SWISSMETAL

Precision in Copper

ANNUAL REPORT 2006

Snapshots of everyday life at Swissmetal – an informative photo documentation. This Annual Report includes a series of snapshots from our three sites in Dornach, Reconvilier and Lüdenscheid. These photographs provide a glimpse of the details of our day-to-day working environment. They take a "behind the scenes" look at what life is like inside the company, not only demonstrating what makes each location unique, but also highlighting their similarities, revealing just how much the various sites and different departments have in common.

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KEY FIGURES: A FIVE-YEAR OVERVIEW

CONSOLIDATED GROUP (CHF MILLION)	2006 [5]	2005 [3]	2004 [3]	2003 [3]	2002
Gross sales	357.6	198.3	204.8	170.6	229.2
Net sales	343.7	190.4	195.1	162.5	216.5
Gross added value sales (plants)*	118.0	103.5	117.7 [4]	103.5	134.7
Gross margin**	141.1	109.2	118.4	100.8	124.6
Operating income before depreciation (EBITDA)	27.6	16.0	20.2	12.4	2.5 [1]
Operating income (EBIT)	10.2	3.4	8.4	1.0	–27.6 [1]
Result for the year (EAT)	4.6	3.3	17.7	–6.9	–55.5 [1]
Total assets	216.6	162.8	162.1	144.9	145.8 [2]
Current assets	130.4	94.8	99.1	80.7	73.8 [2]
Fixed assets	86.2	68.0	63.0	64.2	72.0 [2]
Short-term liabilities	57.9	22.9	27.7	73.7	66.0 [2]
Long-term liabilities	32.4	16.5	15.9	18.5	20.3 [2]
Shareholders' equity	126.3	123.4	118.5	52.6	59.4 [2]
Cash flow from operating activities	33.1	21.1	–4.6	11.2	18.1
Capital expenditures	28.4	15.5	11.2	9.4	9.0
Headcount (annual average in full-time equivalents)	879	768	807	755	1'118
Net financial liabilities (+) / assets (–)	9.7	–2.4	4.3	41.1	46.7
Share price as of 31 December (CHF) [6]	26.9	14.3	12.2	24.5	23.4
Highest share price (CHF) [6]	29.0	16.7	26.6	25.2	63.0
Lowest share price (CHF) [6]	14.3	12.3	9.9	14.0	23.4
Earnings per share (EPS; CHF)	0.7	0.5	2.7	–8.1	–65.3
Market capitalization [6]	176.1	93.3	79.9	20.8	19.9

* Gross added value sales: Gross sales less metal at standard metal costs
** Gross margin: Net sales less cost of materials and changes in inventory
1) After extraordinary items for restructuring
2) Swissmetal Busch-Jaeger GmbH, Lüdenscheid, and Swissmetal Deutschland Holding GmbH, Schwenningen, have been deconsolidated
3) Excluding Swissmetal Busch-Jaeger GmbH, Lüdenscheid, and Swissmetal Deutschland Holding GmbH, Schwenningen
4) Due to the change in the definition of gross added value sales in 2005, the value of 2004 was adjusted from CHF 114.0 million to CHF 117.7 million. The values from previous years have been retained.
5) Including Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmBH), Lüdenscheid, since February 2006
6) On 12 July 2004, UMS Swissmetalworks Holding Ltd, Dornach, was refinanced through a capital decrease in the form of a reduction in the par value per share from CHF 100 to CHF 9.00, and a subsequent capital increase. The share prices preceding this date correspond to those published by the SWX Swiss Exchange, adjusted for the recapitalization factor.

SHARE PRICE PERFORMANCE

The graphic above shows the Swissmetal share price performance against the Swiss Performance Index (SPI) for the period from 1 January to 31 December 2006. To facilitate comparison, the SPI was set at the Swissmetal share price as at 1 January 2006. The SPI curve shows the performance relative to this initial value over course of the entire year.

Whereas the SPI increased 20% in the period from 1 January to 31 December 2006, the Swissmetal share price rose by 88%.

Dear Customers, Employees, Shareholders
and Business Partners,

A substantial capital increase in the summer of 2004 enabled Swissmetal to restructure itself and put the Group on course for a successful future.

Our shareholders evidently approve of the course that we have taken, welcome our strategic decisions, and recognize the progress that we have made in operating terms. Especially during the past year.

Our results for the 2006 financial year – which exceeded our expectations – are the product of very unsettled times. The industrial dispute in Reconvilier was not without its consequences. Metal prices soared to such levels that our financial strength was severely limited and we subsequently had to decline a number of orders in the second half of the year. This reduced the extent to which we were able to benefit from the global increase in demand for our top-quality specialist products. Apart from the positive state of the economic activity in the sector, our results also benefited from the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH) in Lüdenscheid, Germany, whose business performed well in the past year. Lüdenscheid also processed the orders that we were unable to handle at our Reconvilier site because of the strike. Our drive to improve inventory efficiency released stocks of metals that we were able to sell on attractive terms when the price levels were at their highest. Without all these factors we would have generated profits virtually identical to those of the previous year.

Even though our operating performance in the past financial year was satisfactory, Swissmetal is still in need of a fundamental repositioning. For any company based in Western Europe, the manufacture of basic standard semi-finished copper products – which still account for a substantial proportion of our product portfolio – simply has no future. The sector has enormous excess capacities, and is suffering progressive price erosion because many of its customers are no longer located in Europe.

This is why we want to increase the proportion of high-quality specialist goods, which fortunately make up the majority of our product portfolio. In addition, we want to find other fields of activity, close to our business, which will enable us to generate successful growth based on our strong market position in the US, France, Germany, Italy, Switzerland – and also in India and China. Examples of these two objectives: in our core business we are manufacturing innovative piping and sections in CN8 special alloy for the aviation and oil industries, while at the same time establishing new businesses by moving into trading. Whereas CN8 alloys constitute a new level of high added value and “intelligence” in our products, the Avins Industrial Products Corp. in Warren, New Jersey, which we acquired last year, has the potential to become a global trading platform for related products. This step has various benefits. On the one hand, our customers – some 90% of whom are located in the seven countries mentioned above – expect constant improvements in services, for example in local logistics: it is no longer enough to simply pack a product into a crate and ship it out. Swissmetal products alone will not enable us to establish a local presence in these countries. Avins Industrial Products Corp., based in Warren, New Jersey in the US, has shown us how to achieve success. Swissmetal products account for about 40% of its sales. Avins also represents other companies producing semi-finished copper and other related products that are not in competition with each other – and makes good money from doing so. A trading division will enable Swissmetal to retain these good margins in-house, while benefiting from new ones at the same time. It will also enable us to respond much more flexibly to future scenarios. The entire semi-finished copper product sector is in a state of flux. Distribution flows are assuming an increasingly global scale. We see this as an opportunity, and one in which we intend to take advantage of by moving into trading.

2007 will be the year in which we press on with the systematic restructuring of Swissmetal. Our new extrusion press is being installed even as this Annual Report is being published, and it will be supplemented by a new foundry. This will give Swissmetal an ultramodern hot-forming center in Switzerland, in addition to its facilities in Germany, an investment that will begin to bear fruit in 2008. We shall concentrate on increasing the proportion of our portfolio accounted for by specialist products and continue to grow by acquisition if opportunities present themselves that are a good strategic fit.

Meeting the challenge of Asia requires us to take a further step towards establishing a local presence in that region. Our working agenda thus remains extensive and multi-faceted. Day-to-day business and change projects combine to face us with challenging tasks in 2007. Let us hope that we are at least spared unwelcome "firefighting exercises", and can focus all our energies on achieving a good operating performance and the strategic restructuring of Swissmetal. With the support and constructive cooperation of our stakeholders – their continued support and constructive cooperation, in the vast majority of cases – Swissmetal can gradually position itself for long-term success. This is our firm belief, and we thank you all for your enthusiastic support. Together, our resolution and whole-hearted personal commitment will enable us to achieve further successes this year.

Yours sincerely

J. Friedrich Sauerländer Chairman of the Board of Directors	Martin Hellweg CEO and Member of the Board of Directors


RECONVILIER


DORNACH

LÜDENSCHEID

The Swissmetal strategy – intended, over the next few years, to turn the company into a profitable enterprise that is capable of enjoying sustainable growth – is subject to constant scrutiny, revision and further development by the Board of Directors and Management. 2006 saw the company make good executional progress in the major areas of strategic thrust, the details of which were provided in past annual reports and which have now been confirmed, further developed or adjusted as necessary. New, additional and complementary elements have been added.

Operational excellence in Europe The fundamental repositioning of the company is proceeding expeditiously and is having an ever greater impact on the industrial activities in Switzerland and Germany, in their present shape. Concentrating hot forming operations, i.e. foundry and extrusion processes, at Dornach and Lüdenscheid will enable the realization of important synergies. As part of this change process, the entire plant and facilities are being modernized, thereby increasing the range of technical options and creating a focus on high-grade specialized products, while at the same time boosting productivity. The most important investment project currently underway in this area, the new extrusion press for the Swiss sites, is proceeding according to plan. The first tests should be run on the facility in Dornach from the summer of 2007 and the installation should be fully up-and-running by mid-2008. Capital spending is additionally being driven by numerous other technology projects, many of which will create brand new options for the production of technically challenging specialist products. Such projects, combined with the transfer of individual manufacturing units between sites, will help bring about massive improvements in the degree of specialization at each location and boost their productivity, flexibility, technical competences and capacities. Older equipment, which is less efficient to run and often requires a great deal of maintenance, can be phased out. This has the added bonus of eliminating considerable fixed cost pools. The three Swissmetal sites will become leaner, more productive and more efficient.

"Avins" – trading company and umbrella brand for own sales activities So that it can offer customers an even wider range of products and solutions, Swissmetal is increasingly rounding out its sales portfolio with semi-finished copper goods from other manufacturers and related products. By taking this step into the international trading business, the company can leverage its strong market position and its existing customer base in interesting market segments, in order to create new opportunities for growth. Furthermore, it can respond to the clearly emerging trend that is seeing the sale of semi-finished copper products become ever more challenging as a result of the increasing number of services required – such as technical advice or logistics. Services of this kind can be presented much more effectively by a national sales company if it uses third-party products to boost the potential volume.

For this reason, Swissmetal will gradually spin off its sales and distribution activities over the next two years, bundling them in an independent subsidiary under the umbrella brand of "Avins" (short for "Advanced Industrial Products"). To achieve this, the new Group company Avins International AG, Dornach, was established at the end of 2006. It currently owns and controls the US subsidiary Avins Industrial Products Corp., Warren/NJ, and will build up further subsidiaries in Swissmetal's core markets.

By widening the range of the new sales brand to include products from other manufacturers, Swissmetal will be able to speed up the realignment of the production at its own sites to focus on products that are highly advanced in terms of technical specifications such as alloy, form or dimension. Thanks to its expertise, technical skills and capacities, it is with products of this kind that the company can set itself apart from its competitors. The three production sites that are currently in existence will thus operate at the high-tech end of the market in the future, which is a move that not only reflects the vast expertise available but also the cost situation at these locations, which makes a firm focus on top-notch products imperative. Broadening its strategy in order to supply its customers with third-party products alongside the company's own, will not only enable Swissmetal to increase the range of its portfolio, but it will also enable it provide a considerably higher level of service in its core markets.

Industrial consolidation While the semi-finished copper goods industry generally suffering from enormous excess capacities, some companies can still stand their ground and in some cases even turn a profit, i.e. specialist firms whose expertise and high-quality products allow them to stand out in the markets for challenging technical solutions. Because specialized companies of this kind produce lower tonnages, opportunities arise for consolidation and the joint running of facilities with high investment and operating costs, such as hot forming, across several sites. Furthermore, most specialist brands are tending to operate at the global level. Swissmetal is campaigning for a process of consolidation among such specialist manufacturers and fully intends to play a creative role. It was against this background that Swissmetal took the initial step last year in acquiring Busch-Jaeger Metallwerk GmbH (now known as Swissmetal Lüdenscheid GmbH), Lüdenscheid/Germany.

Asia strategy Swissmetal is working on a number of projects that are designed to expand its position in the Asian market, which is the largest growth region in the semi-finished copper goods sector. The aim is for the company to establish or acquire production facilities of its own as quickly as possible, and to bring these up to the same technological standards as the existing sites by investing in technology and transferring know-how. It is in this way that the company wants to move closer to its customers, lower the costs of production and seize the major opportunities for growth presented by this particular region.

Innovation, research and development The development of innovative new top products is another area in which Swissmetal made considerable progress in 2006. Thanks to its ongoing high level of investment in research and development, Swissmetal is gaining access to new market segments – ones that are characterized by strong growth and in which the company and its specialist products can stand out from the competition. Thus, for example, the company was able to report on 28 September 2006 that it had landed its first commercial order for large-diameter precision pipes made from the new CN8 alloy using the Osprey process. These are destined for use in the oil industry. Further areas of application include the aviation industry and the construction machinery sector, all of which are interesting growth markets.

Overall, Swissmetal implemented a large number of pragmatic steps in the 2006 financial year, marking further progress in the direction outlined in its strategy. Having embarked upon a forward-looking course in international trading and by launching the new building technology system product, the company has also created interesting new growth prospects.

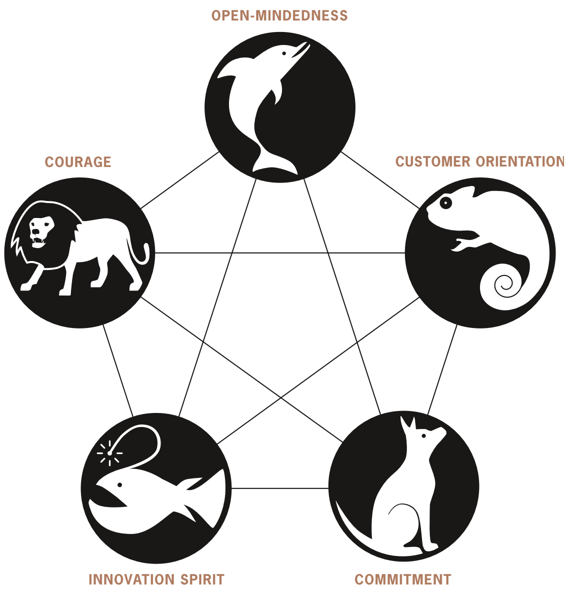
Swissmetal – or to be precise, the individual plants, which were united a good 20 years ago to form the company as it is known today – has a strong underlying culture and values based on the long history and time-honored traditions of each site. Unfortunately, these often took on a strong local flavor, meaning that the staff tended to identify more with the particular plant at which they worked than with the company as a whole. The centrifugal forces resulting from these conflicts of interest between the individual sites and Swissmetal as a legal entity were no doubt one of the factors that drove the disputes in Reconvilier between the autumn of 2004 and spring 2006. One of the prime objectives in tackling the crisis at Reconvilier, a process that is still ongoing, as well as in connection with the acquisition and integration of a further site in Germany, Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, was to gain acceptance at all Swissmetal sites for a joint corporate culture. Events over the past few years have shown the increasing need for a sense of identity with the company and for a clear and integrative "Swissmetal culture" to be outlined. Moreover, Swissmetal is a company that has undergone fundamental changes and developed a great deal in recent years, and has now set itself important and challenging development targets at the strategic, technical and organizational levels for the period ahead. The stepped-up pace and growing momentum is directly linked to market imperatives. To be successful, this drive needs the support of our employees, clients and shareholders. Given this background, it is imperative that the management clearly communicates its long-term vision and strategy for future success, as well as the values that are to apply in the running of the company.

In autumn of 2006, Swissmetal went about formulating integrative, meaningful and motivational targets, values and norms for the Swissmetal Group. A small brochure was compiled in which Swissmetal's long-term vision and its five key values, which are to be the benchmark for management and cooperation within the company, were described and explained and arguments presented in their favor.

The vision is quite simply: We want to be a profitable, global and flexible company, the partner of choice for metal-based precision solutions in high-tech markets.

The five key values are: Open-mindedness – customer orientation – commitment – innovation spirit – courage.

In the course of 2007 and beyond, the vision and key values will be introduced throughout the entire organization. The topics involved will be expanded on and made tangible for each and every staff member at workshops at all levels of the company, with Swissmetal's internal communication tools also playing an important role. More decisive still, however, is that the five values are lived day by day in an exemplary fashion by managers at all hierarchic levels. The values will therefore also be integrated into the various HR processes, such as recruitment, appraisal and management development. The "Nordstern" bonus plan, in force since 2006 for all managers throughout the Group, is also conducive to the implementation of the values and will provide a further contribution to establishing the long-term strategy of value generation as a benchmark. This two-pronged approach – addressing the behavioral level on the one hand and providing the right incentives on the other hand – is intended to make a major contribution to the promotion of integration, team spirit and dynamism within the Swissmetal Group.



The first bonuses under the new "Nordstern" bonus plan, which was introduced on 1 January 2006, will become due for payment in April 2007. Through this plan the Board of Directors reached a fixed five-year target agreement with management, which will be extended in three years time on a rolling three-year basis. At any given time, management will thus have fixed five-year objectives, a key factor in helping to maintain a long-term focus. The bonus plan is open to members of the Management Board, Group Management, and all management-level personnel within the Swissmetal Group – some 100 people.

Value Added The term "value added" (VA) refers to an additional contribution to value, in which financial profit is not measured in terms of operating profit alone, but rather by also taking into account the costs of invested capital. In economic literature, it is also known as "economic value added" or "economic profit".

