



2005

François Frôté
Chairman of the Board of Directors

Raymond Stauffer
Member of the Board of Directors and
Chief Executive Officer

Ladies and Gentlemen,
Dear shareholders,

A year ago, 2005 was forecast as being dynamic, with its product innovations, geographic openings, improved profitability, debt reduction and flexible structures responding to the economic cycles of our industrial sector.

We would like to inform you of our progress with regards to the above and our current situation during the first half of 2005.

Innovations

We presented two new machines at our general meeting of 19th April 2005 - the DECO 8sp and the MULTIDECO 32/6c. Both were very well received in the market and one will shortly undergo testing with our clients. In September, at the EMO machine tool trade fair in Hanover, we shall launch the DECO 20s and MULTIDECO 20/8d. These new machines perfectly illustrate our product strategy, which is to cover market segments not previously addressed by Tornos.

The MULTIDECO 32/6c and 20/8d multi-spindle lathes are designed for the production of highly complex parts for the automotive industry, gradually becoming integrated production systems. The DECO single-spindle lathes are used to machine high-precision parts of reasonably

complex shape (DECO 20s) or to serve highly specific market niches (DECO 8sp for hard disks). These machines will only be made available on completion of the validation tests, which are carried out under actual production conditions with partner customers currently involved in these developments. The first machine to reach this stage is the DECO 8sp and several dozens of machines that are destined for Asia are currently the subject of discussion regarding the options on delivery with effect from the first quarter of 2006.

Geographic opening

As part of our positive business in Asia and following the opening of our subsidiary in Shanghai in April 2004, we established Tornos Technologies Asia Limited in Hong Kong on 21st May 2005. This new subsidiary will be our regional, commercial and technical support and service centre and will distribute spare parts throughout Asia.

In Europe, we strengthened our ties with our agent in the East. Although completely financially independent, he has gradually become involved in our own sales organisation at operational level.



DECO 8sp

Profitability and debt reduction

There has been a marked improvement in profitability, whilst debts are being reduced. After the first six months, the net profits for the group were at CHF 8.6 million, i.e. 7.5% of gross sales compared with a loss of CHF 4.6 million for the first six

months of 2004. As at the 30th June 2005, the equity was CHF 94.4 million, i.e. 56.1% of the balance sheet total and the net debt amounted to CHF 20.7 million, as opposed to CHF 35.5 million a year ago.

Flexible structures and economic cycles

The economic cycles and major fluctuations in demand for our product lines are facts that are beyond our influence. The company's ability to adapt to these constraints is an essential factor leading to sustained success. With this in mind, we introduced flexitime, we availed ourselves of seconded staff and also improved the ability of staff to interchange between the product lines. Thanks to the new flexitime system, a job which equated to employing 17 staff was accomplished over and above the contracted working hours during the first six months. As at the 30th June 2005, 52 people were seconded on contracts with third parties. Because of their versatility, the equivalent of 14 staff interchanged between one product line and another.

Business market

Given the low visibility in the market, business for the first half of 2005 was good. Showing a 27.3% growth compared with the previous year, the gross sales rose from



MULTIDECO 32/6c

CHF 90.7 million for the first half of 2004 to CHF 115.4 million for the first six months of 2005. The bookings amount at CHF 119.1 million and show a growth of 2.3% compared with the first half of 2004. Activities were par-

ticularly sustained in Switzerland in the watch making and medical sectors whilst in Germany the automotive industry remained buoyant. We should also mention the strong growth rate in Asia, where our orders have more than tripled compared with the previous year and now represent almost 10% of the total volume.

As at the 30th June 2005, the backlog stood at CHF 55.1 million – a value that slightly exceeds our aim of maintaining it between CHF 45 and 50 million. It will enable Tornos to provide excellent lead times whilst maintaining a sufficient overview so that we can meet production constraints very efficiently.

Interim consolidated accounts as at 30th June 2005

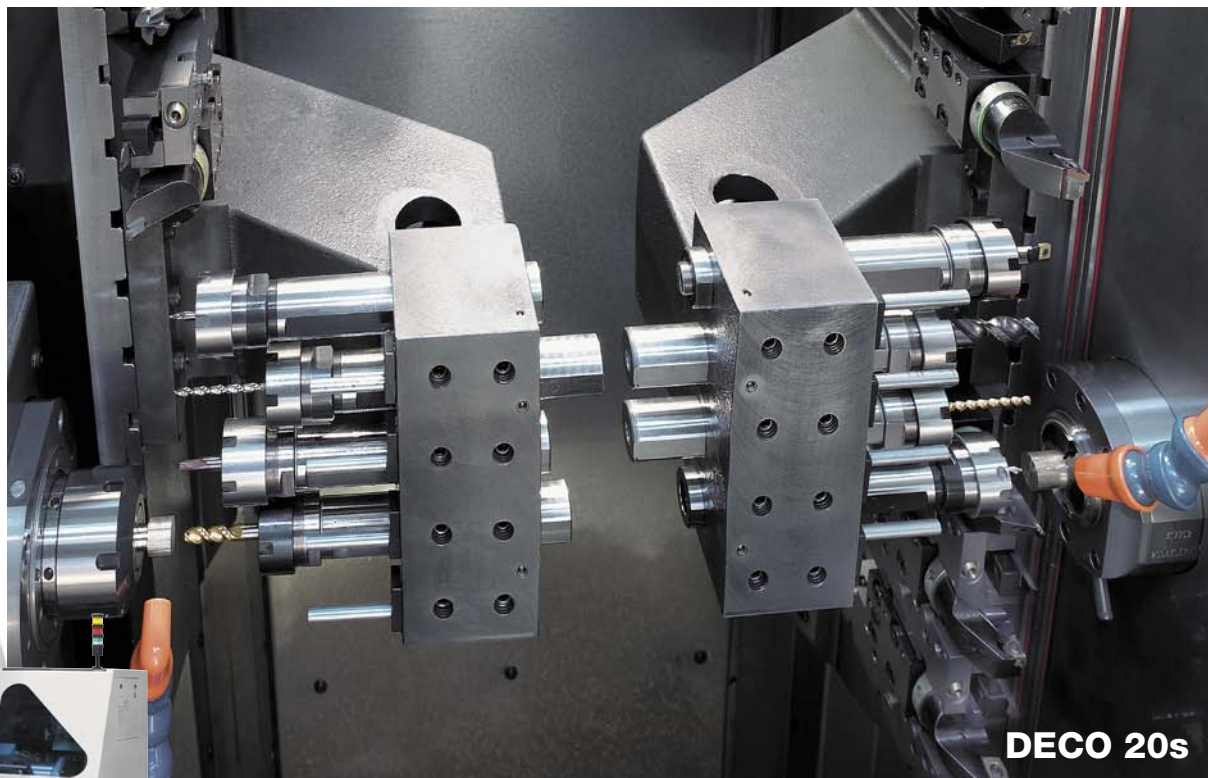
The non audited consolidated accounts as at 30th June 2005 are enclosed. They were established according to International Accounting Standard No. 34 (directive on interim accounts). As at 30th June, the net profit amounted to CHF 8.6 million and equity of CHF 94.4 million accounted for 56.1% of the total balance sheet value of CHF 168.2 million.

