Of this amount, CHF 30 million can be used for advances of up to 12 months and CHF 12.5 million for current overdrafts and the issuance of bank guarantees of up to 12 months. This Credit Facility Agreement which is valid until December 31, 2007 is subject to certain conditions and financial covenants related to total debt to EBITDA and interest cover ratios as well as tangible net worth.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The interest charged on the advances is based on the LIBOR rate plus an applicable margin. The applicable margin ranges between 1.30% and 3.10% per annum and is based on the total debt to EBITDA ratio. This Credit Facility Agreement is also subject to a commitment fee on the average undrawn and uncancelled amount of the Facility until the end of the availability.

14.2 *Facilities*

Below is a summary of the credit facilities granted by the creditor banks:

	Term loan credit facility CHF million	**Working capital facilities** CHF million	**Total** CHF million
At December 31, 2005			
Available	30.0	12.5	42.5
Used	15.0	4.5	19.5
Interest rate	LIBOR + 1.80%		
At December 31, 2006			
Available	30.0	12.5	42.5
Used	15.0	5.0	20.0
Interest rate	LIBOR + 1.90%		

The term loan credit facility can be used for roll over periods up to 12 months. The amount used at December 31, 2006 matures on January 15, and March 14, 2007 and bears interest at 3.84% and 3.89%.

The working capital facility may be used in the form of overdraft on current accounts, letters of credit, performance, bid and advance payment bonds, foreign exchange transactions or guarantees.

14.3 *Maturity schedule*

	2006	**2005**
Within 1 year	15’584	16’317
Between 1 and 2 years	237	415
Between 2 and 5 years	687	713
Over 5 years	716	922
Total borrowings	**17’224**	**18’367**

14.4 *Interest rate exposure*

	2006	**2005**
At fixed rates	134	436
At floating rates	17’090	17’931
Total borrowings	**17’224**	**18’367**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

14.5 *Exchange rate exposure*

The original currencies of the Group's borrowings are:

	2006	2005
Swiss franc	15'000	17'527
Euro	1'324	-252
British Pound	900	1'154
US Dollar	–	-62
Total borrowings	**17'224**	**18'367**

To be consistent with the legal right of offset that each bank has over all bank accounts maintained by each company of the Group, the net position of all bank current accounts with each bank is the basis for classification as either Cash and cash equivalent or Borrowings.

14.6 *Finance lease liabilities*

	2006	2005
Minimum lease payments		
Within 1 year	275	593
Between 2 to 5 years	589	915
More than 5 years	407	477
Total minimum lease payments	**1'271**	**1'985**
Future finance charges on finance leases	-167	-254
Present value of finance lease liabilities	**1'104**	**1'731**
Of which		
Due within 1 year	230	509
Between 2 to 5 years	480	775
More than 5 years	394	447

The majority of the finance lease liabilities of the Group carry an effective interest rate of 4.53% at December 31, 2006 (December 31, 2005: 3.43%).

15 Other payables

	2006	2005
Advances received	6'687	9'182
Payable to pension plans	–	479
Other payables and accrued expenses	14'465	12'000
Total other payables	**21'152**	**21'661**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

16 Provisions

	Warranties	Restruc- turing	Other	Total
At beginning of year	**7'052**	**23**	**3'333**	**10'408**
Additional provisions	8'527	499	814	9'840
Utilised during the year	-8'292	-57	-67	-8'416
Released via income statement	-31	–	-410	-441
Exchange differences	-27	9	14	-4
At end of year	**7'229**	**474**	**3'684**	**11'387**

	2006	2005
Current liabilities	6'896	6'412
Non-current liabilities	4'491	3'996
Total	**11'387**	**10'408**

Warranties
The Company gives a contractual one-year warranty on machines sold and undertakes to repair or replace items that fail to perform satisfactorily.

Restructuring
The increase in the provision during 2006 reflects the changes in the sales organization.

