Swissmetal Information

12th AUGUST 2004

Dear customers, business partners, employees
and shareholders

A few weeks after the successful refinancing, Swissmetal can now submit a half-year report to you that documents a considerable improvement compared to last year. The result shows that Swissmetal is well on the way to becoming a continuously successful company.

We have succeeded in implementing all the major measures introduced within the context of the turnaround started last year according to schedule. This is shown in particular by the personnel expenditure in relation to the gross margin, which has improved to 58% in the first half year of 2004 (previous year: 63%). This is, however, not simply a case of improving the margins. At the same time, we are in the process of organizing our costs in a more flexible way. This higher level of flexibility is an absolute prerequisite for a company in our sector, in order to be able to work successfully in both economically good and bad times. We know from experience that incoming orders can fluctuate from the long-term growth line by ±20% over three to five year cycles. We have to be able to overcome these fluctuations, and we are on the path to setting ourselves up correspondingly.

In addition, our sales offensive, which we have already informed you about, is bearing its first fruits on the sales side. This effect will be significantly strengthened by the tail wind provided by the economic situation, which has strongly improved since the start of the year. The change from a consolidation to a growth phase is, however, not without its challenges. Virtually overnight, considerably higher capacities – and in particular personnel resources – must be made available. Swissmetal wants to produce the additionally demanded volume as quickly as possible. It is, however, almost inevitable that our delivery times will have to be temporarily extended in a phase of this kind. We hereby hope that our customers will show their understanding for this. You can, however, be assured that our employees will do their very best to meet your expectations.
The reorganization of Swissmetal has not yet been completed. In the second half of 2004, we will be "going live" – as they say in specialist jargon – with our new ERP software from SAP. Swissmetal expects a great deal from the SAP introduction, both operatively and with regard to the improvement of the level of service. In addition, it was possible to carry out a further project that was central for Swissmetal: the investment in a new press. This major project, which is a core element in our production, has already been taken into consideration within the context of the recent capital increase. As is normal in this sector, the realization will take approximately three years. With the new press, Swissmetal can, among other things, produce even higher value specialties. We thereby un-derline our alignment towards the market sector for specialties, in which Swissmetal is one of the globally leading companies.

In the future, Swissmetal will continue to work on the development of our business with the same dedication as in the past months and years. At this point, and in the name of Swissmetal, I would like to take this opportunity to express our special thanks for your contribution to the success of the operative turnaround up to now, and to the successful refinancing of the company. You are all a part of this great success. In addition to our thanks, you have also earned our respect and our special commitment, of which you can be certain!

With best wishes

Martin Hellweg

STATEMENT AS AT 30th JUNI 2004

A) CONSOLIDATED PROFIT AND LOSS ACCOUNT

Consolidated Profit and Loss Account 1st half year

CHF '000	2004	2003	Change absolute	Change in %
Gross sales	107 786	90 299	17 487	19
Gross added value sales	**60 050**	**55 434**	**4 616**	**8**
Gross margin	**60 968**	**54 743**	**6 225**	**11**
Personnel expenses	–35 109	–34 740	–369	–1
Operative expenses without depreciation	–13 290	–11 426	–1 864	–16
Operating earnings before depreciation (EBITDA)	**12 569**	**8 577**	**3 992**	**47**
Depreciation	–5 661	–6 724	1 063	16
Operating earnings (EBIT)	**6 908**	**1 853**	**5 055**	**273**
Financial results	–2 565	–2 302	–263	–11
Non-operating and extraordinary results	8 222	9	8 213	–
Taxes	–273	–314	41	13
Earnings before minority interests	12 292	–754	13 046	–
Earnings after taxes (EAT)	**12 288**	**–758**	**13 046**	**–**

Sales (tons)	18 071	15 532	2 539	16
Gross added values sales per 100 kg (CHF)	332	357	–25	–7
Employees (number of full time equivalents) as at 30.06.	795	755	40	5

