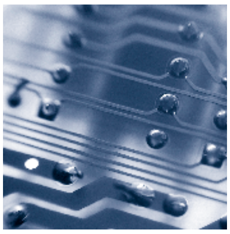
TORNOS






INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2006 | TORNOS HOLDING S.A.

INTERIM CONSOLIDATED INCOME STATEMENT
(unaudited)

In thousands of CHF, except per share data

Six months ended June 30,	Notes	**2006**	**2005**
Gross sales		**114’870**	**115’434**
Rebates and discounts		-969	-1’549
Net sales		**113’901**	**113’885**
Cost of sales		-72’386	-71’575
Gross profit		**41’515**	**42’310**
Marketing and sales		-17’841	-16’735
General and administrative expenses	4	-10’326	-10’628
Research and development		-6’519	-6’013
Operating income		**6’829**	**8’934**
Other non operating income		59	–
Earnings before interest and taxes (EBIT)		**6’888**	**8’934**
Financial expenses – net	3	-666	-1’173
Exchange gains – net		118	858
Income before income taxes		**6’340**	**8’619**
Income taxes		31	19
Net income for the period		**6’371**	**8’638**

Earnings per share		
– basic	0.47	0.65
– diluted	0.45	0.63

Earnings before interest and taxes (EBIT)	**6’888**	**8’934**
Depreciation and amortisation	4’635	4’321
Earnings before interest, income taxes, depreciation and amortisation (EBITDA)	**11’523**	**13’255**

INTERIM CONSOLIDATED BALANCE SHEET
(unaudited)

In thousands of CHF	Note	June 30, 2006	December 31, 2005
ASSETS			
Cash and cash equivalents		6'478	7'574
Trade receivables		45'782	41'653
Inventories		71'508	60'321
Other receivables and prepayments		8'743	7'896
Total current assets		**132'511**	**117'444**
Property, plant and equipment		44'551	48'366
Total non-current assets		**44'551**	**48'366**
Total assets		**177'062**	**165'810**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest bearing loans and borrowings	3	17'767	16'317
Trade payables		15'812	12'583
Other payables		22'506	21'661
Current tax liabilities		190	36
Provisions		6'102	6'412
Total current liabilities		**62'377**	**57'009**
Interest bearing loans and borrowings		1'856	2'050
Retirement benefit obligations		1'537	1'498
Provisions		4'065	3'996
Deferred tax liabilities		1'030	1'089
Total non-current liabilities		**8'488**	**8'633**
Total liabilities		**70'865**	**65'642**
Total shareholders' equity		**106'197**	**100'168**
Total liabilities and shareholders' equity		**177'062**	**165'810**

In thousands of CHF	Note	**Ordinary shares**	**Share premium**	**Retained earnings**	**Other comprehen-sive income/ (expense)**	**Currency translation difference**	**Total**
At December 31, 2004		**67'169**	**13'955**	**4'923**	**-11**	**-2'498**	**83'538**
Issuance of new shares	4	250	12				262
Net income for the period				8'638			8'638
Gain on treasury shares					549		549
Currency translation difference						1'382	1'382
Total recognised income				*8'638*	*549*	*1'382*	*10'569*
At June 30, 2005		**67'419**	**13'967**	**13'561**	**538**	**-1'116**	**94'369**
At December 31, 2005		**67'888**	**14'056**	**17'758**	**1'202**	**-736**	**100'168**
Issuance of new shares	4	292	27				319
Net income for the period				6'371			6'371
Other comprehensive expense					-25		-25
Currency translation difference						-636	-636
Total recognised income / (expense)				*6'371*	*-25*	*-636*	*5'710*
At June 30, 2006		**68'180**	**14'083**	**24'129**	**1'177**	**-1'372**	**106'197**

INTERIM CONSOLIDATED CASH FLOW STATEMENT
(unaudited)

In thousands of CHF

For the six months ended June 30,	**2006**	**2005**
Net cash provided by / (used in) operating activities	-1'402	9'133
Net cash used in investing activities	-892	-1'395
Net cash provided by / (used in) financing activities	1283	-12'440
Net decrease in cash and cash equivalents	**-1'011**	**-4'702**
Cash and cash equivalents at January 1,	7'574	7'589
Effects of exchange rate changes	-85	123
Cash and cash equivalents at June 30,	**6'478**	**3'010**

1 Basis of preparation

The unaudited interim consolidated financial statements of the Tornos group ("the Group") for the six months ended June 30, 2006 have been prepared in accordance with the International Accounting Standard 34 on interim financial reporting. The accounting policies used are consistent with those used in the 2005 annual consolidated financial statements and include the following new International Financial Reporting Standards adopted by the Group during 2006:

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

IFRIC 4, "Determining whether an Arrangement contains a Lease"
IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. IFRIC 4 had no impact on these interim consolidated financial statements.

