SWISSMETAL Information

Half year 2008

14 August 2008

Dear customers, employees, shareholders and business associates

The seriousness of the problems we suffered in relation to the start-up of our new extrusion press not unexpectedly led to questions being asked, and in some cases resulted in confusion and irritation. Above all, our staff had been hoping that the new Swissmetal might get off to a different start after the essential completed intensive and demanding restructuring program in spring 2008. Hard work was to have been rewarded. Instead we faced yet another massive trial of strength. For all those involved, these past few months have been enormously stressful. Customers were awaiting their products. Our distribution staff battled on their behalf to secure a slice of the limited production capacity. Solutions were found in many instances, but regrettably our customers had to be given later delivery dates on some occasions. Not a good situation, obviously.

Fortunately, we are able to report that significant progress has since been made as far as the new extrusion press is concerned. Output is higher than it was three months ago, and on a rising trend. As we reported earlier, a non-functioning wire line is currently in the process of being replaced by the manufacturer. We are gaining further experience with the new installations on a daily basis. Any problems that arise are dealt with one by one. For such complex, made-to-order systems, there is nothing unusual in that. It is simply that the scale of the "teething problems" has taken us by surprise. Given that the last time an extrusion press was installed in Dornach was about 40 years ago, we are also unable to rely on previous experience in this regard. But provided we continue to improve in this manner, and produce the planned additional volumes by cancelling Swissmetal's normal summer shutdown this year, we should be in a position to eliminate delivery bottlenecks by the end of the third quarter. We will then be in a position to benefit fully from incoming orders once again. Even though the switchover is a costly process, we can take pride in our commissioning of a new extrusion press. It represents a quantum leap in technology terms. We are in no doubt that this extrusion press, together with all our other endeavours, will enable Swissmetal to chart a successful future.

I mentioned earlier that our restructuring program was essentially completed in spring 2008. We have come a long way. Two years ago, we still had underutilized central hot-forming facilities at all three sites, a logistically very difficult dual-plant situation in Reconvilier, less-than-optimal distribution structures, our finance department was unable to provide clear contribution margin accounting due to differing standards and systems, while Swissmetal management did not constitute a true entity – to name just a few aspects. We have successfully addressed all these issues. Today, Swissmetal is a significantly more competitive and more efficient company. Looking at it in the round, we can be very proud of the work that has been done in recent years. Besides day-to-day business, the emphasis for several years now has been on showing extra effort, on participating in change programs, and on contributing to their success. In terms of the challenges we face, I am very pleased. We owe a huge debt of thanks to all those involved for what they have achieved.

But restructuring is only one milestone on the road to sustained success. Over the coming months and years, we need to ensure that Swissmetal develops further in its existing markets as well as new areas, so as to avoid any yo-yo effects requiring another round of belt-tightening every couple of years. No organization can sustain that in the long term. At Swissmetal, we started to create growth opportunities after our successful refinancing in 2004. Through a series of restructuring measures, we created the basis for a second pillar – trading in non-ferrous metal products – through our acquisition of Avins Industrial Products in the US. We also set up the subsidiary Swissmetal Design Solutions, equipping it with the requisite resources to drive forward development of our energy-generating roof tiles with their high level of design input. This kind of initiative, allied to our innovation efforts in the core business – the manufacture of sophisticated copper semi-finished products – should ensure adequate growth for the Swissmetal business to enjoy a lasting, healthy future. We are working hard to deliver this objective.

First, however, we need to ensure the issues surrounding the extrusion press are "put to bed" once and for all. I am confident we can make the necessary progress on this front before the end of 2008, so that in 2009 we can benefit fully from the restructuring process. My thanks to all of you for your support.

Martin Hellweg

AN OVERVIEW OF THE FIRST HALF OF 2008

A) PRELIMINARY REMARKS

The second quarter of 2008 was characterized by continued, solid order entry. So far, the demand side shows no evidence of being affected by the economic downturn.

The central challenge in the second quarter remained the start-up of the new extrusion press in Dornach. We addressed major issues on this front, and on current projections should be in a position to deliver the required increase in the facility's output by September 2008.

Market price for the most frequently used metal – copper (3-month) – has risen again slightly from the already high level of the first quarter. Zinc and nickel have been trading lower.

