

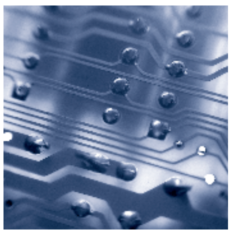


CONSOLIDATED FINANCIAL STATEMENTS

2009 TORNOS HOLDING S.A.

Tornos Group

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Tornos Holding S.A., Moutier

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Report of the Statutory Auditor
to the General Meeting of
Tornos Holding S.A., Moutier

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of Tornos Holding S.A., which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes (pages 7 to 53), for the year ended December 31, 2009.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2009 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.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers SA

Michael Foley	Aude Joly
Audit expert	Audit expert
Auditor in charge	

Neuchâtel, March 2, 2010

Enclosure:
- Consolidated financial statements (income statement, statement of comprehensive income, balance sheet, statement of changes in equity, statement of cash flows and notes)

In thousands of CHF, except per share data

For the years ended December 31,	Notes	**2009**	**2008**
Gross sales		**114'363**	**262'944**
Rebates and discounts		–1'852	–2'891
Net sales		**112'511**	**260'053**
Cost of sales		–86'256	–165'883
Gross profit		**26'255**	**94'170**
Marketing and sales		–28'745	–43'884
General and administrative expenses		–19'030	–21'102
Research and development		–9'117	–16'245
Other income/(expenses) – net		105	154
Earnings before interest and taxes (EBIT)		**–30'532**	**13'093**
Financial expenses – net	8	–1'702	–576
Exchange gains/(losses) – net		–1'047	–4'254
Income/(loss) before income taxes		**–33'281**	**8'263**
Income tax credit/(charge)	9	3'697	–2'221
Net income/(loss)		**–29'584**	**6'042**
Earnings per share	25		
– basic		–2.03	0.42
– diluted		–2.03	0.42

Earnings before interest and taxes (EBIT)		**–30'532**	**13'093**
Depreciation and amortisation		4'734	6'758
Earnings before interest, income taxes, depreciation and amortisation (EBITDA)		**–25'798**	**19'851**

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

In thousands of CHF

For the years ended December 31,	2009	2008
Net income/(loss)	**–29'584**	**6'042**
Other comprehensive income/(loss)		
Fair value gain/(loss) on available-for-sale financial assets, net of KCHF 90 tax (2008: NIL)	734	–1'787
Currency translation difference	–64	–963
Other comprehensive income/(loss), net of tax	**670**	**–2'750**
Total comprehensive income/(loss)	**–28'914**	**3'292**

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

In thousands of CHF

As of December 31,	Notes	**2009**	**2008**
ASSETS			
Cash and cash equivalents		12'233	14'268
Trade receivables	10	30'887	48'457
Inventories	11	78'848	94'739
Other receivables and prepayments	12	12'413	16'160
Total current assets		**134'381**	**173'624**
Available-for-sale financial assets	13	2'431	1'787
Property, plant and equipment	14	38'707	43'009
Goodwill	15	2'873	2'873
Other intangible assets	16	1'508	–
Deferred tax assets	17	5'106	963
Total non-current assets		**50'625**	**48'632**
Total assets		**185'006**	**222'256**
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings	18	15'413	7'359
Trade payables		7'205	29'093
Other payables	19	9'367	21'546
Current tax liabilities		16	193
Provisions	20	2'652	5'103
Total current liabilities		**34'653**	**63'294**
Interest bearing loans and borrowings	18	21'392	1'632
Retirement benefit obligations	21	2'304	2'141
Provisions	20	693	907
Deferred tax liabilities	17	550	539
Total non-current liabilities		**24'939**	**5'219**
Total liabilities		**59'592**	**68'513**
Total equity		**125'414**	**153'743**
Total liabilities and equity		**185'006**	**222'256**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

In thousands of CHF	**Ordinary shares (note 22)**	**Share premium**	**Treasury shares (note 22.3)**	**Retained earnings (note 23)**	**Currency translation difference**	**Total**
At December 31, 2007	**74'920**	**15'910**	**–2'070**	**73'086**	**–1'667**	**160'179**
Comprehensive income						
Net income				6'042		6'042
Other comprehensive income/(loss)						
Fair value loss on available-for-sale financial assets				–1'787		–1'787
Currency translation difference					–963	–963
Total other comprehensive income	**–**	**–**	**–**	**–1'787**	**–963**	**–2'750**
Total comprehensive income/(loss)	**–**	**–**	**–**	**4'255**	**–963**	**3'292**
Transactions with owners						
Issuance of new shares	168	46				214
Purchase of treasury shares			–9'195			–9'195
Sale of treasury shares			4'696	1'257		5'953
Reduction of par value of the shares (note 22.1)	–7'499	–81		230		–7'350
Share-based compensation				701		701
Other expense (note 22.3)				–51		–51
Total transactions with owners	**–7'331**	**–35**	**–4'499**	**2'137**	**–**	**–9'728**
At December 31, 2008	**67'589**	**15'875**	**–6'569**	**79'478**	**–2'630**	**153'743**
Comprehensive income						
Net loss				–29'584		–29'584
Other comprehensive income/(loss)						
Fair value gain on available-for-sale financial assets				734		734
Currency translation difference					–64	–64
Total other comprehensive income	**–**	**–**	**–**	**734**	**–64**	**670**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–28'850**	**–64**	**–28'914**
Transactions with owners						
Issuance of new shares	65	22				87
Purchase of treasury shares			–104			–104
Share-based compensation				610		610
Other expense (note 22.3)				–8		–8
Total transactions with owners	**65**	**22**	**–104**	**602**	**–**	**585**
At December 31, 2009	**67'654**	**15'897**	**–6'673**	**51'230**	**–2'694**	**125'414**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

In thousands of CHF

For the years ended December 31,	Notes	**2009**	**2008**
Net income/(loss)		**–29'584**	**6'042**
Adjustments for:			
Taxes		–3'697	2'221
Depreciation of property, plant and equipment	14	4'734	6'758
Gain on disposal of property, plant and equipment		–5	–50
Other non cash items		807	41
Decrease/(increase) in working capital:			
Trade receivables		17'503	8'055
Other receivables		3'741	1'161
Inventories		15'692	–12'398
Trade payables		–22'005	7'002
Other current payables and provisions		–15'008	–13'763
Interest expenses		912	104
Income tax paid		–531	–624
Net cash provided by/(used in) operating activities		**–27'441**	**4'549**
Cash flows from investing activities			
Acquisition of subsidiaries – net of cash acquired		–	–4'826
Investment in available-for-sale financial assets		–	–3'574
Investment in property, plant and equipment		–524	–6'715
Disposal of property, plant and equipment		163	176
Investment in capitalised development costs		–1'508	–
Interest received		115	201
Net cash used in investing activities		**–1'754**	**–14'738**
Cash flows from financing activities			
Repayments of borrowings, including finance lease liabilities		–22'707	–1'103
Proceeds from the new Facility Agreement	18.1	35'001	–
Proceeds from prior borrowings		15'482	6'883
Proceeds from issuance of share capital		87	214
Reduction of par value of shares – net	22.1	–	–7'350
Purchase of treasury shares	22.3	–104	–9'195
Sale of treasury shares	22.3	–	5'953
Payment of other financing expenses	22.3	–8	–51
Interest paid		–486	–305
Net cash provided by/(used in) financing activities		**27'265**	**–4'954**
Net decrease in cash and cash equivalents		**–1'930**	**–15'143**
Cash and cash equivalents at beginning of year		14'268	29'689
Effects of exchange rate changes		–105	–278
Cash and cash equivalents at end of year		**12'233**	**14'268**

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, sale and servicing of machine tools. The Group manufactures solely in Moutier and La Chaux-de-Fonds, 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 2, 2010. These financial statements will be submitted for approval to the General Meeting of Shareholders on April 13, 2010.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below and except as described hereunder, have been applied in a manner consistent with those described in the annual consolidated financial statements for the year ended December 31, 2008.

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 New standards and amendments to standards which are mandatory for the first time for the financial year beginning January 1, 2009

IAS 1 (revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that in "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement.

Entities can choose whether to present one performance statement (the statement of comprehensive income or two statements (the income statement and statement of comprehensive income).

The Group has elected to present two statements: an income statement and a statement of comprehensive income. The consolidated financial statements have been prepared under the revised disclosure requirements.

IFRS 8, "Operating segments". IFRS 8 replaces IAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The consolidated financial statements have been prepared under the revised disclosure requirements.

IFRS 7, "Financial instruments – Disclosures" (amendment). Amendments to IFRS 7 clarify and enhance disclosures about fair value measurements and the liquidity risk of financial instruments. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The consolidated financial statements have been prepared under the revised disclosure requirements.

2.1.2 *New standards, amendments to standards and interpretations mandatory for the first time for the financial year beginning January 1, 2009, but not currently relevant to the Group*

IAS 23 (amendment), "Borrowing costs"
IFRS 2 (amendment), "Share-based payment"
IAS 32 (amendment), "Financial instruments: Presentation"
IFRIC 15, "Agreements for the construction of real estate"

In addition, various already issued standards were amended or clarified as part of the Annual improvements 2008, none of which had an impact on the Group's operations.

