

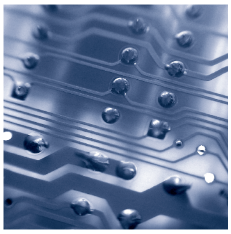
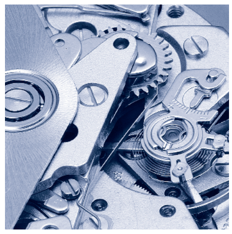

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

2012 | TORNOS HOLDING SA

INTERIM CONSOLIDATED INCOME STATEMENT

(unaudited)

In thousands of CHF, except per share data

Six months ended June 30,	**2012**	**2011**
Gross sales	**97’041**	**143’279**
Rebates and discounts	–1’204	–2’474
Net sales	**95’837**	**140’805**
Cost of sales	–65’418	–93’739
Gross profit	**30’419**	**47’066**
Marketing and sales	–16’395	–18’963
General and administrative expenses	–10’881	–11’220
Research and development	–6’168	–6’010
Other income/(expenses) – net	507	76
Operating income/(loss) (EBIT)	**–2’518**	**10’949**
Financial expenses – net	–1’063	–1’968
Exchange losses – net	–355	–2’622
Income/(loss) before income taxes	**–3’936**	**6’359**
Income tax credit/(charge)	567	–959
Net income/(loss) for the period	**–3’369**	**5’400**

Earnings/(loss) per share		
– basic	–0.22	0.37
– diluted	–0.22	0.36

EBIT (operating income/(loss) before finance expenses, exchange losses and income taxes)	**–2’518**	**10’949**
Depreciation and amortisation	2’319	2’168
EBITDA (operating income/(loss) before finance expenses, exchange losses, income taxes, depreciation and amortisation)	**–199**	**13’117**

The accompanying notes form an integral part of these interim consolidated financial statements

INTERIM STATEMENT OF COMPREHENSIVE INCOME

(unaudited)

In thousands of CHF

Six months ended June 30,	**2012**	**2011**
Net income/(loss) for the period	**–3'369**	**5'400**
Other comprehensive income/(loss)		
Fair value gain/(loss) on available-for-sale financial assets, net of KCHF –4 tax (2011: KCHF –126)	53	–1'489
Cash flow hedges, net of KCHF 221 tax	–1'165	0
Currency translation difference	–86	–291
Other comprehensive loss for the period, net of tax	**–1'198**	**–1'780**
Total comprehensive income/(loss) for the period	**–4'567**	**3'620**

The accompanying notes form an integral part of these interim consolidated financial statements

INTERIM CONSOLIDATED BALANCE SHEET

(unaudited)

In thousands of CHF	**June 30, 2012**	**December 31, 2011**
ASSETS		
Cash and cash equivalents	11’249	17’068
Trade receivables	38’251	46’381
Inventories	91’210	84’373
Other receivables and prepayments	10’108	11’935
Total current assets	**150’818**	**159’757**
Available-for-sale financial assets	6’720	6’663
Property, plant and equipment	30’780	32’120
Intangible assets	16’489	16’290
Deferred tax assets	6’776	5’846
Total non-current assets	**60’765**	**60’919**
Total assets	**211’583**	**220’676**
LIABILITIES AND EQUITY		
Interest bearing loans and borrowings	38’961	35’843
Trade payables	22’607	29’323
Current tax liabilities	42	93
Other liabilities	17’256	17’473
Provisions	3’880	5’323
Total current liabilities	**82’746**	**88’061**
Interest bearing loans and borrowings	549	699
Retirement benefit obligations	1’877	1’523
Provisions	818	836
Deferred tax liabilities	182	156
Total non-current liabilities	**3’426**	**3’214**
Total liabilities	**86’172**	**91’275**
Total equity	**125’411**	**129’401**
Total liabilities and equity	**211’583**	**220’676**

The accompanying notes form an integral part of these interim consolidated financial statements

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, 2010	**67'907**	**15'968**	**–6'673**	**37'710**	**–3'426**	**111'486**
Comprehensive income						
Net income for the period				5'400		5'400
Other comprehensive income/(loss)						
Fair value loss on available-for-sale financial assets				–1'489		–1'489
Currency translation difference					–291	–291
Total other comprehensive income/(loss)	–	–	–	–1'489	–291	–1'780
Total comprehensive income/(loss)	–	–	–	**3'911**	**–291**	**3'620**
Transactions with owners						
Issuance of new shares:						
to acquire patents and know-how	1'350	2'481				3'831
for stock compensation plan	414	359				773
Purchase of treasury shares			–154			–154
Share-based compensation				765		765
Total transactions with owners	**1'764**	**2'840**	–154	**765**	–	**5'215**
At June 30, 2011	**69'671**	**18'808**	**–6'827**	**42'386**	**–3'717**	**120'321**
At December 31, 2011	**69'671**	**18'808**	**–6'827**	**51'132**	**–3'383**	**129'401**
Comprehensive income						
Net loss for the period				–3'369		–3'369
Other comprehensive income/(loss)						
Fair value gain on available-for-sale financial assets				53		53
Cash flow hedges				–1'165		–1'165
Currency translation difference					–86	–86
Total other comprehensive loss	–	–	–	–1'112	–86	–1'198
Total comprehensive loss	–	–	–	**–4'481**	**–86**	**–4'567**
Transactions with owners						
Issuance of new shares for stock compensation plan	88	56				144
Share-based compensation				433		433
Total transactions with owners	**88**	**56**	–	**433**	–	**577**
At June 30, 2012	**69'759**	**18'864**	**–6'827**	**47'084**	**–3'469**	**125'411**