These interim consolidated financial statements have been approved for issue by the Board of Directors on August 10, 2006.

2 Scope of consolidation

There was no change in the scope of consolidation which occurred in the period under review.

3 Interest bearing loans and borrowings

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

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

4 Stock Compensation Plans

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

Share Purchase Plan

Under the 2004 Management and Board Participation Plan, eligible members selected by the Board of Directors were offered 150'000 registered shares at CHF 5.30 per share to be issued in three equal tranches over a three-year period. The purchase price was deemed equivalent to the fair market value at the date each eligible member contractually committed to purchasing the shares, hence no compensation expense has been calculated in respect of the above. As at June 30, 2006, 150'000 registered shares had been issued under the 2004 Management and Board Participation Plan.

Stock Option Plan

Under the 2004 Management and Board Participation Plan, eligible members selected by the Board of Directors were issued options to purchase registered shares at a strike price of CHF 6.00 per share. The terms and conditions with respect to options granted were determined by the Board of Directors who administered these plans. Options vest over two years and remain outstanding for periods not exceeding three years. A total of 300'000 options were issued under this plan, of which 8'500 options were exercised at June 30, 2006.

Compensation expense is recognised over the vesting period in accordance of the provisions of IFRS 2 "Share-based Payment". Compensation expense of KCHF 144 was recorded for the six month period ended June 30, 2006 (June 30, 2005: KCHF 44). Such amounts are accrued as a liability when the expense is recognised and subsequently credited to additional paid-in capital upon exercise of the related stock options. Compensation expense arising from stock options outstanding at June 30, 2006 to be recognised in future periods amounts to KCHF 764 (June 30, 2005: KCHF 301).

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

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

	Options	Exercise price (CHF)	Contractual live
Outstanding at December 31, 2004	**100'000**	**6.00**	
Exercisable at December 31, 2004	**–**	**–**	
Granted	100'000	6.00	3 years (April 30, 2008)
Exercised	–	–	
Cancelled or expired	–	–	
Outstanding at June 30, 2005	**200'000**	**6.00**	
Exercisable at June 30, 2005	**–**	**–**	
Outstanding at December 31, 2005	**200'000**	**6.00**	
Exercisable at December 31, 2005	**–**	**–**	
Granted	100'000	6.00	3 years (April 30, 2009)
Exercised	-8'500	6.00	
Cancelled or expired	–	–	
Outstanding at June 30, 2006	**291'500**	**6.00**	
Exercisable at June 30, 2006	**91'500**	**6.00**	

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

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

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

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

5 Major shareholders

A group of shareholders formed by members of the Board of Directors and the management team of Tornos holds 11.0% of the capital and is the largest shareholder of the company.

6 Segment reporting

6.1 Net sales by location of customers

Six months ended June 30,	2006	2005
Switzerland	26'041	26'284
Other European countries	60'427	64'243
North America	13'337	15'793
Asia	11'475	5'802
Rest of world	2'621	1'763
Total net sales	**113'901**	**113'885**

6.2 Net sales by location of assets

Six months ended June 30,	2006	2005
Switzerland		
– To third parties	100'468	96'078
– To other segments	7'159	11'048
Other western European countries		
– To third parties	1'705	2'072
– To other segments	2'262	554
North America		
– To third parties	11'426	15'735
– To other segments	–	–
Asia		
– To third parties	302	–
– To other segments	–	–
Elimination	-9'421	-11'602
Total net sales	**113'901**	**113'885**

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

6.3 Segment result (EBIT) by location of assets

Six months ended June 30,	**2006**	**2005**
Switzerland	6’888	8’189
Other western European countries	307	541
North America	-386	21
Asia	34	–
Total	**6’843**	**8’751**
Elimination	-18	124
Unallocated	63	59
Total EBIT	**6’888**	**8’934**

7 Post balance sheet events

There are no post balance sheet events that would require adjustments to the amounts recognised in these interim consolidated financial statements or require disclosure.

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