

19 May 2008

Dear Customers, Employees, Shareholders,
and Business Partners

When a restaurant is thoroughly renovated e.g. when a new kitchen has to be installed, it often has to close its doors for some time. We cannot allow ourselves this luxury. Our customers cannot manage without our products for a lengthy period. Airplanes need to be built and they will not fly without our cables for connectors. Generators await their delivery to the booming markets with heavy energy demands. And often they too need our hollow profiles. These are just two of the many examples that we can mention here.

We cannot just close our production operation for a time, even if it's precisely the "kitchen" that we have to rebuild. Our kitchen is the hot deformation. In Dornach we are bringing the new extrusion press introduced in January into operation. In many respects this extrusion press is a marvel of modern technology, a quantum leap compared with our existing machinery. But even technological marvel first needs to be mastered and it is not immune to the usual teething troubles. In our case it also had the odd unexpected surprise in store for us.

This far-reaching conversion in production, which only occurs in this form every 20 to 30 years, demanded its tribute in the first quarter. Production output was not in the areas where we needed it to meet all our customers' requirements. We just managed to achieve a business volume of about 85% compared with the previous year. Without the conversion there would have been significantly more. Because the sector's economic situation is still intact. But it's no good fretting about missed opportunities. The new extrusion press has to be run in, even if this costs us sales and, with this, profit. There's simply no way around this.

The loss resulting from this lower business volume is fortunately being held within bounds in terms of the op-

erating result because, as a result of the optimization of the production processes, we were able to make further major progress in our warehouse optimization programme. This is resulting in a positive effect on the overall result just at the right time.

The fact that we nevertheless have to report an overall loss in the first quarter, albeit a small one, is due to the financial results. Although we protect ourselves within the company to a large extent against currency fluctuations by buying our metals in the currencies in which we have surpluses, this is not always enough to completely neutralise currency movements. However, as early as April, the first quarter's losses due to currencies were reduced again by about 40%. Despite this, we are going back over the accounts and checking whether with a reasonable effort we can prevent excessive fluctuations in the financial results arising from these current currency movements.

We can report solid progress in matters of innovation. Regarding our project with the working title of "Solar-Tiles" I am able to inform you that we have been working intensively on the preparation of industrial mass production since the first pilot installation in Stuttgart in November 2007. Wide strips of structural bronze manufactured in our new extrusion press will be used as the input material and formed and assembled in later manufacturing stages. In parallel we are running practical trials on a second generation of roof tiles in other pilot installations in Switzerland. Here the sys-



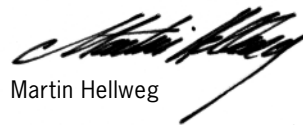
tems integration with heat pumps and heat stores is the main focus. We continue to be particularly interested in the refitting business for historic buildings with heavy heat requirements. We are still assuming production handover and regular sales of the first roof tiles by about the end of this year.

Development of the CN8 alloy, which is unique in terms of its properties, continues to make good progress. In order to be able to increase our activities with the CN8 product in the target markets of the airplane and oil industries, we are working hard on obtaining the required certifications. We have already obtained initial acceptance for Production, the Inspection Laboratory and Quality Management from a major original equipment manufacturer (OEM). We are close to qualifying as a supplier in July 2008 with another OEM, with whom we are also aiming to achieve the milestone of certification in October 2008. Then comes initial certification with a third major OEM in the sector who is receiving another manufacturing batch from the extrusion press for this purpose. The tests to date on the alloy and the manufacturing stages are very promising and allow us to look forward to the coming inspections without concern.

In the first quarter of 2008, third party products showed very good growth, because, among other things, of being able to offer exclusive products from the Industrial Tube Corp. There was especially good growth in the sectors of thin-walled pipes in small diameters that are used in particular in the automobile, communications and writing instruments industries and also in the lawn and garden segment. We are currently working on the qualification of other products with some OEMs and based on the good test results of the past, we expect to obtain these without problems. In the second half of 2008 we will keep up our efforts in third party product business in order to continue the positive trend.

With you as our customers, I would like to thank you on behalf of Swissmetal for your fully evinced patience and commitment in challenging times.

Above all, I would like to thank our employees – those who remain with us, but also those who will leave us by reason of the industrial restructuring – for their enormous and constant effort on behalf of Swissmetal.



Martin Hellweg

AN OVERVIEW OF THE FIRST QUARTER 2008

A) PRELIMINARY REMARKS

The first three months of 2008 were the result of a drastic measure in operations, namely transferring the production process to the new extrusion press, thereby presenting Swissmetal with somewhat unexpected large, but solvable challenges. Nevertheless, this led to a considerable lower production output, which is reflected in the present quarterly figures. Swissmetal addressed these shortages by temporarily starting a 7/24 operation at the Dornach location.

Just like in the previous year, metal prices were very volatile. The market price of copper (3 months) which is the metal most widely used at Swissmetal continued to climb in comparison to the previous year, while zinc and nickel were trading lower.

