

2005

F I N A N C I A L R E P O R T



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KEY FIGURES AT A GLANCE

		2005	2004	±%
SWISS STEEL GROUP				
Net income from sales	CHF million	2'633.7	893.7	+195
Operating profit before depreciation and amortization (EBITDA)	CHF million	277.8	83.1	+234
Operating profit (EBIT)	CHF million	208.2	50.6	+311
Net income	CHF million	122.3	44.6	+174
Investment in property, plant and equipment	CHF million	102.3	44.3	+131
Cash flow before acquisition of group companies	CHF million	141.8	22.6	+527
Shareholders' equity ¹⁾	CHF million	499.4	252.5	+98
Equity ratio	%	30.2	44.8	
Return on equity	%	24.5	17.7	
Net borrowing	CHF million	367.2	93.7	+292
Operating net assets	CHF million	1'264.6	354.2	+257
Headcount	Positions	5'389	1'274	+323
SWISS STEEL AG				
Net income	CHF million	14.2	8.7	+63
Share capital	CHF million	188.7	137.7	+37
Shareholders' equity ¹⁾	CHF million	230.2	171.8	+34
Dividend amount	CHF million	18.9 ²⁾	6.9	+174
SWISS STEEL SHARES				
Net income per share ¹⁾	CHF	6.48	3.24	+100
Shareholders' equity per share ¹⁾	CHF	26.47	18.33	+44
Highest/lowest share price	CHF	44/18	18/7	
Dividend per share	CHF	1.00 ²⁾	0.50	
Payout ratio	%	15.5	15.5	

¹⁾ Before appropriation of profits

²⁾ Proposal by the Board of Directors (CHF 0.70 + special dividend of CHF 0.30)

KEY FIGURES AT A GLANCE IN EUROS

		2005	2004	±%
SWISS STEEL GROUP				
Net income from sales	EUR million	1'701.0	578.8	+194
Operating profit before depreciation and amortization (EBITDA)	EUR million	179.4	53.8	+233
Operating profit (EBIT)	EUR million	134.5	32.8	+310
Net income	EUR million	79.0	28.9	+173
Investment in property, plant and equipment	EUR million	66.1	28.7	+130
Cash flow before acquisition of group companies	EUR million	91.6	14.6	+527
Shareholders' equity ¹⁾	EUR million	321.2	163.4	+97
Equity ratio	%	30.2	44.8	
Return on equity	%	24.5	17.7	
Net borrowing	EUR million	236.2	60.6	+290
Operating net assets	EUR million	813.5	229.2	+255
SWISS STEEL AG				
Net income	EUR million	9.2	5.6	+63
Share capital	EUR million	121.4	89.1	+36
Shareholders' equity ¹⁾	EUR million	148.1	111.2	+33
Dividend amount	EUR million	12.2 ²⁾	4.5	+171
SWISS STEEL SHARES				
Net income per share ¹⁾	EUR	4.2	2.1	+100
Shareholders' equity per share ¹⁾	EUR	17.0	11.9	+43
Highest/lowest share price	EUR	28/12	12/5	
Dividend per share	EUR	0.65 ²⁾	0.32	
Payout ratio	%	15.5	15.5	

¹⁾ Before appropriation of profits

²⁾ Proposal by the Board of Directors (EUR 0.45 + special dividend of EUR 0.20)

SWISS STEEL CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT (in CHF million)	NOTES	2005	2004
Net income from sales	4	2'633.7	893.7
Change in semi-finished and finished goods		51.8	26.1
Currency effects		4.3	-1.8
TOTAL REVENUES		2'689.8	918.0
Material expenses		-1'406.5	-538.5
Energy expenses		-169.1	-60.5
GROSS PROFIT		1'114.2	319.0
<i>Margin</i>		41.4%	34.7%
Auxiliary supplies and operating materials		-154.5	-45.6
Personnel expenses	5	-420.6	-125.9
Other operating and administrative expenses	6	-298.0	-68.4
Other operating income	7	35.8	4.0
Depreciation and amortization	8	-69.6	-32.5
Income from non-consolidated participations		0.9	0.0
OPERATING PROFIT		208.2	50.6
Financial result	9	-36.5	-0.3
PROFIT BEFORE EXTRAORDINARY ITEMS AND TAXES		171.7	50.3
Loss/profit from the sale of property, plant and equipment		-0.7	1.7
Extraordinary income	10	1.7	1.1
EARNINGS BEFORE TAXES		172.7	53.1
Income taxes	11	-50.4	-8.5
NET INCOME		122.3	44.6
Minority interests		0.1	0.0
Net income after minority interests		122.2	44.6

CONSOLIDATED BALANCE SHEET (in CHF million)	NOTES	31.12.2005	%	31.12.2004	%
Intangible assets	12	4.1		0.0	
Property, plant and equipment	13	468.9		194.0	
Financial assets	14	3.7		20.3	
TOTAL NON-CURRENT ASSETS		476.7	28.8	214.3	38.1
Inventories	15	693.8		162.5	
Accounts receivable trade	16	367.7		146.5	
Other receivables	17	47.2		17.8	
Accrued income and prepaid expenses	18	40.1		2.5	
Cash and cash equivalents		29.1		19.6	
TOTAL CURRENT ASSETS		1'177.9	71.2	348.9	61.9
TOTAL ASSETS		1'654.6	100.0	563.2	100.0
Share capital	19	188.7		137.7	
Capital reserves		94.3		7.7	
Treasury shares	20	-0.1		0.0	
Revaluation reserves	21	0.5		0.7	
Retained earnings		203.9		106.5	
Cumulated foreign currency conversion differences		7.9		-0.1	
TOTAL SHAREHOLDERS' EQUITY EXCLUDING MINORITY INTERESTS		495.2		252.5	
Minority interests	22	4.2		0.0	
TOTAL SHAREHOLDERS' EQUITY ¹⁾		499.4	30.2	252.5	44.8
Liabilities from long-term debt	23	35.9		94.0	
Long-term provisions	24	286.7		7.2	
TOTAL LONG-TERM LIABILITIES		322.6	19.5	101.2	18.0
Liabilities from short-term debt	25	374.8		25.8	
Trade accounts payable		269.7		147.8	
Short-term provisions	26	108.9		25.5	
Other short-term liabilities	27	44.6		2.0	
Accrued liabilities	28	34.6		8.4	
TOTAL SHORT-TERM LIABILITIES		832.6	50.3	209.5	37.2
TOTAL LIABILITIES		1'155.2	69.8	310.7	55.2
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1'654.6	100.0	563.2	100.0

¹⁾ Before appropriation of retained earnings

CONSOLIDATED CASH FLOW STATEMENT (in CHF million)	NOTES	2005	2004
Net income		122.3	44.6
Depreciation and amortization		69.6	32.5
Changes in provisions		70.1	13.9
Income from investments		-0.9	
Loss/(profit) from the sale of property, plant and equipment		0.7	-1.8
Cash flow before changes in net working capital		261.8	89.2
Changes in inventories		-36.4	-53.3
Changes in accounts receivable trade		81.2	-39.9
Changes in other accounts receivable		-7.5	-7.3
Changes in trade accounts payable		-80.6	70.1
Changes in other short-term liabilities		25.9	2.6
CASH FLOW FROM OPERATIONS		244.4	61.4
Investment in property, plant and equipment	29	-94.0	-33.4
Proceeds from the sale of property, plant and equipment		2.2	4.1
Other changes in financial assets		-10.8	-9.5
CASH FLOW FROM INVESTING ACTIVITIES BEFORE ACQUISITION OF GROUP COMPANIES		-102.6	-38.8
CASH FLOW BEFORE ACQUISITION OF GROUP COMPANIES		141.8	22.6
NET CASH EFFECTS FROM ACQUISITION OF GROUP COMPANIES		-131.0	0.0
CASH FLOW FROM INVESTING ACTIVITIES		-233.6	-38.8
FREE CASH FLOW		10.8	22.6
Changes in liabilities from long-term debt	29	-88.7	4.9
Changes in liabilities from short-term debt	29	94.7	-13.7
Dividends		-6.9	-2.8
Changes in securities		0.2	0.0
CASH FLOW FROM FINANCING ACTIVITIES		-0.7	-11.6
Effects of foreign currency conversion		-0.6	-0.1
CHANGES TO CASH AND CASH EQUIVALENTS		9.5	10.9
Cash and cash equivalents on 1.1.		19.6	8.7
Cash and cash equivalents on 31.12.		29.1	19.6
CHANGES TO CASH AND CASH EQUIVALENTS		9.5	10.9

