2006

ANNUAL REPORT

SCHMOLZ + BICKENBACH AG

Providing special steel solutions

A strong network for demanding markets

The newly formed SCHMOLZ + BICKENBACH-Group is an independent, globally active supplier of high-grade long steel products. Our activities comprise the manufacture, processing and distribution of special steels that are used mainly in the automobile and automobile parts industries, in the mechanical engineering, aircraft construction and chemical industries, in tool making, and in oil exploration.

Our greatest strength is our competence as a supplier of special and challenging solutions that drive new technological developments. In important segments of the market we already rank among the world leaders, and will endeavour to strengthen this position even further by exploiting new potentials. Synergies within the newly formed Group will contribute to this strengthening as well as investments in developing markets where existing and potential customers are already active, or will become so.

Networked with customers and their customers worldwide

As a global player in the steel market, we consciously focus on the high-grade steels segment with which our name is virtually synonymous. All over the world, steel forms the backbone of industrial manufacturing, and the more demanding the technology of the final products, the higher the demands generally are on the steels that are used. Our special competences include working closely with our direct customers – the finishers – as well as the manufacturers of end-products to define the quality requirements for our steels, perfect the manufacturing processes, and thereby fulfil the high demands.

Entrepreneurial response to global challenges

The year 2006 was a milestone in the history of our group, in many different ways. Through integration of the French stainless steel producer Ugitech, we grew into the world's largest supplier of stainless steel long products. In the future, we shall also occupy the same position for tool steels through our acquisition of the American steel producer A. Finkl & Sons, Co. at the start of 2007. Integration of the processing and distribution activities of SCHMOLZ + BICKENBACH KG into the former Swiss Steel AG, and its renaming to SCHMOLZ + BICKENBACH AG, has created a globally active concern in the field of high-grade tool, engineering and stainless steel products. Work on merging the two German companies Edelstahlwerke Südwestfalen GmbH and Edelstahl Witten-Krefeld GmbH, and renaming them Deutsche Edelstahlwerke GmbH, was completed. The merger became effective on January 1, 2007. A further indication of the direction in which our company will develop in the future is the sale of 65% of the holding in Steel Gerlafingen AG to the Italian Beltrame Group.

With all of these measures we are pursuing our vision: The new SCHMOLZ + BICKENBACH Group presents itself under a uniform brand as an independent, globally active, and competent supplier of high-grade long steel products. In important market segments, the Group ranks among the world market leaders. We are active in the production, processing and distribution of special steels. These activities are documented with our claim that accompanies the new logo: „Providing special steel solutions“. With this claim we want to communicate that we not only supply special steels but also have a strength in special steel solutions. As a technology driver, a quality and service

leader, as well as a market-leading company with a complete portfolio, SCHMOLZ + BICKENBACH provides every customer with exactly the solution they need for their market success.

With its steelworks, processing plants and distribution organisations, the new corporate group is ideally positioned. We have become a global player. The greatly increased size of the company also called for adaptation of the organisation and management structure. The newly formed Group Executive Committee, comprising the Executive Board and Business Segment Management, is a lean management body that enables the experienced management to make quick decisions. We regard it as one of our main tasks in 2007 to implement the significant identifiable synergy potentials of the new industrial combine. In doing so, the overriding aim is to network the production plants with the processing plants and international marketing organisations of our Group, in conjunction with a large investment volume to strengthen our market position. Thanks to our broadly based position in steel production, assortment and markets, we have very solid foundations and can therefore absorb the cyclical business fluctuations better.

In the reporting year, true to our business policy, we invested a large part of the cash flow in plant and equipment. We want to maintain and expand our position of technological leadership, create new products, and penetrate additional markets. That will enable us to secure the full utilisation of our factories and the jobs of our employees. We shall also be making further significant investments in the current year. All of this fills us with optimism for 2007 and the years beyond.

Michael Storm
Chairman of the Board of Directors

Benedikt Niemeyer
Chief Executive Officer

A global player was born

2006 was an outstanding year for our company. The global economic upswing greatly increased the demand for high-grade steel products. Thanks to this situation, as well as the changes we made in the product mix towards products with higher added value, both sales revenues and margins improved. The cost increases in wages and salaries, raw materials, alloys and energy could be largely passed on with the product prices. Along with the contribution in kind, these factors caused the result to climb massively again relative to the previous years. The following figures of the Group for 2006 are presented on a 12-months basis to allow better comparability with the subsequent reporting years. By contrast, in the consolidated financial statements, the transferred processing and distribution activities, as well as the Ugitech Group with its contribution to the result, are only included as from July 1, 2006.

