SWISSMETAL Information Half-year 2009

14 August 2009

Dear shareholders,

It would be difficult to find a more challenging time to take over the leading role at Swissmetal than now. At mid-year, the global economy remains in a crisis; declining order entry leads to a significant decrease of workload; and cost control and cash management are more crucial than ever.

We have responded to the difficult market conditions with intensive selling efforts, severe cost reduction measures and the implementation of short-term work at all sites. Even with these actions our business has been very difficult.

The figures for the first half of 2009 reflect this:

- Gross sales declined to CHF 103.0 million (previous year: CHF 181.3 million)
- Gross added value sales (BBU) declined to CHF 44.5 million (previous year: CHF 58.6 million)
- EBITDA shrank to CHF -2.8 million versus CHF 7.9 million in the previous year.

But these times can also be rewarding. With Swissmetal's team of highly motivated employees this crisis opens the door to new perspectives and opportunities. It forces us to scrutinize old patterns of behavior and to focus on the essential. Initiating enhancing change processes can be accelerated as their necessity is obvious.

Swissmetal is more than ever determined to exploit these opportunities. Process reviews are underway in many business areas and major pillars of our future activities have already been defined:

- We will reinforce the technical presence in front of our customers and strengthen co-developments.
- Despite the crisis we continue to invest in our innovative product lines like CN8 and ATMOVA and further strengthen our R&D activities.
- Our industrial concept surrounding the new press will allow us to produce much more efficiently in the future. Significant progress has been made in recent months, but we are still 6-12 months away from reaching the full potential of this critical machine center.
- Building upon a foundation of solid core business (pen tip, watch industry and décolletage etc.) we will focus on growing markets like the energy sector and mobility segments.
- Based on a healthy balance sheet we have successfully managed our cost and liquidity and expect to continue to do so in the future.

Dear shareholders, after three months in my position I am absolutely convinced that Swissmetal will come out of this crisis stronger than ever. The bottom of the economic cycle has probably been reached and expectations for the coming months have improved. The next economic upturn will definitely come and Swissmetal will be positioned to capitalize.

I do not want to conclude without expressing thanks on behalf of the Board of Directors and myself to our extraordinarily committed employees for their support in these difficult times. At the same time I thank you, our shareholders, for your trust and patience. The management and I will do everything in our power to live up to the expectations placed in us.

Sincerely,

Olaf Schmidt Park

Dr. Olaf Schmidt-Park
CEO

AN OVERVIEW OF THE FIRST HALF OF 2009

1. PRELIMINARY REMARKS

Short-time work helped to endure the current difficult situation.

The first half-year of 2009 was marked by the economic downturn. In order to react to the market development Swissmetal adjusted costs and has been continuing short-time work. The production output was correspondingly lower.

The metal prices have been recovering in the second quarter. The market price of copper for example fell from a very high level in mid 2008 to a price level of approximately early 2006 by the end of 2008. Prices in June 2009 are up approximately 74% compared to end of 2008. This volatility is reflected in the statements.

2. CONSOLIDATED INCOME STATEMENT

Consolidated income statement – First half-year						
CHF 000	**2009**	**%**	**2008 (restated)**	**%**	**Change in absolute terms**	**Change in %**
Gross sales	103,041	239	181,322	268	–78,281	–43
· of which sales of third-party trading products	6,939	16	11,289	17	–4,350	–39
Deductions from gross sales	–4,701	–11	–6,290	–9	1,589	25
Net sales	**98,340**	**228**	**175,032**	**259**	**–76,692**	**–44**
Cost of materials and changes in stock	–55,172	–128	–107,487	–159	52,315	49
Gross margin	**43,168**	**100**	**67,545**	**100**	**–24,377**	**–36**
Personnel expenses	–28,011	–65	–33,824	–50	5,813	17
Operating expenses	–17,991	–42	–25,841	–38	7,850	30
Operating income before depreciation (EBITDA)	**–2,834**	**–7**	**7,880**	**12**	**–10,714**	**–**
Depreciation on property, plant and equipment	–4,879	–11	–5,217	–8	338	6
Amortization of intangible assets	–1,403	–3	–1,493	–2	90	6
Operating income (EBIT)	**–9,116**	**–21**	**1,170**	**2**	**–10,286**	**–**
Financial result	–700	–2	–3,442	–5	2,742	80
Ordinary result	**–9,816**	**–23**	**–2,272**	**–3**	**–7,544**	**–332**
Non-operating and extraordinary result	116	0	84	0	32	38
Earnings before taxes (EBT)	**–9,700**	**–23**	**–2,188**	**–3**	**–7,512**	**–343**
Taxes	2,501	6	–290	0	2,791	–
Result after taxes (EAT)	**–7,199**	**–17**	**–2,478**	**–3**	**–4,721**	**–191**
Gross added value sales of manufacturing plants	**44,546**		**58,631**		**–14,085**	**–24**
Employees (number of full-time equivalents) as of 30 June	643		665		–22	–3

Total gross sales and gross margin – gross added value sales of the manufacturing plants and trading products

The economic downturn mainly caused Swissmetal's sales decrease.

