SWISSMETAL Information

quarter 1.05

18 May 2005

Dear Customers, Employees, Shareholders
and Business Partners

The first quarter of 2005 stood under the sign of a marked downturn in business climate. Our present reaction time to such change in economical cycles is not sufficient. In order to adapt our cost structure fast enough, we need to be able to react almost in realtime to such changes. With the instruments available to us until now, this was only possible to do this with a substantial delay. Thus Swissmetal continues to push forward in the flexibilisation of working time, to respond faster to changes our business environment. We achieved a step in the right direction. The employees in the Dornach plant approved a proposal for a flexibilisation of their working time that was put forward by employee representatives, trades unions and industry associations. Work continues to enhance the flexibility at the Reconvilier plant. This initiative will not however help in the present downturn. We can only apply the conventional method at our disposal; appropriate measures have already been implemented.

Over and above the daily business, we are still pushing forward with all efforts to reposition Swissmetal. I would briefly like to report progress made in this area, on the way of a sustainably profitable company.

In the first quarter of 2005, we concluded the fundamental update of our innovation pipeline. We want to increase resources available to innovation, with the aim of accelerating our transition to a company focused on high value added specialty products. With the same goal, the Board of Directors made the significant decision to invest in a new extrusion press. This new investment will allow us to manufacture harder alloys and alloys more difficult to extrude with a higher degree of precision and automation. The new press will be technically laid out to produce Swissmetal's entire product range: profiles, tubes, wires, rods and strips.

For the first time since the beginning of this year, Swissmetal has planned, managed and controlled all its activities with means of the companywide software solution SAP. From this step, we expect a major improvement in information flow and substantially increased transparency, which will allow us to manage the company in a more precise, timely and customer oriented way.

We are convinced that Swissmetal, a Swiss company with international presence, can become sustainably profitable by means of its higher powers of innovation and its technological leadership. The extensive repositioning program underway will remain a focal point for the company throughout 2005 and 2006. This process requires a deep commitment from our employees and I would like to thank each and every one of them on Swissmetal's behalf for their commitment. We have already achieved a great deal on the way to this transformation and together we will successfully master the next steps also.

Martin Hellweg

Overview of first quarter 2005

A) Consolidated Profit and Loss Account

A sudden downturn in economic activity was the key feature of first quarter 2005. Throughout the industry, manufacturers of copper semi-finished products reported that business levels were significantly below expectations. With the exception of a few small specialty areas, Swissmetal was unable to swim against the tide. The very abrupt lapse into a cyclical downturn furthermore made it impossible, given the tools at our disposal, to adapt the cost base to the new situation in such a short time. Consequently, there was an unsatisfactory relationship between sales and costs for the first quarter of 2005.

Consolidated Profit and Loss Account – first quarter

CHF 000	2005	2004	Change in absolute terms	Change in %
Gross sales	51 967	52 881	–914	–2
Gross added value sales [1]	**27 676**	**31 380**	**–3 704**	**–12**
Gross margin	**28 308**	**30 233**	**–1 925**	**–6**
Personnel expenses	–18 467	–17 345	–1 122	–6
Operating expenses	–6 280	–6 863	583	8
Earnings before interest, tax, depreciation and amortization (EBITDA)	**3 561**	**6 025**	**–2 464**	**–41**
Depreciation	–3 110	–2 804	–306	–11
Operating profit (EBIT)	**451**	**3 221**	**– 2 770**	**–86**
Financial result	143	–1 253	1 396	–
Non-operating and extraordinary result	–8	1 381	–1 389	–
Taxes	–125	–120	–5	–4
Earnings before minority interests	461	3 229	–2 768	–86
Earnings after tax (EAT)	**461**	**3 228**	**–2 767**	**–86**
Employees (number of full-time equivalents) as at 31 March	806	756	50	7

[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. The figures are thus not fully comparable with those from the previous year, since they have been adjusted on the basis of estimates.

Gross sales and gross added value sales

Swissmetal generated gross sales of CHF 52.0 million in first quarter 2005, and gross added value sales (gross sales less metal at standard metal costs) of CHF 27.7 million. While gross sales (including metal) were only about 2% lower compared with the same period last year, gross added value sales were down 12% on the corresponding figure. The difference is smaller at the gross sales level because metal prices were higher in the first quarter of 2005 than in the previous year.

The decline in sales was evident across all geographical regions, but particularly acute in Western Europe. In standard products, significant overcapacity within the industry triggered a collapse in prices. Swissmetal still generates a substantial proportion of its sales from these products. The company is addressing these latest developments with additional cost optimization and an even closer focus on individual product segments.

Business in high-value specialty products showed a patchy performance in the first quarter of 2005. In Asia, major investment programmes were deferred in a bid to take the steam out of an overheating local economy. The worldwide generator segment was particularly badly hit, with Swissmetal's products in this area consequently suffering too. Running against the general trend was the positive level of business in the aircraft and automotive industries. Sales in these sectors actually expanded, although not sufficiently to compensate for the very subdued overall level of business in the aforementioned segments at the beginning of the year.

Operating profit (EBIT)

The gross margin of CHF 28.3 million in first quarter 2005 was CHF 1.9 million lower than in the same period of 2004. This development is essentially attributable to the decline in sales.

