Half-year 2011

19 August 2011

An overview of the first half-year 2011

1. Preliminary remarks

The first half-year of 2011 was marked by heavy losses and a tightening liquidity situation. Despite a series of refinancing attempts to overcome the liquidity crisis, none of them materialized. Due to this, the Board of Directors of Swissmetal Industries Ltd, Dornach, a subsidiary of Swissmetal Holding Ltd, Dornach, decided that its accounting can no longer be done on the basis of going concern. Thus a balance sheet using liquidation values was established. This led to the provisional composition proceedings (provisorische Nachlassstundung) as of 20 July 2011 of the subsidiary Swissmetal Industries Ltd, Dornach. As this company represents the major part of the business, the half-year report of the Swissmetal Group is also established using liquidation values.

The liquidation values are estimates which could materially be over- or understated. They represent the best management estimate applying the prudence principle.

Metal prices remained volatile on a high level. The market price for copper temporarily climbed to levels of over USD 10'000 per tonne in the first quarter, which made the prefinancing of metal extremely liquidity-consuming. The copper price was at around USD 9'315 per tonne towards the end of the half-year. Furthermore, Swissmetal also suffers from the strong Swiss Franc which especially makes its lower value-added products produced in Switzerland less competitive.

2. Basis for the consolidated income statement, balance sheet, cash flow statement and changes affecting Group companies

These unaudited statements have been prepared in accordance with Swiss GAAP FER 12. The consolidation principles correspond to those of the annual report. As a consequence of the provisional composition proceeding the statements contain the bridge to the liquidation values.

As of 30 June 2011, Swissmetal Design Solutions AG, Dornach, has been merged with Swissmetal Industries Ltd, Dornach, and is not anymore part of the scope of consolidation. In contrast to the previous years' half-year report, Swissmetal changed the stock valuation method to the weighted average method. This results to the following restatement effects for the first half-year 2010: The gross margin and the EBITDA increased by CHF 2.6 million and the EAT increased by CHF 1.4 million. The cash flows from operating activities are not affected.

3. Consolidated income statement

Consolidated income statement First half-year (unaudited)						
CHF 000	2011	%	2010	%	Change in absolute terms	Change in %
Gross sales	157’858	346	141’111	301	16’747	12
of which sales of third-party trade products	18’691	41	15’895	34	2’796	18
Deductions from gross sales	-5'669	–12	–5’509	–12	-160	-3
Net sales	152’189	334	135’602	289	16’587	12
Cost of materials and changes in stock	-106'577	–234	–88’707	–189	-17’870	-20
Gross margin	45’612	100	46’895	100	-1’283	-3
Personnel expenses	-31’971	–70	–29’683	–63	-2’288	-8
Operating expenses	-17'135	–38	–18’324	–39	1’189	6
Operating income before depreciation (EBITDA)	-3’494	–8	–1’112	–2	-2’382	–214
Depreciation on property, plant and equipment	-4’389	–9	–4’529	–10	140	3
Depreciation on intangible assets	-493	–1	–1’527	–3	1’034	68
Operating income (EBIT)	-8’376	–18	–7’168	–15	-1’208	-17
Financial result	-1’237	–3	–1’135	-3	-102	-9
Ordinary result	-9’613	–21	–8’303	–18	-1’310	-16
Non-operating and extraordinary result	-118	0	1’292	3	-1’410	-
Earnings before taxes (EBT)	-9’731	–21	–7’011	-15	-2’720	-39
Taxes	1’159	2	–1’182	–2	2’341	-
Result after taxes (EAT) before change to liquidation values	-8’572	-19	–8’193	-17	-379	-5
Effect of change to liquidation values	-68’160	-69	0	0	-68’160	-
Result after taxes (EAT) after change to liquidation values	-76’732	-88	–8’193	-17	-68’539	-837
Gross added values sales of manufacturing plants	47’527		46’798		729	2
Employees (number of fulltime equivalents) as of 30 June	679		678		1	0

Total gross sales and gross margin – gross added value sales of the manufacturing plants and trading products

In the first six months of 2011, the Swissmetal Group generated consolidated gross sales of CHF 157.9 million (previous year: CHF 141.1 million). The 12% increase in gross sales versus the previous year is largely explained by the metal price increase.

Most of the market segments were affected by the increase in gross sales versus the previous year. The segment Power Generation and Electronics had the biggest growth followed by the segment Decolletage (turned parts) and Industrial Applications and the segment Watches. The market segments Writing Instruments as well as Transportation and Designed Energy and Architecture decreased in terms of gross sales.

The trading business mainly comprises the sales of third-party traded products by Avins USA Inc., Warren/NJ. Its gross sales increased by CHF 2.8 million to CHF 18.7 million in the first six months 2011 compared to the previous year.

The gross added value sales (BBU) of manufacturing plants, in other words the gross sales attributable to the manufacturing plants less metal at standard metal costs, amounted to CHF 47.5 million. This represents an increase of CHF 0.7 million or 2% versus the previous year's period.

The gross margin amounted to CHF 45.6 million and was, therefore, CHF 1.3 million or 3% below the previous year.

Substantial expense items and operating income (EBIT)

Personnel expenses amounted to CHF 32.0 million in the first half-year 2011, an increase of CHF 2.3 million or 8%, whereas the average headcount increased from 678 to 679 full-time equivalents. Personnel expenses include the short-time work reimbursement of CHF 0.5 million in the first quarter 2010.

