07 November 2008

Dear customers, employees, shareholders and business associates

The problems we have encountered since the beginning of the year in relation to the start-up of our new extrusion press now appear insignificant compared with the current global financial crisis. Most of us have never experienced such turmoil in the world economic system, and it is difficult to assess what impact it will actually have. However, we may be about to see renewed appreciation of the true value of firmly established industrial companies which manufacture the kind of core products that are needed in bad times as well as good.

As you may recall, I stressed in my previous letters that the global crisis had not yet affected us. We continued to enjoy strong demand for our products in the third quarter, too: in fact there was even a slight increase compared with last year, helped of course by lower metal prices, which prompted customers to place orders earlier rather than later. However, the financial crisis has already spread to the real economy and will have an impact on our order intake sooner or later. We are preparing for such a scenario, but are still hopeful that our company will not be too badly hit. We should be well placed to participate in growth in the emerging markets, thanks to Swissmetal's products in the areas of energy production, aviation and writing implements – the latter a growing global market as literacy levels rise.

Above and beyond all these global developments, however, Swissmetal is still focused on optimizing output from our new extrusion press in Dornach. No efforts are being spared to achieve this. The third quarter saw significant progress, including the successful installation of a new wire line by the manufacturer of our extrusion press. Further adjustments were necessary, and further lessons were learned. We are observing growing confidence among our employees working on the extrusion press, who are getting used to sitting in front of several computer screens controlling the machine by joystick, instead of giving it an occasional blow with a hammer as before. We all acknowledge how long it is taking to get through the teething troubles associated with the start-up of the new machine, but the new extrusion press will in future be at the heart of hot forming production in Dornach, and thus of our entire Swiss production. This will make us significantly more efficient and competitive.

Three months ago I did not comment on our energy-generating roof tiles project – an omission which was immediately picked up at our first-half media conference. I can assure you that the project is still ongoing, and we have greater hopes than ever of this fantastic product, which was dreamed up around 18 months ago by our Chief Information Officer during his Christmas holidays – and he is no longer only the CIO, of course, but also head of the division that is developing, manufacturing and marketing the roof tiles: an autonomous subsidiary called "Swissmetal Design Solutions". The third quarter saw the Lucerne Home of the Environment equipped with our roof tiles, in addition to the pilot project in Stuttgart, where energy is already being generated by our second-generation roof tile prototype, hour after hour, day after day. We are also investing in our first facilities for insourcing the manufacturing processes that are still being contracted out to external companies during the prototype stage. These processes will be carried out on our extrusion

presses when the primary material has been made. The production process has now been conclusively defined and tested. The necessary assembly facilities now need to be efficiently switched to and set up at Swissmetal. We regard 2009 as a realistic target for starting series production.

We also have growth potential in the aviation industry, where our innovative products made from CN8 alloy have been attracting increasing attention in recent years. Certification processes take a long time in this sector. We are therefore pleased to announce that Swissmetal received approval as a certified supplier to BAE Systems Regional Aircraft, United Kingdom, in the third quarter. We are expecting further approvals shortly, thus strengthening our position in this attractive sector which is set to experience significant growth over the long term, despite the ups and downs of the economy.

As you see, we are not neglecting our growth projects, even at a time when a new machine is presenting us with major challenges. We are able to do this because different teams are involved. We are determined to optimize the output of the Dornach extrusion press as well as forge ahead with the growth projects, in tandem and as efficiently as possible.

Thank you all very much for your valued support.

Martin Hellweg

AN OVERVIEW OVER THE FIRST THREE QUARTERS OF 2008

A) PRELIMINARY REMARKS

The third quarter of 2008 was again characterized by a solid order intake. On the demand side, orders are just starting to show the first negative effects of the turbulent economic situation on the financial markets.

The central challenge in the third quarter remained the start-up of the new extrusion press in Dornach. We addressed and solved major problems on this front, and on current projections should be in a position to deliver the required increase in the facility's output over the next few months.

Market prices for the metal Swissmetal mainly uses – copper (3-month) – have fallen markedly from the very high level of the second quarter, while zinc and nickel have also been trading lower.

