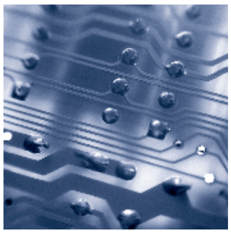
TORNOS






INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2010 | TORNOS HOLDING S.A.

INTERIM CONSOLIDATED INCOME STATEMENT

(unaudited)

In thousands of CHF, except per share data

Six months ended June 30,	**2010**	**2009**
Gross sales	**69'725**	**59'462**
Rebates and discounts	-1'466	-859
Net sales	**68'259**	**58'603**
Cost of sales	-52'778	-44'660
Gross profit	**15'481**	**13'943**
Marketing and sales	-14'912	-15'716
General and administrative expenses	-9'270	-9'593
Research and development	-4'243	-5'275
Other income/(expenses) – net	14	72
Earnings before interest and taxes (EBIT)	**-12'930**	**-16'569**
Financial expenses – net	-2'107	-263
Exchange gains/(losses) – net	-1'794	35
Loss before income taxes	**-16'831**	**-16'797**
Income tax credit	2'594	1'322
Net loss for the period	**-14'237**	**-15'475**

Earnings per share		
– basic	-0.98	-1.06
– diluted	-0.98	-1.06

Earnings before interest and taxes (EBIT)	**-12'930**	**-16'569**
Depreciation and amortisation	1'996	2'504
Earnings before interest, income taxes, depreciation and amortisation (EBITDA)	**-10'934**	**-14'065**

INTERIM STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

In thousands of CHF

Six months ended June 30,	2010	2009
Net loss for the period	**-14'237**	**-15'475**
Other comprehensive income/(loss)		
Fair value gain on available-for-sale financial assets, net of KCHF 403 tax	4'732	596
Currency translation difference	-224	181
Other comprehensive income for the period, net of tax	**4'508**	**777**
Total comprehensive income/(loss) for the period	**-9'729**	**-14'698**

INTERIM CONSOLIDATED BALANCE SHEET

(unaudited)

In thousands of CHF	Note	June 30, 2010	December 31, 2009
ASSETS			
Cash and cash equivalents		12'210	12'233
Trade receivables		36'226	30'887
Inventories		75'126	78'848
Other receivables and prepayments		11'989	12'413
Total current assets		**135'551**	**134'381**
Available-for-sale financial assets		7'566	2'431
Property, plant and equipment		36'683	38'707
Goodwill		2'873	2'873
Other intangible assets		3'894	1'508
Deferred tax assets		7'497	5'106
Total non-current assets		**58'513**	**50'625**
Total assets		**194'064**	**185'006**
LIABILITIES AND EQUITY			
Interest bearing loans and borrowings		12'710	15'413
Trade payables		19'923	7'205
Other payables		16'750	9'367
Current tax liabilities		18	16
Provisions		2'718	2'652
Total current liabilities		**52'119**	**34'653**
Interest bearing loans and borrowings		21'778	21'392
Retirement benefit obligations		2'307	2'304
Provisions		720	693
Deferred tax liabilities		692	550
Total non-current liabilities		**25'497**	**24'939**
Total liabilities		**77'616**	**59'592**
Total equity		**116'448**	**125'414**
Total liabilities and equity		**194'064**	**185'006**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(unaudited)