Financial key figures

	2006		2005
SCHMOLZ + BICKENBACH Group (in EUR million)	**12-months basis pro forma**	**Consolidated financial statements**	
Revenue	3,579.6	2,831.5	1,728.2
Net income from sales	3,489.7	2,756.8	1,701.0
Operating profit before depreciation and amortization (EBITDA)	345.9	291.6	177.5
Earnings after taxes (EAT)	184.5	144.6	79.0
Investments	147.1	132.5	66.1
Cash flow before acquisition of Group companies	-	-110.9	91.6
SCHMOLZ + BICKENBACH AG (in CHF million)			
Net income		27.6	14.2

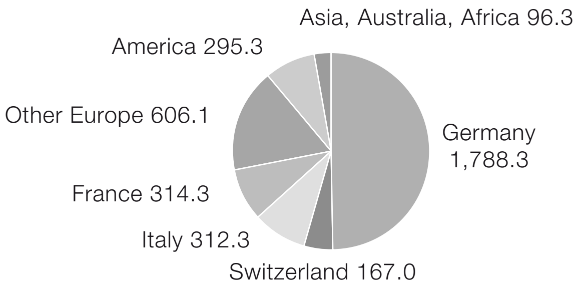
Key figures per Business Segment

		Production	Processing	Distribution and Services	Other/ Consolidation	Total (12-months basis)
Revenue	EUR million	2,122.6	388.8	1,331.7	-263.5	3,579.6
Net income from sales	EUR million	2,039.8	376.8	1,307.5	-234.4	3,489.7
Operating profit before depreciation and amortization (EBITDA)	EUR million	233.6	35.0	64.5	12.8	345.9
Capital employed (CE)	EUR million	1,004.6	136.7	372.1	-12.7	1,500.8
Return on capital employed (ROCE)	%	23.2	25.6	17.3	–	23.0
Headcount	Positions	5,825	978	2,980	57	9,840

Scope of consolidation expanded

Relative to the previous year, the key figures have improved. This is attributable to the pleasing market development as well as expansion of the scope of the consolidation. By contrast with the previous year, in which it was only included in the consolidation for nine months, in 2006 Edelstahl Witten-Krefeld GmbH was included for the full year. On the other hand, the figures for Stahl Gerlafingen AG, 65% of which was divested, are only included for the first half of 2006. These are contained in the Business Segment „Other". Ugitech, which was integrated in 2006, as well as the processing and distribution activities of SCHMOLZ + BICKENBACH KG that were integrated with SCHMOLZ + BICKENBACH AG, are included in the following consolidated figures on a 12-months basis. Net income from sales increased by 105.2% to EUR 3,489.7 mil. (2005: EUR 1,701.0 mil.).

Sales development by country on a 12-months basis (in EUR million)



The raw steel production volume of our steelworks in Emmenbrücke, Siegen, Witten and Ugine, and including Gerlafingen for the first half-year, was 1.79 million tonnes.
We earned a gross profit of EUR 1,254.1 mil. (2005: EUR 716.9 mil.). EBITDA was EUR 345.9 mil. (2005: EUR 177.5 mil.). The operating profit was EUR 272.5 mil. (2005: EUR 132.6 mil.). With this result, we earned an excellent EBIT margin of 7.8% (2005: 7.9%). After deduction of taxes, the Group earnings were EUR 184.5 mil. (2005: EUR 79.0 mil.).

Ongoing high investment

Relative to the previous year, the investment volume climbed steeply again to EUR 147.1 mil. (2005: EUR 66.1 mil.). It will also remain at a high level in 2007, since various multi-year investments will be realised.

Significantly increased total assets

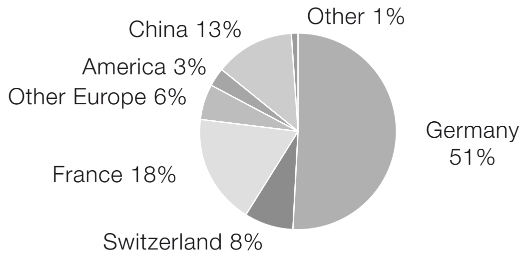
(EUR million)	**2006**	**2005**
Total assets	2,088.4	1,064.3
Shareholders' equity	568.8[1)]	321.2
Net borrowing	568.7	245.5

[1)] Before appropriation of retained earnings

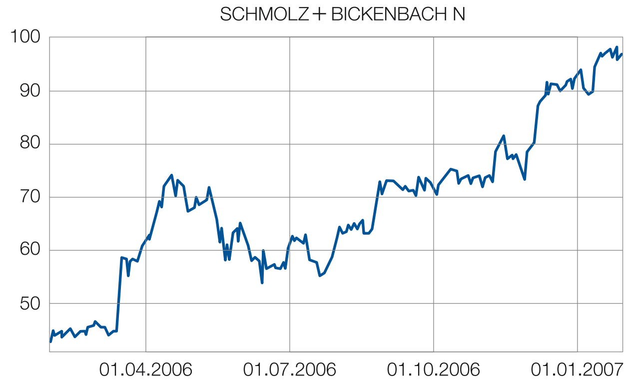
Through the integration of additional companies, as well as higher prices for materials, total assets significantly increased. The increase in capital resulting from the contribution in kind, and the good profit development, caused shareholders' equity to increase to EUR 568.8 mil. (2005: EUR 321.2 mil.). The expanded scope of consolidation, along with the significant increases in material prices, also caused net borrowing to rise to EUR 568.7 mil. (2005: EUR 245.5 mil.). The existing syndicated loan facility was replaced by a new arrangement with better conditions with the same lead banks. The long-term financing of the Group is thus solidly secured.

Relative to the previous year, there was a large increase in the number of employees from 5,389 to 9,840.

Headcount



Share price development again positive



Already for the fourth year in succession, our company's share was one of the top performers on the SWX Swiss Exchange. Taken over five years, our share had the highest rate of increase of all shares in the Swiss Performance Index (SPI). Investors have recognised the potential that is inherent in our company. The acquisitions that have been made, as well as integration of the SCHMOLZ + BICKENBACH processing and distribution activities, have resulted in a massive increase in value that has been rewarded by the capital markets.