STATEMENT OF CHANGES IN EQUITY (in CHF million)	SHARE CAPITAL	CAPITAL RESERVES	REEVALU- ATION RESERVES	TREASURY SHARES	RETAINED EARNINGS	CUMULATED FOREIGN CURRENCY DIFFERENCES	TOTAL SHARE- HOLDERS' EQUITY EXCLUDING MI- NORITY INTERESTS	MINORITY INTERESTS	TOTAL SHARE- HOLDERS' EQUITY
AS AT 1.1.2004	137.7¹⁾		0.7		69.5	0.4	208.3		208.3
Dividends					-2.8		-2.8		-2.8
Net income					44.6		44.6		44.6
Foreign currency conversion differences					0.4	-0.5	-0.1		-0.1
Other changes					2.5		2.5		2.5
Disclosure of capital reserves		7.7			-7.7		0.0		0.0
AS AT 31.12.2004	137.7¹⁾	7.7	0.7		106.5	-0.1	252.5	0.0	252.5
Capital increase with share premium	51.0	86.6					137.6		137.6
Treasury shares ³⁾				-0.2			-0.2		-0.2
Dividends					-6.9		-6.9		-6.9
Goodwill offsetting					-75.2		-75.2		-75.2
Badwill allocation					57.1		57.1		57.1
Purchase of treasury shares				-0.1			-0.1		-0.1
Sale of treasury shares				0.2			0.2		0.2
Net income					122.2		122.2	0.1	122.3
Foreign currency conversion differences						8.0	8.0		8.0
Minority interests from acquisitions								4.1	4.1
Changes to revaluation reserves from the sale of land			-0.2		0.2		0.0		0.0
AS AT 31.12.2005	188.7²⁾	94.3	0.5	-0.1	203.9	7.9	495.2	4.2	499.4

¹⁾ 13'773'094 shares with a par value of CHF 10

²⁾ 18'869'139 shares with a par value of CHF 10

³⁾ From the initial consolidation of Swiss Steel Finance AG

Non-disbursable retained earnings amount to CHF 19.8 million.

SEGMENT INFORMATION

The group's operations focus on long product business in the steel sector. The key sales markets are as follows:

(in CHF million)	NET INCOME FROM SALES		INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT	HEADCOUNT (POSITIONS)		
Switzerland	2005	331.5	12.6%	45.5	1'240	23.0%
	2004	337.9	37.8%	44.2	1'224	96.1%
Germany	2005	1'242.0	47.1%	55.1	3'651	67.8%
	2004	240.4	26.9%	0.1	28	2.2%
Italy	2005	225.4	8.6%	0.0	8	0.1%
	2004	138.8	15.5%		8	0.6%
France	2005	242.9	9.2%	0.2	16	0.3%
	2004	84.4	9.4%		14	1.1%
Other European countries	2005	307.3	11.7%	0.2	37	0.7%
	2004	92.1	10.3%			
America	2005	227.1	8.6%	1.0	274	5.1%
	2004	0.1	0.0%			
Asia/Australia	2005	50.8	1.9%	0.2	113	2.1%
	2004					
Africa	2005	6.7	0.3%	0.1	50	0.9%
	2004					
TOTAL	2005	2'633.7	100.0%	102.3	5'389	100.0%
	2004	893.7	100.0%	44.3	1'274	100.0%

NOTES

1. CONSOLIDATION PRINCIPLES

ACCOUNTING STANDARDS

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER. The consolidated financial statements present a true and fair view of the financial position, the results of operations and the cash flows of the Swiss Steel Group.

CLOSING DATE

The closing date for all group companies is 31.12.

COMPANIES INCLUDED IN CONSOLIDATION

The companies included in consolidation essentially comprise all companies under common control in which Swiss Steel AG has a direct or indirect participating interest of more than 50% of voting rights and which are not immaterial. The consolidated group companies are included using the full consolidation method. In the current year the companies included in consolidation increased by a total of 12 fully consolidated and 8 associated companies (equity method) as a result of the initial consolidation of Swiss Steel Finance AG (as of 1.1.2005), SCHMOLZ+BICKENBACH Edelstahl GmbH and thus the complete takeover of Edelstahlwerke Südwestfalen GmbH (as of 1.1.2005) and Edelstahl Witten-Krefeld GmbH, including its subsidiaries (as of 1.4.2005).

Associated companies

Companies in which the group holds between 20% and 49% of the voting rights or which are immaterial are included in the consolidated financial statements in accordance with the equity method. The number of associated companies has increased by the above-mentioned eight participating interests.

The list of group companies can be found on page 26.

The other investments are shown in the balance sheet at cost or lower market value.

CAPITAL CONSOLIDATION

The capital consolidation is carried out in accordance with the purchase method, whereby the acquisition costs for the purchase of a company are offset against their shareholders' equity at the time of purchase.

Badwill arising from the revaluation and subsequent capital consolidation is credited to the retained earnings.

Goodwill arising from the revaluation and subsequent capital consolidation is offset against the retained earnings.

FOREIGN CURRENCY CONVERSION

The financial statements of foreign group companies are converted into Swiss francs as follows: assets and liabilities at the year-end exchange rate; income statement items at the average exchange rate for the year; cash flows at the average exchange rate of the reporting year.

Differences from applying different exchange rates for the balance sheet and for the income statement are credited and/or debited to the cumulated foreign currency exchange differences.

The following rates are used for foreign currency conversions:

	AVERAGE RATES		YEAR-END RATES	
	2005	2004	2005	2004
1 EUR	1.54	1.54	1.55	1.55
1 USD	1.27	n/a	1.31	n/a
1 BRL	0.54	n/a	0.56	n/a
1 HKD	0.16	n/a	0.17	n/a

PROFIT RECOGNITION

Revenue from goods and services are only recorded as income when the ownership of goods is transferred or the service has been rendered. Intercompany profits are eliminated, taking into account deferred taxes.

CONSISTENCY IN REPRESENTATION AND DISCLOSURE

For the purpose of transparency, the financial statements deviate from the principle of consistency in representation and disclosure in the year under review. The previous year's figures were adjusted accordingly.

2. VALUATION PRINCIPLES

INTANGIBLE ASSETS

Concessions, licences, similar rights and assets

These intangible assets are valued at acquisition cost less accumulated amortization. The amortization is calculated on a straight-line basis over the estimated useful life of between three and five years in accordance with standard group guidelines.

PROPERTY

Operating real estate is valued at its acquisition cost less accumulated depreciation using the straight-line method over its useful life, which is defined as follows:

(in years)	
Massive constructions	25 to 40
Lightweight constructions and heavily used massive constructions (e.g. steelworks)	20

Non-operating real estate (land and buildings) is valued at conservatively determined market value calculated by third parties, less accumulated depreciation. Revaluation reserves arising out of the initial valuation, i.e. the difference between the acquisition value and the accumulated depreciations, on the one hand, and group values, on the other, are included directly in shareholders' equity, taking account of deferred taxes.

Profits or losses from sales or revaluations of non-operating real estate are shown in the income statement as extraordinary income or extraordinary expenses.

PLANT AND EQUIPMENT

Equipment and other fixed assets are stated in the balance sheet at acquisition costs less accumulated depreciation or at lower market value or value in use. Depreciation is calculated on a straight-line basis over the expected useful lives, as follows:

(in years)	
Equipment, fixtures and fittings	8 to 12
Machinery, vehicles and train carriages	5 to 8
Office equipment	5
IT hardware	3 to 5

LEASED ITEMS

Financial leasing items are treated as property, plant and equipment owned by the group. They are capitalized as assets at market value at the time of acquisition or at the net present value of the minimum payments from the leasing contract, whichever is lower. The corresponding liability towards the leasing company is shown as 'Liabilities from financial leasing'.

Costs from rental agreements and operational leasing are directly recorded in the income statement.

IMPAIRMENTS

Capitalized fixed and intangible assets are reviewed for impairment at each balance sheet date. If there are indications for impairment, the recoverable amount (the higher of the net sales price or value in use) of the asset or the cash generating unit is estimated and the carrying value is adjusted to the lower recoverable amount with a respective charge to the income statement. The value in use corresponds to the net present value of the expected future cash flows of the corresponding asset or the cash generating unit. If an impairment is no longer justified, the impairment is reversed by crediting the income statement.

FINANCIAL ASSETS

Other financial assets are valued at acquisition cost or at lower market value.

INVENTORIES

Raw materials, purchased stock items and merchandise are valued at cost or at the lower recoverable value. Semi-finished products and work in progress are valued at incurred manufacturing costs, while stock items and finished products manufactured in house are valued at manufacturing costs (material costs, direct labour costs and production overhead costs). Appropriate provisions are made for non-current inventories.

ACCOUNTS RECEIVABLE

Accounts receivable are stated in the balance sheet at their nominal value less necessary provisions.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents are valued at nominal value. In the case of time deposits, they have a term of no more than 3 months.

PROVISIONS

Provisions are made for probable obligations based on an event in the past, the amount and/or due date of which are uncertain but can be estimated.

Restructuring provisions are recorded if there is a corresponding obligation in respect of a restructuring measure at the balance sheet date.

FINANCIAL INSTRUMENTS

Risk management: Swiss Steel Group records interest-rate and currency risks centrally in the operating companies. The use of derivatives, which are only used to a limited extent and almost exclusively for hedging purposes, are managed on a country-specific basis.

The operationally necessary liquidity and the group financing is managed by means of country-specific cash management.

Currency risks: To protect against a reduction in the value of cash flows in foreign currencies, the group partially hedges balance sheet, income and expenditure positions by means of forward exchange contracts and foreign currency options.