Other Provisions
Other provisions include the expected costs of pending litigation and patent disputes as well as other present obligations of uncertain timing. Management reassessed the provision for other risks and provisions of CHF 0.4 million were released through the income statement during the year under review as the outcome of various present obligations foreseen at the end of the prior year was finally more favourable than management believed.

17 Retirement benefit obligations

17.1 Description of pension schemes

Substantially all employees are eligible for retirement benefits. Among the benefit schemes are defined benefit plans as well as defined contribution plans. The locations with significant defined benefit plans are Switzerland, France, Germany, Italy and the USA.

Retirement benefits are provided based on salary, years of service or an accumulated old age account. Some of the plans provide only lump sum benefits in the events of leaving the Group and retirement. The last actuarial valuation was performed as of December 31, 2006 by independent actuaries.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

17.2 Defined benefit pension plans

17.2.1 *Employee benefits expense*

According to IAS 19, the following amounts are recorded in the income statement as employee benefits expense :

	2006	2005
Current service cost	3'502	3'336
Interest on obligation	3'731	4'261
Expected return on plan assets	-5'184	-5'089
Variation of asset ceiling	–	1'108
Net actuarial losses recognised	1'830	88
Past service cost	-61	-182
Total employee benefits expense	**3'818**	**3'522**

17.2.2 *Actual return on plan assets*

	2006	2005
Actual return	4'142	3'923

17.2.3 *Changes in the present value of the defined benefit obligation*

	2006	2005
Opening defined benefit obligation	**136'086**	**134'583**
Current service cost	3'502	3'336
Plan participants' contributions	3'334	3'057
Interest on obligation	3'731	4'261
Benefit payments and net transferrals through pension assets	-7'113	-11'054
Benefit payments by employer	-177	-256
Actuarial (gains) / losses	-1'479	3'956
Past service cost	700	-2'101
Exchange differences	-163	304
Closing defined benefit obligation	**138'421**	**136'086**

17.2.4 *Changes in the fair value of plan assets*

	2006	2005
Opening fair value of plan assets	**127'878**	**128'499**
Plan participants' contributions	3'334	3'057
Employer contributions	3'495	3'260
Benefit payments and net transferrals through pension assets	-7'113	-11'054
Expected return on plan assets	5'184	5'089
Actuarial gains / (losses)	-1'042	-1'167
Others	487	–
Exchange differences	-116	194
Closing fair value of plan assets	**132'107**	**127'878**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The pension assets are composed of the following essential classes of assets at December 31,

	2006	2005
Equities	21%	25%
Bonds	46%	51%
Real estate	21%	17%
Others, including cash	12%	7%

No shares issued by the Group are included in the assets of the pension plans at December 31, 2006 and 2005. The Group rented apartments which belong to pension plans for KCHF 37 during 2006 (2005 : KCHF 30). The expected company contributions for fiscal year 2007 amount to KCHF 3'550.

17.2.5 *Amount recognised in the balance sheet*

The net position of pension obligations in the balance sheet can be summarized as follows at December 31,

	2006	2005
Present value of funded obligations	137'466	135'158
Fair value of plan assets	-132'107	-127'878
Under funding	**5'359**	**7'280**
Present value of unfunded obligations	955	928
Unrecognised actuarial losses	-6'752	-9'527
Unrecognised past service cost	2'058	2'817
Net liability	**1'620**	**1'498**

17.2.6 *Principal assumptions*

The following principal assumptions form the basis for the actuarial calculation :

Calculation of defined benefit obligations at December 31,

	2006	2005
Discount rate	2.82%	2.82%
Future salary increases	1.95%	1.97%
Future pension indexations	0.10%	0.10%

Calculation of expenses :

	2006	2005
Discount rate	2.82%	3.30%
Expected return on plan assets	4.03%	4.03%

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

17.2.7 *Actual development of obligations and assets*

The following table shows how the actual development of obligations and assets for the benefit plans deviates from their expected development at December 31,

	2006	2005	2004
Defined benefit obligation	138’421	136’086	134’659
Fair value of assets	-132’107	-127’878	-128’499
Under funding	**6’314**	**8’208**	**6’160**
Experience gain / (loss) on plan liabilities	1’475	-1’820	565
Experience loss on plan assets	-1’042	-1’165	-2’831

17.3 Defined contribution plans

During 2006 the Group contributed KCHF 38 (2005 : KCHF 54) to defined contribution plans.