"Nordstern" bonus plan Under the "Nordstern" bonus plan, it is not the amount of value added that is decisive, but rather the change in value added in relation to the previous year, measured in Swiss francs. The exact change is calculated by comparing actuals to actuals rather than actuals to the annual budget. Furthermore, in contrast to earlier bonus plans, "Nordstern" does not involve any individual or area-specific goals. It is designed to focus the decision-making activities of the entire management on a single corporate objective in order to reinforce the unifying link between the interests of shareholders and those of management. Achieving individual or area-specific goals, whose measurement was generally dependent on the subjective assessment of a line manager and whose contribution to optimizing the overall business was often difficult to follow, has thus become a thing of the past. Individual objectives, area targets and annual budgets still number among the leadership instruments employed by management, but they do not play a significant role in determining bonuses. The key criterion is the increase in value added generated thanks to joint management efforts.

A "target bonus" has been defined for each participant in the bonus plan in their employment contract. If value added develops in line with the five-year agreement between the Board of Directors and management, the target bonus will be paid in full. However, the agreed targets may not be reached, or may even be exceeded. Such fluctuations are dealt with through the "bonus bank". This involves maintaining a virtual account for each individual participant in the plan in which the bonus from exceeding the target or malus from failing to meet the target are recorded.

The agreed value added target was exceeded in the 2006 financial year. The target bonus plus one-third of the excess amount will be paid out. The remainder will be retained in the bonus bank and added to or offset against the 2007 bonus. The balance in the bonus bank is thus subject to the risk of a decline in value added.

The bonus bank idea includes a very important incentive component that is designed to retain the best workers with the company. When employees leave the company, they receive only one-third of the amount in the bonus bank and lose their entitlement to any remaining amount in the bonus bank and to a target bonus for the year currently underway. (Exceptions are set forth in the corresponding regulations).

The fixed five-year objectives and the bonus bank mechanism demonstrate the long-term alignment of the bonus scheme. "Nordstern" is thus superior to traditional bonus plans, which are frequently only based on the course of business in the immediately preceding year. With "Nordstern", management can only boost their payout by making the right decisions to secure long-term, sustainable value added for the company.


RECONVILIER

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Even metal experts with many years of experience describe 2006 as one of the most crazy years ever. As one of our metal suppliers put it: “Metal prices are all over the place again.” This assessment is based on the extreme volatility of the metal markets in 2006, with very substantial price movements in both directions – and what is more, the commodities also traded at very high prices.

The main factors behind these sharp price rises are the high global requirements, imbalance between supply and demand, and heavy commitments of capital investors.

On the demand side, the major factor driving prices upwards was the growing hunger for raw materials in China, India and other emerging countries. In previous years, when economic activity was less than dynamic, some producers wound down the production volumes of our most important metals because selling prices were no longer sufficient to cover production costs. Many mining operations and iron/steel works were actually shut down.

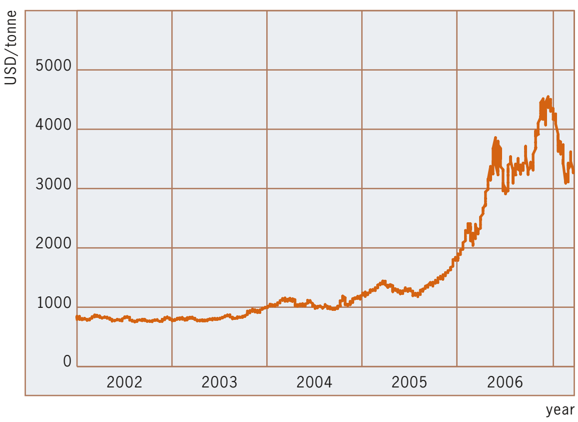
This decline in volumes supplied by the producers and exacerbated by industrial disputes in the mines, resulted in a continuous fall in the official stocks held in the warehouses of the LME (London Metal Exchange), which eventually reached historic lows. This had the effect of driving prices up even higher.

Apart from the fundamentals, the extensive commitments of capital investors should not be overlooked. These are an increasingly important – but also increasingly incalculable – factor in commodity trading. This is why price movements are not always entirely comprehensible, making physical commodity trading an increasingly challenging activity.

The point should be made here that Swissmetal has only a limited exposure to the threat of fluctuating metal prices. Selling positions are generally physically matched with metal purchases. It is thus only the volume of stocks that is not covered by delivery obligations – principally the material that is actually undergoing processing – that has a risk exposure, i.e. is subject to market volatility. As a result of stock-optimization measures, this fell from 85% of the total goods inventories in 2005 to 71% in 2006. However, the LIFO (last in, first out) method that Swissmetal employs keeps the risk extremely low. The value of the risk-bearing inventories at the end of 2006 was CHF 21.4 million, which is equivalent to 31% of the carrying value of goods inventories.

3-month copper

3-month zinc



3-month nickel

CONSOLIDATED INCOME STATEMENT

Gross sales and gross added value sales The Swissmetal Group* generated gross sales of CHF 357.6 million in the 2006 financial year: CHF 159.3 million (80%) more than the previous year's figure. There are several reasons for this significant increase. Firstly, this figure includes the sales at Busch-Jaeger Metallwerk GmbH in Lüdenscheid, Germany, which was acquired in February 2006 and now trades as Swissmetal Lüdenscheid GmbH. This is Swissmetal's third production facility, after the Dornach and Reconvilier works in Switzerland. Secondly, sales were affected by perceptibly higher levels of economic activity in the sector compared to the previous year. And thirdly, metal prices in 2006 maintained the upward trend that had begun in the previous year – even if there was a slight, at least temporary reversal towards the end of the year. Finally, additional revenue of more than CHF 23.5 million was generated from metal sales as a result of Swissmetal's efficiency drive. On the other hand, sales were reduced by the 30-day strike at the Reconvilier site and its repercussions. Taken as a whole, however, the combination of all these effects led to an clearly positive sales performance.

At CHF 118.0 million, gross added value sales**, i.e. gross sales less metal at standard metal costs, were 14% up on 2005. The main reason why the differential against the previous year is much lower here than in terms of gross sales, is that the gross added value sales figure excludes the effect of metal prices.

Each of the most important market segments for Swissmetal painted a very different picture in the period under review. Sections and profiles for electrical equipment, the construction industry and the watchmaking sector – all specialized fields – improved noticeably in 2006 compared to the previous year. Though the demand for wires and rods for electronic connectors was strong, the strike at the Reconvilier site in early 2006 meant that sales, conversely, were lower than in the previous year. The writing instrument segment was also affected by the strike, but Swissmetal was able to make up part of the shortfall by increasing production at other sites.

* The figures for Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, are included for the period from 1 February to 31 December 2006.

** The gross added value sales figures for 2006 are not exactly comparable with those for 2005 because the newly-included figures for Swissmetal Lüdenscheid GmbH, Lüdenscheid, are based on slightly different calculations. An IT project to harmonize the two methods is currently underway.

Operating income (EBIT) At CHF 141.1 million, the gross margin was up by CHF 31.9 million (29%). There were three main reasons. Firstly, the acquisition of Swissmetal Lüdenscheid GmbH, Lüdenscheid, increased the overall business volume and hence also the gross margin. Secondly, the stock efficiency drive aforementioned delivered a positive contribution of CHF 15.7 million at gross margin level. Thirdly, the figure includes a CHF 3.8 million contribution to income from the revaluation of work values due to a change in accounting estimates in the stock.

Personnel expenses totaled CHF 77.3 million, which is a rise of CHF 11.7 million (18%) in absolute terms. Several factors were responsible for this. On the one hand, the purchase of the Lüdenscheid works at the beginning of the year, with about 180 employees at the time, led to a rise in the headcount – while on the other hand the strike at the Reconvilier site led to the loss of about 100 full-time equivalent positions and hence to a reduction in personnel expenses. The average headcount increased from 768 full-time-equivalent posts in 2005 to 879 in 2006.

The ratio of personnel expenses to gross margin stood at 55% in 2006. Excluding the effects of the reduction in inventories and the correction in work values, the ratio deteriorated to 64% (versus 60% in the previous year). This indicator was significantly affected by absences due to illness – which at times were rather high – and by other additional personnel expenses in Reconvilier after the strike was over when it became necessary to employ less efficient temporary staff in Reconvilier at comparatively high costs.

Operating and administrative expenses totaled CHF 38.4 million in 2006 – CHF 9.4 million more than the previous year. Alongside the increase owing to the new German facility in Lüdenscheid, this figure also reflects one-off impacts in connection with the strike in February 2006, the acquisition of Swissmetal Lüdenscheid GmbH, Lüdenscheid, and preliminary work on the acquisition of Avins Industrial Products Corp., Warren/NJ. Non-capitalized expenditures were also incurred in the course of integrating the new German site into the SAP system.

We estimate the total negative impact of the strike on EBIT, including the effects of lost production, at CHF 5.0 – 10.0 million.

Swissmetal generated operating income before depreciation and amortization (EBITDA) of CHF 27.6 million in 2006, an increase of CHF 11.6 million (73%) over the previous year's figure.

Depreciation totaled CHF 17.4 million in 2006, CHF 4.9 million (39%) more than in 2005. This figure was increased by the acquisition of the German company, and also by non-sytematic depreciations of CHF 3.5 million in the fourth quarter of 2006 in connection with the strategy for optimizing the costs of hot forming operations.

This resulted in operating income (EBIT) of CHF 10.2 million, an increase of CHF 6.8 million (198%) over the previous year.

Result for the year (EAT) The financial result in 2006 was CHF -2.1 million. This is the first time Swissmetal has incurred significant financial expenses since the capital increase in 2004 and was due to the acquisition of the site in Lüdenscheid, which was partly funded through borrowing, and also to the higher working capital requirements at our Swiss sites, necessitated by higher metal prices. In combination, these more than counterbalanced the positive effects of the stock efficiency drive.

Tax expenditure in 2006 totaled CHF 3.6 million, an increase of CHF 2.7 million. This rise was due to the increase of CHF 4.0 million in earnings before tax (EBT) to CHF 8.2 million, with the relatively high profit contribution from Swissmetal Lüdenscheid GmbH, Lüdenscheid, having the effect of increasing the tax rate.

At CHF 4.6 million, the earnings after tax (EAT) were CHF 1.3 million better than the previous year.

CONSOLIDATED BALANCE SHEET

At the Group level, the total assets increased by CHF 53.8 million to CHF 216.6 million in comparison with 31 December 2005, primarily owing to the acquisition of the German company. Other factors included increased sales activity and significantly higher metal prices.

On the asset side, the current assets – at CHF 130.4 million – contributed 60% of total assets, while non-current assets accounted for the remaining 40% (CHF 86.2 million).

The increase in current assets of CHF 35.5 million (37%) over the previous year was mainly due to the stocks held by Swissmetal Lüdenscheid GmbH, Lüdenscheid. In terms of volume, stock at our Swiss sites actually fell by 34% during the year – but this effect was more than offset by rising commodity prices.

Accounts receivable stood at CHF 31.0 million on 31 December 2006, virtually unchanged year-on-year. This was because a substantial proportion of these accounts had been ceded under a factoring facility and therefore they no longer appear in the Swissmetal balance sheet.

Fixed assets of CHF 86.2 million include CHF 20.5 million for assets under construction, most of which relates to the new extrusion press. As at 31 December 2006, the fixed asset position also includes CHF 4.6 million in goodwill from the acquisition of the German company.

Total liabilities amounting to CHF 90.3 million make up 42% of total assets, while shareholders' equity, standing at CHF 126.3 million, accounts for the remaining 58%. Current liabilities increased by CHF 35.1 million (153%) to CHF 57.9 million in the period under review. In addition to the extra credit volume at the German company acquired in 2006, this also reflects the increased financing of working capital necessitated by the rise in sales and higher metal prices.

Long-term liabilities stood at CHF 32.4 million at the end of December 2006, CHF 15.9 million more than the previous year.

Largely as a result of the increase in the current liabilities, net debt stood at CHF 44.0 million as at 31 December 2006, compared with a net cash position of CHF 2.4 million as at 31 December 2005.

CONSOLIDATED CASH FLOW STATEMENT

Swissmetal generated operating cash flow of CHF 33.1 million in 2006, CHF 12.0 million more than the comparable figure for the previous year. Reducing net working capital in 2006 generated a cash effect of CHF 10.5 million (previous year: CHF 5.7 million).

Swissmetal invested a total of CHF 28.4 million in 2006, 12.9 million (84%) more than the previous year. CHF 14.2 million was spent on the new extrusion press, CHF 10.1 million on acquiring the German company. Other significant items of capital expenditure were two piston compressors and investments in the IT field.

Free cash flow in 2006 totaled CHF 4.7 million, a decline of CHF 0.9 million on the previous year's figure, mainly as a result of heavy capital investment.

AVINS INDUSTRIAL PRODUCTS

Avins Industrial Products Corp., Warren/NJ, will only be consolidated as of the 2007 financial year. The workforce of 17 employees generated net sales of USD 28.9 million in 2006 (of which USD 11.5 million is related to Swissmetal products) and an EBIT of USD 1.1 million (US GAAP accounting standards were applied).


RECONVILIER


DORNACH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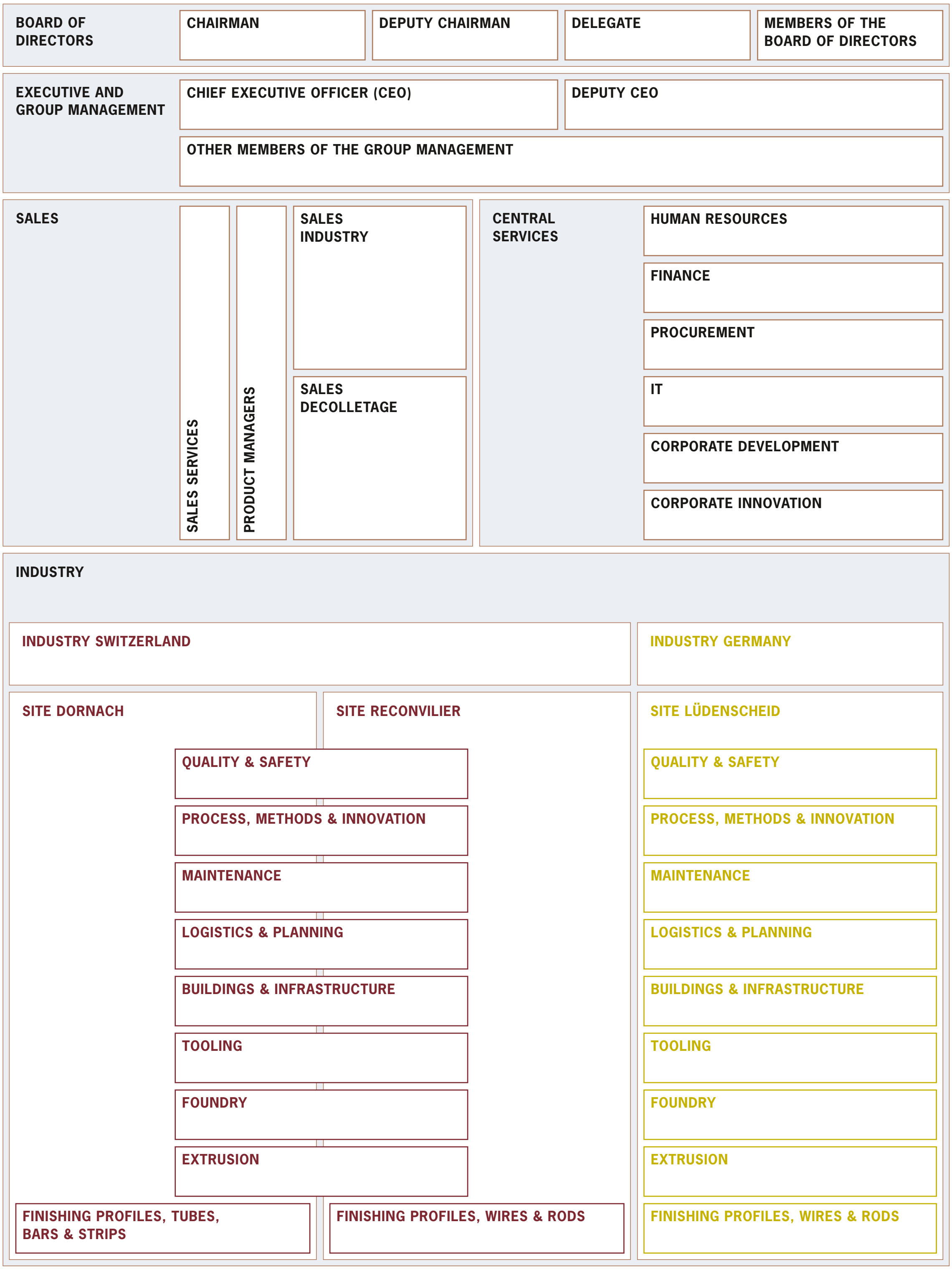
As a listed company, UMS Swiss Metalworks Holding Ltd, Dornach, is subject to the Directive on Information relating to Corporate Governance issued by the SWX Swiss Exchange (also referred to as the SWX Directive), including its Annex and Commentary.

The Corporate Governance section of the Annual Report precisely follows the structure of the SWX Directive and covers events up to and including 12 March 2007.