Resolute implementation of our strategy

In the last three years, a steel group with global activities in the segment for high-grade steel products has come into existence. During this period, sales and income have multiplied several times. The assortments of the four steelworks complement each other ideally. The processing plants in Germany, France, Switzerland, Italy, Denmark, Turkey and the USA are capable of absorbing large parts of this production and converting it into higher-value products. The dense European and worldwide distribution network primarily secures sales of our own products. Suitable additions are acquired. Our assortment is therefore comprehensive, and allows the service that we offer to our customers under the claim of „Providing special steel solutions“. Through massive investments in the last few years we have modernised our factories and thereby raised them to the technological state of the art. Also in the current and subsequent years, we are implementing significant investment projects to maintain our lead over the competition, or even increase it.

Managing risks

Every business activity has associated risks. We have always confronted this situation and taken measures to reduce or avoid those risks. As part of the annual strategy process, we have implemented the enterprise risk management system, that was built up in the previous year, for comprehensive risk analysis with probability of occurrence and potential damage assessment, as well as damage containment measures. The system will sensitise managerial employees to this issue.

Quality management as success factor

The fulfilment of customer requirements for products and services of faultless quality is one of our highest-priority goals. All factories therefore have a quality management system according to ISO 9001:2000. Factories that supply parts to the automobile industry are also certified to ISO/TS 16949:2002. In addition, there are factory-specific approvals for various market segments such as aviation and shipbuilding. All of these quality management systems are carefully maintained, and compliance with them regularly monitored by internal and external auditors.

Environmental management as duty

We place strong emphasis on adherence to the respectively applicable environmental standards. All factories possess the ISO 14001:2004 environmental certificate. Through regular contacts with authorities and neighbours, we pursue an open information policy. Also in 2006, at the various sites we made significant investments in environmental areas such as energy saving, air pollution prevention, water purification and noise abatement. A high priority is to further increase our energy efficiency and reduce our CO_2 output.

Our employees

All of our companies run training programmes aimed at constantly improving the standard of education. Special attention is given to avoiding accidents and reducing absences. Within the scope of the newly created corporate structure, guidelines are now being drawn up for personnel management, training, compensation, etc.

Information technology (IT) an important tool

The IT systems in place in both commercial and operational areas are of a high technical standard. In the reporting year, a Groupwide IT strategy was developed and its implementation started.

Outlook for 2007

The economic forecasts for 2007 are still positive. Even if the growth rates of the two preceding years will no longer be achieved, a continuing upward trend is expected. This development will also benefit the steel industry. Our company is strategically ideally positioned. With the Business Segments of production, processing, and distribution and services, we offer in our markets a comprehensive package of services under the claim of „Providing special steel solutions“. We are present in the most important sales regions of the world, and therefore able to follow our customers to their local manufacturing plants. We offer them high-grade steel products wherever they happen to be. In stainless long products we are the world market leader. In the future, through the American steelworks of A. Finkl & Sons, Co., that was acquired at the beginning of 2007, we shall also occupy this position for tool steel. Through changes in the scope of the consolidation, in 2007 the sales and income amounts, as well as the balance sheet values, will increase substantially again relative to the previous year. Steel Gerlafingen AG has been equity consolidated since July 1, 2006. In 2007, the processing and distribution activities of SCHMOLZ + BICKENBACH KG, and of Ugitech, will be included in the financial accounts for the full year. Finkl & Sons, Co. will be included as from February 1, 2007. The market situation, our positioning, and the expanded portfolio of subsidiaries make us optimistic for the current year.