18 Share capital

18.1 Capital structure

	Issued registered shares	Treasury shares	Total shares in circulation
Issued and fully paid-in at December 31, 2004	**13’433’755**	**168’110**	**13’265’645**
Issued for cash	143’750		143’750
Sold		-118’110	118’110
Issued and fully paid-in at December 31, 2005	**13’577’505**	**50’000**	**13’527’505**
Issued for cash	213’375		213’375
Purchased		6’000	-6’000
Issued and fully paid-in at December 31, 2006	**13’790’880**	**56’000**	**13’734’880**

During the year 2006 :

- 50’000 registered shares were issued and fully paid for at a price of CHF 5.30 each under the 2004 Management and Board Participation Plan,
- 35’250 registered shares were issued and fully paid for at a price of CHF 6.00 further to the exercise of options granted under the 2004 Management and Board Participation Plan,
- 128’125 registered shares were issued and fully paid for at a price of CHF 6.00 further to the exercise of options granted to former creditor banks as compensation for their debt waiver in 2002.

As a result of the above issues of shares the following changes were made to the Articles of Incorporation of the Company during 2006 :

- the share capital amounts to CHF 68’954’400 represented by 13’790’880 registered shares of CHF 5.00 each,
- the conditional share capital was reduced to CHF 6.2 million which can be used for the issue of registered shares of CHF 5.00 each to be fully paid to be allocated as follows :
  - for a maximum amount of CHF 4.9 million which is reserved for the issuance of shares upon the exercise of option rights which were granted to certain creditor banks in consideration of them waiving part of their claims in 2002 which can be exercised until July 2007,
  - for a maximum amount of CHF 1.3 million which is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock option plans in favour of eligible members defined by the Board of Directors.

During the year 2005 :

- 50'000 registered shares were issued and fully paid for at a price of CHF 5.30 each during the 1st semester of 2005 under the 2004 Management and Board Participation Plan,
- 93'750 registered shares were issued and fully paid for at a price of CHF 6.00 in December 2005 further to the exercise of options granted to a former creditor bank as compensation for its debt waiver in 2002.

As a result of the above issues of shares the following changes were made to the Articles of Incorporation of the Company during 2005 :

- the share capital amounts to CHF 67'887'525 represented by 13'577'505 registered shares of CHF 5.00 each,
- the conditional share capital was reduced to CHF 7.3 million which can be used for the issue of registered shares of CHF 5.00 each to be fully paid to be allocated as follows :
  - for a maximum amount of CHF 5.5 million which is reserved for the issuance of shares upon the exercise of option rights which were granted to certain creditor banks in consideration of them waiving part of their claims in 2002 which can be exercised until July 2007,
  - for a maximum amount of CHF 1.8 million which is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock purchase and option plans in favour of eligible members defined by the Board of Directors.

18.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2006 the share capital consisted of 13'790'880 ordinary registered shares with a par value of CHF 5.00 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meeting of shareholders and are entitled to one vote per share at the meetings of shareholders.

18.3 Treasury shares

In connection with the Group's financial restructuring in 2002, Tornos Holding S.A. entered into agreements with its suppliers, under which it received 168'110 of its own shares from one of its suppliers in August 2003. The Company paid CHF 0 compensation for these shares and they have been recorded pro memoria in the balance sheet. 118'110 of these treasury shares were sold during 2005 for KCHF 1'256. During 2006, Tornos Holding S.A. acquired 6'000 of its own shares for KCHF 84.

