

**10 February 2009**

Dear customers, employees, shareholders and business associates

Perhaps you too have already noticed. These days the publications of many companies, from the internal staff letter to the media release, read completely differently to before. Where once grandiose plans for the future were sketched out in high management vocabulary, today humility and modesty rule. Where it once sounded as though this same future could be planned with confidence and with success certain, there are now open admissions that there is really very little that is certain these days. Where once firms were happy to celebrate their heroic deeds, today they ask for understanding and call for support.

Many of you will say that this “purification of the management caste” is just healthy and has been long overdue. And I too believe that the current crisis will lead to positive changes in behaviour. Perhaps more sobriety will be expected of company heads in the future. Modified presentation will be called for. What the investor who entrusts his money to the company or the employee whose fate is in the hands of the company management will probably want to understand a great deal more clearly in the future is what impact the management really has on the development of a company. Because success is almost always a mix of good performance and also external circumstances. But what was only luck and what was real performance?

We too have repeatedly reported at various points in the past on our strategy for 2006 – 2010, our industrial conversion programme, our innovations such as our energy-generating roof tile and also, on our cultural change to the effect that we were on the road from a dysfunctional company culture of sites in conflict with each other to a strong “one company” feeling. And there was and is nothing wrong with that. We should indeed have an idea of where we want to take Swissmetal's development.

But today we would like to concentrate on hard facts and data that will provide you with an objective impression of what the Swissmetal team has achieved and what it is capable of. And for this let us simply look in a very focused manner at what all the restructuring measures of the last three years have achieved. Let us just remind ourselves of our very big projects. In 2006 we started concentrating the two hot forming processes in Reconvilier and Dornach in Switzerland into one site. We have fundamentally rebuilt the production lines in Reconvilier, bringing the two separate factories in the village together. We have converted Lüdenscheid's production capacity into a more specialised site. The ballpoint pen tip production is just as much concentrated there as the wires and pins for connectors have their home in Reconvilier.

Has all this brought Swissmetal any further? Here we would like to take a very sober look at the company's cost structure. Here we can state that our sales potential is staying the same as, if not higher than, three years ago. This is shown by order entry before the global economic crisis. Up to the end of the third quarter of 2008, this was significantly above the prior year level. So our products are obviously valued by our customers. We operate in markets with a solid basis of demand. We can generate sufficient sales with attractive products.

So if the sales potential is intact, it's all about the cost structure. Because it's quite simple: Sales – Costs = Profit. Let me describe the movements in the two major cost categories via the operating results, “personnel costs”



and "operating expenses". However, before I do this, I would like to say one thing in advance. When we talk of "personnel costs" it is easy to create the impression that employees are seen as a cost item. We definitely do not look at it like this. We in particular, as the manufacturer of high-quality specialist products, only function on the basis of the collective knowledge of our employees. And I can assure you that we have very deliberately considered skill and experience in the necessary restructuring measures in so far as we could in these situations. Moreover we are investing in training courses, whether it be on the technical or the behavioural side. We are continuing to train employees on external courses. We have introduced a performance and potential assessment system tailored to Swissmetal. We are doing something to support and develop our employees. We know how important our employees are to us.

That said, allow me now to take an unclouded view of our progress on Swissmetal's efficiency:

(1) Personnel costs: At the start of 2006 we employed about 900 FTEs (i.e. full time equivalents, that is the equivalent of 900 employees working full time). Today we have about 670 FTEs, and after the latest adjustments (reduction in temporary employees and overheads) we will have about 620 FTEs. This corresponds to a reduction of about 280 FTEs or circa 30% in three years. This is the result of a whole series of measures, some of which I have already mentioned and which in total have made possible this enormous saving in staff costs. The reduction of about 280 FTEs corresponds to annually recurring savings of about CHF 20 million. That is a third of the personnel costs at the start of 2006.

(2) Operating expenses: We have achieved savings in the last three years of about 5-10% which corresponds to about CHF 2-4 million in operating and administrative expenses. This statement of course relates to a going concern cost basis with no negative or positive extraordinary items. With operating expenditure our progress is less obvious since it is offset in part by some opposing trends. For example, although today our average energy consumption per tonne produced is lower thanks to the closure of most foundry and all extrusion press installations in Reconvilier, we have rising energy costs per tonne because of sharply rising electricity prices. But all in all, we were able to positively impact the operating and administrative expenses.

Swissmetal's restructuring programme has reduced our cost base by about CHF 22-24 million. That corresponds to an efficiency improvement of 20% over the past three years. You can work out for yourself what potential profit can be derived from this. And you can see for yourself what the Swissmetal team has been able to achieve in the last three years. Of course, all these achievements are

only relevant in the long term if the current global economic tsunami does not permanently destroy the industrial structures of our economy. And I would like to dedicate the second part of my letter to this subject.