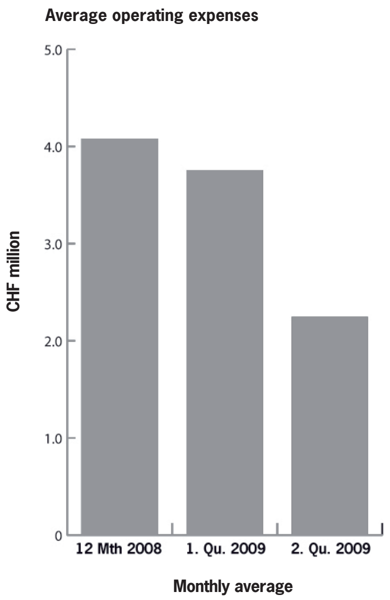
In the first six months of 2009, Swissmetal has generated consolidated gross sales of CHF 103.0 million. The decrease in sales of CHF 78.3 million or 43% is principally explained by the downturn in industrial demand. At the end of June, order entry (in BBU) was CHF 32.6 million, a decrease of 53% compared to the previous year.

In the first half of 2009, the gross margin stood at CHF 43.2 million, which is CHF 24.4 million or 36% lower than the same period of the previous year. The reduction of gross margin is lower than that of gross sales due to the higher metal prices in the previous year.

The gross added value sales (BBU) of manufacturing plants, i.e. the gross sales of manufacturing plants less metal at standard metal cost came to CHF 44.5 million representing a year to year drop of CHF 14.1 million or 24% . Sales in the pen tips market showed a small increase and order entry in the power generation was very solid worlwide except Europe where customers postponed big projects due to financing problems. In pen tips the market is only growing in Asia as price competition and substitution materials make growth difficult elsewhere. Sales in connectors, watch industry, turned parts (so called décolletage) as well as industrial goods and infrastructure were below the results of the previous year. In the connector segment we expect the market to recover beginning in September as inventory replenishment should occur. Sales to the watch industry are stagnating due to erosion of high end consumer demand. One exception has been our sales to the railway segment which have improved compared to the prior year's period as a result of economic stimulus packages provided by regional governments.

Swissmetal generated CHF 6.9 million in sales of third party trade products, down by 39% compared to the previous year. The sales of third party trade products are still largely limited to the activities of Swissmetal's subsidiary Avins USA Inc., Warren/NJ.

Substantial expense items and operating income (EBIT)



In the first six months 2009, personnel expenses stood at CHF 28.0 million and were therefore CHF 5.8 million lower than in the previous year. During the past 12 months, the numbers of full-time equivalents were reduced by 22 or 3% to 643. The main reason for the lower personnel expenses comes from reimbursement from short-time work. With CHF 18.0 million, the operating expenses were CHF 7.9 million (30%) lower than in the previous year. Both energy expenses as well as operating supply expenses are lower because of lower business activity and cost cutting measures. As the chart next to this text illustrates, the average monthly operating expenses have been reduced in the second quarter 2009. The sum of all previously stated factors resulted in an operating income before interest, taxes, depreciation and amortization (EBITDA) of CHF -2.8 million which is CHF 10.7 million lower when compared to the same period one year earlier. In the first six months, depreciation and amortization was CHF 6.3 million, which is CHF 0.4 million lower than in the corresponding period in 2008. This leads to an EBIT of CHF -9.1 million.

Earnings after taxes (EAT)

At CHF -0.7 million, the financial result was higher by CHF 2.7 million compared to 2008. Primarily realized and not realized gains in foreign exchange are affecting the result positively. The taxes for the first six months' income statement are positive due to the positive deferred taxes caused by the negative earnings before taxes (EBT). In the first half of 2009, earnings after taxes (EAT) came to CHF -7.2 million compared to a negative (restated) result of CHF -2.5 million in the same period of the previous year.

3. CONSOLIDATED BALANCE SHEET

Consolidated balance sheet

CHF 000	30.06.2009	%	31.12.2008 (restated)	%	Change in absolute terms	Change in %
Current assets	99,452	54	113,817	57	–14,365	–13
Fixed assets	84,257	46	87,025	43	–2,768	–3
Total assets	**183,709**	**100**	**200,842**	**100**	**–17,133**	**–9**
Short-term liabilities	48,927	27	53,156	27	–4,229	–8
Long-term liabilities	24,416	13	30,406	15	–5,990	–20
Total liabilities	**73,343**	**40**	**83,562**	**42**	**–10,219**	**–12**
Shareholder's equity	110,366	60	117,280	58	–6,914	–6
Total liabilities and shareholder's equity	**183,709**	**100**	**200,842**	**100**	**–17,133**	**–9**

The consolidated total assets equalled CHF 183.7 million as of 30 June 2009, down CHF 17.1 million from 31 December 2008.