As from July 12, 2004, 50'000 of these shares were loaned to a third party for market making purpose. The Company is charged a fixed fee for each share movement, any gains and losses resulting from the shares sold / bought being at the profit / expense of the third party. During the year 2006, total costs incurred totalled KCHF 45 (2005 : KCHF 43).

18.4 Conditional share capital

The conditional share capital amounts to CHF 6.2 million. An amount of CHF 4.9 million is reserved for the issuance of shares upon exercise of option rights which were granted to certain creditor banks and creditors in consideration of them waiving part of their claims further to the restructuring in 2002. An amount of CHF 1.3 million is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock option plans in favour of eligible members defined by the Board of Directors.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

18.5 Significant shareholders

The following shareholders or group of shareholders held more than 5 percent of the share capital of the Company at December 31,

	2006	2005
Management Group	11.1%	10.3%
3V Asset Management AG	8.0%	4.9%
Alpine Select AG	0.0%	5.4%

19 Stock options

In 2002, the Group granted options to the shareholders in the framework of the reduction of the share capital and to the creditor banks as compensation for their debt waiver and for granting a bridge loan. Additional options were granted to the former shareholders in connection with the settlement of a legal dispute in 2002. 221’875 of these options were exercised until December 31, 2006, of which 128’125 in 2006 and 93’750 in 2005.

At December 31, 2006, the following options were still outstanding in this respect :

	Number of options	Expiry date
Options granted to creditor banks for waiver of loans	528’125	09.07.2007
Options granted to creditor banks for bridge loan	300’000	16.07.2007
Options granted to former shareholders	125’000	09.07.2007

Each of the options granted to the creditor banks and to the former shareholders entitles the holder to purchase one registered share for a price of CHF 6.00.

The options are secured by the conditional share capital of CHF 6.2 million (note 18.4)

20 Stock compensation plans

The General Meeting of Shareholders held on April 13, 2004 approved the issue of 450’000 conditional shares that may be used by the Board of Directors to satisfy stock purchase and option plan commitments set out below.

20.1 Share Purchase Plan

Under the 2004 Management and Board Participation Plan, eligible members selected by the Board of Directors were offered 150’000 registered shares at CHF 5.30 per share to be issued in three equal tranches over a three-year period. The purchase price was deemed equivalent to the fair market value at the date each eligible member contractually committed to purchasing the shares, hence no compensation expense has been calculated in respect of the above. As at December 31, 2006, 150’000 registered shares had been issued under the 2004 Management and Board Participation Plan.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

20.2 Stock Option Plans

Under the 2004 Management and Board Participation Plan, eligible members selected by the Board of Directors were issued options to purchase registered shares at a strike price of CHF 6.00 per share. The terms and conditions with respect to options granted were determined by the Board of Directors who administered these plans. Options vest over two years and remain outstanding for periods not exceeding three years. A total of 300'000 registered shares may be issued under these plans.

Compensation expense is recognised over the vesting period in accordance of the provisions of IFRS 2 "Share-based Payment". Compensation expense of KCHF 393 was recorded for the year ended December 31, 2006 (2005 : KCHF 136). Compensation expense arising from stock options outstanding at December 31, 2006 to be recognised in future periods amounts to KCHF 515 (December 31, 2005 : KCHF 209).

A summary of activity under the stock option plans, including weighted average exercise price, is as follows :

	Options	**Exercise price** (CHF)	**Contractual life**
Outstanding at December 31, 2004	**100'000**	**6.00**	3 years (April 30, 2007)
Exercisable at December 31, 2004	**–**	**–**	
Granted	100'000	6.00	3 years (April 30, 2008)
Exercised	–	–	
Cancelled or expired	–	–	
Outstanding at December 31, 2005	**200'000**	**6.00**	
Exercisable at December 31, 2005	**–**	**–**	
Granted	100'000	6.00	3 years (April 30, 2009)
Exercised	-35'250	6.00	
Cancelled or expired	–	–	
Outstanding at December 31, 2006	**264'750**	**6.00**	
Exercisable at December 31, 2006	**64'750**	**6.00**	