1. GROUP STRUCTURE AND SHAREHOLDERS

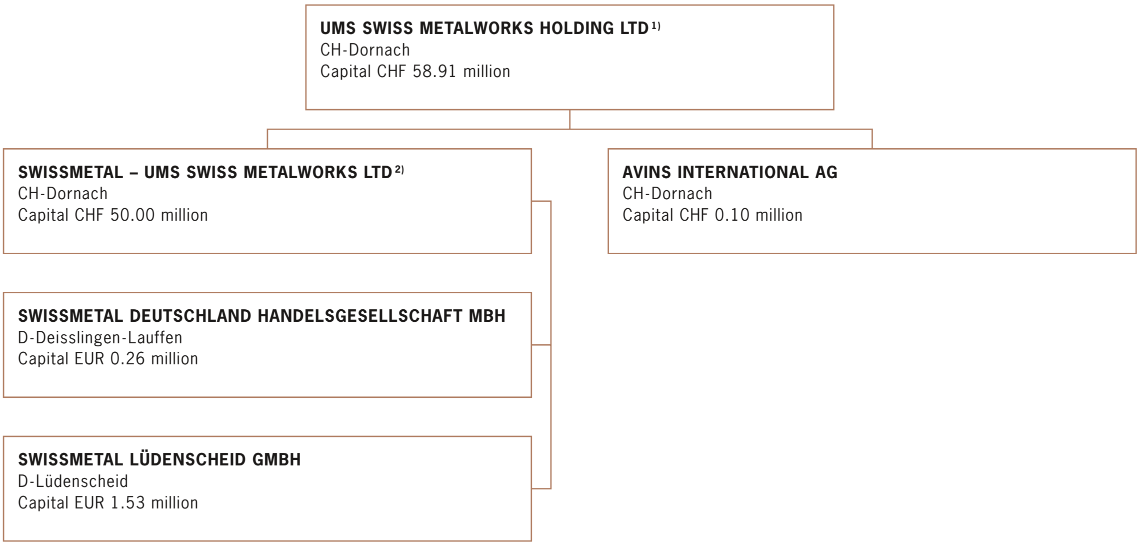
1.1 Group structure

Operational Group structure



Changes in the operational Group structure since 31 December 2006 On 10 January 2007, the Swissmetal Group expanded its operational Group structure to include a trading company by acquiring Avins Industrial Products Corp. Through this takeover, the Swissmetal Group intends to round out its core business of producing and distributing its own copper semi-finished goods with products from other companies. This will enable it to provide its customers with an even more extensive range of products and services.

Legal Group structure of UMS Swiss Metalworks Holding Ltd



[1] 100% of Swissmetal – UMS Swiss Metalworks Ltd, Dornach, and Avins International Ltd, Dornach
[2] 100% of Swissmetal Deutschland Handelsgesellschaft mbH, Deisslingen-Lauffen, and Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid

To simplify administration, UMS Swiss Metalworks Holding Ltd and Swissmetal – UMS Swiss Metalworks Ltd moved their registered office from Berne to Dornach (Canton of Solothurn) in 2006. UMS Swiss Metalworks Holding Ltd, Dornach, is listed on the SWX Swiss Exchange in Zurich (Swiss security number 257 226; ISIN CH0002572268) and is subject to Swiss law. The share price stood at CHF 26.9 as at 29 December 2006, resulting in a market capitalization of CHF 176.1 million. The scope of the consolidation does not include any listed companies, but rather only the above-mentioned unlisted companies.

Changes in the scope of the consolidation during the 2006 financial year On 10 February 2006, Swissmetal – UMS Swiss Metalworks Ltd, Dornach, acquired the entire share capital of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid/Germany. This unlisted company had a share capital of EUR 1.53 million as at 31 December 2005 and has been fully consolidated since February 2006.

In 2006, Swissmetal Italia s.r.l., Milan, was liquidated and a sales office (Ufficio di rappresentanza in Italia della Swissmetal UMS Metalworks Ltd) was set up in its place. Swissmetal Italia s.r.l., Milan, was deconsolidated as at 30 September 2006.

On 19 December 2006, UMS Swiss Metalworks Holding Ltd, Dornach, formed Avins International AG, Dornach, with share capital of CHF 0.1 million. First-time consolidation took place as at 31 December 2006.

Changes in the scope of the consolidation since 31 December 2006 On 10 January 2007, Avins International AG, Dornach, acquired the entire share capital of Avins Industrial Products Corporation, Warren/NJ, USA. This unlisted company with a share capital of USD 0.10 million became been fully consolidated on 1 January 2007.

1.2 Significant shareholders The following shareholders held more than 5% of the capital of UMS Swiss Metalworks Holding Ltd, Dornach, on the balance sheet date of 31 December 2006:

	31.12.2006	31.12.2005
Gem Small & Mid Caps Switzerland (Fund Manager: FidFund Management SA)	> 5.0%	
Adelphi European Small Cap Fund (Fund Manager: Adelphi Capital Ltd)	> 5.0%	
Laxey Partners Ltd	> 20.0%	
3V Asset Management AG	> 5.0%	> 5.0%
OZ Bankers AG		> 5.0%

Events 31.12.2006 – 28.02.2007

Shareholder	Date	Shareholding
Adelphi European Small Cap Fund (Fund Manager: Adelphi Capital Ltd)	08.01.2007	< 5.0%
3V Asset Management AG	18.01.2007	< 5.0%

1.3 Cross-shareholdings There are no cross-shareholdings subject to disclosure requirements, as the Swissmetal Group does not hold an interest of more than 5% in terms of either capital or voting rights in any other company which in turn holds an interest of more than 5% in terms of either capital or voting rights in the Swissmetal Group.

2. CAPITAL STRUCTURE

2.1 Capital As at 31 December 2006, the share capital of UMS Swiss Metalworks Holding AG, Dornach, was CHF 58,910,004 (2005: CHF 58,910,004), divided into 6,545,556 (2005: 6,545,556) bearer shares.

2.2 Authorized and conditional capital A listed company, UMS Swiss Metalworks Holding Ltd, Dornach, does not have any conditional capital.

The General Meeting held on 30 June 2006 approved the creation of authorized capital and consequently authorized the Board of Directors to increase the company's share capital at any time up to 30 June 2008 in the maximum amount of CHF 23,563,998 by issuing at most 2,618,222 bearer shares, each with a par value of CHF 9.00, to be paid in full. Increases by way of firm underwriting or in fractional amounts are permitted. The issue amount, timing of the dividend entitlement, type of contributions and possible acquisitions of assets are determined by the Board of Directors.

The Board of Directors is entitled to exclude the subscription right of shareholders and to assign it to third parties if the new shares are to be used to acquire companies, parts of companies or shareholdings, or for the participation of the employees of the company or its subsidiaries. The Board of Directors regulates the allocation of unexercised subscription rights in the interests of the company. The Board of Directors is empowered to create free shares for employee participation plans and to pay for them out of freely disposable equity.

2.3 Changes in capital

In 2004, the Swissmetal Group was refinanced. At the end of 2002, the Swissmetal Group was unable to repay part of its debt on time which had then become due. This led UMS Swiss Metalworks Holding Ltd, Dornach, to conclude a financing agreement ("moratorium agreement") in 2003 with a bank consortium, which expired on 30 June 2004. In June 2004, UMS Swiss Metalworks Holding Ltd, Dornach, proposed a comprehensive refinancing plan to its shareholders, which was approved by the General Meeting held on 30 June 2004. This refinancing plan was duly implemented in July 2004. It included a capital decrease through a par value reduction in two tranches, from CHF 100.00 to CHF 9.00 per share, equivalent to a total reduction in share capital of CHF 77.3 million. This was followed by a capital increase in two tranches through the issuing of new bearer shares. All told, 5,695,556 new shares were issued, representing a capital increase of CHF 51.3 million. This brought the share capital down to CHF 58.9 million and the reserves up to CHF 37.4 million, with the loss carry-forward being neutralized.

In 2005, the share capital of UMS Swiss Metalworks Holding Ltd, Dornach, remained unchanged at CHF 58.9 million.

In 2006, the share capital of UMS Swiss Metalworks Holding Ltd, Dornach, also remained unchanged. However, the General Meeting approved the creation of authorized capital. (See also section 2.2 Authorized and contitional capital)

Changes in capital since 31 December 2006 On 10 January 2007, UMS Swiss Metalworks Holding Ltd, Dornach, increased the stock of shares on issue by 40,000 shares, each with a par value of CHF 9.00, from 6,545,556 shares to 6,585,556 shares, by paying a part of the authorized capital approved at the 2006 General Meeting.

2.4 Shares Each share is one bearer share and carries one vote. It conveys the right to a proportionate share of net profit and the residual proceeds of liquidation of the company. The Swissmetal Group recognizes only one owner per share. The share is indivisible with respect to the company. The company has issued

6,545,556 shares with a par value of CHF 9.00 each; all shares are fully paid. By amending the Articles of Incorporation, the General Meeting may at any time convert bearer shares into registered shares or create participation capital. UMS Swiss Metalworks Holding Ltd currently has no participation certificates.

Of the total 6,545,556 shares in issue, 134,000 treasury shares are held by the Swissmetal Group.

2.5 Profit sharing certificates Profit sharing certificates within the meaning of the SWX Directive are a special form of non-voting securities that replace or complement shares. UMS Swiss Metalworks Holding Ltd, Dornach, has not issued any profit sharing certificates.

2.6 Limitations on transferability There are no limitations on the transferability of shares.

2.7 Convertible bonds and options In the second quarter of 2007, the Swissmetal Group intends to establish an employee share participation program for the Board of Directors and Management Team, which consists of all management employees including the Group Management and the Executive Management. The company currently has no outstanding convertible bonds or options.

3. BOARD OF DIRECTORS

3.1 Members of the Board of Directors The Board of Directors of UMS Swiss Metalworks Holding Ltd, Dornach, and that of Swissmetal – UMS Swiss Metalworks Ltd, Dornach, are identical.

Composition as at 31 December 2006 With the exception of Martin Hellweg, no member of the Board of Directors belongs to the Executive Management or the Group Management of the Swissmetal Group or any of its subsidiaries.

Dr. J. Friedrich Sauerländer Born in 1942, Swiss citizen, member of the Board of Directors since 2004 and Chairman since 2005.

J. Friedrich Sauerländer holds a management degree from the University of St. Gallen (HSG) and a doctorate in economics from the University of Freiburg (Germany). His career began in Australia with the Alusuisse/Lonza Group. He subsequently assumed a number of management positions with Alusuisse/Lonza in the USA and Brazil, before moving to the Swiss Eternit Group in 1983 as the CEO for Latin America. From 1988, he served on the Management Board of the SGS Société de Surveillance Group, as CEO of André & Cie SA/André Group, Lausanne, and CEO of Manufacture des Montres Rolex SA, Bienne. He is currently on the Board of Directors of BNP Paribas (Suisse) SA and is Chairman of the Foundation Board of Fondation PH Suisse – Partnerships in Health.

Dr. Dominik Koechlin Born in 1959, Swiss citizen, Deputy Chairman of the Board of Directors since 2004.

Dominik Koechlin holds a doctorate in law from the University of Berne and an MBA from INSEAD Fontainebleau, France. Until 2001 he served several years as a member of the Swisscom Management Board. Since 2001 he has served on the Board of Trustees of LGT Bank in Liechtenstein and on the Board of Directors of EGL AG, Crocell Ltd in the Netherlands and a number of unlisted companies. He is also a member of the Board of the University of Basel.

Martin Hellweg Born in 1967, German citizen, member of the Board of Directors since 2004 and CEO of the Swissmetal Group since June 2003.

Martin Hellweg studied economics at Ruhruniversität Bochum (Germany) and later attained an MBA at the Simon Graduate School of Business at the University of Rochester in New York. During his career, he has mainly specialized in the financing, restructuring and repositioning of companies. In addition to his present duties at the Swissmetal Group, Martin Hellweg is partner and Chairman of the Board of Directors of Ally Management Group AG, Zurich. (See also section 4.3 Management contract with Ally Management Group AG)

Max Locher Born in 1941, Swiss citizen, member of the Board of Directors since 2004.

A business studies graduate, Max Locher held various positions during his career at the Alusuisse Group. He served as regional CEO of an extrusion plant in France and project manager and general manager of a sheet metal shop in Nigeria. He became Head of Sales in 1977 and served from 1984 to 2005 as General Manager of Aluminium Laufen AG in Liesberg, where he has been Chairman of the Board of Directors since April 2005.

Ralph Glassberg Born in 1944, US citizen, member of the Board of Directors since 2006 and President of Avins Industrial Products Corporation, Warren/NJ, since 1989.

He graduated in industrial and management engineering at Columbia University before gaining an MBA in accounting and finance from the New York University Graduate School of Business Administration. He began his career at Edith Fornarotto, a manufacturer of high-end women's sportswear. In 1970 he joined Avins Industrial Products as a sales engineer, in turn becoming Vice President of Sales in 1972 and President in 1989.

Dr. Roger Bühler Born in 1972, Swiss citizen, member of the Board of Directors since 2006. He holds a bachelor's degree and doctorate in economics and business administration from the University of Basel and is a chartered financial analyst (CFA).

Roger Bühler has extensive experience in corporate finance and investment management. He has been investment director at Laxey Partners Ltd, London and the Isle of Man, since 2003. Previously he was with Active Value Advisors Ltd, London and Geneva. Between 2000 and 2002 he worked in the merchant banking division of A&A Actienbank in Zurich, and spent 1997 to 2000 in corporate finance at PricewaterhouseCoopers, also in Zurich. He is a director of Pergo, MachHitech and Laxey Partners. Laxey Partners has a significant shareholding in Swissmetal.

Changes during the 2006 financial year Walter Häusermann resigned from the Board of Directors of the Swissmetal Group on 29 March 2006 and stepped down on that same date.

Ralph Glassberg and Dr. Roger Bühler were elected to the Board of Directors at the Annual General Meeting held on 30 June 2006.

Changes since 31 December 2006 With the conclusion of the purchase of Avins Industrial Products Corporation, Warren/NJ, by Avins International AG, Dornach, a further member of the Board of Directors, Ralph Glassberg, became a member of the management at a Swissmetal Group subsidiary.

3.2 Other activities and vested interests Other activities and vested interests, if any, are noted in the biographies of the members of the Board of Directors.

3.3 Cross-involvements Cross-involvement refers to mutual board membership among two or more listed companies. The Swissmetal Group is not aware of any such cross-involvements.

3.4 Elections and terms of office Members of the Board of Directors must be shareholders of UMS Swiss Metalworks Holding Ltd and a majority of them must be Swiss citizens and reside in Switzerland. While the majority of the current Board of Directors reside in Switzerland, these same members are not Swiss citizens. The Board of Directors of UMS Swiss Metalworks Holding Ltd, Dornach, would like to see an amendment to this clause in the Articles of Incorporation, in line with the latest changes to the legal situation, pursuant to which the majority of Members of the Board of Directors are no longer required to hold Swiss citizenship, but must be EU citizens who live in Switzerland.

Board of Directors from left to right:
Martin Hellweg, Dr. J. Friedrich Sauerländer, Dr. Domink Koechlin, Ralph Glassberg, Dr. Roger Bühler, Max Locher

The Board was elected in its entirety by the General Meeting. The term of office is normally one year and will last for all members until the General Meeting for the 2006 financial year on 16 May 2007. Members of the Board of Directors may be elected at any time.

3.5 Internal organizational structure The Board of Directors has established an Audit Committee. There are no other Board of Directors committees. The Audit Committee conducts preliminary consultations in relation to the main tasks set out below.

The Board of Directors compromises the persons named in section 3.1. J. Friedrich Sauerländer has been Chairman of the Board of Directors since 10 June 2005. Dominik Koechlin has been Deputy Chairman and Martin Hellweg CEO since 1 July 2004. Sam V. Furrer has served as the external Secretary of the Board of Directors since 1 July 2004. The Chairman may convene as many meetings as business requires. Each member of the Board of Directors may also request that the Chairman convene a meeting immediately, stating their reasons. A majority of the members of the Board of Directors must be present to constitute a quorum for the transaction of business. Resolutions are adopted by a majority of votes cast. Resolutions may also be adopted in writing if no member requests a verbal consultation. The Secretary of the Board of Directors keeps the minutes of the deliberations and resolutions. Resolutions adopted by correspondence are recorded in the minutes.

The Board of Directors and its Chairman are assigned the non-transferable and inalienable duties set out in articles 716a.1 and 716a.2 of the Swiss Code of Obligations. The Board of Directors decides on the allocation of the areas of responsibility (competences) to the governing bodies of the Group companies, determines the strategy and long-term planning and the associated business plans and decides on the presentation of internal reporting statements. It also adopts resolutions on investment projects, unbudgeted expenditure and other amounts exceeding CHF 1 million as well as resolutions on the recourse to or repayment of loans over CHF 5 million.

Spread over 2006, the Board of Directors held 17 ordinary meetings lasting an average of seven hours each and 29 conference calls of varying length. A number of conference calls, meetings and working meetings of members of the Board of Directors were also held on short notice, primarily to deal with the industrial crisis in Reconvilier and the associated external communication. Corporate finance consultants were also in attendance at 7 meetings of the Board of Directors in connection with the refinancing. Consultants from an external company specializing in share participation and bonus programs attended meetings of the Board of Directors when these subjects were to be discussed.

The Charter of the Audit Committee sets out the duties and powers of the Audit Committee, which consists of Dominik Koechlin (Chairman), Dr. J. Friedrich Sauerländer and Dr. Roger Bühler: the Audit Committee monitors the financial and accounting processes and systems of the Swissmetal Group, evaluates the independence and effectiveness of the external auditors and ensures the flow of communication between management, the finance department, the auditors and the Board of Directors. The Audit Committee makes appropriate recommendations to the Board of Directors. The allocation of duties and powers among the Board of Directors, the Executive Management and other members of the Group Management is set out above all in the Administrative and Organizational Regulations and the Signing Regulations.

The Committee's main tasks are:

- discussing the annual financial statements with Management;
- monitoring compliance with statutory accounting regulations and the accounting standards used by the company;
- reviewing the scope and planning of the external audit;
- making recommendations concerning the selection and remuneration of the external auditors;
- monitoring the effectiveness and suitability of the financial and accounting systems and the internal audit and submitting recommendations to the Board of Directors;
- submitting a proposal to the Board of Directors in the event of overindebtedness pursuant to article 725 of the Swiss Code of Obligations.

