

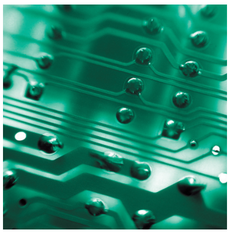


REPORT FOR THE FIRST HALF OF 2008

TORNOS HOLDING S.A.

Ladies and Gentlemen,
Dear Shareholders,

At our March 2008 press conference held to announce our 2007 results, we commented that although nervousness was becoming increasingly palpable among our clients, the financial crisis had not yet had a detrimental impact on our business. At the end of the first quarter of 2008, our results were in line with our 2008 full-year targets, which were initially based on sales of CHF 320 million and an EBIT margin of 10%. The outlook was for the second half-year to outperform the first, as the positive effect of the launch of new products introduced at EMO 2007 was expected to be felt predominantly in the second half of the year.

In May, when commenting on our results for the first quarter of 2008, we announced that the order flow for April had been lower than expected and that after three quarters of international financial crisis the gloom was increasingly spreading to industrial markets. In that environment, we reduced our sales forecast for 2008 to a range of CHF 280–300 million with an EBIT margin of between 8 and 10%.

Since then, the gloom has given way to recession and the fears we expressed in May have been confirmed. Most countries and markets in which we operate have moved into a period of economic contraction. At the end of the first quarter, our competitors were reporting declines in sales of around 10% versus 2007, with increased pressure on margins. Faced with this new situation, we have already made appropriate adjustments to our costs. Against that backdrop, and assuming economic conditions remain stable at the same level as the second quarter, we are now revising our previous forecast downwards with forecast sales in the range CHF 270–290 million and an EBIT margin of between 7 and 9%.

Below you will find details of other key events in the life of the Group in the first six months of this year.

Alliances and acquisitions

The beginning of the year was marked by the signature of a framework partnership agreement with the Japanese company Tsugami Corporation, and the acquisition of 95% of Almac SA and 100% of Almatronic SA, both based at Chaux-de-Fonds.

The first concrete results of the framework agreement with Tsugami were two specific cooperation contracts, enabling us firstly to gain access to the entry-level single-spindle segment, and secondly to upgrade our distribution network in Asia. The first of these contracts is an OEM agreement under which production of 12 and 20 mm entry-level machines in the Tornos Delta range has been subcontracted to Tsugami. The second contract is a sales agreement for Tornos multispindle machines giving Tsugami exclusive distribution rights in Japan and non-exclusive rights in the rest of Asia. In the future other contracts in different fields of cooperation may be signed under the umbrella of the framework agreement. In a gesture symbolizing the importance of the alliance to both partners, each company decided to acquire 1 million shares in the other on the market.

Almac produces machining equipment for small, high-precision parts while Almatronic specializes in computerized digital controls. Its main customer is Almac. Operationally, these two companies were merged into a single entity at the start of the year. Currently they have a combined workforce of 43, and should produce consolidated 2008 turnover in excess of CHF 20 million. The logic of the purchase is that Almac generates the bulk of its sales in the microtechnology, medical and electronics sectors – three of Tornos's four priority market segments. As the products of Almac and Tornos are not in competition with one another, merging them into a single industrial group focused on the same key markets has enabled us to expand our offering and generate immediate synergies in terms of supply and the sales network.

Business report

Although the financial crisis was a source of increasing concern to our clients, economic conditions remained reasonably positive in the first quarter. A deterioration occurred in the second quarter, when the flow of orders fell by 23.7% to CHF 60.8 million compared to a figure for the first three months of CHF 79.7 million. For the first half-year, orders totalled CHF 140.5 million (CHF 127.3 million excluding Almac), a fall of CHF 11.5 million (CHF 24.7 million excluding Almac) from last year's level (CHF 152.1 million), or a decline of 7.6% (16.3% excluding Almac).

Gross sales followed the same trend as orders with figures of CHF 74.8 million and CHF 70.9 million in the first two quarters respectively. Thus, first-half sales totalled CHF 145.6 m which, compared to last year (CHF 148.0 million), represents a fall of CHF 2.4 m (CHF 14.8 million excluding Almac).

Markets

Trends in the Group's key market segments – automotive, medical, electronics and microtechnology – were mixed in the first half-year. Although the automotive segment began the year strongly, the outlook gradually worsened and, in the wake of the critical situation of this market in the USA, signs of weakness are now beginning to appear in Europe. The medical sector continues to produce stable growth. The electronics market has witnessed the most rapid downturn, with no indication of a change in the trend at present. Microtechnology is still buoyant, mainly underpinned by the Swiss watch-making segment.

On a geographical level, and given the Group's stronger presence in certain of the above segments in its various regions, the trend has also been mixed. With a greater proportion of their business linked to the automotive and electronics sectors, Northern and Eastern

European countries have been more seriously affected by the downturn than other markets. Conversely, conditions in Switzerland and Southern Europe have remained more positive thanks to their high proportion of activities linked to the medical and watch-making sectors. In the USA, the impact of the problems in the automobile sector on business development has been compounded by increasing pressure on prices caused by the weakness of the dollar. In Asia, growth is slowing down and competitive pressure is on the increase.

Products

The single spindle range was completed with the launch of the Deco 13e, 20e and 26e, developments of the Deco 13a, 20a and 26a. Thanks to the alliance with Tsugami, a new product range – Delta – was launched in May at the SIAMS Trade Fair. Consisting of two platforms for bar diameters of 12 and 20 mm, with three to five axes, these entry-level machines will meet the needs of clients producing relatively simple parts. The first machines will be delivered in October.
For the multispindle range, a new product line – Multisigma 8x24 – was launched for the mid-range market.