2.1.3 *New standards, interpretations to existing standards and standards amendments that are not yet effective*

The Group has not early adopted any other new standards, interpretations to existing standards and standards amendments which need adoption by January 1, 2010 or later. The Group has commenced, but not yet completed, an assessment of the impact of the adoption of these new or amended standards on its consolidated financial statements and is currently of the view that the impact would not be significant other than certain additional disclosures.

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. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to the acquisition are charged to income. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. 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, available-for-sale financial assets 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 *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date (see accounting policy 2.9).

2.8.3 *Derivatives at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. Assets in this category are classified as current assets.

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.

2.9 *Available-for-sale financial assets*

Regular purchases and sales of these financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs. They are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of monetary and non monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as financial income. Interest on available-for-sale securities calculated using the effective interest method and dividends on available-for-sale equity instruments are recognised in the income statement as part of financial income when the Group's right to receive payments is established.

A significant or/and prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities might be impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

The fair values of quoted investments are always based on current bid prices.

2.10 *Derivative financial instruments and hedging activities*

Derivatives are initially recorded on the date they are entered into 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 in the period in which they arise on the various lines of the income statement to which they relate.

2.11 Property, plant and equipment

2.11.1 Owned assets

Property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses, if any (see accounting policy 2.14). Interest costs on borrowings to finance property, plant and equipment during the course of construction are capitalised.

2.11.2 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.

2.11.3 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 2.14).

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.

2.11.4 Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of items of property, plant and other equipment. Depreciation of machinery is charged on the basis of effective usage which approximates the straight-line basis except in years when production varies considerably. 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. Useful lives for the machinery refer to a normal utilisation of the production capacity. Depreciation in a year with under or over utilised capacity will be adjusted, if the under utilisation, respectively the over utilisation has a significant impact on the useful lives of the machinery.

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

2.12 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net identifiable assets of the acquired subsidiaries at the date of acquisition. Separately recognised goodwill is tested for impairment annually and whenever there is an indication that it may be impaired and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.13 Intangible assets

Internal and external research costs are charged to the income statement as incurred. Internal and external 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. Capitalised development costs are amortised on a straight line basis over a period which cannot exceed their estimated useful lives. Development expenditure which does not meet the criteria above is recognised as an expense as incurred.

2.14 Impairment

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. The carrying amounts of the Group's other assets, other than inventories (see accounting policy 2.7), deferred tax assets (see accounting policy 2.15) and pension assets (see accounting policy 2.16), 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. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.15 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 in other comprehensive income or directly in equity, in which case it is also recognised in other comprehensive income or directly 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.

2.16 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.

In measuring pension assets, the Group applies IFRIC 14—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The interpretation addresses the interaction between the limits on recognition of assets from defined benefit post employment plans and any minimum funding requirement of such plans. Actuarial losses and unvested prior service cost of the current period are immediately recognised if they would result in an asset that is not controlled by the Group.

In Switzerland the employees are either insured in a company pension fund or in a collective pension fund of an insurance company. The company pension fund covers the majority of the employees and 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). In addition, the only commitment of the Company is the payment of the monthly contribution to the pension fund which is based on each employee individual earnings.

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

2.17 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.

2.18 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.

2.19 Interest bearing borrowings

Interest bearing borrowings are initially recognised at fair value, 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.

Fees paid as transaction costs are deferred and amortised on a straight-line basis over the period of the loan agreement to which they relate.

2.20 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer.

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 whenever needed.

3.2 Market risks

3.2.1 Currency risks

Tornos SA, 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 SA 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 fluctuates by less than 5%. 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 appropriate foreign exchange contracts are entered into for all or a portion of the net position in each currency. No forward exchange contract was done in 2009 for 2010 (due to the anticipated appreciation of the CHF against the EUR at the end of 2008 Tornos SA hedged, in November 2008, the net exposure in EUR for the next 6 months).

On an annual basis, if the CHF had weakened/strengthened by 1% against the EUR additional income/losses of some KCHF 241 would have resulted from the translation of the net monthly movements in EUR.

At December 31, 2009, if the CHF had weakened/strengthened by 1% against the EUR additional exchange gains/ losses of KCHF 365 would have resulted from the translation of all EUR denominated assets and liabilities, the majority of which being represented by cash equivalents and trade receivables (2008: KCHF 344).

On an annual basis, if the CHF had weakened/strengthened by 1% against the USD additional income/losses of some KCHF 101 would have resulted from the translation of the net monthly movements in USD.

At December 31, 2009, if the CHF 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 (2008: KCHF 47).

At December 31, 2009, if the CHF had weakened/strengthened by 1% against the JPY no additional exchange gains/losses would have resulted from the translation of all JPY denominated assets and liabilities (2008: KCHF 118).

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

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

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, 2009 and 2008, the Group did not hold any derivative financial instruments in order to limit the interest rate exposure of the Group.

3.2.3 *Price risks*

The Group is exposed to equity securities price risk because of an investment held by the Group and classified on the consolidated balance sheet as available-for-sale and holding of treasury shares.

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 5% 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 is mainly maintained with UBS and ZKB.

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. In times of an economic downturn and short work, liquidity requirements may increase and credit lines may be partly or fully utilised.

The majority of the financial liabilities relate to a credit facility with banks which matures on September 30, 2012. (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, available-for-sale financial assets and trade payables, other receivables and payables, loans, short-term borrowings and borrowings classified as long-term negotiated at variable interest rates.

3.6 *Financial instruments by category*

	December 31, 2009			December 31, 2008		
	Loans and receivables	Available-for-sale	Total	Loans and receivables	Available-for-sale	Total
ASSETS						
Cash and cash equivalents	12’233		12’233	14’268		14’268
Trade receivables	30’887		30’887	48’457		48’457
Other receivables	12’413		12’413	16’160		16’160
Available-for-sale financial assets		2’431	2’431		1’787	1’787
Total	**55’533**	**2’431**	**57’964**	**78’885**	**1’787**	**80’672**

The fair value of available-for-sale financial assets is based on quoted market bid price at the balance sheet dates.

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

	December 31, 2009		December 31, 2008	
	Financial liabilities at amortised cost	Total	Financial liabilities at amortised cost	Total
LIABILITIES				
Interest bearing loans and borrowings	36'051	36'051	8'169	8'169
Finance lease liabilities	754	754	822	822
Trade payables	7'205	7'205	29'093	29'093
Other payables	9'367	9'367	21'546	21'546
Current tax liabilities	16	16	193	193
Total	**53'393**	**53'393**	**59'823**	**59'823**

Please refer to note 18.3 for the maturity schedule of the interest bearing loans and borrowings and of the finance lease liabilities. Trade and other payables are all current at the balance sheet dates.

3.7 *Capital risk management*

The financial policy of Tornos is that its business should be self-funded. 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 equal or higher than 10% of annual turnover will be maintained, and a cash reserve, 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. Available authorised capital can also be used for minor acquisitions.

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 normally 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 evaluates the estimates, including those related to goodwill and other intangible assets and 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 were applied for any slow moving or any otherwise obsolete inventory until December 31, 2008. However, due to market turbulence, management believes that the inventory obsolescence computed on the turnover of the articles as described below is not adequate and has therefore frozen the inventory obsolescence provision at the December 31, 2008 level as its best estimate in the circumstances.

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, 2008 the provision for obsolescence would have decreased by KCHF 3'149 had six months been added to all above-mentioned obsolescence rules. On the opposite, it would have increased by KCHF 3'956 had six months been deducted on all above-mentioned obsolescence rules.

4.3 Available-for-sale financial assets

As stated in note 13, available-for-sale financial assets represent the acquisition during 2008 of 1'000'000 shares of JPY 1'000 each of Tsugami Corporation, Tokyo, Japan (Tsugami), a company listed on the Tokyo Stock Exchange. Management considers this investment as strategic and has therefore no intention to sell it in the future. Management considers that the loss on this investment at December 31, 2009 is temporary.

4.4 Goodwill

Goodwill results from the acquisition of Almac S.A. and Almatronic S.A. in 2008 (note 26) which are considered as a separate cash generating unit (CGU).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management until 2012.

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the CGU. Future actual profits may be significantly lower than management present expectations of market development and could impact significantly the reported value of the goodwill in future periods.

4.5 Other intangible assets

As stated in note 16, the Group is in the process of developing three new platforms which will be the concept and the foundation of a new generation of products to last for an estimated period of 10 years. Capitalised development costs from these projects shall be depreciated over 5 years as from the time the development projects are finalised. Although not presently foreseen, future development and use of these projects may be impacted by reasons beyond management present knowledge which could impact significantly the reported value of these intangible assets in future periods.

4.6 Deferred taxes

The Group's financial and operating performance, as well as that of its competitors, is significantly influenced by the short to 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 in the recognition of deferred tax assets. In 2007, the Group considered it had 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 recognised the related deferred tax assets which qualified for recognition at December 31, 2007. In 2008, due to the economic downturn, the Group wrote off the available tax losses which remained and expired in 2009 (KCHF 134). Other deferred tax assets on tax losses carryforwards which expire in the year 2010 or do not expire remained capitalised (KCHF 1'472). In 2009, due to market turbulence, the Group wrote off all available tax losses which remained and expire in 2010 (KCHF 1'115). Management presently estimates that its budget plans for the years 2010 to 2012 which show a return to a profit situation for the Group starting in 2011 has no reason to be reviewed. As a result deferred tax assets of KCHF 5'567, of which KCHF 5'263 result from the 2009 loss of Tornos SA and which can be utilised until 2016, have been recognised at December 31, 2009. Future economic development could significantly impact the utilisation of these tax losses available for carryforward.

