13 August 2010

Dear shareholders,

After the crisis year of 2009, we began 2010 on a cautiously optimistic note. We were confident that we would feel the first positive effects of the additional measures taken in the wake of the crisis, but also that the world economy would slowly get back onto its feet again. Both these expectations were met.
The macroeconomic climate brightened considerably, and developments – especially in China, India and the US – were more robust than anticipated. We also witnessed a return to growth in Europe, if at only a moderate pace in overall terms. Here, Germany proved to be the growth driver with an encouraging, substantial pick-up in demand.
We benefited from this trend in the form of rising capacity utilization and were in a position to suspend short-time work at all sites as early as March of this year. The Apollo press is performing well, its high productivity having made it a cost-effective unit compared with the existing presses. We were able to better react on our customers' growing requirements in terms of timing as well as quality. In terms of human resources, we already began work in crisis year 2009 on establishing key functions in the field of R&D and Application Engineering. As already announced, Swissmetal is therefore well on its way to emerging stronger from the crisis.

Our results for the first half of 2010 confirm the positive trend:
- Consolidated gross sales rose 37% to CHF 141.1 million (previous year: CHF 103.0 million), in part due to higher metal prices.
- Our EBITDA before metal valuation effect rose to CHF 2.4 million (previous year: CHF -0.7).
- EBIT before metal valuation effect came to CHF -3.6 million (previous year: CHF -7.0 million); this included a negative currency effect of CHF 1.3 million owing to the strong Swiss Franc.
- Order entry increased 59% year-on-year.

The results were hit by a negative valuation effect in the amount of CHF -6.1 million. This "metal effect" was due to the LIFO method, and is explained in greater detail in the financial section below.

We remain optimistic about the second half of the year. The internal programmes designed to improve our cost and organizational structures, as well as quality and reliability, are being accorded top priority and are set to exhibit further successes. Securing sufficient liquidity remains imperative in times of significant volume growth amid persistently high metal prices.
We remain cautious when it comes to forecasting our results in light of the uncertain and currently unfavourable (from our point of view) exchange-rate situation. As for EBIT excluding the impact of metal valuation impact and currencies, our target of achieving a breakeven result is firmly within our sights. Beyond that, offsetting the currency impact – which is in the mid single digits – will require a considerable effort.

I wish to thank all our employees for their commitment and steadfast support, as well as our shareholders for their continued trust and patience in terms of Swissmetal's development. The worst of the crisis is now behind us and I am sure we can harvest the fruits of our endeavours in the coming year.

Sincerely,

Olaf Schmidt Park

Dr Olaf Schmidt-Park
CEO

AN OVERVIEW OF THE FIRST HALF-YEAR 2010

1. PRELIMINARY REMARKS

Swissmetal benefited from the economic upswing.

The first half-year of 2010 was marked by a worldwide economic upswing. Swissmetal benefited from this upswing through better capacity utilization. Short-time work, implemented at all production sites in 2009, could be stopped in March. In order to react to the market development Swissmetal was also strengthening its costs and working capital management. The economic progress in a year-to-year comparison has to be seen behind the fact that, in the first half-year of 2009, Swissmetal was catching up production backlogs. Hence, the economic downturn with its full dimension just arrived in the second half of 2009.

The metal prices have been volatile on a high level. The market price of copper for example was at about the same high level as the highest prices of 2006 to 2008. Prices in June 2010 were up approximately 30% compared to the previous year and resulted in a high metal valuation impact of CHF -6.1 million (previous year: CHF -2.1 million) mainly caused by the use of the LIFO method and the metal price volatility. In order to get an operative view the metal valuation impact should be deducted from the gross margin, the EBITDA and the EBIT in the income statement.

Swissmetal was also suffering from a weak EUR development for its products produced in Switzerland.

2. CONSOLIDATED INCOME STATEMENT

Consolidated income statement – First half-year (unaudited)

CHF 000	2010	%	2009	%	Change in absolute terms	Change in %
Gross sales	141,111	318	103,041	239	38,070	37
· of which sales of third-party trading products	15,895	36	6,939	16	8,956	129
Deductions from gross sales	–5,509	–12	–4,701	–11	–808	–17
Net sales	**135,602**	**306**	**98,340**	**228**	**37,262**	**38**
Cost of materials and changes in stock	–91,301	–206	–55,172	–128	–36,129	–65
Gross margin	**44,301**	**100**	**43,168**	**100**	**1,133**	**3**
Personnel expenses	–29,683	–67	–28,011	–65	–1,672	–6
Operating expenses	–18,324	–41	–17,991	–42	–333	–2
Operating income before depreciation (EBITDA)	**–3,706**	**–8**	**–2,834**	**–7**	**–872**	**–31**
Depreciation on property, plant and equipment	–4,529	–10	–4,879	–11	350	7
Amortization on intangible assets	–1,527	–4	–1,403	–3	–124	–9
Operating income (EBIT)	**–9,762**	**–22**	**–9,116**	**–21**	**–646**	**–7**
Financial result	–1,135	–3	–700	–2	–435	–62
Ordinary result	**–10,897**	**–25**	**–9,816**	**–23**	**–1,081**	**–11**
Non-operating and extraordinary result	1,292	3	116	0	1,176	1,014
Earnings before taxes (EBT)	**–9,605**	**–22**	**–9,700**	**–23**	**95**	**1**
Taxes	–4	0	2,501	6	–2,505	–
Result after taxes (EAT)	**–9,609**	**–22**	**–7,199**	**–17**	**–2,410**	**–33**
Gross added value sales of manufacturing plants	**46,798**		**42,915**		**3,883**	**9**
Employees (number of full-time equivalents) as of 30 June	678		643		35	5

