

8 May 2007

Dear Customers, Employees, Shareholders,
and Business Partners

Swissmetal started the first quarter of 2007 with a good strong tailwind behind it, allowing us to maintain business at a satisfactory to healthy level at all three sites.

However, it wasn't all plain sailing as we entered the new year. Metal prices continued to climb to unbelievably high levels and energy costs soared, especially at the Reconvilier site. We are resolutely tackling both of these factors and suitable measures will be taken. Among other things, this means we will have to be more selective when accepting customer orders – owing to the considerable advance financing requirements. We might even need to raise prices sufficiently to cover the increased costs, as our margins do not provide us with a cushion against such a major hike.

In the 2006 financial year, Swissmetal demonstrated yet again that the company would not be in a position to achieve a return on capital (net operating profit after standard tax/capital employed) in excess of 5% without the restructuring measures that have been initiated. However, an average 9% ROCE is required across the entire business cycle. We can see from this that we succeeded in saving Swissmetal from an almost certain collapse in 2003/2004, and that we have made good progress since. However, some work still remains to be done – for instance, the projects and initiatives launched must now be completed. Implementing our major program of investment in modern hot forming facilities for the Swiss plants has top priority here. We are extremely pleased to be able to hold our next Annual General Meeting of shareholders on 16 May 2007 in the hall housing the new extrusion press at Dornach (Canton Solothurn), thus giving you the chance to view one of the world's most modern facilities for semi-finished copper products shortly before it commences operation in June 2007. It is very gratifying to see how

things are now starting to come together bit by bit as a result of the restructuring programme launched in 2003.

We need to step up our efforts to establish a production site in Asia. We did manage to identify several potential acquisitions, but were forced to reject them again upon closer inspection. We are deliberately taking a cautious approach to our Asia venture, aware that too many others have already burdened themselves with major problems in this region.

Time and again our shareholders ask us whether Swissmetal itself might not be a takeover candidate. Of course, this is a permanent risk for any exchange-listed company. Anyone who is willing to put forward the necessary funds can acquire a more or less significant stake in Swissmetal. If this process did not merely involve a change of financially-driven shareholder, but a potential strategic partner, then the deciding factors for the Swissmetal Group Management would be the potential for constructive collaboration at every level and the industrial logic underpinning the move. Our aim is to create a company that can enjoy sustainable profitable growth. We can certainly achieve good profitability and a certain amount of growth under our own steam. But we also want to be one of the driving forces behind the consolidation within our sector of the industry. The ultimate aim is for a strong Swissmetal to emerge – that is the single most decisive factor. In this context, we are able to confirm to you, our shareholders,



customers, business partners, and employees, that we will continue to take a clear industrial view and maintain an industrial focus. We want to create a successful business – one that will still be a source of great pleasure to us in 10 or 20 years time.

The last few years have shown that this sometimes involves taking a less popular route. However, having embarked upon this difficult course, we did not shrink from pursuing it to the very end. We now find ourselves receiving ever more positive reactions – and not just from those shareholders who stood by us in difficult times. It would be a great thing, and in the interests of the entire workforce, if we could now succeed in working together with the trade unions, associations and employee representatives to conclude a framework social plan for the further restructuring of our plants in Switzerland. Our new hot forming facilities will soon commence operation and some of the older machines will be decommissioned. This will result in significant adjustments in headcount, which must be conducted in such a way as to be affordable to Swissmetal and socially acceptable to the employees.

We have a number of plans for 2007. Let us hope that things are less turbulent than in 2006 and that all the parties and interest groups are aware of their responsibilities in terms of jobs. This is in all our interests. We are receiving positive signals that this will be so. And if the economy continues to lend a helping hand, then we can afford to be confident about the way things will go in 2007, which will once more be dominated by restructuring activities. I would like to thank you all very much for your support.