The Audit Committee has been given the following decision-making powers:

- inspection of the professional qualifications of the auditors within the meaning of article 727b of the Swiss Code of Obligations;
- establishment of the measures and rules to avoid insider dealing;
- approval of guidelines and rules concerning the publication of price-sensitive information;
- approval of the strategic audit and inspection plan;
- preparation of risk management guidelines;
- basic tax issues;
- initial appointment and remuneration of the external auditors, who are then put forward for election by the Annual General Meeting following their approval by the Board of Directors.

In 2006, the Audit Committee met in ordinary session on three occasions, twice at the beginning and once at the end of the year. Any topics normally dealt with by the Audit Committee, but which arose between meetings, were discussed by the Board of Directors.

Members of the Group Management always attend meetings of the Board of Directors and the Audit Committee if expert knowledge from their areas is sought. The Chief Financial Officer is therefore often present at meetings. The Board of Directors and the Audit Committee obtained legal advice from suitably specialized law firms, mainly in connection with the strike in Reconvilier and the refinancing.

3.6 Definition of areas of responsibility The Board of Directors of the Swissmetal Group has delegated the management of the company to the Executive Management, which consists of two members. The Executive Management has formed a Group Management consisting of 12 members (13 since January 2007), including the two Executive Management members, to act as an advisory and coordinating body. The Executive Management is responsible for all tasks related to operational management that are not exclusively reserved for the Board of Directors. The Executive Management consults members of the Group Management in at least one meeting per month. On strategic issues, the Group Management consults the Management Team, consisting of all management employees including the Executive Management and Group Management of the Swissmetal Group. The entire Management Team met twice in 2006. The allocation of duties and powers among the Board of Directors, the Executive Management, other members of the Group Management and the Management Team is set out above all in the Administrative and Organizational Regulations, the Allocation of Competencies and the Signing Regulations.

3.7 Information and control instruments vis-à-vis the senior management The Executive Management/Group Management informs the Board of Directors of the strategic and operational developments at least four times per year and provides it with monthly information on the key financials compared with the approved budget in the form of a management report and a special Board of Directors report. The management report contains an executive summary providing the Board of Directors with a written review of the previous month. The other pages present time series charts of new orders, sales and outstanding orders. The Head of Corporate Innovations provides the Board of Directors with a quarterly report on his area. Information prepared for meetings of the Board of Directors is submitted about one week in advance. At the Board of Directors' meeting those members of the Executive Management/Group Management invited to attend according to the agenda often deliver verbal reports.

Twice a year, the external auditors (Pricewaterhouse Coopers AG, Basel) draft a Management Letter to the attention of the Audit Committee, the Board of Directors and the Executive Management/Group Management containing recommendations for improvements.

4. EXECUTIVE MANAGEMENT AND GROUP MANAGEMENT

4.1 Members of the Executive Management and Group Management The following reflects the current status of the Swissmetal Group. Members of the Executive Management have a permanent contract of employment and are responsible for all the tasks related to operational management that are not exclusively reserved for the Board of Directors. The Group Management consists of the Executive Management and several members of management (other members of the Group Management). The other members of the Group Management also have permanent employment contracts. They play an advisory role in relation to the Executive Management and are responsible for different areas of operational management.

Members of the Executive Management
Composition as at 31 December 2006

Martin Hellweg Born in 1967, German citizen, member of the Board of Directors since 2004 and CEO of the Swissmetal Group since June 2003.

Martin Hellweg studied economics at Ruhruniversität Bochum (Germany) and later attained an MBA at the Simon Graduate School of Business at the University of Rochester in New York. During his career, he has mainly specialized in the financing, restructuring and repositioning of companies. In addition to his present duties at the Swissmetal Group, Martin Hellweg is partner and Chairman of the Board of Directors of Ally Management Group AG, Zurich. (See section 4.3, management contract with Ally Management Group AG)

Volker Suchordt Born in 1947, German citizen, member of both the Executive Management and Group Management since February 2006 in his capacity as Executive Vice President and Head of Industry.

Volker Suchordt studied metal science at the universities of Dortmund and Bochum with a focus on metallurgy and metalworking technologies. He has many years' experience in copper semi-finished goods, acquired at the VDM wire, band and coin plant, Swissmetal Busch-Jaeger and the Thyssen Krupp-VDM wire plant. Most recently, he transformed Busch-Jaeger Metallwerk GmbH, now Swissmetal Lüdenscheid GmbH, into a highly competitive provider of high-grade specialty products.

Other members of Group Management
Composition as at 31 December 2006

Yvonne Simonis Born in 1968, German citizen, Chief Financial Officer and Member of Group Management since March 2004.

Yvonne Simonis studied sinology and management theory at the University of Freiburg, Germany, and holds an MBA and MBI from the Rotterdam School of Management. Before joining the Swissmetal Group in August 2002, she worked for two years at a management consultancy in Germany and four years in the finance and controlling department of BASF Germany and Asia. She joined the Swissmetal Group as Group Controller, later becoming Head of Finance and Controlling.

Sam V. Furrer Born in 1966, Swiss citizen, Chief Development Officer (CDO) and Member of Group Management.

Sam V. Furrer holds a degree in management from the University of St. Gallen. He has worked for Arthur D. Little and other consulting firms in strategy implementation, change management and enterprise development. During his consulting career he acquired extensive expertise in various industries including petroleum, cement, postal services, electronics and telecommunications. In addition to his work as CDO, Sam V. Furrer was Head of Human Resources from July 2004 to January 2006.

Jean-Pierre Tardent Born in 1954, Swiss citizen, head of Corporate Innovation and Business Development and Member of Group Management since July 2004.

Jean-Pierre Tardent holds a degree in materials science from EPFL Lausanne and began his career with the Swissmetal Group in 1982. He first managed research projects, prior to moving on to become an operating metallurgist, Head of Research and Development at the Reconvilier plant and Head of Technical Marketing. He possesses substantial experience in copper alloys and their applications as well as manufacturing processes.

Martin Heuschkel Born in 1962, French citizen, CIO, Head of Quality and Processes and Member of Group Management since December 2003.

Martin Heuschkel holds a bachelor degree in electrical engineering from Basel Technical University and an MBA from the Simon Graduate School of Business at the University of Rochester in New York. Before joining the Swissmetal Group, he worked for five years for a Swiss management consultancy on international projects, seven years as the CTO of an international logistics group and four years in the IT and security systems department of a major Swiss bank. He is also Deputy Chairman of the Board of Directors of Swiss Data Safe AG in Amsteg.

Werner Riegert Born in 1951, Swiss citizen, Head of Procurement and Member of Group Management since February 2004.

After completing commercial vocational training, Werner Riegert joined the Swissmetal Group, where he worked in general purchasing before transferring to metals purchasing in 1979. A short two-year break aside, he continued to work in that area, building up a considerable depth of knowledge with a specific focus on materials procurement.

Henri Bols Born in 1966, French citizen, Head of industry at Dornach and Member of Group Management since September 2003 and Head of industry for Dornach and Reconvilier since November 2005.

Henri Bols is an engineer and holds a degree from the Ecole des Arts et Métiers in Paris. Before joining the Swissmetal Group in September 1999, he spent eight years for Péchiney, ending up as Head of Production. He has considerable expertise in working with special alloys.

Manfred Gröning Born in 1958, German citizen, Member of Group Management since April 2006 in his capacity as Head of Industry Germany.

Manfred Gröning holds a degree in materials technology from Dortmund Technical University. He began his career in the R&D department of Zapp AG in Ratingen, where he held a variety of managerial positions, including responsibility for the products and production. He was then a plant manager for the international Theis group, and was most recently Head of Engineering at Busch-Jaeger Metallwerk GmbH in Lüdenscheid. He has over 20 years' experience in the manufacture of wires, rods and sections, including five years as a plant manager in the USA. His innovative flair has contributed to a number of product and process patents worldwide. In addition to his work at the Swissmetal Group, he is a board member of the umbrella organization Deutsche Buntmetallindustrie e.V. in Düsseldorf.

Laura Rossini Born in 1970, Swiss and Italian citizen, Head of Human Resources and Member of Group Management since January 2006.

Laura Rossini studied foreign languages with a focus on law and business at the Free University of Cologne. She then completed a number of advanced training programs in human resources, which she has worked within for 10 years. She has solid human resources experience both in strategic matters (assessment, recruitment, management development) at international industrial groups such as Hilti and Holcim and in operational matters as the head of human resources at a small manufacturer. She joined the Swissmetal Group in March 2005 in a staff position as HR Manager of Development and Projects, before becoming Head of Human Resources.

Roderick Tanzer Born in 1960, British citizen, Member of Group Management since April 2006 as Vice-President of Industry India and Head of Sales Décolletage since May 2006.

Roderick Tanzer studied chemical engineering at the Swiss Federal Institute of Technology in Lausanne. Before joining the Swissmetal Group, he was sales and marketing manager with various suppliers of metals and plastics to the automotive industry. He managed the South African subsidiary of Gurit-Essex from 1992 to 1994. He is also General Manager of Consus Consulting GmbH in Zurich. When he joined the Swissmetal Group in June 2003, he was initially Sales Manager for America, the Middle East and Africa, before working briefly in Corporate Development.

Philippe Michel Born in 1964, French citizen, Member of Group Management as Head of Sales Industry since May 2006.

He holds a diploma in mechanical construction. After several years' experience as a project engineer, he joined Swissmetal in December 1990 as sales engineer. As Sales Manager he was responsible for France. In April 2002, he became Product Manager responsible for the electrical engineering business segment and later on for power stations and induction systems.

Changes during the 2006 financial year Daniel Brendel resigned from the Executive Management and Group Management and left the company in May 2006. Volker Suchordt became a member of both the Executive Management and the Group Management in February 2006. New members of Group Management are Laura Rossini (January 2006), Manfred Gröning and Roderick Tanzer (April 2006) and Philippe Michel (May 2006).

Changes since 31 December 2006 The following individuals have joined the Group Management:

Greg Himstead Born in 1964, US citizen, Head of Trading Products and Member of Group Management since January 2007.

Greg Himstead has degrees in physics from Hamilton College and mechanical engineering from Columbia University, School of Engineering & Applied Sciences, and an MBA from the NYU Stern School of Business. Before joining the Swissmetal Group, he worked at Avins Industrial Products Corp. as Sales Engineer from 1989,

Group Management from left to right: Sam V. Furrer, Laura Rossini, Philippe Michel, Roderick Tanzer, Yvonne Simonis, Werner Riegert, Manfred Gröning, Martin Heuschkel, Henri Bols, Martin Hellweg, Volker Suchordt, Jean-Pierre Tardent, Greg Himstead

Sales Manager from 1997 and Vice President Sales and Marketing from 2001. He has extensive experience in sales, marketing and pricing within the industry.

4.2 Other activities and vested interests Other activities and vested interests, if any, are noted in the biographies of the members of the Group Management.

4.3 Management contracts

Business relationship with the Ally Management Group and its partners Since 2003, the Swissmetal Group has engaged the Ally Management Group AG in Zurich to perform a number of tasks. Swissmetal Chief Executive Officer and Member of the Board of Directors, Martin Hellweg is a co-owner of the Ally Management Group and Chairman of its Board of Directors. The company, which specializes in turnaround situations, provided the Swissmetal Group mainly with experts for specific temporary tasks related to the corporate restructuring, including the sale of real estate and support for financing activities. In 2006, the Ally Management Group AG performed services totaling CHF 99,791 (2005: CHF 141,236) for the Swissmetal Group. Furthermore, in addition to Martin Hellweg, in 2006 the Swissmetal Board of Directors engaged another joint owner and partner in the Ally Management Group on an employment contractual basis as interim Managing Director in the Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), subsidiary in Lüdenscheid. All mandates conferred upon the Ally Management Group are put to an independent vote among persons in the Swissmetal Group who are not related in any way with the Ally Management Group. In addition, the Board of Directors is regularly informed about the individual mandates of the Ally Management Group.

Contract with Dietrich Twietmeyer Following the acquisition of Swissmetal Lüdenscheid GmbH, Lüdenscheid, Dietrich Twietmeyer worked as a general manager for a transitional phase until August 2006 and at the same time as a consultant to the Swissmetal Group from March to mid-June 2006. His mandate comprised the reduction in current assets, collaboration on implementing the financing concept and the integration of Swissmetal Lüdenscheid GmbH, Lüdenscheid, into the Swissmetal Group. The costs of these consultancy services were CHF 156,000.

5. COMPENSATIONS, SHAREHOLDINGS AND LOANS

5.1 Content and method of determining compensation and the shareholding programs The Board of Directors determines appropriate compensation for its members, using the risks and the size of the Swissmetal Group in relation to other companies as the criteria. The members of the Board of Directors of the Swissmetal Group receive directors' fees and their expenses are reimbursed. Members of the Group Management and the other members of the Management Team receive a salary, expenses in line with expenditures (in accordance with the regulations on expenses) and a performance-related bonus (in accordance with the Nordstern rules) based on the change in value added.

The aim of the bonus program is to tie the variable compensation for participants in the plan to the long-term increase in the value of the Swissmetal Group. The concept is based on the value added principle and a plan that lasts several years in line with shareholder expectations. The chief advantage of the value

added concept is that it not only measures growth in sales and profitability, but also takes account of the resources used for these increases and the additional capital costs involved.

The Management Team receives a variable salary component in addition to the fixed salary stipulated in the contract of employment. The amount to be paid out depends on the change in the value added in the current financial year and the past financial years and on the Swissmetal Group's budget/business plan. The multiplier for calculating the amount available for bonus payments is computed from the increase in value per financial year. The available amount is credited to a bonus bank and only partially paid out. Any balance is carried forward to the next year. It is possible for the bonus for a financial year to be negative if there is negative value added. This has the effect of (partially) neutralizing any positive balance in the bonus bank and of less or nothing at all being paid out. Thus the company takes account of both positive and negative fluctuations in business performance and ensures that variable remuneration contains a long-term component. The target bandwidth for the variable bonus is 15% to 30% of the fixed salary.

The Board of Directors determines key figures in relation to the available bonus amount and based on the business plan (consolidated figures). These were determined for 2006 to 2010 in January 2006. In autumn 2008 the key figures will be revised and re-determined for 2011 to 2013. As regards the bonus program, the Board of Directors uses the services of an external consultancy specializing in compensation programs.

When it negotiated contracts of employment with the new members of the Group Management, the Swissmetal Group gave the individuals concerned the opportunity to buy shares at market price, with loans available for this purpose. These shares are then locked in for a specific period.

The Group Management plans to launch an employee participation programme in the second quarter of 2007, enabling members of the Management Team to buy shares, which are then locked-in for a specific period, at preferential conditions

5.2 Compensations for acting members of governing bodies Total remuneration paid or deferred in the 2006 financial year breaks down as follows:

CHF	2006	2005 [1]
Executive Member of the Board of Directors and Members of Group Management		
Fixed compensation for the Executive Member of the Board of Directors and CEO	440,573	445,319
Variable compensation for the Executive Member of the Board of Directors and CEO	327,247	104,000
Total of all compensations for the Executive Member of the Board of Directors and CEO (equals the highest total compensation)	767,820	549,319
Fixed compensation for the other members of Group Management (minus CEO)	2,350,287	1,932,894
Variable compensation for the other members of Group Management (minus CEO)	833,572	296,197
Total of all compensations for the other members of Group Management	3,183,859	2,229,091
Total of all compensations for the Executive Member of the Board of Directors (CEO) and the other members of Group Management	3,951,679	2,778,410
Non-Executive Members of the Board of Directors		
Agreed annual fee [2]		
Fee for Chairman of the Board of Directors	100,000	70,000
Fee for Deputy Chairman of the Board of Directors	75,000	52,500
Fee for member of the Board of Directors (3 members [3])	50,000	35,000
Fee for Chairman of Audit Committee	15,000	15,000
Fee for member of Audit Committee (2 members)	15,000	10,000

CHF	2006	2005 [1]
Compensation paid		
Board of Directors and Audit Committee fees	278,750	262,500
Other Board of Directors compensation [4]	137,500	119,114
Total of all compensations for non-executive members of the Board of Directors	416,250	381,614

1) The prior-year figures have been recalculated based on the standards applicable for 2006 and may differ from those published in the 2005 Annual Report.
2) The adjustment of the annual fees valid at the key date was conducted as of 1 July 2006.
3) The Executive Member of the Board of Directors and CEO do not receive any additional compensation as a Member of the Board of Directors.
4) Additional commitments that go beyond the remit of a member of the Board of Directors are compensated at a daily rate of CHF 2,500 plus expenses.

Note The Swissmetal "Nordstern" bonus regulations (cf. section 5.1 Content and process for determining compensation and the employee share ownership program) allow the company to create reserves in years of above-average target achievement by means of a fixed formula, which can be used in subsequent years as compensation, even if value growth is also achieved in line with the objectives set under the bonus program during this period and beyond. On this basis, Swissmetal set aside a total amount of CHF 846,021 as compensation for Members of Group Management for the 2006 financial year.

No compensation or severance payments within the meaning of the SWX Directive went to former members of the Board of Directors or Group Management who left during 2006; they received only their contractual notice entitlements.

5.3 Compensations for former members of governing bodies No compensation payments within the meaning of the SWX Directive went to former members of the Board of Directors or Group Management who left before 2006.

5.4 Share allotment in the year under review As part of the negotiation of new contracts of employment, the new members of the Group Management undertook to buy a total of 24,000 shares in 2006 under the normal conditions, with a loan available for this purpose. The shares have a lock-in period of between one and three years. Otherwise, no additional shares or options were allotted.

Changes to share allotment since 31 December 2006

On 10 January 2007, with the sale of Avins Industrial Products Corp. to the Swissmetal Group, Ralph Glassberg and parties closely linked to him acquired a total of 160,000 shares in UMS Swiss Metalworks Holding Ltd, Dornach. One half of these shares are locked in, 80,000 until 10 January 2008, 53,332 until 10 January 2009 and 26,666 until 10 January 2010. The other half is placed in an escrow account for a maximum of three years, to cover any guarantee commitments.

