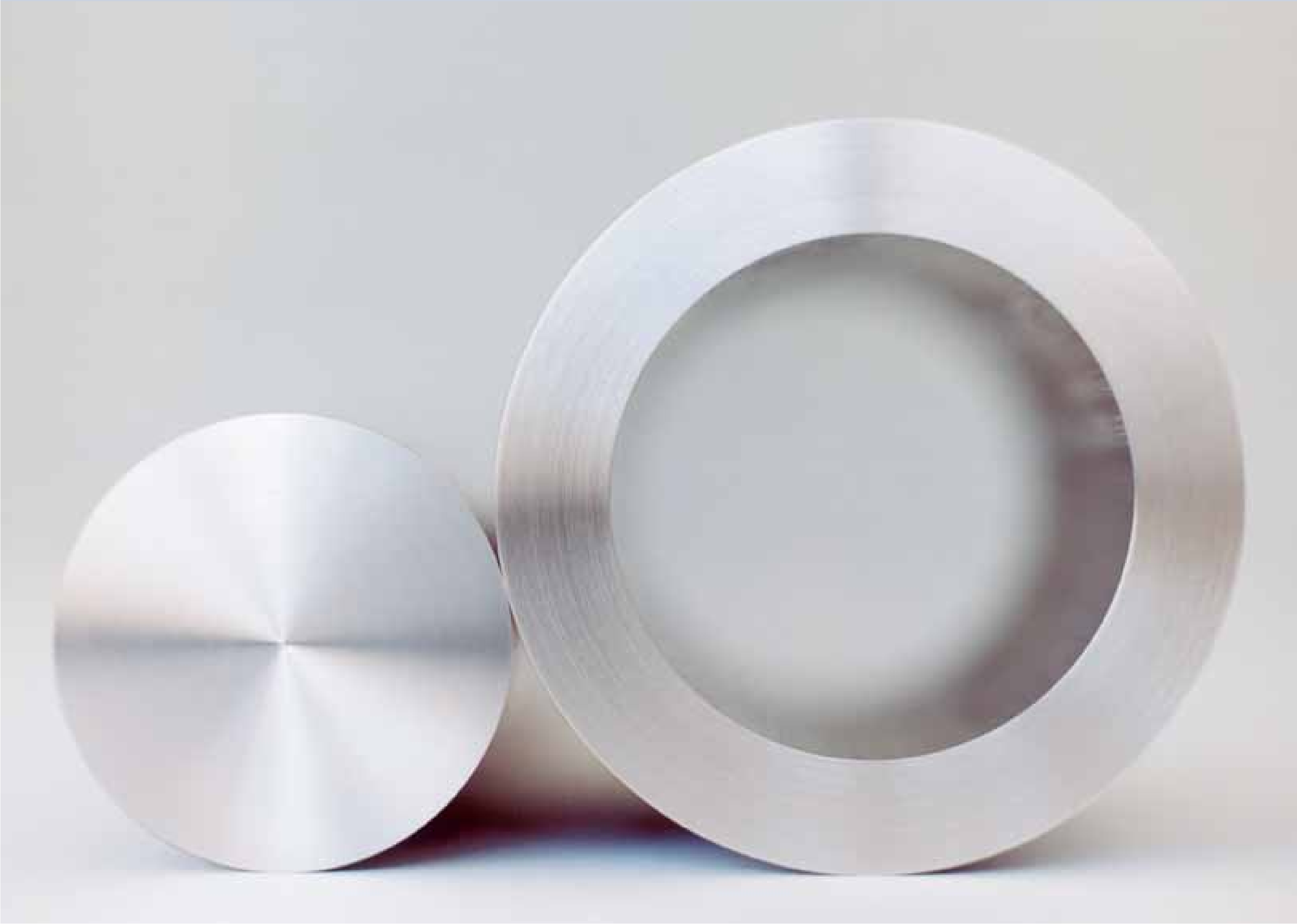
SWISSMETAL Information

1st Half year 2006

Taking part in a success story.



22 August 2006

Dear Customers, Employees, Shareholders
or Business Partners

Swissmetal has galvanized me since the day I first stepped through its doors three years ago. I came to the company as a specialist turnaround manager with the Ally Management Group. We are used to being confronted with difficult, not to say desolate, situations. Most companies faced with a need to restructure find themselves in this regrettable position because they failed to react quickly enough or radically enough to changing market conditions. Global competition often plays a role in such developments, too. Sadly, such companies often lack the resources necessary to come up with interim financing in crisis situations and thus cannot afford the time required for the restructuring process.