Gross sales and gross added value sales

In the first half year of 2004, Swissmetal achieved gross sales of CHF 107.8 million and gross added value sales (gross sales less metal at the standard metal costs) of CHF 60.1 million. Both sales figures are considerably above the comparable values of the prior year. As a result of the relatively high metal prices in the first half year of 2004, the gross sales (+19%) have increased more strongly than the gross added value sales (+8%). The increase in sales was achieved, in particular, through higher sales in Switzerland, France, the USA and the Far East. In the Business Segments, the Electronics and Turning parts segments maintained their strong growth. In the Electrical Engineering and Industry & Construction segments, the increase in sales continued in comparison to the prior year as well. Only in Consumer Goods did the sales reduce because of the strongly increased metal price. The negative deviations were able to be reduced in the second quarter in compa-rison to the prior year.

Operating earnings (EBIT)

With a gross margin of CHF 61.0 million, Swissmetal exceeded the value from the prior year by CHF 6.2 million, or 11%. Personnel costs only increased by 1% to CHF 35.1 million, although Swissmetal produced considerably larger volumes in 2004 than in 2003. The positive effects of the operative turnaround introduced in the prior year can be seen here.

Personnel costs in relation to the gross margin improved to 58% in the first half year of 2004 (prior year: 63%). Operative costs (without depreciation) increased by 16% to CHF 13.3 million, which was partly a result of the higher volumes. In addition, increased maintenance and tool costs arose as a result of shortages at the Dornach location and of increased steel prices. The operating earnings before depreciation (EBITDA) amounted to CHF 12.6 million, which corresponds to an increase with respect to the prior year of CHF 4.0 million. With an operating income (EBIT) of CHF 6.9 million, Swissmetal has been able to expand the improvement at the operating level with respect to the first half year of 2003 to CHF 5.1 million.

Financial results

At CHF –2.6 million, the financial result lies slightly below that of the same period of the prior year (CHF –2.3 million). This result is due to factors that have cancelled each other out with considerable variations compared to the prior year: The financial expenditure with regard to third parties was higher than in the prior year, at CHF –3.2 million, due to the expenditure of CHF –1.3 million required for the refinancing. The positive exchange rate differences (partly due to the cut-off date) with regard to the Euro improved the results by CHF 1.0 million compared to the prior year.

Non-operating and extraordinary results

The non-operating and extraordinary results amounted to CHF 8.2 million due to once-only effects. Three events contributed significantly to this extraordinary result:

- The purchase of bank debts of the former Swissmetal subsidiary Busch-Jaeger GmbH, which were guaranteed by Swissmetal. As a result of the purchase of these debts in June 2004, a large portion of the accruals for these guarantees could be dissolved, which led to a profit of CHF 6.0 million.
- Book profits of CHF 1.6 million from the sale of non-operating real estate.
- Dissolution of a provision that was no longer necessary for the German trading company of Swissmetal, to the amount of CHF 0.6 million.

Earnings after taxes (EAT)

Overall, Swissmetal registered a company profit (EAT) of CHF 12.3 million in the first half year of 2004, which represents an increase over the prior year of CHF 13.0 million. At the EBIT level, the continuing turnaround measures and an improved economic situation in particular led to positive deviations of CHF 4.0 million. Changes in depreciation contributed with CHF 1.1 million. The positive Delta of CHF 7.9 million below EBIT is largely due to an once-only effect.

B) CONSOLIDATED BALANCE SHEET

Consolidated Balance Sheet

CHF ’000	30.06.2004	31.12.2003	Change absolute	Change in %
Current assets	90 974	80 693	10 281	13
Fixed assets	62 707	64 176	–1 469	–2
Total assets	**153 681**	**144 869**	**8 812**	**6**
Short-term liabilities	70 844	73 697	–2 853	–4
Long-term liabilities	17 903	18 480	–577	–3
Total liabilities	88 747	92 177	–3 430	–4
Minority interests	90	87	3	3
Shareholders’ equity	64 844	52 605	12 239	23
Total liabilities	**153 681**	**144 869**	**8 812**	**6**

In the second quarter of 2004, the balance sheet sum of the Swissmetal Group increased by a further 3% compared to the first quarter of 2004 and by 6% compared to December 31st, 2003.

