

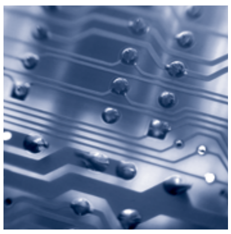


CONSOLIDATED FINANCIAL STATEMENTS

2007 | TORNOS HOLDING S.A.

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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 43) of Tornos Holding S.A. for the year ended December 31, 2007.

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

Michael Foley
Auditor in charge

Aude Joly

Neuchâtel, March 7, 2008

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	**2007**	**2006**
Gross sales		**287'384**	**250'515**
Rebates and discounts		-2'128	-2'880
Net sales		**285'256**	**247'635**
Cost of sales		-169'907	-156'876
Gross profit		**115'349**	**90'759**
Marketing and sales		-45'725	-38'116
General and administrative expenses		-22'792	-21'016
Research and development		-16'899	-14'102
Other income / (expenses) - net	8	2'813	89
Earnings before interest and taxes (EBIT)		**32'746**	**17'614**
Financial expenses - net	9	-989	-1'311
Exchange gains (losses) - net	10	-568	608
Income before income taxes		**31'189**	**16'911**
Income taxes	11	3'948	338
Net income		**35'137**	**17'249**
Earnings per share	25		
– basic		2.42	1.27
– diluted		2.36	1.21

Earnings before interest and taxes (EBIT)	**32'746**	**17'614**
Depreciation and amortisation	6'597	8'861
Earnings before interest, income taxes, depreciation and amortisation (EBITDA)	**39'343**	**26'475**

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

CONSOLIDATED BALANCE SHEET

In thousands of CHF

As of December 31,	Notes	2007	2006
ASSETS			
Cash and cash equivalents	12	29'689	9'849
Trade receivables	13	52'487	51'033
Inventories	14	76'813	76'461
Other receivables and prepayments	15	17'011	13'142
Total current assets		**176'000**	**150'485**
Property, plant and equipment	16	40'297	42'487
Deferred tax assets	17	2'615	–
Total non-current assets		**42'912**	**42'487**
Total assets		**218'912**	**192'972**
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings	18	1'052	15'584
Trade payables		19'765	22'364
Other payables	19	23'119	21'152
Current tax liabilities		295	5
Provisions	20	7'930	6'896
Total current liabilities		**52'161**	**66'001**
Interest bearing loans and borrowings	18	1'374	1'640
Retirement benefit obligations	21	1'451	1'620
Provisions	20	3'744	4'491
Deferred tax liabilities	17	3	762
Total non-current liabilities		**6'572**	**8'513**
Total liabilities		**58'733**	**74'514**
Total equity		**160'179**	**118'458**
Total liabilities and equity		**218'912**	**192'972**

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, 2005	**67'888**	**14'056**	**–**	**18'960**	**-736**	**100'168**
Currency translation difference					-628	-628
Net income/ (expense) recognised directly in equity					*-628*	*-628*
Net income for the year				17'249		17'249
Total recognised income / (expense) for the year				*17'249*	*-628*	*16'621*
Issuance of new shares	1'066	178				1'244
Purchase of treasury shares (note 22.3)			-84			-84
Share-based compensation				554		554
Other expense (note 22.3)				*-45*		*-45*
At December 31, 2006	**68'954**	**14'234**	**-84**	**36'718**	**-1'364**	**118'458**
Currency translation difference					-303	-303
Net income/ (expense) recognised directly in equity					*-303*	*-303*
Net income for the year				35'137		35'137
Total recognised income / (expense) for the year				*35'137*	*-303*	*34'834*
Issuance of new shares	5'966	1'676				7'642
Purchase of treasury shares (note 22.3)			-1'986			-1'986
Share-based compensation				1'287		1'287
Other expense (note 22.3)				-56		-56
At December 31, 2007	**74'920**	**15'910**	**-2'070**	**73'086**	**-1'667**	**160'179**

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	**2007**	**2006**
Net income		**35'137**	**17'249**
Adjustments for:			
Taxes		-3'948	-338
Depreciation of property, plant and equipment	16	6'597	8'861
Gain on disposal of property, plant and equipment		-2'773	-13
Other non cash items		1'157	539
Decrease / (increase) in working capital:			
Trade receivables		-1'679	-9'839
Other receivables		-3'885	-5'200
Inventories		-724	-16'511
Trade payables		-2'583	9'785
Other current payables and provisions		2'796	1'077
Interest expenses		47	705
Income tax paid		-27	-81
Income tax refund		880	–
Net cash provided by operating activities		**30'995**	**6'234**
Cash flow from investing activities			
Investment in property, plant and equipment		-9'065	-3'254
Disposal of property, plant and equipment		7'324	227
Interest received		224	90
Net cash used in investing activities		**-1'517**	**-2'937**
Cash flow from financing activities			
Repayments of borrowings, including finance lease liabilities		-15'361	-1'229
Proceeds from borrowings		578	–
Proceeds from issuance of share capital - net		7'642	1'244
Purchase of treasury shares	22.3	-1'986	-84
Payment of other financing expense	22.3	-56	-45
Interest paid		-295	-790
Net cash used in financing activities		**-9'478**	**-904**
Increase in cash and cash equivalents		20'000	2'393
Cash and cash equivalents at beginning of year		9'849	7'574
Effects of exchange rate changes		-160	-118
Cash and cash equivalents at end of year		**29'689**	**9'849**

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 March 7, 2008. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 8, 2008.

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 except that, as disclosed in the accounting policies below, certain items, including derivatives, are shown at fair value. 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 2007

IFRS 7 "Financial instruments: Disclosures", and the complementary amendment to IAS 1 "Presentation of financial statements – Capital disclosures", introduces new and extended disclosures relating to financial instruments and financial risk management and does not have any impact on the classification and valuation of the Group's financial instruments.

The other standards, amendments and interpretations effective in 2007 had no impact on the Group's accounts.

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

The Group has not early adopted interpretations to existing standards and standards which need adoption by January 1, 2009 at the latest. The Group is currently evaluating the potential impact, if any, that the adoption of these new or amended standards will have on the Group's consolidated financial statements.

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 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Swiss francs (CHF), rounded to the nearest thousand (KCHF) unless otherwise stated, which is the Company's functional and presentation currency.

2.3.2 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.

2.3.3 Financial statements of foreign operations

The assets and liabilities of foreign operations 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, spare parts 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 initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment determined based on a review of all outstanding amounts at the year-end. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and probability that the debtor will enter bankruptcy or financial reorganisation are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

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 and is composed of three categories (a) materials and components (b) work in progress and (c) finished goods and spare parts.

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 Financial assets

The group has only the following categories of financial assets: loans and receivables and derivatives at fair value through profit or loss. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

2.8.1 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group’s loans and receivables comprise cash and cash equivalents, trade receivables and other receivables in the balance sheet (see accounting policy 2.5 and 2.6).

Loans and receivables are carried at amortised cost using the effective interest method.

2.8.2 Derivatives at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in accounting policy 2.6.

2.9 Derivative financial instruments and hedging activities

Derivatives are initially recorded and subsequently carried at fair value in current assets or liabilities. The Group does not use hedge accounting. Changes in the fair value of derivative instruments are recorded as exchange gains or losses in the period in which they arise.