Interest-rate risks: The group makes selective use of interest-rate options and swaps for hedging debt and/or achieving a balanced relationship between variable and fixed-interest financial liabilities.

Credit risks: The group's bank and postal cheque accounts are held with first-class financial institutions. Derivative contracts are concluded exclusively with such institutions.

Given the broad customer base, which covers various regions and sectors, credit risk on accounts receivable is limited.

In addition, most of the accounts receivable are insured against credit risk with different retainers.

Derivative financial instruments: All derivative financial instruments that use macro hedge strategies, such as the sale of euro surpluses, are shown in the balance sheet as other receivables or liabilities at the value at the balance sheet date. Book gains or losses from derivative financial instruments are shown in the income statement.

Hedge transactions of the German plants are carried out in line with the micro hedge principle. Within the scope of hedging an existing transaction, foreign exchange forwards are concluded on the purchase and sales side if a direct connection exists between the underlying and hedging transaction. Changes in the market value of derivative financial instruments being used for purchases of alloys are shown in the income statement.

REVENUE RECOGNITION

Sales revenue is recognised through the delivery and transfer of ownership. Interest income is accrued periodically and dividend income from securities is reported upon payment.

There are no long-term production orders, which are recorded based on the percentage of completion method.

STATE SUBSIDIES

Capital expenditure incentives are treated as deferred items and systematically recorded in the income statement on a straight-line basis over the useful life of the related investment. Subsidies for research and development reduce the related costs incurred accordingly.

INCOME TAXES

In principle, current income taxes are calculated on the basis of the results of the reporting period.

Deferred taxes are considered on the temporary differences between the book value of assets and liabilities determined on the basis of uniform accounting policies and their taxable values. They are calculated on the basis of tax rates in force in the respective countries. Deferred taxes are adjusted to take account of any changes in tax rates.

Future tax savings on the basis of tax losses carry forwards are only capitalized if their realization seems certain. Any tax losses carried forward that can be offset against taxable temporary differences of the same company will be netted.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses are charged in full to the income statement in the period in which they are incurred. These costs relate primarily to new product applications and process improvements; they are shown under 'Other operating and administrative expenses'.

3. COMPANIES INCLUDED IN CONSOLIDATION

The companies included in the consolidation are listed on page 26. The companies, which were consolidated for the first time in 2005 applied Swiss GAAP FER from the date of the initial consolidation.

4. NET INCOME FROM SALES

(in CHF million)	2005	2004
Gross income from sales	2'701.9	930.4
Revenue deductions	-68.2	-36.7
NET INCOME FROM SALES	2'633.7	893.7

Revenue deductions include rebates, reimbursements and discounts to clients, sales commissions, commissions to external representatives and outward freight. Rebates on the list price granted to clients are already deducted from the gross income from sales.

5. PERSONNEL EXPENSES

(in CHF million)	2005	2004
Wages and salaries	321.6	102.2
Social security contributions	95.7	21.9
Other personnel costs	3.3	1.8
TOTAL	420.6	125.9

6. OTHER OPERATING AND ADMINISTRATIVE EXPENSES

(in CHF million)	2005	2004
Maintenance/repairs	90.9	33.7
Third-parties services	102.7	8.2
Miscellaneous expenses	104.4	26.5
TOTAL	298.0	68.4

Research and development expenses are included in miscellaneous expenses. It relates to third-party costs for new product applications and process improvements.

7. OTHER OPERATING INCOME

(in CHF million)	2005	2004
Other operating income	35.8	4.0
TOTAL	35.8	4.0

The increase in other operating income includes insurance compensations for business interruption losses resulting from the floods of 22.8.2005 in Emmenbrücke and Gerlafingen as well as rental and leasing income and non-capital-expenditure-related subsidies to Edelstahl Witten-Krefeld GmbH.

8. DEPRECIATION AND AMORTIZATION

(in CHF million)	2005	2004
Amortization of intangible assets	2.0	0.0
Depreciation of property, plant and equipment	67.6	32.5
TOTAL	69.6	32.5

9. FINANCIAL RESULT

(in CHF million)	2005	2004
Financial income	2.9	4.2
Interest expenses	-26.2	-3.6
Foreign currency income	-4.0	-0.2
Other financial expenses	-9.2	-0.7
TOTAL	-36.5	-0.3

Financial income 2004 includes dividend distributions from Swiss Steel Finance AG of CHF 3.4 million.

10. EXTRAORDINARY INCOME

(in CHF million)	2005	2004
Extraordinary income	1.7	1.1
TOTAL	1.7	1.1

11. INCOME TAXES

(in CHF million)	2005	2004
Current taxes	16.4	5.0
Deferred taxes	34.0	3.5
TOTAL	50.4	8.5

As at 31.12.2005 the group has tax relief on losses carried forward of CHF 4.9 million (2004: CHF 1.8 million) that have not been capitalized. In the 2005 business year the group utilized uncapitalized losses carried forward of CHF 7.1 million. The value of tax effect is CHF 1.7 million.

12. INTANGIBLE ASSETS

Intangible assets include concessions/licences/similar rights and assets.

(in CHF million)	2005
COST PRICE RESPECTIVELY MARKET VALUE	
As at 1.1.2005	0.0
Additions from new group companies	32.6
Additions	0.6
Transfers	0.4
Foreign currency effects	0.3
AS AT 31.12.2005	33.9
ACCUMULATED DEPRECIATIONS	
As at 1.1.2005	0.0
Additions from new group companies	-27.6
Additions	-2.0
Foreign currency effects	-0.2
AS AT 31.12.2005	-29.8
NET BOOK VALUE	
As at 1.1.2005	0.0
AS AT 31.12.2005	4.1

The position 'concessions/licences/similar rights and values' contains primarily EDP software licences, patents and other intangible rights and values acquired.

**THE EFFECT OF THE THEORETICAL CAPITALIZATION AND AMORTIZATION
OF GOODWILL OFFSET AGAINST SHAREHOLDERS' EQUITY AS AT 31.12.2005**

The effect of offsetting the goodwill directly against shareholders' equity instead of capitalizing it and amortizing it over its useful life is represented in the following table for the consolidated shareholders' equity, the consolidated net income and consolidated total assets. The useful life was set at 8 years.

(in CHF million)	31.12.2005
Disclosed shareholders' equity	499.4
Offset goodwill amounts	75.2
Accumulated amortization	-9.4
Shareholders' equity corrected for offset of goodwill	565.2

(in CHF million)	31.12.2005
Disclosed total assets	1'654.6
Goodwill offset at the end of the business year	65.8
Total assets corrected for offset of goodwill	1'720.4

(in CHF million)	2005
Disclosed net income	122.3
Annual depreciation of goodwill	-9.4
Net income corrected for the effect of goodwill	112.9

Goodwill of CHF 75.2 million (2004: CHF 0 million) relates to the acquisition of the total company capital of SCHMOLZ+BICKENBACH Edelstahl GmbH, Düsseldorf, and its 75% investment in Edelstahlwerke Südwestfalen GmbH as per the agreement on contributions in kind of 20.4.2005 through the issue of 5'096'045 bearer shares (Annual General Meeting resolution of 21.4.2005). The shares were valued at the market value of CHF 27 each. The resulting goodwill of CHF 75.2 million was charged to shareholders' equity in the 2005 business year.

13. PROPERTY, PLANT AND EQUIPMENT

(in CHF million)	NON-OPERATING PROPERTY	OPERATING PROPERTY	EQUIPMENT AND FIX- TURES AND FITTINGS	CAPITAL EXPENDITURE IN CONSTRUCTION	TOTAL
COST PRICE RESPECTIVELY MARKET VALUE					
As at 1.1.2005	1.0	270.1	633.2	33.0	937.3
Additions from new group companies		197.5	1'166.3	21.3	1'385.1
Additions		4.7	52.6	45.0	102.3
Disposals	-0.3	-1.2	-27.2		-28.7
Transfers		1.0	40.4	-41.4	0.0
Foreign currency effects		1.9	10.0	0.1	12.0
AS AT 31.12.2005	0.7	474.0	1'875.3	58.0	2'408.0
ACCUMULATED DEPRECIATION					
As at 1.1.2005		-221.4	-521.9		-743.3
Additions from new group companies		-135.0	-1'010.2		-1'145.2
Additions		-8.1	-59.5		-67.6
Disposals		1.2	24.6		25.8
Foreign currency effects		-1.0	-7.8		-8.8
AS AT 31.12.2005	0.0	-364.3	-1'574.8	0.0	-1'939.1
NET BOOK VALUE					
As at 1.1.2005	1.0	48.7	111.3	33.0	194.0
AS AT 31.12.2005	0.7	109.7	300.5 ¹⁾	58.0	468.9
FIRE INSURANCE VALUE					
31.12.2005	1.4	987.9	2'491.8	46.6	3'527.7
31.12.2004	-	399.7	695.5	-	1'095.2

¹⁾ of which investment in financial leasing of CHF 18.0 million (2004: CHF 13.6 million).

Prepayments for capital expenditure in construction equals CHF 30.9 million. No interest has been capitalized.

