SWISSMETAL® Information

Quarter 3.05

8 November 2005

Dear Customers, Employees, Shareholders
and Business Partners

The European semi-finished copper products sector is still going through a patch of very rough weather. We reported on this in the last Swissmetal quarterly report. Overcapacity in the industry has resulted in a – sometimes drastic – fall in prices for the more simple standard products. Whereas this segment only plays a small role in our activities – most of our manufacturing being focused on high-quality specialty products –, such an abrupt loss of sales does, of course, affect our results. Thus, for the first nine months of the 2005 financial year after-tax earnings totalled CHF 2.6 million, only just in the black. While this result ranks us among the stronger players in our sector in relative terms, in absolute terms this performance is no cause for satisfaction. Our goal is a reasonable return on capital, not only to reward our investors, but also to enable us to continue to invest in Swissmetal's future. We can achieve a reasonable return on capital only if we press steadfastly ahead with the restructuring of Swissmetal without succumbing to any suboptimal compromises – whether with regard to the scheduled implementation of the planned measures or with regard to the budgeted volume of investment. This is the object of all our efforts and we have stuck to it to date. In this context we are pleased to report that in the third quarter of 2005 we took a number of decisive steps toward elaborating a joint industrial concept for our Swiss operations. These plans for the period 2006 – 2010, which have now been formulated, will enable us to consistently exploit synergy potentials and, as a result, to offer our two locations, Dornach and Reconvilier, a long-term perspective. We are fully aware that this is important both in terms of our going forward and of preserving the extensive body of know-how in our company. The core of our industrial concept is to build centres of competence. In the area of hot forming, which include the production steps of casting and extruding, we want to consolidate our activities between the plants. By focusing in this area, we can achieve critical utilisation of the hardware and bundle our competences. Further analysis and clarifications are necessary to reach a decision concerning the location for the hot forming activities. Cold forming is the downstream operation in which Dornach will concentrate in the finishing of complex profiles and tubes, while we will build Reconvilier out to a competence centre in the area of premium wires and rods. We are already global market leaders. We want to expand that competitive edge further – for the wellbeing for each plant and the wellbeing of Swissmetal.

This industrial concept is an efficient solution. After 19 years of the two sites existing side-by-side under the "Swissmetal" umbrella, an integrated company is about to emerge, with bundled competencies and greater clout. In the future this enterprise will work with less equipment, but it will be more modern and more productive. In addition, a state-of-the-art hot forming competence centre will single us out as an attractive partner in potential alliances in the international semi-finished copper products sector. In relation with this, we are happy to note initial signs of a restructuring in this market. As one of the stable semi-finished copper products companies able to weather the current economic downturn, we intend to benefit from this trend.

It requires a lot of staying power to realize our current and planned measures and investments. For this reason we are particularly grateful to you for your steady and sustained support during Swissmetal's reorganization. Your contribution ensures that, at the end of the restructuring process currently taking place in our industry, Swissmetal will emerge a winner!

Martin Hellweg

Overview of the first three quarters of 2005

A) Consolidated Profit and Loss Account

Consolidated Profit and Loss Account – First three quarters

CHF 000	2005	2004 [1]	Change in absolute terms	Change in %
Gross sales	147 378	155 400	– 8 022	–5
Gross added value sales [2]	**78 267**	**89 900**	**–11 633**	**–13**
Gross margin	**80 955**			
Personnel expenses	–49 330			
Operating and administrative expenses	–19 612			
Earnings before interest, tax, depreciation and amortization (EBITDA)	**12 013**			
Depreciation	– 9 343			
Earnings before interest and taxes (EBIT)	**2 670**	**5 500 to 6 500** [3]	**– 2 830 to –3 830**	
Financial result	524	– 2 200	2 724	
Non-operating and extraordinary result	–16	14 500	–14 516	
Taxes	– 535			
Earnings before minority interests	2 643			
Earnings after tax (EAT)	**2 641**			
Employees (number of full-time equivalents) as at 30 September	750	846	–96	–11

[1] Swissmetal introduced new corporate software in the third quarter of 2004. This temporarily complicated the preparation of accounts, with the result that information in the quarterly report as at 30 September 2004 was limited to the statement of trends. For this reason, only limited comparisons can be made between current and prior-year figures.