2.10 Property, plant and equipment

2.10.1 Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 2.12). Interest cost on borrowings to finance property, plant and equipment during the course of construction are capitalised.

2.10.2 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.

2.10.3 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 2.12).

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.

2.10.4 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

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components.

2.11 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.

2.12 Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy 2.7), deferred tax assets (see accounting policy 2.13) and pension assets (see accounting policy 2.14), 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.

2.13 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. Deferred tax is not recognised for differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity or group of entities filing consolidated tax returns.

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.

2.14 Employee benefits

The Group has established defined benefit and defined contribution plans around the world. The benefits of the defined benefit plans usually depend on one or more factors such as the number of years the employee was covered in the plan, age, pensionable salary and to some extent on the accumulated old age capital. The plans 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 recognised 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 recognised 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 recognised.

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

2.15 Share-based compensation

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised 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 recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2.16 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.

2.17 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.

2.18 Segment reporting

The Group is engaged in the development, manufacture, marketing and servicing of machine tools for turning applications. 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, Poland, Spain and the United Kingdom), the United States of America 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 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to cover certain risk exposures.

3.2 Market risks

3.2.1 Currency risk

Tornos S.A., the Swiss operating company of the Group invoices its revenues to the subsidiaries and to customers located outside Switzerland in local currencies, mainly EUR and USD except Asia where it is mainly in CHF. Therefore, the currency risk remains with the Swiss operating company. Tornos S.A. converts the offer in those currencies at an exchange rate which is decided internally. An offer is only valid for 90 days, and only if the exchange rate between CHF and the other currency fluctuate by less than 5%. If the parity fluctuation exceeds 5% a new price list in that currency is issued. If parity is stable no foreign exchange contracts are entered into. If a revaluation of the CHF is expected a review of the risk is done and if necessary foreign exchange contracts are entered into for all or a portion of the net position in each currency. Due to the anticipated devaluation of the CHF against the EUR at the end of 2007 Tornos S.A. started to hedge, in December 2007, two third of the net exposure in euro for the next 12 months.

On an annual basis, if the Swiss franc had weakened/strengthened by 1% against the EUR additional income/losses of some KCHF 700 would have resulted from the translation of the net monthly movements in EUR.

At December 31, 2007, if the Swiss franc had weakened/strengthened by 1% against the EUR additional exchange gains/losses of KCHF 357 would have resulted from the translation of all EUR denominated assets and liabilities, the majority of which being represented by trade receivables (2006: KCHF 188).

On an annual basis, if the Swiss franc had weakened/strengthened by 1% against the USD additional income/losses of some KCHF 130 would have resulted from the translation of the net monthly movements in USD.

At December 31, 2007, if the Swiss franc had weakened/strengthened by 1% against the USD additional exchange gains/losses of KCHF 110 would have resulted from the translation of all USD denominated assets and liabilities, the majority of which being represented by Cash equivalents (2006: KCHF 28).

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risks.

3.2.2 Interest rate risks

The Group is exposed to changes in interest rates on borrowings bearing interest at floating rates. At December 31, 2007 and 2006, the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group.

In 2007 the Group became net cash and only a very limited amount of borrowings is subject to interest rate risk at December 31, 2007.

Risk on financial assets is not significant as the Group has only significant cash and cash equivalent positions and no other interest bearing assets.

3.2.3 Price risks

The Group is not exposed to any price risks.

3.3 Credit risk

The Group sells to large customer bases dealing with different market segments and located on all the Continents resulting in no significant concentration of credit risk. Each year, the largest customer, which is different every year, represents less than 3% of total gross sales. Sales to new customers are made after obtaining credit ratings from independent sources, obtaining up to 90% of sales price before shipment and/or selling it to leasing companies financing the final customer. Cash excess are maintained with an AA bank.

3.4 Liquidity risk

Group treasury policy is to maintain flexibility in funding by keeping committed credit lines available (see note 18.1) as well as sufficient cash balances (see note 12).

All financial liabilities are current except a portion of interest bearing loans and borrowings which is non-current (see note 18.3).

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.

3.6 Capital risk management

The financial policy of Tornos is that its business should be self-funding. Although a policy of permanent borrowing would help to boost the return on equity, that has been ruled out in view of the cyclical and volatile nature of the Group's business. Given the wide variances in business volumes in the short term, the working capital requirement can rise sharply when the economy is booming, with temporary spikes which can be as high as 20% of annual turnover. It then takes around 9 months for cash to flow massively back into the company. If the company does not hold adequate liquidity, some of the benefits of a cyclical upturn could be missed. To minimize this risk, a credit limit of up to 10% of annual turnover will be maintained, and a cash reserve, also up to 10% of full-year turnover, will be progressively built up.

Additionally, "minor" acquisitions, defined as those representing up to the equivalent of 5% of annual turnover, may be considered without calling an Extraordinary General Meeting of Shareholders to decide on the principle of the acquisition and how to finance it. A cash reserve may also be built up for this purpose.

Once these reserves have been accumulated, surplus cash will be distributed to shareholders in one form or another. The decision on whether to reduce the par value of the company's shares, undertake share buybacks or pay dividends will be made in the light of circumstances at the time. Hence, a certain amount of cash will also have to be retained for this purpose.

In view of the above three factors, the Group will seek to maintain a net positive cash position.

Apart from the "minor" acquisitions referred to above, a cash reserve for potential acquisitions will not be maintained, as the decision on the purchase and the way it is to be financed falls solely within the discretion of the shareholders.

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 litigations as well as other present obligations of uncertain timing, inventory obsolescence, bad debts and the assessment of income taxes including deferred tax assets, retirement benefit obligations and the fair value of stock option grants. 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, components, 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.

At December 31, 2007 the provision for obsolescence would have decreased by KCHF 1’986 had six months been added to all above-mentioned obsolescence rules. On the opposite, it would have increased by KCHF 2’845 had six months been deducted on all above-mentioned obsolescence rules.

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.

Following the financial restructuring of 2002, the Group had unused tax losses carried forward at December 31, 2006 which, until June 30, 2007, had not resulted into the recognition of deferred tax assets. The Group now considers it has demonstrated that it can sustain profitability at a sufficient level to be able to use most of the available tax losses of the operating companies and has therefore activated the related deferred tax assets which qualified for recognition at December 31, 2007.

Had the Group estimated that all available tax losses of the operating companies could be used the effect would have been an additional income of KCHF 1'450 for the year ended December 31, 2007.

