Swissmetal Information

22 NOVEMBER 2004

Dear Customers, Business Partners, Employees and Shareholders,

Swissmetal is currently affected by a labour dispute at its Recovilier plant. In the interests of resolving the dispute quickly and maintaining supplies to our customers, we have immediately convened a delegation, consisting of three members of the Board of Directors, to negotiate with the unions. Negotiations are currently in progress. The walkout is in contravention of the current collective labour agreement, and occurred following the removal of the Reconvilier plant manager and the appointment of the current Dornach plant manager, who is now responsible for both plants. This will enable Swissmetal to implement with the necessary speed its chosen strategy of maintaining two strong sites under a single management.

Greater transparency is essential for the efficient management of both sites. This very desire for more transparency is responsible for the fact that the figures we are presenting today in our statement for the period ending 30 September 2004 have for once had to be reduced in scope: owing to a planned switch to a new business software package in the third quarter of 2004. 1 August 2004 saw the introduction of SAP at Swissmetal. The changeover has yet to be completed, but the system will soon be providing us with much more precise, and, above all, more rapid information on our business progress. During the transitional phase, reporting will be more difficult. Given that producing a full and accurate quarterly statement for the third quarter would have been disproportionately time-consuming and expensive, we decided to dispense with such a statement.

We are nevertheless able to identify trends that allow you to see the progress we are making in restructuring and repositioning Swissmetal. On the following pages you will find our commentaries on these issues in the structure you are accustomed to. Overall, we can state that Swissmetal's turnaround is on track. However, at the same time we also have to note that the cost of training our additional new employees, recruited to meet the rise in demand of our products, represents a significant expense item and is affecting our result in a first step. We hope to be able to conclude an agreement as soon as possible with our employees, so that in future we are in a position to respond more flexibly to the cyclical patterns of our order intake and can avoid these massive training costs every 3 to 5 years. We need a stable work force that works more during the good times and less during the bad times in a common spirit of solidarity. We do not wish to operate a «hire-and-fire» policy. Hiring and firing staff places great strains both on Swissmetal and on our employees.

Overall, I can tell you that in the first nine months of the current year the positive impact of the economic revival more than compensated for all the additional expense on the level of the operating result and that we still anticipate a much better result than in 2003. The walkout at Reconvilier will have an impact on financial performance in the fourth quarter. However, in view of the successes to date, the short-term financial damage will be limited. However, Swissmetal also attaches major importance to limiting immaterial damage and ensuring that customer's trust is not affected.

Swissmetal's restructuring and repositioning is based on a three-year plan from 2004 to 2006. So far, apart from the introduction of SAP, which proved more difficult than expected, we see no significant deviations from the three-year plan in terms of the various measures envisaged. We are on track to transform Swissmetal into a company with a long-term successful future.

We would like to thank you for the confidence you have placed in us.

Martin Hellweg

FINANCIAL STATEMENTS AS AT 30 SEPTEMBER 2004

A) CONSOLIDATED PROFIT AND LOSS ACCOUNT

Preliminary remark

As planned, during the changeover to the SAP business software package, there will be a transitional phase in which three systems will be used in parallel: the two old systems from Dornach and Reconvilier and – increasingly – the shared SAP system which has been in productive operation since August. This procedure is making financial reporting more difficult, one problem being the consolidation of inventory movements, and this is in turn having an impact on the gross margin. In the report dated 30 September 2004 you will therefore only find statements describing tendencies. The process of merging the data from the two sites will be completed in the fourth quarter of 2004. You will receive the annual statement in the usual detailed form.

Gross sales and gross added value sales

Gross sales amounted to CHF 155.4 million and are up by 22% on the previous year. This increase is due to the higher turnover as well as to the high level of metal prices. The gross added value sales (gross sales less metal costs) amounted to CHF 87.0 million and are 11% higher than during the three year-back quarters. The third quarter's gross value added sales per 100 kg showed a slightly positive trend compared with the first half of 2004, but were still down on the previous year.

Operating earnings (EBIT)

The high order volume has resulted in a significant increase in the number of staff on temporary contracts since the beginning of the year. At the end of September, the number of full-time equivalents stood at 846, which represents an increase of 100 (13%) compared with 30 September 2003. As a result of training periods, in which new employees are not yet productive, and owing to the higher cost of temporary staff compared with permanent employees, personnel costs were disproportionately high in the third quarter. The introduction of the SAP business software package also resulted in a short-term increase in the number of employees.

Long-term purchase agreements allowed energy expenditure to be held stable in comparison with the previous year, despite the current general increase in costs. However, maintenance costs in the third quarter were significantly higher than in 2003. There are several reasons for this: firstly, a higher production volume also means higher spending on supplies and consumables, and secondly – as was already the case in the first half of the year – the rise in the price of steel has led to a significant increase in tool costs in comparison with the previous year. There has also been a general increase in maintenance work during plant holidays.

Depreciations for the first three quarters of 2004 are down slightly on the corresponding year-back period. Estimated EBIT amounts to between CHF 5.5 million and CHF 6.5 million. Thus, the operating result for the first three quarters of 2004 still shows clear progress in comparison with the year-back figure (CHF 1.4 million), although the increase has been slightly eroded by the various charges mentioned above stemming from the third quarter of 2004.