[2] The definition of gross added value sales was standardized at both Swiss sites during the changeover to new corporate software in the second half of 2004. Since the prior-year figures have subsequently been adjusted on the basis of estimates, the gross added value sales figures for 2004 are not fully comparable with those for 2005.

[3] Owing to the situation described under [1] above, a bandwidth was indicated for the earnings before interest and taxes (EBIT) in the quarterly report as at 30 September 2004.

Gross sales and gross added value sales

The very high copper prices dogging the industry rose even further in the third quarter. In the first nine months of this year, gross sales amounted to CHF 147.4 million and gross added value sales – gross sales without metal impact – to CHF 78.3 million. Continuing pressure on standard product prices, owing to over-capacity in this sector in Europe, was the main contributor to the 13% year-on-year decline in gross added value sales. The rise in copper prices more than compensated for the fall in gross added value sales, with the result that gross sales were down by only 5% compared to 2004.
The segments that experienced the largest declines in sales were standard brass rods used in the turning part industry and timepiece and locking systems. The picture in the ball-point segment is still mixed. Demand in the connectors segment remains strong. Trends in the power generation, power distribution, construction and spectacles industries are also positive.

Earnings before interest and taxes (EBIT)

The gross margin for the first three quarters stood at CHF 81.0 million, of which CHF 23.2 million is attributable to the third quarter. Personnel expenses totalled CHF 49.3 million. As at 30 September 2005, the headcount at Swissmetal came to 750 full-time equivalent positions (FTEs). This is equal to a reduction of 96 FTEs, or 11%, since 30 September 2004. The workers affected by the cuts were for the most part temporary workers and employees on limited employment contracts, who were taken on during last year's boom.
The ratio of personnel expenses to gross margin improved slightly from 62% in the first half of the year to 61%.
Operating and administrative expenses amounted to CHF 19.6 million. This disproportionately large increase compared to the previous quarters can be explained by the large maintenance projects that are generally carried out during the summer break. On the other hand, thanks to cost management, administrative expenses improved year on year.

In the first nine months of 2005, Swissmetal generated earnings before interest, tax and depreciation of CHF 12.0 million, of which CHF 3.0 million is attributable to the third quarter. Depreciation amounted to CHF 9.3 million in total, of which depreciation on the new corporate software accounted for CHF 0.8 million. The contribution to profit in the third quarter came to CHF – 0.1 million. The summer holidays fall into this period, resulting in a clear drop in sales. This and the maintenance work referred to above, regularly lead to a relatively poor result in comparison with the previous quarters.

Overall, earnings before interest and taxes in the first three quarters of 2005 amounted to CHF 2.7 million. The negative deviation from the prior year figure is primarily attributable to declines in sales volumes and prices. However, the impact of this drop in sales was limited by the first positive effects of our strict cost management.

After-tax earnings (EAT)

Thanks to foreign currency gains, Swissmetal achieved a financial result of CHF 0.5 million for the nine months to 30 September 2005. Unlike a year ago, in the first three quarters of 2005 there were no significant non-operating one-off items resulting from financial transactions.

Tax expenditure in the first nine months totalled CHF 0.5 million, which included CHF 0.4 million in deferred taxes. Earnings after tax came to CHF 2.6 million for the period from January to September.

B) Consolidated Balance Sheet

Consolidated Balance Sheet

CHF 000	30.09.2005	31.12.2004	Change in absolute terms	Change in %
Current assets	100 709	99 108	1 601	2
Fixed assets	60 712	62 971	–2 259	–4
Total assets	**161 421**	**162 079**	**–658**	**0**
Short-term liabilities	25 431	27 717	–2 286	–8
Long-term liabilities	14 911	15 931	–1 020	–6
Total liabilities	**40 342**	**43 648**	**–3 306**	**–8**
Minority interests	90	88	2	2
Shareholders' equity	120 989	118 343	2 646	2
Total liabilities and shareholders' equity	**161 421**	**162 079**	**–658**	**0**