The accompanying notes form an integral part of these interim consolidated financial statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

In thousands of CHF

For the six months ended June 30,	**2012**	**2011**
Net income/(loss) for the period	–3'369	5'400
Adjustments for:		
Taxes	–567	959
Depreciation of property, plant and equipment	1'969	2'059
Amortization of intangible assets	350	109
(Gain)/loss on disposal of property, plant and equipment	–390	22
Share-based compensation	433	765
Employee defined benefit obligation	351	13
Other non cash items	–18	–2
Decrease/(increase) in working capital:		
Trade receivables	8'103	–15'267
Other receivables	–133	3'314
Inventories	–6'807	315
Trade payables	–6'114	79
Other current liabilities and provisions	–1'739	9'312
Interest expense	710	1'558
Income tax paid	–190	–78
Net cash provided by/(used in) operating activities	**–7'411**	**8'558**
Cash flows from investing activities		
Investment in property, plant and equipment	–795	–1'072
Disposal of property, plant and equipment	560	32
Investment in capitalised development costs	–549	–2'046
Interest and dividends received	28	69
Net cash used in investing activities	**–756**	**–3'017**
Cash flows from financing activities		
Repayments of borrowings, including finance lease liabilities	–172	–140
Proceeds from issuance of share capital	144	734
Purchase of treasury shares	0	–154
Interest paid	–792	–952
Net cash used in financing activities	**–820**	**–512**
Net increase/(decrease) in cash and cash equivalents	**–8'987**	**5'029**
Cash and cash equivalents and bank overdrafts at January 1,	17'068	3'834
Effects of exchange rate changes	24	–198
Cash and cash equivalents and bank overdrafts at June 30,	**8'105**	**8'665**
For the purpose of the cash flow statement, cash comprises:		
Cash at bank and in hand	11'249	8'665
Less bank overdrafts (as part of the interest bearing loans and borrowings)	–3'144	0
Cash and cash equivalents and bank overdrafts at June 30,	**8'105**	**8'665**

The accompanying notes form an integral part of these interim consolidated financial statements

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, 2012 have been prepared in accordance with the International Accounting Standard 34 on interim financial reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended December 31, 2011. This condensed interim financial information should be read in conjunction with the annual financial statements for the year ended December 31, 2011 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, 2012.

2 Accounting policies

The accounting policies applied by the Group in this condensed interim financial information are consistent with those applied in the consolidated financial statements as at and for the year ended December 31, 2011.

New standards and amendments to standards which were adopted for the first time for the financial year beginning January 1, 2012

There are no new IFRSs or IFRICs that are effective for the first time for this interim period that would be expected to have a material impact on the Group.

New standards, amendments to standards and interpretations mandatory for the first time for the financial year beginning January 1, 2012, but not currently relevant to the Group

Amendment to IAS 12 "Income Taxes": Deferred tax – recovery of underlying assets. This amendment provides a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. This amendment has no 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 January 1, 2013 or later. The relevant standards and amendments identified by the Group to date relate to:

IFRS 9 "Financial instruments", effective for annual periods beginning on or after January 1, 2015. This standard will introduce new requirements for classifying and measuring financial assets. The Group is currently evaluating the potential impact that this standard will have on the Group's consolidated financial statements.

IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interest in Other Entities", Amendment to IAS 27 "Separate Financial Statements", Amendment to IAS 28 "Investments in Associates and Joint Ventures", effective for annual periods beginning on or after January 1, 2013. These new standards and amendment specify the accounting and disclosures to be adopted on consolidation and joint arrangements. No or no material effects are expected on the consolidated financial statements of the Group.

IFRS 13 "Fair Value Measurement", effective for annual periods beginning on or after January 1, 2013. This standard aims at improving consistency and reducing complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. No or no material effects are expected on the consolidated financial statements of the Group.

Amendment to IAS 1 “Presentation of financial Statements” – presentation of Items of Other Comprehensive Income, beginning on or after July 1, 2012. This amendment requires mainly to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. No or no material effects are expected on the consolidated financial statements of the Group.

