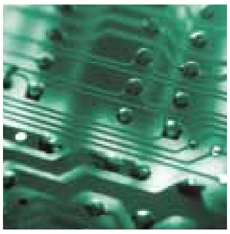
   

REPORT ON THE FIRST HALF OF 2012

TORNOS HOLDING SA

Ladies and Gentlemen, dear Shareholders,

After 2011, a year marked by economic recovery and satisfactory results for the Group, 2012 is proving to be much more sluggish, even difficult.

During the first quarter, the initial effects of a slowdown in new orders that was already becoming apparent at the end of 2011 were somewhat attenuated by the electronics industry's need to replace equipment in the aftermath of the floods in Thailand. This trend did not continue into the second quarter, while the Group's major market of southern Europe heavily suffered from limited access to financing. The industry is confronted with contradictory signals on customers' capacity utilization and their investment needs, which makes it difficult to produce forecasts.

Although projects exist, conclusion is being delayed from one month to the next by customers who are hesitant to make investments in a climate of uncertainty. Even in China, companies are adopting a wait-and-see attitude pending the resolution of the European crisis.

In this context, the intensified competitive climate is increasing pressure on prices and payment terms at a time when the strength of the Swiss franc against the euro should be reflected in price increases in the European zone. These economic conditions call for a skilful balancing act to defend market share on the one hand and protect margins on the other.

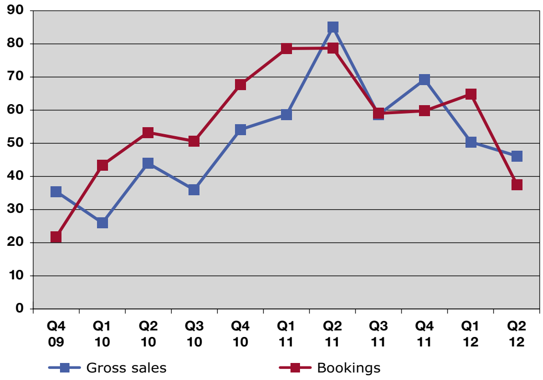
Finally, the last recession caused an accelerated change in the machine tool industry's global context, with large European groups transferring production capacity to eastern Europe and Asia, especially China. These developments imply a necessary transformation in the Group's operations and structures.

Business report

During the first half of 2012, the Group received orders worth CHF 103.3 million, including CHF 38.7 million in the second quarter. This represents a 34.2% drop in new orders compared to the same period in 2011 (CHF 157.1 million), when bookings had returned to their pre-recession levels.

Gross sales for the first half of 2012 totalled CHF 97.0 million, which represents a 32.3% decline compared to the same period in 2011.

The quarterly distribution of bookings and gross sales reflects the accentuated slowdown referred to in the introduction.



(in million of CHF)

In this context, the Group's policy to make use of extensive short-time work has been applied over the second quarter and will be continued to whatever extent is called for over the second half year.

Markets

All regions with mature markets are affected by the slowdown referred to above. Although they have work in hand, customers in southern Europe are unable to undertake investment projects unless they have the support of the financial sector, which is incapable of fulfilling its role in this sphere. Historically, this region accounts for a significant part of the Group's sales, and its current weakness, which has lasted nearly a year now and shows no sign of imminent improvement, has seriously impacted on first half results.

In Switzerland, watchmaking companies invested massively after the upturn in 2011, and they are currently exploiting their available capacity.

Although activity levels in the northern European automotive industry are good, especially in Germany, the industry is heavily dependent on top-of-the-range models sold in China, and as a result, it is exposed to concerns about slower economic growth in that country. At all events, the Group is having to contend with ever-longer decision-making processes before orders are confirmed by the customers.

In the United States, the Group derives much of its strength from the medical technology sector, which weakened slightly during the first half of 2012. In the US automotive sector, where activity levels are healthy, Tornos should be able to offer a mid-range product adapted to the sector's particular needs in the second half of the year. A number of orders have been placed in Brazil, following the opening of a subsidiary there, but considerable efforts will still be needed to get the brand known there.

In Asia, after the significant sales achieved in the aftermath of the floods in Thailand, the Group experienced an interesting development in the Chinese market, where customers are willing to make bulk orders for sometimes major investments, in particular in the automotive and medical technology sectors. Efforts continue to conquer this immense market with suitable products.

Products

The new product named MultiSwiss that was presented in September 2011 at the EMO trade fair in Hanover and that combines a perfect blend of single-spindle and multi-spindle technology, was very well received by both the market and the European trade press. In particular, it won the MWP awards for the best turning centre at the MACH trade show in Birmingham (UK), and it also ranked as the best machine at CIMES in Beijing. The MultiSwiss is thus one of the Group's flagship products. It is installed in the factories of major clients who are very satisfied. Marketing efforts are continuing in Europe and Asia, and in September the machine will be making its US debut at the important IMTS fair. The Group also presented its new Delta 38 single-spindle lathe at EMO. This product meets demands for a simple and economical machine for the production of medium-complexity parts up to 38mm, and as such, it rounds out Tornos' range of solutions. A new single-spindle machine that is intended to provide an efficient machining solution for emerging markets will be premiered during the second part of the year. This product should attract strong interest from its target customer group.