Key figures at a glance

		2006		2005
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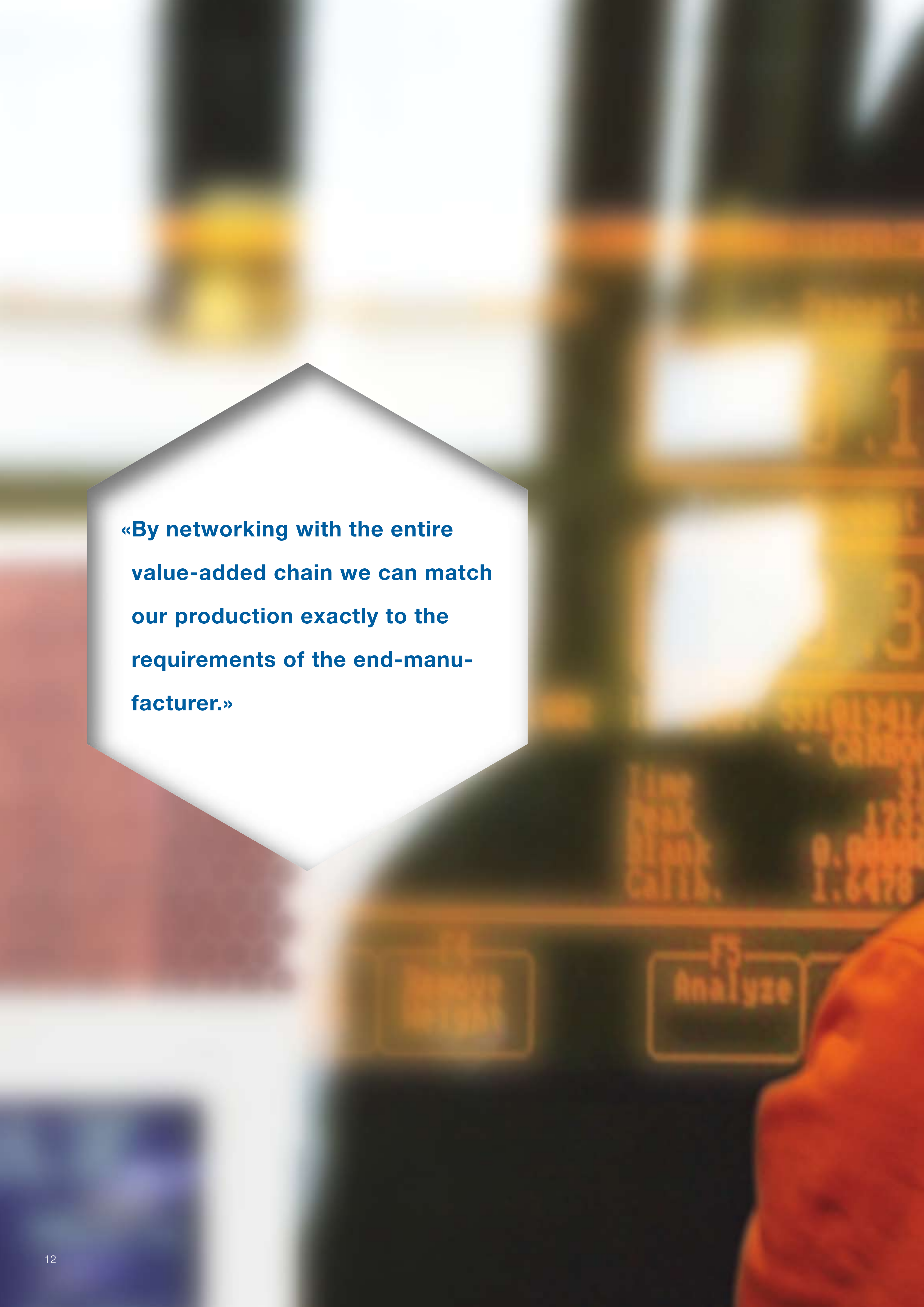
Earnings after taxes (EAT)	EUR million	184.5	144.6	79.0
Investments in property, plant and equipment	EUR million	147.1	132.5	66.1
Cash flow before acquisition of Group companies	EUR million	-	-110.9	91.6
Shareholders' equity [3]	EUR million	568.8		321.2
Equity ratio	%	27.2		30.2
Net borrowing	EUR million	568.7		245.5
Headcount	Positions	9,840		5,389
SCHMOLZ + BICKENBACH AG				
Net income	CHF million		27.6	14.2
Share capital	CHF million		300.0	188.7
Shareholders' equity [3]	CHF million		561.1	230.2
Dividend amount	CHF million		37.5 [4]	18.9
SCHMOLZ + BICKENBACH share				
Net earnings per share [3]	CHF	9.67 [5]	9.31 [6]	6.48
Shareholders' equity per share [3]	CHF	30.52		26.47
Highest/lowest share price	CHF	97.5 / 37.9		44 / 18
Dividend per share	CHF	1.25 [4]		1.00
Payout ratio	%	12.9	16.5	15.5

[1] To facilitate comparison with subsequent financial years, the figures are also presented on a 12-month basis. In contrast to the consolidated financial statements, the 12-month presentation incorporates the processing and distribution activities of SCHMOLZ + BICKENBACH KG as well as the Ugitech Group with its contribution to the results from 1 January 2006.
[2] The contributed companies and their income statements are included in the consolidated financial statements for the period 1 July – 31 December 2006.
[3] Before appropriation of retained earnings
[4] Proposal of the Board of Directors
[5] The newly issued shares are included in the weighted average number of shares for 12 months.
[6] The newly issued shares are included in the weighted average number of shares for 6 months.



«By networking with the entire value-added chain we can match our production exactly to the requirements of the end-manufacturer.»


Carbon -
062
Sulfur -
009

Well-utilized synergies of our three production companies

Swiss Steel AG (formerly von Moos Steel AG)

Throughout 2006 there was a continuously strong demand for our products. Orders received for engineering steel and free-cutting steel were substantially above the previous year's figures, as well as the budget, and resulted in a high capacity utilisation at our plants. The production volumes at the steelworks and rolling mills were once again raised beyond the previous year's quantities. Sales volumes of high-grade steels were also higher than budget and the previous year. While prices in the first half-year remained stable, towards the end of the year, moderate price increases could be imposed on the market. With the change of name from von Moos Steel AG to Swiss Steel AG at the start of 2007, we have documented our increasingly international alignment.

Significant investment projects implemented

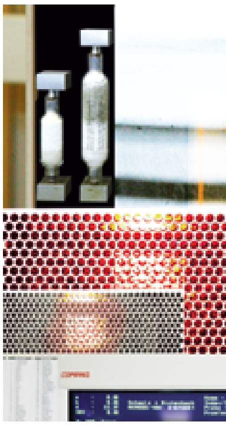
The major investment projects that were started in 2005, such as installation of equipment for thermomechanical treatment in the rolling mill train, or creating the conditions needed for production of higher coil weights, are progressing according to plan. In mid-2006, the former SAP R/3 system was converted to mySAP ERP. With this step, we have created the conditions needed for greater process integration in the e-business era. The energy management system for optimised utilisation of electrical energy in the steelworks was put into operation at the end of 2006. To increase capacity and improve quality at the steelworks, in 2007 a fourth strand will be installed in the continuous casting system, and a new scrap logistics centre set up.