Operating expenses totaled CHF 17.1 million for the first six months 2011, CHF 1.2 million less than in the same period of the previous year. Swissmetal generated operating income before depreciation and amortization (EBITDA) of CHF -3.5 million in the first half-year 2011, which is a decrease of CHF 2.4 million compared to the previous year's period.

Depreciation and amortization totaled CHF 4.9 million in first half of 2011, CHF 1.2 million less than in the same period of the previous year.

This results in an operating income (EBIT) of CHF -8.4 million, which is a decrease of CHF 1.2 million.

Result after taxes (EAT)

In the first half-year 2011, the net financial result decreased by CHF 0.1 million to CHF -1.2 million compared to the previous year's period.

The non-operating and extraordinary result amounted to CHF -0.1 million and taxes to a positive value of CHF 1.2 million; the latter mainly due to deferred taxes.
At CHF -8.6 million, result after taxes (EAT) before change to liquidation values were CHF 0.4 million lower than in the previous year's period.

Deducting the effect of change to liquidation values, the result after taxes (EAT) after change to liquidation values was at CHF -76.7 million.

4. Consolidated balance sheet

Consolidated balance sheet (unaudited)				30.06.2011		31.12.2010		
CHF 000	Before change to liquidation values	Effect of change to liquidation values	Liquidation values	%	Going concern values	%	Change in absolute terms	Change in %
Current assets	110’334	-13’514	96’830	79	114’217	64	-17’387	-15
Fixed assets	59’359	-33’257	26’102	21	63’884	36	-37’782	–59
Total assets	169‘703	-46’771	122‘932	100	178’101	100	–55’169	–31
Short-term liabilities	81’771	-430	81’341	66	79’610	45	1’731	2
Long-term liabilities	19'605	21’819	41’424	34	20’202	11	21’222	105
Total liabilities	101’376	21’389	122’765	100	99’812	56	22’953	23
Shareholders‘ equity	68’327	-68’160	167	0	78’289	44	-78’122	–100
Total liabilities and shareholders‘ equity	169‘703	-46’771	122‘932	100	178’101	100	-55’169	–31

At the Group level, total assets (liquidation values) decreased by CHF 55.2 million to CHF 122.9 million in comparison with the prior year-end, primarily due to the lower fixed assets.
The CHF 17.4 million (15%) decrease in current assets compared to the previous year mainly stemmed from the decrease in the stock value due to volume reduction. At the same time accounts receivable increased, mainly due to increased metal prices. This item is most concerned by the effect of change to liquidation values of CHF 13.5 million. Fixed assets amounted to CHF 26.1 million (year-end 2010: CHF 63.9 million). This is explained by the effect of change to liquidation values of CHF 33.3 million mainly due to the impairment of machines and technical equipment and deferred tax assets.

Total liabilities amounting to CHF 122.8 million represented almost 100% of the total balance sheet. Short-term liabilities increased by CHF 1.7 million (2%) to CHF 81.3 million. The main reason was the increased liquidity need which was partly offset by the repayment of several bank loans. Long-term liabilities amounted to CHF 41.4 million at the end of June 2011, CHF 21.2 million higher than at the year-end. The environmental provision had to be increased as an effect of change to liquidation values. Compared to the year-end, interest-bearing liabilities decreased from CHF 45.1 million to CHF 33.2 million; non interest-bearing liabilities amounted to CHF 89.6 million (previous year-end: CHF 54.7 million).

Shareholders‘ equity amounted to CHF 0.2 million, hence the balance sheet shows an overdebtedness mainly due to the effects of change to liquidation values.

5. Consolidated cash flow statement

Consolidated cash flow statement First half-year (unaudited)				
CHF 000	2011	2010	Change in absolute terms	Change in %
Cash flow before change in net current assets	-75'149	-4'743	-70'406	-
Change of net current assets	21'371	4'469	16'902	378
Cash flow from operating activities after change to liquidation values	-53'778	-274	-53'504	-
Effect of change to liquidation values	68'160	0	68'160	-
Cash flow from operating activities before change to liquidation values	14'382	–274	14'656	-
Cash flow from investing activities	-609	-2'589	1'980	76
Free cash flow	13'773	-2'863	16'636	-
Cash flow from financing activities	-11'955	4'393	-16'348	-
Effect of exchange rate on cash and cash equivalents	-54	-151	97	64
Net change in cash and cash equivalents	1'764	1'379	385	28
Cash and cash equivalents as at 1 January	1'901	5'720	-3'819	–67
Cash and cash equivalents as at 30 June	3'665	7'099	-3'434	-48

Swissmetal generated an operating cash flow of CHF 14.4 million in the first six months 2011, CHF 14.7 million more than in the previous year's period. This was mainly due to the change of net current assets.
In the first half of 2011, Swissmetal invested a net total of CHF 0.6 million in tangible and intangible assets (previous year: CHF 2.6 million), in particular in a number of machine upgrades.
Free cash flow totaled CHF 13.8 million, an increase of CHF 16.6 million compared with the previous year's period, as a result of cash generated by the increase of net working capital.

6. Outlook

Due to the impact of the valuation relating to the provisional composition proceedings of the subsidiary Swissmetal Industries Ltd, Dornach half of the Swissmetal Holding's share capital and legal reserves is no longer covered, the Board of directors has decided to convene an Extraordinary General Meeting in the following weeks in order to request remedial measures.

The Board of Directors aims to preserve the maximum of the existing substance and to continue the independent business operation where possible and viable or to dispose of the legal entities or assets to third parties.

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