None of this was true of Swissmetal. I found the Swissmetal product portfolio to contain a sufficiently large core of outstanding products, highly valued by clients, often with strong distinguishing features and the ability to compete at global level. The company's exports, in particular to Asia, continue to grow. The innovation pipeline is very promising. Swissmetal is active in global growth segments such as aviation, electricity, computers, mobile phones and writing instruments. In the last sector we export 50% of our products to India alone. Before joining Swissmetal, I had never before seen a company in need of restructuring in such a comfortable market position and with such growth perspectives.

What's more, the company has great intrinsic value. As at 30 June 2006, we had "accumulated" metal inventories with a fair value of over CHF 125 million. The company's real estate holdings give it access to additional funds. All of which enables us to contribute to the financing of the corporate restructuring. We can afford to take our time and do things properly.

Nevertheless, in spite of all these positive factors, Swissmetal was asking itself a whole series of questions: Given its special position, Swissmetal should have been generating margins over the last 15 years: why didn't it? What stopped Swissmetal from moving "full throttle"? Things started to become clear to me just a few weeks after my arrival in June 2003. As always, I commissioned a study on the so-called "unwritten rules" within the enterprise. One might even look upon this as a kind of cultural study. What it revealed was a yawning chasm, that in some cases had even cristallized into a long-standing hostility, between the different Swissmetal sites. The top management at these locations had never wanted to become part of Swissmetal when it was established 20 years ago. And almost two decades on, they continued to successfully put up a fight against any truly operational form of integration. Boundless energy was squandered on refusing to accept the situation, whole management teams ended up in tatters, victims of the bitter, yet successful resistance of "those on high" at the individual sites.

Just imagine where Swissmetal would be today if all the energy invested in the hostile clashes of the last twenty years could have been used for the good of the company as a whole instead. This study played an important role in answering our questions.

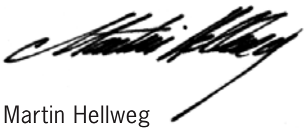
As expected, the last three years have been tumultuous. The Board of Directors and management team view a change in the corporate culture as a key success factor for Swissmetal. In a company that, in the past, just went on shrinking for no apparent reason, the sites were busy fighting among themselves for the remaining sales and tonnages. This defensive culture must be turned on its head, and the sites united in a single offensive effort aimed at new markets – in a contest with actual competitors rather than other sites within our own group.

Restructuring Swissmetal's operations and realigning the corporate culture are tasks of a magnitude – I have to confess – far greater than I ever imagined. The double challenge routinely faced in restructuring of dealing with day-to-day business, on the one hand, and change projects on the other, was made even more complex at Swissmetal by the addition of a third dimension: "fire fighting". Every time progress was made in terms of cultural integration, the response was an almost automatic allergic reaction that required immediate attention.

In spite of the often hefty resistance, we in the management team never at any point doubted that Swissmetal had good chances for the future. We always believed that if we could only master the challenges facing us, we would become part of a corporate success story. In the last three years, no single member of Group management has thrown in the towel of his own accord. The roughly 77-strong management team (senior management) has also – with the exception of the specific situation at Reconvilier and especially following the two strikes – remained extremely stable. Our management team can still boast an average 10 years of service on this body. We are all determined to realize the true potential of Swissmetal and build up a company that meets with long-term success as a global leader in semi-finished copper products. And we have all vowed that the fire-fighting exercises will not impede the strategic restructuring of Swissmetal. We may even be so bold as to declare that we have thus far succeeded in these aims.

The financial statements for the first six months of 2006 reflect various impacts and events that are described in greater detail on the pages that follow. In short, we are proud to be able to present these results in a half-year which saw us having to deal with a 30-day strike and a company acquisition in addition to the day-to-day business and change projects.

But we are also grateful – grateful for all the support we encountered in what were often extremely stressful situations. Our investor base in particular demonstrated great moral fibre throughout those difficult times. Swissmetal investors are, after all, no mere "locusts" out to make a quick profit. We all know that the restructuring process is a marathon, not a sprint. The fruits will only be ready for harvesting in the next few years. The arrival of the new extrusion press at Dornach, due this year, is a major milestone in this respect. Again, our investors have made this possible with their vote of confidence, approving the implementation of a three-year investment project worth over CHF 27 million, on the back of the restructuring. For this too, we would like to formally express our gratitude. In return, we intend to do all we can to ensure that everyone involved, at every level, becomes part of the continuing success story of a world-beating Swiss company.