On the assets side, this situation is explained, above all, as a result of the increased build-up of inventory and accounts receivable as a result of the economic situation. The liability side also indicates an increase in short-term supplier receivables, largely as a result of the economic situation. This was, however, compensated by the reduction of short-term provisions, above all by the partial dissolution of the guarantee provision for the former Swissmetal subsidiary Busch-Jaeger GmbH.

Net debt reduced from CHF 50.6 million at the end of 2003 to CHF 46.5 million at June 30th 2004. This is due in particular to the purchase of the above-mentioned existing guarantees, for which interest was also paid within the context of the moratorium agreement. The purchase of these debts led to a partial dissolution of the provisions formed in 2002. As a result, and in addition to the positive effect on the Profit and Loss Account, this also led to an improvement of the net debt / equity ratio to 72% at the end of June 2004 (31st December 2003: 96%).

C) CASH FLOW STATEMENT

Consolidated Cash Flow Statement 1st half year

CHF ’000	2004	2003	Change absolute	Change in %
Operating Cash Flow (cash flow from business activities) before special effect	**8 074**	**3 878**	**4 196**	**108**
Purchase of debt in connection with the guarantees (special effect)	–5 551	–	–5 551	–
Operating Cash Flow (cash flow from business activities) after special effect	**2 523**	**3 878**	**–1 355**	**–35**
Cash flow from investments	–2 593	–3 228	635	20
Free Cash Flow	**–70**	**650**	**–720**	**–**
Cash flow from financing activity	–1 555	172	–1 727	–
Foreign currency effect on liquid funds	–13	33	–46	–
Change to liquid funds	–1 638	855	–2 493	–
Amount of liquid funds at 1st January	13 705	6 686	7 019	105
Amount of liquid funds at 30th June	12 067	7 541	4 526	60

Cash Flow

The operating cash flow before the purchase of debts in connection with the guarantees amounted to CHF 8.1 million, and has improved by CHF 4.2 million compared to the prior year.

The economically determined increase in tied-up funds in the net current assets was able to be partially reduced in the second quarter, but still shows an increase in comparison with last year’s cash flow. In June 2004, cash outs of CHF 5.6 million occurred in connection with the above-mentioned purchase of debts for guarantees, which were contained in the operative cash flow for the second quarter of 2004. Further cash outs in connection with the refinancing and restructuring amounted to CHF 3.4 million in the first half year of 2004 (comparable period CHF 1.4 million).

In the first half year, Swissmetal increased investment to CHF 4.2 million (prior year period: CHF 3.3 million). Divestment income to a total of CHF 1.6 million had a positive effect on the cash flow from investments for 2004 (1st half year of 2003: CHF 0.1 million).

Overall, with CHF –0.1 million, Swissmetal achieved a slightly negative free cash flow in the first half year of 2004, due, above all, to the start-up phase of the economy, the purchase of debts for guarantees and the refinancing.

D) OUTLOOK

The growth scenario has also been confirmed in the second quarter of 2004, which – in combination with the turnaround measures – has had an overall positive effect for Swissmetal. Incoming orders during the first half were CHF 68.1 million or 33% higher than in the same period in the previous year. Swissmetal will also continue its course of a cost and cash optimized management in the second half year, in order to become more profitable in the medium to long-term.

E) BASIS FOR THE CONSOLIDATED INCOME STATEMENT, BALANCE SHEET AND CASH FLOW

The unaudited closing results for the 30th June 2004 were drawn up according to the Swiss GAAP FER. The bases for the consolidation correspond to those of the annual report.

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