B) INCOME STATEMENT

Income statement – First three quarters

CHF 000	2008	%	2007	%	Change in absolute terms	Change in %
Gross sales	260’253	265	315’459	276	–55’206	–18
· of which sales of third-party trading products	17’336	18	19’439	17	–2’103	–11
Deductions from gross sales	–9’452	–10	–10’109	–9	657	6
Net sales	**250’801**	**255**	**305’350**	**267**	**–54’549**	**–18**
Cost of materials and changes in stock	–152’592	–155	–191’082	–167	38’490	20
Gross margin	**98’209**	**100**	**114’268**	**100**	**–16’059**	**–14**
Personnel expenses	–48’434	–49	–57’754	–51	9’320	16
Operating expenses	–36’566	–37	–31’558	–28	–5’008	–16
Operating income before depreciation (EBITDA)	**13’209**	**14**	**24’956**	**21**	**–11’747**	**–47**
Depreciation on property, pant and equipment	–7’830	–8	–9’861	–9	2’031	21
Depreciation on intangible assets	–2’243	–2	–2’365	–2	122	5
Operating income (EBIT)	**3’136**	**4**	**12’730**	**10**	**–9’594**	**–75**
Financial result	–3’558	–4	–1’534	–1	–2’024	–132
Ordinary result	**–422**	**0**	**11’196**	**9**	**–11’618**	**–**
Non-operating and extraordinary result	1’171	1	–6	0	1’177	–
Earnings before taxes (EBT)	**749**	**1**	**11’190**	**9**	**–10’441**	**–93**
Taxes	–747	–1	–2’973	–3	2’226	75
Result after taxes (EAT)	**2**	**0**	**8’217**	**6**	**–8’215**	**–100**
Gross added value sales of manufacturing plants	**85’665**		**96’226**		**–10’561**	**–11**
Employees (number of full-time equivalents) as of 30 September	704		763		–59	–8

Total gross sales and gross margin – gross added value sales of the manufacturing plants and trading products In the first three quarters of 2008, Swissmetal generated consolidated gross sales of CHF 260.3 million. The decrease in sales by CHF 55.2 million or 18% was due to production factors: the delivery bottlenecks in the first half caused by switching production to the newly installed press also limited third-quarter sales. At the same time, at the end of September, order intake (in terms of gross added value sales) was higher than the previous year's level at CHF 93.7 million or 3% (CHF +2.6 million).

Due to the capacity bottlenecks mentioned earlier, which were caused by the production switchover, the gross margin of CHF 98.2 million for the first nine months was CHF 16.1 million, or 14%, lower than in the same period of 2007. In the first two quarters, the ongoing inventory optimization programme positively influenced the result at gross margin level to the tune of CHF 9.0 million, since it was possible to sell off the volumes being reduced for the whole of the current year at attractive prices. The effect of the inventory reduction programme in the third quarter amounted to CHF 0.9 million.

The gross value added sales of the manufacturing plants – i.e. gross sales of the plants less metal at standard metal costs – totalled CHF 85.7 million, which is CHF 10.6 million (11%) lower than in the previous year. There was another modest increase in gross sales in the third quarter compared with the previous year in the connectors, watches and turned parts segments. Buoyed up by continuing strong demand, the generators segment also developed very positively compared to the previous year. Sales in electrical components, writing instruments and transport systems were down on the previous year.

Our trading company Avins USA generated sales of CHF 17.3 million from third-party trading products. Translated into Swiss francs, the figure is 11% below that of the previous year. Sales inched up by 2% in local currency.

Substantial expense items and operating income (EBIT) Personnel expenses totalled CHF 48.4 million in the first nine months of 2008, and were therefore CHF 9.3 million lower than in the previous year. The number of full-time equivalents has declined by 8% to 704, down from 763 in the previous year.

At CHF 36.6 million, operating expenses were CHF 5.0 million (16%) higher than in the previous year. This increase was attributable chiefly to consumables due to procurement of a large number of tools for the new extrusion press in Dornach, as well as material costs in the maintenance area due to additional outsourcing. Operating expenses also include non-capitalized relocation costs for the amalgamation of the two plants in Reconvilier.

Administrative expenses include one-time costs incurred in connection with the SAP roll-out at Avins Industrial Products Corp., Warren/NJ, and procurement of various consulting services in relation to consolidation efforts as part of the ongoing implementation of corporate strategy. Energy costs were maintained at the previous year's level. Here the synergy gains from implementation of our strategic plan – such as amalgamation of the two plants in Reconvilier – neutralized the rise in energy prices.

The net outcome of all these factors was an operating income before depreciation and amortization (EBITDA) of CHF 13.2 million in the first nine months of 2008 – CHF 11.7 million lower than in the previous year.

Systematic depreciations – including those for the new extrusion press – came to CHF 10.1 million in the first three quarters, which is CHF 2.2 million lower than in the same period of the previous year. This decrease is primarily explained by the one-time effect of additional non-systematic depreciations in the previous year.

The operating income (EBIT) totalled CHF 3.1 million, representing a decline of CHF 9.6 million versus the previous year.

Earnings after taxes (EAT) At CHF -3.6 million, the financial result was down CHF 2.0 million on the previous year, due to realized and non-realized exchange rate losses.

The non-operating result includes revaluation income of CHF 1.0 million from the agreed sale of land and buildings at the expected net selling price. This real estate was reclassified from fixed assets to current assets.

The decrease in tax expenditure to CHF 0.7 million, down CHF 2.2 million compared with the previous year, is largely attributable to the release of deferred taxes.

A balanced result for earnings after tax (EAT) was posted in the first nine months of 2008; in the previous year EAT totalled CHF 8.2 million.