Martin Hellweg

This half-year report is accompanied by one of the success stories that is currently happening at Swissmetal in the field of innovation: that of the CN8 products, which will allow trail-blazing applications to be developed in the aviation and oil industries, for example. This example is intended to showcase the kind of success story that Swissmetal is aiming to write and to flesh out the figures presented here from an operational perspective.

Overview of the first half of 2006

A) Preliminary remarks

In the first six months of 2006, in addition to its ordinary business, the company also had to cope with the repercussions of the unlawful 30 day strike at Reconvilier as well as integrating Busch-Jaeger Metallwerk GmbH of Lüdenscheid in Germany (Busch-Jaeger), which was acquired on 10 February 2006, into the Swissmetal Group. This naturally also had an impact on the company's finances. The figures for Busch-Jaeger are included in the present financial statements with effect from 1 February 2006, i.e. for five months.

The most noteworthy development in ordinary business is that operating conditions in the industry have improved since the start of the year, even though the price erosion that occurred in a number of standard product segments last year, when economic activity was weak, could not be fully reversed. During this time, metal prices reached heights that even insiders who have been working in metal trading for decades had never seen before. This represents a particular challenge for the company's pre financing capacity.

B) Income (profit and loss) statement

Consolidated Income statement – First half-year

CHF 000	2006*	2005	Change in absolute terms	Change in %
Gross sales	157,632	102,846	54,786	53
Gross added value sales**	**63,059**	**55,702**	**7,357**	**13**
Gross margin	**68,517**	**57,785**	**10,732**	**19**
Personnel expenses	–38,459	–35,604	–2,855	–8
Operating and administrative expenses	–16,715	–13,128	–3,587	–27
Operating income before depreciation (EBITDA)	**13,343**	**9,053**	**4,290**	**47**
Depreciation	–6,898	–6,233	–665	–11
Operating income (EBIT)	**6,445**	**2,820**	**3,625**	**129**
Financial result	–1,018	436	–1,454	–
Non-operating and extraordinary result	25	–16	41	–
Earnings before tax (EBT)	**5,452**	**3,240**	**2,212**	**68**
Taxes	–2,328	–698	–1,630	–234
Earnings before minority interests	3,124	2,542	582	23
Earning after tax (EAT)	**3,124**	**2,541**	**583**	**23**
Employees (number of full-time equivalents) as at 30 June	874	759	115	15

* The figures for Busch-Jaeger Metallwerk GmbH are included for the period from 1 February to 30 June 2006.
** The 2006 figures for gross added value sales are not exactly comparable with those for 2005, since the values contained therein for the newly-added Busch-Jaeger Metallwerk GmbH are based on calculations that are sometimes different and are currently still being harmonized.

Gross sales and gross added value sales

Gross sales in the first half of 2006 amounted to CHF 157.6 million, an increase of CHF 54.8 million, or 53%, on the same period of last year. This significant rise was due to much higher metal prices, an improvement in the economic climate and the acquisition of Busch-Jaeger.

The Group's gross added value sales (i.e. gross sales less metal at standard metal costs) came to CHF 63.1 million. The company thus generated CHF 7.4 million, or 13%, more gross added value sales in the first half of 2006. The watch and construction industries managed to maintain their very positive trend since the beginning of the year. The electrical appliances and lock systems segments also recorded significant improvements on the same period of last year. Sales of writing instruments, connectors and turned parts fell substantially compared to the first six months of 2005 because of the strike at Reconvilier, even though this effect was partially offset by the other sites. Sales of power generators were down slightly, although the recent strong inflow of new orders in this segment will offset this in the second half of the year.

Operating income (EBIT)

The gross margin of CHF 68.5 million was CHF 10.7 million, or 19%, higher than in the previous year, owing mainly to the increase in sales. This figure also included a profit of CHF 6.0 million on sales of metals from stocks.

