

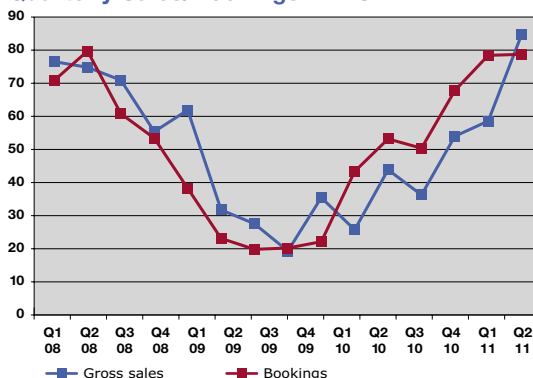




Ladies and Gentlemen, dear Shareholders

In May 2011, we were able to inform you that the current year had started well and that encouraging results had been recorded during the first three months of the year. We are now pleased to announce that the second quarter proved every bit as good as the first. New orders have remained at the high level seen at the beginning of the year and, with the usual time lag between receipt of orders and billing, sales have followed this positive trend. Sales were CHF 84.7 million in the second quarter of 2011, up 44.7% on the preceding quarter, which still had not fully benefited from the positive effects of the recovery. During the second quarter, our workforce – which had been only slightly reduced during the crisis – was extremely busy. If we had slimmed down our installed production capacity and international distribution network during the 2008–2010 crisis, we would have been unable to cope with the growth that we are currently enjoying. Thus the crisis strategy put in place in 2008 is now fully bearing fruit.

Quarterly Sales/Bookings in MCHF



Sales of CHF 143.3 million were generated during the first half of 2011. This is in line with last autumn's expectations and double the figure achieved in the same period in 2010. Given that exchange rate trends in recent months have been very unfavourable to us, since they have a direct and strongly negative impact on our margins, first-half year EBIT can be described as good, coming in at CHF 10.9 million, equivalent to an EBIT margin of 7.6%. During the first half of 2011, the gross margin (32.9%) was below our target of around 40% during a period when our production capacity was being used to the full. This unfavourable situation is due both to the strength of the Swiss franc hitting margins and to production capacity that was still not being

fully exploited in the first quarter of 2011. Thanks to the lasting effects of the savings programmes implemented during the crisis and the positive influence of the weakening of the euro and the US dollar on the costs of our sales and service organisation abroad, operating costs (25.2%) were below our objective of keeping them at a level of about 30% of sales. The negative impact of the decline in gross margin on the result was thus partially offset by lower than expected operating costs. Thus we can present acceptable operating results despite the strength of the Swiss franc.

Following this brief overview, we would like to inform you of the main facts that marked the first half of 2011.

Business report

During the first half of 2011, we received orders worth CHF 157.1 million, including CHF 78.7 million in the second quarter. This was 62.6% up on the same period a year earlier, when the company received orders worth CHF 96.6 million. We also saw positive growth in gross sales, which stood at CHF 143.3 million for the first half of 2011. CHF 58.6 million of this was billed in the first quarter and CHF 84.7 million in the second. This represents growth of 105.5% on the same period in 2010, when sales totalled CHF 69.7 million.

Markets

During the first half of 2011, the economic situation in all our target markets was favourable. As a result, we benefitted from customers' investments in capacity renewal and expansion. Business grew very pleasingly in Switzerland and southern Europe, where strong growth in the watch-making and automotive industries was reflected in sustained machine sales. Thanks to our substantial presence in southern Europe, where our customers particularly appreciate our technical support and servicing organizations, we have gained market share despite the unfavourable exchange rate situation. In northern Europe, there was increased demand from the automotive industry for multispindle lathes capable of efficiently producing large series of parts, particularly in the second quarter. In the United States, we benefited from our customers' expansion of production capacities in medical technology. In Asia, we are focusing on the segment covering high-price top-of-the-range products, where we have gained a number of new customers, chiefly in the electronic and automotive industries.

Products

The MediSIAMS trade fair was held in Moutier in early May. This fair is regarded as a major medical technology event in Europe, which is why we chose to premiere the EvoDECO 10 there. This new machine's ease of use and high performance set it apart from competitors. It replaces the DECO 10, of which we have sold several thousand since it was launched in the second half of the 1990s. The EvoDECO 10 incorporates substantial improvements on its predecessor and has aroused great interest among customers, much like the EvoDECO 16, which was launched in 2010 and is currently enjoying great success. The EMO trade fair, the most important for our industry, will be held in Hanover in September 2011. We will be unveiling a new multispindle lathe at the fair along with a new single-spindle intended for large diameters. We expect these two products, both of which are aimed partially at new market segments, to arouse strong interest among target customers.

New technology

On 11 February 2011, we informed you that we were purchasing patents and know-how concerning a concept for novel machines for chemically treating surfaces of machined parts. This acquisition was financed by increasing share capital and is part of our general strategy to transform Tornos from a machine manufacturer into a supplier of complete production systems. The new surface treatment machines will meet an important customer need in that they will enable customers to extend their share of the value creation chain and to reduce their manufacturing cycle times. Prototypes have been constructed since the acquisition was announced, and will now be tested and optimized with customers. Market launch is planned 2012 and the technology will make its public debut at EMO in September 2011. Other possibilities to enlarge the product and technology portfolios will be pursued.