B) CONSOLIDATED INCOME STATEMENT

Consolidated income statement – First half year

CHF 000	2008	%	2007	%	Change in absolute terms	Change in %
Gross sales	181'322	257	223'803	294	–42'481	–19
· of which sales of third-party trading products	11'289	16	12'023	16	–734	–6
Deductions from gross sales	–6'290	–9	–7'858	–10	1'568	27
Net sales	**175'032**	**249**	**215'945**	**284**	**–40'913**	**–19**
Cost of materials and changes in stock	–104'599	–149	–139'855	–184	35'316	25
Gross margin	**70'433**	**100**	**76'090**	**100**	**–5'657**	**–7**
Personnel expenses	–33'824	–48	–39'911	–52	6'087	15
Operating expenses	–25'736	–37	–20'700	–27	–5'036	–24
Operating income before depreciation (EBITDA)	**10'873**	**15**	**15'479**	**21**	**–4'606**	**–30**
Depreciation on property, pant and equipment	–5'217	–7	–7'273	–10	2'056	28
Depreciation on intangible assets	–1'493	–2	–1'722	–2	229	13
Operating Income (EBIT)	**4'163**	**6**	**6'484**	**9**	**–2'321**	**–36**
Financial result	–3'442	–5	–691	–1	–2'751	–398
Ordinary result	**721**	**1**	**5'793**	**8**	**–5'072**	**–88**
Non-operating and extraordinary result	1'043	1	–6	0	1'049	–
Earnings before taxes (EBT)	**1'764**	**3**	**5'787**	**8**	**–4'023**	**–70**
Taxes	–814	–1	–2'336	–3	1'522	65
Result after taxes (EAT)	**950**	**1**	**3'451**	**5**	**–2'501**	**–72**
Gross added value sales of manufacturing plants	**58'631**		**66'709**		**–8'078**	**–12**
Employees (number of full-time equivalents) as of 30 June	665		812		–147	–18

Total gross sales and gross margin – gross added value sales (BBU) of manufacturing plants and trade products In the first six months of 2008, the Swissmetal Group generated gross sales of CHF 181.3 million. The decrease in sales by CHF 42.5 million or 19% was due to production factors. The delivery bottlenecks in the first quarter caused by switching production to the newly installed press also limited second-quarter sales despite a persistently solid order situation. At CHF 67.1 million, order entry (in terms of gross added value sales) at the end of June was roughly on a par with the previous year's level (CHF +0.9 million). Swissmetal had to limit acceptance of orders owing to the capacity constraints following the production switchover.

At CHF 70.4 million, the gross margin for the first half of 2008 was CHF 5.7 million (7%) lower than in the first half of 2007. Due to the capacity bottlenecks mentioned earlier, this figure would have been significantly lower due to the production switchover. The ongoing stock optimization program freed up other metals, however, and this factor positively influenced the result at gross margin level to the tune of CHF 9.0 million.

The gross added value sales of the manufacturing plants, i.e. gross sales of the plants less metal at standard metal costs, totalled CHF 58.6 million – CHF 8.1 million (12%) lower than in the previous year. There was an increase in gross sales compared with the previous year in the connectors, watches and turned parts segments. A slight increase was also recorded in the architecture segment. Sales in electrical devices, writing instruments and transport systems were down on the previous year. The generators segment was still down from the previous year, despite increased demand; this was again exclusively due to internal factors and the move across to the new extrusion press.

Swissmetal generated sales of CHF 11.3 million from third-party trading products, most of it in the US. Translated into Swiss francs, the figure is 6% below that of the previous year. In local currency terms, sales of third-party trading products grew 10%.

Substantial expense items and operating income (EBIT) Personnel expenses totalled CHF 33.8 million in the first six months of 2008, and were CHF 6.1 million lower than in the first half of 2007. Over the past 12 months, the number of full-time equivalents has declined by 18% from 812 to reach 665 at the end of June 2008 – a figure which accords with the strategic targets of our industrial concept.

At CHF 25.7 million, operating expenses were CHF 5.0 million (24%) higher than in the previous year. This increase was attributable to the rise in various expense items. The rise in the cost of operating supplies was primarily due to procurement of a large number of tools for the new extrusion press in Dornach. The figure also includes relocation expenses, while material expense in the maintenance area rose due to additional outsourcing.

