SWISSMETAL Information

Half year 1.05

18 August 2005

Dear Customers, Employees, Shareholders
or Business Partners

The second quarter of 2005 was again dominated by the slowdown in the European market for semi-finished copper products, even though the demand-side seemed to indicate a bottoming-out of the cyclical slump. Our immediate response was to make systematic cost adjustments. Our strategy in 2004 of expanding the workforce as required by means of temporary employment contracts proved to be a wise move, allowing us to reduce headcount again during the recent downturn from 832 full-time equivalents (FTEs) at the end of December 2004 to 759 FTEs at the end of June 2005. The agreement on flexible working time, which has now been signed by all the relevant parties and implemented at the Dornach plant, provides us with a further significant governance tool with which to master the fluctuations in demand, which is the norm within our industry.

The series of adjustments referred to above enabled us to maintain our stated earnings goal during the cyclical highs while at least covering our costs during cyclical lows and generating sufficient funds for our investment programme. I am now able to inform you that the investment in a new extrusion press, which we announced in the first quarter of 2005, has reached the implementation stage. The necessary construction permits have been granted and the first orders are being placed. The new extrusion press will allow Swissmetal to make a quantum leap forward by helping important innovation projects achieve a breakthrough, and opening up new and attractive markets as a result. Let me give you an example of one such project: the use of high-tensile special alloys in aircraft mechanical components of the type to be found in undercarriages, which we premiered at the Paris International Air Show at Le Bourget. If we manage to gain a firm foothold in this sector, the aeronautics industry could become Swissmetal's most important sales market.

The current slump has had no impact whatsoever on what is now our largest product segment, high-quality products for use in electronic connectors. Demand continued to grow in this area, both for our traditional C97 and C98 alloys and for the recently developed NP6, an alternative to beryllium copper, which was also a focal point of our exhibit at the Paris International Air Show. The connector market is an excellent example of how Swissmetal can reposition itself going forward as a manufacturer of high-quality specialty products.

As well as dealing with the current cyclical trough and embarking upon the repositioning of the company, we are keeping a close eye on the market environment and on our competitors. The copper semi-finished product sector is presently undergoing a new and unfamiliar phase of restructuring: new groupings are being created and whole product areas are changing hands among market players. However, we must make a distinction here between those manufacturing large volumes of standard products and those whose primary focus is high-quality specialty products. While the manufacturers of mass products are mainly concerned with reducing overcapacity, the specialists such as Swissmetal, who typically have only one or two production plants and generate between CHF 50 and 200 million in sales annually, are more likely to be grappling with the issue of how to successfully capitalize on the growing internationalization of the market economy. As things currently stand, Swissmetal supplies its high-quality specialty products to the European, North America and Asian markets in almost equal measure. We are keeping a close eye on trends within our industry and will pursue the appropriate strategic options when the time is right. To achieve sustainable success, the company must not only push ahead with its restructuring, it must also play an active role in accompanying and shaping the structural changes across the sector.

We are steadfastly pressing ahead with the restructuring of Swissmetal. This is a fundamental requirement if we are to boost our company's profitability in the long term. The low volume of business in the year now underway presents us with additional challenges. But it also gives us the opportunity to show that Swissmetal can weather an economic slump like the current one with its finances intact.

At this point, I would like to thank you all on behalf of Swissmetal for the great support you have shown, without which we would not be able to put our comprehensive programme of restructuring and repositioning measures into action.