Demand still high

In our judgement, the outlook for 2007 is positive. We therefore expect the robust demand for our free-cutting steel and engineering steel to continue at its present high level. The situation in the procurement market is still tight. Since mid-2006, prices for scrap and alloys have risen substantially, and plateaued at a high level. We have also been confronted with a sharp increase in energy costs relative to the previous year. On the other hand, continuing weakness of the Swiss franc caused the EUR/CHF exchange rate that is most important for our business to continue its development in our favour. The successful innovation cooperation with Steeltec and SCHMOLZ + BICKENBACH allows the development of demanding applications for our customers. The development processes are now so well adapted that customer-specific special products can be coordinated through the entire process chain and managed between companies.

Deutsche Edelstahlwerke GmbH

On January 1, 2007, we merged Edelstahlwerke Südwestfalen GmbH with Edelstahl Witten-Krefeld GmbH



to form Deutsche Edelstahlwerke GmbH. The following reviews are the last for the two separate companies.

Edelstahlwerke Südwestfalen GmbH

Despite tightening of the energy and raw materials markets in 2006, the economic environment continued to develop positively. Significant impulses for growth came from the markets in North America and Asia. As in the previous year, the driving force in Asia is the booming market development in China and India. In contrast to most Central and Eastern European countries, the growth impulses in the most important West European special steel markets of Germany, France and Italy came mainly from exports.

Sales volumes higher than expected

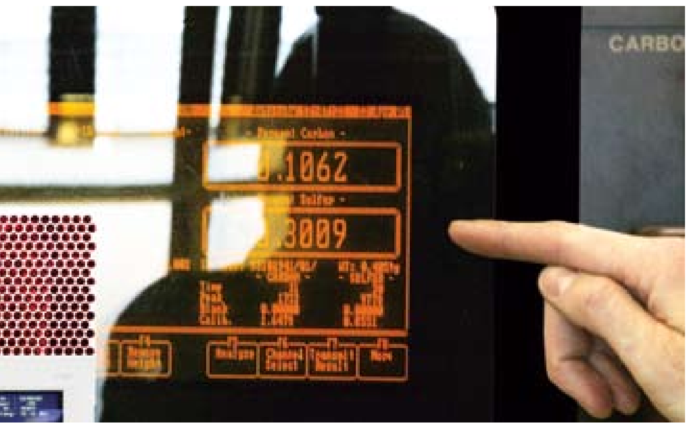
During financial year 2006, demand in the market for engineering steel long products developed strongly in the countries of Western Europe. In these regions, Edelstahlwerke Südwestfalen GmbH generated substantial increases in volume at stable prices. While orders received for engineering steel as well as stainless, acid-resistant and heat-resistant steels came in well above expectations, those for tool steel were in line with the sales targets. At the end of 2006, the order backlog was high, so full utilisation of the production plants until well into 2007 is certain.

In the procurement markets, prices for our raw materials of scrap, and especially alloys, have gone up sharply. Prices for the energy categories we consume have also risen significantly.

During the financial years 2005 and 2006, a massive investment program of more than EUR 85 million was executed, with the result that the production efficiency and value creation in the focal products was increased even further. In 2006, for example, a new energy-saving walking-beam furnace, as well as a multi-stage blooming mill for tight tolerances, were put into operation in the rolling mill at Siegen. Investments in 2007 will be mainly concentrated on the Hagen works in the form of a new peeling machine, a new vacuum annealing plant, and partial automation of the straightening processes. In the rolling mill at Siegen, projects will include the first construction phase of the new cooling bed for increased capacity and improved quality of its core product, bar steel.

Positive outlook for 2007

The pleasing development of the global economy will also prevail in 2007. However, the exceptionally high dynamism of the last two years will not continue. For 2007, we expect order shippings to be slightly above the 2006 level and at considerably better prices. Besides the anticipated cost increases, for example for



personnel, energy, and interest on capital, there will also be positive influences from improved sales margins and rationalisation effects from investments. Within the company, a dominant theme of the current financial year will be the operational implementation of the synergies to be derived from the organisational combination of Edelstahlwerke Südwestfalen GmbH and Edelstahl Witten-Krefeld GmbH under the joint umbrella of Deutsche Edelstahlwerke GmbH.

Edelstahl Witten-Krefeld GmbH

The globally dynamic economic growth continued again in 2006 despite regional differences. The strongest impulses came from North America and Asia. The business climate in Latin America was also still favourable, although the market situation in Brazil became more difficult due to the exchange rate. In the countries of Central and Eastern Europe, the economic environment remained robust.

Very good demand situation

The good development of business in special steel long products was primarily based on strong demand in the Western European countries. In these regions, significant increases in volume were attained at stable prices. Sustained positive development in demand came particularly from customers in the energy, offshore and food industries. Thanks to the high order intake, our order backlogs are good and will ensure full utilisation of our plants for a long time.