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 732 for the year ended December 31, 2009 (2008: KCHF 2'182).

4.7 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 or within insurance companies. 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.

4.8 Warranty provision

Warranty provision of KCHF 2'475 reflects management assessment of warranty claims (December 31, 2008: KCHF 4'966). It is based on historical 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.

4.9 Other provisions and contingencies

Other provisions amounting to KCHF 870 principally comprise the expected costs of pending litigations 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 (December 31, 2008: KCHF 1'044).

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.

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

5 Scope of consolidation

Subsidiaries

Name	Domicile	Purpose
Tornos Management Holding SA, Moutier	Switzerland	Management of shareholdings and holding company
Almac S.A., La Chaux-de-Fonds	Switzerland	Production and sales
Almatronic S.A., La Chaux-de-Fonds	Switzerland	Dormant
Tornos SA, Moutier	Switzerland	Production and sales
Tornos Technologies Deutschland GmbH, Pforzheim	Germany	Support services
Tornos Technologies Iberica SA, Granollers	Spain	Support services
Tornos Technologies Italia Srl, Opera/MI	Italy	Support services
Tornos Technologies Poland Sp. z o.o., Warsaw	Poland	Support services
Tornos Technologies UK Ltd., Coalville	United Kingdom	Support services
Tornos Holding France, St-Pierre-en-Faucigny	France	Holding company
Tornos Technologies France SAS, St-Pierre-en-Faucigny	France	Support services
Tornos Technologies U.S. Corp., Bethel CT	United States of America	Sales & services
Tornos Technologies Asia Limited, Hong Kong	Hong Kong	Sales & support services
Tornos Technologies (HK) Limited, Hong Kong	Hong Kong	Sales & services
Tornos Technologies (Shanghai) Limited, Shanghai	China	Sales & services

Further to the legal reorganisation of the Group which occurred in 2009, Tornos Holding S.A. now holds 100% of the shares of Tornos Management Holding SA, Moutier which, in turn, holds 100% of the shares of Almac S.A., La Chaux-de-Fonds, Almatronic S.A., La Chaux-de-Fonds and of Tornos SA, Moutier. All the other Group companies are direct or indirect wholly-owned subsidiaries of Tornos SA, Moutier.

Changes in scope

2009

Tornos Management Holding SA was incorporated on December 22, 2009 as a management of shareholdings and holding company for all the companies of the Group. The investments which Tornos Holding S.A. held in Almac S.A., La Chaux-de-Fonds, Almatronic S.A., La Chaux-de-Fonds and in Tornos SA, Moutier were transferred to this new company. These are the only changes which took place in the scope of consolidation in the year under review.

2008

Almac S.A., La Chaux-de-Fonds, Switzerland was acquired effective January 1, 2008 and is a wholly-owned subsidiary of Tornos Holding S.A. It develops, manufactures and markets CNC machining equipment for small, high-precision parts which are destined predominantly for watchmaking applications used in Swiss companies. Other customers come from the automotive, medical, electronics and microtechnology industries.

Almatronic S.A., La Chaux-de-Fonds, Switzerland was acquired effective January 1, 2008 and is a wholly owned subsidiary of Tornos Holding S.A. Its activities were transferred to Almac S.A. in 2008.

Tornos Technologies (Shanghai) Limited, Shanghai was founded and registered on April 2, 2008 and is a wholly-owned subsidiary of Tornos SA, Moutier. It is acting as a sales and services company in China.

Tornos Technologies (HK) Limited, Hong Kong was founded and registered on July 29, 2008 and is a wholly-owned subsidiary of Tornos Technologies Asia Limited, Hong Kong. It is acting as a sales and services company in Hong Kong.

These are the only changes which took place in the scope of consolidation in the year under review.

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

6 Expenses by nature

	2009	2008
Personnel expenses (note 7)	–60’601	–93’853
Changes in inventories of finished goods and work in progress, raw materials and consumables used	–53’027	–107’704
Depreciation charges	–4’734	–6’758
Other expenses	–24’786	–38’799
Total cost of sales, marketing and sales, general and administrative and research and development expenses	**–143’148**	**–247’114**

7 Personnel expenses

	2009	2008
Personnel expenses, net of salary cuts due to short work	–78’198	–94’914
Reimbursements from unemployment insurances	17’597	1’061
Personnel expenses – net	**–60’601**	**–93’853**
Of which:		
Defined benefit plans (note 21.2.1)	–3’854	–4’002
Defined contribution plans (note 21.3)	–151	–180

8 Financial expenses – net

	2009	2008
Interest income	59	201
Dividend income	56	63
Interest expense	–1’027	–306
Bank charges and other financial expenses	–790	–534
Financial expenses – net	**–1’702**	**–576**

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

9 Income taxes

	2009	2008
Current income tax charge	–352	–494
Deferred tax credit/(charge)	4’049	–1’727
Income tax credit/(charge)	**3’697**	**–2’221**

The Group’s expected tax expense for each year is based on the weighted average of the statutory corporate income tax rates, which in 2009 ranged between 8% and 37% (2008: between 8% and 37%), in the tax jurisdictions in which the Group operates. The reconciliation of the expected and the effective income tax expense is as follows:

	2009	2008
Income/(loss) before income taxes	**–33’281**	**8’263**
Expected tax credit/(expense)	**5’588**	**–1’162**
Weighted average applicable tax rate	16.8%	14.1%
Utilisation of previously unrecognised tax losses carryforwards	56	603
Use of/recognition of previously unrecognised deferred tax assets	–	252
Write-down of deferred tax assets/unrecognised tax losses	–1’723	–968
Expenses not deductible for tax purposes	–149	–178
Effect of changes in tax rates	–63	542
Effect of tax deductible expenses (taxable income) eliminated on consolidation	–	–1’577
Other effects	–12	267
Income tax credit/(charge) recognised	**3’697**	**–2’221**

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 main activities of the Group are located in countries with low tax rates which results in a relatively low overall tax rate of 16.8% (2008: 14.1%). The tax rate changes from year to year due to changes in the mix of the tax results of the individual Group companies.

10 Trade receivables

	2009	2008
Trade receivables	31’746	49’231
Less provision for impairment of receivables	-859	-774
Trade receivables – net	**30’887**	**48’457**

At December 31, 2009 trade receivables include amounts denominated in EUR equivalent to KCHF 21’603 (December 31, 2008: KCHF 26’846) and amounts denominated in USD equivalent to KCHF 2’180 (December 31, 2008: KCHF 2’895).

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

Trade receivables aging is as follows:

	2009	2008
Current	13'752	28'067
1 to 30 days overdue	7'808	8'569
31 to 60 days overdue	689	2'506
61 to 90 days overdue	745	2'313
91 to 180 days overdue	989	4'008
More than 180 days overdue	7'763	3'768
Trade receivables	**31'746**	**49'231**

The provision for impairment of receivable was determined based on reviews of all outstanding amounts at the year-end. Following those reviews, 78% of the provision for impairment of receivable for identified risks at December 31, 2009 is related to trade receivables classified under “more than 180 days” (December 31, 2008: 80% related to trade receivables classified under “more than 180 days”).

Net bad debt expense in 2009 was KCHF 66 (2008: KCHF 236). There are no significant concentrations within trade receivables of counterparty credit risk (see note 3.3).

11 Inventories

	2009	2008
Materials and components	39'922	38'800
Work in progress	15'749	26'261
Finished goods and spare parts	41'699	47'647
Total inventories – gross	**97'370**	**112'708**
Less allowance for obsolescence	–18'522	–17'969
Total inventories – net	**78'848**	**94'739**

Total obsolescence and write-offs charged to the income statement during the year 2009 amount to KCHF 1'237 (2008: KCHF 3'675).

12 Other receivables and prepayments

	2009	2008
Derivative financial instruments	–	611
VAT receivable	5'420	8'802
Advances to transporters for customs clearance purpose	1'598	1'791
Advances to suppliers	71	419
Other	5'324	4'537
Total other receivables and prepayments	**12'413**	**16'160**

In appropriate circumstances the Group uses derivative financial instruments as part of its risk management and trading strategies (note 3.2.1). At December 31, 2009 the Group had not entered into any forward exchange contracts (December 31, 2008: sale of KEUR 12'000 against KCHF 18'522 which were carried at fair value for KCHF 611).

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

13 Available-for-sale financial assets

	2009	2008
1'000'000 shares of Tsugami Corporation	**2'431**	**1'787**

Available-for-sale financial assets represent the acquisition during 2008 of 1'000'000 shares of JPY 1'000 each of Tsugami Corporation, Tokyo, Japan (Tsugami), a company listed on the Tokyo Stock Exchange.

Tsugami and the Group are two entities of similar size in the machine tool sector which signed a framework partnership agreement on February 15, 2008. The underlying logic of the agreement is that the two groups are complementary in terms of their product range and geographical markets, in which each of them holds a leadership position. Under the terms of the agreement, cooperation is established in a number of areas such as research and development, procurement, production and distribution. To cement the links between the two groups and symbolise the importance of the alliance for the two partners, each entity has decided to acquire in the market at least one million shares in the other.

