SWISSMETAL Information

quarter 3.06

21 November 2006

Dear Customers, Employees, Shareholders
and Business Partners

I want to be quite open with you: Our results for the third quarter of 2006 are in line with those generated in the same period in previous years. However, given the current operating conditions, we must significantly improve our performance in the future.

We are only able to report a slight improvement in the operating result from its first-half level. Little more can realistically not be expected in the summer quarter, traditionally characterized by the annual shutdown during which the workforce is given several weeks' consecutive leave and maintenance work is performed. This inevitably results in a temporary dip in operating performance, making any significant advance on the half-year operating result difficult. However, this is not a new phenomenon.

The reason we are nonetheless dissatisfied, is that we actually could have achieved more. The economy has given us a certain amount of tailwind. Defying expectations, we managed to keep the impact of the strike well under control. A variety of innovative products are now making their way onto the relevant markets. And thanks to process improvements, we are using less and less metal, allowing us to gradually reduce expensive-to-finance inventories. So we could have expected a better result after all. I would now like to give you a brief report on a series of unusual factors that prevented us achieving our goal.

Firstly, despite the generally positive developments at Reconvilier, we were required to retain additional labour capacity in the interests of our clientele, in order to work off the large order backlog as quickly as possible following the strike and thus shorten delivery times, which in many cases were no longer acceptable to our customers. We have succeeded in both these aims and were complimented by individual customers for doing so – compliments that we were happy to pass on to the workforce at Reconvilier. However, these efforts involved significant additional expenditure. We view the latter as a long-term investment in our customer relationships.

The fact that we had to turn down customer orders in the third quarter, owing to our restricted pre-financing capacity, was a particular sore point. We thus lost out on a significant number of sales, while capacity remained unutilized. At present the

whole industry is suffering from the high metal prices and is finding it difficult to pre-finance orders. But this didn't have to be the case at Swissmetal. The capital increase in 2004 provided us with a very healthy equity cushion and sufficient room to take on additional borrowing. Our key financial figures could certainly be improved, but are adequate for external financing purposes – a fact that has been confirmed by experts in the field. Nevertheless, our efforts to expand our credit lines proved to be extremely complex. The strike at Reconvilier continued to have repercussions. The banks involved made assessments and decisions that were not always of a purely financial nature, which means that additional external financing can only be achieved by completely discharging our existing liabilities. A substantial amount of new external financing will solve this problem and allow us to finance all those additional orders "offered" to us by customers, which are of interest to us. A paradoxical situation will thus be remedied – one that has cost us valuable revenues in the past few months, thus lowering our contribution margin.

"You win some, you lose some." Alongside the negative impacts already mentioned, there were also some highlights. For example, in Q3 we achieved a major success in the oil industry, one of Swissmetal's target markets, with the first commercial order for large-dimension precision pipes made of the CN8 alloy, which represents a substitute for the copper-berrylium alloys that many producers are now boycotting. We believe this has great market potential.

Furthermore, by optimizing our inventories when metal prices were still very high, we generated one-off revenues that helped to offset the adverse impacts on results outlined above. We could not have chosen a better time during the last decade to implement this optimization programme.

Taking all these effects into consideration, our overall financial performance to date is significantly higher than our expectations for 2006.

The new extrusion press is scheduled to arrive in Dornach at the end of this year. This is a major milestone in the realization of our industrial concept involving two state-of-the-art hot forming centres, one in Germany and one in Switzerland. The ongoing implementation of our specialty product strategy will allow us to reduce our dependency on standard products that are barely profitable. The priority now is to get the new extrusion press up and running as quickly as possible. We are ready and waiting.

I would once again like to express my warmest thanks to all our customers, employees, investors and other business partners who have shown such commitment to Swissmetal over the last few months, each in their own way. Thanks to their hard work, and support, we have managed to take some decisive steps forward – in spite of the additional obstacles and challenges we faced. We are convinced that we are on the right path, moving ahead. And we are grateful that you are able to accompany us along the way.

Martin Hellweg

Overview of the first three quarters of 2006

A) Consolidated income statement

Swissmetal continued to register healthy demand in the third quarter from a business standpoint. However, the company still had to cope with the repercussions of the strike at the Reconvilier site. At the same time, the available working capital restricted its ability to fund additional business. As a result, Swissmetal had to turn down a certain volume of orders from customers because it could not muster the necessary level of advanced financing, given the continued high price of metals. This problem will be resolved in the future by replacing the current credit lines with a substantial amount of new external financing.