B) CONSOLIDATED INCOME STATEMENT

Consolidated income statement – first quarter

CHF 000	2008	%	2007	%	Change in absolute terms	Change in %
Gross sales	91'681	268	116'384	298	-24'703	-21
· of which sales of third-party trade products	6'260	18	6'128	16	132	2
Gross margin	34'269	100	39'040	100	-4'771	-12
Personnel expenses	-17'133	-50	-21'098	-54	3'965	19
Operating expenses	-11'840	-35	-10'528	-27	-1'312	-12
Operating income before depreciation (EBITDA)	5'296	15	7'414	19	-2'118	-29
Depreciation on property, plant and equipment	-2'618	-7	-3'659	-10	1'041	28
Depreciation on intangible assets	-727	-2	-861	-2	134	16
Operating income (EBIT)	1'951	6	2'894	7	-943	-33
Financial result	-4'006	-12	-399	-1	-3'607	-904
Ordinary result	-2'055	-6	2'495	6	-4'550	-
Non-operating and extraordinary result	1'145	3	-6	0	1'151	-
Taxes	616	2	-1'328	-3	1'944	-
Result after taxes (EAT)	-294	-1	1'161	3	-1'455	-
Gross added value sales of manufacturing plants	29'108		34'343		-5'235	-15
Employees (number of fulltime equivalents) as of 31 March	690		843		-153	-18

Total gross sales and gross margin – gross added value sales (BBU) of manufacturing plants and trade products

In the first quarter of 2008, Swissmetal has generated consolidated gross sales of CHF 91.7 million. The decrease in sales of CHF 24.7 million or 21% is production-related. The first quarter presented delivery shortages caused by transferring production to the newly installed press. At the end of March, the order entries (in BBU) were CHF 38.1 million, CHF 2.8 million up from the previous year, which was mainly because of medium to long-term orders.

In the first quarter 2008, the gross margin stood at CHF 34.3 million, which is CHF 4.8 million or 12% down compared to the same period of the previous year. The warehouse optimization program values stock amounts below the daily price for accounting purposes. This more efficient operating management helped decrease the overall stock, which generated a profit at the gross margin level. Thus, influencing the result of the first quarter of 2008 positively by CHF 4.0 million. Without this special effect, the gross margin would have been lower by the amount, which was the result of the aforementioned effects of changing production.

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 29.1 million and therefore, was CHF 5.2 million or 15% lower compared to the same period of the previous year. Compared to the previous year, sales in the area of connectors, watches, and turning parts (so-called Décolletage) showed an increase. Sales in the business segments of writing instruments and transport industry were below the results of the previous year. The segment of writing instruments suffered due to the high cost of nickel and the weak dollar. The high costs of energy are the main culprit for the slump in the transport industry. The sales in the segment of generators were lower, compared to

the previous year. Judging by the unusual high number of order entries, the demand for these products was sound compared to the previous year. Likewise, there were problems with adequate delivery of products, which again was due to the above-described change in production.

Swissmetal generated CHF 6.3 million in sales of third party trade products, up by 2% compared to the previous year. The sales of third party trade products is still largely limited to the activities of Swissmetal's subsidiary Avins Industrial Products Corp., Warren/NJ, in the US. It is Swissmetal's goal to further increase the sales of third party trade products on a global level.

Substantial expense items and operating income (EBIT) In the first quarter 2008, personnel expenses stood at CHF 17.1 million and were therefore CHF 4.0 million lower than in the previous year. During the past 12 months, the numbers of fulltime equivalents were reduced by 153 or 18%, down from 843 to 690 by the end of March 2008. This clearly demonstrates the effects of restructuring Swissmetal according to an industrial concept. The ratio of personnel expenses to gross margin has improved from 54% in 2007 to 50% in 2008.

The operating expenses were with CHF 11.8 million CHF 1.3 million (12%) higher than in the previous year. This increase can be attributed to a rise in various expenditures. In Switzerland, the increase in operating materials is primarily due to start-up cost of numerous new tools for the new extrusion press in Dornach. In addition, material costs increased in the area of maintenance due to an increase in subcontracting. Administrative costs were one-time expenses in connection with introducing SAP at Avins Industrial Products Corp., Warren/NJ, and for the further strategic implementation. Other expenditures include the first quarter loss in derivatives. These should be assessed in relation to the profit from warehouse sales. On the other hand, the cost of energy at all production facilities was lowered compared to the first quarter of the previous year. Here, the first synergy effects of concentrating the hot deformation in Dornach took effect.

The sum of all previously stated factors resulted in an operating income before interest, taxes, depreciation and amortization (EBITDA) of CHF 5.3 million that is 29% lower when compared to the CHF 7.4 million for the same period one year earlier.

In the first quarter, depreciation was CHF 3.3 million, which is CHF 1.2 million lower than in the first quarter 2007. This decrease is mainly due to the one-time effect of the unscheduled depreciations in the first quarter of 2007. As of January 2008, the depreciation includes the new extrusion press. The operating income after depreciations (EBIT) was CHF 2.0 million and is by CHF 0.9 million (or 33%) lower than in the same period of the previous year.