Conditions in the energy and raw materials markets continued tight. In recent months, prices for scrap were correspondingly high. Costs of the most important alloying elements, especially nickel, rose again. On the other hand, in contrast to the previous year, price increases could be obtained in the market that largely compensated the higher primary material prices.

Build-up and expansion of the worldwide processing network continued in financial year 2006 and was accompanied by the necessary investments. The objective of these measures is for the proportion of higher-grade and heat-treated products to increase further.

New markets also with increased sales volumes

In view of the sustained strong dynamism in the emerging and developing countries, we expect shippings in 2007 to be sharply higher than in 2006 at slightly improved prices. The growing need for heat-treated construction steels, and increasing sales volumes of tool steel with an associated sharp increase in open orders, must be met by increased worktime and capacity as well as further investment and rationalisation measures. Transportation capacity – currently a bottleneck – will be increased by expansion of the Steelliner fleet. Optimisation of the loading capacity in the straighteners is also an essential prerequisite for mastering the additional transportation volumes. An important project will be implementation of the synergy potentials created by the formation of Deutsche Edelstahlwerke GmbH.

Ugitech S.A.

In 2006, the market for stainless steel grew by approximately 10%. The growth was driven mainly by developments in the energy and process industries. Traditional industries such as the chemical and paper industries also developed positively. The automobile industry continues to be a growth market for stainless steels. The growth results from environmental requirements such as energy efficiency and exhaust fume control as well as safety requirements. The market for drinking water production, water treatment, and desalination is growing very rapidly, and demand will stay high in the future, too. Stainless steel will also be increasingly used in the construction industry.

Production volumes increased

We responded swiftly to the higher demand by increasing the number of production shifts. This made it possible to increase output. Bottlenecks nevertheless occurred, mainly in the downstream production plants, which must be continuously reduced. Prices for stainless scrap and alloying nickel were high.

With our special steels we are outstandingly positioned. The strong development department focuses on the creation of technologically high-grade products for specific customer applications. It is also in a position to provide corresponding support in metallurgy, production and quality assurance. Particularly our Ugima steels enjoy increasing popularity. Their mechanical characteristics and good machinability are unsurpassed.

The main investments were made in productivity, quality assurance, international processing and distribution capacity, as well as safety and the environment. During 2007, we shall put a bar drawing mill into operation in the USA. This will enable us to serve this important sales market with our high-grade products at even shorter response times. We are also planning construction of a wire-drawing mill in Germany. During the current year, we shall install an electro-slag remelting furnace. This will be used to produce specially pure steels for demanding applications.

Good demand situation continues

The outlook for our customer industries, and therefore the demand for our products, is good in the current year as well. The capacity utilization of our production works and processing plants is correspondingly good. Progress to date on integration into the SCHMOLZ + BICKENBACH Group is extremely successful. This also causes us to have positive expectations for the future collaboration with the worldwide distribution organisation. The investment projects that we have initiated in important sales markets support this process. We have already initiated the next step within the scope of our continuous improvement program.

«Processing steels in the desired manufacturing depth shortens the customers' processing time and increases their productivity.»

Increased sales of bright steel in demanding markets

SCHMOLZ + BICKENBACH Blankstahl GmbH

The 2006 business year started slowly in both production and sales. This situation applied to the entire industry. As from February, order bookings increased rapidly, so that from the second quarter we could produce at maximum capacity and Distribution could increase sales in the bright segment. During 2006, bottlenecks crystallised in the bar drawing, heat treatment, grinding, peeling and short-length production areas.

Utilisation of synergies

Within the scope of the new combine, collaboration with the various bright steel operations of SCHMOLZ + BICKENBACH AG will be intensified. Through close coordination with Steeltec AG and Edelstahlwerke Südwestfalen GmbH, existing bottlenecks in production could be mutually compensated. Various potential synergies were identified that will now be systematically addressed. SCHMOLZ + BICKENBACH Blankstahl GmbH also devoted itself extensively to building up and expanding the bright steel production plants in Denmark and particularly Turkey. Here, significant potential for synergy arose from the organisational and spatial merging of the distribution activities of Edelstahl Witten-Krefeld and Ugitech with the bright steel drawing mill, which we are now implementing. There was a positive development in the automotive sector. Here we greatly increased our production of short lengths relative to last year. This confirms our strategic development in the direction of finished as well as higher-value products. The same situation also applies to the heat treatment sector, so we shall also invest more in this direction.

Demand from main customers remains strong

Order bookings for 2007 lead to a very positive conclusion about the development of the current business year. The main purchasers of our products – the automobile and automobile parts supply industries as well as machining industries – forecast further growth for 2007. Raw material prices and energy costs are also tending upwards in 2007, so the price level in the sales market will also rise. The investments made in 2006 in the strategic development sector of short length production, as well as in final processing, allow further increases in volume.

Steeltec AG

Throughout the year, the demand for steel was high, and in the case of special steels, even increased. Pleasing for Steeltec was the constant flow throughout the year of orders from automobile manufacturers and their most important suppliers of parts. This was derived from the predominantly good development of passenger car sales as well as growth in the commercial vehicles industry. In the hydraulic and pneumatic industries, the

increased demand from customers in the first half-year continued and became even stronger in the last quarter. General mechanical engineering also posted very good results.