Martin Hellweg

AN OVERVIEW OF THE FIRST QUARTER OF 2007

A) PRELIMINARY REMARKS

Swissmetal continued to enjoy a strong economic tailwind in the first quarter of 2007. Yet another significant hike in metal prices means that Swissmetal is now required to be selective in accepting customer orders. For example, copper, the material most widely used at Swissmetal, regained a price level of around USD 7,000 per tonne, and continued on its upward path after the end of the quarter. This requires a great effort of Swissmetal when it comes to financing the orders. The latter must be both feasible in monetary terms as well as accomplishable. There has also been a sharp increase in energy prices, in particular at the Reconvilier site where the local electricity supplier has pushed through a massive price increase. Swissmetal is looking at appropriate measures to sufficiently address this situation.

The first-quarter results are the first to include Avins Industrial Products Corp., Warren/NJ, USA, the American trading company acquired by the Swissmetal Group in January 2007.

Since no results could be published for the first quarter 2006, owing to the illegal strike at the Reconvilier plant, there are no data against which to compare this year's figures. The usual comparison with the prior-year figures will, however, be possible for the upcoming half-year results.

B) CONSOLIDATED INCOME STATEMENT

Consolidated income statement – First quarter	2007*	
	CHF 000	%
Gross sales	116'384	298.1
Gross added value sales	34'343	88.0
Gross margin	39'040	100.0
Personnel expenses	-21'098	-54.0
Operating and administrative expenses	-10'528	-27.0
Operating income before depreciation (EBITDA)	7'414	19.0
Depreciation	-4'520	-11.6
Operating income (EBIT)	2'894	7.4
Financial result**	-399	-1.0
Non-operating and extraordinary result	-6	0.0
Taxes	-1'328	-3.4
Earnings after tax (EAT)**	1'161	3.0
Employees (number of full-time equivalents) as at 31 March	843	

* Both the figures for Avins Industrial Products Corp., Warren/NJ, and the ones for Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, are included.

** The financial result and EAT have decreased by CHF 1.1 million compared to the version communicated on 24 April 2007. This is due to the sale of company-owned shares worth CHF 1.1 million (these shares were part of the purchase price paid to the former owners of Avins Industrial Products Corp., Warren/NJ and had been previously acquired on the market). In accordance with Swiss GAAP FER 24, this realized gain must be taken directly to equity and not through income statement. All figures up to EBIT level are unchanged, as are the balance sheet and cash flow statement.

Gross sales and gross added value sales The Swissmetal Group generated gross sales of CHF 116.4 million in the first three months of 2007.

Gross added value sales, i.e. gross sales less metal at standard metal costs, came to CHF 34.3 million. Transport infrastructure, generators and other turned part products on one hand beat expectations. Architecture and connectors, on the other hand, performed below expectations, in the latter case due to production-related delivery delays on the part of Swissmetal that should be eliminated in the coming quarters.

Operating income (EBIT) In the first quarter, the gross margin stood at CHF 39.0 million. The largest block of costs was personnel expenses at CHF 21.1 million. The resulting ratio of personnel expenses to gross margin comes to 54%. Compared with the same figure for the full year 2006, adjusted for the impact of the inventory efficiency drive (64%), it can be seen that the ratio has improved by 10 percentage points in the first quarter 2007. Not only has Swissmetal been able to reap further efficiency benefits from the restructuring of the company, it has also managed to stabilize the situation at Reconvilier.

Operating income before depreciation and amortization (EBITDA) came to CHF 7.4 million in the first quarter of 2007.

Depreciation of CHF 4.5 million includes CHF 1.0 million in non-systematic depreciations attributable to further planned cutbacks in the hot deformation facilities in Switzerland, which entails the reduction in the useful life of assets.

Operating income (EBIT) for the first quarter amounted to CHF 2.9 million.

Earnings after tax (EAT) At CHF 0.4 million, the financial result for the first quarter was negative. The increased interest expense – owing, in particular, to the higher working capital requirements, necessitated by the higher metal prices – was partly offset by a positive foreign exchange result of CHF 0.3 million.* Earnings after tax (EAT) came to CHF 1.2 million.