14 Property, plant and equipment

	Land, buildings & installations	Building in construction	Machinery	Other equipment	Total
Cost					
At December 31, 2007	**59'266**	**4'747**	**64'935**	**11'897**	**140'845**
Acquisition of subsidiaries (note 26)	4'080	–	332	496	4'908
Additions	1'049	1'831	895	2'940	6'715
Disposals	–	–	–32	–1'735	–1'767
Transfer between categories	6'450	–6'578	–	128	–
Exchange differences	–794	–	–46	–466	–1'306
At December 31, 2008	**70'051**	**–**	**66'084**	**13'260**	**149'395**
Additions	76		47	401	524
Disposals	–11	–	–382	–312	–705
Exchange differences	71	–	–2	–4	65
At December 31, 2009	**70'187**	**–**	**65'747**	**13'345**	**149'279**
Accumulated depreciation					
At December 31, 2007	**–31'506**	**–**	**–61'539**	**–7'503**	**–100'548**
Acquisition of subsidiaries (note 26)	–920	–	–220	–211	–1'351
Charge for the year	–2'443	–	–1'945	–2'370	–6'758
Written back on disposal	–	–	30	1'610	1'640
Exchange differences	283	–	39	309	631
At December 31, 2008	**–34'586**	**–**	**–63'635**	**–8'165**	**–106'386**
Charge for the year	–2'397	–	–161	–2'176	–4'734
Written back on disposal	–	–	361	186	547
Exchange differences	–8	–	1	8	1
At December 31, 2009	**–36'991**	**–**	**–63'434**	**–10'147**	**–110'572**
Carrying amounts					
December 31, 2008	**35'465**	**–**	**2'449**	**5'095**	**43'009**
December 31, 2009	**33'196**	**–**	**2'313**	**3'198**	**38'707**

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

Due to heavy short work during 2009 machinery depreciation for that year was KCHF 919 lower than the depreciation that would have been charged in a year of normal production.

Of which related to leased assets:

	Land, buildings & installations	Building in construction	Machinery	Other equipment	Total
Acquisition of subsidiaries					
December 31, 2008	–	–	55	280	335
December 31, 2009	–	–	–	–	–
Carrying amounts					
December 31, 2008	639	–	39	111	789
December 31, 2009	509	–	31	43	583

The fire insurance value of PP&E and inventories amounts to CHF 390 million (2008: CHF 408 million).

15 Goodwill

	2009	2008
Goodwill	**2'873**	**2'873**

Goodwill results from the acquisition of Almac S.A. and Almatronic S.A. in 2008 (note 26) which are considered as a separate cash generating unit (CGU).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management until 2012.

The key assumptions used for value-in-use calculations are as follows:

	2009	2008
EBIT	10.0%	10.0%
Discount rate	7.9%	8.3%

Management determined budgeted gross margin based on past performance and its expectations of market development. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

16 Other intangible assets

	2009	2008
Capitalised development costs	**1'508**	**–**

The Group is in the process of developing three new platforms which will be the concept and the foundation of a new generation of products to last for an estimated period of 10 years. Capitalised development costs from these projects shall be depreciated over 5 years as from the time the development projects are finalised.

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

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 in the recognition of deferred tax assets. In 2007, the Group considered it had 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 recognised the related deferred tax assets which qualified for recognition at December 31, 2007. In 2008, due to the economic downturn, the Group wrote off all the available tax losses which remained and expired in 2009. In 2009, due to market turbulence, the Group also wrote off all available tax losses which remained and expired in 2010. The effect of KCHF 1’115 and KCHF 134 for 2009 and 2008 respectively is included in the write-down of deferred tax assets in the tax expense reconciliation in note 9.

Deferred tax assets and liabilities are attributable to the following:

	2009		2008	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Trade and other receivables	5	44	8	24
Inventories	–	229	–	309
Available-for-sale financial assets	90	–	–	–
Property, plant and equipment	36	1’093	51	1’220
Trade and other payables	67	263	66	75
Retirement benefit obligations	274	13	259	25
Provisions	–	18	–	–
Borrowings	178	–	221	–
Tax losses carried forward	5’566	–	1’472	–
Tax assets/liabilities	**6’216**	**1’660**	**2’077**	**1’653**
Set off	–1’110	–1’110	–1’114	–1’114
Net tax assets/liabilities	**5’106**	**550**	**963**	**539**

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.

The increase in the net deferred tax assets by KCHF 4’143 relates to the deferred tax income recognised in the consolidated income statement (KCHF 4’049), to the deferred tax income recognised in other comprehensive income (KCHF 90) and to exchange differences (KCHF 4). Income tax recognised in other comprehensive income relates to investments classified as available-for-sale financial assets.

17.2 Unrecognised deferred tax assets

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

	2009	**2008**
Deductible temporary differences	2’807	3’057
Tax losses carried forward	14’398	141’202
Total	**17’205**	**144’259**

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

The expiry dates of tax losses for which no deferred tax asset has been recognised are as follows:

	2009	2008
Within 1 year	6'972	135'447
Between 1 and 2 years	13	9
Between 1 and 5 years	67	114
After 5 years	6'513	4'757
Losses not subject to expiry	833	875
Total	**14'398**	**141'202**

Tax losses in the amount of CHF 135 million mainly relating to Tornos Holding S.A. expired in 2009.

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

18 Interest bearing loans and borrowings

	2009	2008
Current portion:		
Current portion of credit facility	15'001	7'000
Mortgages	154	139
Other short-term bank borrowings	–	6
Short-term lease liabilities (note 18.6)	258	214
Current portion	**15'413**	**7'359**
Non-current portion:		
Non-current portion of credit facility	20'000	–
Long-term lease liabilities (note 18.6)	496	608
Mortgages	896	1'024
Non-current portion	**21'392**	**1'632**
Total interest bearing loans and borrowings	**36'805**	**8'991**

18.1 Credit agreements with banks

Mortgages are granted to subsidiaries at floating rates of 1.625% and 1.75% at December 31, 2009 (December 31, 2008: 2.1% and 3.125%).

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 granted to Tornos SA 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 could 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 was valid until December 31, 2010 was subject to certain conditions and financial covenants related to total net debt to EBITDA and interest cover ratios as well as tangible net worth. Due to market turbulence, the syndicate of banks waived its rights due to breach and potential breach of interest cover ratio at March 31, 2009, June 30, 2009 and September 30, 2009 and potential breach of net debt to EBITDA ratio at June 30, 2009 and September 30, 2009.

On September 29, 2009 the Group concluded a new Facility Agreement with the same banks which replaced the credit facility agreement dated December 20, 2007. Under this Facility Agreement the banks grant to Tornos SA as borrower, with Tornos Holding S.A. acting as guarantor, a credit facility in the aggregate of CHF 50 million. Of this amount, CHF 20 million is used under Facility 1, CHF 20 million can be used under Facility 2 and CHF 10 million can 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 of up to 12 months under Ancillary Facilities. This Facility Agreement which is valid until September 30, 2012 is subject to certain conditions and financial covenants.

The major conditions relate to Tornos Holding S.A. pledging its shares in Tornos SA and 430’000 treasury shares and Tornos SA assigning its receivables and transferring for security purpose the mortgage notes related to its real estate properties located in Moutier.

The financial covenants relate to minimum tangible net worth, minimum EBITDA calculated on a rolling annual basis until June 30, 2011, maximum total net debt to EBITDA ratio calculated on a rolling annual basis from September 30, 2011 and minimum interest cover ratio calculated on a rolling annual basis from December 31, 2011. Minimum tangible net worth and minimum EBITDA covenants were met at September 30 and December 31, 2009.

From September 30, 2009 to September 30, 2011 Facility 1 bears interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% is payable at each 6 months maturity date and 6.0% is carried forward on a special account. This latter account bears interest at LIBOR 6 months plus 10.0% interest margin per annum, of which 4.0% is payable at each 6 months maturity date and 6.0% is carried forward to that special account. Save as otherwise provided for in the Facility Agreement the non cash margin is payable on September 30, 2012.

From September 30, 2009 to September 30, 2011 any amount drawn under Facility 2 bears interest at LIBOR plus 4.0% interest margin per annum.

From October 1, 2011 to September 30, 2012 the applicable interest margins on Facility 1, 2 and the special account will range between 2.25% and 4.0% per annum based on the total net debt to EBITDA ratio. The Facility Agreement is also subject to a commitment fee at a rate equal to 35% of the relevant cash interest margin on the average undrawn and uncancelled amount of Facility 2 and the Ancillary facilities until the end of the availability.

On December 22, 2009, concomitant with the creation of Tornos Management Holding SA, an Amendment to the Facility Agreement was signed. Under this Amendment to the Facility Agreement, the banks agreed to the release of the pledge in the shares in Tornos SA against a pledge in the shares of Tornos Management Holding SA by Tornos Holding S.A. In addition, Tornos Holding S.A. and Tornos Management Holding SA are now both guarantors to the Amendment to the Facility Agreement. All other conditions and covenants stipulated in the Facility Agreement remained the same except that (a) the repayment of any intercompany loans between Tornos Holding S.A., Tornos Management Holding SA and Tornos SA and any interest due thereon are subordinated to the prior written consent of the banks and (b) in the event of a breach of a representation, a covenant or an obligation under the Facility Agreement or an event of defaults as specified in the Facility Agreement, a pledge over all the shares in Tornos SA shall also be executed.

