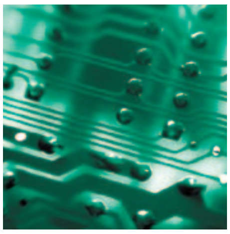
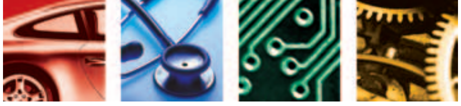




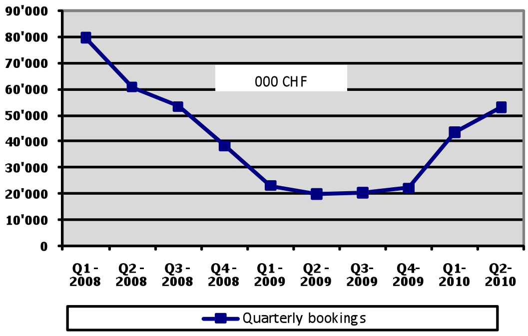

REPORT ON THE FIRST HALF OF 2010

TORNOS HOLDING S.A.



Ladies and Gentlemen, dear Shareholders

Two and a half years after the onset of the recession, we are beginning to see light at the end of the tunnel. The low point of the economic cycle was reached in mid-2009 and, since the first quarter of 2010, there has been a welcome change in the trend of orders received. This recovery gathered pace during the second quarter, and by the middle of the year the end of the crisis appeared to be relatively certain.



Given the 3- to 6-month time lag between the receipt of orders and the issuing of invoices, this recovery will have little impact on 2010 results. However, it looks increasingly probable that the situation will be fundamentally altered by 2011. If so, we shall feel the full benefits of the crisis strategy implemented since January 2008, the main aim of which has been to avoid dismantling our industrial and commercial capability, thereby enabling us to resume business activity as soon as the first signs of recovery appeared. We have not yet reached that stage, but it is approaching. The high level of production capacity usage by the majority of our customers suggests that we are close to the start of an investment cycle that should bring us back, during 2011, to business levels last seen in 2007. The Group and its suppliers are now ready to respond immediately to that level of demand.
The only blot on this otherwise optimistic landscape is the EUR/CHF exchange rate. There is significant uncertainty as to when this parity will stabilize and the level at which stabilization will occur. One thing is certain, however: with the economy in recovery mode, it will be difficult to raise the prices of the Swiss-built machines that we sell on the European market – a factor that will put a temporary damper on the Group's already sharply negative results.
After this brief overview of the situation, we shall now give details of other key events in the life of the Group over the first six months of 2010.

Crisis strategy

Our crisis strategy sought to preserve our know-how and production capacity, safeguard geographical coverage by our own sales and service network, and press ahead with R&D so that the Group would be in a position to offer a range of products that is tailored to the future needs of our customers. This entailed significant recourse to short time working.
That strategy continued throughout the first half of 2010 with a level of short-time working of approximately 30%. Activity levels revived appreciably during the second quarter, especially in production, where the reduction in working hours will have virtually ceased by the third quarter. There was a similar trend in our sales staff's activity, and it is only in the administrative area that short time-working is still in force, and set to continue after the holiday period. R&D staff have been virtually unaffected by these austerity measures, thereby paving the way for the launch of numerous, highly innovative products in 2011.

Business report

In the first half of 2010, we booked orders worth CHF 96.6 million, of which CHF 43.4 million was received in the first quarter and CHF 53.2 million in the second. This represents an increase of 124.7% over the same period in 2009 (when orders were CHF 43.0 million). Gross sales followed the same pattern as orders albeit with a certain time delay, totalling CHF 25.8 million and CHF 43.9 million in the first and second quarters respectively. Thus, first-half sales came to CHF 69.7 million which, in comparison with last year (CHF 59.5 million), represents an improvement of CHF 17.3%.

Markets

Trends have varied in the Group's different market segments. The medical sector, less affected by the recession, reverted to normal conditions in all regions at the start of the year. In the automotive sector, our customers' usage of production capacity has been stepped up since the end of 2009, generating a good level of orders in the Latin markets; in Germany and north-eastern Europe, customers are still postponing purchases owing to a lack of confidence in the future, despite the fact that their production capacity is already saturated. If the Euro crisis does not trigger any further downturn, these automotive markets should be on a positive trend in the second part of the year. The revival in electronics in Asia is in full swing, albeit in a number of applications not covered by the Group; in other

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parts of the world, this segment is still relatively depressed. In microtechnology, particularly Swiss watch making, our clients are seeing an upturn in business and their investment cycle should resume towards the end of the year.