Personnel expenses amounted to CHF 38.5 million. Two main factors were at play here: a reduction in personnel expenses of CHF 5.2 million at the two existing Swissmetal plants in Switzerland on the one hand, and an increase of CHF 8.1 million on account of the additional personnel expenses at the new third site in Lüdenscheid on the other. In the period under review, these figures include CHF 1.0 million of personnel expenses due to the strike at Reconvilier, which relate mainly to the cost of securing the premises during the strike and deferrals for staff redundancies.

Operating and administrative expenses totalled CHF 16.7 million. As with all cost items, here once again the figures were influenced by the one-off impact of the aforementioned acquisition and expenses incurred directly as a result of the strike. All told, the cost of the strike to earnings before interest and tax (EBIT), including the missing contributions to profit due to the loss of output, in the first half-year amounted in total to an estimated CHF 4–5 million.

In the first six months the Swissmetal Group generated operating earnings before interest, tax, depreciation and amortization (EBITDA) of CHF 13.3 million (previous year: CHF 9.1 million), an increase of CHF 4.3 million, or 47%, on the same period of last year. As a result of the acquisition of the German company, depreciation was higher than in the previous year. In the first six months of this year, Swissmetal wrote its assets down by CHF 6.9 million, which was CHF 0.7 million, or 11%, more than in the first half of 2005. This resulted in EBIT of CHF 6.4 million, which was CHF 3.6 million, or 129%, better than the previous year.

After-tax earnings (EAT)

The financial result was CHF –1.0 million which, overall, was CHF 1.5 million worse than in the comparable period of 2005. The deterioration was due to the additional financial expenses of Busch-Jaeger and lower exchange rate gains than in the corresponding period of 2005.

As in the comparable period of last year, no significant non-operating one-off impacts were posted in the first half of 2006.

Tax expenditure amounted to CHF 2.3 million. This was CHF 1.6 million higher than in the first six months of 2005 due to the higher pre-tax profit and the tax expenditure of Busch-Jaeger, which is now included for the first time.

The bottom line was earnings after tax (EAT) of CHF 3.1 million (previous year: CHF 2.5 million).

C) Balance sheet

Consolidated balance sheet

CHF 000	30.06.2006	31.12.2005	Change in absolute terms	Change in %
Current assets	128,268	94,835	33,433	35
Fixed assets	84,055	67,953	16,102	24
Total assets	**212,323**	**162,788**	**49,535**	**30**
Short-term liabilities	63,352	22,867	40,485	177
Long-term liabilities	23,118	16,513	6,605	40
Total liabilities	**86,470**	**39,380**	**47,090**	**120**
Shareholders' equity	125,853	123,408	2,445	2
Total liabilities and shareholders' equity	**212,323**	**162,788**	**49,535**	**30**

The Group's total assets increased by CHF 49.5 million to CHF 212.3 million overall compared to 31 December 2005.

As a result of the acquisition of Busch-Jaeger, increased demand and higher metal prices, most items on the asset side of the balance sheet rose, especially accounts receivable and stocks of goods. The effect of the increase in metal prices more than offset that of the stock reduction programme. Nevertheless, the company was able to finance the metal price effect out of its own resources and within existing credit lines. The book value of the total inventory on the balance sheet amounts to CHF 60.4 million as at 30 June 2006. At current market prices, the value is more than twice as high, at CHF 125.3 million.

As a result of the acquisition of Busch-Jaeger, fixed assets increased by CHF 16.1 million to CHF 84.1 million. As at 30 June 2006, this figure includes goodwill of CHF 5.0 million.

The liabilities side likewise showed a sharp rise in short-term liabilities. This increase is attributable to trade creditors in connection with the stronger business activity and to short-term borrowings as a result of greater use of existing credit facilities. The purchase of Busch-Jaeger also increased total liabilities. Shareholders' equity rose by CHF 2.4 million to CHF 125.9 million.

As a result of all the aforementioned effects, including the acquisition of Busch-Jaeger, the net cash position of CHF 2.4 million as at 31 December 2005 turned into a net debt position of CHF 29.3 million as at end June 2006.

D) Cash flow statement

Consolidated cash flow statement – First-half year

CHF 000	2006*	2005	Change in absolute terms	Change in %
Cash flow before change in net current assets	**8,437**	**8,986**	**–549**	**–6**
Change in net current assets	3,343	1,223	2,120	173
Operating cash flow (Cash flow from operating activities)	**11,780**	**10,209**	**1,571**	**15**
Cash flow from investment activities	–16,133	–4,358	–11,775	–270
Free Cash Flow	**–4,353**	**5,851**	**–10,204**	**–**
Cash flow from financing activities	2,541	130	2,411	1,855
Effect of exchange rate on liquid funds	18	5	13	260
Change in liquid funds	–1,794	5,986	–7,780	–
Liquid funds as at 1 January	13,721	9,307	4,414	47
Liquid funds as at 30 June	11,927	15,293	–3,366	–22

* The figures for Busch-Jaeger Metallwerk GmbH are included for the period from 1 February to 30 June 2006.