Sales revenues driven up by higher raw material prices

Availability of raw materials was relatively unproblematical, not only for the manufacturers but also for the distributors of cold-drawn steel. The increased industrial requirements could be met from adequate material stocks. There were no noticeable supply bottlenecks or shortages. Steeltec was able to meet the promised delivery dates through increased flexibility in production. The increased raw material costs made higher product prices necessary. The sales revenue development for cold-drawn steels varied according to product group. For free-cutting steels, price increases could be obtained during the second quarter and in the autumn. For ETG and ESP high-strength special steels, price increases could be obtained in the market to compensate for the increased costs. These measures were complemented by strict calculation of alloy and scrap surcharges. The investments made in 2006 were undertaken primarily under the focus of capacity expansion to secure our growth strategy in the high-strength special steels sector. The project for modernisation of the bar-drawing line, whose implementation has been in progress since summer 2003, was successfully concluded at the end of June. With this more than 100 m long multi-stage drawing line, Steeltec has one of the most modern bar-drawing plants in Europe. The high expectations regarding productivity and process safety have been completely fulfilled. In the autumn, installation of the new rod drawing line was completed. By the end of March 2007, the plant will be progressively run up to its planned capacity. From then on, we shall have available a further highly efficient state-of-the-art production plant for high-strength special steels.

Outlook still optimistic

The outlook for the current year is positive. In our target industries and main customers we identify a positive trend towards the use of special steels. This supports our efforts to increase the volume of ETG and ESP, to strengthen our market presence with the new HSX special steels, and with the targeted marketing of new applications of machining steels.

Trafilerie Bedini

This bright-steel drawing mill that belongs to the Ugitech Group plays an important part in the processing and distribution strategy. With the modern production facilities of this works, and as an extension of the Ugitech production plant, we achieve higher value creation within our own company. The products from Trafilerie Bedini go mainly to the automobile industry.

«Just-in-time delivery of steel by our distribution division helps the parts manufacturers to counter the cost pressure of the end-manufacturers.»

Regional sales expansion through market exploitation close to the customer

SCHMOLZ + BICKENBACH Distribution Germany

Overall, distribution from stock can look back on a highly successful 2006 in which for many product groups the availability of materials determined the price level. Some alloy surcharges, for example, doubled in the course of the year.

New business model proves itself

Through integration of the distribution activities into the new SCHMOLZ + BICKENBACH Distributions GmbH in 2006, the conditions for a new business model were created. Through central purchasing authority as well as advanced stock control systems, the new organisation opens new perspectives in materials management. For our customers, we want to be the reliable and competent partner, true to our claim of „Providing special steel solutions". This objective has also been supported with significant investments in warehouse technology and finishing capacities such as sawing, grinding and foiling. The Günther+Schramm Group in Mannheim, for example, has put a high-bay warehouse with sawing centre into operation. Because of the good economic situation, the procurement markets were partially affected by shortages. This was particularly the case for forged products in the engineering and tool steels, in tubes, and in stainless steels. In some cases this caused long replacement times.

Expansion continues

The forecasts for the current year continue positive, since the demand from end-consumers shows no signs of weakening. In individual cases, this will continue to cause bottlenecks. Thanks to framework contracts and reserved quantities, we nevertheless expect to be able to satisfy the wishes of customers. Through expansion of warehouse capacities, investments in state-of-the art high-performance saws and warehouse logistics at the central warehouse as well as the subsidiaries, we have created the conditions needed for successful activity to continue. The geographical expansion of our procurement channels is a strategic goal. In addition to our existing assortment, we are expanding our aluminium business further.

SCHMOLZ + BICKENBACH Distribution Europe

In 2006, the SCHMOLZ + BICKENBACH distribution companies in Europe experienced a balanced and good high level of demand in all product groups. Sales were not determined by price, but much more by availability. In 15 European countries, we are present with one or more warehouse locations. Everywhere, there was substantial growth in sales and earnings by comparison with the previous year. In 2006, the former main products of quality and engineering steel, as well as bright steel, were successfully augmented and

expanded with the tool steel and stainless product groups.

Investments in the future

To fulfil our claim of supplying complete special steel solutions from a single source, at all European sites we are investing in warehouse technology and processing capacities. Here too, the aim was to systematically expand our depth of value creation: In the Czech Republic, for example, in a hardening shop for tool steel, and in Switzerland in a fully automatic sawing centre.

Implementation of our Groupwide uniform corporate design and new internationally understandable claim „Providing special steel solutions“ was one of the most important marketing measures of the SCHMOLZ + BICKENBACH distribution companies in Europe. In addition, activities in the areas of distribution organisation, price policy, procurement possibilities from our own companies or worldwide purchasing sources, through to product-related communication and advertising, were systematically analysed, optimised and implemented.

Optimistic expectations

In 2007, economic development in the industrial countries will slow slightly. In our estimation, vehicle manufacturing will continue to be a growth market in Central and Eastern Europe, while in Western Europe vehicle manufacturing will slightly contract. In view of the slightly less dynamic global growth, machinery construction will also not grow as strongly in 2007 as in the previous year. The SCHMOLZ + BICKENBACH distribution companies in Europe expect business to continue its positive development. At the start of the current year, we opened sales offices in Estland and Finland. Further acquisitions in Europe will contribute to strengthening the existing distribution locations and penetrating into new markets.

