



INTERIM CONSOLIDATED INCOME STATEMENT

(unaudited)

In thousands of CHF, except per share data

Six months ended June 30,	2007	2006
Gross sales	148'021	114'870
Rebates and discounts	-1'040	-969
Net sales	146'981	113'901
Cost of sales	-87'987	-72'386
Gross profit	58'994	41'515
Marketing and sales	-22'443	-17'841
General and administrative expenses	-11'016	-10'326
<i>Research and development</i>	<i>-8'876</i>	<i>-6'519</i>
Operating income	16'659	6'829
Other non operating income / (expenses) – net	-4	59
Earnings before interest and taxes (EBIT)	16'655	6'888
Financial expenses – net	-578	-666
Exchange gains – net	827	118
Income before income taxes	16'904	6'340
Income taxes	3'051	31
Net income for the period	19'955	6'371

Earnings per share

– basic	1.41	0.47
– diluted	1.38	0.45

Earnings before interest and taxes (EBIT)	16'655	6'888
Depreciation and amortisation	3'413	4'635
Earnings before interest, income taxes, depreciation and amortisation (EBITDA)	20'068	11'523

INTERIM CONSOLIDATED BALANCE SHEET

(unaudited)

<i>In thousands of CHF</i>	Note	June 30, 2007	December 31, 2006
ASSETS			
Cash and cash equivalents		15'734	9'849
Trade receivables		54'231	51'033
Inventories		79'192	76'461
Assets held for sale	3	4'340	–
Other receivables and prepayments		14'274	13'142
Total current assets		167'771	150'485
Property, plant and equipment	3	38'659	42'487
Deferred tax assets		2'800	–
Total non-current assets		41'459	42'487
Total assets		209'230	192'972
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings		548	15'584
Trade payables		22'536	22'364
Other payables		23'855	21'152
Current tax liabilities		30	5
Provisions		8'210	6'896
Total current liabilities		55'179	66'001
Interest bearing loans and borrowings		1'568	1'640
Retirement benefit obligations		1'449	1'620
Provisions		4'792	4'491
Deferred tax liabilities		464	762
Total non-current liabilities		8'273	8'513
Total liabilities		63'452	74'514
Total equity		145'778	118'458
Total liabilities and equity		209'230	192'972

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(unaudited)

<i>In thousands of CHF</i>	Ordinary shares	Share premium	Treasury shares	Retained earnings	Currency translation difference	Total
At December 31, 2005	67'888	14'056	–	18'960	-736	100'168
Issuance of new shares	292	27				319
Net income for the period				6'371		6'371
Other expense				-25		-25
Currency translation difference					-636	-636
<i>Total recognised income / (expense)</i>				<i>6'346</i>	<i>-636</i>	<i>5'710</i>
At June 30, 2006	68'180	14'083	–	25'306	-1'372	106'197
At December 31, 2006	68'954	14'234	-84	36'718	-1'364	118'458
Issuance of new shares	5'503	1'583				7'086
Purchase of treasury shares			-1'026			-1'026
Net income for the period				19'955		19'955
Share-based compensation				983		983
Other expense				-24		-24
Currency translation difference					346	346
<i>Total recognised income / (expense)</i>				<i>20'914</i>	<i>346</i>	<i>21'260</i>
At June 30, 2007	74'457	15'817	-1'110	57'632	-1'018	145'778

INTERIM CONSOLIDATED CASH FLOW STATEMENT

(unaudited)

In thousands of CHF

For the six months ended June 30,	2007	2006
Net cash provided by / (used in) operating activities	19'102	-1'402
Net cash used in investing activities	-3'789	-892
Net cash provided by / (used in) financing activities	-9'456	1'283
Increase / (decrease) in cash and cash equivalents	5'857	-1'011
Cash and cash equivalents at beginning of year	9'849	7'574
Effects of exchange rate changes	28	-85
Cash and cash equivalents at end of period	15'734	6'478

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

1 Basis of preparation

The unaudited interim consolidated financial statements of the Tornos group ("the Group") for the six months ended June 30, 2007 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 2006 annual consolidated financial statements and include also the following new accounting policy:

Assets held for sale are valued at the lower of their carrying amount and fair value less costs to sell.

There are no new International Financial Reporting Standards that have an impact on the Group's operations.

These interim consolidated financial statements have been approved for issue by the Board of Directors on August 10, 2007.

2 Scope of consolidation

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

3 Assets held for sale

As part of the relocation of a significant portion of the activities of Tornos Technologies U.S. Corporation from Connecticut to Michigan as well as a contracted new building construction by Tornos SA which will best suits its need, the current property of Tornos Technologies U.S. Corporation as well as a building currently owned by Tornos SA in Moutier will be sold. These properties have been valued at the lower of their carrying amount and fair value less costs to sell.