Interim consolidated financial statements as at 30 June 2012

The unaudited consolidated financial statements at 30 June 2012 are enclosed. They have been prepared in accordance with the International Accounting Standard 34 (Interim Financial Reporting).

The anticipated weakness for the first half of the year has been confirmed in the results. With gross sales of CHF 97.0 million, the first half of 2012 ended with a negative EBIT of CHF 2.5 million and a net loss of CHF 3.4 million. This contrasts with the same period in 2011, when the economic upturn enabled the Group to generate a positive EBIT of CHF 10.9 million on a sales volume of CHF 143.3 million.

The decline in operating profit is mainly due to shrinking volume and to a contraction of the gross profit margin from 32.8% to 31.3%. This can be explained on the one hand by the insufficient activity that the short-time work measures implemented in May and June could not fully mitigate, and on the other hand by the pressure on prices caused by the strong Swiss franc and aggressive pricing by competition. Operating expenses fell by CHF 2.7 million, or by 7.6%. This reduction was achieved by extending short-time work to sectors other than production.

Operating cash flow is at negative CHF 7.4 million, compared to a positive cash flow of CHF 8.6 million for the same period in 2011. Net debt totals CHF 28.3 million, an increase of CHF 8.8 million compared to the end of 2011. Following the non-compliance with a covenant imposed by the credit agreement, the banking syndicate waived its right to demand payment so that liquidity over the coming months is ensured.

Shareholders' equity of CHF 125.4 million at 30 June 2012 represented 59.3% of the balance sheet total.

Outlook

When it published its first quarter statements, the Group announced that it would not be issuing a forecast for 2012 in view of the very poor market visibility. This situation has persisted and the summer period, which is traditionally a weak time for new orders, does not make forecasting any easier. However, it is already certain that the outlook published with the 2011 results, which anticipated similar results for 2012, will not become reality. Notwithstanding several important projects that may yet come to fruition, the Group does not expect sales to exceed the amount of approximately CHF 200 million. Taking also into account the pressure on margins resulting from the strong Swiss franc, and in spite of the short-time work measures that have been and will be introduced, the Group will not break even at EBIT level.

The market shift to eastern Europe and Asia that followed the economic crisis, business cycles that are ever shorter but greater in magnitude, and an economic environment that is changing radically, in particular as a result of the Swiss franc-euro exchange rate, are all creating new structural challenges. This implies that the cost structure needs to be sustainably optimized and reduced by CHF 30 to 35 million annually, with greater variability in expenses and greater flexibility in the business model, in order to enable the Group to react rapidly to cyclical fluctuations in the machine tool industry. General Management is currently studying a range of measures that it will announce in fall.

François Frôté
Chairman of the
Board of Directors

Michael Hauser
CEO

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

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Tornos Group **Unaudited Key Figures** (in KCHF unless otherwise stated)	**First quarter 2012**	**First quarter 2011**	**Second quarter 2012**	**Second quarter 2011**	**First half 2012**	**First half 2011**	**Difference**	**Difference % / pts**
Bookings	64’659	78’403	38’665	78’719	103’324	157’122	–53’798	–34.2%
Gross sales	50’976	58’550	46’065	84’729	97’041	143’279	–46’238	–32.3%
EBITDA	1’362	4’116	–1’561	9’001	–199	13’117	–13’316	–101.5%
in % of Gross sales	2.7%	7.0%	–3.4%	10.6%	–0.2%	9.2%		–9.4 pts
EBIT	89	3’007	–2’607	7’942	–2’518	10’949	–13’467	–123.0%
in % of Gross sales	0.2%	5.1%	–5.7%	9.4%	–2.6%	7.6%		–10.2 pts
Net profit/(Net loss)	–1’181	1’548	–2’188	3’852	–3’369	5’400	–8’769	–162.4%
in % of Gross sales	–2.3%	2.6%	–4.7%	4.5%	–3.5%	3.8%		–7.3 pts
Net cash/(Net debt)	–27’508	–40’383	–28’261	–34’346	–28’261	–34’346	6’085	–17.7%
Equity	130’470	113’032	125’411	120’321	125’411	120’321	5’090	4.2%
in % of Total Balance sheet	59.9%	52.1%	59.3%	54.1%	59.3%	54.1%		5.2 pts
Total Balance sheet	217’951	217’137	211’583	222’571	211’583	222’571	–10’988	–4.9%
Capital expenditures in tangible fixed assets	241	513	554	559	795	1’072	–277	–25.8%

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