Amendment to IAS 19 “Employee Benefits”, beginning on or after January 1, 2013. The key amendments include requiring the recognition of changes in the net defined benefit liability (asset) including immediate recognition of defined benefit cost, disaggregation of defined benefit cost into components, recognition of remeasurement in other comprehensive income and eliminating the corridor approach. The Group is currently examining early application. Based on first estimations, the consequence would be that actuarial losses from the corridor would have to be restated in the balance sheet (CHF 21 million as at December 31, 2011). The precise impact on the income statement and the statement of comprehensive income cannot be sufficiently reliably determined yet.

Amendments to IFRS 7 “Financial Instruments: Disclosure” and to IAS 32 “Financial Instruments: Presentation”, beginning on or after January 1, 2013, resp. January 1, 2014. These amendments clarify certain aspects because of diversity in application of the requirements on offsetting and stipulate the disclosures related. No or no material effects are expected on the consolidated financial statements of the Group.

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.

In preparing this condensed interim financial information, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2011.

4 Scope of consolidation

A new company was incorporated on February 7, 2012 in Yverdon-les-Bains named Cyklos SA. This company is wholly owned by Tornos SA and is fully consolidated. The purpose of this company is to develop and sell a new machine concept that will enable to surface-treat machined parts. On February 11, 2011, Tornos Holding SA acquired the patents and know-how for this new machine concept.

There are no other changes in the scope of consolidation.

5 Financial risk management

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to cover certain risk exposures whenever needed.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2011.

There have been no changes in any risk management policies.

5.2 Interest bearing loans and borrowings instruments

On June 30, 2012, the Group breached a covenant relating to its facility agreement. From the CHF 50 million of credit and ancillary facilities granted by the banks, CHF 40.8 million were used at the closing date.

A waiver request was issued and accepted by the banks after the closing date but before the authorization of the consolidated financial statements. This waiver stipulates that the Group can continue to use its facilities without restriction.

The breach did not result in any reclassification of the debt as all the borrowings were already classified as short term.

6 Stock compensation plan

The Group has since 2011 one stock participation plan remaining, namely the Management and Board Participation Plan 2007 (MBP07). Compensation expense is recognised in accordance with 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 433 was recorded for the six months period ended June 30, 2012 (June 30, 2011: KCHF 765).

During the period ended 30 June 2012, 307’966 options and 19’700 shares were additionally granted (2011: 206’000 options, resp. 81’000 shares) at an exercise price of CHF 9.78 for the options and CHF 7.34 for the shares. Participants elected in 2012 to purchase thereof 19’700 shares at a price of CHF 7.34 (2011: 81’000 shares at CHF 8.24). The number of options outstanding as of June 30, 2012 amounts to 592’966 (outstanding at December 31, 2011: 642’850).

The fair value of the grants under the MBP07 stock option plan was estimated using the Black-Scholes valuation model.

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

7 Segment information

The Group's core activity is the development, manufacture, marketing, sale and servicing of machine. 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, in order to assess performance and 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 machines 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.

Revenues generated are derived from sales of machines, spare parts and service.

7.1 Analysis of revenues by category

Six months ended June 30,	2012	2011
Machines and spare parts	93'044	139'110
Service	3'997	4'169
Gross sales	**97'041**	**143'279**
Rebates and discounts	–1'204	–2'474
Total net sales	**95'837**	**140'805**

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, Brazil, 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.

7.2 Net sales by location of customers

Six months ended June 30,	2012	2011
Switzerland	21'232	28'181
Other European countries	41'978	82'941
North America	4'924	15'305
Asia	26'901	8'587
Rest of world	802	5'791
Total net sales	**95'837**	**140'805**

No transactions with a single customer accounted for 10% or more of the net sales in both 2012 and 2011.

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

7.3 Non-current assets

The total of non-current assets other than financial instruments and deferred tax assets (there are no employment benefit assets and rights arising under insurance contracts) is as follows:

	June 30, 2012	Dec. 31, 2011	June 30, 2011
Switzerland	45'595	46'723	47'327
Other European countries	1'382	1'463	1'553
North America	159	193	195
Asia	44	31	36
Rest of world	89	0	0
Total non-current assets for geographical area disclosure	**47'269**	**48'410**	**49'111**
Reconciling unallocated assets:			
– Available-for-sale financial assets	6'720	6'663	5'011
– Deferred tax assets	6'776	5'846	7'094
Total non-current assets per balance sheet	**60'765**	**60'919**	**61'216**

8 Subsequent events

Except the event described under note 5.2 – interest bearing loans and borrowing instruments, there are no subsequent events that would require adjustments to the amounts recognised in this interim consolidated financial information or require disclosure.

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