Since the beginning of the year, another 3,000 shares have been allotted to a new member of the Group Management against a loan. These shares are locked in for three years.

5.5 Share ownership

Members	Total share ownership [1] as at 31.12.2006	Total share ownership [1] as at 31.12.2005
Executive members of the Board of Directors, Group Management and parties closely linked to such persons	94,400 [2]	96,020 [3]
Non-executive members of the Board of Directors and parties closely linked to such persons	4,801	4,801

1) Also includes shares acquired privately
2) The major shareholder Laxey Partners is not a closely linked party in the meaning of the SWX Directive in respect of its representative on the Board of Directors. For that reason, the number of shares it holds is not included. (See also section 1.2 Significant shareholders)
3) Martin Hellweg, CEO of the Swissmetal Group, purchased 88,000 new shares for CHF 9.00 each in the July 2004 capital increase. Of these shares, 88,000 are locked in until 31 July 2005, 58,000 until 31 July 2006 and 28,000 until 31 July 2007. None of these shares are locked in beyond 1 August 2007.

5.6 Options There are no outstanding options held by members of the Board of Directors or Group Management within the meaning of the SWX Directive.

5.7 Additional fees and remunerations There were no additional fees and remunerations to members of the Board of Directors or Group Management within the meaning of the SWX Directive.

5.8 Loans to members of governing bodies As at 31 December 2006, the following loans to members of governing bodies existed on the account of share allocations:

Members	Loan (CHF) as at 31.12.2006	Loan (CHF) as at 31.12.2005
Executive members of the Board of Directors, Group Management and parties closely linked to such persons	86,667	0
Non-executive member of the Board of Directors and parties closely linked to such persons	0	0

The interest rate on these loans is 1% per annum. The loans are for a term of one to three years. The locked-in shares acquired with these loans serve as security. Otherwise, there were no loans to members of the Board of Directors or Group Management within the meaning of the SWX Directive.

5.9 Highest total compensation The highest total compensation paid to a member of the Board of Directors in the 2006 financial year went to the Executive Director and was CHF 767,820 (2005: CHF 549,319).

6. SHAREHOLDERS' PARTICIPATION

6.1 Voting-rights and representation restrictions The bearer of a share who presents the share or is otherwise authenticated as the owner in a manner prescribed by the Board of Directors is entitled to exercise the right of voting vis-à-vis the company. A shareholder may designate another shareholder to represent his or her shares.

6.2 Statutory quorums The General Meeting adopts resolutions and carries out votes by an absolute majority of the voting shares represented unless the provisions of article 704 of the Swiss Code of Obligations stipulate otherwise.

6.3 Convocation of the general meeting of shareholders The Annual General Meeting is held each year within six months of the end of the financial year. The General Meeting is convened by the Board of Directors or if necessary by the auditors, liquidators or creditors' representatives. The General Meeting is convened through a notice in the Swiss Official Gazette of Commerce no later than 20 days before the date of the meeting. The notice to attend must state the items to be discussed and the proposals of the Board of Directors and of shareholders who have requested that a General Meeting be held or an item be placed on the agenda. An Extraordinary General Meeting is held if the Board of Directors deems it useful or necessary or on the petition of one or more shareholders who jointly represent at least one-tenth of the company's share capital.

6.4 Agenda The rules set out in the Articles of Incorporation on inclusion in the agenda of items to be discussed at the General Meeting do not differ in any way from those laid down by law. Thus shareholders must submit proposals in sufficient time for them to be sent with the invitation and within the same statutory period, i.e. 20 days before the General Meeting.

6.5 Inscriptions into the share register Since UMS Swiss Metalworks Holding Ltd does not issue registered shares, there are no entries made in the share register.

7. CHANGES OF CONTROL AND DEFENSE MEASURES

7.1 Duty to make an offer The Swissmetal Group has not adopted any defense measures against takeover attempts. The governing bodies are of the opinion that the best defense is an appropriate share valuation and reliance on free market forces rather than depending on the measures that generally have a negative long-term impact on the share price. The company's Articles of Incorporation do not contain either an opting-up or an opting-out clause. This means that the obligation to make an offer prescribed by the Swiss Stock Exchange Act is triggered if a shareholder or a group of shareholders acting jointly acquires more than one-third of the outstanding shares.

7.2 Clauses on changes of control Should the Swissmetal Group be successfully taken over or involved in a successful merger, or should a similar situation arise, the members of the Executive Management and the remaining Group Management will each receive a one-off incentive payment of six or three monthly salaries, respectively, plus a pro-rata target bonus. There are otherwise no clauses in the agreements and plans concluded with the members of the Board of Directors and Group Management that provide any advantage to these parties in the event of a change in control of the company.

8. AUDITORS

8.1 Duration of the mandate and term of office of the lead auditor PricewaterhouseCoopers AG, Basel (known as STGCoopers & Lybrand AG until 1998), has held the auditor's mandate for the Swissmetal Group since 1986. Gerd Tritschler was the lead auditor for the first time for the 2004 annual financial statements. The auditors are appointed by the Annual General Meeting for a period of one year.

8.2 Auditing fees The total auditing fees charged by the auditors in the year under review was CHF 389,056 (2005: CHF 357,380).

8.3 Additional fees Fees for additional services in connection with the acquisition of Swissmetal Lüdenscheid GmbH, various tax services and the closure of Swissmetal Italia s.r.l. performed for UMS Swiss Metalworks Holding Ltd or one of its subsidiaries came to CHF 368,753 during the year under review (2005: CHF 132,950).

8.4 Supervisory and control instruments pertaining to the audit The Audit Committee of the Board of Directors reviews the independence and performance of the external auditors and makes recommendations to the Board of Directors. The auditors submit regular reports to the Executive Management/Group Management and the Board of Directors containing the results of its work and recommendations. The Board of Directors is aided by the audit plan concerning audit strategy/procedure, the two Management Letters (one after the preliminary audit and one after the final audit), the Report to the Board of directors and the Auditors' Reports. Among the issues discussed with the Audit Committee are the audit procedure, the milestones and the key audit findings. A meeting is held with the Board of Directors to discuss the annual financial statements prior to their approval by this body. In 2006, at least one representative of the auditors attended one (2005: six) meeting(s) of the Audit Committee and one (2005: two) meeting(s) of the Board of Directors.

9. INFORMATION POLICY

The Swissmetal Group regularly informs shareholders and investors of its business activities and the general state of the industry through press releases, conferences upon the release of the annual financial statements, analyst conferences, the annual report, half-year and quarterly reports and the provision of background information.

Further information is available at:
www.swissmetal.com

DORNACH


RECONVILIER

LÜDENSCHEID

Unless explicitly stated otherwise, all values are in CHF thousands. The Swissmetal Group prepares its consolidated financial statements in accordance with Swiss GAAP FER (Fachempfehlung zur Rechnungslegung – Accounting Standards); the single entity financial statements of UMS Swiss Metalworks Holding Ltd are prepared in accordance with the Swiss Code of Obligations (Obligationenrecht).

CONSOLIDATED INCOME STATEMENT

SWISSMETAL GROUP

		2006		2005	
	Notes	**CHF 000**	**%**	**CHF 000**	**%**
Gross sales	**01**	**357,612**	**253.4**	**198,347**	**181.6**
Deductions from gross sales	02	–13,940	–9.9	–7,957	–7.3
Net sales		**343,672**	**243.5**	**190,390**	**174.3**
Cost of materials and changes in stock	03	–202,551	–143.5	–81,167	–74.3
Gross margin	**04**	**141,121**	**100.0**	**109,223**	**100.0**
Other operating income	05	1,989	1.4	848	0.8
Own work capitalized	06	84	0.1	412	0.4
Personnel expenses	07	–77,273	–54.8	–65,580	–60.0
Operating and administrative expenses	08	–38,364	–27.2	–28,949	–26.5
Operating income before depreciation (EBITDA)		**27,557**	**19.5**	**15,954**	**14.7**
Depreciation	09	–17,372	–12.3	–12,533	–11.5
Operating income (EBIT)		**10,185**	**7.2**	**3,421**	**3.2**
Financial result	10	–2,087	–1.5	961	0.9
Non-operating result	11	87	0.1	–82	–0.1
Extraordinary result		0	0.0	–85	–0.1
Earnings before taxes (EBT)		**8,185**	**5.8**	**4,215**	**3.9**
Taxes	12	–3,579	–2.5	–910	–1.0
Result for the year before minority interests		**4,606**	**3.3**	**3,305**	**2.9**
Minority interests	13	7	0.0	–3	0.0
Result for the year (EAT)		**4,613**	**3.3**	**3,302**	**2.9**

The corresponding figures for Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, for the months of February to December 2006 are also included in the 2006 consolidated income statement. Swissmetal Italia s.r.l., Milan, is included in the consolidated income statement for the last time in 2006 the company was deconsolidated as of 30 June 2006.

EBITDA: Earnings before interest, taxes, depreciation and amortization
EBIT: Earnings before interest and tax
EBT: Earnings before tax
EAT: Earnings after tax

CONSOLIDATED BALANCE SHEET

SWISSMETAL GROUP

ASSETS		31.12.2006		31.12.2005	
	Notes	CHF 000	%	CHF 000	%
Current assets					
Cash and cash equivalents	14	20,398	9.4	13,721	8.4
Securities		66	0.0	2	0.0
Notes receivable and cheques	15	78	0.0	80	0.0
Trade accounts receivable	16	31,013	13.8	30,131	18.5
Other receivables	17	8,158	4.3	6,009	3.7
Loans to related parties		87	0.1	130	0.1
Stock	18	68,910	31.8	43,094	26.5
Prepaid expenses and accrued income	19	1,670	0.8	1,668	1.0
Total current assets		**130,380**	**60.2**	**94,835**	**58.2**
Fixed assets					
Property, plant and equipment	20	78,308	36.2	63,387	39.0
Financial assets	21	2,244	1.0	2,241	1.4
Intangible assets	20	5,703	2.6	2,325	1.4
Total fixed assets		**86,255**	**39.8**	**67,953**	**41.8**
TOTAL ASSETS		**216,635**	**100.0**	**162,788**	**100.0**

LIABILITIES AND SHAREHOLDERS' EQUITY		31.12.2006		31.12.2005	
	Notes	CHF 000	%	CHF 000	%
Short-term liabilities					
Interest-bearing liabilities	23	12,461	5.8	1,345	0.8
Trade accounts payable	24	33,061	15.3	14,329	8.8
Other liabilities	25	6,782	3.1	3,292	2.0
Accrued expenses and prepaid income	26	4,919	2.2	3,121	1.9
Provisions	27	718	0.3	780	0.5
Total short-term liabilities		**57,941**	**26.7**	**22,867**	**14.0**
Long-term liabilities					
Compulsory stockpile loan	28	6,667	3.1	10,000	6.2
Mortgage loans	29	11,016	5.1	0	0.0
Other liabilities	25	2,056	1.0	0	0.0
Provisions	27	12,651	5.8	6,513	4.0
Total long-term liabilities		**32,390**	**15.0**	**16,513**	**10.2**
Total liabilities		**90,331**	**41.7**	**39,380**	**24.2**
Shareholders' equity	**30**				
Share capital		58,910	27.2	58,910	36.1
Capital reserves		37,420	17.2	37,420	23.0
Retained earnings		27,732	12.8	24,430	15.0
Own shares		–2,699	–1.2	–700	–0.4
Cumulated exchange rate translation differences		328	0.2	–45	0.0
Result for the year		4,613	2.1	3,302	2.0
Minority interests	13	0	0.0	91	0.1
Total shareholders' equity		**126,304**	**58.3**	**123,408**	**75.8**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**216,635**	**100.0**	**162,788**	**100.0**

The corresponding figures for Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, are also included in the consolidated balance sheet as of 31 December 2006. Swissmetal Italia s.r.l., Milan, is no longer included in the consolidated balance sheet as of 31 December 2006, as the company was deconsolidated as of 30 June 2006.

CONSOLIDATED CASH FLOW STATEMENT

SWISSMETAL GROUP

CHF 000	2006	2005
Cash flow from operating activities		
Result for the year	4,613	3,302
Depreciation on property, plant and equipment and intangible assets	17,372	12,533
Change in provisions		
· Short-term	–1,503	–1,893
· Long-term	2,898	1,021
Other non-cash income statement items	–762	420
Cash flow before change in net current assets	**22,618**	**15,383**
Changes in securities, accounts receivable, and prepaid expenses	3,828	6,901
Change in stock	–12,494	1,359
Change in accounts payable	14,358	–1,838
Change in other current liabilities and deferred income	4,799	–721
Total cash flow from operating activities	**33,109**	**21,084**
Cash flow from investing activities		
Acquisition of property, plant and equipment and intangible assets	–18,292	–15,463
Disposal of property, plant and equipment and intangible assets	11	0
Acquisition of shareholdings and long-term securities*	–10,099	0
Total cash flow from investing activities	**–28,380**	**–15,463**
Free cash flow	**4,729**	**5,621**
Cash flow from financing activities		
Increase in liabilities to banks	13,303	0
Decrease in liabilities to banks	–10,101	–1,000
Change in loans	–1,309	–223
Total cash flow from financing activities	**1,893**	**–1,223**
Effect of exchange rate on cash and cash equivalents	**55**	**16**
Net change in cash and cash equivalents	**6,677**	**4,414**
Cash and cash equivalents as at 1 January	**13,721**	**9,307**
Cash and cash equivalents as at 31 December	**20,398**	**13,721**

* This item includes the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid. (See also Acquisition)

The corresponding figures for Swissmetal Lüdenscheid GmbH, Lüdenscheid, for the months of February to December 2006 are also included in the 2006 consolidated cash flow statement. Swissmetal Italia s.r.l., Milan, was deconsolidated as of 30 June 2006. Its cash flows are therefore included in the consolidated cash flow statement for the last time in 2006.

CHF 000	Share capital	Capital reserves 1)	Own shares	Retained earnings 2)	Cumulated exchange rate translation differences	Total excluding minority interests	Minority interests	Total incl. minority interests
Balance 1 January 2005	**58,910**	**37,420**	**–700**	**22,745**	**–32**	**118,343**	**88**	**118,431**
Effect from first-time application of Swiss GAAP FER 16 (Pension Plans) 3)				1,685		1,685		1,685
Result for the year 2005				3,302		3,302	3	3,305
Reclassification of exchange rate translation differences					–13	–13		–13
Balance 1 January 2006	**58,910**	**37,420**	**–700**	**27,732**	**–45**	**123,317**	**91**	**123,408**
Allocation to own shares			–1,999			–1,999		–1,999
Change in scope of consolidation					–16	–16	–91	–107
Result for the year 2006				4,613		4,613		4,613
Reclassification of exchange rate translation differences					389	389		389
Balance 31 December 2006	**58,910**	**37,420**	**–2,699**	**32,345**	**328**	**126,304**	**0**	**126,304**

1) includes retained statutory reserves and shareholders' equity transaction costs
2) includes the profits from initial and subsequent consolidation, unappropriated retained earnings, the effect from the first-time application of Swiss GAAP FER 16 (Pension Plans) and the net profit or loss for the period
3) see assets from employer contribution reserves

Under the "Own shares" item, CHF 2.0 million was deducted from shareholders' equity as of 31 December 2006 in accordance with Swiss GAAP FER 24, owing to the net purchase of 114,000 shares in 2006. Retained earnings amounting to CHF 32.3 million include CHF 28.9 million non-distributable reserves for the individual companies.

The General Meeting held on 30 June 2006 approved the creation of authorized capital and consequently authorized the Board of Directors to increase the company's share capital at any time up to 30 June 2008 in the maximum amount of CHF 23,563,998 by issuing at most 2,618,222 bearer shares, each with a par value of CHF 9.00, to be paid up in full. (See also Corporate Governance, Section 2.2 Authorized and conditional capital)

Number	31.12.2006	31.12.2005
Balance of own shares	134,000	20,000

As of 31 December 2006, the portfolio of own shares was made up of 134,000 shares, which represents an increase of 114,000 shares compared to 31 December 2005. The shares were purchased preparatory to concluding the acquisition of Avins Industrial Products Corp., Warren/NJ, on 10 January 2007. The average price of these shares was CHF 17.45. At present no options are open. (See also Events occurring after the balance sheet date and Corporate Governance, Section 2.7 Convertible bonds and options)

SCOPE OF CONSOLIDATION

All companies in which UMS Swiss Metalworks Holding Ltd, Dornach, has more than a 50% interest are included in the consolidation.