The fair value of the grants was estimated using the Black-Scholes valuation model with the following assumptions and values :

	Options granted in 2006	**Options granted in 2005**	**Options granted in 2004**
Options granted	100'000	100'000	100'000
Dividend yield	5%	–	–
Expected life	2.5 years	2.5 years	2.5 years
Expected volatility	25%	25%	25%
Risk free interest rate	2.04%	1.03%	1.60%
Fair value of grants per option	CHF 6.99	CHF 2.95	CHF 0.75
Expected turnover of personnel	–	–	–

The expected volatility used to calculate the fair value differs from the historical volatility of the Company's share price. Management considers that the historical volatility is not a reasonable basis upon which to estimate future volatility given the impact that the restructuring measures undertaken in 2002 had on both the share price and the trading volumes experienced during 2003 and 2004.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

21 Earnings per share, basic and fully diluted

21.1 Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares (note 18.3).

	2006	**2005**
Profit attributable to equity holders of the Company	17'249	12'835
Weighted average number of ordinary shares in issue (thousands)	13'603	13'368
Basic earnings per share (CHF per share)	**1.27**	**0.96**

21.2 Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has one category of dilutive potential ordinary shares : share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	**2005**
Profit attributable to equity holders of the Company	17'249	12'835
Weighted average number of ordinary shares in issue (thousands)	13'603	13'368
Adjustments for share options (thousands)	694	501
Weighted average number of ordinary shares for diluted earnings per share (thousands)	14'297	13'869
Diluted earnings per share (CHF per share)	**1.21**	**0.93**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

22 Segment information

As described in note 2.16 above, management of the Group has chosen geographical segments for the purpose of primary segment reporting in accordance with IAS 14. The reportable segments identified are Switzerland, Other European countries, North America and Asia. For the purpose of presenting net sales by location of customers, one other geographical segment, namely Rest of world, is identified.

22.1 Net sales by location of assets

	2006	2005
Switzerland:		
– To third parties	221'308	184'244
– To other segments	16'944	18'745
	238'252	**202'989**
Other European countries:		
– To third parties	3'981	4'149
– To other segments	2'602	792
	6'583	**4'941**
North America:		
– To third parties	21'734	31'252
– To other segments	–	–
	21'734	**31'252**
Asia:		
- To third parties	612	22
- To other segments	–	–
	612	**22**
Elimination	-19'546	-19'537
Total net sales	**247'635**	**219'667**

22.2 Net sales by location of customers

	2006	2005
Switzerland	56'184	51'334
Other European countries	139'087	118'177
North America	23'577	33'149
Asia	23'799	13'862
Rest of world	4'988	3'145
Total net sales	**247'635**	**219'667**

22.3 Segment result (EBIT) by location of assets

	2006	2005
Switzerland	19'740	12'381
Other European countries	1'338	1'995
North America	-3'038	146
Asia	59	-39
Total	**18'099**	**14'483**
Elimination	78	-99
Unallocated	-563	-135
Total EBIT	**17'614**	**14'249**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level.

22.4 Segment assets

	2006	2005
Switzerland	188'887	155'372
Other European countries	17'842	16'196
North America	13'517	16'917
Asia	526	215
Total	**220'772**	**188'700**
Elimination	-27'800	-22'890
Total assets	**192'972**	**165'810**

22.5 Segment liabilities

	2006	2005
Switzerland	60'111	47'093
Other European countries	17'680	16'704
North America	4'610	4'158
Asia	535	249
Total	**82'936**	**68'204**
Elimination	-26'413	-22'054
Unallocated liabilities:		
– Tax liabilities	767	1'125
– Interest bearing borrowings	17'224	18'367
Total liabilities	**74'514**	**65'642**