4 Stock Compensation Plans

There are two Management and Board of Directors stock participation plans, namely the 2004 Management and Board Participation Plan (MBP04) and the Management and Board Participation Plan 2007-2009 (MBP07). Compensation expense is recognised over the vesting period in accordance of the provisions of IFRS 2 "Share-based Payment". 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 983 was recorded for the six month period ended June 30, 2007 (June 30, 2006: KCHF 144). Compensation expense arising from stock options outstanding at June 30, 2007 to be recognised in future periods amounts to KCHF 1'036 (June 30, 2006: KCHF 764).

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

The General Meeting of Shareholders held on April 3, 2007 approved the issue of 900'000 conditional shares that may be used by the Board of Directors to satisfy the Management and Board Participation Plan 2007-2009 (MBP07). Under this plan, from 2007 to 2009, a maximum of 300'000 shares/options may be allocated each year to the participants by the Nomination and Compensation Committee. The possible participants are members of the Board of Directors as well as the Management. Each participant chooses on grant date, within the number of shares/options allocated to him by the Nomination and Compensation Committee, to receive options free of charge, to purchase shares with a discount or a combination of receiving options free of charge and purchasing shares with a discount. As of June 30, 2007, a total of 230'000 shares/options were attributed by the Nomination and Compensation Committee. Of this total, the participants elected to purchase 89'500 shares immediately and receive 140'500 options under the stock option program.

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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4.1.1 Stock Purchasing Program under MBP07

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

4.1.2 Stock Option Program under MBP07

Each participant receives free of charge on May 1, 2007, 2008 and 2009 the number of options chosen (within the number of shares/options allocated by the Nomination and Compensation Committee and not used for the share purchasing program). The options vest after two years and can be exercised only in the third year. The exercise price is the weighted average price paid at SWX within the 12 months (May 1 to April 30) preceding the allocation of the options. A possible share capital reduction or dividend payment has no impact on the option rights according to this program as the exercise price will not be adjusted should these events take place in the future. Options not exercised generally need to be returned at the time the employment contract is terminated. However, they can be exercised without any restriction in case of a change of control transaction. Total expenses recorded in the income statement for the six month period ended June 30, 2007 amounted to KCHF 69.

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

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

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Options	2007 Exercise price (CHF)	Contractual life
Outstanding at January 1,	–		
Granted	140'500	15.18	3 years (April 30, 2010)
Exercised	–		
Cancelled or expired	–		
Outstanding at June 30,	140'500	15.18	
Exercisable at June 30,	–		

4.2 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.

4.2.1 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 June 30, 2007, 150'000 registered shares had been issued under the 2004 Management and Board Participation Plan.

4.2.2 Stock Option Plans under MBP04

Under the MBP04, eligible members selected by the Board of Directors were issued options to purchase registered shares at a strike price of CHF 6.00 per share. The terms and conditions with respect to options granted were determined by the Board of Directors who administered these plans. Options vest over two years and remain outstanding for periods not exceeding three years. A total of 300'000 options were issued under these plans, of which 180'660 options were exercised at June 30, 2007. Total expenses recorded in the income statement for the six month period ended June 30, 2007 amounted to KCHF 224 (June 30, 2006: KCHF 144).

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

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

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

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

	Options	2007 Exercise price (CHF)	Contractual life	Options	2006 Exercise price (CHF)	Contractual life
Outstanding at January 1,	264'750	6.00		200'000	6.00	
Exercisable at January 1,	64'750	6.00		–		
Granted	–			100'000	6.00	3 years (April 30, 2009)
Exercised	-145'410	6.00		-8'500	6.00	
Cancelled or expired	–			–		
Outstanding at June 30,	119'340	6.00		291'500	6.00	
Exercisable at June 30,	19'340	6.00		91'500	6.00	

5 Segment reporting

5.1 Net sales by location of customers

Six months ended June 30,	2007	2006
Switzerland	24'893	26'041
Other European countries	87'561	60'427
North America	15'642	13'337
Asia	16'489	11'475
Rest of world	2'396	2'621
Total net sales	146'981	113'901

5.2 Net sales by location of assets

Six months ended June 30,	2007	2006
Switzerland:		
– To third parties	134'716	100'468
– To other segments	7'202	7'159
Other European countries:		
– To third parties	480	1'705
– To other segments	–	2'262
North America:		
– To third parties	11'220	11'426
– To other segments	–	–
Asia:		
– To third parties	565	302
– To other segments	–	–
Elimination	-7'202	-9'421
Total net sales	146'981	113'901

SELECTED EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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5.3 **Segment result (EBIT) by location of assets**

Six months ended June 30,	2007	2006
Switzerland	17'084	6'888
Other European countries	702	307
North America	-1'301	-386
Asia	94	34
Total	16'579	6'843
Elimination	-54	-18
Unallocated	130	63
Total EBIT	16'655	6'888

6 **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.



TORNOS HOLDING S.A.

Rue Industrielle 111 CH-2740 Moutier Phone +41 (0)32 494 44 44 Fax +41 (0)32 494 49 03 contact@tornos.com www.tornos.com