The scope of consolidation as of 31 December 2006 comprised the following companies:

- UMS Swiss Metalworks Holding Ltd, Dornach, Switzerland
- Swissmetal – UMS Swiss Metalworks Ltd, Dornach, Switzerland, with plants in Reconvilier and Dornach (wholly owned)
- Swissmetal Deutschland Handelsgesellschaft mbH, Deisslingen-Lauffen, Germany (wholly owned)
- Swissmetal Lüdenscheid GmbH (formerly: Busch-Jaeger Metallwerk GmbH), Lüdenscheid, Germany (wholly owned)
- Avins International AG, Dornach, Switzerland (wholly owned)

Changes in the scope of consolidation in the 2006 financial year:

- as of 1 February 2006: first-time consolidation of Swissmetal Lüdenscheid GbmH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, Germany (wholly owned)
- as of 30 June 2006: deconsolidation of Swissmetal Italia s.r.l., Milan, Italy (80% interest)
- as of 31 December 2006: first-time consolidation of the newly founded Avins International AG, Dornach, Switzerland (wholly owned). (See Corporate Governance, Section 1.1 Group structure)

ACQUISITION

As of 1 February 2006, Swissmetal – UMS Swiss Metalworks Ltd, Dornach, purchased 100% of the share capital of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, thus acquiring a further production facility. The goodwill on the acquisition and net assets acquired are as follows:

Purchase price	**CHF 000**
Payment made	9,903
Costs directly attributable to acquisition	246
Total share price	**10,149**
Fair value of net assets acquired	–4,769
Goodwill	**5,380**

The goodwill is a result of the synergy effects expected from currently having three production sites with a certain amount of overlap between their product portfolios. The fair value of the net assets acquired can be broken down as follows:

CHF 000	**Fair value**	**Carrying value of the acquired company**
Current assets		
Cash and cash equivalents	53	53
Trade accounts receivable	6,120	6,120
Stock	12,852	12,852
Other current assets	1,739	1,739
Total current assets	**20,764**	**20,764**
Fixed assets		
Property, plant and equipment	11,388	6,181
Financial assets	20	20
Intangible assets	87	87
Total fixed assets	**11,495**	**6,288**
Total assets	**32,259**	**27,052**

CHF 000	Fair value	Carrying value of acquired company
Total assets (carry-over)	**32,259**	**27,052**
Total short-term liabilities	**–18,036**	**–18,093**
Total long-term liabilities	**–9,454**	**–7,379**
Net assets	**4,769**	**1,580**
Minority interests	**0**	
Net assets acquired	**4,769**	

	CHF 000
Purchase price paid in cash	10,149
Cash and cash equivalents available in acquired company	–53
Cash flow from transaction	**10,096**

(See also Events occurring after the balance sheet date for details of the acquisition of Avins Industrial Products Corp., Warren/NJ)

PRINCIPLES OF CONSOLIDATION

The consolidated annual financial statements give a true and fair view of the financial position, the results of operations and cash flows in accordance with Swiss GAAP FER. As of 31 December 2007, Swissmetal plans to publish its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

Equity is consolidated in accordance with the purchase method (revaluation method). In the case of an acquisition, the assets acquired and liabilities assumed are revalued at their acquisition date fair values in accordance with Group-wide policies. The goodwill thereby acquired is capitalized in the consolidated financial statements. In applying the full consolidation method, assets, liabilities and equity, as well as expenses and earnings of consolidated companies are fully recognized. The minority interests' share in the equity and profit of the respective company are recognized separately in the balance sheet and income statement under "Minority interests". Receivables and liabilities as well as income and expenses between consolidated companies have been eliminated. As there are no significant intercompany profits on inventories, there was no elimination. As a rule, unconsolidated investments in affiliates are recognized using the pro-rata value of equity.

PRINCIPLES OF VALUATION

The assets, liabilities and equity of the Swissmetal Group are valued in accordance with Swiss GAAP FER and therefore based on a "true and fair view" (cost less operationally required adjustments). Deferred taxes on untaxed reserves are calculated using the future expected tax rates and recognized as provisions.

Goods inventories The method for valuing goods inventories is adjusted to operating requirements. Production companies value crude metals and own makes (metal content) using the LIFO principle (last-in-first-out), taking into account the purchase and delivery obligations existing as of the balance sheet date. Goods inventories of trading companies are recognized using average cost. Goods inventories are recognized on a full-cost basis. Auxiliary and operating materials are not capitalized.

Provisions All recognizable and measurable risks of loss have been taken into account through provisions in accordance with Swiss GAAP FER 23.

Foreign currencies Income and expenses in the individual Group companies are recognized using the respective daily or hedged rate of exchange. Assets, liabilities and equity in foreign currency are recognized using the respective year-end rates. Deviations from cash and cash equivalents are recognized in the income statement. Negative deviations from receivables and liabilities, after adjusting for open hedges, are likewise recognized in the income statement. Positive deviations from receivables and liabilities, after adjusting for open hedges, are treated as short-term liabilities.

The balance sheets of foreign Group companies are translated using the current rate method at the year-end rates as of 31 December 2006 and 31 December 2005, respectively. The income statements of foreign Group companies are translated using the average annual rates. The translation adjustments are recognized directly to shareholders' equity as foreign currency translation differences.

CHF	2006		2005	
	Balance sheet	Income statement	Balance sheet	Income statement
1 EUR	1.610	1.573	1.559	1.548
1 USD	1.220	1.254	1.316	1.246
1 GBP	2.389	2.308	2.264	2.265

Maturities In general, receivables and liabilities with an economic life of more than 12 months are classified as long-term. Portions of long-term items that become due in the short term are reclassified.

Research and development Direct research and development expenses totaled CHF 1.0 million in 2006 (previous year: CHF 1.1 million) and were not capitalized, but recognized in the income statement. Personnel costs of CHF 0.6 million (previous year: CHF 0.7 million) accounted for the largest portion of the research and development expenses. In addition, research and development expenses attributable to the various production departments are estimated at CHF 2.0 million.

The research and development focus in the 2006 financial year was on projects for the aircraft industry and its suppliers. In addition, Swissmetal invested in two patents and conducted projects in collaboration with the Swiss Federal Institute of Technology in Lausanne.

Provisions for doubtful accounts Provisions for doubtful accounts are comprised of individual adjustments as well as a global allowance of 3% of the balance of unsecured receivables and are directly deducted from accounts receivable.

Property, plant and equipment and intangible assets

Capitalization principles Property, plant and equipment and intangible assets are capitalized at no more than cost. Operationally required depreciation is deducted from this amount. Assets costing in excess of CHF 5,000 per project and whose expected useful life is at least two years are always capitalized.

Depreciation Regular depreciation reflects the reduction in value of fixed assets due to utilization and aging and is carried out based on business criteria. The corresponding rates are:

Land and buildings	Years	%
Land		
Buildings, solid structure – plants	25	4.0
Buildings, solid structure – office buildings	40	2.5
Buildings, light weight – plants	10	10.0
Buildings, light weight – office buildings	20	5.0
Residential buildings	50	2.0
Infrastructure	33	3.0

Technical equipment, machines, plant and office furnishings	Years	%
Fabrication machinery and equipment (average useful life)	10	10.0
Fabrication machinery and equipment (short useful life)	5	20.0
Logistical resources	5	20.0
Major equipment (presses, casting equipment)	15	6.7
Infrastructure (average useful life)	10	10.0
Infrastructure (short useful life)	5	20.0

Technical equipment, machines, plant and office furnishings (continued)	Years	%
Office equipment and furniture	5	20.0
IT equipment (mainframes, servers, printers)	5	20.0
IT equipment (PCs, desktop printers, etc.)	3	33.3
Vehicles (warehouse and passenger vehicles)	5	20.0
Vehicles (trucks)	8	12.5

Intangible assets	Years	%
Software	3	33.3
Goodwill	5	20.0

If the useful life that is actually expected is shorter than those underlying the above rates, then the shorter expected useful life is applied.

Impairment Property, plant and equipment and intangible assets are subjected to an impairment test if there are indications of permanent impairment. If the carrying value of an asset exceeds its recoverable value in use, there is an impairment, whereby the value in use of an asset corresponds to the present value of the expected future cash flows. In the case of impairment, the carrying value must be reduced to the recoverable value and the impairment charged to income for the period.

EMPLOYEE BENEFIT OBLIGATIONS

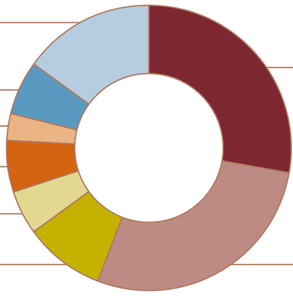
Since 1 January 2000, the Swissmetal Group has accounted for pension obligations in accordance with the principles of Swiss GAAP FER 16. In addition, the Swissmetal Group made use of the option of applying the revised Swiss GAAP FER 16 at an earlier date than required and applied the changes to Swiss GAAP FER 16 effective as of 1 January 2006 to the 2005 consolidated financial statements. The opening balance of the economic benefit (employer contribution reserve) as of 1 January 2005 was recognized separately through equity.

The Swissmetal Group bears the costs of occupational pensions for all employees and their surviving dependents as required by statute. In this regard, all significant pension plans are subject to Swiss law. The pension obligations and the covering assets have been divested to legally independent foundations.

The organization, management and financing of the pension plans follow the Swiss occupational pensions law (BVG/LPP), the foundation charters and the applicable pension rules. The pension obligations are regularly reassessed by pension fund experts. Pursuant to Swiss GAAP FER 16, the Swissmetal Group's pension plans are defined benefit plans.

The Group companies Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, Swissmetal Deutschland Handelsgesellschaft mbH, Deisslingen-Laufen, and Swissmetal Italia s.r.l., Milan (deconsolidated as of 30 June 2006) do not operate independent staff pension funds. Therefore, appropriate provisions are recognized in the consolidated balance sheet.

1 – Gross sales Gross sales totaled CHF 357.6 million (previous year: CHF 198.3 million). Of this sum, CHF 23.5 million is attributable to the sale of metals, made possible by processing improvements. Deducting the proceeds of metal sales, gross sales thus totaled CHF 334.1 million, or 68% (CHF 135.8 million) above the comparable figure one year ago. This is owing to the ability to pass higher metal costs on to customers and to the inclusion of the sales of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, for the period of February to December (CHF 111.2 million). The latter offset the lower production volumes at the Reconvilier plant. The breakdown of gross sales by geographical region after deducting the proceeds of metal sales is as follows:



Owing to the acquisition of Swissmetal Lüdenscheid GmbH, Lüdenscheid, there were notable changes in the distribution of sales in the seven main markets of the Swissmetal Group. The Swissmetal Group generated 56% (2005: 52%) of its sales from companies in its home markets of Switzerland and Germany and 44% (2005: 48%) from companies abroad. The two remaining major European markets, France and Italy, accounted for 14% of sales (2005: 18%). The drop in the US figure from 11% to 6% is primarily attributable to the strike in Reconvilier.

2 – Deductions from gross sales Deductions from gross sales increased year-on-year from CHF 8.0 million to CHF 13.9 million. This represents 4% of the gross sales adjusted for the sale of metals, which stood at CHF 334.1 million, and is thus practically unchanged from its prior-year level. (See also Gross sales)

3 – Cost of materials and changes in stock The cost of materials and changes in stock increased by CHF 121.4 million to CHF 202.6 million compared to the previous year. The higher figure is primarily attributable to the substantial increase in metal prices in the year under review.

4 – Gross margin The 2006 gross margin is comparable only in part with the figure for 2005: on the one hand, it includes a contribution to income from metal sales of CHF 15.7 million. Stock was reduced thanks to operational efforts to reduce the stock of metals used in the production cycle. On the other hand, gross profit includes a contribution to income from the revaluation of work values in the stock of CHF 3.8 million. Owing to the stabilization of the situation at Reconvilier, the valuation adjustments that had been carried out in the previous year in connection with the uncertainties caused by the strike were no longer required and the value adjustment was subsequently reversed. In the context of the Swiss GAAP FER conceptual framework, this change in valuation was deemed to represent a change in accounting estimates since it relates to the uncertainties that were factored into the prior-year figure.

5 – Other operating income Other operating income totaled CHF 2.0 million. This includes an extraordinary effect from an external strike fund of more than CHF 0.8 million for the strike in February 2006. The other income arose from reimbursements from insurance as well as the passing on of staff costs.

6 – Own work capitalized Own work capitalized consists of work by the company's own staff for capital expenditures in plant, property and equipment and declined from CHF 0.4 million to CHF 0.1 million.

7 – Personnel expenses Personnel expenses increased substantially year on year. This item totaled CHF 77.3 million in 2006 and was thus CHF 11.7 million higher than the previous year. The average headcount increased from 768 to 879 full-time equivalents.

The difference compared to the previous year is largely accounted for by two factors: the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, raised personnel expenses by CHF 16.8 million (addition of 196 FTEs), while lower personnel costs at Swissmetal – UMS Swiss Metalworks Ltd, Dornach, (loss of 85 FTEs) reduced the overall figure by CHF 4.8 million.

Personnel expenses include the provisions for bonuses of CHF 4.8 million (including social contributions), which were higher in 2006 owing to the introduction of the new bonus system, Nordstern. However, the deferred bonus will not be paid in full; a large part will be deposited in a “bonus bank” at the individual level. The gross amount paid out amounted to CHF 2.4 million.

The ratio of personnel expenses to gross margin stood at 55% in 2006. If the aforementioned one-time positive effects (metal sales and work values) are deducted from the gross margin, the figure increases to 64% (2005: 60%). This figure reflects the low capacity utilization that resulted from the strike. (See Corporate Governance, Section 5.1 Content and method of determining compensation and the shareholding programs)

8 – Operating and administrative expenses

CHF 000	2006	2005
Energy	11,025	6,998
Operating materials	14,578	14,448
Administrative expenses	11,179	5,806
Other expenses	1,582	1,697
Total operating and administrative expenses	**38,364**	**28,949**

The increase in operating and administrative expenses of CHF 9.4 million in total is mainly owing to the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid.

Energy expenditures rose because of higher energy prices on the one hand and the higher fixed costs involved in operating foundries at three sites on the other hand. This will change when the extrusion press under construction comes on stream.

The cost of operating materials, which is dependent upon volume, rose only marginally. Administrative expenses rose from CHF 5.8 million to CHF 11.2 million year-on-year. CHF 2.9 million of this figure is accounted for by the consolidation of Swissmetal Lüdenscheid GmbH, Lüdenscheid.

Administrative expenses include, among other things, costs for insurance, information technology, communication and consulting.

The other expenses of CHF 1.6 million (2005: CHF 1.7 million) primarily comprise travel and entertainment, which rose by CHF 0.2 million compared to the previous year. Rental costs, by contrast, fell by CHF 0.3 million.

9 – Depreciation Depreciation totaled CHF 17.4 million, CHF 4.9 million above the figure for the previous year (CHF 12.5 million). The reported amount includes non-systematic depreciation of CHF 3.5 million, which arose as a result of a change in the useful life of assets in connection with the strategy for optimizing the costs of hot forming operations, and CHF 2.2 million in systematic depreciation arising from the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid. The write-off of goodwill arising from the acquisition of Swissmetal Lüdenscheid GmbH, Lüdenscheid, amounts to CHF 1.0 million and is part of the systematic depreciation for Swissmetal Lüdenscheid GmbH, Lüdenscheid.

At CHF 20.5 million, the plants under construction, of which the new extrusion press is the largest item, are not yet being depreciated.

10 – Financial result

CHF 000	2006	2005
Financial income	316	299
Financial expenses	–2,665	–388
Exchange rate differences	262	1,050
Financial result	**–2,087**	**961**

Compared with the previous year, net financial income fell by CHF 3.0 million to CHF –2.1 million. Owing to increased borrowings in connection with the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, and to the additional current assets required on account of higher metal prices, financial expenses rose by CHF 2.3 million year-on-year to stand at CHF 2.7 million. The average interest was 4.3%.

11 – Non-operating result In 2006, non-operating income amounted to CHF 0.1 million, representing an advance of CHF 0.2 million on the previous year.

CHF 000	2006	2005
Non-operating income	93	0
· Income from sale of plant and equipment	11	0
· Other non-operating income	82	0
Non-operating expenses	–6	–82
Non-operating result	**87**	**–82**

12 – Taxes Tax expenditures totaled CHF 3.6 million. Of this amount, deferred taxes accounted for CHF 3.0 million, taxes on capital for CHF 0.3 million, taxes on income for CHF 0.2 million and other taxes for CHF 0.1 million. (See also Prepaid expenses and accrued income)

13 – Minority interests The minority interests item refers to Swissmetal Italia s.r.l., Milan, (deconsolidated as of 30 June 2006) and shows its share in the result for the year.

14 – Cash and cash equivalents As of the balance sheet date, cash and cash equivalents totaled CHF 20.4 million. The increase compared with 31 December 2005 amounts to CHF 6.7 million and is primarily based on the optimization of net current assets and the taking out of new credit facilities. (See also the Consolidated cash flow statement)

15 – Notes receivable and cheques Notes receivable and cheques were unchanged year-on-year at CHF 0.1 million.

16 – Trade accounts receivable Despite a marked increase in sales and the consolidation of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, accounts receivable, at CHF 31.0 million net, were virtually unchanged year-on-year. This is primarily attributable to the extension of a factoring facility in 2006 that was drawn by CHF 25.4 million, and active accounts receivable management.

Overall accounts receivable came to CHF 56.4 million gross, of which CHF 52.8 million gross was ceded.

The value adjustments (individual and lump-sum) amounted to CHF 2.7 million on 31 December 2006, compared with CHF 3.0 million the year before.

17 – Other receivables As of 31 December 2006, other receivables totaled CHF 8.2 million (2005: CHF 6.1 million). Of the CHF 2.1 million increase, CHF 1.7 million is a result of the consolidation of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid.

Other receivables are composed primarily of VAT credits (CHF 2.8 million), receivables that arose in connection with the refinancing in 2004 (CHF 2.6 million net) and other receivables from public institutions. (See Financial Statements of UMS Swiss Metalworks Holding Ltd, Dornach, Other receivables)

18 – Stock Stock break down as follows:

CHF 000	31.12.2006	31.12.2005
Crude metals	13,976	8,960
Own makes – metal content	41,542	19,783
Own makes – value added	13,270	12,032
Own makes at trading companies	11	2,319
Other stock	111	0
Total stock	**68,910**	**43,094**

Stock levels totaled 12,700 tonnes as of 31 December 2006, compared to 14,900 tonnes as of 31 December 2005. Through active warehouse management, stock at the Group's Swiss plants was reduced by 34%, i.e. 5,000 tonnes, in the period under review. The bulk of the reduction was in raw materials and work in process. The acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, increased stock volume by 2,800 tonnes as of 31 December 2006.