Interim consolidated financial statements as at 30 June 2008

The unaudited consolidated financial statements as at 30 June 2008 are enclosed. They have been drawn up in accordance with International Accounting Standard 34 on interim financial reporting. The acquisition of Almac SA and Almatronic SA was reflected in the accounts from 1 January 2008, this being the only significant change in the scope of the consolidation as it stood at 31 December 2007. With gross sales of CHF 145.6 million up to 30 June 2008, the EBIT margin was 6.4%, a result below the Group's target, which remains 10%. This result fell from CHF 16.7 million for the first half of 2007 to CHF 9.3 million for the same period in 2008. This decline was due to the recent economic downtrend, pressure on prices and the strengthening of the Swiss franc, the effects of which could not be fully passed on in the current economic climate.

Unlike 2008, the first half of 2007 saw exceptionally favourable conditions, as we pointed out in our interim report for 2007, in terms of "the good economic climate of the past few months, a favourable product mix and the depreciation of the Swiss franc". As at 30 June 2008, net profit stood at CHF 5.6 million compared with CHF 20.0 million for the first half of 2007. This fall is more pronounced than the drop in EBIT and is primarily attributable to the exceptional capitalization of tax credits in 2007, which resulted in a challenging base effect for 2008, and by foreign exchange losses in 2008 on cash and cash equivalents held in US dollars following the sale at the end of 2007 of a building in the USA. Equity of CHF 155.0 million accounts for 67.7% of the balance sheet total of CHF 229.1 million. After the reduction in the face value of shares in Tornos Holding SA from CHF 5.00 to CHF 4.50, the share capital now consists of 14,998,255 shares totalling CHF 67.5 million. As at 30 June 2008, the net cash position was CHF 4.5 million compared to CHF 27.3 million on 31 December 2007. The reduction is mainly the result of the following five factors: (1) in line with the decision of the General Meeting of Shareholders, the reduction in the nominal value of the shares resulted in a net outflow of CHF 7.4 million; (2) the company's holding of its own shares rose from 159,565 on 31 December 2007 to 458,118 on 30 June 2008, an increase of CHF 3.0 million based on the acquisition price; (3) in line with the collaboration agreement with Tsugami, the acquisition of 1 million shares in that company represented a cash outflow of CHF 3.6 million; (4) the purchase of Almac SA and Almatronic SA and the consolidation of their balance sheets resulted in a reduction in the net cash position of CHF 5.9 million with effect from 1 January 2008; and (5) the balance of CHF 2.9 million is the result of the Group's normal trading. In the first half-year, the Group's operating cash flow was positive and totalled CHF 2.0 million. This includes an increase in net working capital of CHF 8.0 million.

Outlook for 2008

On the assumption that economic conditions remain broadly unchanged from those prevailing in the past few months, and with the inevitable reservations owing to the highly cyclical and volatile nature of its business, the Group has revised its sales figure to a range of between CHF 270 and CHF 290 million, with an EBIT margin of between 7 and 9%. This forecast takes account of the reduction of fifty jobs or vacancies to be filled outside the production area, which has already taken place, and of a 15% cut in capacity through the use of flexible working hours. The forecast does not allow for any further deterioration in margins owing to increased competition, or any strengthening of the Swiss franc not passed on in higher prices.

The improved profitability in the second half is linked to the increase in the volumes of Micro 7, Sigma 32 and Delta products sold. In view of the introduction of these new products, the contribution from Almac, the flexible cost structure and sound financial situation, the Tornos Group is equally well placed to ride out any recession or take full advantage of any recovery.

François Frôté
Chairman of the
Board of Directors

Raymond Stauffer
CEO and Delegate of the
Board of Directors

TORNOS

Tornos Group **Unaudited Key Figures** (in KCHF unless otherwise stated)	**First quarter 2008**	**First quarter 2007**	**Second quarter 2008**	**Second quarter 2007**	**First semester 2008**	**First semester 2007**	**Change**	**Change % / pts**
Bookings	79'698	77'349	60'813	74'705	140'511	152'054	-11'543	-7.6%
Gross sales	74'760	72'424	70'854	75'597	145'614	148'021	-2'407	-1.6%
EBITDA	7'280	10'251	5'396	9'817	12'676	20'068	-7'392	-36.8%
Gross sales %	9.7%	14.2%	7.6%	13.0%	8.7%	13.6%		-4.9pts
EBIT	5'689	8'497	3'624	8'158	9'313	16'655	-7'342	-44.1%
Gross sales %	7.6%	11.7%	5.1%	10.8%	6.4%	11.3%		-4.9pts
Net profit	3'235	8'298	2'409	11'657	5'644	19'955	-14'311	-71.7%
Gross sales %	4.3%	11.5%	3.4%	15.4%	3.9%	13.5%		-9.6pts
Net cash	12'769	6'105	4'484	13'618	4'484	13'618	-9'134	-67.1%
Equity	153'662	128'272	155'046	145'778	155'046	145'778	9'268	6.4%
Total Balance sheet %	67.9%	66.2%	67.7%	69.7%	67.7%	69.7%		-2.0pts
Total Balance sheet	226'184	193'903	229'130	209'230	229'130	209'230	19'900	9.5%
Capital expenditures	1'945	1'013	2'917	2'886	4'862	3'899	963	24.7%