4.4 Postretirement benefits and other long-term employee benefits

The Group has established defined benefit and defined contribution plans around the world. The benefits of the defined benefit plans usually depend on one or more factors such as the number of years the employee was covered in the plan, age, pensionable salary and to some extent on the accumulated old age capital. The plans 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 KCHF 7'972 reflects management assessment of warranty claims. It is based on historical statistical data as well as the level of sales. 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 KCHF 3'702 principally comprise the expected costs of pending litigations 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 S.A., Moutier	Switzerland	Production and sales
Tornos Holding France, St-Pierre-en-Faucigny	France	Holding company
Tornos Technologies France SAS, St-Pierre-en-Faucigny	France	Support services
Tornos Technologies Deutschland GmbH, Pforzheim	Germany	Support services
Tornos Technologies Italia Srl, Opera / MI	Italy	Support services
Tornos Technologies Poland Sp. z o.o., Warsaw	Poland	Support services
Tornos Technologies Iberica SA, Granollers	Spain	Support services
Tornos Technologies UK Ltd., Coalville	United Kingdom	Support services
Tornos Technologies U.S. Corp., Brookfield CT	United States of America	Sales & services
Tornos Technologies Asia Limited	Hong Kong	Sales & support services

At December 31, 2007 and 2006 Tornos Holding S.A. held 100% of the shares of Tornos S.A., Moutier, all the other Group companies being wholly-owned subsidiaries of Tornos S.A., Moutier.

Changes in scope

2007

Tornos Technologies Poland Sp. z o.o., Warsaw was founded on October 30, 2007 and is acting as a support services company in Poland. This is the only change in the scope of consolidation which occurred in the period under review.

2006

Tornos Services S.A. en liquidation, Moutier was dissolved in 2006. This is the only change in the scope of consolidation which occurred during that year.

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

6 Expenses by nature

	2007	2006
Personnel expenses (note 7)	-93'962	-86'703
Changes in inventories of finished goods and work in progress, raw materials and consumables used	-108'453	-92'734
Depreciation charges	-6'597	-8'861
Other expenses	-46'311	-41'812
Total cost of sales, marketing and sales, general and administrative and research and development expenses	**-255'323**	**-230'110**

7 Personnel expenses

	2007	2006
Total personnel expenses	**-93'962**	**-86'703**
Of which:		
Defined benefit plans (note 21.2.1)	-3'848	-3'818
Defined contribution plans (note 21.3)	-39	-38

8 Other income / (expenses) - net

	2007	2006
Gain on sale of land and buildings	2'852	–
Other - net	-39	89
Other income / (expenses) - net	**2'813**	**89**

9 Financial expenses - net

	2007	2006
Interest income from third parties	224	90
Interest expenses to third parties	-271	-795
Bank charges and other financial expenses	-942	-606
Financial expenses - net	**-989**	**-1'311**

10 Exchange gains / (losses) - net

	2007	2006
Exchange gains / (losses) - net	-584	608
Gains on foreign currency derivatives	16	–
Exchange gains / (losses) - net	**-568**	**608**

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

11 Income taxes

	2007	2006
Current income tax credit	583	11
Deferred tax credit	3’365	327
Income tax credit	**3’948**	**338**

The Group’s expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2007 ranged between 8% and 42% (2006: 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:

	2007	2006
Income before income taxes	**31’189**	**16’911**
Expected tax expense	**-7’022**	**-1’970**
Weighted average applicable tax rate	22.5%	11.6%
Utilisation of previously unrecognised tax losses carryforwards	7’786	3’386
Reversal of write-down of deferred tax assets	3’676	321
Income taxes relating to prior years	980	–
Write-down of deferred tax assets / unrecognised tax losses	-1’319	-1’354
Effect of tax deductible expenses (taxable income) eliminated on consolidation	-359	32
Expenses not deductible for tax purposes	-276	-181
Other effects	482	104
Income tax credit recognised	**3’948**	**338**

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 increase is mainly due to the fact that the partial tax exemption for Tornos S.A. expired in 2006.

12 Cash and cash equivalents

	2007	2006
Cash in hand and in current or call accounts	**29’689**	**9’849**

Bank balances of KCHF 2’574 are pledged as collateral for bank guarantees issued at December 31, 2007 (2006: nil).

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

13 Trade receivables

	2007	2006
Trade receivables	53'012	51'606
Less provision for impairment of receivables	-525	-573
Trade receivables - net	**52'487**	**51'033**

At December 31, 2007 trade receivables include amounts denominated in EUR equivalent to KCHF 36'200 (2006: KCHF 28'189) and amounts denominated in USD equivalent to KCHF 2'604 (2006: KCHF 4'762).

Trade receivables aging is as follows:

	2007	2006
Current	25'303	23'759
0 to 30 days overdue	9'446	13'032
31 to 60 days overdue	7'098	4'432
61 to 90 days overdue	2'558	2'758
91 to 180 days overdue	3'386	2'889
More than 180 days overdue	5'221	4'736
Trade receivables	**53'012**	**51'606**

The provision for impairment of receivable was determined based on a review of all outstanding amounts at the year-end. Following those reviews only some trade receivables classified under "more than 180 days" were considered at risk and the provision for impairment of receivable represents those identified risks at both December 31, 2007 and 2006.

Net bad debt expense in 2007 was KCHF 143. Following the recovery of previously provided amounts, the Group recorded net income from bad debts of KCHF 457 in 2006. There are no significant concentrations within trade receivables of counterparty credit risk (see note 3.3).

14 Inventories

	2007	2006
Materials and components	30'024	25'280
Work in progress	27'703	25'231
Finished goods and spare parts	34'284	38'198
Total inventories - gross	**92'011**	**88'709**
Less allowance for obsolescence	-15'198	-12'248
Total inventories - net	**76'813**	**76'461**

Total obsolescence and write-offs charged to the income statement during the year 2007 amount to KCHF 6'339 (2006: KCHF 2'014).

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

15 Other receivables and prepayments

	2007	2006
Derivative financial instruments	16	–
VAT receivable	8'110	7'648
Advances to suppliers	5'893	4'071
Other	2'992	1'423
Total other receivables and prepayments	**17'011**	**13'142**

In appropriate circumstances the Group uses derivative financial instruments as part of its risk management and trading strategies (see note 3.2.1). At December 31, 2007 the Group had entered into forward exchange contracts to sell KEUR 28'800 against KCHF 47'246 which were carried at fair value for KCHF 16 (2006: nil).

16 Property, plant and equipment

	Land, buildings & installations	Building in construction	Machinery	Other equipment	Total
Cost					
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
Exchange differences	-117	–	-29	20	-126
At December 31, 2006	**66'502**	**–**	**65'078**	**10'846**	**142'426**
Additions	811	4'747	441	3'066	9'065
Disposals	-7'945	–	-587	-2'055	-10'587
Exchange differences	-102	–	3	40	-59
At December 31, 2007	**59'266**	**4'747**	**64'935**	**11'897**	**140'845**
Accumulated depreciation					
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
Exchange differences	41	–	28	-2	67
At December 31, 2006	**-32'612**	**–**	**-59'926**	**-7'401**	**-99'939**
Charge for the year	-2'532	–	-2'158	-1'907	-6'597
Written back on disposal	3'646	–	548	1'842	6'036
Exchange differences	-8	–	-3	-37	-48
At December 31, 2007	**-31'506**	**–**	**-61'539**	**-7'503**	**-100'548**
Carrying amounts					
December 31, 2006	**33'890**	**–**	**5'152**	**3'445**	**42'487**
December 31, 2007	**27'760**	**4'747**	**3'396**	**4'394**	**40'297**

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

Of which related to leased assets:

	Land, buildings & installations	Building in construction	Machinery	Other equipment	Total
Additions					
December 31, 2006	–	–	–	–	–
December 31, 2007	–	–	–	–	–
Carrying amounts					
December 31, 2006	945	–	–	176	1'121
December 31, 2007	847	–	–	22	869

The fire insurance value of PP&E and inventories amounts to CHF 375 million (2006: CHF 376 million).