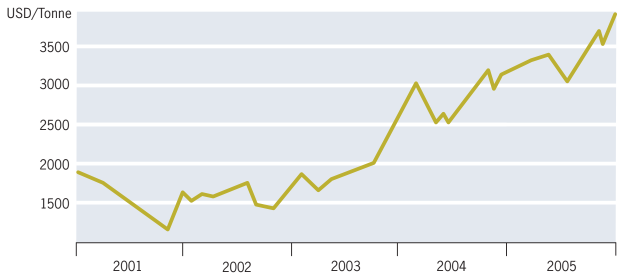
The balance sheet total of CHF 161.4 million as at 30 September 2005 represents a marginal change from the end of December 2004. Total liabilities recorded the largest change, falling by CHF 3.3 million or 8% compared with 31 December 2004.

In the third quarter, the Swissmetal Group repaid loans of CHF 1.3 million on schedule. The residual difference of CHF 2.0 million is accounted for mainly by changes in accounts payable and deferrals incurrent during the year.

On the assets side, cash and cash equivalents rose by CHF 7.2 million to CHF 16.5 million, while accounts receivable fell by CHF 5.9 million. Although the stock of metal inventory declined by 1,300 tonnes, or 7%, to 16,300 tonnes, the effect of this was set off by rising commodity prices and the stock increase of goods in process and finished goods.

The following chart presents the development in the price of one ton of raw copper since the end of 2000; prices have risen particularly rapidly since the end of 2003.

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



Largely as a result of the increase in cash and cash equivalents, the net cash position amounted to CHF 5.2 million as at 30 September 2005, compared with a net debt of CHF 4.4 million as at 31 December 2004.

C) Consolidated Cash Flow Statement

Consolidated Cash Flow Statement – First three quarters

CHF 000	2005	2004 [1]	Change in absolute terms	Change in %
Cash flow before movement in net current assets	**11 898**			
Movement in net current assets	3 794			
Operating cash flow	**15 692**	**1 500**	**14 192**	**946**
Cash flow from investment activities	–7 166	–6 400	–766	–12
Free Cash Flow	**8 526**	**–4 900**	**13 426**	
Cash flow from financing activities	–1 300	11 300	–12 600	
Effect of exchange rate on liquid funds	13			
Movement in liquid funds	7 239			
Liquid funds as at 1 January	9 307			
Liquid funds as at 30 September	16 546			

[1] Swissmetal introduced new corporate software in the third quarter of 2004. This temporarily complicated the preparation of accounts, with the result that information in the quarterly report as at 30 September 2004 was limited to the statement of trends. For this reason, only limited comparisons can be made between current and prior-year figures.

Operating cash flow in the first three quarters of 2005 stood at CHF 15.7 million, of which CHF 3.8 million resulted from the reduction in net current assets. This figure represents an increase of CHF 14.2 million on the same period last year because, although the 2004 result was better, both the increase in net current assets and expenditures for which provision had been made in previous years were charged in that period.

As at 30 September, CHF 7.2 million had been spent on investments in 2005; ignoring divestments in 2004, this figure is about CHF 0.8 million lower than last year's level. In accordance with the negotiated payment schedules, investments in the new extrusion press have not affected cash flow; the first payments fall due in the fourth quarter.

Swissmetal generated a free cash flow of CHF 8.5 million in the first nine months of 2005.

D) Outlook

Although progress is being made in expanding sales of higher-quality specialty products, the very abrupt slump in sales of standard products is a source of concern at present. Swissmetal expects that it will have to cope with fierce competition and price pressures in this market for the foreseeable future. This challenging environment opens up opportunities for restructuring the industry.

E) Basis for the consolidated profit and loss account, balance sheet and cash flow statement, and changes affecting Group companies

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

From the close of accounts on 31 December 2004 the two subsidiaries Swissmetal France S.A.S., Montreuil, and UMS Cayman Ltd, George Town, were dropped from the scope of consolidation as both companies were discontinuing operations, a process which has now been completed. They still figure in the profit and loss account and cash flow statement as at 30 September 2004, but no longer appear in the balance sheet as at 31 December 2004.

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