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

18.2 *Facilities*

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

	Credit facilities CHF million	**Ancillary facilities** CHF million	**Total** CHF million
At December 31, 2008			
Available	20.0	12.5	32.5
Used	7.0	7.3	14.3
Interest rate	LIBOR + 0.65%		
At December 31, 2009			
Available	40.0	10.0	50.0
Used	35.0	4.3	39.3
Interest rate	note 18.1		

Of the credit facilities used at December 31, 2009 CHF 15 million was used under Facility 2 and will mature in January 2010 and CHF 20 million was used under Facility 1 and is presently expected to be reimbursed not before 2012.

18.3 *Maturity schedule*

	2009	**2008**
Within 1 year	15’413	7’359
Between 1 and 2 years	355	346
Between 2 and 5 years	20’672	841
Over 5 years	365	445
Total borrowings	**36’805**	**8’991**

18.4 *Interest rate exposure*

	2009	**2008**
At fixed rates	–	–
At floating rates	36’805	8’991
Total borrowings	**36’805**	**8’991**

18.5 *Exchange rate exposure*

The original currencies of the Group’s borrowings are:

	2009	**2008**
Swiss franc	35’886	7’890
Euro	535	664
British Pound	384	437
Total borrowings	**36’805**	**8’991**

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

18.6 Finance lease liabilities

	2009	2008
Minimum lease payments		
Within 1 year	277	261
Between 1 to 5 years	515	684
More than 5 years	–	–
Total minimum lease payments	**792**	**945**
Future finance charges on finance leases	–38	–123
Present value of finance lease liabilities	**754**	**822**
Of which:		
Due within 1 year	258	214
Between 1 to 5 years	496	608

The majority of the finance lease liabilities of the Group carries an effective interest rate of 2.161% at December 31, 2009 (December 31, 2008: 6.265%).

19 Other payables

	2009	2008
Advances received	1'434	9'208
Accrued employees remuneration	1'706	4'997
Payable to pension plans	6	8
Other payables and accrued expenses	6'221	7'333
Total other payables	**9'367**	**21'546**

20 Provisions

	Warranties	Restruc-turing	Other	Total
At beginning of year	**4'966**	**249**	**795**	**6'010**
Additional provisions	3'301	85	62	3'448
Utilised during the year	–5'784	–283	–	–6'067
Released via income statement	–	–37	–	–37
Exchange differences	–8	1	–2	–9
At end of year	**2'475**	**15**	**855**	**3'345**

	2009	2008
Current liabilities	2'652	5'103
Non-current liabilities	693	907
Total	**3'345**	**6'010**

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

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 reflect principally changes in the organisation.

Other Provisions
Other provisions include the expected costs of pending litigations as well as other present obligations of uncertain timing.

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, 2009 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:

	2009	**2008**
Current service cost	3'005	3'041
Interest on obligation	4'756	4'411
Expected return on plan assets	–4'922	–5'379
Net actuarial losses recognised	1'106	2'065
Past service cost	–91	–136
Total employee benefits expense	**3'854**	**4'002**

21.2.2 Actual return on plan assets

	2009	**2008**
Actual return	10'357	–10'172

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

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

	2009	2008
Opening defined benefit obligation	**139'767**	**134'440**
Current service cost	3'005	3'041
Plan participants' contributions	3'401	3'618
Interest on obligation	4'756	4'411
Actuarial losses/(gains)	–1'746	614
Liabilities assumed in business combinations	–	4'435
Benefit payments through pension assets	–11'822	–10'290
Benefit payments by employer	–155	–265
Past service cost	46	–
Exchange differences	–77	–237
Closing defined benefit obligation	**137'175**	**139'767**

21.2.4 *Changes in the fair value of plan assets*

	2009	2008
Opening fair value of plan assets	**122'064**	**131'646**
Plan participants' contributions	3'401	3'618
Employer contributions	3'507	3'709
Assets assumed in business combinations	–	3'691
Benefit payments through pension assets	–11'822	–10'290
Expected return on plan assets	4'922	5'379
Gains/(losses) on assets	5'435	–15'551
Exchange differences	–34	–138
Closing fair value of plan assets	**127'473**	**122'064**

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

	2009	2008
Equities	18%	15%
Bonds	50%	50%
Real estate	23%	23%
Qualified insurance policies	4%	4%
Others, including cash	5%	8%

No shares issued by the Group are included in the assets of the pension plans at December 31, 2009 and 2008. The Group rented apartments which belong to pension plans for KCHF 56 during 2009 (2008: KCHF 56). The expected company contributions for fiscal year 2010 amount to KCHF 3'550.

21.2.5 *Amount recognised in the balance sheet*

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

	2009	2008
Present value of funded obligation	136'241	138'834
Fair value of plan assets	–127'473	–122'064
Under funding	**8'768**	**16'770**
Present value of unfunded obligations	936	935
Unrecognised actuarial losses	–8'968	–17'269
Unrecognised past service cost	1'568	1'705
Net liability	**2'304**	**2'141**

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

21.2.6 Principal assumptions

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

Calculation of defined benefit obligations at December 31,

	2009	2008
Discount rate	3.30%	3.54%
Future salary increases	1.44%	1.93%
Future pension indexations	0.11%	0.11%

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

Calculation of expenses:

	2009	2008
Discount rate	3.54%	3.31%
Expected return on plan assets	4.11%	4.04%

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,

	2009	2008	2007	2006	2005
Defined benefit obligation	137’175	139’767	134’440	138’421	136’086
Fair value of assets	–127’473	–122’064	–131’646	–132’107	–127’878
Under funding	**9’702**	**17’703**	**2’794**	**6’314**	**8’208**
Experience gain/(loss) on plan liabilities	–3’265	–2’868	–1’094	1’475	–1’820
Experience gain/(loss) on plan assets	5’435	–15’551	–4’285	–1’042	–1’165

21.3 Defined contribution plans

During 2009 the Group contributed KCHF 151 (2008: KCHF 180) to defined contribution plans.

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

22 Share capital

22.1 Capital structure

	Issued registered shares	Treasury shares	Total shares in circulation
Issued and fully paid-in at December 31, 2007	**14'983'915**	**159'565**	**14'824'350**
Issued for cash	35'786		35'786
Purchased		658'854	–658'854
Sold		–338'855	338'855
Issued and fully paid-in at December 31, 2008	**15'019'701**	**479'564**	**14'540'137**
Issued for cash	14'542		14'542
Purchased		14'542	–14'542
Issued and fully paid-in at December 31, 2009	**15'034'243**	**494'106**	**14'540'137**

During the year 2009:

- 14'542 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).

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2009:

- The share capital amounts to CHF 67'654'093.50 represented by 15'034'243 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 3'935'304.00 which can be used for the issue of 874'512 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors.

During the year 2008:

- The General Meeting of Shareholders held on April 8, 2008 approved the proposal to reduce the share capital by reducing the par value of the shares by CHF 0.50 from CHF 5.00 to CHF 4.50 each and payment on June 30, 2008 to holders of the shares on June 27, 2008;
- 35'786 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). In addition, 7'271 options granted under the MBP04 were exercised on December 30, 2008 and issued and fully paid in January 2009;
- CHF 125'000 of the conditional share capital which was 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 being without object anymore was cancelled during 2008.

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2008:

- The share capital amounts to CHF 67'588'654.50 represented by 15'019'701 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 4'000'743.00 which can be used for the issue of 889'054 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors.

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

22.2 Shares outstanding and rights attached to each class of shares

As of December 31, 2009 the share capital consisted of 15'034'243 ordinary registered shares with a par value of CHF 4.50 each. The holders of the ordinary shares are entitled to receive dividends as declared by the meetings of shareholders and are entitled to one vote per share at the meetings of shareholders.

22.3 Treasury shares

Movements in treasury shares are as follows:

	2009		2008	
	Nb of shares	**Amount**	**Nb of shares**	**Amount**
At beginning of year	**479'564**	**6'569**	**159'565**	**2'070**
Purchases	14'542	104	658'854	9'195
Sales	–	–	–338'855	–4'696
At end of year	**494'106**	**6'673**	**479'564**	**6'569**

Treasury shares are valued at average purchase price.

From July 2004 until April 2009, 50'000 of these shares were loaned to a third party for market making purpose. The Company was 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 2009, total costs incurred totalled KCHF 8 (2008: KCHF 51).

22.4 Conditional share capital

The conditional share capital amounts to CHF 3'935'304 and 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 held more than 5 percent of the share capital of the Company at December 31,

	2009	**2008**
Tsugami Corporation	9.98%	More than 5%
Walter Fust	5.11%	3.45%

23 Retained earnings

Retained earnings include the following reserves which are not available for distribution:

	2009	**2008**
General reserves	5'187	4'442
Reserve for treasury shares	6'673	6'569

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 (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 610 was recorded for the year ended December 31, 2009 (2008: KCHF 701). Compensation expense arising from stock options outstanding at December 31, 2009 to be recognised in future periods amounts to KCHF 340 (December 31, 2008: KCHF 621).

24.1 Management and Board Participation Plan 2007 (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 (MBP07). Under this plan, starting in 2007, 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, 2009, a total of 760’000 shares/options were attributed by the Nomination and Compensation Committee, of which 29’500 options were cancelled (December 31, 2008: 470’000 shares/options granted and 29’500 options cancelled respectively). Of the total amount, the participants elected to purchase 89’500 shares immediately and to receive 670’500 options under the stock option program as detailed below (2008: 89’500 shares and 380’500 options respectively).