17 Deferred taxes

17.1 Deferred tax assets and liabilities

Following the financial restructuring of 2002, the Group had unused tax losses carried forward at December 31, 2006 which, until June 30, 2007, had not resulted into the recognition of deferred tax assets. The Group now considers it has demonstrated that it can sustain profitability at a sufficient level to be able to use most of the available tax losses of the operating companies and has therefore activated the related deferred tax assets which qualified for recognition at December 31, 2007.

Deferred tax assets and liabilities are attributable to the following:

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Inventories	–	–	8	–
Property, plant and equipment	54	896	–	902
Investments in subsidiaries	–	413	–	309
Trade and other payables	99	152	–	191
Retirement benefit obligations	98	17	10	10
Provisions	82	–	–	–
Borrowings	322	–	341	–
Tax losses carried forward	3'435	–	291	–
Tax assets / liabilities	**4'090**	**1'478**	**650**	**1'412**
Set off	-1'475	-1'475	-650	-650
Net tax assets / liabilities	**2'615**	**3**	**–**	**762**

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.

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

17.2 *Unrecognised deferred tax assets*

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

	2007	2006
Deductible temporary differences	3'891	3'634
Tax losses carried forward	146'345	199'325
Total	**150'236**	**202'959**

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

	2007	2006
Year 2009	142'172	188'773
After 2009	2'864	7'818
Losses not subject to expiry	1'309	2'734
Total	**146'345**	**199'325**

Tax losses include CHF 142.2 million (2006: CHF 142.4 million) relating to Tornos Holding S.A. expiring in 2009.

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

18 Interest bearing loans and borrowings

	2007	2006
Current portion:		
Current portion of credit facility	–	15'000
Mortgage	85	95
Other short-term bank borrowings	812	259
Short-term lease liabilities (note 18.6)	155	230
Current portion	**1'052**	**15'584**
Non-current portion:		
Long-term lease liabilities (note 18.6)	739	874
Mortgage	635	766
Non-current portion	**1'374**	**1'640**
Total interest bearing loans and borrowings	**2'426**	**17'224**

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

18.1 Credit agreements with banks

A mortgage is granted to a subsidiary at a floating rate of 6.625% at December 31, 2007 (December 31, 2006: 6.125%).

All the conditions and financial covenants related to the Credit Facility Agreement which was entered into on April 25, 2005 and which matured in December 2007 were met during the entire period. At the request of Tornos, the credit which was originally fixed at CHF 30.0 million for advances of up to 12 months was reduced to CHF 21.0 million in July 2007. On December 20, 2007, the Group concluded an Amended and Restated Facility Agreement with two of the banks which were already parties to the Credit Facility Agreement entered into on April 25, 2005. Under this Amended and Restated Facility Agreement the syndicate of banks grants to Tornos S.A. as borrower, with Tornos Holding S.A. acting as guarantor, a credit facility in the aggregate of CHF 32.5 million. Of this amount, CHF 20.0 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 Amended and Restated Facility Agreement which is valid until December 31, 2010 is subject to certain conditions and financial covenants related to total net debt to EBITDA and interest cover ratios as well as tangible net worth.

The interest charged on the advances is based on the LIBOR rate plus an applicable margin. The applicable margin ranges between 0.65% and 1.35% per annum and is based on the total net debt to EBITDA ratio. The Amended and Restated 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.

18.2 Facilities

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

	Term loan credit facility CHF million	**Working capital facilities** CHF million	**Total** CHF million
At December 31, 2006			
Available	30.0	12.5	42.5
Used	15.0	5.0	20.0
Interest rate	LIBOR + 1.90%		
At December 31, 2007			
Available	20.0	12.5	32.5
Used	–	7.4	7.4
Interest rate	LIBOR + 0.65%		

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

The working capital facility may be used in the form of overdraft on current accounts, stand-by letter of credits, performance and bid bonds, advance payment guarantees or similar instruments.

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

18.3 Maturity schedule

	2007	2006
Within 1 year	1'052	15'584
Between 1 and 2 years	234	237
Between 2 and 5 years	783	687
Over 5 years	357	716
Total borrowings	**2'426**	**17'224**

18.4 Interest rate exposure

	2007	2006
At fixed rates	19	134
At floating rates	2'407	17'090
Total borrowings	**2'426**	**17'224**

18.5 Exchange rate exposure

The original currencies of the Group's borrowings are:

	2007	2006
Swiss franc	–	15'000
Euro	1'702	1'324
British Pound	724	900
Total borrowings	**2'426**	**17'224**

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 equivalents or Borrowings.

18.6 Finance lease liabilities

	2007	2006
Minimum lease payments		
Within 1 year	194	275
Between 2 to 5 years	696	589
More than 5 years	130	407
Total minimum lease payments	**1'020**	**1'271**
Future finance charges on finance leases	-126	-167
Present value of finance lease liabilities	**894**	**1'104**
Of which:		
Due within 1 year	155	230
Between 2 to 5 years	612	480
More than 5 years	127	394

The majority of the finance lease liabilities of the Group carries an effective interest rate of 5.84% at December 31, 2007 (December 31, 2006: 4.53%).

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

19 Other payables

	2007	2006
Advances received	8'883	6'687
Accrued employees remuneration	6'847	5'788
Payable to pension plans	2	–
Other payables and accrued expenses	7'387	8'677
Total other payables	**23'119**	**21'152**

20 Provisions

	Warranties	Restruc-turing	Other	Total
At beginning of year	**7'229**	**474**	**3'684**	**11'387**
Additional provisions	9'587	430	1'084	11'101
Utilised during the year	-8'781	-503	-537	-9'821
Released via income statement	-38	-59	-902	-999
Exchange differences	-25	14	17	6
At end of year	**7'972**	**356**	**3'346**	**11'674**

	2007	2006
Current liabilities	7'930	6'896
Non-current liabilities	3'744	4'491
Total	**11'674**	**11'387**

Warranties

The Company gives a contractual one to two years warranty depending on the type of machines sold and undertakes to repair or replace items that fail to perform satisfactorily.

Restructuring

The movements in the provision for restructuring reflects principally changes in the sales organization.

Other Provisions

Other provisions include the expected costs of pending litigations as well as other present obligations of uncertain timing. Management reassessed the provision for other risks and provisions of KCHF 902 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.

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

21 Retirement benefit obligations

21.1 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, 2007 by independent actuaries.