Swissmetal generated an operating cash flow of CHF 11.8 million in the first half of 2006. Despite the increase in metal prices and the growth in sales, CHF 3.3 million of additional liquid funds were created through more efficient management of net current assets. Compared to the same period a year ago the improvement in operating cash flow amounted to CHF 1.6 million, or 15%.

CHF 16.1 million was spent on investments in the first six months, which represents an increase of CHF 11.8 million, or 270%, on the first half of 2005. The bulk of this sum was accounted for by the acquisition of Busch-Jaeger (CHF 10.1 million) and the construction of the new extrusion press in Switzerland, which since the start of the year has incurred cash-outs of CHF 4.5 million. CHF 4.4 million was spent on investments in the first half of 2005.

Primarily because of the steep increase in capital expenditures since the beginning of 2006, there was a marked swing in the Swissmetal Group's free cash flow in the first half of 2006 to CHF –4.4 million from CHF 5.9 million in the comparable period of 2005.

E) Outlook

The trend of economic activity remains positive. The situation at Reconvilier has also stabilized in the meantime. Swissmetal therefore expects a continuingly favourable overall situation and performance in the 2006 financial year.

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

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

On 10 February 2006 Swissmetal acquired Busch-Jaeger Metallwerk GmbH of Lüdenscheid in Germany, which was added to the scope of consolidation with effect from 1 February 2006, i.e. for five months. Busch-Jaeger Metallwerk GmbH of Lüdenscheid has not been included in the prior year figures. The trading company Swissmetal Italia s.r.l., of Milan in Italy, is still in the process of discontinuing operations and was therefore removed from the consolidated financial statements as of 30 June 2006.

Brief portrait

Swissmetal is global technology leader in high-quality specialty products from copper and copper alloys, which are mainly used in the electronics, telecommunications, aviation, automotive, writing and watch industries. Swissmetal is listed on SWX Swiss Exchange. With development and production in Reconvilier (CH), Dornach (CH) and Lüdenscheid (D), its own sales offices in Germany, plus a global network of agents and whole salers, Swissmetal delivers to clients predominantly in Europe, North America and Asia.

UMS Swiss Metalworks Holding Ltd
Weidenstrasse 50
4143 Dornach 1 · Switzerland
Phone +41 842 SWISSMETAL
Fax +41 61 705 36 10
contact@swissmetal.com