24.1.1 Stock purchasing program under MBP07

Each participant has the right to purchase shares each year, starting on May 1, 2007 (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 SIX 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 2009, none of the participants elected to purchase shares at a price of CHF 7.14 (2008: no purchase of shares at CHF 14.75). As a result, no expense was recorded in the income statement for the years ended December 31, 2009 and 2008.

24.1.2 Stock option program under MBP07

Each participant receives free of charge each year starting on May 1, 2007 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 SIX 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, 2009 amounted to KCHF 610 (2008: KCHF 591).

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

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:

	2009 attribution	2008 attribution	2007 attribution
Number of options granted	290'000	240'000	140'500
Grant date	May 1, 2009	May 1, 2008	May 1, 2007
Vesting period	2 years	2 years	2 years
Expiration date	April 30, 2012	April 30, 2011	April 30, 2010
Closing stock price at grant date	CHF 6.23	CHF 18.05	CHF 19.10
Exercise price	CHF 9.52	CHF 19.66	CHF 15.18
Expected life	2.5 years	2.5 years	2.5 years
Volatility	49.13%	37.76%	31.28%
Expected dividend yield	0%	2.77%	1.30%
Risk free interest rate	0.45%	2.30%	2.81%
Fair value of option at grant date	CHF 1.08	CHF 3.35	CHF 5.80
Expected turnover of personnel	–	–	–

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

		2009			2008	
	Options	Exercise price (CHF)	Contractual life	Options	Exercise price (CHF)	Contractual life
Outstanding at January 1,	**351'000**	**18.18**		**120'500**	**15.18**	
Granted	290'000	9.52	3 years (April 30, 2012)	240'000	19.66	3 years (April 30, 2011)
Exercised	–			–		
Cancelled or expired	–			–9'500		
Outstanding at December 31,	**641'000**	**14.26**		**351'000**	**18.18**	
Exercisable at December 31,	**116'000**	**15.18**		**–**		

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, 2009, 150'000 registered shares had been issued under the 2004 Management and Board Participation Plan (December 31, 2008: 150'000 registered shares).

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 this plan. 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 235'988 options were exercised, 5'838 options were cancelled and 58'174 options had expired at December 31, 2009 (December 31, 2008: 228'717 options exercised, 5'838 options cancelled and no options had expired respectively). No expense was recorded in the income statement for the year ended December 31, 2009 (2008: KCHF 110).

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

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

	2009			2008		
	Options	**Exercise price** (CHF)	**Contractual life**	**Options**	**Exercise price** (CHF)	**Contractual life**
Outstanding at January 1,	**65'445**	**6.00**		**108'502**	**6.00**	
Exercisable at January 1,	**65'445**	**6.00**		**14'340**	**6.00**	
Granted	–			–		
Exercised	–7'271	6.00		–43'057	6.00	
Cancelled or expired	–58'174	6.00		–		
Outstanding at December 31,	**–**			**65'445**	**6.00**	
Exercisable at December 31,	**–**			**65'445**	**6.00**	Until April 30, 2009

The related weighted average share price at the time of exercise was CHF 6.56 in 2009 and CHF 11.13 in 2008.

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).

	2009	2008
Net income/(loss) attributable to equity holders of the Company	–29'584	6'042
Weighted average number of ordinary shares in issue (thousands)	14'540	14'464
Basic earnings per share (CHF per share)	**–2.03**	**0.42**

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.

	2009	2008
Net income/(loss) attributable to equity holders of the Company	–29'584	6'042
Weighted average number of ordinary shares in issue (thousands)	14'540	14'464
Adjustments for share options (thousands)	–	43
Weighted average number of ordinary shares for diluted earnings per share (thousands)	14'540	14'507
Diluted earnings per share (CHF per share)	**–2.03**	**0.42**

26 Business combinations

Effective January 1, 2008 the Group acquired 100% of the share capital of Almac S.A. and Almatronic S.A. These two companies are based in La Chaux-de-Fonds, Switzerland. Almatronic S.A. main customer was Almac S.A. The two companies' shareholding was diverse and consisted primarily of private individuals. The group of shareholders was formed in 1997 at a time when Almac S.A. was going through a particularly rough path. The group's aim was to recapitalise the company and get it back on track. This objective was seen through to fruition. Almac S.A. is thriving and there is no longer any call for the temporary shareholding initiative which was originally developed to keep the company afloat. According to the management of the two companies, the shareholders chose to trade in their shares to an industrial partner that would continue to develop Almac S.A. and Almatronic S.A. The Group has a key presence in a variety of market segments including automotive, medical, microtechnology (including watchmaking) and electronics. As mentioned above, Almac S.A.'s products are tailored to companies operating in the fields of microtechnology, medical and electronics – three of the four key market segments in which the Group is involved. With their complementary, non-competitive machines, the Group and Almac S.A. share the same target markets, allowing them to benefit from synergies in terms of sales and service networks. These acquired businesses contributed revenues of KCHF 23'579 and net profit of KCHF 1'954 for the year ended December 31, 2008.

The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the Group's acquisition of both companies. No other intangible assets have been recognised as they are not considered to add any value to the Group.

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

Almatronic S.A. operations being minor and mostly with Almac S.A., the assets and liabilities as of January 1, 2008 arising from the acquisition of both companies have been combined and are as follows:

	Fair value	Acquirees' carrying amount [1]
Cash and cash equivalents	721	721
Trade receivables	4'205	4'205
Inventories	5'890	5'890
Other receivables and prepayments	400	400
Property, plant and equipment	3'557	2'004
Interest bearing loans and borrowings	–1'070	–1'070
Trade payables	–2'596	–2'596
Other payables	–5'506	–5'506
Current tax liabilities	–50	–50
Provisions	–525	–525
Retirement benefit obligations	–744	–
Deferred tax liabilities	–408	–229
Net assets acquired	**3'874**	**3'244**
Goodwill	2'873	
Total purchase consideration	**6'747**	
Of which:		
Cash	5'547	
Deferred payments	1'200	
Outflow of cash to acquire businesses, net of cash acquired:		
Cash consideration	–5'547	
Cash and cash equivalents in subsidiaries acquired	721	
Cash outflow on acquisition	**–4'826**	

[1] The acquired companies were not using IFRS for reporting purpose. The acquirees' carrying amount related to retirement benefit obligations calculated in accordance with IFRS was not computed as work and costs involved to derive this information would have been disproportionate in relation to the benefit obtained for disclosure purpose only.

Costs directly attributable to the acquisitions and which amounted to KCHF 115 have been directly charged to income under General and administrative expenses in 2008.

27 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machine tools. The Chief Operating Decision Maker has been identified as the Group's Chief Executive Officer. He regularly reviews the Group's internal reporting for its only operating segment, machine tools, in order to assess performance and assess resource needs. The primary internal reporting to the CODM is presented on the same basis as the Group's consolidated income statement and consolidated balance sheet and is reported on a consistent basis over the periods presented. The Group's Chief Executive Officer assesses the performance of the machine tools based on EBIT. Additional reporting such as geographical area are also provided to the CODM but they are not considered as substantial information to make strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the CODM based on internal reporting of the core activity.

Revenues generated are derived from sales of machines, spare parts and service costs.

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

27.1 *Analysis of revenues by category*

	2009	2008
Machines and spare parts	107‘774	252‘046
Service	6’589	10’898
Gross sales	**114’363**	**262’944**
Rebates and discounts	–1’852	–2’891
Total net sales	**112’511**	**260’053**

Switzerland is the domicile of the parent company and of the main operating and distribution companies. The Swiss operating companies conduct 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, China and in Hong Kong only have support or sales and distribution activities. The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. The CODM reviews sales for the four material geographical areas, namely, Switzerland, Other European countries, North America and Asia. For the purpose of presenting net sales by location of customers, one other geographical region, namely Rest of world, is identified.

27.2 *Net sales by location of customers*

	2009	2008
Switzerland	25’142	76’427
Other European countries	57’543	128’568
North America	20’930	31’892
Asia	7’763	21’831
Rest of world	1’133	1’335
Total net sales	**112’511**	**260’053**

No transactions with a single customer accounted for 5% or more of the net sales in both 2009 and 2008.

27.3 *Non-current assets*

As of December 31,	**2009**	**2008**
Switzerland	40’413	42’646
Other European countries	2’312	2’751
North America	297	425
Asia	66	60
Total non-current assets for geographical area disclosure	**43’088**	**45’882**
Reconciling unallocated assets:		
– Available-for-sale financial assets	2’431	1’787
– Deferred tax assets	5’106	963
Total non-current assets per balance sheet	**50’625**	**48’632**

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

27.4 *Capital expenditure on property, plant and equipment and other intangible assets by geographical area*

	2009	2008
On tangible assets		
Switzerland	322	6'083
Other European countries	163	455
North America	–	125
Asia	39	52
On intangible assets		
Switzerland	1'508	2'873
Total	**2'032**	**9'588**

28 Commitments and contingencies

28.1 *Operating lease commitments*

Operating lease liabilities, minimum lease payments:

	2009	2008
Year 1	1'330	1'080
Years 2 to 5	1'474	1'570
After 5 years	–	–
Total minimum lease payments	**2'804**	**2'650**

28.2 *Pledges*

At December 31, 2009 and 2008, the following assets were pledged to banks or leasing companies:

	2009	2008
Trade receivables	26'987	–
Land and buildings	29'792	4'134
Technical machinery & other equipment	74	150
Total assets pledged	**56'853**	**4'284**

At December 31, 2009 the total value of the pledged mortgage notes related to land and buildings amount to CHF 40.6 million (December 31, 2008: CHF 3.4 million).