21.2 Defined benefit pension plans

21.2.1 Employee benefits expense

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

	2007	2006
Current service cost	3'586	3'502
Interest on obligation	3'774	3'731
Expected return on plan assets	-5'307	-5'184
Net actuarial losses recognised	1'931	1'830
Past service cost	-136	-61
Total employee benefits expense	**3'848**	**3'818**

21.2.2 Actual return on plan assets

	2007	2006
Actual return	1'022	4'142

21.2.3 Changes in the present value of the defined benefit obligation

	2007	2006
Opening defined benefit obligation	**138'421**	**136'086**
Current service cost	3'586	3'502
Plan participants' contributions	3'356	3'334
Interest on obligation	3'774	3'731
Benefit payments and net transferrals through pension assets	-8'299	-7'113
Benefit payments by employer	-400	-177
Actuarial gains	-5'936	-1'479
Past service cost	87	700
Exchange differences	-149	-163
Closing defined benefit obligation	**134'440**	**138'421**

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

21.2.4 Changes in the fair value of plan assets

	2007	2006
Opening fair value of plan assets	**132'107**	**127'878**
Plan participants' contributions	3'356	3'334
Employer contributions	3'587	3'495
Benefit payments and net transferrals through pension assets	-8'299	-7'113
Expected return on plan assets	5'307	5'184
Gains on assets	-4'285	-1'042
Others	–	487
Exchange differences	-127	-116
Closing fair value of plan assets	**131'646**	**132'107**

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

	2007	2006
Equities	21%	21%
Bonds	45%	46%
Real estate	22%	21%
Others, including cash	12%	12%

No shares issued by the Group are included in the assets of the pension plans at December 31, 2007 and 2006. The Group rented apartments which belong to pension plans for KCHF 54 during 2007 (2006: KCHF 37). The expected company contributions for fiscal year 2008 amount to KCHF 3'800.

21.2.5 Amount recognised in the balance sheet

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

	2007	2006
Present value of funded obligations	133'705	137'466
Fair value of plan assets	-131'646	-132'107
Under funding	**2'059**	**5'359**
Present value of unfunded obligations	735	955
Unrecognised actuarial losses	-3'177	-6'752
Unrecognised past service cost	1'834	2'058
Net liability	**1'451**	**1'620**

21.2.6 Principal assumptions

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

Calculation of defined benefit obligations at December 31,

	2007	2006
Discount rate	3.31%	2.82%
Future salary increases	1.95%	1.95%
Future pension indexations	0.10%	0.10%

Assumptions regarding future mortality experience are set based on advice in accordance with published statistics and experience in each territory.

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

Calculation of expenses:

	2007	2006
Discount rate	2.82%	2.82%
Expected return on plan assets	4.05%	4.03%

21.2.7 *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,

	2007	2006	2005
Defined benefit obligation	134'440	138'421	136'086
Fair value of assets	-131'646	-132'107	-127'878
Under funding	**2'794**	**6'314**	**8'208**
Experience gain / (loss) on plan liabilities	-1'094	1'475	-1'820
Experience loss on plan assets	-4'285	-1'042	-1'165

21.3 *Defined contribution plans*

During 2007 the Group contributed KCHF 39 (2006: KCHF 38) to defined contribution plans.

22 Share capital

22.1 *Capital structure*

	Issued registered shares	Treasury shares	Total shares in circulation
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**
Issued for cash	1'193'035		1'193'035
Purchased		103'565	-103'565
Issued and fully paid-in at December 31, 2007	**14'983'915**	**159'565**	**14'824'350**

During the year 2007:

- The General Meeting of Shareholders held on April 3, 2007 approved the issue of 900'000 conditional shares that may be used by the Board of Directors to satisfy the Management and Board Participation Plan 2007-2009 (MBP07);
- 150'410 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 (MBP04);
- 89'500 registered shares were issued and fully paid for at a price of CHF 11.39 each under the MBP07;
- 953'125 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 the following changes were made to the Articles of Incorporation of the Company during 2007:

- The share capital amounts to CHF 74'919'575 represented by 14'983'915 registered shares of CHF 5.00 each;
- The conditional share capital was reduced to CHF 4.7 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 0.1 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 could have been exercised until July 2007. This portion of the conditional capital which is now without object will be cancelled during 2008;
  - For a maximum amount of CHF 4.6 million which is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors.

During the year 2006:

- 50'000 registered shares were issued and fully paid for at a price of CHF 5.30 each under the MBP04;
- 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 MBP04;
- 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.

22.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2007 the share capital consisted of 14'983'915 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.

22.3 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 2007, Tornos Holding S.A. acquired 103'565 of its own shares for KCHF 1'986 (2006: 6'000 treasury shares acquired for KCHF 84). As a result of the above movements Tornos Holding S.A. holds 159'565 treasury shares at December 31, 2007 (December 31, 2006: 56'000).

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

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 2007, total costs incurred totalled KCHF 56 (2006: KCHF 45).

22.4 *Conditional share capital*

The conditional share capital amounts to CHF 4.7 million. An amount of CHF 0.1 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 which could have been exercised until July 2007. This portion of the conditional capital which is now without object will be cancelled during 2008. An amount of CHF 4.6 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.

22.5 *Significant shareholders*

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

	2007	2006
Management Group	–	11.1%
3V Asset Management AG	–	8.0%

23 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. All these options, which entitled the holder to purchase one registered share for a price of CHF 6.00, were exercised until July 2007, of which 953'125 in 2007, 128'125 in 2006 and 93'750 in 2005. The related weighted average share price at the time of exercise was CHF 19.71 in 2007 and CHF 12.81 in 2006.

24 Stock compensation plans

There are two Management and Board of Directors stock participation plans, namely the 2004 Management and Board Participation Plan (MBP04) and the Management and Board Participation Plan 2007-2009 (MBP07). Compensation expense is recognised in accordance of the provisions of IFRS 2 "Share-based Payment", for options over the vesting period and for shares purchased immediately in the accounts as the shares do not need to be returned in case the employment contract is terminated. The expense recorded in the income statement spreads the cost of each option equally over the vesting period. Assumptions are made concerning the forfeiture rate which is adjusted during the vesting period so that at the end of the vesting period there is only a charge for vested amounts. Compensation expense of KCHF 1'287 was recorded for the year ended December 31, 2007 (December 31, 2006: KCHF 393). Compensation expense arising from stock options outstanding at December 31, 2007 to be recognised in future periods amounts to KCHF 564 (December 31, 2006: KCHF 515).

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

24.1 Management and Board Participation Plan 2007-2009 (MBP07)

The General Meeting of Shareholders held on April 3, 2007 approved the issue of 900'000 conditional shares that may be used by the Board of Directors to satisfy the Management and Board Participation Plan 2007-2009 (MBP07). Under this plan, from 2007 to 2009, a maximum of 300'000 shares/options may be allocated each year to the participants by the Nomination and Compensation Committee. The possible participants are members of the Board of Directors as well as the management. Each participant chooses on grant date, within the number of shares/options allocated to him by the Nomination and Compensation Committee, to receive options free of charge, to purchase shares with a discount or a combination of receiving options free of charge and purchasing shares with a discount. As of December 31, 2007, a total of 230'000 shares/options were attributed by the Nomination and Compensation Committee. Of this total, the participants elected to purchase 89'500 shares immediately and receive 140'500 options under the stock option program as detailed below.