Martin Hellweg

Overview of first half 2005

A) Consolidated Profit and Loss Account

Consolidated Profit & Loss Account – first half year

CHF 000	2005	2004	Change in absolute terms	Change in %
Gross sales	102 846	107 786	– 4 940	– 5
Gross added value sales [1]	**55 702**	**62 627**	**– 6 925**	**– 11**
Gross margin	**57 785**	**60 968**	**– 3 183**	**– 5**
Personnel expenses	– 35 604	– 35 109	– 495	– 1
Operating and administrative expenses	– 13 128	– 13 290	162	1
Earnings before interest, tax, depreciation and amortization (EBITDA)	**9 053**	**12 569**	**– 3 516**	**– 28**
Depreciation	– 6 233	– 5 661	– 572	– 10
Earnings before interest and taxes (EBIT)	**2 820**	**6 908**	**– 4 088**	**– 59**
Financial result	436	– 2 565	3 001	–
Non-operating and extraordinary result	– 16	8 222	– 8 238	–
Taxes	– 698	– 273	– 425	– 156
Earnings before minority interests	2 542	12 292	– 9 750	– 79
Earnings after tax (EAT)	**2 541**	**12 288**	**– 9 747**	**– 79**
Employees (FTEs) as at 30 June	759	795	– 36	– 5

[1] 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.

Gross sales and gross added value sales

The course of business reflects the slowdown in economic activity since the beginning of the year. Despite the drop in demand within the industry, metal prices remain at a very high level, much higher than in the first half of 2004.

Owing to the increased price of metal, gross sales were only 5% down on the previous year at CHF 102.8 million. The gross added value in sales (gross sales less metal at standard metal costs) came to CHF 55.7 million, a decline of 11% on the first six months of 2004. All geographic markets were affected by the decline in sales, which was partly attributable to volume and partly attributable to price and which reflected the great pressure on prices in the standard products segment in general.

The picture is different where high-quality specialty products are concerned. While there was less demand for products used in consumer goods (pen tips, timepieces) and in energy production, the sales trend for high-quality electronic connectors, which are mainly used in the aerospace and solar industries, was exceedingly positive.

Earnings before interest and taxes (EBIT)

Gross margin stood at CHF 57.8 million, 5% down on the same period of the previous year, and was thus CHF 2.1 million higher than the gross added value sales figure. Two factors had a positive impact here: a higher work-in-process value from the increased inventories of semi-finished and finished goods as well as the trend on the metal market, which favoured procurement.
Personnel expenses in the first half of the year totalled CHF 35.6 million, with the reduction in the number of temporary workers making a clear impact on the financial figures. Overall, 73 full-time equivalent positions were shed in the first half, 47 of which were cut in the second quarter. At the end of June 2005, headcount came to 759 FTEs, a reduction of 9% from the year-end figures for 2004. The ratio of personnel expenses to gross margin improved from 65% in the first quarter to 62% for the first half.

Operating and administrative expenses amounted to CHF 13.1 million in the first six months of the year. Energy costs were lower than in 2004, owing to the volume factor. Cost-saving measures led to a considerable reduction in administrative outlays. By contrast, spending on supplies and consumables rose year-on-year, primarily due to increased maintenance costs. The operating and administrative expenses include a positive non-recurring impact arising from compensation from an external strike fund totalling CHF 0.4 million, relating to the strike in November 2004.

Depreciation has increased since the new corporate software went live in the second half of 2004 and now stands at CHF 6.2 million, 10% up on the year-back figure.

The favourable performance of our gross margin, on top of various cost reductions in Q2, allowed Swissmetal to generate earnings before interest and taxes (EBIT) of CHF 2.3 million, thus leading to a cumulative operating profit of CHF 2.8 million for the first half of 2005. This result may be CHF 4.1 million lower than in the same period last year, when economic activity was booming, but it nevertheless demonstrates the company's ability to stay in the black even when the market environment is difficult.

After-tax earnings (EAT)

The financial result for the first six months of 2005 came to CHF 0.4 million, primarily owing to foreign currency gains. Unlike the same period a year ago, no significant non-operating, one-off items were posted in the first half of 2005. In the first six months of 2004, Swissmetal was still in the middle of its refinancing process, which led to a substantial increase in financial outlays (CHF 2.6 million); in addition, one-time impacts totalling over CHF 8.2 million (write-back of reserves and real-estate gains) had a positive influence on the result.

