14 May 2009

Dear customers, employees, shareholders and business associates

Today's Annual General Meeting marks the end of my time with Swissmetal. Tomorrow I shall be handing over responsibility to my successor Dr. Olaf Schmidt-Park. The management change will not come as a surprise to you. After all, we had referred to it on several occasions, even though we did not name a specific date. Now the moment has come.

For me, six years with Swissmetal are drawing to a close. As the Ally Management Group's restructuring specialist, I was called in by the Swissmetal Board of Directors in June 2003 when the company found itself in dire straits. The company was in peril of going under because it had an insolvent subsidiary and banks had closed credit lines as a consequence. Following a brief initiation period, the Board of Directors assigned me three important tasks:

- Refinancing – sourcing new capital
- Restructuring – achieving a substantially leaner cost structure
- Repositioning – gearing the company to growing, more profitable markets

Once these tasks had been completed, the plan was for me to hand over management to someone with an industrial background who would be able to draw on their industry knowledge to take the company forward. When I look back to the time I first joined Swissmetal, I have to openly admit that we expected the tasks outlined above to take two to three years. This is typically the maximum period a troubleshooter spends on an assignment. In fact, it took twice as long. The process of strategic, cultural and industrial realignment that Swissmetal had to undergo was more comprehensive and further-reaching than anyone could have anticipated at the time. And even now there are still several important tasks to be dealt with. However, these are more industrial in nature and my successor's skills set will ensure that he is able to tackle them proficiently.

We can certainly be proud of what we have achieved in the past six years:

- We have developed and systematically implemented a radically new industrial concept – occasionally in the face of bitter opposition. The core elements of this process were the amalgamation of Swiss hot forming operations at a modern centre in Dornach, the consolidation of production facilities in a single plant at Reconvilier, and establishing Lüdenscheid and Reconvilier as specialist centres for the precision turning segment.
- We financed, purchased, installed and commissioned what is probably (now that the long, laborious process of ironing out the teething troubles is over) the most modern and technically best-performing extrusion press in Europe.
- We have introduced uniform systems and processes, genuinely centralizing central departments in the process, and established the same standards at all sites. At the same time, we have introduced SAP throughout the Group to further support these efforts.
- We have gained access to new growth segments and established new market positions with our ATMOVA energy-producing roof tiles, our CN8 alloy for sleeve bearings, the berrylium-free NP6 alloy, the Conform endless hollow conductors and many other innovations.

- We have acquired and successfully integrated three companies (Ferrometa, Busch-Jaeger and Avins)

I could go on. The one thing that stands out most for me when I look back – and is perhaps most important for Swissmetal's long-term success – is that we have created a completely new management culture at Swissmetal. We have finally overcome the inter-site rivalry that was one of the major causes of Swissmetal's near collapse in 2002, creating space for a uniform, cohesive, internationally experienced and highly motivated team. The value of the good working relationship between our sites is already making itself felt. People now come down from Lüdenscheid to help out in Dornach, while people travel from Reconvilier to help their colleagues in Lüdenscheid install machinery. This would have been inconceivable six years ago.

For me personally, my time with Swissmetal has been very exciting. If I were to be offered the opportunity to repeat the experience today, I would not hesitate to do so and happily take the rough with the smooth. The "spirit of Swissmetal" that company's workforce embodies is something very special. It carries you with it and motivates you. If I was still rather sceptical when I took up my new post in June 2003, it took no more than two months for me to become part of the company and to be convinced that it deserved to be saved and have a second shot at a flourishing future.

This future may still be a little obscured by the current global financial crisis, whose scale no one could have anticipated. As you will see from this first-quarter report, we achieved our primary goal by generating a positive free cash flow of CHF 7.0 million (previous year: CHF -1.7 million). For as long as the global economic crisis persists in its current scale, however, it will not be possible to achieve profits in an industry characterized by fixed costs. There is little we can do in the face of this crisis. We can only respond to it to the best of our ability. We have already accomplished much. The work we have done in recent years will also help us overcome the crisis. We already have such a lean cost structure that introducing short-time working and postponing change and investment projects are essentially about the only cost-saving options still open to us. After that, there is only one thing that will help: an upturn in sales. However, orders throughout the European non-ferrous metals industry are currently only half as high as they are normally. Our customers have simply all but stopped ordering and the only thing we can do is try our best to weather the situation. We have to hope that the crisis will soon be over.

However, I am confident that once we have seen the crisis through we will be able to harvest the fruits of our labours over the past six years. And I take the liberty of continuing to say "we" because over the years I have acquired a medium-sized shareholding in Swissmetal. As such I will not be losing contact with the company and look forward to seeing it do well.