Financial result

In the third quarter of 2004, the financial result improved by CHF 0.4 million to CHF –2.2 million. This is mainly due to a change in Swiss GAAP ARR accounting standards which means that the value adjustment on our own shares, which had been posted under expense items since the beginning of the year, is now dissolved. Refinancing-related expenditure for the first three quarters of 2004 amounted to CHF 1.4 million, which represents a minimal increase of CHF 0.1 million since the first half of 2004.

The year-on-year increase in the financial result as of 30 September 2004 therefore stands at CHF 1.2 million.

Non-operating and extraordinary results

The non-operating and extraordinary results have continued to improve significantly in comparison with the previous year. As part of the capital increase, our creditor banks have written off claims amounting to CHF 6.3 million, which has resulted in extraordinary income. When added to the other one-off events totalling CHF 8.2 million in the first half of the year (release of provisions and book profits on the sale of property not required for operations), the result here is an income of CHF 14.5 million for the first three quarters of 2004.

Earnings after tax (EAT)

In total, in comparison with the year-back figure, Swissmetal has posted a very positive result for the first three quarters of 2004. Both the continuing clear year-on-year improvement at EBIT level and positive one-off non-operating effects have resulted in exceptionally high earnings after tax.

B) CONSOLIDATED BALANCE SHEET

Like the first two quarters of the year, the third quarter of 2004 saw a further increase in Swissmetal's balance sheet total.

On the asset side, there was a significant rise in liquid assets as a result of the capital increase, which also included financing for the purchase of a new press. The volume of sales also led to a further increase in accounts receivable. By contrast, inventories decreased, partly because of destocking during the plant holidays which fall in the third quarter. Overall, current assets continued to increase in comparison with the first half of the year. There were no significant changes in fixed assets.

The liabilities side has also changed massively as a result of the capital increase in the third quarter of 2004. Short-term interest-bearing receivables from banks, which still amounted to CHF 39.4 million at the end of 2003, were repaid in full last quarter.

The cost of the capital increase was offset directly against shareholders' equity and totalled CHF 6.1 million. As a result of the capital increase and the positive result for the year to date, shareholders' equity has more than doubled in comparison with 31.12.03 (CHF 52.6 million).
As of 30 September 2004, liquid assets exceeded interest-bearing debt. As a result of the capital increase in July 2004 and the purchase of previous interest-bearing guarantees, the net indebtedness, which at the end of 2003 amounted to CHF 50.6 million, could be changed into a net cash position.

C) CONSOLIDATED CASH FLOW STATEMENT

Due to special effects and the change in net current assets, the operating cash flow as of 30.09.04 is basically about CHF 7 million below to the previous year (CHF 8.5 million).

The special effects concern mainly claims purchase in June 2004 relating to guarantees amounting to CHF 5.6 million and financing and restructuring-related cash outs amounting to CHF 3.9 million (as compared with a total of CHF 4.1 million for the comparable year-back period). Globally, the net current assets have been slightly reduced since beginning 2004 but to a smaller extend than as at 30.09.03.

Swissmetal made investments amounting to CHF 8.0 million (without disinvestment of CHF 1.6 million) in the first three quarters of 2004, as against CHF 5.5 million net during the year-back period.

The net cash in stemming from the capital increase amounted to CHF 17.9 million. As additional bank loans amounting to CHF 6.6 million (current account credit amounting to CHF 4.4 million, compulsory stockpile loan amounting to CHF 1.0 million and change in other loans to third parties amounting to CHF 1.2 million) were repaid in the third quarter of 2004, the financing-related cash flow stands totally at CHF 11.3 million.

D) KEY FACTS CONCERNING THE CAPITAL INCREASE

At the end of 2002, Swissmetal was unable to pay off on schedule some of its debts which were due. In 2003, the company therefore concluded a financing agreement («moratorium») with a consortium of banks, which was valid until 30 June 2004 and was aimed at preparing a new financing concept by that time.

This June, Swissmetal proposed a new financing concept which shareholders approved at the company's Annual General Meeting on 30 June 2004. The concept was implemented in July 2004.

The new financing concept includes the following key components:

- A capital reduction by means of a reduction in the nominal value of the 850,000 «old» shares from CHF 100.00 per share to CHF 9.00 per share in two stages.

- The issuing of a total of 5,695,556 new shares with a value of CHF 9.00 each, some of which represent new financial resources and some of which will be a result of the conversion of debts owed to banks into shareholders' equity («debt-to-equity swap»). Since the capital increase, the number of shares in circulation amounts to 6,545,556.

- Write-off of claims amounting to CHF 6.3 million by previous creditor banks.

- Current account credit line amounting to CHF 7.5 million.

As a result, Swissmetal has been able to generate both capital to pay off a large part of its bank debt and sources of finance for necessary investments.

E) OUTLOOK

The significant growth which can be observed since beginning of 2004 lead to a high utilization ratio in both sites, Dornach and Reconvilier. At both plants not the technical but the personal capacity represents a bottleneck. Swissmetal is intensively building up new additional shifts to meet the current high order intake.

F) BASIS FOR THE CONSOLIDATED PROFIT AND LOSS ACCOUNT, BALANCE SHEET AND CASH FLOW STATEMENT AND CHANGES AFFECTING GROUP COMPANIES

The unaudited financial results for 30 September 2004 were drawn up according to Swiss GAAP ARR. The bases for the consolidation are the same as those used in the annual report.

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