Total capital expenditure in 2005 came to CHF 102.3 million, more than double the figure for 2004 (CHF 44.3 million), and is attributable primarily to the significant increase in the number of consolidated companies.

In summary, the most important capital expenditure projects carried out to implement our strategy are as follows:

Stahl Gerlafingen: Completion of the long-term capital expenditure program, the renovation and expansion of the production plants for flat steel and broad flat steel, the rotating hearth furnace, the feeder machine, stacking equipment, storage and delivery logistics, descaling equipment and new roll stands.

von Moos Stahl: The vacuum plant and energy management system at the steelworks and the installation of equipment for thermo-mechanical treatment and the pre-production of ring weights at the rolling mill.

Steeltec: Fully integrated production line in the bar drawing plant with additional test equipment.

Edelstahlwerke Südwestfalen: First stage in the construction of a new lifting bar oven and the preparatory measures for a reducing and sizing block.

Edelstahl Witten-Krefeld: The expansion of the heat treatment capacities at Witten and Krefeld, the expansion of the tempering oven and processing and service sectors as well as new workshops in Krefeld.

14. FINANCIAL ASSETS

(in CHF million)	2005	2004
Associated companies	3.7	18.1
Loans/other financial assets	0.0	2.2
TOTAL	3.7	20.3

The associated companies are all the group companies listed in the overview on page 26 accounted for in the balance sheet according to the equity method.

In the previous year Swiss Steel Finance AG was shown in the balance sheet under 'Associated companies'.

15. INVENTORIES

(in CHF million)	2005	2004
Raw, auxiliary and operating material	202.8	43.2
Semi-finished products and work in process	236.2	42.7
Finished products and merchandise	254.8	76.6
TOTAL	693.8	162.5

The calculation of provisions was refined compared to the previous year, with the result that only individual provisions were applied in 2005. Until 2004 general contingency provisions based on experience and risk considerations were also recorded alongside individual provisions. Provisions as at 31.12.2005 amount to CHF 10.8 million (2004: CHF 12.3 million, including a general contingency provision of CHF 8.4 million).

16. ACCOUNTS RECEIVABLE TRADE

(in CHF million)	2005	2004
Accounts receivable gross	379.4	155.3
Provisions for losses on accounts receivable	-11.7	-8.8
NET ACCOUNTS RECEIVABLE	367.7	146.5

The calculation of provisions was refined compared to the previous year, with the result that only individual provisions were applied in 2005. Until 2004 general contingency provisions based on experience and risk considerations were also recorded alongside individual provisions. Provisions as at 31.12.2005 amount to CHF 11.7 million (2004: CHF 8.8 million, including a general contingency provision of CHF 8.0 million).

17. OTHER ACCOUNTS RECEIVABLE

(in CHF million)	2005	2004
Accounts receivable from short-term third-party financing	10.7	3.5
Other third-party accounts receivable	36.5	14.3
TOTAL	47.2	17.8

Other accounts receivable include tax credits, prepayments and other short term accounts receivable.

18. ACCRUED INCOME AND PREPAID EXPENSES

Accrued income and prepaid expenses include reimbursements, insurance claims and deferrals of paid insurance premiums.

19. SHARE CAPITAL

The share capital is fully paid in and divided into 13'773'094 registered shares with a par value of CHF 10 and 5'096'045 bearer shares with a par value of CHF 10; all the shares carry voting rights and are entitled to dividends. In 2005 a capital increase of 5'096'045 bearer shares with a market value of CHF 27 per share was carried out to acquire SCHMOLZ+BICKENBACH Edelstahl GmbH, including the remaining shares (75%) in Edelstahlwerke Südwestfalen GmbH. The resolution of the General Meeting is dated 21.4.2005. As per the resolution of the Board of Directors of 21.4.2005 the 5'096'045 bearer shares are entitled to dividends as from 1.1.2005.

20. TREASURY SHARES

The group's treasury shares are attributable to the initial consolidation of Swiss Steel Finance AG. The shares are held for the group and business area managers; 10'000 of the initial holding of 11'430 shares (with an average value of CHF 17.26 per share) were assigned on 3.1.2005 (with an assignment value of CHF 19.50 per share). As a result of purchasing 20 shares on 11.8.2005 at a purchase price of CHF 11, the holding stands at 1'450 shares as at 31.12.2005. There are no restrictions on voting and dividend rights.

21. REVALUATION RESERVES

The revaluation reserves represent the net effect of the revaluation of non-operating-related real estate above the acquisition value.

22. MINORITY INTERESTS

Minority interests relate to the 20% holding in EWK (Hong Kong) Co. Ltd. held by third parties.

23. LIABILITIES FROM LONG-TERM DEBT

(in CHF million)	2005	2004
Bank loans	0.5	39.4
Loans from non-consolidated companies	0.0	12.2
Other loans	14.1	17.4
Long-term leasing liabilities	14.1	10.6
Compulsory stockpile loans	7.2	14.4
TOTAL	35.9	94.0

The loan from the Canton of Solothurn accounts for CHF 9.7 million (2004: CHF 11.7 million) of the other loans.

24. LONG-TERM PROVISIONS

(in CHF million)	AS AT 1.1.2005	ADDITIONS FROM NEW GROUP COMPANIES	RECLASSIFI- CATION	ADDITIONS	UTILIZATION	DISSOLUTION	FOREIGN CURRENCY INFLUENCES	AS AT 31.12.2005
Deferred taxes	6.4	24.2		27.4	-0.1		0.4	58.3
Pension liabilities	0.3	164.4		10.0	-3.6	-0.1	0.9	171.9
Service awards	0.0			4.0				4.0
Partial retirement	0.0	42.9		16.1	-5.8	-0.7		52.5
Other long-term provisions	0.5		-0.1			-0.4		0.0
TOTAL	7.2	231.5	-0.1	57.5	-9.5	-1.2	1.3	286.7

Deferred taxes are recorded on the basis of the differences between statutory values and group values.

The pension provisions constitute forfeitable and non-forfeitable obligations in respect of indirect pension liabilities of all employees at the German companies. These are shown as liabilities, taking account of current mortality tables and a current technical interest rate in line with actuarial principles, regardless of when the pension beneficiaries received their pension entitlement. The values are based on the annual actuarial report.

25. LIABILITIES FROM SHORT-TERM DEBT

(in CHF million)	2005	2004
Operating bank credits	369.4	16.0
Loans to non-consolidated companies	0.0	3.2
Other loans	2.0	4.8
Short-term leasing liabilities	3.4	1.8
TOTAL	374.8	25.8

Since May 2005 the group has an acquisition credit facility and operating credit facilities (revolving facility). As at 31.12.2005 the credit lines totalled EUR 360 million (CHF 559.7 million converted at the balance sheet rate), EUR 90 million of which is to be repaid on a straight-line basis over the remaining 4.5 years. It is available over the coming 4.5 years to finance the net working capital, investment in property, plant and equipment, and acquisitions. Interest on the revolving facility is charged at the Libor rate plus a margin. The size of the margin depends upon the ratio of net debts to EBITDA. The interest is payable on the corresponding due date of the used credit. The term of the credit can run from two weeks to six months or can be set at any period subject to the agreement of the lending institution. A set-up fee is charged on the unused part of the revolving facility.

The loans are secured by transferring shares of subsidiaries, inventories and receivables from customers and insurers as collateral and also by means of SCHMOLZ+BICKENBACH Group collateral.

As at 31.12.2005 Swiss Steel Group had unused credit lines of EUR 122.8 million (CHF 190.9 million converted at the balance sheet rate).

In addition, the German companies have asset-backed security financing and factoring financing of up to EUR 40 million and EUR 45 million, respectively, which also have a term of five years.

The loan from the Canton of Solothurn, which has to be repaid within one year, accounts for CHF 2.0 million (2004: CHF 1.8 million) of the other loans.

26. SHORT-TERM PROVISIONS

(in CHF million)	AS AT 1.1.2005	ADDITIONS FROM NEW GROUP COMPANIES	RECLASSIFI- CATION	ADDITIONS	UTILIZATION	DISSOLUTION	FOREIGN CURRENCY INFLUENCES	AS AT 31.12.2005
Current taxes	4.6	22.7	-8.0	33.4	-8.1	-0.4	0.5	44.7
Pension liabilities/social security costs	0.0	9.1		0.2	-2.3	-0.3	0.2	6.9
Restructuring	0.1	14.9	0.1	5.1	-14.5	-0.2	0.2	5.7
Valuation of foreign currencies	2.4					-2.4		0.0
Holidays and overtime	4.7		-4.7					0.0
Repair of damages from the flood (2004: insurance pool)	6.4		-1.9	11.8	-3.1	-2.9		10.3
Liabilities in respect of environmental protection measures	3.2	5.1	-0.9	1.7				9.1
Client complaints/guarantees	2.3	4.8	-0.9	16.7	-4.7	-2.1	0.1	16.2
Other short-term provisions	1.8	6.4	-0.2	10.2	-0.6	-1.9	0.3	16.0
TOTAL	25.5	63.0	-16.5	79.1	-33.3	-10.2	1.3	108.9

The 'Insurance pool' provision of CHF 6.4 million for major damages shown in the balance sheet as at 31.12.2004 was used to cover the uninsurable damages from the flood.