Finally I would like to express my gratitude to you all. Everything that we have achieved would have been impossible without you, and I have enjoyed working with you. I am confident that this my successor Dr. Olaf Schmidt-Park will feel the same way. On this note, I would like to wish my successor every happiness at Swissmetal, a sure hand in all his decisions and the success that he, you and all of us richly deserve.

Yours,

Martin Hellweg

A) PRELIMINARY REMARKS

The first three months of 2009 were marked by the economic downturn. In order to react to the market development and to adjust costs Swissmetal introduced short-time work. The production output was correspondingly lower.

The metal prices have been recovering in the first three months. As the market price of copper for example felt from a very high level by mid 2008 to a price level of approximately early 2006 at the end of 2008, it is about 33% up as of March 2009 compared to end of 2008. This volatility is reflected in the statements.

B) CONSOLIDATED INCOME STATEMENT

Consolidated income statement – First quarter

CHF 000	2009	%	2008 (restated)	%	Change in absolute terms	Change in %
Gross sales	59,264	222	91,681	259	–32,417	–35
· of which sales of third-party trading products	3,936	15	6,260	18	–2,324	–37
Deductions from gross sales	–4,937	–18	–3,017	–9	–1,920	–64
Net sales	**54,327**	**204**	**88,664**	**250**	**–34,337**	**–39**
Cost of materials and changes in stock	–27,657	–104	–53,248	–150	25,591	48
Gross margin	**26,670**	**100**	**35,416**	**100**	**–8,746**	**–25**
Personnel expenses	–14,648	–55	–17,133	–48	2,485	15
Operating expenses	–11,260	–42	–11,840	–34	580	5
Operating income before depreciation (EBITDA)	**762**	**3**	**6,443**	**18**	**–5,681**	**–88**
Depreciation on property, plant and equipment	–2,453	–9	–2,618	–7	165	6
Depreciation on intangible assets	–707	–3	–727	–2	20	3
Operating income (EBIT)	**–2,398**	**–9**	**3,098**	**9**	**–5,496**	**–**
Financial result	448	2	–4,006	–11	4,454	–
Ordinary result	**–1,950**	**–7**	**–908**	**–2**	**–1,042**	**–115**
Non-operating and extraordinary result	–2	0	1,145	3	–1,147	–
Earnings before taxes (EBT)	**–1,952**	**–7**	**237**	**1**	**–2,189**	**–**
Taxes	–44	0	202	0	–246	–
Result after taxes (EAT)	**–1,996**	**–7**	**439**	**1**	**–2,435**	**–**
Gross added value sales of manufacturing plants	**25,906**		**29,108**		**–3,202**	**–11**
Employees (number of full-time equivalents) as of 31 March	659		690		–31	–4

Total gross sales and gross margin – gross added value sales of the manufacturing plants and trading products In the first quarter of 2009, Swissmetal has generated consolidated gross sales of CHF 59.3 million. The decrease in sales of CHF 32.4 million or 35% is principally explained by the downturn of the economic situation. At the end of March, the order entries (in BBU) were CHF 17.3 million, a decrease of 55% compared to the previous year.

In the first quarter 2009, the gross margin stood at CHF 26.7 million, which is CHF 8.7 million or 25% down compared to the same period of the previous year. The recovered metal prices are responsible for the lowering effect. The first quarter of the previous year contained a profit of CHF 4.0 million from the sale of metal in connection with the stock optimization program.

The gross added value sales (BBU) of manufacturing plants, i.e. the gross sales of manufacturing plants less metal at standard metal costs came to CHF 25.9 million and therefore, was CHF 3.2 million or 11% lower than in 2008. Compared to the previous year, sales in the area of writing instruments, power generation and connectors showed a small increase. Swissmetal considers the order entries in these segments overall at about the same level as in the previous year. Sales in the segments turning parts (so called décolletage), watches as well as industrial goods and infrastructure were below the results of the previous year. In the first quarter 2009, several longer lead-time market segments remained solid, due to the "fly wheel effect" or order backlog. Further, in general the subcontract manufacturer (job shops) business suffered, for example décolletage or screw manchine market segment. With its Avins network Swissmetal is measurably benefiting from using opportunity in the Asia market as well as initial signs of economical recovery in the US market.

Swissmetal generated CHF 3.9 million in sales of third party trade products, down by 37% 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 quarter 2009, personnel expenses stood at CHF 14.6 million and were therefore CHF 2.5 million lower than in the previous year. During the past 12 months, the numbers of fulltime equivalents were reduced by 31 or 4%, down from 690 to 659 by the end of March 2009. This clearly demonstrates the effects of restructuring Swissmetal according to the industrial concept.

With CHF 11.3 million, the operating expenses were CHF 0.6 million (5%) higher than in the previous year. Energy costs are lower because of short-time work. The increase in the operating materials is due to postponed maintenance that has been done in the shut-down period.