Moving on from all considerations of performance, today we are quite clearly obliged to accept that the survival of industrial companies over the next few months depends as it has never done before on global economic developments. If I were not also to give you my honest and frank assessment of this, then this message would not be complete. Moreover, we would give you the impression, and quite rightly so, that we were pleased about our operational progress in total ignorance of reality whilst a global economic disaster was unfolding around us.

I am also writing this second half of my letter as an appeal. It does not yet appear to me that the political powers in Switzerland and Germany, the countries where we have our production sites, have really acknowledged what this crisis means for industrial companies and when and how and in particular how quickly it is necessary to act.

It is of course first and foremost our own responsibility to adapt as well as we can to this crisis. And the above-mentioned restructuring measures are doing precisely that. Our cash breakeven point today is considerably lower. The bold restructuring of the last three years is therefore already paying off in these difficult times, not just when the sun shines again.

But an industrial company simply cannot cope with certain scenarios, nor do anything about them on its own. Unfortunately the present crisis has precisely this potential, that of devastating entire industrial structures. And if the public sector continues to behave as it has done in past months, that is throwing good money after bad without really thinking it through, then I see even harder times heading our way. There they are trying to rescue structures in the financial sector that in all probability are quite beyond rescue because states run out of breath on the way instead of ensuring that the real economy – solid production companies like Swissmetal – receive the necessary liquidity to keep on breathing and to be able to make ends meet. If things continue like this, then such a scenario of the mass extinction of industrial companies may certainly occur. And it probably won't be the fittest companies that survive but it is likely to be those that, by chance, are not faced with having to refinance loans (as is fortunately the case with Swissmetal, where there is an amount of only about CHF 7 million to be repaid in 2009, with the term of the major loans not ending for a few years); or those that for whatever reason first reach the state honey pot and receive guarantees, loans, subsidies etc. directly from that source.

"Devil take the hindmost," they say, and not without reason. And this might happen here too. Public authorities are pouring money into banks that, completely contrary to expectations, are not ensuring that the real economy is kept alive with this money. It overspends and then has no resources left when it comes to getting a perfectly good industrial company quickly back on its feet when it has no more loans available through absolutely no fault of its own because the relevant markets for funding the business have completely dried up.

I do not want to paint too black a picture. But I must frankly confess to you that I do not feel good about current developments. Banks are issuing hardly any new funds. Credit insurance companies are drastically cutting the insurance limits important to the funding for debtors. The focus on rescuing the banks and selected major groups may prove to be a fatal mistake. On this subject I recommend that you read the most up-to-date, freely accessible commentary on investments by Konrad Hummler of Wegelin Bank, an impressive, exceptional character in his sector. He describes the overall situation a great deal better than we could here and with an image so characteristic of him, the Ponzi scheme. This document is available on [www.wegelin.ch/xfer/print/pub/kom/kom\\_261en.pdf](http://www.wegelin.ch/xfer/print/pub/kom/kom_261en.pdf).

If I reflect on this negative scenario in such detail, I would like to assure you that this has nothing to do with any particular vulnerability of Swissmetal. On the contrary. In the worst case scenario, Swissmetal would more likely be one of the last companies in its category to encounter the problems described. The conversion of recent years, our good cushion of assets and the robust liability side of our balance sheet with its equity ratio of about 50 % and loans not due until 2-3 years, a determined management proven in a crisis, all this allows us to face this storm in comparatively good condition. I am writing down in black and white what may threaten the industrial base both in Switzerland and elsewhere because public debate is neglecting the real economy too much as it so often does. This debate must be held now.

You can see that company publications have really changed these days. I too am telling you today about our achievements. But it does not cost me anything to admit that this economic crisis is well and truly out of control for industrial companies and we should not be too proud to ask the state to ensure a liquid financial market. For industrial companies like ours, this is the air that we breathe. Something has to happen here and quickly. I can see that public debate is swinging in this direction. I simply hope that this happens with the necessary speed. At the end of the day, a state must be in a position to put out a major industrial fire. And here we are very soon talking about days and weeks, not months or even years.

We at Swissmetal have adapted as well as possible to this crisis. Our central focus at the moment is on the break-even point. We intend to make as big a contribution to profit as possible and keep fixed costs down. All other activities have been reduced to an absolute minimum. One exception is our start-up, the "ATMOVA" energy-generating roof tile. This venture depends, like every start-up, on the financial umbilical cord of its owner, Swissmetal, and it needs an environment where it can grow. We believe, even in these times, that we can give ATMOVA this support and will be happy to see that this little seedling grows and thrives even in the most difficult times. Perhaps one day we will be very pleased with it.