Result after taxes (EAT) At CHF -4.0 million, the financial result was by CHF 3.6 million lower than in 2007. Primarily, realized and not realized loss in foreign exchange is affecting the result negatively. Even though for the month of April, Swissmetal noted gains in foreign exchange, which already minimized the loss by approx. 40%. Currently, Swissmetal searches for ways to avoid large fluctuations in foreign exchange in the future.

The non-operating result contains an appreciation income of CHF 1.0 Mio. from a contractual sale of land with building at net selling price. The item was reposted from fixed assets to current assets.

The taxes for the first quarter's income statement is with CHF 0.6 million positive (previous year: CHF -1.3 million), which is largely due to a reversal of activated deferred taxes.

In the first quarter of 2008, earnings after tax (EAT) came to CHF -0.3 million compared to a positive result of CHF 1.2 million in the same period of the previous year.

C) CONSOLIDATED BALANCE SHEET

Consolidated balance sheet

CHF 000	31.03.2008	%	31.12.2007	%	Change in absolute terms	Change in %
Current assets	143'805	62	147'796	62	-3'991	-3
Fixed assets	87'006	38	89'143	38	-2'137	-2
Total assets	230'811	100	236'939	100	-6'128	-3
Short-term liabilities	53'771	23	51'979	22	1'792	3
Long-term liabilities	42'672	19	45'355	19	-2'683	-6
Total liabilities	96'443	42	97'334	41	-891	-1
Shareholders' equity	134'368	58	139'605	59	-5'237	-4
Total liabilities and shareholders' equity	230'811	100	236'939	100	-6'128	-3

The consolidated total assets equaled CHF 230.8 million as of 31 March 2008, CHF 6.1 down from 31 December 2007.

On the asset's side, the lion share of the CHF 4.0 million decrease is due to current assets. The stock was reduced by CHF 4.7 million, already reflecting the sale of previously mentioned metals. Fixed assets were slightly lower, which is mainly due to the depreciation of intangible assets. On 1 January 2008, the new extrusion press was transferred to the category "equipment and furnishings" and is since depreciated.

On the liabilities' side, both, borrowed capitals as well as equity were lower. As of 31 March 2008, total liabilities amounted to CHF 96.4 million. Short-term liabilities increased compared to 31 December 2007. This is mainly due to an increase of flexible financing secured by stock. Long-term liabilities decreased due to foreign exchange influences.

Shareholder's equity totaled CHF 134.4 million by the end of March, down by CHF 5.2 million compared to 31 December 2007. The largest part is due to buy-back of company-own shares. Another negative effect is the differences in foreign exchange.

As of 31 March 2008, the resulting equity ratio was 58% compared to 59% as of 31 December 2007. Since the end of the previous year, the net debt has increased from CHF 40.1 million to CHF 41.4 million by the end of March.

D) CONSOLIDATED CASH FLOW STATEMENT

Consolidated cash flow statement – first quarter

CHF 000	2008	2007	Change in absolute terms	Change in %
Cash flow before change in net current assets	1'681	8'652	-6'971	-81
Change of net current assets	-687	-20'780	20'093	97
Cash flow from operating activities	994	-12'128	13'122	-
Cash flow from investing activities	-2'705	-10'376	7'671	74
Free Cash Flow	-1'711	-22'504	20'793	92
Cash flow from financing activities	-1'770	10'540	-12'310	-
Effect of exchange rate on cash and cash equivalents	-75	19	-94	-
Net change in cash and cash equivalents	-3'556	-11'945	8'389	70
Cash and cash equivalents as at 1 January	21'065	20'398	667	3
Cash and cash equivalents as at 31 March	17'509	8'453	9'056	107

The operating cash flow was with CHF 1.0 million (previous year: CHF -12.1 million) by CHF 13.1 million higher than in 2007.

The cash flow from investing activities came to CHF 2.7 million within the scope of the strategic plan. This amount includes consolidation of both plants in Reconvilier as well as outstanding payments of and connecting systems to the new press.

This resulted in a free cash flow of CHF -1.7 million (previous year: CHF -22.5 million).

E) OUTLOOK

Despite the cautious first quarter of 2008, Swissmetal looks with optimism in the near future. Measures implemented in the cooperation with the supplier of the extrusion press, promise a stabilization of the production facility. It is expected that the work be completed this summer. During the month of April 2008, the order entries outpaced the ones of the previous year's month by 7%, which can be seen as a positive sign.

So far, there have been no signs of slow-down of this industry-specific economic trend. Therefore, Swissmetal strongly focuses on reducing any backorders caused by the change in production as soon as possible and is trying to further profit from a continued solid economy and from a noticeably improved cost structure.

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 2007, there were no changes in the scope of consolidation.

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The present quarterly report is available in the original German version as well as in English and French translation. In case of various interpretations, the German version shall supersede all others.