Change in shareholders

At our shareholders' meeting, we notified you of the intention of Credit Suisse and Doughty Hanson & Co. to sell their holding of 24.7% and 27.4% respectively in the capital of Tornos Holding S.A. These two shareholders backed the group improvement measures introduced in 2002 and had the intention of selling their shares once restructuring was complete. This measure has now been achieved and we presented our group to the financial community within a road-

show, which was held in April and May 2005. This led to all shares held by Credit Suisse and Doughty Hanson & Co being assigned to institutional investors and a group of

shareholders comprising members of the management and the board of Tornos. This group holds 10.4% of the capital and is now the company's most important shareholder.



DECO 20s

Refinancing

During the restructuring operations of 2002, a syndicate loan was set up and then regularly renewed up to 30th April 2005. UBS arranged the refinancing by way of a new syndicate loan to run until 31st December 2007.

Outlook for 2005

Bearing in mind the summer break and in conformity with our financial plan, we anticipate a turnover for the second half year of less than that achieved for the first six months. Also, market transparency is still low and we must not exclude a reduction in demand over the second half year. The relatively good performance achieved for the first six months was largely attributed to the Swiss and German markets and it is difficult to say whether this will continue during the second half of the year. The other European markets of Tornos are in recession and in spite of the strong growth in Asia, our level of activity in this region does not as yet compensate for any reduction in our traditional markets. With regard to profitability, considerable resources were earmarked for the development and launch of new products, the impact of which will only

be felt in the order book with effect from the last quarter, without this having any influence on sales for 2005.

We would like to thank you for your confidence in us and remain,
Yours faithfully,

Moutier, 23rd August 2005

François Frôté
Chairman of the Board of Directors

Raymond Stauffer
Member of the Board of Directors and
Chief Executive Officer



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Tornos Group Unaudited Key figures in 000 CHF	First quarter 2005	First quarter 2004	Second quarter 2005	Second quarter 2004	First half 2005	First half 2004	Change	Change % / bps
Bookings	58'483	57'734	60'642	58'724	119'125	116'458	2'667	2.3%
Backlog	47'955	51'165	55'093	64'320	55'093	64'320	-9'227	-14.3%
Gross sales	60'595	43'181	54'839	47'525	115'434	90'706	24'728	27.3% ⁽¹⁾
EBITDA	6'763	-2'018	6'492	4'197	13'255	2'179	11'076	508.3%
Gross sales %	11.2%	-4.7%	11.8%	8.8%	11.5%	2.4%		9.1 bps
EBIT	4'623	-4'085	4'311	2'125	8'934	-1'960	10'894	N/A
Gross sales %	7.6%	-9.5%	7.9%	4.5%	7.7%	-2.2%		9.9 bps
Net profit / (loss)	4'349	-5'146	4'289	558	8'638	-4'588	13'226	N/A
Gross sales %	7.2%	-11.9%	7.8%	1.2%	7.5%	-5.1%		12.5 bps
Net debt	19'912	40'556	20'718	35'486	20'718	35'486	-14'768	-41.6%
Equity	88'990	73'643	94'369	73'758	94'369	73'758	20'611	27.9%
Total Balance sheet %	50.2%	41.6%	56.1%	44.0%	56.1%	44.0%		12.1 bps
Total Balance Sheet	177'315	176'913	168'227	167'543	168'227	167'543	684	0.4%
Capital expenditures	468	370	944	1'807	1'412	2'177	-765	-35.1%

Note (1)

In 2005 certain amounts have been reclassified in determining the amount of Gross sales compared to the method previously applied. The comparative information for the period ended 30 June 2005 has been adjusted accordingly. The net impact of the reclassification on previously reported Gross sales for the six month period ended 30 June 2004 is an increase of KCHF 3'513 from KCHF 87'193 to KCHF 90'706, and for the year ended 31 December 2004 is an increase of KCHF 7'299 from KCHF 205'671 to KCHF 212'970.