Despite the reduction in stock volume, stock price rose by 60%, as the value per tonne increased from CHF 2,892 in 2005 to CHF 5,426 in 2006. This reflects the combination of two effects: On the one hand, metal prices had risen steeply in 2006. Because the volumes of the lower-priced share of stock at the Swiss plants decreased, the average value of total stock rose in line with rising metal prices. As a result, the share of purchase and sales commitments measured at contract value now has a stronger weighting within stock. As the average value of stock of Swissmetal Lüdenscheid GmbH, whose carrying value was recorded according to the LIFO (last in, first out) principle at the first-time consolidation as of 1 February 2006, was already comparatively high, these volumes further increased the average total value. In addition, the revaluation of work values at Reconvilier and the change in the product mix at the Swiss sites both had an upward impact on stock.

The market value of the metal included in the stock totaled CHF 108.1 million as of 31 December 2006, which represented an increase of CHF 23.4 million (28%) on the previous year (CHF 84.7 million). (See also Principles of valuation)

CHF 000	Land	Buildings	Machinery and technical equipment	Other equipment	Assets under construction	Intangible assets	Total 2006
2006 Statement of changes in tangible and intangible assets							
Acquisition value							
Balance 1 January	**2,484**	**68,564**	**222,459**	**10,720**	**8,151**	**4,165**	**316,543**
Acquisition		79	459	160	17,588	6	18,292
Disposals			–4,118	–806		–42	–4,966
Transfers of assets under construction			6,074	23	–6,254	157	0
Change in scope of consolidation	3,515	1,192	5,750	1,142	1,869	5,525	18,993
Currency translation adjustments	126	43	207	48	68	202	694
Balance 31 December	**6,125**	**69,878**	**230,831**	**11,287**	**21,422**	**10,013**	**349,556**
Accumulated depreciation							
Balance 1 January	**3**	**56,870**	**183,317**	**8,801**	**0**	**1,840**	**250,831**
Systematic and non-systematic depreciation		1,984	11,950	899	120	2,419	17,372
Disposals			–4,118	–775		–35	–4,928
Change in scope of consolidation		45	1,103	207	726	57	2,138
Currency translation adjustments		4	57	14	28	29	132
Balance 31 December	**3**	**58,903**	**192,309**	**9,146**	**874**	**4,310**	**265,545**
Carrying amount							
As at 1 January	2,481	11,694	39,142	1,919	8,151	2,325	65,712
As at 31 December	6,122	10,975	38,522	2,141	20,548	5,703	84,011
Fire insurance values							
As at 31 December		264,346	358,179	2,117			624,642

19 – Prepaid expenses and accrued income Prepaid expenses and accrued income were CHF 1.7 million as of 31 December 2006, unchanged from the previous year. The largest share in this item, CHF 1.1 million, is attributable to deferred tax assets in connection with the remaining tax loss carryforwards of CHF 4.4 million, which can be claimed at least up until 2009. (See also Taxes)

20 – Property, plant and equipment and intangible assets The “Buildings” asset category as of 31 December 2006 included buildings not required for operations with a carrying value of CHF 0.4 million (previous year: CHF 0.4 million).

In the “Other equipment” asset class, new vehicles for freight forwarding were capitalized as financial lease assets in the year under review. The carrying value and lease liabilities of these vehicles totaled CHF 0.5 million as of the balance sheet date (2005: CHF 0.6 million).

The additions under “Assets under construction” for the most part relate to the new extrusion press. Of the current total value of CHF 19.1 million, CHF 14.2 million was entered in the year under review as an addition (of which CHF 12.1 million represented advance payments). Other noteworthy additions included in particular replacements for two piston compressors, a replacement conveyor furnace in Reconvilier and IT investments.

Intangible assets of more than CHF 5.7 million consisted of CHF 4.5 million in goodwill from the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, and CHF 1.2 million in software.

In connection with the strategy for optimizing the costs of hot forming operations, the useful life of each of the assets in question at the Swiss locations was revised. This resulted in non-systematic additional depreciations to the value of CHF 3.5 million.

With regard to the adjustment for impairment in 2002, neither new indications of any additional impairment nor a substantial improvement in the underlying factors were found in 2006, so that the 2002 impairment adjustment of CHF 12.7 million (gross value) still remains.

CHF 000	Land	Buildings	Machinery and technical equipment	Other equipment	Assets under con-struction	Intangible assets	Total 2005
2005 Statement of changes in tangible and intangible assets							
Acquisition value							
Balance 1 January	**2,484**	**68,412**	**216,010**	**10,178**	**1,944**	**5,418**	**304,446**
Acquisition				782	14,681		15,463
Disposals		–121	–1,156	–376		–1,711	–3,364
Transfers of assets under construction		273	7,608	136	–8,474	457	0
Currency translation adjustments			–3			1	–2
Balance 31 December	**2,484**	**68,564**	**222,459**	**10,720**	**8,151**	**4,165**	**316,543**
Accumulated depreciation							
Balance 1 January	**3**	**55,665**	**175,136**	**8,408**	**0**	**2,344**	**241,556**
Regular and extraordinary depreciation		1,326	9,231	769		1,207	12,533
Disposals		–121	–1,050	–376		–1,711	–3,258
Balance 31 December	**3**	**56,870**	**183,317**	**8,801**	**0**	**1,840**	**250,831**
Carrying amount							
As at 1 January	2,481	12,747	40,874	1,770	1,944	3,074	62,890
As at 31 December	2,481	11,694	39,142	1,919	8,151	2,325	65,712
Fire insurance values							
As at 31 December		220,902	303,664	2,306			526,872

21 – Long-term financial assets The long-term financial assets of CHF 2.2 million concern the assets from employer contribution reserves and were unchanged year-on-year.

22 – Assets from employer contribution reserves and pension funds The situation in the Swiss employee benefit funds is as follows:

Economical benefits/obligation and pension expense

CHF 000	Surplus/deficit pursuant to Swiss GAAP FER 26 (Basis 31.12.2005) 31.12.2006	Company's economical benefit 31.12.2006	Company's economical benefit 31.12.2005	Change to prior year or recognized in income during the fiscal year	Contribution concerning the business period	Pension expense included in personnel expenses 2006	Pension expense included in personnel expenses 2005
Patronage funds/ patronage pension institutions	3,720	0	0	0	0	0	0
Pension plans without surplus/deficit	0	0	0	0	2,403	2,403	2,872
Total	**3,720**	**0**	**0**	**0**	**2,403**	**2,403**	**2872**

A total of CHF 2.2 million in employer contribution reserves was capitalized from the employee benefits foundations in Dornach and Reconvilier as of the balance sheet date; this amount is the same as in the previous year. As at the balance sheet date, the economical benefits from employer contribution reserves divested to the Swiss pension funds were as follows:

Employer contribution reserves (ECR)							
CHF 000	**Nominal value 31.12.2006**	**Use of ECR waived 31.12.2006**	**Other provisions 31.12.2006**	**Discount 31.12.2006**	**Balance sheet 31.12.2006**	**Balance sheet 31.12.2005**	**Earnings from ECR included in personnel expenses 2006**
Patronage funds/ patronage pension institutions	2,241	0	0	0	2,241	2,241	0
Total	**2,241**	**0**	**0**	**0**	**2,241**	**2,241**	**0**

Pension plan contributions (CHF 000)	2006
Regulatory employee contributions	2'403
Regulatory employer's contributions	2'403

The employer's contributions are included in personnel expenses.

23 – Interest-bearing liabilities (short-term)

Credit type (CHF 000)	31.12.2006	31.12.2005
Bank loans	8,861	0
Mandatory stockpile loans	3,333	1,000
Loans from employees	6	52
Liabilities to pension institutions	261	293
Total interest-bearing liabilities (short-term)	**12,461**	**1,345**

In the year under review, short-term interest-bearing liabilities increased from CHF 1.3 million to CHF 12.5 million. This increase is primarily owing to Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, which was acquired in February 2006. Furthermore, as a result of higher sales, bank loans were used as liquidity for current assets.

Bank debts of CHF 3.3 million relate to the current portion of the compulsory stockpile loan; this portion always becomes due in the following year. In the year under review the repayment of the compulsory stockpile loan totaled CHF 1.0 million. (See also Compulsory stockpile loan)

24 – Trade accounts payable Trade accounts payable to suppliers increased by CHF 18.7 million to CHF 33.1 million compared to the prior year. This significant increase is primarily a result of higher procurement volumes on account of the increase in metal prices and the inclusion of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, which was acquired in February 2006.

25 – Other liabilities Other liabilities can be broken down into CHF 6.8 million in short-term liabilities and CHF 2.1 million in long-term liabilities. The sum total amounted to CHF 8.9 million, an increase of CHF 5.5 million year-on-year. Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid, accounts for CHF 1.9 million of this item.

Leaving aside the breakdown by individual sites, other liabilities are composed as follows: variable employee bonus system CHF 4.8 million (of which CHF 2.1 million is long term), holiday and overtime credits of CHF 1.8 million and miscellaneous liabilities of CHF 2.3 million. The increase is primarily owing to the introduction of the new variable employee bonus system as of 1 January 2006. (See also Personnel expenses; Corporate Governance, Section 5.1 Content and method of determining compensation and the shareholding programs)

26 – Accrued expenses and prepaid income The total accrued expenses and deferred income of CHF 4.9 million represents an increase of CHF 1.8 million year-on-year. This item includes accruals for invoices not yet received of CHF 1.3 million, accruals for annual rebates and commissions of CHF 0.7 million, auditing services and additional costs in connection with the annual report of CHF 0.6 million, unrealized foreign currency effects of CHF 0.5 million, an environmental study of CHF 0.5 million, remuneration for the Board of Directors of CHF 0.3 million and further operating accruals of CHF 1.0 million.

27 – Provisions

CHF 000	Guaran-tees	Restruc-turing	Foreign currency risk	Taxes	Other	Pension liabilities	Deferred taxes	Total
Book value 1.1.2005	**587**	**1,300**	**681**	**6**	**599**	**350**	**4,081**	**7,604**
Formation				223	1,400	12	193	1,828
Utilization				–30	–127			–157
Reversal		–1,300	–681	–6				–1,987
Currency translation adjustments						5		5
Book value 1.1.2006	**587**	**0**	**0**	**193**	**1,872**	**367**	**4,274**	**7,293**
Formation				65	447	393	2,591	3,496
Utilization		–802		–263	–560	–266	–2	–1,893
Reversal				–25		–224		–249
Change in scope of consolidation		774		127	488	1,198	1,918	4,505
Currency translation adjustments		28		7	61	52	69	217
Book value 31.12.2006	**587**	**0**	**0**	**104**	**2,308**	**1,520**	**8,850**	**13,369**

The provision schedule shows the total of short and long-term provisions. The provisions for deferred taxes, the pension obligation and the other obligations are considered to be long-term provisions. Overall, CHF 12.7 million is attributable to long-term and CHF 0.7 million to short-term provisions.

Total provisions increased by CHF 6.1 million, of which CHF 4.9 million derives from the consolidation of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid.

This increase reflects primarily higher provisions for deferred taxes, which are CHF 4.6 million up on the previous year.

The provisions for pension obligations also rose, by CHF 1.1 million to CHF 1.5 million. These affect only the companies that do not operate independent employee benefit plans (Swissmetal Deutschland Handelsgesellschaft mbH, Deisslingen-Lauffen, and Swissmetal Lüdenscheid GmbH, Lüdenscheid).

In 2006, CHF 0.8 million out of the restructuring provision for the social plan and CHF 0.6 million out of the provision for the income and adjustment bond under the item Other were used by Swissmetal Lüdenscheid GmbH, Lüdenscheid.

28 – Compulsory stockpile loan (long-term)

CHF 000	31.12.2006	31.12.2005
Compulsory stockpile loan	6,667	10,000
Total long-term interest-bearing loans	**6,667**	**10,000**
Of which: with maturities of 1 to 5 years	6,667	10,000
Average interest rate in the years ending on	1.47%	1.25%

The agreement concerning the compulsory stockpile loan with the federal government provides for a repayment of CHF 3.3 million per year for the period 2007 – 2009. (See also Contingent liabilities and Interest-bearing liabilities (short-term))

29 – Mortgage loans

CHF 000	31.12.2006	31.12.2005
Mortgage loans	11,016	0
Total mortgage loans	**11,016**	**0**
Of which: with maturities of 1 to 5 years	11,016	0
Average interest rate in the years ending on	3.23%	0.00%

In 2006, a mortgage loan was taken out for CHF 20.0 million. On 31 December 2006, CHF 11.0 million of that credit line had been drawn on. A mortgage note on the Dornach site serves as collateral. (See also Contingent liabilities)

30 – Shareholders' equity For detailed information please see the statement of changes in consolidated shareholders' equity.

OTHER EXPLANATORY NOTES

31 – Equity interests As of the balance sheet date, the following shareholders hold more than 5% of the capital in UMS Swiss Metalworks Holding Ltd, Dornach:

%	31.12.2006	31.12.2005
FidFund Management SA	> 5.0%	
Adelphi Capital Ltd	> 5.0%	
Laxey Partners Ltd	> 20.0%	
3V Asset Management AG	> 5.0%	> 5.0%
OZ Bankers AG		> 5.0%

As of 31 December 2006, Laxey Partners Ltd held more than 20% and FidFund Management SA, Adelphi Capital Ltd and 3V Asset Management AG each held more than 5% of the capital in UMS Swiss Metalworks Holding Ltd, Dornach. (See also Corporate Governance, Section 1.2 Significant shareholders)

32 – Contingent liabilities

CHF 000	31.12.2006	31.12.2005
Guarantee obligations vis-à-vis third parties		
Guarantee liabilities	3,790	3,690
Title restrictions for own liabilities		
Carrying amount of assets used as security	0	26,791
Stock	35,678	31,342
Assets	51,612	3,379
Cash and cash equivalents	5,935	0
Book value of assets used as collateral	**93,225**	**61,512**
Warehouse facility	9,660	0
Compulsory stockpile loan	10,000	11,000
Mortgage loans	20,000	16,075
Secured lines of credit	**39,660**	**16,075**
Warehouse facility	8,861	0
Compulsory stockpile loan	10,000	11,000
Mortgage loans	11,016	0
Secured lines of credit used	**29,877**	**11,000**

Guarantee liabilities were CHF 3.8 million as of 31 December 2006 and were thus CHF 0.1 million above the previous year's value. This increase reflects the rised security guarantee to the Swiss customs authorities.

The increased cash and cash equivalents under the title restrictions for own liabilities are mainly owing to a payment guarantee of CHF 4.2 million for the new extrusion press and a counter guarantee of CHF 1.7 million in connection with the purchase of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid.

The assets used as collateral include the stock at the Lüdenscheid site as collateral for the warehouse facility, metal inventories at the Swiss locations as collateral for the mandatory stockpile loan and a piece of property as collateral for the mortgage.

33 – Credit line The overall credit line for the Swissmetal Group ran to CHF 87.1 million (2005: CHF 16.1 million) and comprised the factoring facility of CHF 47.4 million and the components that made up the CHF 39.7 million secured credit line referred to under Contingent liabilities.

The total amount of credit drawn came to CHF 55.3 million. This figure consisted of the factoring facility of CHF 25.4 million and the components that made up the CHF 29.9 million secured credit line referred to under Contingent liabilities.

The level of the factoring and warehouse facilities fluctuates depending on the value of the receivables and the warehouse inventories; hence, in reality the line of available credit of CHF 35.0 million is currently lower.

Utilization of the line of credit requires adherence to certain key financial covenants and includes the normal credit provisions.

34 – Financial obligations from operating leases The future obligations from operating lease agreements are as follows:

Leased assets 2006 (CHF 000)						
Maturity	**2007**	**2008**	**2009**	**2010**	**2011 and later**	**Total**
Vehicles	480	336	207	83	25	1,131
Total	**480**	**336**	**207**	**83**	**25**	**1,131**
Leased assets 2005 (CHF 000)						
Maturity	**2006**	**2007**	**2008**	**2009**	**2010 and later**	**Total**
Vehicles	361	340	256	185	108	1,250
Total	**361**	**340**	**256**	**185**	**108**	**1,250**

In 2006, the number of vehicle operating lease agreements increased as a result of the acquisition of Swissmetal Lüdenscheid GmbH (formerly Busch-Jaeger Metallwerk GmbH), Lüdenscheid. The total operating lease obligation increased by CHF 0.1 million.

35 – Off-balance-sheet transactions

2006			
CHF 000	**Contract value**	**Valuation at the balance sheet closing rate**	**Positive (+)/negative (–) replacement value**
Sale of zinc	–220	–310	–90
Sale of USD	–10,976	–10,753	223
Total replacement value	**–11,196**	**–11,063**	**133**

2005			
CHF 000	**Contract value**	**Valuation at the balance sheet closing rate**	**Positive (+)/negative (–) replacement value**
Purchase of copper waste	732	1,182	450
Purchase of brass filings	435	593	158
Sale of USD	–1,375	–1,478	–103
Total replacement value	**–208**	**297**	**505**

The contract value is understood to be the total amount underlying the transaction. Transactions open on the balance sheet date are recognized at market value. The positive replacement value is the amount that would be lost if the counterparty defaulted. A negative replacement value corresponds to the amount that would be lost to the counterparty upon non-performance.

An accrual was recognized under accrued liabilities for the unrealized loss from forward exchange transactions as of 31 December 2006.

36 – Environment

Swiss plants at Dornach and Reconvilier In 2003, Ernst & Young AG, Zurich conducted an extensive review and assessment of the Swissmetal Group's operating and retired assets and locations. The environmental risks were assessed and quantified by SIUM Engineering AG (now U-Tech Zaugg), Thun.

The Group's sites at Dornach (Canton Solothurn) and Reconvilier (Canton Berne) are considered to be contaminated. Provided the law remains the same and there are no changes of use, no material financial consequences should be expected for the Swissmetal Group. Further risks that could incur costs cannot be excluded in the future on account of, among other things, changes in legal practice.