The sum of all previously stated factors resulted in an operating income before interest, taxes, depreciation and amortization (EBITDA) of CHF 0.8 million what is CHF 5.6 million lower when compared to the CHF 6.4 million for the same period one year earlier.

In the first quarter, depreciation was CHF 3.2 million, which is about the same level as in the first quarter 2008. This leads to an EBIT of CHF –2.4 million.

Earnings after taxes (EAT) At CHF 0.4 million, the financial result was by CHF 4.4 million higher than in 2008. Primarily, realized and not realized gains in foreign exchange is affecting the result positively.

The taxes for the first quarter's income statement are lowered by CHF 0.2 million compared to the previous year.

In the first quarter of 2009, earnings after tax (EAT) came to CHF –2.0 million compared to a positive result of CHF 0.4 million in the same period of the previous year.

C) CONSOLIDATED BALANCE SHEET

Consolidated balance sheet

CHF 000	31.03.2009	%	31.12.2008 (restated)	%	Change in absolute terms	Change in %
Current assets	112,294	57	113,817	57	–1,523	–1
Fixed assets	85,971	43	87,025	43	–1,054	–1
Total assets	**198,265**	**100**	**200,842**	**100**	**–2,577**	**–1**
Short-term liabilities	53,315	27	53,156	27	159	0
Long-term liabilities	29,098	15	30,406	15	–1,308	–4
Total liabilities	**82,413**	**42**	**83,562**	**42**	**–1,149**	**–1**
Shareholder's equity	115,852	58	117,280	58	–1,428	–1
Total liabilities and shareholder's equity	**198,265**	**100**	**200,842**	**100**	**–2,577**	**–1**

The consolidated total assets equaled CHF 198.3 million as of 31 March 2009, CHF 2.6 down from 31 December 2008.

On the assets' side, the major share of the CHF 2.6 million decrease is due to current assets. The stock was reduced by CHF 5.1 million. Fixed assets were lower, which is mainly due to the depreciation of intangible assets.

On the liabilities' side, both, borrowed capitals as well as equity were lower. As of 31 March 2009, total liabilities amounted to CHF 82.4 million. Short-term liabilities remained stable compared to 31 December 2008. Long-term liabilities decreased mainly due to the reclassification of the mortgage loan into the short-term part.

Shareholder's equity totaled to CHF 115.9 million by the end of March, down by CHF 1.4 million compared to 31 December 2008. The largest part is due to the loss.

As of 31 March 2009, the resulting equity ratio was 58%, same as of 31 December 2008. Since the end of the previous year, the net debt has decreased from CHF 46.6 million to CHF 38.3 million by the end of March.

D) CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement – First quarter

CHF 000	2009	2008 (restated)	Change in absolute terms	Change in %
Cash flow before change in net current assets	**–1,760**	**2,414**	**–4,174**	**–**
Change of net current assets	10,268	–1,420	11,688	–
Cash flow from operating activities	**8,508**	**994**	**7,514**	**756**
Cash flow from investing activities	–1,474	–2,705	1,231	46
Free cash flow	**7,034**	**–1,711**	**8,745**	**–**
Cash flow from financing activities	**–4,072**	**–1,770**	**–2,302**	**–130**
Effect of exchange rate on cash and cash equivalents	79	–75	154	–
Net change in cash and cash equivalents	3,041	–3,556	6,597	186
Cash and cash equivalents as of 1 January	8,205	21,065	–12,860	–61
Cash and cash equivalents as of 31 March	11,246	17,509	–6,263	–36

The operating cash flow was with CHF 8.5 million (previous year: CHF 1.0 million) by CHF 7.5 million higher than in 2008.

The cash flow from investing activities came to CHF 1.5 million covering several smaller investment projects.

This resulted in a free cash flow of CHF 7.0 million (previous year: CHF –1.7 million).

E) OUTLOOK

Swissmetal took several measures in order to minimize costs. Especially the introduction of short-time work is considered as a very effective instrument in order to react to the current economic development. With its diversified range of products, Swissmetal is prepared for the up-coming demands in the infrastructure related market segments which should be the first to benefit from government stimulus spending on public work projects.

Furthermore, Swissmetal uses the low order entry to optimize processes and workflows also in connection with the new press.

The market launch of the ATMOVA system is on track. It is planned to sell the first systems in the second half of 2009.

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

These un-audited statements have been prepared in accordance with Swiss GAAP FER. 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 into the LIFO system with no longer considering the purchase and delivery obligations. With this change, 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 results to the following restatement effects: 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 quarter 2009, the gross margin increased by CHF 8.9 million (previous year: CHF 1.1 million), the EBITDA increased by CHF 8.0 million (previous year: CHF 1.1 million) and the EAT increased by CHF 6.0 million (previous year: CHF 0.7 million). The cash flows from operating activities are not affected. This effect can only be quantified in the first quarter 2009 and will not be calculated any longer.

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