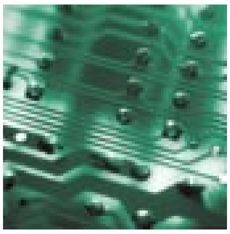
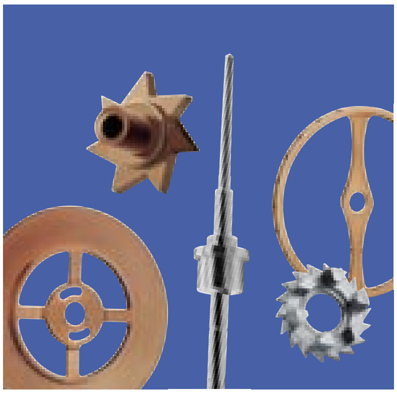





REPORT FOR THE FIRST HALF OF 2006

TORNOS HOLDING S.A.



Ladies and Gentlemen,
Dear shareholders

In the «Outlook for 2006» section of our 2005 annual report, we wrote that we expected the present financial year to be characterised by a weak first quarter, with an economic upturn during the second quarter, which would have little impact on invoicing for the first half year. Against this, we were anticipating a much improved second half thanks, on the one hand, to an improvement in the economic situation and, on the other, to high sales volumes for the new products launched in 2005.
So what actually happened?

Business report

Just as we had thought, economic activity firmed up considerably during the second quarter of 2006, and the success of the new products launched in 2005 translated into a significant volume of real business. New orders booked in the second quarter of 2006 reached a new record of CHF 76.9 million – up 18.2% from the first quarter. Order intake in the first half stood at CHF 142.0 million, or 19.2% higher than in the same period last year.
As a consequence of the natural time lag between order booking and invoicing and the low level of orders booked during the second half of 2005, sales figures still do not reflect this increased activity. Although gross sales in the second quarter advanced by 19.2% compared with the previous three months and by 13.9% compared with the year-back period, the improvement is not visible in figures for the first half overall. After the first six months of 2006, gross sales stood at CHF 114.9 million, which is 0.5% lower year-on-year.

Markets

Activity is picking up again markedly in all of the countries in which we operate. Switzerland, Italy, France and Spain were the first to see an economic upturn, followed by Eastern and Northern Europe. Germany and North America were the last regions to recover. Asia recorded growth of 75.9% compared with the first half of 2005 and now accounts for 14.5% of total machine orders, up from 9.5%.
Where market segments are concerned, all of Tornos' key segments – automotive, medical, electronics and microtechnology – have posted positive growth over recent months.

Products

The 8s and 20s enjoyed a successful launch. These two products slot neatly into the market as a complement to Tornos' present product range. Current development projects which will result in market launches within the next 12 months concern two single-spindle machines, one designed for microtechnology applications and the other for medical applications. In the multispindle segment we are launching the latest generation of two existing platforms aimed at the automotive market. We are also working with an external partner to set up systems for handling machined items that can be integrated easily into future machines.

Geographical coverage

Apart from a new commercial office in Thailand, there has been little change to our geographical organisation. We have, however, completely restructured our multispindle machine activities within North America, where we have entered into a strategic alliance with Hydromat USA, an American-Swiss success story that has been manufacturing and marketing transfer machines in the US for the North American market for the past 26 years. It is the leading supplier in the field. Hydromat transfer machines and Tornos multispindles are production tools which complement each other perfectly without competing. The two companies have the same customer base, allowing synergies to be exploited in the sales and customer service network. This com-

mercial alliance with the USA's number one in transfer machines will reinforce our position in this market. There is not the same complementarity where single-spindle lathes are concerned, because these are sold to other customers who do not generally own either transfer machines or multispindles. We will therefore continue to distribute single-spindle lathes in the USA via our Tornos Technologies US Corporation subsidiary. The strategic alliance with Hydromat, which is effective as of August, will allow each company to concentrate on that market segment in which it excels.

Interim consolidated accounts as at 30th June 2006

The unaudited consolidated accounts as at 30th June 2006 are enclosed. They have been drawn up in accordance with International Accounting Standard 34 on interim accounts. As at 30th June 2006, net profit stood at CHF 6.4 million, CHF 4.3 million of which was attributable to the second quarter alone as business had already been boosted by the revival described above. Although the result for the first half of 2006 is 26.2% lower than for H1 2005 (CHF 8.6 million), the group is relatively satisfied with profitability levels. Given the additional costs that are inherent in new product launches, as well as the economic climate described above, these results bear witness to the flexibility of the Group's cost structures and its great ability to respond to changes in trends. Equity of CHF 106.2 million accounts for 60.0% of the balance sheet total of CHF 177.1 million. As at 30th June 2006, the Group had net debt of CHF 13.1 million – CHF 2.4 million higher than at 31st December 2005. This increase is the result of accrued cash flow requirements, in particular to finance inventories, which rose by CHF 11.2 million in advance of high anticipated billings for the second half of the year.

Outlook for 2006

Fiscal 2006 has so far developed in line with our expectations and our budget. We are standing by the guidance that we gave in our 2005 annual report and are expecting sales of between CHF 235 and 250 million for 2006. The primary risk factors in this respect are, rather strangely, linked to the fact that our sector is experiencing something of a boom. This, in turn, creates supply bottlenecks which may ultimately translate into a drop in sales. On the profitability front, it is worth remembering that the expected weak year-on-year growth is a result of our R&D efforts and the simultaneous launch of several new products. The latter have a negative, short-term impact on our margins during their initial production stage and immediately after launch. In the circumstances we confirm our forecast of an EBIT margin of 6 to 7%.

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

François Frôté
Chairman of the Board of Directors

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

Moutier, 15th August 2006

Tornos Group Unaudited Key Figures (in KCHF unless otherwise stated)	**First quarter 2006**	**First quarter 2005**	**Second quarter 2006**	**Second quarter 2005**	**First semester 2006**	**First semester 2005**	**Change**	**Change % / bps**
Bookings	65'089	58'483	76'942	60'642	142'031	119'125	22'906	19.2%
Gross sales	52'397	60'595	62'473	54'839	114'870	115'434	-564	-0.5%
EBITDA	4'412	6'763	7'111	6'492	11'523	13'255	-1'732	-13.1%
Gross sales %	8.4	11.2	11.4	11.8	10.0	11.5		-1.5 bps
EBIT	2'085	4'623	4'803	4'311	6'888	8'934	-2'046	-22.9%
Gross sales %	4.0	7.6	7.7	7.9	6.0	7.7		-1.7 bps
Net profit	2'060	4'349	4'311	4'289	6'371	8'638	-2'267	-26.2%
Gross sales %	3.9	7.2	6.9	7.8	5.5	7.5		-2 bps
Net debt	10'568	19'912	13'146	20'718	13'146	20'718	-7'572	-36.5%
Equity	102'121	88'990	106'197	94'369	106'197	94'369	11'828	12.5%
Total Balance sheet %	58.8	50.2	60.0	56.1	60.0	56.1		3.9 bps
Total Balance sheet	173'774	177'315	177'062	168'227	177'062	168'227	8'835	5.3%
Capital expenditures	240	468	733	944	973	1'412	-439	-31.1%

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