Foreign currencies

The appreciation of the Swiss franc has become a major preoccupation since the middle of the second quarter. We now bill some 50% of our sales in euros, while costs and purchases in this currency amount to some 20% of turnover. As for the US dollar, 10% of sales are billed in this currency, while costs and purchases billed to us in it represent only 3% of turnover. The balance of about 40% is denominated in Swiss francs. However, only half of this proportion is billed in Switzerland, the remainder being destined for countries in Asia or European countries outside the euro zone. In all these cases, and even though billing is denominated in Swiss francs, prices and margins are also subject to a certain degree of pressure on account of competition from Japanese producers and manufacturers based in the euro zone. To summarize, the Tornos Group has more costs in Swiss francs than billing. Declining margins and/or competitiveness are the consequences of this situation, since the market finds it difficult to accept any increase in prices in euros or US dollars. Unfortunately, there is no way to completely eliminate the currency handicap that the Swiss franc represents for Switzerland's exporting companies. We market our products at a price that reflects the margin that we wish to obtain and we justify having higher prices than our European and Japanese competitors by providing products that are more innovative and better suited to the market than theirs, based on technologically advanced solutions and accompanied by high-quality advice and an after-sales service on which our customers can rely. In due course we also wish to increase the proportion of costs billed to us in euros and US dollars by buying, as far as possible, parts and modules produced in the euro and US dollar zones in order to benefit from more extensive natural hedging of exchange rate risks than we have at the moment. Finally, we are endeavouring to improve productivity at our Moutier and La Chaux-de-Fonds factories so that we can manufacture our products at lower cost. These measures should enable us to successfully combat the appreciation of the Swiss franc.

Interim consolidated financial statements as at 30 June 2011

The unaudited consolidated financial statements at 30 June 2011 are enclosed. They have been prepared in accordance with International Accounting Standard 34 (Interim Financial Reporting).

Compared with the first half of 2010, the 2011 financial statements are on an upward trend and our workforce is busy most of the time. Gross sales of CHF 143.3 million have resulted in an operating profit (EBIT) of CHF 10.9 million and a net profit of CHF 5.4 million whereas, in the same period a year earlier, we posted a net loss of CHF 14.2 million and an operating loss of CHF 12.9 million on gross sales of CHF 69.7 million. This marked improvement on the preceding year is due to sales having more than doubled. This doubling of sales can be explained by the economic recovery in our target markets and regions and the commercial success achieved by our products.

Despite the strength of the Swiss franc, we have improved our gross margin, which rose from 22.2% in 2010 to 32.8% for the current year. This improvement is due to a better usage rate and better use of installed production capacity. Compared with the same period a year earlier, operating costs were up CHF 7.7 million, or 27.1%. This increase is explained by the elimination of short-time working and by the additional costs associated with an increase in business volume. As a percentage of sales, however, they have declined, from 40.7% in 2010 to 25.2% for the current year. We recorded a positive operating cash flow of CHF 8.6 million compared with CHF 5.5 million for the same period in 2010. Net debt was CHF 34.3 million, down CHF 4.3 million on the beginning of the year. Shareholders' equity of CHF 120.3 million at 30 June 2011 represented 54.1% of the balance sheet total of CHF 222.6 million.

Outlook

In view of the annual shutdown of our business and customers' holidays, we expect a fairly weak third quarter followed by a strong pick-up in the fourth quarter. Overall, we expect second-half deliveries of about the same order of magnitude as the first half. But our sales and operating result may continue to decline on account of the exchange rate situation. Provided that the debt crisis in Europe and the United States does not cause a new recession and that exchange rates stabilize, we expect gross sales of CHF 250 to 280 million and an EBIT margin of 5 to 7% for the year as a whole.



François Frôté

Chairman 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 <small>(in KCHF unless otherwise stated)</small>	First quarter 2011	First quarter 2010	Second quarter 2011	Second quarter 2010	First half 2011	First half 2010	Difference	Difference % / pts
Bookings	78'403	43'408	78'719	53'207	157'122	96'615	60'507	62.6%
Gross sales	58'550	25'804	84'729	43'921	143'279	69'725	73'554	105.5%
EBITDA	4'116	-6'190	9'001	-4'744	13'117	-10'934	24'051	-220.0%
in % of Gross sales	7.0%	-24.0%	10.6%	-10.8%	9.2%	-15.7%		+24.8 pts
EBIT	3'007	-7'208	7'942	-5'722	10'949	-12'930	23'879	-184.7%
in % of Gross sales	5.1%	-27.9%	9.4%	-13.0%	7.6%	-18.5%		+26.2 pts
Net profit/(Net loss)	1'548	-7'692	3'852	-6'545	5'400	-14'237	19'637	-137.9%
in % of Gross sales	2.6%	-29.8%	4.5%	-14.9%	3.8%	-20.4%		+24.2 pts
Net cash/(Net debt)	-40'383	-28'631	-34'346	-22'278	-34'346	-22'278	-12'068	54.2%
Equity	113'032	121'815	120'321	116'448	120'321	116'448	3'873	3.3%
in % of Total Balance sheet	52.1%	64.7%	54.1%	60.0%	54.1%	60.0%		-5.9 pts
Total Balance sheet	217'137	188'196	222'571	194'064	222'571	194'064	28'507	14.7%
Capital expenditures in tangible fixed assets	513	45	559	345	1'072	390	682	174.9%

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