In thousands of CHF	**Ordinary shares**	**Share premium**	**Treasury shares**	**Retained earnings**	**Currency translation difference**	**Total**
At December 31, 2008	**67'589**	**15'875**	**-6'569**	**79'478**	**-2'630**	**153'743**
Comprehensive income						
Net loss for the period				-15'475		-15'475
Other comprehensive income						
Fair value gain on available-for-sale financial assets				596		596
Currency translation difference					181	181
Total other comprehensive income	–	–	–	596	181	777
Total comprehensive income/(loss)	**–**	**–**	**–**	**-14'879**	**181**	**-14'698**
Transactions with owners						
Issuance of new shares	65	22				87
Purchase of treasury shares			-104			-104
Share-based compensation				339		339
Other expense				-8		-8
Total transactions with owners	**65**	**22**	**-104**	**331**	**–**	**314**
At June 30, 2009	**67'654**	**15'897**	**-6'673**	**64'930**	**-2'449**	**139'359**
At December 31, 2009	**67'654**	**15'897**	**-6'673**	**51'230**	**-2'694**	**125'414**
Comprehensive income						
Net loss for the period				-14'237		-14'237
Other comprehensive income/(loss)						
Fair value gain on available-for-sale financial assets				4'732		4'732
Currency translation difference					-224	-224
Total other comprehensive income/(loss)	–	–	–	4'732	-224	4'508
Total comprehensive income/(loss)	**–**	**–**	**–**	**-9'505**	**-224**	**-9'729**
Transactions with owners						
Issuance of new shares	253	72				325
Share-based compensation				438		438
Total transactions with owners	**253**	**72**	**–**	**438**	**–**	**763**
At June 30, 2010	**67'907**	**15'969**	**-6'673**	**42'163**	**-2'918**	**116'448**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

In thousands of CHF

For the six months ended June 30,	2010	2009
Net loss for the period	-14'237	-15'475
Adjustments for:		
Taxes	-2'594	-1'322
Depreciation of property, plant and equipment	1'996	2'504
Loss on disposal of property, plant and equipment	6	3
Other non cash items	468	494
Decrease/(increase) in working capital:		
Trade receivables	-5'217	14'720
Other receivables	374	2'120
Inventories	4'091	2'862
Trade payables	12'718	-18'548
Other current payables and provisions	6'562	-8'477
Interest expense	1'456	117
Income tax paid	-85	-215
Net cash provided by/(used in) operating activities	**5'538**	**-21'217**
Cash flows from investing activities		
Investment in property, plant and equipment	-390	-269
Disposal of property, plant and equipment	273	128
Investment in capitalised development costs	-2'386	–
Interest received	76	50
Net cash used in investing activities	**-2'427**	**-91**
Cash flows from financing activities		
Repayments of borrowings, including finance lease liabilities	-3'207	-119
Proceeds from borrowings	345	11'438
Proceeds from issuance of share capital	325	87
Purchase of treasury shares	–	-104
Payment of other financing expense	–	-8
Interest paid	-685	-151
Net cash provided by/(used in) financing activities	**-3'222**	**11'143**
Net decrease in cash and cash equivalents	**-111**	**-10'165**
Cash and cash equivalents at January 1,	12'233	14'268
Effects of exchange rate changes	88	94
Cash and cash equivalents at June 30,	**12'210**	**4'197**

SELECTED 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, 2010 have been prepared in accordance with the International Accounting Standard 34 on interim financial reporting. The condensed interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2009 which have been prepared in accordance with IFRS.

These interim consolidated financial statements have been approved for issue by the Board of Directors on July 26, 2010.

2 Accounting policies

Except as described below, the accounting policies applied are consistent with those described in the annual consolidated financial statements for the year ended December 31, 2009.

New standards, amendments to standards and interpretations mandatory for the first time for the financial year beginning January 1, 2010, but not currently relevant to the Group

Amendments to IFRS 2, “Share-based payment”
Amendment to IAS 39, “Financial instruments: Presentation and measurement”
IFRIC 17, “Distributions of non-cash assets to owners”
IFRIC 18, “Transfers of assets from customers”
“Additional exemptions for first-time adopters” (Amendment to IFRS 1)

In addition, various already issued standards were amended or clarified as part of the Annual improvements 2009, none of which had an impact on the Group’s operations.

New standards, interpretations to existing standards and standards amendments that are not yet effective

The Group has not early adopted any other new standards, interpretations to existing standards and standards amendments which need adoption by February 1, 2010 or later. The Group has commenced, but not yet completed, an assessment of the impact of the adoption of these new or amended standards on its consolidated financial statements and is currently of the view that the impact would not be significant other than certain additional disclosures.