Net working capital could be reduced by stock reduction and accounts receivable management.

On the assets' side, the major share of the CHF 17.1 million decrease is due to current assets. The stock was reduced by CHF 16.0 million as a consequence of further stock optimization. Fixed assets were lower, which is mainly due to the depreciation of tangible assets. On the liabilities and shareholders' equity's side, both, liabilities as well as shareholders' equity were lower. As of 30 June 2009, total liabilities amounted to CHF 73.3 million. Short-term liabilities were reduced by lower accounts payable compared to 31 December 2008. Long-term liabilities decreased due to the reclassification of the mortgage loan to the short-term.

Shareholder's equity totalled to CHF 110.4 million by the end of June, down by CHF 6.9 million compared to 31 December 2008. The largest part is due to the half-year loss.

As of 30 June 2009, the resulting equity ratio was 60%, 2% higher compared to 31 December 2008. Since the end of the previous year, the net debt has decreased from CHF 46.6 million to CHF 32.6 million.

4. CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement – First half-year				
CHF 000	**2009**	**2008 (restated)**	**Change in absolute terms**	**Change in %**
Cash flow before change in net current assets	**–6,785**	**3,577**	**–10,362**	**–**
Change of net current assets	16,499	–6,400	22,899	–
Cash flow from operating activities	**9,714**	**–2,823**	**12,537**	**–**
Cash flow from investing activities	–3,015	–6,825	3,810	56
Free cash flow	**6,699**	**–9,648**	**16,347**	**–**
Cash flow from financing activities	**–4,811**	**–2,439**	**–2,372**	**–97**
Effect of exchange rate on cash and cash equivalents	72	–45	117	–
Net change in cash and cash equivalents	1,960	–12,132	14,092	–
Cash and cash equivalents as of 1 January	8,205	21,065	–12,860	–61
Cash and cash equivalents as of 30 June	10,165	8,933	1,232	14

The operating cash flow was CHF 9.7 million (previous year: CHF -2.8 million) representing an increase of CHF 12.5 million.

The cash flow from investing activities came to CHF 3.0 million covering several smaller investment projects.

This resulted in a free cash flow of CHF 6.7 million (previous year: CHF -9.6 million). The cash flow from financing activities shows that Swissmetal had to pay back a part of its loans in the first half of 2009.

E) OUTLOOK

"Swissmetal reinforces its efforts on R&D to become the competent technical partner to our customers again."

After some months of stagnation Swissmetal feels a slight improvement in demand. The several financial measures Swissmetal has taken in the past few months, are beginning to positively impact our operations now. The introduction of short-time work as well as process optimization is helping us react to the current economic situation. Our objective is to focus on a smaller range of business segments without losing our diversity. Thus, Swissmetal is prepared for the up-coming demands in the connector and infrastructure related market segments which should be the first to benefit from government stimulus spending on public work projects. Furthermore, we have used the downturn as an opportunity to more deeply integrate the benefits of the new press into our processes. The market launch of the ATMOVA system is on track and targets to sell the first systems in the second half of 2009/ beginning of 2010.

6. BASIS FOR THE CONSOLIDATED INCOME STATEMENT, BALANCE SHEET AND CASH FLOW STATEMENT AND CHANGES AFFECTING GROUP COMPANIES

These unaudited statements have been prepared in accordance with Swiss GAAP FER 12. The consolidation principles correspond to those of the annual report. In contrast to the annual report for the fiscal year 2008, Swissmetal changed the stock valuation method to the LIFO system thereby no longer considering purchase and delivery obligations. The previously used valuation method was incorrect. With this change in the first quarter 2009, Swissmetal is in line with Swiss GAAP FER and with standards commonly applied in the copper industry. It does not affect the risk management which is handled the same as under the previous method.

This error results to the following restatement effects for 2008: In the balance sheet as of 31 December 2008, the current assets decreased by CHF 9.0 million, long-term liabilities decreased by CHF 2.2 million and shareholders' equity decreased by CHF 6.8 million. In the first half-year 2008, the gross margin and the EBITDA decreased by CHF 2.9 million and the EAT decreased by CHF 2.5 million. The cash flows from operating activities are not affected. Furthermore, the position taxes contained taxes other than on income which were reclassified to operating expenses in the amount of CHF 67 thousands (previous year: CHF 105 thousands).

Swissmetal has decided to publish reports on a year and half-year basis which is compliant and in accordance with Swiss GAAP FER.

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This half-year report is only available in the original English.