C) CONSOLIDATED BALANCE SHEET

Consolidated balance sheet

CHF 000	**30.09.2008**	**%**	**31.12.2007**	**%**	**Change in absolute terms**	**Change in %**
Current assets	141’490	61	147’796	62	–6’306	–4
Fixed assets	88’766	39	89’143	38	–377	0
Total assets	**230’256**	**100**	**236’939**	**100**	**–6’683**	**–3**
Short-term liabilities	58’274	25	51’979	22	6’295	12
Long-term liabilities	38’269	17	45’355	19	–7’086	–16
Total liabilities	**96’543**	**42**	**97’334**	**41**	**–791**	**–1**
Shareholder's equity	133’713	58	139’605	59	–5’892	–4
Total liabilities and shareholder's equity	**230’256**	**100**	**236’939**	**100**	**–6’683**	**–3**

The consolidated balance sheet total of CHF 230.3 million as at 30 September 2008 represents a decline of CHF 6.7 million since 31 December 2007. On the asset side, this was chiefly due to a reduction of CHF 6.3 million in current assets.

On the liabilities side, there was a decrease in long-term liabilities and in shareholders' equity. Long-term liabilities amounted to CHF 96.5 million on the balance sheet date, CHF 0.8 million below the previous year's figure. The short-term portion was up CHF 6.3 million compared with 31 December 2007, while the decrease in the long-term element was mainly a result of the partial repayment of the mandatory stockpile loan (in accordance with the agreement), the release of deferred taxes and also currency effects. Since the end of last year, net debt has increased from CHF 40.1 million to CHF 54.6 million as at the end of September.

As a result of business performance, the purchase of the company's own shares and negative foreign exchange differences, shareholders' equity came to CHF 133.7 million on 30 September 2008, representing a decline of CHF 5.9 million since 31 December 2007. Overall, this means that the equity ratio of 58% as at 30 September 2008 still remains virtually unchanged since the end of calendar year 2007.

D) CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement – First three quarters

CHF 000	2008	2007	Change in absolute terms	Change in %
Cash flow before change in net current assets	**9'976**	**21'931**	**–11'955**	**–55**
Change of net current assets	–11'265	–17'907	6'642	37
Cash flow from operating activities	**–1'289**	**4'024**	**5'313**	**–**
Cash flow from investing activities	–9'627	–15'510	5'883	38
Free cash flow	**–10'916**	**–11'486**	**570**	**5**
Cash flow from financing activities	**471**	**6'405**	**–5'934**	**–93**
Effect of exchange rate on cash and cash equivalents	–58	70	–128	–
Net change in cash and cash equivalents	–10'503	–5'011	–5'492	–110
Cash and cash equivalents as at 1 January	21'065	20'398	667	3
Cash and cash equivalents as at 30 September	10'562	15'387	–4'825	–31

In the first nine months, Swissmetal generated an operating cash flow of CHF -1.3 million (previous year CHF 4.0 million), which is a fall of CHF 5.3 million compared to 2007. This is primarily attributable to the start-up of the extrusion press and the associated weaker gross added value sales, which it was not possible to offset due to the inventory optimization programme.

Cash flow from investment activity was in line with strategic projections at CHF 9.6 million. This sum consists primarily of the capitalizable portion of the amalgamation of the two plants in Reconvilier, residual payments and linking systems for the new press, along with a new etching facility.

This gives free cash flow of CHF -10.9 million (CHF -11.5 million in the previous year). Thus the multi-year restructuring and investment programme is in its final stages.

E) OUTLOOK

Swissmetal has exhibited significantly enhanced cost structures since the conclusion of its restructuring in spring 2008. At the same time, start-up of the new extrusion press constitutes a significantly greater challenge than had been expected. This year's key objective is to eliminate the resulting capacity bottlenecks that are preventing Swissmetal from profiting from its order intake, which has so far remained solid. Swissmetal is continuing to cooperate with suppliers and appropriate specialists in order to rectify these technical problems.

Despite its healthy order book, Swissmetal is readying itself for a global economic slowdown. However, no clear negative trend has yet become evident. The specialty segments in which Swissmetal operates are growing areas that are likely to develop positively going forward – notwithstanding any fluctuations in the wider economy.

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

These unaudited statements were prepared in accordance with Swiss GAAP ARR 12, the report standard for interim reports. The principles of consolidation are the same as those used in the annual financial statements. There were no changes in the scope of consolidation in relation to the 2007 Annual Report.

Investor Relations
Joachim Blatter · CFO
Weidenstrasse 50 · 4143 Dornach 1 · Switzerland
Phone +41 61 705 36 36 · Fax +41 61 705 36 10
investor@swissmetal.com · www.swissmetal.com

This quarterly report is available in the original German,
as well as English and French translations. In the event of any differences of
interpretation, the German version shall be binding.