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

3 Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. On an ongoing basis, management evaluates the estimates, including those related to provisions for warranty purpose and other provisions resulting from pending litigations as well as other present obligations of uncertain timing, inventory obsolescence, bad debts and the assessment of income taxes including deferred tax assets, retirement benefit obligations and the fair value of stock option grants. Management bases the estimates on historical experience and on various other assumptions that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the critical accounting policies described in the annual consolidated financial statements for the year ended December 31, 2009 reflect the most significant judgments and estimates that are used in the preparation of the consolidated financial statements.

Due to market turbulence, management believes that the inventory obsolescence computed on the turnover of the articles as described in the annual consolidated financial statements is not adequate and has therefore frozen the inventory obsolescence provision at the December 31, 2008 level as its best estimate in the circumstances.

4 Scope of consolidation

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

5 Stock compensation plan

There is only one stock participation plan, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense is recognised in accordance of the provisions of IFRS 2 “Share-based Payment”, for options over the vesting period and for shares purchased immediately in the accounts as the shares do not need to be returned in case the employment contract is terminated. 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 438 was recorded for the six month period ended June 30, 2010 (June 30, 2009: KCHF 339). Compensation expense arising from stock options outstanding at June 30, 2010 to be recognised in future periods amounts to KCHF 777 (June 30, 2009: KCHF 626).

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 (MBP07). Under this plan, starting in 2007, 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, 2010, a total of 1’047’000 shares/options were attributed by the Nomination and Compensation Committee since 2007, of which 153’500 options were cancelled or expired without being exercised (June 30, 2009: 760’000 shares/options granted and 29’500 options cancelled respectively). Of the total remaining 893’500 shares/options (June 30, 2009: 730’500 shares/options) the participants elected to purchase 145’650 shares immediately and to receive 747’850 options under the stock option program as detailed below (June 30, 2009: 89’500 shares and 641’000 options respectively).

Stock purchasing program under MBP07

Each participant has the right to purchase shares each year, starting on May 1, 2007 (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 SIX 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 do not need to 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 2010, participants elected to purchase 56’150 shares at a price of CHF 5.76 (June 30, 2009: no purchase of shares at CHF 7.14). As a result, KCHF 175 was recorded as an expense in the income statement for the six month period ended June 30, 2010 (none in 2009).

Stock option program under MBP07

Each participant receives free of charge each year starting on May 1, 2007 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 SIX within the 12 months (May 1 to April 30) preceding the allocation of the options. A possible share capital increase or 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, 2010 amounted to KCHF 263 (June 30, 2009: KCHF 339).

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

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:

	2010 attribution	2009 attribution	2008 attribution	2007 attribution
Number of options granted	230'850	290'000	240'000	140'500
Grant date	May 1, 2010	May 1, 2009	May 1, 2008	May 1, 2007
Vesting period	2 years	2 years	2 years	2 years
Expiration date	April 30, 2013	April 30, 2012	April 30, 2011	April 30, 2010
Closing stock price at grant date	CHF 8.90	CHF 6.23	CHF 18.05	CHF 19.10
Exercise price	CHF 7.68	CHF 9.52	CHF 19.66	CHF 15.18
Expected life	2.5 years	2.5 years	2.5 years	2.5 years
Volatility	46.94%	49.13%	37.76%	31.28%
Expected dividend yield	0%	0%	2.77%	1.30%
Risk free interest rate	0.48%	0.45%	2.30%	2.81%
Fair value of option at grant date	CHF 3.09	CHF 1.08	CHF 3.35	CHF 5.80
Expected turnover of personnel	–	–	–	–

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

	2010			2009		
	Options	Exercise price (CHF)	Contractual life	Options	Exercise price (CHF)	Contractual life
Outstanding at January 1,	**641'000**	**14.26**		**351'000**	**18.18**	
Granted	230'850	7.68	3 years (April 30, 2013)	290'000	9.52	3 years (April 30, 2012)
Exercised	–			–		
Cancelled or expired	-124'000			–		
Outstanding at June 30,	**747'850**	**12.14**		**641'000**	**14.26**	
Exercisable at June 30,	**235'000**	**19.66**		**116'000**	**15.18**	