At CHF 18.5 million, personnel costs were CHF 1.1 million higher than in the previous year. The headcount is currently being brought into line with the weaker order situation; however, on the basis of the tools currently at our disposal it will be some time before the effects are felt. At 65%, the ratio of personnel expenses to gross margin was consequently 8% poorer in first quarter 2005 compared with the same period last year. In April 2005, the employees at our Dornach plant approved the introduction of a more flexible working-hours arrangement. We are currently at the implementation stage, but the new arrangement will not be in place in time to cope with the current cyclical downturn.

Operating expenses totalled CHF 6.3 million, CHF 0.6 million lower than in the first quarter of 2004. The figure for 2005 includes a one-time gain due to compensation totalling CHF 0.4 million from an external strike fund relating to the strike in November 2004. The energy and administrative expense items were reduced as a consequence of volume and restructuring factors. The reduction nevertheless turned out to be less significant than expected, partly due to the continuing high cost of technical consultancy in connection with the SAP roll-out. Owing to backlogs, the cost of materials and supplies rose by CHF 0.6 million from the previous year's level. In overall terms, operating and administrative expenses in relation to the gross margin were similar in both years (22% in Q1 2005 versus 23% in 2004).

Due mainly to lower sales, the operating result of CHF 0.5 million is significantly below the CHF 3.2 million recorded in the previous year.

Earnings after tax (EAT)

The July 2004 capital increase resulted in a large proportion of our interest-bearing debt being converted into equity, and since then our financial expenses have been reduced substantially. In contrast to 2004, which was affected by real estate proceeds and the release of a provision, the EAT figure is not influenced by any other one-time effects.

At CHF 0.5 million, earnings after tax are the same as the operating result (EBIT).

B) Consolidated Balance Sheet

Consolidated Balance Sheet

CHF 000	31.03.2005	31.12.2004	Change in absolute terms	Change in %
Current assets	102 404	99 108	3 296	3
Fixed assets	61 017	62 971	– 1 954	– 3
Total assets	**163 421**	**162 079**	**1 342**	**1**
Short-term liabilities	28 547	27 717	830	3
Long-term liabilities	15 991	15 931	60	0
Total liabilities	**44 538**	**43 648**	**890**	**2**
Minority interests	89	88	1	1
Shareholders' equity	118 794	118 343	451	0
Total liabilities	**163 421**	**162 079**	**1 342**	**1**

The consolidated balance sheet does not show any significant changes from 31 December 2004. Total assets increased by 1% compared with the end of last year to CHF 163.4 million. Net debt has fallen from CHF 4.4 million at 31 December 2004 to CHF 2.0 million. The net debt/equity ratio stands at 2%, which is also an improvement from the year-end figure of 4% as at 31 December 2004.

C) Consolidated Cash Flow Statement

Consolidated Cash Flow Statement – first quarter

CHF 000	2005	2004	Change in absolute terms	Change in %
Cash flow before movements in current assets	**3 673**	**5 412**	**– 1 739**	**– 32**
Change in current assets	– 839	– 7 390	6 551	89
Cash flow from business operations	**2 834**	**– 1 978**	**4 812**	**–**
Cash flow from investing activities	– 1 153	– 378	– 775	– 205
Free Cash Flow	**1 681**	**– 2 356**	**4 037**	**– 171**
Cash flow from financing activities	– 40	167	– 207	–
Effect of exchange rate on liquid funds	7	– 1	8	–
Movement in liquid funds	1 648	– 2 190	3 838	–
Liquid funds as at 1 January	9 307	13 705	– 4 398	– 32
Liquid funds as at 31 March	10 955	11 515	– 560	– 5

Despite lower earnings, the operating cash flow of CHF 2.8 million was CHF 4.8 million higher than the year-back figure overall. This improvement is due mainly to the fact that net current assets rose sharply to CHF 7.4 million owing to the incipient economic revival, whereas these assets have not seen any significant changes in the current financial year.

Free cash flow is also positive compared with the previous year at CHF 1.7 million. In the first three months, investment amounted to CHF 1.2 million – roughly in line with the volume of investment in 2004. No divestments were effected in first quarter 2005, in contrast with 2004 (CHF 0.9 million).

D) Outlook

Swissmetal intends to respond as speedily as possible to the economic slowdown, and adapt its cost base accordingly. Given the tools at our disposal, this will only be possible over a period of several months. The company is continuing to work vigorously on implementing flexible working hours so that in future we can react more quickly to changes in the business climate.

In high-value specialties, Swissmetal's broad line-up of alloys and strong expertise puts it in a strong position to manufacture and sell its products on a successful and profitable footing even in economically challenging periods. In standard products, the current consolidation will inevitably continue through 2005 given the significant overcapacity on this market.

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

These financial results were drawn up according to the Swiss GAAP FER. The principles of consolidation are the same as those used in the annual financial results.

From the financial results on 31 December 2004 the two subsidiaries Swissmetal France S.A.S., Montreuil, and UMS Cayman Ltd, George Town, have been dropped from the scope of consolidation as both companies are discontinuing operations. They figure in the profit and loss account and in the cash flow statement as at 31 March 2004 but no longer appear in the balance sheet as at 31 December 2004.