24.1.1 Stock purchasing program under MBP07

Each participant has the right to purchase shares on May 1, 2007, 2008 and 2009 (within the number of shares/options allocated by the Nomination and Compensation Committee and not used for the stock option program). The purchasing price is the weighted average price paid at SWX within the 12 months (May 1 to April 30) preceding the purchase of the shares minus a discount of 25%. There is a restriction period of two years after purchasing the shares during which the shares are held in an escrow deposit. However, the shares do not need to be returned in case the employment contract is terminated and there is a take me along clause in case of a change of control transaction. In 2007, the participants elected to purchase 89'500 shares at a price of CHF 11.39. Total expenses recorded in the income statement for the year ended December 31, 2007 amounted to KCHF 690.

24.1.2 Stock option program under MBP07

Each participant receives free of charge on May 1, 2007, 2008 and 2009 the number of options chosen (within the number of shares/options allocated by the Nomination and Compensation Committee and not used for the share purchasing program). The options vest after two years and can be exercised only in the third year. The exercise price is the weighted average price paid at SWX within the 12 months (May 1 to April 30) preceding the allocation of the options. A possible share capital reduction or dividend payment has no impact on the option rights according to this program as the exercise price will not be adjusted should these events take place in the future. Options not exercised generally need to be returned at the time the employment contract is terminated. However, they can be exercised without any restriction in case of a change of control transaction. Total expenses recorded in the income statement for the year ended December 31, 2007 amounted to KCHF 234.

The fair value of the grants under the MBP07 stock option plan was estimated using the Black-Scholes valuation model with the following assumptions and values:

Number of options granted	140'500
Grant date	May 1, 2007
Vesting period	2 years
Expiration date	April 30, 2010
Closing stock price at grant date	CHF 19.10
Exercise price	CHF 15.18
Expected life	2.5 years
Volatility	31.28%
Expected dividend yield	1.30%
Risk free interest rate	2.81%
Fair value of option at grant date	CHF 5.80
Expected turnover of personnel	–

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

A summary of activity under the MBP07 stock option plan, including weighted average exercise price, is as follows:

	2007		
	Options	**Exercise price** (CHF)	**Contractual life**
Outstanding at January 1,	**–**		
Granted	140'500	15.18	3 years (April 30, 2010)
Exercised	–		
Cancelled or expired	-20'000		
Outstanding at December 31,	**120'500**	**15.18**	
Exercisable at December 31,	**–**		

24.2 2004 Management and Board Participation Plan (MBP04)

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.

24.2.1 Share purchase plan under MBP04

Under the MBP04, 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, 2007, 150'000 registered shares had been issued under the 2004 Management and Board Participation Plan.

24.2.2 Stock option plan under MBP04

Under the MBP04, 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 options were issued under this plan, of which 185'660 options were exercised and 5'838 options were cancelled at December 31, 2007. Total expenses recorded in the income statement for the year ended December 31, 2007 amounted to KCHF 364 (December 31, 2006: KCHF 393).

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

The fair value of the grants under the MBP04 stock option plan for the last tranche granted in 2006 was estimated using the Black-Scholes valuation model with the following assumptions and values:

Number of options granted	100'000
Grant date	May 1, 2006
Vesting period	2 years
Expiration date	April 30, 2009
Closing stock price at grant date	CHF 14.35
Exercise price	CHF 6.00
Expected life	2.5 years
Volatility	25%
Expected dividend yield	5%
Risk free interest rate	2.04%
Fair value of option at grant date	CHF 6.99
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.

A summary of activity under the MBP04 stock option plan, including weighted average exercise price, is as follows:

	2007			2006		
	Options	**Exercise price** (CHF)	**Contractual life**	**Options**	**Exercise price** (CHF)	**Contractual life**
Outstanding at January 1,	**264'750**	**6.00**		**200'000**	**6.00**	
Exercisable at January 1,	**64'750**	**6.00**		**–**		
Granted	–			100'000	6.00	3 years (April 30, 2009)
Exercised	-150'410	6.00		-35'250	6.00	
Cancelled or expired	-5'838			–		
Outstanding at December 31,	**108'502**	**6.00**		**264'750**	**6.00**	
Exercisable at December 31,	**14'340**	**6.00**		**64'750**	**6.00**	

The related weighted average share price at the time of exercise was CHF 19.56 in 2007 and CHF 13.71 in 2006.

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

25 Earnings per share, basic and fully diluted

25.1 Basic

Basic earnings per share is calculated by dividing the net income 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 22.3).

	2007	2006
Net income attributable to equity holders of the Company	35'137	17'249
Weighted average number of ordinary shares in issue (thousands)	14'511	13'603
Basic earnings per share (CHF per share)	**2.42**	**1.27**

25.2 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.

	2007	2006
Net income attributable to equity holders of the Company	35'137	17'249
Weighted average number of ordinary shares in issue (thousands)	14'511	13'603
Adjustments for share options (thousands)	372	694
Weighted average number of ordinary shares for diluted earnings per share (thousands)	14'883	14'297
Diluted earnings per share (CHF per share)	**2.36**	**1.21**

26 Segment information

As described in note 2.18 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.

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

26.1 Net sales by location of assets

	2007	2006
Switzerland:		
– To third parties	261'529	221'308
– To other segments	14'251	16'944
	275'780	**238'252**
Other European countries:		
– To third parties	1'173	3'981
– To other segments	25	2'602
	1'198	**6'583**
North America:		
– To third parties	21'295	21'734
– To other segments	–	–
	21'295	**21'734**
Asia:		
– To third parties	1'259	612
– To other segments	–	–
	1'259	**612**
Elimination	-14'276	-19'546
Total net sales	**285'256**	**247'635**

26.2 Net sales by location of customers

	2007	2006
Switzerland	50'765	56'184
Other European countries	164'674	139'087
North America	26'871	23'577
Asia	38'117	23'799
Rest of world	4'829	4'988
Total net sales	**285'256**	**247'635**

26.3 Segment result (EBIT) by location of assets

	2007	2006
Switzerland	33'573	19'740
Other European countries	1'522	1'338
North America	-3'016	-3'038
Asia	216	59
Total	**32'295**	**18'099**
Elimination	-49	78
Unallocated	500	-563
Total EBIT	**32'746**	**17'614**

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

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

26.4 Segment assets

	2007	2006
Switzerland	215'240	188'887
Other European countries	14'265	17'842
North America	10'026	13'517
Asia	469	526
Total	**240'000**	**220'772**
Elimination	-18'473	-27'800
Unallocated assets:		
– Tax assets	-2'615	–
Total assets	**218'912**	**192'972**

26.5 Segment liabilities

	2007	2006
Switzerland	56'258	60'111
Other European countries	18'464	17'680
North America	3'817	4'610
Asia	277	535
Total	**78'816**	**82'936**
Elimination	-22'807	-26'413
Unallocated liabilities:		
– Tax liabilities	298	767
– Interest bearing borrowings	2'426	17'224
Total liabilities	**58'733**	**74'514**

26.6 Depreciation of property, plant and equipment by segment

	2007	2006
Switzerland	-5'771	-7'879
Other European countries	-685	-782
North America	-120	-181
Asia	-21	-19
Total depreciation	**-6'597**	**-8'861**

26.7 Capital expenditure on property, plant and equipment by segment

	2007	2006
Switzerland	7'603	2'600
Other European countries	941	559
North America	493	82
Asia	28	13
Total capital expenditure	**9'065**	**3'254**

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

27 Commitments and contingencies

27.1 Operating lease commitments

Operating lease liabilities, minimum lease payments

	2007	2006
Year 1	1’104	889
Years 2 to 5	2’060	964
After 5 years	147	–
Total minimum lease payments	**3’311**	**1’853**

27.2 Other commitments and contingent liabilities

As of December 31, 2007 the Group had non-cancellable capital commitments for the building in construction totalling KCHF 1’625 (2006: nil).