27. OTHER SHORT-TERM LIABILITIES

(in CHF million)	2005	2004
Other short-term liabilities	44.6	2.0
TOTAL	44.6	2.0

28. ACCRUED LIABILITIES

Accrued liabilities comprise rent, premiums, employee holiday and overtime claims and mortgage and loan interest.

29. PREVIOUS YEAR'S CASH FLOW STATEMENT FIGURES

The previous year's figures were adjusted with the result that the finance leasing of CHF 10.9 million was reported in the 2004 business year as a non-cash item.

30. OWNERSHIP RESTRICTIONS FOR OWN LIABILITIES

(in CHF million)	2005	2004
Balance sheet value of pledged assets	770.2	79.7
Pledged amount	611.7	88.1
Pledged amount outstanding	491.5	59.4

31. PURCHASE OBLIGATIONS AND CONTINGENT LIABILITIES, PENDING LEGAL CASES

As at 31.12.2005 contingent liabilities towards third parties of CHF 31.8 million (2004: CHF 26.6 million) were reported. There are no known pending legal cases which could significantly influence the financial position of the group.

32. OPERATING LEASING, RENT AND LEASEHOLDS

	2005	2004
Minimum obligation up to 1 year	0.5	0.4
Minimum obligation over 1 to 5 years	0.5	0.4
Minimum obligation over 5 years	0.0	0.0
TOTAL	1.0	0.8

In addition, since 2003 Edelstahlwerke Südwestfalen GmbH has had a 99-year lease for the real estate in Siegen with a total area of around 650'000 m² at an annual rent of EUR 1.6 million (CHF 2.5 million converted at the average rate).

33. FINANCIAL INSTRUMENTS

Foreign exchange forward transactions are used to hedge foreign currency transactions. They have a term of less than one year.

	2005			2004		
	CONTRACT VALUE	REPLACEMENT VALUE POSITIVE	NEGATIVE	CONTRACT VALUE	REPLACEMENT VALUE POSITIVE	NEGATIVE
Currencies	280.0	0.7	4.8	65.6	0.0	0.9
Interest rates	0.0	0.0	0.0	25.0	0.0	0.0
Other derivatives	84.5	0.0	1.7	27.2	0.0	0.6

34. PENSION PROVISION

The group operates a number of defined-benefit and defined-contribution pension funds. These pension funds are geared towards the statutory requirements of the countries in which the group is active. In the case of defined-benefit pension funds the present value of the projected benefit obligation is calculated periodically by independent insurance experts on the basis of the term of service, expected salary and pension increases and the expected investment yield, using the projected unit credit method. The annual net periodic pension costs are shown in the income statement in the respective period. Adjustments on the basis of new empirical figures and the effect of changes in actuarial assumptions are amortized over the estimated, average remaining term of service of the insured beneficiaries. In the case of defined-contribution pension funds future benefit obligations are financed by contributions set by benefit plan regulations, which are based on a percentage of the insured salary. These contributions are charged to the income statement.

Employees of the Swiss group companies are members of independent pension funds.

The accounts of both pension funds are stated in accordance with Swiss GAAP FER 26. The funding ratio was calculated as per Art. 44 of the Ordinance on Occupational Retirement, Survivors' and Disability Pension Plans (BVV 2) and is as follows:

(Funding ratio)	2005	2004
von Moos Stahl AG pension fund	123.6%	116.0%
Stahl Gerlafingen AG pension fund	112.1%	107.3%

The group of participants includes active employees and pensioners of von Moos Stahl AG, Steeltec AG, Panlog AG and Stahl Gerlafingen AG. The above-mentioned funding ratios are determined annually in the actuarial valuation. As at 31.12.2005 the employer contribution reserves of the von Moos Stahl AG pension fund came to CHF 1.3 million (2004: CHF 1.3 million).

(in CHF million)	2005	2004
Expenditure ensuing from retirement benefit liabilities	14.8	6.9

35. TRANSACTION WITH RELATED PARTIES

Business relationships with related parties were carried out at arm's length prices. In the 2005 business year the Swiss Steel Group recorded sales of CHF 203.9 million (2004: CHF 36.9 million), purchases of CHF 6.2 million (2004: CHF 18.3 million), paid guarantee, advisory, transaction expenses and management fees of CHF 7.0 million (2004: CHF 1.5 million) to SCHMOLZ+BICKENBACH. As at 31.12.2005 there were accounts receivables trade of CHF 8.2 million net (2004: CHF 11.9 million) and other liabilities of CHF 1.9 million outstanding against SCHMOLZ+BICKENBACH.

36. EVENTS AFTER THE BALANCE SHEET DATE

There have been no significant extraordinary business events to report since the balance sheet date.

GROUP COMPANIES

FULLY CONSOLIDATED COMPANIES	REGISTERED OFFICE	SHARE CAPITAL	HOLDING	ACTIVITIES ¹⁾
Swiss Steel AG	Emmenbrücke CH	CHF 188'691'390	–	H
Stahl Gerlafingen AG	Gerlafingen CH	CHF 50'000'000	100%	P SA
von Moos Stahl AG	Emmenbrücke CH	CHF 40'000'000	100%	P SA
Steeltec AG	Littau CH	CHF 33'000'000	100%	P SA
Steeltec Praezisa GmbH	Niedereschach D	EUR 1'540'000	100%	SA
Steeltec FIC S.A.R.L.	Cluses F	EUR 1'120'000	100%	SA
Steeltec Toselli S.r.l.	Cassina Nuova di Bollate I	EUR 780'000	100%	SA
Panlog AG	Emmenbrücke CH	CHF 1'500'000	100%	SE
Swiss Steel Finance AG	Zug CH	CHF 2'500'000	100%	I
Edelstahlwerke Südwestfalen GmbH	Siegen D	EUR 15'338'800	100%	P SA
Edelstahl Witten-Krefeld GmbH	Witten D	EUR 22'630'980	100%	P SA
Edelstahlwerke Witten-Krefeld Vermögens- verwaltungsgesellschaft mbH	Witten D	EUR 511'350	100%	H
Edelstahlwerke Witten-Krefeld Härtereitechnik GmbH	Witten D	EUR 1'000'000	100%	P
Swiss Steel International Australia Pty. Ltd.	Victoria AU	AUD 900'000	100%	SA
Swiss Steel International do Brasil Ltda.	Ipiranga BR	BRL 26'893'338	100%	SA
Swiss Steel International Canada Inc.	Mississauga CA	CAD 8'869'900	100%	SA
Swiss Steel International Singapore Pte. Ltd.	Singapur SG	SGD 3'000'000	100%	SA
Swiss Steel International Malaysia S.D.N. BHD.	Port Klang MY	MYR 2'500'000	100%	SA
Swiss Steel International Mexico, S.A. de C.V.	Tlalnepantla MX	USD 17'224'676	100%	SA
Swiss Steel International (S.A.) (Proprietary) Ltd.	Johannesburg ZA	ZAR 2'155'002	100%	SA
SCHMOLZ+BICKENBACH Asal Celik. Tic. A. S.	Istanbul TR	EUR 1'834'102	100%	SA
Swiss Steel International USA Inc.	Carol Stream US	USD 1'500'000	100%	SA
EWK (Hong Kong) Co. Ltd.	Fo Tan Shatin HK	HKD 6'540'000	80%	SA
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf D	EUR 80'000	100%	H
ASSOCIATED COMPANIES				
Ardenacier S.A.R.L.	Charleville-Mézières F	EUR 15'250	75%	SA
German-Steels B.V.I. Ltd. British Virgin Islands	Tortola VG	HKD 78'000	49%	SA H
Jiangsu Thyssen Metal Products Co. Ltd.	Jiangsu CN	HKD 16'335'878	49% ²⁾	SA
Dongguan Tasson Hardware Manufacturing Co. Ltd.	Dongguan CN	HKD 23'344'257	49% ²⁾	SA
Dongguan Dong De Hardware Manufacturing Co. Ltd.	Dongguan CN	HKD 8'632'469	49% ²⁾	SA
German Steels (China) Ltd.	Hong Kong CN	HKD 10'000	49% ²⁾	SA H
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	HKD 17'074'399	49% ²⁾	P
Zhejiang Thyssen Metal Products Co. Ltd.	Zhejiang CN	HKD 2'337'981	49% ²⁾	SA
Alimex Northamerica LLC	Mt. Clemens US	USD 1'000'000	49% ²⁾	SA

¹⁾ P = Production, SA = Sales, SE = Services, H = Holding function, I = Inactive

²⁾ Held through a subholding

REPORT OF THE GROUP AUDITORS

To the General Meeting of Swiss Steel AG, Emmenbrücke

As group auditors, we have audited the consolidated financial statements (consolidated income statement, consolidated balance sheet, consolidated cash flow statement, changes in equity and notes / pages 5 to 26) of Swiss Steel AG for the year ended December 31, 2005. The prior year corresponding figures were audited by other group auditors.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with Swiss GAAP FER and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

Zurich, March 3, 2006

Ernst & Young AG

Daniel Wüst

Swiss Certified Auditor

(in charge of the audit)