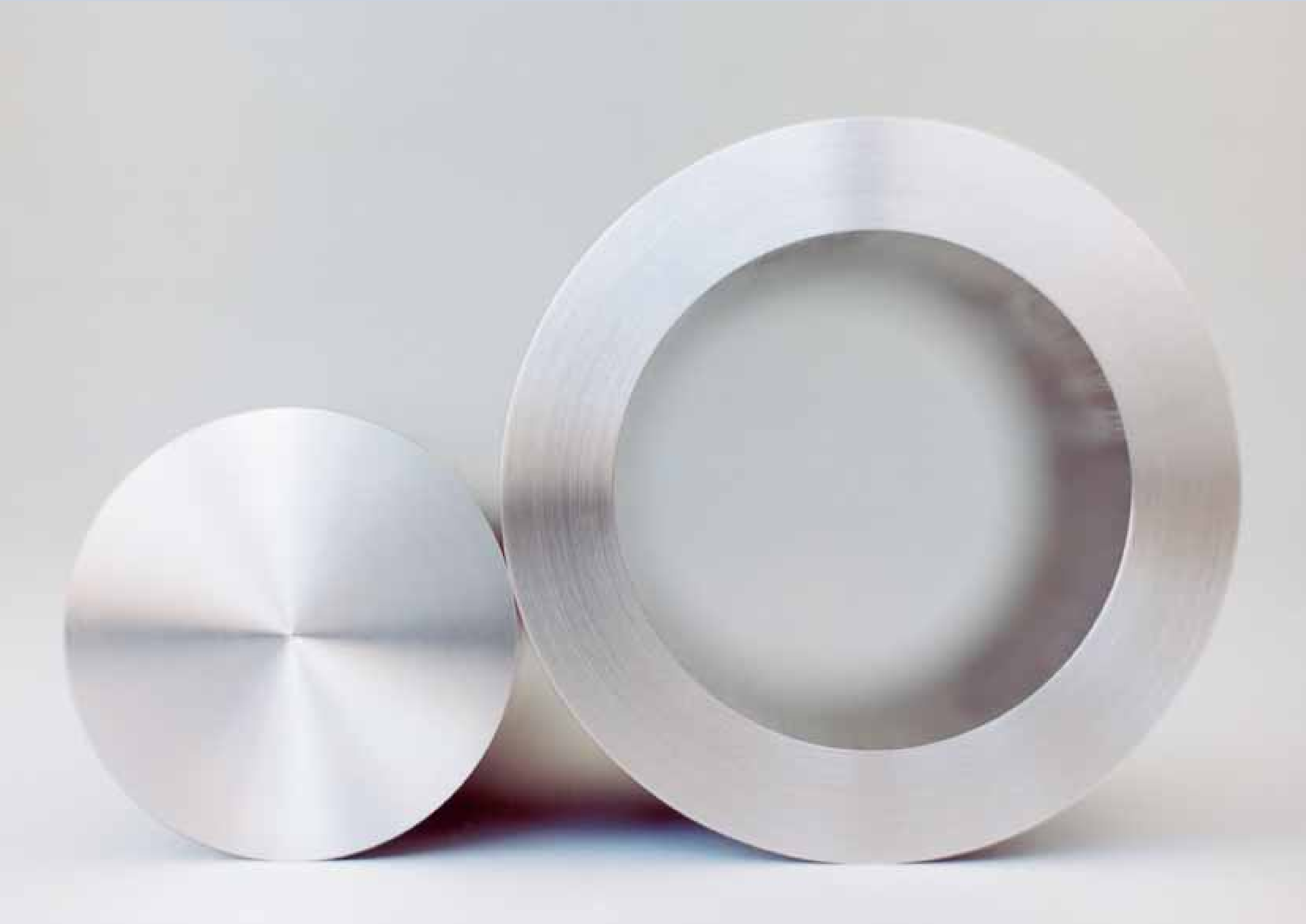
Investor Relations
Yvonne Simonis · CFO
Weidenstrasse 50
4143 Dornach 1 · Switzerland
Phone +41 61 705 36 36
Fax +41 61 705 36 10
investor@swissmetal.com

www.swissmetal.com

SWISSMETAL

Precision in Copper

Success story of CN8:
A highly efficient material for mechanical parts in aircraft manufacture and oil drilling



Introduction

Wearing parts are very often the critical parts in mechanical assembly processes, limiting the life duration. That is why designers pay particular attention to bearings and bushings. These types of parts must display a combination of high strength, good corrosion resistance and low friction coefficient.

In this context, Swissmetal has developed specialist know-how for the manufacture of large dimension rods and tubes from a very high performance alloy designated CN8.

This material has an optimized combination of all the properties required for wearing applications and is capable of satisfying the most critical bushing and bearings requirements. Independent friction tests have shown a reduction of 30% in the friction coefficient compared with beryllium copper, which was previously considered as the reference material in this field of application.