In conclusion please allow me to make a further comment on my own behalf. In an interview with Cash TV in spring 2007, I spoke of being in the "second half" of my job as a turnaround manager at Swissmetal. You know that I am a partner of the Ally Management Group and that as such I manage companies through "special situations" in the course of my temporary involvement. Recently an investor who had just bought about 3% of Swissmetal asked me whether he could rely on me in the future. I have always given the same answer to this. I will consider my work at Swissmetal to be completed when two topics have been addressed: (1) The agreed turnaround measures have been implemented and (2) a suitable management team has been established at the head of the company. The first task has been completed. We have an ambitious conversion programme behind us that many of you also experienced in its individual stages from refinancing that made the rebirth of Swissmetal at all possible, via some unexpected challenges, to the successful completion of the planned restructuring measures in spring 2008 in the context of the conversion. The present economic crisis is of course overshadowing this at the moment but the structural foundations based on which Swissmetal can look forward to a successful future have been laid. We are still working on the second task, that of establishing a management team. Compared with the situation five years ago, much has been achieved here too. During this period the executive management team has been built up step by step with internal and external candidates and I have every reason to believe that this second stage will be completed in the foreseeable future. And so I believe that today I am probably "well towards the end of the second half" of my time with Swissmetal. I will of course continue to be available to the company as long as it needs me. But I believe that my tasks can soon be seen as completed. I hope that by this means I have given you a clear view of the situation.

What matters now is surviving this global economic crisis. If we succeed in this – and we'll do everything in our power to do so – then Swissmetal should have a very good future.

I thank you all very much for your support and your commitment to Swissmetal. Some of the things that I have experienced in this crisis have made a major impression on me and show that not only do many people apply their minds on behalf of Swissmetal but also their hearts are in our company.

A handwritten signature in black ink, appearing to read 'Martin Hellweg', with a stylized flourish extending downwards and to the right.

Martin Hellweg

## GROSS SALES AND GROSS ADDED VALUE FROM SALES OF MANUFACTURING PLANTS AND SALES OF THIRD-PARTY TRADING PRODUCTS 2008

CHF 000	2008	2007	CHANGE IN ABSOLUTE TERMS	CHANGE IN %
Gross sales	325'076	406'959	-81'883	-20
of which sales of third-party trading products	22'781	26'395	-3'614	-14
Gross added value sales of manufacturing plants	113'776	126'090	-12'314	-10
Employees (number of full-time equivalents) as of 31 December 2008	685	763	-78	-10

In 2008 Swissmetal generated consolidated gross sales of CHF 325.1 million. The fall in gross sales of 20% can be explained by various factors. By far the greatest impact on the gross sales was the fall in metal prices. The delivery bottlenecks caused by the transfer of production to the newly-installed extrusion press also depressed sales. In addition, in the fourth quarter Swissmetal experienced a drop in sales because of the deteriorating economic situation. Sales of metals in the course of the warehouse optimization programme, on the other hand, had a positive effect of CHF 7.7 million (prior year: CHF 4.0 million) on the gross sales.

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 113.8 million and was CHF 12.3 million or 10% lower than in the prior year. The capacity limitations mentioned above imposed by the introduction of the new extrusion press as mentioned above were felt here, as was the economic situation from the fourth quarter onwards.

For the full year 2008, order entry (in BBU) was 6% below the prior year, whereas for the first nine months ending September 2008 it still exceeded the prior year level. The deteriorating economic situation also left its mark here.

In the trade business, which is being expanded with the subsidiary Avins International Ltd, Dornach, gross sales were CHF 22.8 million. The major part was contributed by the Avins USA Inc., Warren, NJ, trading company. Compared to the prior year, the fall was 5% in local currency, whereas in Swiss francs a fall in sales of 14% was recorded.

In connection with the implementation of the industrial concept, headcount was reduced by 78 in 2008 compared with 2007 to 685 full time equivalents.

## DEMAND SITUATION AND OUTLOOK

The demand situation continues to be erratic and the order entry of recent weeks and months does not allow us to detect any clear trend. Since the start of the year (including the first week of February) it is now 37% below the comparable period for the prior year after a very positive start in the first half of January. If one considers the order entry over the period from October to the present, it is 41% below the value of the comparable period in 2007/2008.

Given the uncertain and strongly fluctuating movements in sales markets, the company must plan for several quite different scenarios. The most likely prospects are for continued strong demand in generator manufacturing and – thanks to various states' stimulus packages – in other capital investment goods sectors, but at the same time for weak demand in the market segments that have no support mechanisms but which are exposed to the free play of market forces such as the markets for connectors, the turning industry in general and the watch industry. In these segments, we cannot expect recovery until there is an improvement in the economic situation. The ballpoint pen industry, on the other hand, which was weakening in the last four months, leads us to a cautiously optimistic assessment for this sector concerning the development of this business in the coming months, also taking into account our impressions from Paperworld.

Since December last year has adjusted its production capacity on individual production lines to the current situation by means of short-time working, to date, the sites have been affected by this but not. However, in the near future there may also be short-time operation too in individual plant departments.

Despite the current global economic crisis, the subsidiary Swissmetal Design Solutions AG continues to progress according to plan with the development of the ATMOVA system, the energy-providing solution with high standards of aesthetics and design. Its presence at the Clean Energy Power (CEP) exhibition in Stuttgart at the end of January 2009 was extremely well received.

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This 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.