As of December 31, 2007 the Group had entered into foreign exchange contracts to sell a total of KEUR 28’800 against KCHF 47’246 with maturities ranging between one and twelve months (2006: nil).

There were no other commitments or contingent liabilities not in the ordinary course of business.

27.3 Assets pledged

At December 31, 2007 and 2006, the following assets were pledged to banks or leasing companies:

	2007	2006
Cash and cash equivalents	2’574	–
Land and buildings	2’135	2’372
Technical machinery & other equipment	22	176
Total assets pledged	**4’731**	**2’548**

At December 31, 2007, the total value of the pledged mortgage notes related to land and buildings amount to CHF 1.0 million (December 31, 2006: CHF 1.1 million).

Further to the Credit Facility Agreement signed on April 25, 2005 with a syndicate of banks (note 18.1), the Company and each Director holding shares in Tornos S.A., Moutier pledged all shares in the latter, free of any security interest or any other encumbrance in favour of the syndicate of banks as security for the due and punctual fulfilment of the obligations of both Tornos S.A., Moutier, as the borrower, and Tornos Holding S.A., Moutier as the Parent. This pledge was no longer required in the new Amended and Restated Facility Agreement which was signed on December 20, 2007.

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

28 Related party transactions

Remuneration consisting of fees, to non-executive members of the Board of Directors amounted to KCHF 570 in 2007 (2006: KCHF 342). Remuneration, consisting principally of salaries and bonuses, to the executive member of the Board of Directors and the members of Group management totalled KCHF 3’100 in 2007 (2006: KCHF 2’481). As of December 31, 2007, the outstanding balances payable related to remuneration amounted to KCHF 715 (December 31, 2006: KCHF 473).

During the years under review, option rights have also been granted and exercised as follows:

	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**	**102’590**	**183’765**
Granted during 2006	36’360	56’369	92’729
Exercised during 2006	-8’500	-26’750	-35’250
Option rights outstanding at December 31, 2006	**109’035**	**132’209**	**241’244**
Granted during 2007	–	117’000	117’000
Exercised during 2007	-64’940	-69’235	-134’175
Cancelled during 2007	–	-25’838	-25’838
Option rights outstanding at December 31, 2007	**44’095**	**154’136**	**198’231**

Moreover, during the year 2007 non-executive members of the Board of Directors on the one side and the executive member of the Board of Directors as well as the Group management on the other side elected to purchase 40’000 shares and 43’000 shares respectively of the Company under MBP07. Please refer to note 24 for further details.

As of December 31, 2007, the Board of Directors and Group management held 1’484’425 shares (9.9%) of the Company (December 31, 2006: 1’614’508 shares and 11.7%) and 191’327 option rights (note 29.3). Of the 1’614’508 shares owned at December 31, 2006, 1’532’504 shares were owned by a group of shareholders which had signed a shareholders’ agreement and which was dissolved during 2007.

During 2007, sales to and purchases from a company in which one of the directors of the Company holds a significant interest amounted to KCHF 603 and KCHF 12 respectively (2006: KCHF 1’632 and KCHF 6 respectively). Services provided by a company in which one of the directors of the Company holds a significant interest amounted to KCHF 103 (2006: KCHF 67). These transactions were undertaken on an arms length basis. As of December 31, 2007, the related outstanding balances receivable and payable amounted to KCHF 40 and KCHF 9 respectively (December 31, 2006: KCHF 46 and KCHF 8 respectively).

No loans or advances were granted to related parties in 2007 and 2006.

Please also refer to note 21 for transactions with the pension funds.

29 Board of Directors and General Management compensation disclosures as required by Swiss Law

29.1 Compensation

In thousands of CHF unless otherwise stated

	Base compensation	Variable compensation			
	Cash (amount)	Cash bonus [1] (amount)	Shares [2] (number)	Stock options [2] (number)	Other compensation [3] (amount)
Non executive members of Board of Directors					
François Frôté *(Chairman of BofD and member of Nomination and Compensation Committee and Audit Committee)*	200	–	8'000	–	45
Claude Elsen *(Deputy chairman of BofD and member of Nomination and Compensation Committee and Audit Committee)*	110	–	8'000	–	20
Paul Haering *(Chairman of the Audit Committee)*	120	–	8'000	–	26
Michel Rollier *(Member of Nomination and Compensation Committee)*	70	–	8'000	–	31
Hans-Otto Stenzel *(Member of Nomination and Compensation Committee)*	70	–	8'000	–	10
Total non executive members of Board of Directors	**570**	**–**	**40'000**	**–**	**132**
Executive member of Board of Directors and General Management					
Raymond Stauffer [4] *(Managing Director and CEO)*	549	215	30'000	–	110
Total other members of General Management	1'828	508	13'000	97'000	412
Total Executive member of Board of Directors and General Management	**2'377**	**723**	**43'000**	**97'000**	**522**
Former member of the General Management in relation to his former capacity	**–**	**–**	**–**	**–**	**21**

[1] The amounts represent the recorded expense for cash bonus for 2007, which, with the exception of KCHF 8, will be paid out in April 2008.

[2] The number of shares and options reflected represent the number of shares and/or options granted during the year 2007 in accordance with the stock compensation plans and which are still vesting at December 31, 2007.

[3] These amounts comprise the Group share of payments to pension plans and other social security contributions.

[4] The cash remuneration of Mr Raymond Stauffer includes KCHF 60 related to his function of Executive member of Board of Directors.

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

29.2 Loans and credits

There were no loans and credits made to any current or former members of the Board of Directors or the General Management.

29.3 Participations

At 31 December 2007 the following number of participations were held by members of the Board of Directors and the General Management (including persons closely related to these members):

	Shares	Share options		
		Expiring 2008	Expiring 2009	Expiring 2010
Non executive members of Board of Directors				
François Frôté *(Chairman of BofD and member of Nomination and Compensation Committee and Audit Committee)*	182'567	–	7'272	–
Claude Elsen *(Deputy chairman of BofD and member of Nomination and Compensation Committee and Audit Committee)*	112'218	–	7'272	–
Paul Haering *(Chairman of the Audit Committee)*	46'518	–	7'272	–
Michel Rollier *(Member of Nomination and Compensation Committee)*	542'459	–	7'272	–
Hans-Otto Stenzel *(Member of Nomination and Compensation Committee)*	92'059	7'735	7'272	–
Total non executive members of Board of Directors	**975'821**	**7'735**	**36'360**	**–**
Executive member of Board of Directors and General Management				
Raymond Stauffer *(Managing Director and CEO)*	397'933	–	7'272	–
Philippe Maquelin *(COO and CFO)*	59'975	–	7'271	20'000
Carlos Cancer *(Head of Single Spindle Products)*	8'922	–	7'271	20'000
Willi Nef *(Head of Multispindle Products)*	11'033	2'735	7'271	17'000
Michael Op de Hipt *(Head of R&D)*	2'267	–	–	–
Bernard Seuret *(Head of production)*	20'885	3'870	7'271	20'000
Sandor Sipos *(Head of Customer Service)*	7'589	–	7'271	20'000
Total Executive member of Board of Directors and General Management	**508'604**	**6'605**	**43'627**	**97'000**

30 Post balance sheet events

On March 7, 2008, date at which these consolidated financial statements have been approved for issue by the Board of Directors, the Company owned 796'973 of its own shares further to the acquisition of 637'408 of its own shares in the market during the period January 1, 2008 to March 7, 2008.