22.6 Depreciation of property, plant and equipment by segment

	2006	2005
Switzerland	-7'879	-8'068
Other European countries	-782	-706
North America	-181	-178
Asia	-19	-7
Total depreciation	**-8'861**	**-8'959**

22.7 Capital expenditure on property, plant and equipment and other intangible assets by segment

	2006	2005
Switzerland	2'600	1'848
Other European countries	559	745
North America	82	228
Asia	13	46
Total capital expenditure	**3'254**	**2'867**

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

23 Commitments and contingencies

23.1 Operating lease commitments

Operating lease liabilities, minimum lease payments

	2006	2005
Year 1	889	1’065
Years 2 to 5	964	1’121
After 5 years	–	71
Total minimum lease payments	**1’853**	**2’257**

23.2 Other commitments and contingent liabilities

As of December 31, 2006 there were no other commitments or contingent liabilities not in the ordinary course of business.

23.3 Assets pledged

At December 31, 2006 and 2005, the following assets were pledged to creditor banks or leasing companies :

	2006	2005
Land and buildings	2’372	1’403
Technical machinery & other equipment	176	3’692
Total assets pledged	**2’548**	**5’095**

At December 31, 2006, the total value of the pledged mortgage notes related to land and buildings amount to CHF 1.1 million (December 31, 2005 : CHF 1.0 million).

Further to the Credit Facility Agreement signed on April 25, 2005 with the new syndicate of banks (note 14.1), the Company and each Director holding shares in Tornos SA, Moutier pledged all shares in the latter, free of any security interest or any other encumbrance in favour of the new syndicate of banks as security for the due and punctual fulfilment of the obligations of both Tornos SA, Moutier, as the borrower, and Tornos Holding S.A., Moutier as the Parent.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

24 Related party transactions

Remuneration consisting of fees, to non-executive members of the Board of Directors amounted to KCHF 342 in 2006 (2005 : KCHF 379). Remuneration, consisting principally of salaries and bonuses, to the executive member of the Board of Directors and the members of Group management totalled KCHF 2’481 in 2006 (2005 : KCHF 2’163). As of December 31, 2006, the outstanding balances payable related to remuneration amounted to KCHF 473 (December 31, 2005 : KCHF 475).

During 2006, sales to and purchases from a company in which one of the directors of the Company holds a significant interest amounted to KCHF 1’632 and KCHF 6 respectively (2005 : KCHF 865 and KCHF 22 respectively). Services provided by a company in which one of the directors of the Company holds a significant interest amounted to KCHF 67 (2005 : KCHF 98). These transactions were undertaken on an arms length basis. As of December 31, 2006, the related outstanding balances receivable and payable amounted to KCHF 46 and KCHF 8 respectively (December 31, 2005 : KCHF 64 and KCHF 21 respectively).

No loans were granted to related parties in 2006 and 2005.

As of December 31, 2006, the Board of Directors and Group management held 1’614’508 shares (11.7%) of the Company and 264’750 option rights (note 20) (December 31, 2005 : 1’450’194 shares (10.7%) and 200’000 options). Of the 1’614’508 shares, 1’532’504 shares (11.1%) are owned by a group of shareholders which has signed a shareholders’ agreement.

Option rights have been granted and exercised as follows (no exercise prior to 2006) :

	Non-executive members of the Board of Directors	Executive member of the Board of Directors and members of the Group management	Total
Option rights outstanding at December 31, 2005	**81’175**	**118’825**	**200’000**
Granted during 2006	36’360	63’640	100’000
Exercised during 2006	-8’500	-26’750	-35’250
Option rights outstanding at December 31, 2006	**109’035**	**155’715**	**264’750**

Please also refer to note 17 for transactions with the pension funds.