Consolidated income statement – First three quarters

CHF 000	2006 [1]	2005	Change in absolute terms	Change in %
Gross sales	240 545	147 378	93 167	63
Gross added value sales [2]	**89 324**	**78 267**	**11 057**	**14**
Gross margin	**98 518**	**80 955**	**17 563**	**22**
Personnel expenses	–55 782	–49 330	–6 452	–13
Operating and administrative expenses	–25 207	–19 612	–5 595	–29
Operating income before depreciation (EBITDA)	**17 529**	**12 013**	**5 516**	**46**
Depreciation	–10 320	–9 343	–977	–10
Operating income (EBIT)	**7 209**	**2 670**	**4 539**	**170**
Financial result	–1 390	524	–1 914	–
Non-operating and extraordinary result	27	–16	43	–
Taxes	–2 750	–535	–2 215	–414
Earnings before minority interests	3 096	2 643	453	17
Earnings after tax (EAT)	**3 096**	**2 641**	**455**	17
Employees (number of full-time equivalents) as at September 30	886	750	136	18

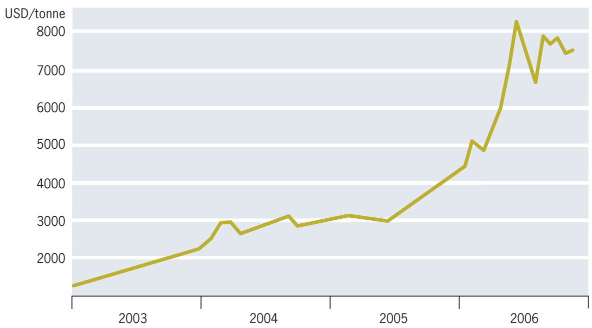
[1] Includes the figures for Busch-Jaeger Metallwerk GmbH for the period from 1 February to 30 September 2006.

[2] The 2006 figures for gross added value sales are not exactly comparable with those for 2005 since some of the figures for the newly acquired Busch-Jaeger Metallwerk GmbH are calculated differently and the systems are currently being harmonized.

Gross sales and gross added value sales

Metal prices remained very high by historical standards in the third quarter of 2006. Swissmetal currently requires four times as much liquidity to fund the purchase of metals as it did three years ago.

"Grade A" copper, LME prices, based on three-month sales



The high price of metals is also reflected in the company's sales. In the first nine months of this year, Swissmetal generated gross sales of CHF 240.5 million. This represents an increase of CHF 93.2 million, or 63%, on the same period of the previous year and is chiefly due to the higher prices referred to above. Gross added value sales, in other words, gross sales less the impact of the higher metal valuations outlined above, amounted to CHF 89.3 million. That was CHF 11.1 million (14%) more than in the previous year. Here, the negative impact of sales lost as a result of the strike in Reconvilier and the rejection of customer orders due to insufficient financing capacity was offset by the positive effect of cyclically high demand and the acquisition of our third production site, in Lüdenscheid, Germany, in February 2006.

Despite strong demand, the performance of the electronic connectors segment fell short of the year-back level, as production could only be stepped up again gradually following the strike in Reconvilier. In the writing instruments segment it was possible to offset the bulk of this negative effect by shifting customer orders to our Lüdenscheid plant. The trend in the electronic appliances and construction and watch industry segments remained positive. In the third quarter, the company scored a major success in the oil industry, one of its target markets, by securing its first commercial order for large-dimension precision pipes made of the CN8 alloy.

Operating income (EBIT)

The gross margin was CHF 98.5 million for the period under review. This figure includes the impact of operational improvements in inventory management. Despite higher sales, it was therefore possible to reduce overall stocks to 13,500 tonnes at end-September 2006. This boosted third-quarter earnings by CHF 3.0 million.

Personnel expenses totalled CHF 55.8 million, a rise of CHF 6.5 million, or 13%, in absolute terms, as a result of two contradictory factors. On the one hand, the acquisition of the facility in Lüdenscheid at the start of this year added around 180 employees to the payroll, thus increasing personnel expenses. On the other, the strike-related loss of around 75 full-time equivalent positions at the Reconvilier site as per end-September reduced personnel costs.

In the first nine months of this year, the ratio of personnel expenses to gross margin was 57%, or 62% after adjustment for the reduction in inventories. This slight decline on the previous year's figure of 61% is mainly attributable to the – still high – sickness rate at the Reconvilier site during the third quarter. As a consequence, it was necessary to employ temporary staff at a comparatively high cost. Incidentally, absenteeism at Reconvilier has returned to normal levels since the end of September.

Operating and administrative expenses rose substantially in the third quarter to CHF 25.2 million owing to consultancy expenses in connection with the integration of the acquired company, Busch-Jaeger Metallwerk GmbH, and the effects of the strike at the Reconvilier plant, plus unplanned technical maintenance work.

In the first nine months, Swissmetal generated operating earnings before interest, depreciation and amortization (EBITDA) of CHF 17.5 million. EBITDA was therefore CHF 5.5 million, or 46%, higher than in the same period of the previous year.