Stefan Weuste

Swiss Certified Auditor

ANNUAL ACCOUNTS OF SWISS STEEL AG (IN ACCORDANCE WITH SWISS COMMERCIAL LAW)

INCOME STATEMENT (in CHF million)	NOTES	2005	2004
Income from investments		15.0	7.5
Financial income		1.2	1.5
Other income		0.3	0.3
Extraordinary income		0.1	0.9
TOTAL INCOME		16.6	10.2
Financial expenses		0.2	0.0
Other expenses		2.2	1.5
TOTAL EXPENSES		2.4	1.5
NET INCOME		14.2	8.7

BALANCE SHEET (in CHF million)	NOTES	31.12.2005	31.12.2004
Investments	1	204.6	146.4
Other financial assets		0.1	0.1
TOTAL NON-CURRENT ASSETS		204.7	146.5
Short-term receivables, group	2	26.7	23.4
Short-term receivables, non-consolidated companies		0.5	3.4
TOTAL CURRENT ASSETS		27.2	26.8
TOTAL ASSETS		231.9	173.3
Share capital		188.7	137.7
Legal reserves		6.1	5.6
Reserves for treasury shares		0.1	0.0
Retained earnings		35.3	28.5
TOTAL SHAREHOLDERS' EQUITY ¹⁾		230.2	171.8
Provisions		1.2	1.2
Other short-term liabilities third parties		0.1	0.1
Accrued liabilities		0.4	0.2
TOTAL LIABILITIES		1.7	1.5
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		231.9	173.3

¹⁾ Before appropriation of retained earnings

NOTES

The financial statements of Swiss Steel AG have been prepared in accordance with the provisions of the Swiss Code of Obligations.

1. INVESTMENTS

Swiss Steel's investments as at 31.12.2005 are as follows:

			SHARE CAPITAL	INVESTMENT 2005	INVESTMENT 2004
Stahl Gerlafingen AG	Gerlafingen CH	CHF	50'000'000	100%	100%
von Moos Stahl AG	Emmenbrücke CH	CHF	40'000'000	100%	100%
Steeltec AG	Littau CH	CHF	33'000'000	100%	100%
Panlog AG	Emmenbrücke CH	CHF	1'500'000	100%	100%
Swiss Steel Finance AG	Zug CH	CHF	2'500'000	100%	100%
Edelstahlwerke Südwestfalen GmbH	Siegen D	EUR	15'338'800	25%	25%
Edelstahl Witten-Krefeld GmbH	Witten D	EUR	22'630'980	5.1%	-
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf D	EUR	52'000	100%	-

2. SHORT-TERM RECEIVABLES GROUP

These receivables comprise the following:

(in CHF million)	31.12.2005	31.12.2004
von Moos Stahl AG	26.7	23.4

3. CONTINGENT LIABILITIES

As at 31.12.2005 contingent liabilities in favour of group companies equalled CHF 31.0 million (2004: CHF 26.6 million). In addition, investments (with a book value of CHF 138.8 million) and receivables from group companies (with a book value of CHF 26.7 million) were pledged to the syndicate banks in respect of the group companies' bank liabilities for the entire line of credit of CHF 369.4 million (2004: CHF 107.7 million) as part of the credit facility agreement with the banks.

4. SIGNIFICANT SHAREHOLDERS

SCHMOLZ + BIKENBACH KG, Düsseldorf, indirectly holds 58.9% of the share capital of Swiss Steel AG, as a result of its holding in SBGE Stahl Holding AG, and GEBUKA AG, Neuheim, holds 8.7% of the share capital of Swiss Steel AG, giving them a combined total of 67.6% (2004: 55%). There are no shareholder agreements between Swiss Steel AG and SBGE Stahl Holding AG or between Swiss Steel AG and GEBUKA AG, nor are there any cross-holdings.

5. TREASURY SHARES

The shares are held for group and business area managers; 10'000 of the initial holding of 11'430 shares (with average value of CHF 17.26 per share) were assigned on 3.1.2005 (with an assignment value of CHF 19.50 per share). As a result of purchasing 20 shares on 11.8.2005 at the cost price of CHF 11, the holding as at 31.12.2005 stands at 1'450 shares.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes to distribute the retained earnings as follows:

(in CHF million)	2005	2004
Net income	14.2	8.7
Balance brought forward	21.1	19.8
RETAINED EARNINGS AVAILABLE FOR APPROPRIATION	35.3	28.5
Allocation to statutory reserves	-0.8	-0.5
Dividend distribution	-18.9 ¹⁾	-6.9
BALANCE CARRY FORWARD	15.6	21.1

¹⁾ Proposal of the Board of Directors

REPORT OF THE STATUTORY AUDITORS

To the General Meeting of Swiss Steel AG, Emmenbrücke

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes / pages 28 to 30) of Swiss Steel AG for the year ended December 31, 2005. The prior year corresponding figures were audited by other auditors.

The financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and the financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

We recommend that the financial statements submitted to you be approved.

Zurich, March 3, 2006

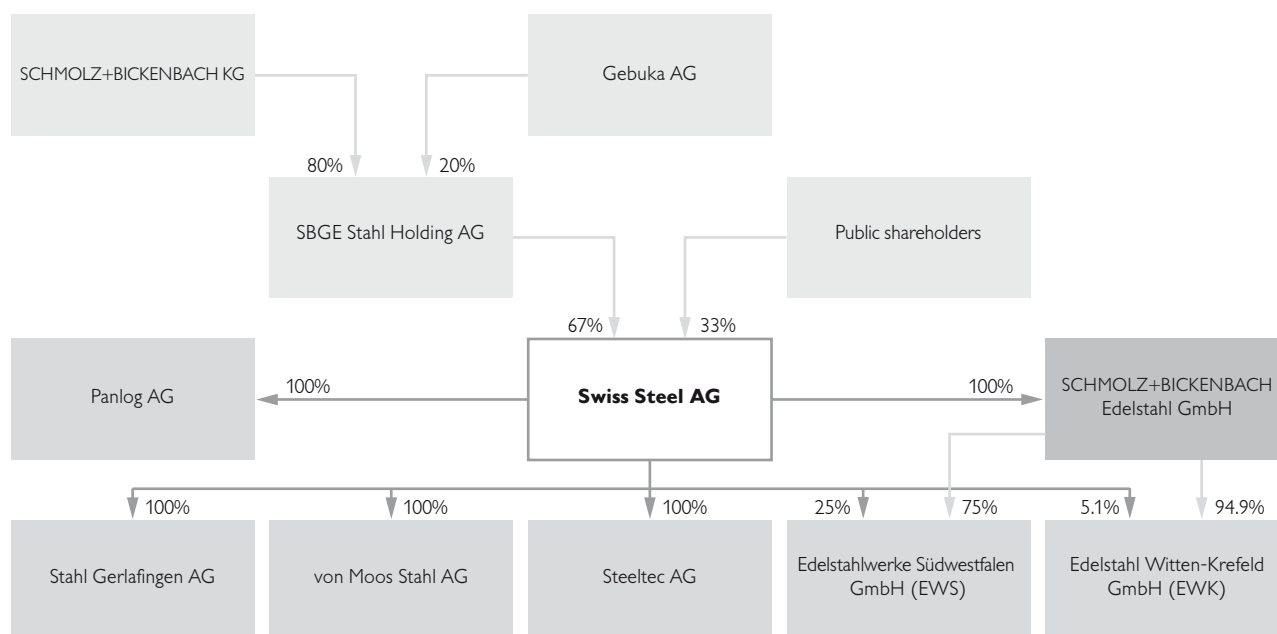
Ernst & Young AG

Daniel Wüst
Swiss Certified Auditor
(in charge of the audit)

Stefan Weuste
Swiss Certified Auditor

CORPORATE GOVERNANCE

GROUP STRUCTURE AND SHAREHOLDERS



CORPORATE STRUCTURE: Swiss Steel is organized in line with Swiss law. The following explanations fulfil all the duties specified by the guidelines (RLCG) of the SWX Swiss Exchange with regard to information on corporate governance. The management and governance of the Swiss Steel Group are based on the Articles of Incorporation, Organization Regulations, function diagram and the guiding principles and other documents which set out the business policy and corporate principles.

For further information on the legal structure of the consolidated and non-consolidated group companies (group of consolidated companies) and on their holdings, we refer you to page 26 of the Financial Report; the stock-market capitalization can be found under 'Information for investors' on page 26 in the Annual Report.

MAJOR SHAREHOLDERS: SCHMOLZ + BIKENBACH KG, Düsseldorf, indirectly holds 58.9% of the share capital of Swiss Steel AG, as a result of its holding in SBGE Stahl Holding AG, and GEBUKA AG, Neuheim, indirectly and directly holds 8.7% of the share capital of Swiss Steel AG, giving them a combined total of 67.6% (2004: 55%). There are no shareholder agreements between Swiss Steel AG and SBGE Stahl Holding AG or between Swiss Steel AG and GEBUKA AG nor are there any cross-holdings.