The manufacturing process

Billet manufacture by the Osprey process

▽

Hot extrusion

▽

Cold drawing

▽

Heat treatment

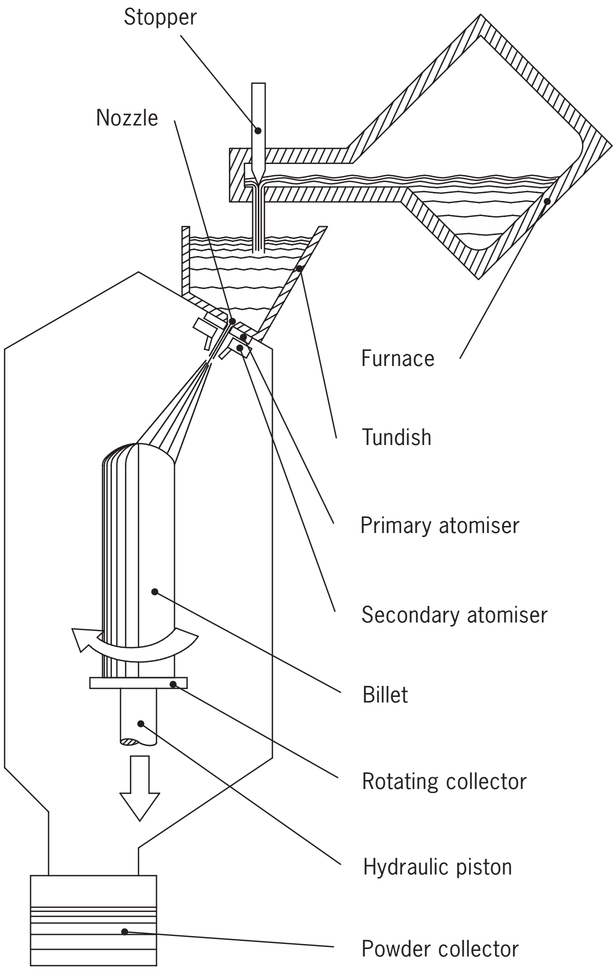
▽

Finished product

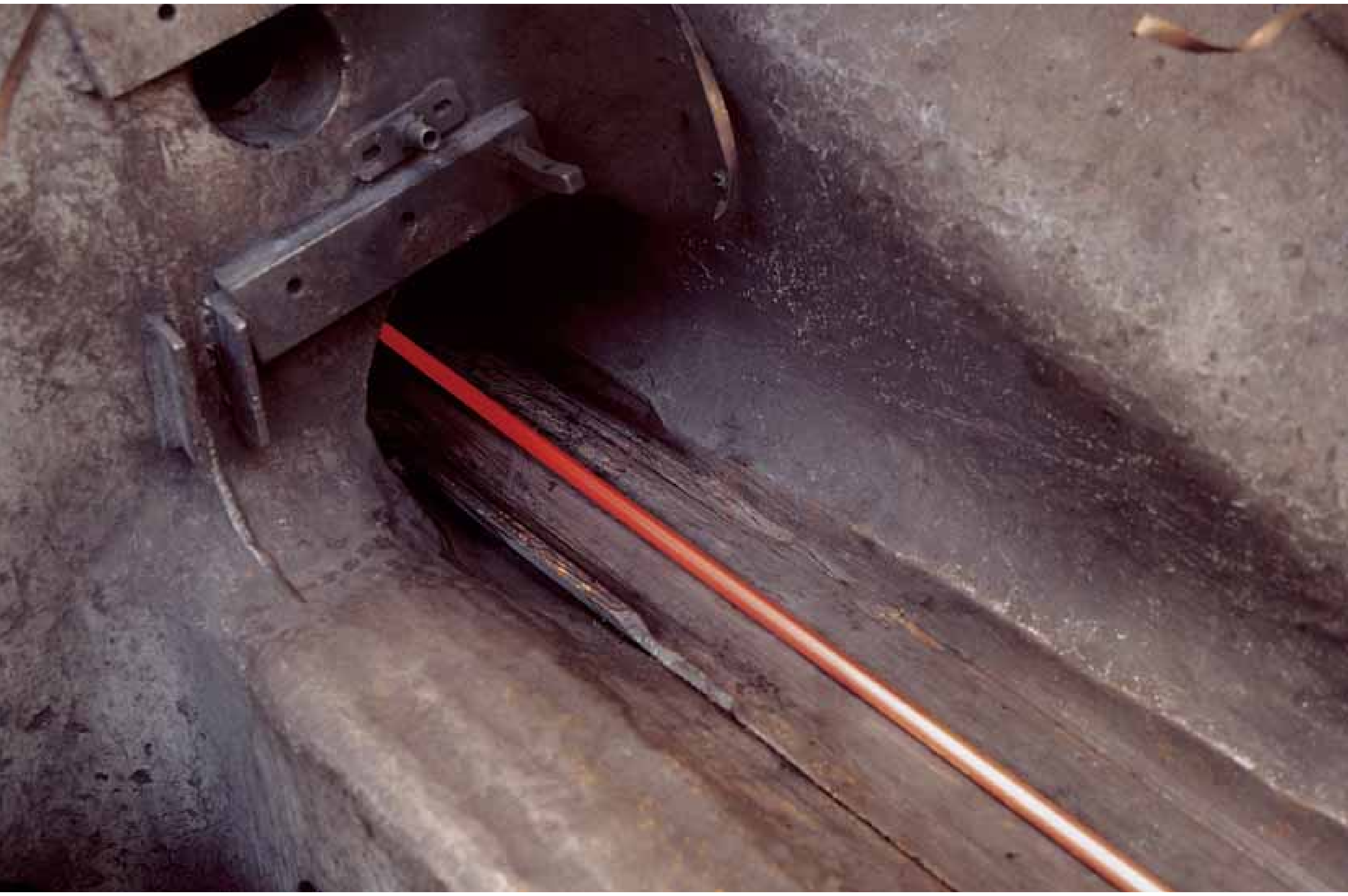
Billet manufacture by the Osprey process