One-time administrative expenses were incurred in connection with the SAP roll-out at Avins Industrial Products Corp., Warren/NJ, and procurement of various advisory services in relation to consolidation efforts as part of the further implementation of corporate strategy – preparations for the acquisition of RM Precision Swiss Inc., Las Vegas/NV, being one example. 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 10.9 million – CHF 4.6 million lower than in the previous year. At CHF 6.7 million in the first six months of 2008, depreciation fell CHF 2.3 million year-on-year. This decrease is primarily explained by the one-time effect of non-scheduled depreciation in the first half of 2007. Depreciation on the new extrusion press has been included in the figure since January 2008. The operating result (EBIT) totalled CHF 4.2 million, representing a decline of CHF 2.3 million versus the previous year.

Result after taxes (EAT) At CHF -3.4 million, the financial result was down CHF 2.8 million on 2007. This decrease was primarily 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 tax amount disclosed in the first-half income statement is only slightly negative at CHF -0.8 million (CHF -2.3 million in the previous year). This is largely attributable to the release of deferred taxes.

After-tax earnings (EAT) of CHF 1.0 million were posted for the first half of 2008, whereas EAT in the first half of 2007 totalled CHF 3.5 million.

C) CONSOLIDATED BALANCE SHEET

Consolidated balance sheet

CHF 000	30.06.2008	%	31.12.2007	%	Change in absolute terms	Change in %
Current assets	140'119	61	147'796	62	–7'677	–5
Fixed assets	89'204	39	89'143	38	61	0
Total assets	**229'323**	**100**	**236'939**	**100**	**–7'616**	**–3**
Short-term liabilities	52'029	23	51'979	22	50	0
Long-term liabilities	42'379	18	45'355	19	–2'976	–7
Total liabilities	**94'408**	**41**	**97'334**	**41**	**–2'926**	**–3**
Shareholder's equity	134'915	59	139'605	59	–4'690	–3
Total liabilities and shareholder's equity	**229'323**	**100**	**236'939**	**100**	**–7'616**	**–3**

The consolidated balance sheet total of CHF 229.3 million as of 30 June 2008 has decreased by CHF 7.6 million compared to the end of 2007.

On the asset side, there was a reduction in current assets of CHF 7.7 million. Fixed assets were increased by a marginal CHF 0.1 million.

On the liabilities side, there was a decrease both in long-term liabilities and shareholders' equity. Long-term liabilities amounted to CHF 94.4 million as of 30 June 2008, CHF 2.9 million below the previous year's figure. The short-term portion was unchanged compared to the end of 2007, while the decrease in the long-term element was mainly a result of the release of deferred taxes and exchange-rate influences.

Shareholders' equity amounted to CHF 134.9 million at the end of June 2008, representing a reduction of CHF 4.7 million in relation to 31 December 2007. Most of this was due to the purchase of own shares. Exchange-rate differences had a negative impact here too.

As of 30 June 2008, the equity ratio was unchanged from the end of 2007 at 59%. Since the end of last year, net debt has increased from CHF 40.1 million to CHF 53.1 million at the end of June.

D) CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement - first half year

CHF 000	2008	2007	Change in absolute terms	Change in %
Cash flow before change in net current assets	**6’046**	**14’050**	**–8’004**	**–57**
Change of net current assets	–8’869	–23’464	14’595	62
Cash flow from operating activities	**–2’823**	**–9’414**	**6’591**	**70**
Cash flow from investing activities	–6’825	–12’067	5’242	43
Free cash flow	**–9’648**	**–21’481**	**11’833**	**55**
Cash flow from financing activities	**–2’439**	**12’278**	**–14’717**	**–**
Effect of exchange rate on cash and cash equivalents	–45	81	–126	–
Net change in cash and cash equivalents	–12’132	–9’122	–3’010	–33
Cash and cash equivalents as at 1 January	21’065	20’398	667	3
Cash and cash equivalents as at 30 June	8’933	11’276	–2’343	–21

At CHF -2.8 million, cash flow from operating activities was CHF 6.6 million higher than in 2007 (CHF -9.4 million). This was primarily due to the change in stocks, where the stock optimization program mentioned earlier allowed a reduction in net current assets.

Cash flow from investment activities was in line with strategic projections at CHF 6.8 million. This figure includes 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 -9.6 million (CHF -21.5 million in the previous year). Thus the multi-year restructuring and investment program 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. Eliminating the resulting capacity bottlenecks will therefore be our key objective for the current year. Swissmetal is continuing to cooperate with suppliers and appropriate specialists in order to rectify these technical problems.

Meanwhile, there is no evidence of the much-discussed world economic slowdown in Swissmetal's order entry. No clear trend is apparent. 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.

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This first-half report is available in the original German, as well as English and French translations. In case of various interpretations, the German version shall supersede all others.