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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 45 to 50) of Tornos Holding S.A. for the year ended December 31, 2007.

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

Michael Foley
Auditor in charge

Aude Joly

Neuchâtel, March 7, 2008

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

In thousands of CHF

For the years ended December 31,	**2007**	**2006**
Dividend income from a subsidiary	–	5’000
Interest income from a subsidiary	1’435	902
Total income	**1’435**	**5’902**
Administrative expenses	-1’242	-739
Financial expenses	-3	-1
Taxes other than on income	-14	-24
Total expenses	**-1’259**	**-764**
Net income for the year	**176**	**5’138**

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

BALANCE SHEET

In thousands of CHF

As of December 31,	Notes	**2007**	**2006**
ASSETS			
Cash and cash equivalents		428	24
Treasury shares	4	2’070	84
Group receivables		7’595	444
Other current assets		13	–
Total current assets		**10’106**	**552**
Investment in a subsidiary	2	65’000	65’000
Loan to a subsidiary		22’500	24’500
Total non-current assets		**87’500**	**89’500**
Total assets		**97’606**	**90’052**
LIABILITIES AND EQUITY			
Accrued expenses		99	363
Total current liabilities		**99**	**363**
Ordinary shares	3	74’920	68’954
Additional paid-in capital		15’910	14’234
Reserve for treasury shares		2’070	84
Retained earnings		4’607	6’417
Total equity		**97’507**	**89’689**
Total liabilities and equity		**97’606**	**90’052**

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

In thousands of CHF	Ordinary shares	Additional paid-in capital	Reserve for treasury shares	Retained earnings	Total
At December 31, 2005	**67’888**	**14’056**	**–**	**1’363**	**83’307**
Issuance of new shares (note 3)	1’066	178			1’244
Net income 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**
Issuance of new shares (note 3)	5’966	1’676			7’642
Net income for the year				176	176
Transfer for treasury shares (note 4)			1’986	-1’986	–
At December 31, 2007	**74’920**	**15’910**	**2’070**	**4’607**	**97’507**

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

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.

2 Subsidiary

The only subsidiary of the Company is Tornos S.A., Moutier. It is a wholly-owned production and sales entity at December 31, 2007 and 2006 with a share capital of CHF 65 million.

3 Share capital and conditional capital

During the year 2007:

- The General Meeting of Shareholders held on April 3, 2007 approved the issue of 900'000 conditional shares that may be used by the Board of Directors to satisfy the Management and Board Participation Plan 2007-2009 (MBP07);
- 150'410 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 (MBP04);
- 89'500 registered shares were issued and fully paid for at a price of CHF 11.39 each under the MBP07;
- 953'125 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 the following changes were made to the Articles of Incorporation of the Company during 2007:

- The share capital amounts to CHF 74'919'575 represented by 14'983'915 registered shares of CHF 5.00 each;
- The conditional share capital was reduced to CHF 4.7 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 0.1 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 could have been exercised until July 2007. This portion of the conditional capital which is now without object will be cancelled during 2008;
  - For a maximum amount of CHF 4.6 million which is reserved for the issuance of shares that may be used by the Board of Directors to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors.

During the year 2006:

- 50'000 registered shares were issued and fully paid for at a price of CHF 5.30 each under the MBP04;
- 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 MBP04;
- 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.

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

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.

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 2007, Tornos Holding S.A. acquired 103'565 of its own shares for KCHF 1'986 (2006: 6'000 treasury shares acquired for KCHF 84). As a result of the above movements Tornos Holding S.A. holds 159'565 treasury shares at December 31, 2007 (December 31, 2006: 56'000).

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 2007, total costs incurred totalled KCHF 56 (2006: KCHF 45).

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,

	2007	2006
Management Group	–	11.1%
3V Asset Management AG	–	8.0%

6 Guarantee given

All the conditions and financial covenants related to the Credit Facility Agreement which was entered into on April 25, 2005 and which matured in December 2007 were met during the entire period. At the request of Tornos, the credit which was originally fixed at CHF 30.0 million for advances of up to 12 months was reduced to CHF 21.0 million in July 2007. On December 20, 2007, the Group concluded an Amended and Restated Facility Agreement with two of the banks which were already parties to the Credit Facility Agreement entered into on April 25, 2005. Under this Amended and Restated Facility Agreement the syndicate of banks grants to Tornos S.A. as borrower, with Tornos Holding S.A. acting as guarantor, a credit facility in the aggregate of CHF 32.5 million. Of this amount, CHF 20.0 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 Amended and Restated Facility Agreement which is valid until December 31, 2010 is subject to certain conditions and financial covenants related to total net debt to EBITDA and interest cover ratios as well as tangible net worth. At December 31, 2007, CHF 7.4 million was used for working capital facilities (December 31, 2006: CHF 15.0 million for advances and CHF 5.0 million for working capital facilities respectively).

Under the Credit Facility Agreement which matured in December 2007, the Company and each Director holding shares in Tornos S.A., Moutier had to pledge all shares in the latter, free of any security interest or any other encumbrance in favour of the syndicate of banks as security for the due and punctual fulfillment of the obligations of both Tornos S.A., Moutier, as the borrower, and Tornos Holding S.A., Moutier as the Parent. This pledge was no longer required in the new Amended and Restated Facility Agreement signed on December 20, 2007, hence the shares were returned to the Company and to each Director holding shares in Tornos S.A.

7 Board of Directors and General Management compensation

The disclosures required by articles 663bbis and 663c of the Swiss Code of Obligations on the Board of Directors and General Management compensation is reflected in note 29 of the consolidated financial statements.

In thousands of CHF

For the years ended December 31,	**2007**	**2006**
Retained earnings brought forward	6'417	1'363
Transfer to reserve for treasury shares	-1'986	-84
Net income for the year	176	5'138
Available earnings	**4'607**	**6'417**

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation:

Par value reduction

The Board of Directors proposes that the General Meeting of Shareholders carry forward the available earnings to the new account and that it should not pay a dividend for 2007. Instead, the Board of Directors proposes that the General Meeting of Shareholders reduce the par value for each registered share by CHF 0.50 from the current CHF 5.00 (capital reduction). This would reduce the par value of each Tornos registered share to CHF 4.50.

In thousands of CHF

For the years ended December 31,	**2007**	**2006**
	Proposal	Actual
Available earnings	4'607	6'417
To be carried forward	**4'607**	**6'417**

TORNOS

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