It should be noted that a change in use or plans for construction may entail remediation measures.

As planned, in 2005 the company renewed its existing ground water examination program in close coordination with the cantonal authorities; no contamination limits have been exceeded to date. The ground water monitoring program has also been renewed.

Parts of the environmental impact assessment for the Dornach site (new press plant) were brought forth and the necessary measures undertaken. It is expected that the results of the environmental impact assessment, including the necessary remediation measures and the costs involved, will become available during the 2007 financial year.

The investigation of the surroundings of the Dornach plant in close cooperation with the environmental authorities of the Canton of Solothurn and the neighbouring Canton of Basel-Landschaft as part of the "P3 Project" was completed on schedule. Thus, the plots could be classified in the different zones. The consequences for the Swissmetal Group are currently being clarified. There are plans to launch a comparable project in Reconvilier, Canton Berne.

Based on its current knowledge, in 2004 the Swissmetal Group recognized provisions totaling CHF 0.5 million for environmental measures that are considered likely, according to the results of the Dornach environmental impact assessment. Furthermore, as of the end of December 2005 CHF 0.5 million was set aside under "Accrued expenses and deferred income" for an environmental protection study at the Reconvilier site.

The provision of CHF 1.4 million created as a cautionary measure in 2005 to deal with inherited pollution has been carried forward.

To the best of our knowledge, there is no need to make further provision for the environment. On the one hand provisions have been recognized for the key areas and on the other hand no claims against the Swissmetal Group are to expected in the immediate future, as things stand today.

Swissmetal is involved in voluntary work groups for analyzing and reducing CO_2 emissions, and in this context continually reviews all options for reducing CO_2 emissions, with or without the introduction of correction or Pigovian taxes (Lenkungsabgaben).

German plant, Lüdenscheid The environmental regulations and conditions for approval – as per Bundes-Imissions-Schutz-Gesetz Abwasser (Federal Immission Control Waste Water Act), §§ 58, 60 of the Landeswassergesetz NRW (Water Act of the State of North-Rhine Westphalia) in conjunction with § 18 of the Wasserhaushaltsgesetz (Water Resources Act) – are regularly examined and their observance monitored by independent institutions (technical control board [TÜV], Institute for Materials and Environmental Analysis). The investment measures planned in this respect for 2006 have been postponed. Provisions to the value of EUR 0.1 million were reversed.

37 – Transactions with related parties Martin Hellweg, CEO of the Swissmetal Group, purchased 88,000 new shares at a price of CHF 9.00 per share in connection with the capital increase in July 2004. The company's Board of Directors viewed this as an important convergence of the interests of the CEO and the Swissmetal Group. This share purchase is subject to certain blocking periods: the sale of 88,000 shares was blocked until 31 July 2005 and 58,000 shares until 31 July 2006 and the sale of 28,000 shares is blocked until 31 July 2007. As of 1 August 2007, none of the shares purchased by Martin Hellweg are subject to any block. The blocking periods do not apply under certain conditions, in particular in the case of a successful, public takeover of the company or if Martin Hellweg ceases to be a Member of the Board of Directors. Approximately 50% of the shares' purchase price was paid by Martin Hellweg out of his own funds and 50% by the Swissmetal Group. The payment by the Swissmetal Group was in exchange for future bonus payments to Martin Hellweg that were considered appropriate by the Board of Directors. This did not increase Martin Hellweg's total compensation.

Sales with related parties, namely the Ally Management Group, Zurich, totaled CHF 0.1 million (2005: CHF 0.1 million) in the year under review.

In connection with the negotiation of employment contracts with the new members of Group Management, the Swissmetal Group offered the persons in question the opportunity to acquire shares at their market quotation, with each of them being offered a loan for this purpose. As of 31 December 2006, the Swissmetal Group had outstanding loans to related parties of CHF 0.1 million. The interest rate is 1%. (See also Consolidated balance sheet)

38 – Events occurring after the balance sheet date

The following significant events occurred after the balance sheet date: On 10 January 2007, UMS Swiss Metalworks Holding Ltd, Dornach, completed its purchase through its subsidiary Avins International AG, Dornach, of the entire share capital of Avins Industrial Products Corp., Warren/NJ, an American trading company. The Swissmetal Group intends to use the trading business, which will be merged into Avins International AG, Dornach, founded on 18 December 2006, to expand its core business of manufacturing and selling semifinished copper products to include products of other companies so that it can offer its customers a wider range of services and products.

In 2006, Avins Industrial Products Corp., Warren/NJ, and its 17 employees achieved net sales of USD 28.9 million (of which using Swissmetal finished products: USD 11.5 million); EBIT amounted to USD 1.1 million (US GAAP accounting standards were applied).

For the purpose of acquiring Avins Industrial Products Corp, Warren/NJ, the Board of Directors of UMS Swiss Metalworks Holding Ltd, Dornach, the listed parent company, decided to issue 40,000 additional bearer shares. As the General Meeting of 30 June 2006 had already approved the creation of a maximum of 2,618,222 shares with a par value of CHF 9.00 in new capital for acquisitions and an employee equity plan, the Board of Directors was able to decide the capital increase on its own in return for a non-cash contribution of one part of the equity of Avins Industrial Products Corp., Warren/NJ, excluding subscription rights.

To the general meeting of UMS Swiss Metalworks Holding Ltd (Swissmetal Group), Dornach

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, cash flow statement, statement of changes in shareholders' equity and notes/pages 42 to 61) of UMS Swiss Metalworks Holding Ltd (Swissmetal Group), Dornach, for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the Swiss GAAP FER and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

Basel, 23 March 2007

PricewaterhouseCoopers AG

Gerd Tritschler
Auditor in charge

Claudine Heitz

The accounts are prepared in accordance with Swiss law (Swiss Code of Obligations) and the company's Articles of Incorporation.

INCOME STATEMENT
UMS SWISS METALWORKS HOLDING LTD

		2006	2005
	Notes	**CHF 000**	**CHF 000**
Income from subsidiaries	01	295	0
Total operating income		**295**	**0**
Operating and administrative expenses	02	–545	–538
Other expenses from third parties	03	–62	0
Other expenses from subsidiaries	03	–100	–100
Operating income before depreciation (EBITDA)		**–412**	**–638**
Depreciation		0	0
Operating income (EBIT)		**–412**	**–638**
Financial result	04	980	729
Extraordinary result	05	55	15
Earnings before taxes (EBT)		**623**	**106**
Taxes	06	–27	–31
Result for the year (EAT)		**596**	**75**

EBITDA: Earnings before interest, taxes, depreciation and amortization
EBIT: Earnings before interest and tax
EBT: Earnings before tax
EAT: Earnings after tax

ASSETS	Notes	31.12.2006 CHF 000	31.12.2006 %	31.12.2005 CHF 000	31.12.2005 %
Current assets					
Cash and cash equivalents		2,326	2.0	91	0.1
Securities	07	541	0.5	288	0.2
Other receivables	08	2,599	2.2	2,530	2.2
Trade accounts receivable from subsidiaries	09	10,138	8.8	11,948	10.4
Total current assets		**15,604**	**13.5**	**14,857**	**12.9**
Fixed assets					
Investment in subsidiaries	10	100,106	86.5	100,025	87.1
Total fixed assets		**100,106**	**86.5**	**100,025**	**87.1**
TOTAL ASSETS		**115,710**	**100.0**	**114,882**	**100.0**

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	31.12.2006 CHF 000	31.12.2006 %	31.12.2005 CHF 000	31.12.2005 %
Short-term liabilities					
Trade accounts payable		89	0.1	17	0.0
Other liabilities		0	0.0	0	0.0
Accrued expenses and prepaid income	11	382	0.5	227	0.2
Provisions for taxes		14	0.0	9	0.0
Other provisions	12	587	0.5	587	0.5
Total short-term liabilities		**1,072**	**1.1**	**840**	**0.7**
Total liabilities		**1,072**	**1.1**	**840**	**0.7**
Shareholders' equity					
Share capital	13	58,910	50.9	58,910	51.3
General statutory reserves		42,330	36.6	42,330	36.8
Reserve for own shares	14	4,299	3.7	2,300	2.0
Available earnings		9,099	7.7	10,502	9.2
· Retained earnings		8,503	7.3	10,427	9.1
· Result for the year		596	0.4	75	0.1
Total shareholders' equity		**114,638**	**98.9**	**114,042**	**99.3**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**115,710**	**100.0**	**114,882**	**100.0**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

UMS SWISS METALWORKS HOLDING LTD

CHF 000	Share capital	General statutory reserves	Reserve for own shares	Available earnings	Total shareholders' equity
Balance 1 January 2005	**58,910**	**42,330**	**2,300**	**10,427**	**113,967**
Result for the year 2005				75	75
Balance 1 January 2006	**58,910**	**42,330**	**2,300**	**10,502**	**114,042**
Allocation to reserves for own shares			1,999	–1,999	0
Result for the year 2006				596	596
Balance 31 December 2006	**58,910**	**42,330**	**4,299**	**9,099**	**114,638**

Number	31.12.2006	31.12.2005
Balance of own shares	20,000	20,000

On 1 July 1996, 20,000 shares of UMS Swiss Metalworks Holding Ltd, Dornach, were purchased at a price of CHF 115.00 per share. A special reserve for own shares totaling CHF 2.3 million was set up in accordance with statutory provisions and charged against available earnings from 1995. The shares are recognized at the year-end price of CHF 26.90 per share (2005: 20,000 shares at a price of CHF 14.25). The change in value was recognized on the income statement. (See also Financial result)

As Swissmetal – UMS Swiss Metalworks Ltd, Dornach, a wholly owned subsidiary, held 114,000 shares of UMS Swiss Metalworks Holding Ltd, Dornach, as of 31 December 2006, in compliance with the law the reserves for own shares were increased by CHF 2.0 million, which corresponds to the cost of buying the own shares.

NOTES TO THE INCOME STATEMENT

1 – Income from subsidiaries In 2006, Swissmetal Italia s.r.l., Milan, distributed a final dividend of CHF 0.3 million, as the company was shut down as planned in the year under review. As in the previous year, Swissmetal – UMS Swiss Metalworks Ltd, Dornach, did not distribute a dividend.

2 – Operating and administrative expenses Operating and administrative expenses of CHF 0.6 million (2005: CHF 0.5 million) comprise compensation of the Board of Directors, including expenses, of CHF 0.5 million and auditing and consultation expenses of CHF 0.1 million. The increase of CHF 0.1 million is accounted for by a higher compensation for the Board of Directors.

3 – Other expenses Other expenses cover expenditures in connection with the strike and pro rata administrative contributions within the Swissmetal Group (Group companies).

4 – Financial result

CHF 000	31.12.2006	31.12.2005
Financial income	980	729
Financial expenses	0	0
Financial result	**980**	**729**

Net financial income of CHF 1.0 million (2005: CHF 0.7 million) includes interest income of CHF 0.7 million on an open account receivable granted by the company to Swissmetal – UMS Swiss Metalworks Ltd, Dornach. Moreover, gains on treasury stocks contributed CHF 0.3 million in financial income.

5 – Extraordinary result On account of the positive balance resulting from the compensation paid by Swissmetal Italia s.r.l., Milan, the company made an extraordinary profit of CHF 0.1 million.

6 – Taxes Taxes consist of taxes on capital.

NOTES TO THE BALANCE SHEET

7 – Securities Securities amounted to CHF 0.5 million and consisted primarily of the 20,000 own shares. The year-on-year increase is attributable to the price increase from CHF 14.25 (closing price as of 30 December 2005) to CHF 26.90 (closing price as of 29 December 2006).

8 – Other receivables As of 31 December 2006, CHF 2.6 million in other receivables were outstanding. As part of the 2004 refinancing, UMS Swiss Metalworks Holding Ltd acquired these receivables from banks when it paid the short-term guarantees made to these banks in connection with the insolvency proceedings of Swissmetal Busch-Jaeger GmbH, Lüdenscheid. The receivables, originally valued at CHF 3.8 million, were adjusted and discounted by 30%. The difference of CHF 0.1 million compared with the previous year's figure is the result of exchange rate fluctuations, as the receivables are denominated in Euros.

9 – Trade accounts receivable from subsidiaries As of 31 December 2006, a total of CHF 10.1 million in receivables from Swissmetal – UMS Swiss Metalworks Ltd, Dornach, was outstanding. This represents a reduction of CHF 1.8 million on the previous year's amount.

10 – Investment in subsidiaries

Country and company 2006	Currency	Share capital	Purpose	Equity investment direct in %	Equity investment indirect in %
Switzerland					
Swissmetal – UMS Swiss Metalworks Ltd, Dornach	CHF 000	50,000	Production facility	100	
Avins International AG, Dornach	CHF 000	100	Trading company	100	
Germany					
Swissmetal Deutschland Handelsgesellschaft mbH, Deisslingen-Lauffen	EUR 000	260	Trading company		100
Swissmetal Lüdenscheid GmbH, Lüdenscheid	EUR 000	1,525	Production facility		100

Country and company 2005	Currency	Share capital	Purpose	Equity investment direct in %	Equity investment indirect in %
Switzerland					
Swissmetal – UMS Swiss Metalworks Ltd, Dornach	CHF 000	50,000	Production facility	100	
Germany					
Swissmetal Deutschland Handelsgesellschaft mbH, Deisslingen-Lauffen	EUR 000	260	Trading company		100
Italy					
Swissmetal Italia s.r.l., Milan	EUR 000	10.4	Trading company	80	

The changes in investments (at carrying values) over the last two years developed as follows:

CHF 000	UMS	SMTI	AINTL	Total
Balance 1 January 2005	**100,007**	**18**	**0**	**100,025**
Depreciation 2005				0
Balance 1 January 2006	**100,007**	**18**	**0**	**100,025**
Liquidation		–18		–18
Startup			100	100
Rounding difference	–1			–1
Balance 31 December 2006	**100,006**	**0**	**100**	**100,106**

UMS: Swissmetal - UMS Swiss Metalworks Ltd, Dornach
SMTI: Swissmetal Italia s.r.l., Milan
AINTL: Avins International AG, Dornach

The affiliated company Swissmetal Italia s.r.l., Milan, was liquidated as planned in the year under review. Over and above this, the company Avins International AG, Dornach, was founded with an initial capital of CHF 0.1 million.

11 – Accrued expenses and prepaid income Deferred income totaled CHF 0.4 million (2005: CHF 0.2 million) and consists of deferrals for Board of Directors compensation of CHF 0.3 million and auditing fees of CHF 0.1 million.

12 – Other provisions The provisions take into account all recognizable and measurable risks. They remain unchanged from the previous year at CHF 0.6 million and concern an additional claim from the dissolved subsidiary in Germany.

13 – Share capital Share capital is fully paid-in and divided into 6,545,556 bearer shares with a par value of CHF 9.00 per share. (See also Corporate Governance, Section 2 Capital structure)

14 – Reserves for own shares The reserves for own shares rose by CHF 2.0 million year-on-year. These reserves were created in connection with the purchase of own shares by Swissmetal – UMS Swiss Metalworks Ltd, Dornach. (See also the Statement of changes in shareholders' equity)

15 – Contingent liabilities

CHF 000	31.12.2006	31.12.2005
Guarantee obligations vis-à-vis third parties		
Guarantee liabilities	20,000	0

As of 31 December 2006, a guarantee commitment of CHF 20.0 million secured a line of credit provided for Swissmetal – UMS Swiss Metalworks Ltd, Dornach.

16 – Events occurring after the balance sheet date

The following significant events occurred after the balance sheet date: On 10 January 2007, UMS Swiss Metalworks Holding Ltd, Dornach, completed its purchase through its subsidiary Avins International AG, Dornach, of the entire share capital of Avins Industrial Products Corp., Warren/NJ, an American trading company. Swissmetal intends to use the trading business, which will be merged into Avins International AG, Dornach, founded on 18 December 2006, to expand its core business of manufacturing and selling semifinished copper products to include products of other companies so that it can offer its customers a wider range of services and products.

In 2006, Avins Industrial Products Corp., Warren/NJ, and its 17 employees achieved net sales of USD 28.9 million (of which using Swissmetal finished products: USD 11.5 million); EBIT amounted to USD 1.1 million (US GAAP accounting standards were applied).

For the purpose of acquiring Avins Industrial Products Corp, Warren/NJ, the Board of Directors of UMS Swiss Metalworks Holding Ltd, Dornach, the listed parent company, decided to issue 40,000 additional bearer shares. As the General Meeting of 30 June 2006 had already approved the creation of a maximum of 2,618,222 shares with a par value of CHF 9.00 in new capital for acquisitions and an employee equity plan, the Board of Directors was able to decide the capital increase on its own in return for a non-cash contribution of one part of the equity of Avins Industrial Products Corp., Warren/NJ, excluding subscription rights.

In compliance with the law and the company's Articles of Association, the Board of Directors proposes to the General Meeting of Shareholders that the retained earnings be allocated as follows:

	CHF 000
Retained earnings from previous years	10,502
Allocation to own shares reserves	–1,999
Result for the year 2006	596
Available earnings to the General Shareholders' Meeting	9,099
Proposal of the Board of Directors regarding the utilization of available earnings	
Carry-forward to new account	**9,099**

Dornach, 12 March 2007

For the Board of Directors:
Chairman: F. Sauerländer

To the general meeting of UMS Swiss Metalworks Holding Ltd, Dornach

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes/pages 64 to 69) of UMS Swiss Metalworks Holding Ltd, Dornach, for the year ended 31 December 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Basel, 23 March 2007

PricewaterhouseCoopers AG

Gerd Tritschler Auditor in charge	Claudine Heitz

DORNACH

LÜDENSCHEID

RECONVILIER

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