CAPITAL STRUCTURE

CAPITAL: The ordinary capital of CHF 137'730'940 established in 1996 was increased to CHF 188'691'390 in a capital increase by means of a non-cash contribution of CHF 50'960'450 through the issue of 5'096'045 bearer shares with a par value of CHF 10. There is no "approved" and no "conditional" capital. For information on the capital changes, we refer you to the statement of shareholders' equity (page 8).

EQUITIES: As at 31.12.2005 the share capital remains unchanged at 13'773'094 registered shares with a par value of CHF 10 and 5'096'045 newly issued bearer shares with a par value of CHF 10; each registered and bearer share is entitled to dividends and voting rights. The registered shares only are traded at the Swiss Exchange under the security number 579 566. The Telekurs short code is STLN.

TRANSFERABILITY/REGISTRATION: Registered shares acquired in one's own name and for one's own account are shown in the Share Register without restriction in accordance with Art. 685 of the Swiss Code of Obligations. Nominees are registered with voting rights up to a maximum of 2% of the share capital.

BOARD OF DIRECTORS

With the exception of the Chairman of the Board of Directors all members of the Boards of Directors are considered independent non-executive directors.

NAME	BORN	OFFICE	MEMBER SINCE	TERM OF OFFICE EXPIRES
Benedikt Niemeyer (D)	1958	Chairman	2003	2006
Robert A. Jeker (CH)	1935	Vice-Chairman Chairman of the Audit Committee	1996	2006
Dr. Gerold Büttiker (CH)	1946	Member Member of the Audit Committee	2003	2006
Axel Euchner (D)	1961	Member	2003	by April 2005
Benoît D. Ludwig (CH)	1945	Member	2003	2006
Michael Storm (D)	1951	Member	2003	2006
Dr. Hans-Peter Zehnder (CH)	1954	Member	1992	2007

BENEDIKT NIEMEYER, who has degrees in engineering and business, has been Chairman of the Board of Directors since joining in 2003. From 1985 until 1992 Benedikt Niemeyer worked for McKinsey & Company, latterly as Senior Engagement Manager. From 1992 to 1999 he worked for Klöckner & Co. AG, most recently as Member of the Management Board. At the same time, he also held a number of advisory and supervisory board mandates at Klöckner & Co. Group. From 1999 to 2001 he was CEO of Schneider Technologies AG (D), before taking over as Chairman of the Management Board of SCHMOLZ+BICKENBACH (D) in 2002. He is also a Member of the Board of Directors of Sachsen Landesbank (D).

ROBERT A. JEKER has been a Member of the Board of Directors since 1996. He was Chairman from 1996 until 2003, since when he has been Vice-Chairman. From 1951 to 1993 he worked for Credit Suisse Group (CH) and Chairman of the Executive Board from 1983 to 1993. Since 1993 he has served on various Boards of Directors. He is currently Chairman of the Board of Directors of Messe Schweiz AG (CH).

GEROLD BÜTTIKER, who has a degree in civil engineering from the Federal Institute of Technology and a doctorate in economics, has been a Member of the Board of Directors since 2003. In 1975 Gerold Büttiker joined Eternit Schweiz, where he held various management positions and from 1985 until 1993 he was CEO of Nueva Holding AG (CH), formerly Schweizerische Eternit Holding AG (CH). Since 1993 he has been an independent entrepreneur in the construction materials sector. He also serves on various Boards of Directors of companies in the buildings materials sectors.

BENOÎT D. LUDWIG, who has a degree in physics from the Federal Institute of Technology and an MBA from INSEAD, has been a Member of the Board of Directors since 2003. From 1972 to 1987 he held numerous positions in various countries at McKinsey & Company. Since 1988 he has managed his own management consultancy firm, Ludwig & Partner AG (CH), as Chairman of the Board of Directors and Managing Partner.

MICHAEL STORM, who has a degree in business, has been a Member of the Board of Directors since 2003. Michael Storm has worked for SCHMOLZ+BICKENBACH (D) since 1981, becoming a partner with unlimited liability of the limited partnership in 1986. Since 1987 he has also been a Member of the General Assemblies of the Chamber of Industry and Commerce in Düsseldorf (D) and a judge at the Düsseldorf Commercial Court (D). Since 1996 he has been the Honorary Consul for South Korea. He is also a Member of the Advisory Council at Deutsche Bank (D) and the Günter Rid Foundation (D).

HANS-PETER ZEHNDER has a doctorate in economics from the University of St Gallen. He joined the Board of Directors in 1992 and was Vice-Chairman from 2001 to 2003. From 1981 to 1984 Hans-Peter Zehnder worked for Gebr. Bühler (CH). Since 1985 he has been a Member of the Group Executive Board of Zehnder Group (CH), holding various functions. Since 1993 he has been Chairman of the Group Executive Board and Chairman of the Board of Directors of Zehnder Group AG. He also serves on various Boards of Directors and is Member of Advisory Board of Credit Suisse Group (CH).

ELECTION & TERM OF OFFICE: The Members of the Boards of Directors are elected by the General Meeting of Shareholders in stages for a term of three years.

ASSIGNMENT OF DUTIES/COMPETENCY REGULATIONS: Attendance and decision-making quorums as well as checks and balances between the Board of Directors, the Audit Committee, the Group Executive Board and the Business Area Management are set down in the Organization Regulations or Regulations of the Audit Committee and in the function diagram of Swiss Steel AG. The Board of Directors constitutes the company's highest instance of management and supervises and controls the Executive Board and issues guidelines on business policy. The Audit Committee assesses the effectiveness of the external auditors, the functioning of the internal control system, including risk management, and makes recommendations on the individual and consolidated financial statements to the Board of Directors to be proposed to the General Meeting of Shareholders. In the 2005 business year the areas of business were dealt with by the Board of Directors at six meetings and by the Audit Committee at two.

INFORMATION AND CONTROL INSTRUMENTS: The Board of Directors' information and control instruments to be used with the management of the group and the business areas are ensured inter alia by means of a transparent Management Information System (MIS) on the basis of monthly reporting, semi-annual and annual financial reports. Each member of the Board of Directors and the internal auditors is entitled to demand any company-related information. At every meeting the Group Executive Board informs the Board of Directors about current business developments and significant business processes.

Internal audit

The internal auditors began their programme of activities during the 2005 business year. It is an independent monitoring and advisory body that reports to the Audit Committee.

The mandate of the internal auditors was assigned to BDO Visura, Lucerne. The internal auditors produce risk analyses and assess the effectiveness and efficiency of the internal control system; it represents an important component of Enterprise Risk Management. The Board of Directors and the Audit Committee are periodically informed about the results of the Enterprise Risk Management.

RISK MANAGEMENT (ENTERPRISE RISK MANAGEMENT 'ERM'): The business group's risk policy is geared towards systematically increasing the value of the company and attaining the planned corporate objectives. Bearing appropriate, transparent and manageable risks is all part of the process. If the risks become too great, the risk management team assesses whether and how the risks can be transferred to third parties. The individual subgroups implement rules of conduct and guidelines and monitor their compliance and control. Speculative or other transactions with high risk potential are not permitted. Our conduct towards suppliers, clients and the group is fair and responsible.

Under the lead management of Swiss Steel AG, a group-wide and standardized ERM has been established and group-wide regulations have created the framework for systematic and efficient risk management. The ERM thereby ensures that risk positions are assessed and optimized and that opportunities are seized. Direct responsibility for the early identification, monitoring and communication of risks lies with the operational management and the control management with the group management and the Board of Directors.

In 2006 group-wide standardized insurance cover was reinstated. Following the conclusion of insurance contracts, most of the risks were transferred to the insurers. Preventative measures to avert losses have been implemented by the operating units.

The ERM includes currency, interest-rate and credit risk management. For information on the use of available instruments, we refer to 'Financial instruments' on page 24 of the Financial Report.

To ensure that IT-supported business processes within the group and with clients, suppliers and business partners run professionally, regular checks are carried out into and adjustments made to the information technology used. The available information security measures are continually updated so as to eliminate or at least minimize the risks associated with the IT processes.

The volatility of the steel price and the economic dependency on the automobile and mechanical engineering industries exerts a significant influence on the economic performance of the group. The group balances risks by continually developing its broad product range and by internationalizing its sales orientation or spreading the business portfolio and focusing on niche products and optimizing the value-added chain.

EXECUTIVE COMMITTEE

NAME	BORN	POSITION	JOINED THE GROUP
Benedikt Niemeyer (D)	1958	Chairman of the Board of Directors	2003
Dr. Marcel Imhof (CH)	1948	Chairman of the Group Executive Board	1977
Axel Euchner (D)	1961	Chief Financial Officer	from 1.5.2005
Joseph Koller (CH)	1948	Chief Financial Officer	2003 – 30.4.2005
		Chief Controlling, Risk and Information Officer	from 1.5.2005

BUSINESS AREA MANAGEMENT

NAME	BORN	POSITION	JOINED THE GROUP
Max C. Diggelmann (CH)	1948	CEO Stahl Gerlafingen AG	2004
Walter J. Hess (CH)	1946	CEO von Moos Stahl AG	1995
Stephan Schmid (CH)	1941	CEO Steeltex Group	1967
Karl Haase (D)	1951	CEO Edelstahlwerke Südwestfalen GmbH	2004
		CEO Edelstahl Witten-Krefeld GmbH	2005

MARCEL IMHOF has a doctorate in economics from the University of St Gallen. He has worked for the company since 1977 and has been Chief Executive Officer since 1996. He was head of bright steel sales from 1978 to 1986, head of rolled steel sales from 1987 to 1991 and head of the steel division within the group from 1992 to 1996. He is also a Member of the Board of Directors of Ultra Brag AG (CH) and Imbach AG (CH) and on the board of a number of important industrial and trade associations.