In addition, at December 31, 2009 and as described in note 18.1, 430'000 treasury shares and all the shares in Tornos Management Holding SA have been pledged in favour of the banks which grant the Amendment to the Facility Agreement to the Group (December 31, 2008: NIL).

28.3 *Other commitments and contingent liabilities*

As of December 31, 2009 the Group had not entered into any foreign exchange contracts (2008: to sell a total of KEUR 12'000 against KCHF 18'522 with maturities ranging between one and six months).

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

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

29 Related party transactions

Remuneration consisting of fees, to non-executive members of the Board of Directors amounted to KCHF 459 in 2009 (2008: KCHF 543). Remuneration, consisting principally of salaries and bonuses, to the executive member of the Board of Directors and the members of Group Management totalled KCHF 2'653 in 2009 (2008: KCHF 3'211). As of December 31, 2009, the outstanding balances payable related to remuneration amounted to KCHF 60 (December 31, 2008: KCHF 351).

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

	Non-executive members and former member 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, 2007	**44'095**	**154'136**	**198'231**
Granted during 2008	40'000	160'000	200'000
Exercised during 2008	–7'735	–35'322	–43'057
Cancelled during 2008	–	–	–
Option rights outstanding at December 31, 2008	**76'360**	**278'814**	**355'174**
Granted during 2009	40'000	200'000	240'000
Exercised during 2009	–	–7'271	–7'271
Cancelled during 2009	–36'360	–14'543	–50'903
Option rights outstanding at December 31, 2009	**80'000**	**457'000**	**537'000**

During 2009 and 2008, neither the non-executive nor the executive members of the Board of Directors and the Group Management elected to purchase shares of the Company under MBP07. Please refer to note 24 for further details.

As of December 31, 2009, the Board of Directors and Group Management also held 1'328'597 shares (8.8%) of the Company (December 31, 2008: 1'328'115 shares and 8.8%).

During 2009, sales to companies in which one of the directors of the Company holds a significant interest amounted to KCHF 185 (2008: KCHF 767). Services provided by a company in which one of the directors of the Company holds a significant interest amounted to KCHF 100 (2008: KCHF 108). These transactions were undertaken on an arms length basis. As of December 31, 2009, the related outstanding balances receivable and payable amounted to KCHF 30 and KCHF 17 respectively (December 31, 2008: KCHF 9 and KCHF 8 respectively).

No loans or advances were granted to related parties in 2009 and 2008.

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

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

30.1 2009

30.1.1 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 chairman of Nomination and Compensation Committee and member of Audit Committee)*	170	–	–	8’000	18
Claude Elsen *(Deputy chairman of BofD)*	77	–	–	8’000	8
Paul Haering *(Chairman of Audit Committee)*	102	–	–	8’000	11
Michel Rollier *(Member of Nomination and Compensation Committee)*	59	–	–	8’000	7
François Gabella	51	–	–	8’000	6
Total non executive members of Board of Directors	**459**	**–**	**–**	**40’000**	**50**
Executive member of Board of Directors and General Management					
Raymond Stauffer [4] *(Managing Director and CEO)*	576	–	–	30’000	94
Total other members of General Management	2’017	60	–	170’000	384
Total executive member of Board of Directors and General Management	**2’593**	**60**	**–**	**200’000**	**478**

amounts represent the recorded expense for cash bonus for 2009, which will be paid out in May 2010.

2) The number of shares and options reflected represent the number of shares and/or options granted during the year 2009 in accordance with the stock compensation plans and which are still vesting at December 31, 2009.

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 51 related to his function of member of Board of Directors.

30.1.2 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.

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

30.1.3 *Participations*

At December 31, 2009 the following number of participations were held by members of the Board of Directors and the General Management (including persons and entities closely related to these members):

	Shares	Share options		
		Expiring 2010	Expiring 2011	Expiring 2012
Non executive members of Board of Directors				
François Frôté *(Chairman of BofD and chairman of Nomination and Compensation Committee and member of Audit Committee)*	182’567	–	8’000	8’000
Claude Elsen *(Deputy chairman of BofD)*	47’218	–	8’000	8’000
Paul Haering *(Chairman of Audit Committee)*	50’000	–	8’000	8’000
Michel Rollier *(Member of Nomination and Compensation Committee)*	542’459	–	8’000	8’000
François Gabella	–	–	–	8’000
Total non executive members of Board of Directors	**822’244**	**–**	**32’000**	**40’000**
Executive member of Board of Directors and General Management				
Raymond Stauffer *(Managing Director and CEO)*	397’933	–	30’000	30’000
Philippe Maquelin *(COO and CFO)*	59’975	20’000	30’000	30’000
Philippe Jacot *(CTO)*	1’000	–	–	20’000
Carlos Cancer *(Head of Single Spindle Products)*	8’922	20’000	20’000	20’000
Roland Gutknecht *(Head of Almac Products)*	–	–	–	20’000
Willi Nef *(Head of Sales & Marketing)*	13’768	17’000	20’000	20’000
Bernard Seuret *(Head of production)*	24’755	20’000	20’000	20’000
Sandor Sipos *(Head of Customer Service)*	–	20’000	20’000	20’000
Iwan von Rotz *(Head of Multispindle Products)*	–	–	20’000	20’000
Total executive member of Board of Directors and General Management	**506’353**	**97’000**	**160’000**	**200’000**

30.2 2008

30.2.1 *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 chairman of Nomination and Compensation Committee and member of Audit Committee)*	200	–	–	8'000	21
Claude Elsen *(Deputy chairman of BofD)*	90	–	–	8'000	10
Paul Haering *(Chairman of Audit Committee)*	120	–	–	8'000	13
Michel Rollier *(Member of Nomination and Compensation Committee)*	70	–	–	8'000	8
Hans-Otto Stenzel *(Until April 8, 2008)*	19	–	–	8'000	8
François Gabella *(As from April 8, 2008)*	44	–	–	–	5
Total non executive members of Board of Directors	**543**	**–**	**–**	**40'000**	**65**
Executive member of Board of Directors and General Management					
Raymond Stauffer [4] *(Managing Director and CEO)*	645	75	–	30'000	101
Total other members of General Management	2'055	276	–	130'000	375
Total executive member of Board of Directors and General Management	**2'700**	**351**	**–**	**160'000**	**476**
Former member of the General Management in relation to his former capacity	**160**	**–**	**–**	**–**	**29**

[1] The amounts represent the recorded expense for cash bonus for 2008, which was paid out in May 2009.
[2] The number of shares and options reflected represent the number of shares and/or options granted during the year 2008 in accordance with the stock compensation plans and which are still vesting at December 31, 2008.
[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 member of Board of Directors.

30.2.2 *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.

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

30.2.3 *Participations*

At December 31, 2008 the following number of participations were held by members of the Board of Directors and the General Management (including persons and entities closely related to these members):

	Shares	**Share options**		
		Expiring 2009	**Expiring 2010**	**Expiring 2011**
Non executive members of Board of Directors				
François Frôté *(Chairman of BofD and chairman of Nomination and Compensation Committee and member of Audit Committee)*	182'567	7'272	–	8'000
Claude Elsen *(Deputy chairman of BofD)*	47'218	7'272	–	8'000
Paul Haering *(Chairman of Audit Committee)*	49'518	7'272	–	8'000
Michel Rollier *(Member of Nomination and Compensation Committee)*	542'459	7'272	–	8'000
François Gabella	–	–	–	–
Total non executive members of Board of Directors	**821'762**	**29'088**	**–**	**32'000**
Executive member of Board of Directors and General Management				
Raymond Stauffer *(Managing Director and CEO)*	397'933	7'272	–	30'000
Philippe Maquelin *(COO and CFO)*	59'975	7'271	20'000	30'000
Philippe Jacot *(CTO)*	1'000	–	–	–
Carlos Cancer *(Head of Single Spindle Products)*	8'922	–	20'000	20'000
Roland Gutknecht *(Head of Almac Products)*	–	–	–	–
Willi Nef *(Head of Sales & Marketing)*	13'768	–	17'000	20'000
Bernard Seuret *(Head of production)*	24'755	7'271	20'000	20'000
Sandor Sipos *(Head of Customer Service)*	–	–	20'000	20'000
Iwan von Rotz *(Head of Multispindle Products)*	–	–	–	20'000
Total executive member of Board of Directors and General Management	**506'353**	**21'814**	**97'000**	**160'000**
Former non executive member of Board of Directors				
Hans-Otto Stenzel *(Until April 8, 2008)*	99'794	7'272	–	8'000
Total former non executive member of Board of Directors	**99'794**	**7'272**	**–**	**8'000**

31 Risk assessment as required by Swiss Law

Risks to which the Group may be faced are assessed by the Group Audit Committee on a regular basis. Each of the risks identified is evaluated in order to take appropriate preventive measures if necessary. The risk assessment summary is submitted to the Board of Directors of the Company for review and final approval. See note 3 for additional information related to financial risk management.