PRICEWATERHOUSECOOPERS

Report of the statutory auditors
to the general meeting of

Tornos Holding S.A., Moutier

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet, statement of changes in equity and notes, as presented on pages 39 to 43) of Tornos Holding S.A. for the year ended December 31, 2006. The prior year corresponding figures were audited by other auditors.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA

M. Perry　　　　A. Joly

Auditor in charge

Neuchâtel, February 22, 2007

Enclosures
- Financial statements (income statement, balance sheet, statement of changes in equity and notes)
- Proposed appropriation of the available earnings

In thousands of CHF

For the years ended December 31,	Note	2006	2005
Dividend income from a subsidiary		5'000	–
Interest income from a subsidiary		902	720
Gain on sales of treasury shares	4	–	1'256
Total income		**5'902**	**1'976**
Administrative expenses		-739	-1'119
Financial expenses		-1	-4
Taxes other than on income		-24	-19
Total expenses		**-764**	**-1'142**
Net income for the year		**5'138**	**834**

The accompanying notes form an integral part of these financial statements.

BALANCE SHEET

In thousands of CHF

As of December 31,	Notes	**2006**	**2005**
ASSETS			
Cash and cash equivalents		24	7
Treasury shares		84	–
Group receivables		444	585
Total current assets		**552**	**592**
Investment in a subsidiary	2	65’000	65’000
Loan to a subsidiary		24’500	18’000
Total non-current assets		**89’500**	**83’000**
Total assets		**90’052**	**83’592**
LIABILITIES AND SHAREHOLDERS’ EQUITY			
Accrued expenses		363	285
Total current liabilities		**363**	**285**
Ordinary shares	3	68’954	67’888
Additional paid-in capital		14’234	14’056
Reserve for treasury shares		84	–
Retained earnings		6’417	1’363
Total shareholders’ equity		**89’689**	**83’307**
Total liabilities and shareholders’ equity		**90’052**	**83’592**

The accompanying notes form an integral part of these financial statements.

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

In thousands of CHF	**Ordinary shares**	**Additional paid-in capital**	**Reserve for treasury shares**	**Retained earnings**	**Total**
At December 31, 2004	**67'169**	**13'955**	–	**529**	**81'653**
Issuance of new shares (note 3)	719	101			820
Net profit for the year				834	834
At December 31, 2005	**67'888**	**14'056**	**–**	**1'363**	**83'307**
Issuance of new shares (note 3)	1'066	178			1'244
Net profit for the year				5'138	5'138
Transfer for treasury shares (note 4)			84	-84	–
At December 31, 2006	**68'954**	**14'234**	**84**	**6'417**	**89'689**

The accompanying notes form an integral part of these financial statements.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

1 Basis of preparation

The financial statements of Tornos Holding S.A., Moutier (the Company) are prepared in accordance with the provisions of the Swiss law and the Company's Articles of Incorporation. Certain amounts within these financial statements were reclassified compared to the presentation made in prior years.

2 Subsidiary

The only subsidiary of the Company is Tornos SA, Moutier. It is a wholly-owned production and sales entity at December 31, 2006 and 2005 with a share capital of CHF 65 million.

3 Share capital and conditional capital

During the year 2006 :

- 50'000 registered shares were issued and fully paid for at a price of CHF 5.30 each under the 2004 Management and Board Participation Plan,
- 35'250 registered shares were issued and fully paid for at a price of CHF 6.00 further to the exercise of options granted under the 2004 Management and Board Participation Plan,
- 128'125 registered shares were issued and fully paid for at a price of CHF 6.00 further to the exercise of options granted to former creditor banks as compensation for their debt waiver in 2002.

As a result of the above issues of shares the following changes were made to the Articles of Incorporation of the Company during 2006 :

- the share capital amounts to CHF 68'954'400 represented by 13'790'880 registered shares of CHF 5.00 each,
- the conditional share capital was reduced to CHF 6.2 million which can be used for the issue of registered shares of CHF 5.00 each to be fully paid to be allocated as follows :
  - for a maximum amount of CHF 4.9 million which is reserved for the issuance of shares upon the exercise of option rights which were granted to certain creditor banks in consideration of them waiving part of their claims in 2002 which can be exercised until July 2007,
  - for a maximum amount of CHF 1.3 million which is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock option plan in favour of eligible members defined by the Board of Directors.