AXEL EUCHNER, who has a degree in business, worked as a tax advisor at PricewaterhouseCoopers (D) from 1984 to 1992 and was financial director at GEA AG (D) from 1993 to 2000. From 2001 he assumed the function of Chief Financial Officer at SCHMOLZ+BICKENBACH (D). From May 2005 he also assumed the duties of Chief Financial Officer of the Swiss Steel Group.

JOSEPH KOLLER, a certified auditor, was Chief Financial Officer from 2003 to April 2005 and from May 2005 he has been Chief Controlling Officer, Chief Risk Officer and Chief Information Officer of the Swiss Steel Group. Until 1985 he worked for various banks and for REVISUISSE Pricewaterhouse (CH). From 1986 he was Head of Group Internal Auditors at Alusuisse-Lonza Gruppe (CH). From 1993 he has worked for the Stephan Schmidheiny Group and performed management functions in the fields of financing and controlling for the entire group. From 1996 to 2003 Joseph Koller managed his own consulting firm, KOLLER CONSULTING GmbH (CH).

MAX C. DIGGELMANN has a degree in mechanical engineering from the FH. He has been CEO of Stahl Gerlafingen since 2004. From 1974 to 1990 he worked for the Sulzer Group in Switzerland, South Africa and Argentina, most recently as product manager at Sulzer Diesel (CH). From 1990 to 1997 he was CEO at Katadyn Produkte AG (CH). In 1997 he became Chairman of the Executive Board of Giesserei Emmenbrücke AG (CH). With the takeover of the Von Roll Group in 1999 he also became a Member of the Executive Board of Von Roll Infratec Holding AG (CH) and is responsible for marketing and sales of the industrial castings product line.

KARL HAASE has a degree and an MSc in engineering and has been Chairman of the Executive Board of Edelstahlwerke Südwestfalen GmbH since 1.11.2004 and Chairman of the Executive Board of Edelstahl Witten-Krefeld GmbH since 1.7.2005. Since 1976 he assumed various functions for Hoesch Hüttenwerke AG, Korf Stahl AG and Badische Stahlwerke AG. From 1994 to 2004 he was Member of the Management Board of PHB Weserhütte AG and in this function he was responsible for steel production and engineering for the Badische Stahlwerke Group.

WALTER J. HESS, who has a degree in mechanical engineering from the HTL, has been CEO of von Moos Stahl AG since 1996. From 1975 to 1981 he was head of international project management at AGA-Gas AB (S), worked in marketing and sales for ASEA Schweiz (CH) from 1982 to 1987 and from was CEO at R. Stahl AG (D/CH) 1988 to 1995. In 1981 he graduated from IMEDE (CH) with a degree in management. In 1995 he joined the Swiss Steel Group, first as profit centre manager at Marti-Technologie AG (CH) and in 1996 he became head of von Moos Stahl AG. He is also on the Board of Directors of Concast AG (CH).

STEPHAN SCHMID, who has a degree in mechanical engineering from the HTL, has been CEO of the Steeltec Group since 1997. In 1967 he joined the group as assistant product manager in the field of control wire. In 1977 he became head of this operation. From 1992 he was responsible for the production of bright steel. He retired on 31.12.2005.

COMPENSATION, SHAREHOLDINGS AND LOANS

COMPENSATION PROCEDURE: The fixed compensation for the Members of the Board of Directors and the fixed and variable compensation for the group and business area management are set by the Board of Directors.

COMPENSATION FOR THE MEMBERS OF THE BOARD: In 2005 the non-executive members of the Board of Directors received compensation of CHF 0.41 million. The compensation for the group and business area management totalled CHF 4.15 million, of which CHF 0.35 million went to the Chairman of the Board of Directors.

ALLOTMENT OF SHARES: In addition, the group and business area management was assigned 10,000 shares in 2005.

OPTIONS: No options were assigned.

SHARE OWNERSHIP: With the exception of Dr G. Büttiker (shareholder of GEBUKA AG, Neuheim) Members of the Board of Directors and the group and business area management together own less than 1% of the share capital.

COMPENSATION FOR FORMER MEMBERS OF THE BOARD:

No compensation was paid out to former members of the Board.

LOANS TO MEMBERS OF THE BOARD

No loans have been paid to members of the Board.

ADDITIONAL FEES AND REMUNERATION

No additional fees and remunerations were paid to members of the Board.

SHAREHOLDERS' RIGHTS

RESTRICTIONS TO SHAREHOLDERS' RIGHTS: With the exception of the 2% clause for nominees, there are no restrictions to shareholders' rights.

CONVOCAION OF THE GENERAL MEETING/SETTING THE AGENDA/REGISTERING: The General Meeting is convened in writing at least 20 days before the day of the meeting. Shareholders who represent shares with a par value of one million francs can demand that an item be placed on the agenda in writing no later than 45 days before the General Meeting. The cut-off date for entering registered shares in the share register is announced in the invitation to the General Meeting and the SWX Swiss Exchange.

CHANGE OF CONTROL AND DEFENSIVE MEASURES

OBLIGATION TO MAKE A PUBLIC OFFER: There are no statutory provisions on opting out or opting up.

AUDITORS

MANDATE: The auditors are elected by the General Meeting for a period of one year. Ernst & Young AG performed this function for the first time in the 2005 business year. D. Wüst is the Engagement Partner.

AUDITING FEES: In 2005 auditing fees of CHF 0.8 million (2004: CHF 0.2 million) were paid.

DUTY TO PROVIDE INFORMATION

An annual and financial report is published annually and a semi-annual report in August. The provisions relating to ad hoc publicity also apply. The financial and annual reports for the 2005 business year are also available in German. The German version is binding.

Contact addresses are listed in the annual report.

Our website (www.swiss-steel.com) and its links to the individual business areas serve as a permanent source of information.

5-YEAR OVERVIEW

		2001	2002	2003	2004	2005
SWISS STEEL GROUP						
Net income from sales	CHF million	576.8	584.2	659.4	893.7	2'633.7
Gross margin	%	42.0	40.5	40.1	34.7	41.4
Operating profit before depreciation and amortization (EBITDA)	CHF million	35.2	33.7	53.1	83.1	277.8
Operating profit (EBIT)	CHF million	8.1	4.9	24.1	50.6	208.2
EBIT margin	%	1.4	0.8	3.7	5.8	7.9
Profit before extraordinary items and taxes	CHF million	1.1	-0.5	19.6	50.3	171.7
Net income	CHF million	2.9	1.2	20.6	44.6	122.3
Investment in property, plant and equipment	CHF million	20.4	21.2	21.9	44.3	102.3
Total assets	CHF million	410.5	420.5	430.4	563.2	1'654.6
Net borrowing	CHF million	128.4	123.4	102.3	93.7	367.2
Shareholders' equity ¹⁾	CHF million	186.1	187.3	208.3	252.5	499.4
Equity ratio	%	45.3	44.5	48.4	44.8	30.2
Return on equity	%	1.6	0.6	9.9	17.7	24.5
Headcount	Positions	1'286	1'279	1'278	1'274	5'389
SWISS STEEL AG (in line with commercial law)						
Net income	CHF million	3.4	2.6	4.0	8.7	14.2
Share capital	CHF million	137.7	137.7	137.7	137.7	188.7
Shareholders' equity ¹⁾	CHF million	159.3	161.9	165.9	171.8	230.2
Balance sheet total	CHF million	161.7	164.1	167.3	173.3	231.9
Dividend amount	CHF million	0.0	0.0	2.8	6.9	18.9 ²⁾

¹⁾ Before appropriation of profits

²⁾ Proposal of the Board of Directors

FINANCIAL GLOSSARY

Payout ratio: Dividend per share as a percentage of the net income per share

EBIT margin: Operating earnings as a percentage of net income from sales

EBITDA margin: Operating earnings before depreciations as a percentage of net income from sales

Equity ratio: Shareholders' equity as a percentage of assets

Return on equity: Net income as a percentage of shareholders' equity as at 31.12

ERM: Enterprise Risk Management

Shareholders' equity per share: Shareholders' equity divided by the number of outstanding registered and bearer shares

Net income per share: Net income divided by the average number of outstanding shares

PROVISO: The annual and financial report may contain forward-looking statements, such as forecasts on the future performance of materials and products, the financial situation, the results of the business activity and capital flows that are subject to risks and uncertainties. These statements are subject to change on the basis of unknown risks and other factors which could lead to actual events or developments deviating significantly from these expectations.

C R E A T E V A L U E S W I T H S T E E L