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Report of the Statutory Auditor
to the General Meeting of
Tornos Holding S.A. Moutier

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Tornos Holding S.A., which comprise the income statement, balance sheet, statement of changes in equity and notes (pages 57 to 63), for the year ended December 31, 2009.

Board of Directors' Responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies 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	Aude Joly
Audit expert	Audit expert
Auditor in charge	

Neuchâtel, March 2, 2010

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,	Note	**2009**	**2008**
Gain on sale of investments		1’705	–
Dividend income		–	10’000
Interest income		950	1’279
Gain on sale of treasury shares		–	1’257
Gain on valuation of treasury shares	5	333	–
Financial income		56	63
Total income		**3’044**	**12’599**
Administrative expenses		–1’007	–1’445
Loss on valuation of treasury shares	5	–	–3’530
Financial expenses		–5	–3
Taxes other than on income		–16	–122
Total expenses		**–1’028**	**–5’100**
Net income for the year		**2’016**	**7’499**

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

BALANCE SHEET

In thousands of CHF			
As of December 31,	Notes	**2009**	**2008**
ASSETS			
Cash and cash equivalents		66	31
Treasury shares	5, 7	3'476	3'039
Other current assets		–	143
Total current assets		**3'542**	**3'213**
Investment in subsidiaries	2, 7	65'000	70'547
Other investment	3	3'574	3'574
Loan to a subsidiary	7	28'153	20'700
Total non-current assets		**96'727**	**94'821**
Total assets		**100'269**	**98'034**
LIABILITIES AND EQUITY			
Accrued expenses		96	82
Group payables		119	1
Total current liabilities		**215**	**83**
Ordinary shares	4	67'654	67'589
Additional paid-in capital		15'978	15'956
Reserve for treasury shares		6'673	6'569
Retained earnings		9'749	7'837
Total equity		**100'054**	**97'951**
Total liabilities and equity		**100'269**	**98'034**

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, 2007	**74'920**	**15'910**	**2'070**	**4'607**	**97'507**
Issuance of new shares (note 4)	168	46			214
Reduction of par value of the shares (note 4)	–7'499			230	–7'269
Net income for the year				7'499	7'499
Transfer for treasury shares (note 5)			4'499	–4'499	–
At December 31, 2008	**67'589**	**15'956**	**6'569**	**7'837**	**97'951**
Issuance of new shares (note 4)	65	22			87
Net income for the year				2'016	2'016
Transfer for treasury shares (note 5)			104	–104	–
At December 31, 2009	**67'654**	**15'978**	**6'673**	**9'749**	**100'054**

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

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

1 Basis of preparation

The financial statements of Tornos Holding S.A., Moutier (the Company) are prepared in accordance with the provisions of the Swiss law and the Company's Articles of Incorporation.

2 Subsidiaries

Name	Purpose	Share capital	% held	
		KCHF	2009	2008
Tornos Management Holding SA, Moutier, Switzerland	Management of shareholdings and holding company	65'000	100	–
Almac S.A., La Chaux-de-Fonds, Switzerland	Production and sales	1'175	[1]	100
Almatronic S.A., La Chaux-de-Fonds, Switzerland	Dormant	50	[1]	100
Tornos SA, Moutier, Switzerland	Production and sales	65'000	[1]	100

[1] Further to the legal reorganisation of the Group, Tornos Management Holding SA was incorporated on December 22, 2009 as a management of shareholdings and holding company for all the companies of the Group. The investments which Tornos Holding S.A. held in Almac S.A., La Chaux-de-Fonds, Almatronic S.A., La Chaux-de-Fonds and in Tornos SA, Moutier were transferred to this new company.

3 Other investment

Other investment represents the acquisition during 2008 of 1'000'000 shares of JPY 1'000 each of Tsugami Corporation, Tokyo, Japan (Tsugami), a company listed on the Tokyo Stock Exchange which is carried at cost.

4 Share capital and conditional capital

During the year 2009:

- 14'542 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).

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2009:

- The share capital amounts to CHF 67'654'093.50 represented by 15'034'243 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 3'935'304.00 which can be used for the issue of 874'512 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors.

During the year 2008:

- The General Meeting of Shareholders held on April 8, 2008 approved the proposal to reduce the share capital by reducing the par value of the shares by CHF 0.50 from CHF 5.00 to CHF 4.50 each and payment on June 30, 2008 to holders of the shares on June 27, 2008;
- 35'786 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). In addition, 7'271 options granted under the MBP04 were exercised on December 30, 2008 and issued and fully paid in January 2009;
- CHF 125'000 of the conditional share capital which was 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 being without object anymore was cancelled during 2008.

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

As a result of the above the following changes were made to the Articles of Incorporation of the Company during 2008:

- The share capital amounts to CHF 67’588’654.50 represented by 15’019’701 registered shares of CHF 4.50 each;
- The conditional share capital was reduced to CHF 4’000’743.00 which can be used for the issue of 889’054 registered shares of CHF 4.50 each to be fully paid to satisfy stock compensation plans in favour of eligible members defined by the Board of Directors.

5 Treasury shares

Movements in treasury shares are as follows:

	2009		2008	
	Nb of shares	**Amount**	**Nb of shares**	**Amount**
At beginning of year	**479’564**	**6’569**	**159’565**	**2’070**
Purchases	14’542	104	658’854	9’195
Sales	–	–	–338’855	–4’696
At end of year	**494’106**	**6’673**	**479’564**	**6’569**

Treasury shares are valued at the lower of average purchase price and average quoted price during the month preceding the closing of the accounts.

From July 2004 until April 2009, 50’000 of these shares were loaned to a third party for market making purpose. The Company was 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 2009, total costs incurred totalled KCHF 8 (2008: KCHF 51).

6 Significant shareholders

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

	2009	**2008**
Tsugami Corporation	9.98%	More than 5%
Walter Fust	5.11%	3.45%

7 Pledges

On December 20, 2007, Tornos Holding S.A. entered as parent company and guarantor into 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 granted to Tornos SA 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 could 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 was valid until December 31, 2010 was subject to certain conditions and financial covenants related to total net debt to EBITDA and interest cover ratios as well as tangible net worth. Due to market turbulence, the syndicate of banks waived its rights due to breach and potential breach of interest cover ratio at March 31, 2009, June 30, 2009 and September 30, 2009 and potential breach of net debt to EBITDA ratio at June 30, 2009 and September 30, 2009.

On September 29, 2009 a new Facility Agreement with the same banks which replaced the credit facility agreement dated December 20, 2007 was concluded. Under this Facility Agreement the banks grant to Tornos SA as borrower, with Tornos Holding S.A. acting as guarantor, a credit facility in the aggregate of CHF 50 million. Of this amount, CHF 20 million is used under Facility 1, CHF 20 million can be used under Facility 2 and CHF 10 million can 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 of up to 12 months under Ancillary Facilities. This Facility Agreement which is valid until September 30, 2012 is subject to certain conditions and financial covenants.

The major conditions relate to Tornos Holding S.A. pledging its shares in Tornos SA and 430'000 treasury shares and Tornos SA assigning its receivables and transferring for security purpose the mortgage notes related to its real estate properties located in Moutier.

The financial covenants relate to minimum tangible net worth, minimum EBITDA calculated on a rolling annual basis until June 30, 2011, maximum total net debt to EBITDA ratio calculated on a rolling annual basis from September 30, 2011 and minimum interest cover ratio calculated on a rolling annual basis from December 31, 2011. Minimum tangible net worth and minimum EBITDA covenants were met at September 30 and December 31, 2009.

On December 22, 2009, concomitant with the creation of Tornos Management Holding SA, an Amendment to the Facility Agreement was signed. Under this Amendment to the Facility Agreement, the banks agreed to the release of the pledge in the shares in Tornos SA against a pledge in the shares of Tornos Management Holding SA by Tornos Holding S.A. In addition, Tornos Holding S.A. and Tornos Management Holding SA are now both guarantors to the Amendment to the Facility Agreement. All other conditions and covenants stipulated in the Facility Agreement remained the same except that (a) the repayment of any intercompany loans between Tornos Holding S.A., Tornos Management Holding SA and Tornos SA and any interest due thereon are subordinated to the prior written consent of the banks and (b) in the event of a breach of a representation, a covenant or an obligation under the Facility Agreement or an event of defaults as specified in the Facility Agreement, a pledge over all the shares in Tornos SA shall also be executed.

At December 31, 2009, CHF 20 million was used under Facility 1, CHF 15 million under Facility 2 and CHF 4.3 million under Ancillary Facilities.

8 Board of Directors and General Management compensation

The disclosures required by articles 663b^{bis} and 663c of the Swiss Code of Obligations on the Board of Directors and General Management compensation is reflected in note 30 of the consolidated financial statements.

9 Risk assessment

The disclosures required by articles 663b of the Swiss Code of Obligations on the risk assessment is reflected in note 31 of the consolidated financial statements.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

In thousands of CHF

For the years ended December 31,	**2009**	**2008**
Retained earnings brought forward	7’837	4’607
Transfer to reserve for treasury shares	–104	–4’499
Effect of reduction of par value per share on treasury shares	–	230
Net income for the year	2’016	7’499
Available earnings	**9’749**	**7’837**

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

In thousands of CHF

For the years ended December 31,	**2009**	**2008**
	Proposal	Actual
Available earnings	9’749	7’837
To be carried forward	**9’749**	**7’837**

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