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

In the first six months of 2010, the Swissmetal Group generated consolidated gross sales of CHF 141.1 million (previous year: CHF 103.0 million). The 37% increase in gross sales versus the previous year is largely explained by the global economic recovering as well as by the metal price increase.

Substantial increase in Decolletage and Industrial Applications.

Most of the market segments were affected by the increase in gross sales versus the previous year. The segment Decolletage (turned parts) and Industrial Application had the biggest growth followed by the segment Transportation and Designed Energy and Architecture and the segment Writing Instruments. The trading business mainly comprises the sales of third-party traded products by Avins USA Inc, Warren/NJ. Its gross sales more than doubled to CHF 15.9 million in the first six months 2010 compared to the previous year. The segment Power Generation and Electronics achieved sales on prior year level.

In terms of sales regions, the Avins USA market and the growth markets of India and East Asia have further increased in year-to-year comparison. The biggest jump was made in the Northern & Eastern Europe region where the other traditional market of Southern Europe, Middle East & Africa decreased.

The gross added value sales (BBU) of manufacturing plants, in other words the gross sales attributable to the manufacturing plants less metal at standard metal costs, amounted to CHF 46.8 million. This represents an increase of CHF 3.9 million or 9% versus the previous year's period.

Metal valuation impact and gross margin

The metal valuation impact is reflecting the time lag of the LIFO valuation (difference between purchase price of materials and their respective LIFO value on one hand and sales of pure metal stock on the other hand). As production is increasing due to economic upturn Swissmetal has to increase the metal quantity, a few months prior to sale due to the production process. The LIFO valuation does (partly) equalize this effect, but not to the extent to be expected, primarily in periods with increasing metal prices at the same time. The opposite effect is observed in periods with decreasing quantities.

The metal valuation impact of CHF -6.1 million, the part of cost of materials and changes in stock arising from the LIFO method and the metal price volatility, was higher than in the same period of the previous year. This is explained by the higher purchase volume and the increased metal prices in the year-to-year comparison.

The gross margin amounted to CHF 44.3 million and was, therefore, CHF 1.1 million or 3% above the previous year. Adjusted by the metal valuation impact Swissmetal generated an "operative" gross margin of CHF 50.5 million (previous year: CHF 45.3 million).

Substantial expense items and operating income (EBIT)

Metal valuation impact	2010	2009
Operating income before depreciation (EBITDA) and before metal valuation impact	**2,443**	**–691**
Metal valuation impact	–6,149	–2,143
Operating income before depreciation (EBITDA)	**–3,706**	**–2,384**
Operating income (EBIT) before metal valuation impact	**–3,613**	**–6,973**
Metal valuation impact	–6,149	–2,143
Operating income (EBIT)	**–9,762**	**–9,116**

Personnel expenses amounted to CHF 29.7 million in the first half-year 2010, an increase of CHF 1.7 million or 6%, whereas the average headcount increased from 643 to 678 full-time equivalents, mainly in the sales, R&D and ATMOVA section.

Operating expenses totaled CHF 18.3 million for the first six months 2010, CHF 0.3 million more than in the same period of the previous year. Due to the increased production the operating expenses in respect to the produced tonnage as well as to the gross margin could be lowered again.

Swissmetal generated operating income before depreciation and amortization (EBITDA) of CHF -3.7 million in the first half-year 2010, which is a decrease of CHF 0.9 million compared to the previous year's period. Adjusted by the metal valuation impact (see above) the EBITDA before metal valuation impact amounted to CHF 2.4 million (previous year: CHF -0.7 million).

Depreciation and amortization totaled CHF 6.1 million in first half of 2010, CHF 0.2 million less than in the same period of the previous year.

This resulted in an operating income (EBIT) of CHF -9.8 million, which was a decrease of CHF 0.6 million. Adjusted by the metal valuation impact (see above) the EBIT before metal valuation impact amounted to CHF -3.6 million (previous year: CHF -7.0 million).

Result after taxes (EAT)

In the first half-year 2010, the net financial result decreased by CHF 0.4 million to CHF 1.1 million compared to the previous year's period. The main reason for the decrease was the higher volume of factoring.

The non-operating and extraordinary result includes the CHF 1.3 million proceeds from the sale of land in Reconvilier and Dornach.

At CHF -9.6 million, result after taxes (EAT) were CHF 2.4 million lower than in the previous year's period.