Tax expenditure was up CHF 0.7 million on the year-back period (including CHF 0.6 million in deferred taxes), despite the lower result for the first half of 2005. The increase in the tax figure reported in the profit and loss account derives from the CHF 2.2 million in deferred taxes which were not capitalized until 31 December 2004, and which were then reduced again as at 30 June 2005 in line with the positive result. For this reason, the two tax expense figures cannot be compared.

The cumulative earnings after tax (EAT) came to CHF 2.5 million in the first half.

B) Consolidated Balance Sheet

Consolidated balance sheet

CHF 000	30.06.2005	31.12.2004	Change in absolute terms	Change in %
Current assets	103 835	99 108	4 727	5
Fixed assets	61 010	62 971	–1 961	–3
Total assets	**164 845**	**162 079**	**2 766**	**2**
Short-term liabilities	27 993	27 717	276	1
Long-term liabilities	15 880	15 931	–51	0
Total liabilites	**43 873**	**43 648**	**225**	**1**
Minority interests	89	88	1	1
Shareholders' equity	120 883	118 343	2 540	2
Total liabilities and shareholders' equity	**164 845**	**162 079**	**2 766**	**2**

The balance sheet total of CHF 164.8 million as at 30 June 2005 represents a 2% increase from the end of December 2004. Currents assets rose CHF 4.7 million to stand at CHF 103.8 million. Of this figure, cash and cash equivalents went up by CHF 6.0 million, while accounts receivable and stock fell by CHF 1.3 million. Where the latter is concerned, the stock of metal inventory was reduced and the stock of goods in process and finished goods increased. At CHF 61.0 million, fixed assets fell CHF 2.0 million from 31 December 2004. There were no noteworthy movements on the liabilities side.

The increase in cash and cash equivalents since the beginning of the year has allowed the net debt of CHF 4.4. million as at 31 December 2004 to be turned into net cash of CHF 2.3 million as at 30 June 2005.

C) Consolidated Cash Flow Statement

Consolidated Cash Flow Statement – first half year

CHF 000	2005	2004	Change in absolute terms	Change in %
Cash flow before movement in net current assets	**8 986**	**5 619**	**3 367**	**60**
Movement in net current assets	1 223	– 3 096	4 319	–
Operating Cash Flow	**10 209**	**2 523**	**7 686**	**305**
Cash flow from investment activities	– 4 358	– 2 593	– 1 765	– 68
Free Cash Flow	**5 851**	**–70**	**5 921**	**–**
Cash flow from financing activities	130	– 1 555	1 685	–
Effect of exchange rate on liquid funds	5	– 13	18	–
Movement in liquid funds	5 986	– 1 638	7 624	–
Liquid funds as at 1 January	9 307	13 705	– 4 398	– 32
Liquid funds as at 30 June	15 293	12 067	3 226	27

Cash flow stood at CHF 9.0 million in the first half of 2005, before the change in net current assets, CHF 3.4 million up on the same period a year ago. Despite last year's improved result, expenditure on restructuring and refinancing, for which provisions had already been made, brought about high cash outflows that more than cancelled out the impact of that result.

Compared with 2004, the CHF 1.2 million increase in net current assets resulted in an operating cash flow of CHF 10.2 million in the first half of the current year, representing a positive impact of CHF 7.7. million.

CHF 4.4 million has been spent on investments so far this year, a figure in excess of last year's level. However, in 2004 the sale of real estate generated an inflow of funds totalling CHF 1.6 million, thus reducing the cash flow from investment activities.

In the first half of 2005, Swissmetal generated a free cash flow of CHF 5.9 million.

D) Outlook

Swissmetal assumes that the market situation will remain unsatisfactory for standard products, thus stepping up the focus on higher-quality products. Where specialty products are concerned, we expect a slight improvement in electronics in the US and in electrical engineering in the Asian market.

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 June 2004, but no longer appear in the balance sheet as at 31 December 2004.

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