Products

As part of our strategy to cope with the crisis, we decided in 2008 to refocus our development effort on new products to be launched towards the end of 2010 and during 2011, rather than on enhancements to the current range. As a result, we unveiled very few new products in 2009 or in the first half of 2010. In February, however, we presented the EvoDECO 16, and new multispindle machines will be launched at the numerous trade fairs to be held during the autumn.

Interim consolidated financial statements as at 30 June 2010

The unaudited consolidated financial statements as at 30 June 2010 are enclosed. They have been prepared in accordance with International Accounting Standard 34 (the directive on interim financial reporting).
Compared to the first half of 2009, business levels have risen, although they remain extremely low in absolute terms. Production capacity usage was no better than around 45% in the first six months. Hence, although some improvement is discernible, first-half results are heavily loss-making. With gross sales of CHF 69.7 million in the first six months, the net loss was CHF 14.2 million compared to a net loss of CHF 15.5 million in the same period last year, when turnover was CHF 59.5 million. Despite increased business levels, the gross margin has again deteriorated, slipping from 23.4% to 22.2%. This fall is mainly the result of pressure on prices in the Euro zone and the increase in discounts and rebates granted in a buyers' market. Thanks to the numerous cost-cutting programmes and short-time working in sectors other than production, operating expenses have again fallen, declining from CHF 30.5 million to CHF 28.4 million and contributing to the reduction in the operating loss (CHF 12.9 million compared to CHF 16.6 million in the first half of 2009). Despite the substantial loss, and although activity is only now beginning to recover, operating cash flow in the first six months was positive by CHF 5.5 million, whereas last year saw a cash outflow of CHF 21.2 million. The Group's net debt now stands at CHF 22.3 million, a reduction of CHF 2.3 million compared to 31 December 2009.

As at 30 June 2010, shareholders' equity of CHF 116.4 million accounted for 60% of the balance sheet total of CHF 194.1 million.

Outlook

Although visibility is still poor, and the possibility of a "double-dip" recession caused by the Euro crisis cannot be ruled out, 2010 sales should reach CHF 150 million. Thus, if the probable recovery is confirmed, it will only have a minor impact on results for the current financial year because the benefit will only be felt in the fourth quarter. At a level of CHF 150 million, an annual average of around 50% of total production capacity would be used, which would once again trigger sharply negative results for full-year 2010.

François Frôté
Chairman of the
Board of Directors

Raymond Stauffer
CEO and Delegate of
the Board of Directors

The French version of the report on the first half-year is the official one.

Tornos Group **Unaudited Key Figures** (in KCHF unless otherwise stated)	**First quarter 2010**	**First quarter 2009**	**Second quarter 2010**	**Second quarter 2009**	**First half 2010**	**First half 2009**	**Difference**	**Difference % / pts**
Bookings	43'408	23'154	53'207	19'850	96'615	43'004	53'611	124.7%
Gross sales	25'804	31'827	43'921	27'635	69'725	59'462	10'263	17.3%
EBITDA	-6'190	-5'815	-4'744	-8'250	-10'934	-14'065	3'131	-22.3%
in % of Gross sales	-24.0%	-18.3%	-10.8%	-29.9%	-15.7%	-23.7%		+8 pts
EBIT	-7'208	-7'438	-5'722	-9'131	-12'930	-16'569	3'639	-22.0%
in % of Gross sales	-27.9%	-23.4%	-13.0%	-33.0%	-18.5%	-27.9%		+9.4 pts
Net profit/(Net loss)	-7'692	-6'125	-6'545	-9'350	-14'237	-15'475	1'238	-8.0%
in % of Gross sales	-29.8%	-19.2%	-14.9%	-33.8%	-20.4%	-26.0%		+5.6 pts
Net cash/(Net debt)	-28'631	-3'521	-22'278	-16'193	-22'278	-16'193	-6'085	37.6%
Equity	121'815	148'043	116'448	139'359	116'448	139'359	-22'911	-16.4%
in % of Total Balance sheet	64.7%	73.8%	60.0%	72.3%	60.0%	72.3%		-12.3 pts
Total Balance sheet	188'196	200'680	194'064	192'805	194'064	192'805	1'259	0.7%
Capital expenditures in tangible fixed assets	45	79	345	190	390	269	121	45.0%