3. CONSOLIDATED BALANCE SHEET

Consolidated balance sheet (unaudited)						
CHF 000	**30.06.2010**	**%**	**31.12.2009**	**%**	**Change in absolute terms**	**Change in %**
Current assets	101,717	57	96,044	55	5,673	6
Fixed assets	76,036	43	79,358	45	–3,322	–4
Total assets	**177,753**	**100**	**175,402**	**100**	**2,351**	**1**
Short-term liabilities	73,712	41	57,561	33	16,151	28
Long-term liabilities	24,284	14	26,895	15	–2,611	–10
Total liabilities	**97,996**	**55**	**84,456**	**48**	**13,540**	**16**
Shareholder's equity	79,757	45	90,946	52	–11,189	–12
Total liabilities and shareholder's equity	**177,753**	**100**	**175,402**	**100**	**2,351**	**1**

At the Group level, total assets increased by CHF 2.4 million to CHF 177.8 million in comparison with the prior year-end, primarily due to the higher current assets.

Current assets increased mainly due to risen business activity.

The CHF 5.7 million (6%) increase in current assets compared to the previous year mainly stemmed from the increase in the trade accounts receivable due to increased business activity. At the same time stock volume could be further reduced. In terms of the fixed assets of CHF 76.0 million (year-end 2009: CHF 79.4 million), the biggest reduction was in tangible assets. As at 30 June 2010, intangible assets amounted to CHF 6.7 million and consisted of goodwill (CHF 1.6 million) from the acquisition of Swissmetal Lüdenscheid GmbH, Lüdenscheid, in 2006 and of Avins USA Inc., Warren/NJ, in 2007, capitalized ATMOVA development (CHF 4.6 million) as well as CHF 0.5 million in software and other intangible assets.

Total liabilities amounting to CHF 98.0 million represented 55% of the total balance sheet. Short-term liabilities increased by CHF 16.2 million (28%) to CHF 73.7 million. The main reason was the higher borrowing base line and the credit shifting from long-term to short-term. The remaining compulsory stockpile loan of CHF 1.9 million was entirely repaid. Long-term liabilities amounted to CHF 24.3 million at the end of June 2010, CHF 2.6 million lower than at the year-end. Compared to the year-end, interest-bearing liabilities increased from CHF 41.5 million to CHF 45.7 million; non interest-bearing liabilities amounted to CHF 52.3 million (previous year-end: CHF 43.0 million).

Shareholders' equity amounted to CHF 79.8 million after the deduction of the half-year loss of CHF -9.6 million, reducing the equity ratio from 52% to 45%.

Net debt totaled CHF 48.2 million as at 30 June 2010 (as at 31 December 2009: CHF 37.6 million).

4. CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement – First half-year (unaudited)				
CHF 000	**2010**	**2009**	**Change in absolute terms**	**Change in %**
Cash flow before change in net current assets	**–6,778**	**–6,785**	**7**	**0**
Change of net current assets	6,504	16,499	–9,995	–61
Cash flow from operating activities	**–274**	**9,714**	**–9,988**	**–**
Cash flow from investing activities	–2,589	–3,015	426	14
Free cash flow	**–2,863**	**6,699**	**–9,562**	**–**
Cash flow from financing activities	**4,393**	**–4,811**	**9,204**	**–**
Effect of exchange rate on cash and cash equivalents	–151	72	–223	–
Net change in cash and cash equivalents	1,379	1,960	–581	–30
Cash and cash equivalents as of 1 January	5,720	8,205	–2,485	–30
Cash and cash equivalents as of 30 June	7,099	10,165	–3,066	–30

Swissmetal generated an operating cash flow of CHF -0.3 million in the first six months 2010, CHF 10.0 million less than in the previous year's period. This was mainly due to the lowered decrease in net working capital in the first half-year 2010, which also partly offset the decline in cash and cash equivalents.

In the first half of 2010, Swissmetal invested a net total of CHF 2.6 million in tangible and intangible assets (previous year: CHF 3.0 million), in particular in a number of machine upgrades and IT equipment, as well as own work capitalized for the ATMOVA system of CHF 1.1 million.

Free cash flow totaled CHF -2.9 million, a decrease of CHF 9.6 million compared with the previous year's period, as a result of the lower decrease in net working capital.

E) OUTLOOK

Swissmetal remains optimistic due to high order entry in the first half-year.

For the second half of 2010 Swissmetal remains optimistic due to the high order entry in the first half-year. The internal programs to further improve the cost and organizational structures as well as quality and reliability are top priority. Securing sufficient liquidity remains imperative in times of significant volume growth amid persistently high metal prices.

ATMOVA – an energy-providing solution for all who have individual demands for aesthetics and design with a high degree of heat effectiveness – has reached its goal of market launch: the first ATMOVA systems have been sold, further are planned to be installed in 2010.

Despite the positive economic factors, Swissmetal remains cautious when it comes to forecasting the year-end result, especially in the light of the uncertain and currently unfavourable exchange rate. The target of achieving a break-even EBIT before metal valuation impact (and without other negative external effects) is firmly within our sights.

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. As of 30 June 2010, Avins Switzerland Ltd and Avins Germany GmbH have been merged with Swissmetal Industries Ltd and Swissmetal Lüdenscheid GmbH, respectively, and are not anymore part of the scope of consolidation.

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