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

6 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machine tools. The Chief Operating Decision Maker has been identified as the Group's Chief Executive Officer. He regularly reviews the Group's internal reporting for its only operating segment, machine tools, in order to assess performance and assess resource needs. The primary internal reporting to the CODM is presented on the same basis as the Group's consolidated income statement and consolidated balance sheet and is reported on a consistent basis over the periods presented. The Group's Chief Executive Officer assesses the performance of the machine tools based on EBIT. Additional reporting such as geographical area are also provided to the CODM but they are not considered as substantial information to make strategic decisions, allocate or plan resources or monitor the Group's operational performance. These operational decisions are all executed by the CODM based on internal reporting of the core activity.

6.1 Analysis of revenues by category

Six months ended June 30,	2010	2009
Machines and spare parts	66'265	56'191
Service	3'460	3'271
Gross sales	**69'725**	**59'462**
Rebates and discounts	-1'466	-859
Total net sales	**68'259**	**58'603**

Switzerland is the domicile of the parent company and of the main operating and distribution companies. The Swiss operating companies conduct all development and manufacture activities. The subsidiaries located in the other European countries (France, Germany, Italy, Poland, Spain and the United Kingdom), the United States of America, China and in Hong Kong only have support or sales and distribution activities. The transactions between Group companies are conducted based on internationally acceptable transfer pricing policies, thereby leaving reasonable margins at local subsidiary level. The CODM reviews sales for the four material geographical areas, namely, Switzerland, Other European countries, North America and Asia. For the purpose of presenting net sales by location of customers, one other geographical region, namely Rest of world, is identified.

6.2 Net sales by location of customers

Six months ended June 30,	2010	2009
Switzerland	13'305	19'296
Other European countries	36'247	25'105
North America	12'230	10'025
Asia	5'048	3'798
Rest of world	1'429	379
Total net sales	**68'259**	**58'603**

No transactions with a single customer accounted for 10% or more of the net sales in both 2010 and 2009.

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

6.3 *Non-current assets*

	June 30, 2010	Dec. 31, 2009	June 30, 2009
Switzerland	41'215	40'413	40'611
Other European countries	1'916	2'312	2'673
North America	261	297	374
Asia	58	66	53
Total non-current assets for geographical area disclosure	**43'450**	**43'088**	**43'711**
Reconciling unallocated assets:			
– Available-for-sale financial assets	7'566	2'431	2'384
– Deferred tax assets	7'497	5'106	2'570
Total non-current assets per balance sheet	**58'513**	**50'625**	**48'665**

6.4 *Capital expenditure on property, plant and equipment and other intangible assets by geographical area*

Six months ended June 30,	2010	2009
On tangible assets		
Switzerland	376	131
Other European countries	9	134
North America	–	–
Asia	5	4
On intangible assets		
Switzerland	2'386	–
Total	**2'776**	**269**

7 Authorised capital

The General Meeting of Shareholders held on April, 13, 2010 approved the creation of an authorised capital and the following amendment to the articles of association.

The Board of Directors may, at any time up to April 12, 2012, increase the share capital by a maximum sum of CHF 22'500'000.00 by issuing no more than 5'000'000 registered shares with a par value of CHF 4.50 each to be fully paid-up. Increasing the share capital by firm underwriting and partial increases are authorised.

The Board of Directors determines the issue price, type of contribution, conditions under which subscription rights may be exercised and the date on which subscribers will be entitled to a dividend. The Board of Directors will use unexercised subscription rights in the Company's interests.

The Board of Directors may exclude shareholders' preferential right of subscription for the purposes of acquiring companies, parts of companies and shareholdings or to give greenshoe options to a bank or consortium of banks as part of a public share issue. In this case, the Board of Directors will decide on the allocation of preferential subscription rights at market conditions.

8 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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