During the year 2005 :

- 50'000 registered shares were issued and fully paid for at a price of CHF 5.30 each during the 1st semester of 2005 under the 2004 Management and Board Participation Plan,
- 93'750 registered shares were issued and fully paid for at a price of CHF 6.00 in December 2005 further to the exercise of options granted to a former creditor bank as compensation for its debt waiver in 2002.

As a result of the above issues of shares the following changes were made to the Articles of Incorporation of the Company during 2005 :

- the share capital amounts to CHF 67'887'525 represented by 13'577'505 registered shares of CHF 5.00 each,
- the conditional share capital was reduced to CHF 7.3 million which can be used for the issue of registered shares of CHF 5.00 each to be fully paid to be allocated as follows :
  - for a maximum amount of CHF 5.5 million which is reserved for the issuance of shares upon the exercise of option rights which were granted to certain creditor banks in consideration of them waiving part of their claims in 2002 which can be exercised until July 2007,
  - for a maximum amount of CHF 1.8 million which is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock purchase and option plans in favour of eligible members defined by the Board of Directors.

All figures are presented in thousands of Swiss francs (CHF) unless otherwise stated

4 Treasury shares

In connection with the Group's financial restructuring in 2002, Tornos Holding S.A. entered into agreements with its suppliers, under which it received 168'110 of its own shares from one of its suppliers in August 2003. The Company paid CHF 0 compensation for these shares and they have been recorded pro memoria in the balance sheet. 118'110 of these treasury shares were sold during 2005 for KCHF 1'256. During 2006, Tornos Holding S.A. acquired 6'000 of its own shares for KCHF 84.

As from July 12, 2004, 50'000 of these shares were loaned to a third party for market making purpose. The Company is charged a fixed fee for each share movement, any gains and losses resulting from the shares sold / bought being at the profit / expense of the third party. During the year 2006, total costs incurred totalled KCHF 45 (2005 : KCHF 43).

5 Significant shareholders

The following shareholders or group of shareholders held more than 5 percent of the share capital of the Company at December 31, 2006 and 2005 :

	2006	2005
Management Group	11.1%	10.3%
3V Asset Management AG	8.0%	4.9%
Alpine Select AG	0.0%	5.4%

6 Assets pledged

On April 25, 2005 Tornos Holding S.A. entered as parent company and guarantor into a new Credit Facility Agreement with a new syndicate of banks. Under this agreement the syndicate of banks grants to Tornos SA as borrower with Tornos Holding S.A. acting as guarantor a credit facility in the aggregate of CHF 42.5 million. Of this amount, CHF 30 million can be used for advances of up to 12 months and CHF 12.5 million for current overdrafts and the issuance of bank guarantees of up to 12 months. This Credit Facility Agreement which is valid until December 31, 2007 is subject to certain conditions and financial covenants related to total debt to EBITDA and interest cover ratios as well as tangible net worth. At December 31, 2006, CHF 15.0 million and CHF 5.0 million were used for advances and working capital facilities respectively (December 31, 2005 : CHF 15.0 million and CHF 4.5 million respectively).

In accordance with this Credit Facility Agreement, the Company and each Director holding shares in Tornos SA, Moutier pledged all shares in the latter, free of any security interest or any other encumbrance in favour of the new syndicate of banks as security for the due and punctual fulfillment of the obligations of both Tornos SA, Moutier, as the borrower, and Tornos Holding S.A., Moutier as the Parent.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

In thousands of CHF

For the years ended December 31,	**2006**	**2005**
Retained earnings brought forward	1’363	529
Transfer to reserve for treasury shares	-84	–
Net income for the year	5’138	834
Available earnings	**6’417**	**1’363**

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of available earnings:	Proposal	Actual
Available earnings	6’417	1’363
To be carried forward	**6’417**	**1’363**

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