The first manufacturing operation is billet casting. Since CN8 has a very large melting interval (950 – 1115°C/1742 – 2039°F), the chemistry of the alloying elements is not suitable for traditional casting and solidifying processes due to the undesirable segregation phenomenon.

The solution selected by Swissmetal is the Osprey process (spray-compacting of billets). This is a rapid solidification process similar to powder metallurgy and consequently avoids any segregation phenomenon. The Osprey process is also commercially viable because it yields much larger billets than powder metallurgy. Since the CN8 Osprey billets are free of undesired segregation and the billets are of commercial size, they are ready for hot extrusion and further manufacturing operations.



The material is extruded in large dimension rods up to 120 mm (4.72 inches). Further development work currently underway for the manufacture of tubes from the CN8 Osprey billets. As the material is extruded directly into water, it is in a quenched and solutionized state ready for either cold deformation or aging heat treatment.



To increase the level of strength, the material must be cold-deformed before aging. Swissmetal has specific equipment for the cold deformation of large dimension rods, bars and tubes. Adjustment of the cold deformation rate allows for precise selection of the final requested mechanical properties.

Two types of heat treatments are applied to this type of alloy:

1. Recrystallization/solutionizing heat treatment (annealing)

This heat treatment is used as an intermediate operation in the manufacturing process to recover a structure able to support further cold deformation. To avoid precipitation of the undesired brittle gamma phase, the heat treatment is carried out in a temperature range where this second phase is solutionized or is not precipitated in the material. This heat treatment is followed by water quenching and the material obtained is in its most plastic deformable state.

2. Aging heat treatment

Aging heat treatment is the final metallurgical operation of the manufacturing process. The objective of this treatment is to increase the strength of the material. In the case of CN8, the aging process has been termed “Spinodal decomposition”.

Swissmetal has developed considerable metallurgical know-how for this alloy and has a wide range of temper combinations relating to the degree of cold deformation as well as the actual aging parameters. The richness of the alloy allows us to optimize the various types of final properties in the material.

Finished product

After laboratory tests (chemical composition, mechanical properties), the material is delivered in rod, bar and tube with diameter and length tailored to the customer order and specification.

Some typical mechanical properties					
Type	**Diameter**	**Yield strength ($Rp_{0.2}$) [N/mm²/KSI]**	**Tensile strength (Rm) [N/mm²/KSI]**	**Elongation A50/2"**	**Brinell Hardness [HB]**
Type 1	43 mm / 1.7"	1170/170	1230/178	2	340
Type 2	68 mm / 2.7"	1115/162	1200/174	5	340
Type 3	101 mm / 4.0"	860/125	1000/145	6	300
Type 3	51 mm / 2.0"	865/125	1004/146	6	300
Type 4	5 mm / 2.0"	697/101	846/123	8	—
Type 5	51 mm / 2.0"	628/91	797/116	17	—

Landing gear for aircraft or drilling tools in oil exploration are typical applications for high-value parts with demanding mechanical and corrosion properties. At the same time, the users of these parts intend clearly wish to minimize their cost. For landing gear, this means longer intervals between maintenance phases, and in oil drilling it meets the aim of maximizing the tool's life.

In such areas, high levels of friction between numerous moving parts are critical to the life of the equipment. The material serving as the interface between the surfaces in contact with each other must therefore be highly wear resistant.

In this context, the development by Swissmetal of large-dimension products made of CN8 is a major step forward for areas in which bearings and bushings are subject to high wear. This material has a very high mechanical strength combined with good corrosion resistance and very good friction properties – better than any other alloy used up to now in these applications. In addition, the CN8 is ecologically compatible as it can be recycled without special precautions.