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C) BALANCE SHEET

Consolidated balance sheet	31.03.2007*		31.12.2006**	
	CHF 000	%	CHF 000	%
Current assets	158'778	63.9	130'380	60.2
Fixed assets	89'712	36.1	86'255	39.8
Total assets	248'490	100.0	216'635	100.0
Short-term liabilities	67'514	27.2	57'941	26.7
Long-term liabilities	49'179	19.8	32'390	15.0
Total liabilities	116'693	47.0	90'331	41.7
Shareholders' equity	131'797	53.0	126'304	58.3
Total liabilities and shareholders' equity	248'490	100.0	216'635	100.0

* Both the figures for Avins Industrial Products Corp., Warren/NJ, and the ones for Swissmetal Lüdensch eid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdensch eid, are included.

** The figures for Swissmetal Lüdensch eid GmbH, Lüdensch eid, are included for February to December 2006.

The Swissmetal Group's total assets equaled CHF 248.5 million as of 31 March 2007, CHF 31.9 million up on the end of 2006.

If the individual balance-sheet items are viewed in isolation, then the rise on the asset side can primarily be attributed to the increase in net working capital. Goodwill capitalized as of 31 March 2007 from the purchase of Avins Industrial Products Corp., Warren/NJ, came to CHF 4.0 million (net). On the other side of the balance sheet, liabilities in particular have grown.

As of 31 March 2007, net debt amounted to CHF 60.2 million and has thus risen by CHF 16.2 million since the end of 2006, both as a result of the first-time consolidation of Avins Industrial Products Corp., Warren/NJ, and the more intensive utilization of credit lines to finance the increase in net working capital resulting from higher metal prices.

D) CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement – First quarter	2007*
	CHF 000
Cash flow before change in net current assets	8'652
Change in net current assets	-20'780
Operating cash flow (cash flow from operating activities)	-12'128
Cash flow from investing activities	-10'376
Free cash flow	-22'504
Cash flow from financing activities	10'540
Effect of exchange rate on cash and cash equivalents	19
Change in cash and cash equivalents	-11'945
Cash and cash equivalents as of 1 January	20'398
Cash and cash equivalents as of 31 March	8'453

* Both the figures for Avins Industrial Products Corp., Warren/NJ, and the ones for Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, are included.

Operating cash flow for the first three months of the year was negative at CHF –12.1 million, mainly due to the CHF 20.8 million increase in net working capital since the start of the year.

The acquisition of property, plant and equipment and participations led to cash outs of CHF 10.4 million. This figure includes the CHF 7.0 million net purchase price for Avins Industrial Products Corp., Warren/NJ, (cash plus Swissmetal shares locked in for a one to three year period). The remaining CHF 3.4 million is mainly accounted for by the pro rata investment in the new Swiss extrusion press allocable to the first quarter (CHF 2.9 million).

These various effects combined brought about a free cash flow of CHF –22.5 million for the first quarter 2007. However, given the current operating conditions and the restructuring program, this is in line with Swissmetal's expectations.

Cash flow from financing activities in the first quarter was positive at CHF 10.5 million.

E) OUTLOOK

2007 will be another year of restructuring for Swissmetal, although this process is now at a fairly advanced stage. Preparations for the commissioning of the new extrusion press for production in Switzerland are proceeding apace. The company expects significant efficiency gains to emerge from this process, although not in 2007 itself, but in the years ahead. In parallel with this optimization of production, particular efforts will be made to expand Swissmetal's own range of products in the new "trading products" business.

In addition, further strategic and operational projects are planned including

- modernization and concentration of the hot deformation facilities in Switzerland at level foundry,
- optimization of the product flow at Reconvilier, which is currently unsatisfactory, by focussing on the new plant 2 there,
- establishment of a company-owned production facility in Asia plus
- the introduction of SAP at the Lüdenscheid site, acquired last year, all of which will be given priority in the current year.

Alongside the running of the day-to-day business, the high number of important and necessary change projects will also require a huge effort of Swissmetal in organizational terms. Neither can one-off impacts from these initiatives and from the performance of the metal markets be excluded in 2007.

F) SCOPE OF CONSOLIDATION

These unaudited financial statements have been prepared in accordance with Swiss GAAP ARR. The principles of consolidation are the same as those used in the annual financial statements.

By contrast with the 2006 Annual Report, Avins Industrial Products Corp., Warren/NJ, USA has been included in the scope of consolidation for the first time as of 1 January 2007.

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