Including the assets at the Lüdenscheid site acquired by Swissmetal in February 2006, depreciation and amortization came to CHF 10.3 million, bringing EBIT to CHF 7.2 million, representing a year-on-year improvement of CHF 4.5 million (170%). However, EBIT increased only slightly compared with the first six months of this year, a fact that can be attributed to the traditional annual shutdown in the third quarter to cover the holiday period and maintenance work. Consequently, the general trend was in line with that of previous years. The one-off impacts already mentioned essentially cancelled each other out.

After-tax earnings (EAT)

The financial result stood at CHF –1.4 million at end-September 2006. Swissmetal thus incurred significant financial expenses for the first time since the capital increase in 2004. This was attributable to the liabilities of Busch-Jaeger Metallwerk GmbH, acquired in February 2006, and the higher working capital requirements at all sites as a result of the increase in metal prices. Tax expenditure was CHF 2.8 million in the period from January to September. In the first nine months of 2006, earnings after tax (EAT) were thus CHF 3.1 million. This was the net effect of an operating improvement offset by higher financing costs, and represents an increase of CHF 0.5 million on the year-back figure.

B) Consolidated balance sheet

Consolidated balance sheet

CHF 000	30.09.2006	31.12.2005	Change in absolute terms	Change in %
Current assets	125 487	94 835	30 652	32
Fixed assets	83 026	67 953	15 073	22
Total assets	**208 513**	**162 788**	**45 725**	**28**
Short-term liabilities	66 484	22 867	43 617	191
Long-term liabilities	17 894	16 513	1 381	8
Total liabilities	**84 378**	**39 380**	**44 998**	**114**
Shareholders' equity	124 135	123 408	727	1
Total liabilities and shareholders' equity	**208 513**	**162 788**	**45 725**	**28**

Total assets were CHF 208.5 million on 30 September 2006, an increase of CHF 45.7 million from 31 December 2005, principally because of the acquisition of Busch-Jaeger Metallwerk GmbH.

Other factors were higher sales, combined with the significant increase in metal prices, which led to a disproportionately high rise in current assets, especially trade receivables and inventories. Although stocks have been reduced at the Swiss sites since the start of the year, the impact was more than negated by the acquisition of Busch-Jaeger Metallwerk GmbH and the rise in raw material prices.

Fixed assets increased to CHF 83.0 million, up CHF 15.1 million from 31 December 2005, primarily owing to the acquisition of Busch-Jaeger Metallwerk GmbH. This figure includes goodwill of CHF 4.8 million as at 30 September 2006.

Short-term liabilities have risen from CHF 22.9 million at the end of 2005 to approximately three times that value, standing at CHF 66.5 million as at end-September 2006. This primarily reflects the increased financing of working capital. Long-term liabilities amounted to CHF 17.9 million at end-September 2006, CHF 1.4 million up on the prior-year figure, representing an insignificant change.

Net debt thus totalled CHF 28.8 million at end-September 2006, compared with a net cash position of CHF 2.4 million at end-December 2005, a change principally caused by the rise in short-term liabilities.

C) Consolidated cash flow statement

Consolidated cash flow statement – First three quarters

CHF 000	2006 [1]	2005	Change in absolute terms	Change in %
Cash flow before change in net current assets	**12 460**	**11 898**	**562**	**5**
Change in net current assets	1 402	3 794	– 2 392	– 63
Operating cash flow (cash flow from operating activities)	**13 862**	**15 692**	**– 1 830**	**–12**
Cash flow from investment activities	– 18 309	– 7 166	–11 143	– 155
Free Cash Flow	**– 4 447**	**8 526**	**–12 973**	**–**
Cash flow from financing activities	690	–1 300	1 990	–
Effect of exchange rate on liquid funds	18	13	5	38
Change in liquid funds	– 3 739	7 239	– 10 978	–
Liquid funds as at 1 January	13 721	9 307	4 414	47
Liquid funds as at 30 September	9 982	16 546	–6 564	–40

[1] Includes the figures for Busch-Jaeger Metallwerk GmbH for the period from 1 February to 30 September 2006.

In the first three quarters, Swissmetal generated an operating cash flow of CHF 13.9 million, CHF 1.8 million lower than in the same period of 2005. Free cash flow stood at CHF –4.5 million, a decline of CHF 13.0 million year-on-year. Swissmetal is experiencing heavy investment activity this year, with capital spending of CHF 18.3 million to date. CHF 10.1 million of this was for the acquisition of Busch-Jaeger Metallwerk GmbH and CHF 5.7 million for the construction of a new extrusion press in Switzerland. The remainder represents investment in a new continuous type furnace for special alloys in Reconvilier and capital expenditures for the modernization and upgrading of facilities at all three sites.

D) 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, Germany, which has been included in the scope of consolidation since 1 February 2006, i.e. for 8 months. Busch-Jaeger Metallwerk GmbH, Lüdenscheid, is not included in the prior-year figures. Further, the trading company Swissmetal Italia s.r.l, of Milan, Italy, discontinued its operations and was therefore deconsolidated as at 30 June 2006.

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