SCHMOLZ + BICKENBACH Distribution Overseas

The former global sales organisation of Edelstahl Witten-Krefeld GmbH will be successively repositioned as the distribution organisation for all SCHMOLZ + BICKENBACH companies. With the repositioning, we want to make the sales network that is established on all continents accessible to the entire Group. Besides the resulting faster market penetration, we shall also obtain cost advantages.

China as locomotive for growth

In North, Central, and South America, as well as South Africa, Australia, and Malaysia, we are present with our own processing and distribution organisations. China is becoming an increasingly significant market. We are represented there with several subsidiaries that have a total of approximately 1,300 employees. In the reporting year, we acquired the majority stake in these com-

panies. In the next few years, we intend to strengthen our position there with investments in machines for finishing and heat treatment. We especially want to expand processing of demanding types of tool steel.

Networking as challenge

Through the planned networking of the international processing and sales organisation with the Group‘s production plants, we are in a position to follow our customers into the most important sales markets and to offer the desired products and services locally. This is a significant contribution to customer retention and, in the end, to the capacity utilisation of our factories.

Your contact partners

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«High-grade steels from SCHMOLZ + BICKENBACH make quality products possible for a world with a rising standard of living.»

Information for investors

		2002	2003	2004	2005	2006	
						12-months basis pro forma	**Consolidated financial statements**
Registered shares issued		13,773,094	13,773,094	13,773,094	13,773,094	30,000,000	
Unlisted bearer shares issued					5,096,045		
Dividend-bearing shares		13,773,094	13,773,094	13,773,094	18,869,139	30,000,000	
Cash flow per share 3)	CHF	0.28	1.71	1.64	7.52	-	-7.14 6)
Net earnings per share 1) 4)	CHF	0.09	1.49	3.24	6.48	9.67 5)	9.31 6)
Shareholders' equity per share 1)	CHF	13.60	15.13	18.33	26.47	30.52	
Dividend per share	CHF	0	0.20	0.50	1.00	1.25 2)	
Highest share price	CHF	6	7	18	44	97.5	
Lowest share price	CHF	3	2	7	18	37.9	
Return on equity	%	0.6	9.9	17.7	24.5	32.4	25.4

1) Before appropriation of retained earnings
2) Proposal of the Board of Directors
3) Before acquisition of Group companies
4) Based on the weighted average number of shares
5) The newly issued shares are included in the weighted average number of shares for 12 months.
6) The newly issued shares are included in the weighted average number of shares for 6 months.

Shares

All listed shares are registered shares. The nominal value is CHF 10.-. The registered shares are traded on the SWX Swiss Exchange under Securities Number 579 566. The Telekurs code is STLN. There is authorised capital of CHF 30 million.

Registration and voting rights, opting-out and opting-up

Registered shares that were purchased in the shareholder's own name and for the shareholder's own account are entered in the share register without restriction. There are no restrictions on voting rights nor any stipulations regarding opting out or opting up.

Shareholder structure

At the end of 2006, SCHMOLZ + BICKENBACH AG had 3,958 registered shareholders (end of 2005: 4,180). Significant shareholders are listed in the Notes to the Annual Financial Statements of SCHMOLZ + BICKENBACH AG. One member of the Board of Directors holds 5% of the voting rights. The shareholdings of the other members of the Board of Directors, as well as of the Executive Board and Business Segment Management, are negligible.

Number of shares per shareholder

Shares	Shareholders	%
1–1,000	3,563	90.0%
1,001–10,000	322	8.1%
10,001–100,000	64	1.6%
100,001–1,000,000	6	0.2%
>1,000,000	3	0.1%
	3,958	100.0%

Capitalisation, trading volume and tax value

At the end of 2006, the stock exchange capitalisation was CHF 2,762 million (2005: CHF 726 million). The average daily trading volume was 36,015 shares. The value for tax purposes on 31.12.2006 was CHF 92.05 per share.

Investor relations

Investor Relations are the responsibility of Axel Euchner, Chief Financial Officer, phone +41 41 209 50 35.

Important dates

Annual General Meeting: 26.04.2007

Governing bodies

Board of Directors

Michael Storm (1951, elected until 2009)
Chairman of the Board of Directors

Dr Hans-Peter Zehnder (1954, elected until 2007)
Vice-Chairman

Benedikt Niemeyer (1958, elected until 2009)
Delegate to the Board

Dr Helmut J. Burmester (1939, elected until 2009)
Member of the Board

Dr Gerold Büttiker (1946, elected until 2009)
Member of the Board

Benoît D. Ludwig (1945, elected until 2009)
Member of the Board

Dr Alexander von Tippelskirch (1941, elected until 2009)
Member of the Board

Executive Board

Benedikt Niemeyer (1958)
Chief Executive Officer

Dr Marcel Imhof (1948)
Chief Operating Officer

Axel Euchner (1961)
Chief Financial Officer

Business Segment Management

Walter J. Hess (1946)
Swiss Steel AG (former von Moos Stahl AG)

Karl Haase (1951)
Deutsche Edelstahlwerke GmbH [1)]

Victor Polard (1950)
Ugitech S.A.

Gerd Münch (1962)
Steeltec Gruppe

Peter Schubert (1958)
SCHMOLZ + BICKENBACH Blankstahl GmbH

Peter Schwarze (1966)
SCHMOLZ + BICKENBACH Distributions GmbH

Auditors

Ernst & Young AG, Zürich

Further information is contained in the Corporate Governance section of the Financial Report.
[1)] Merged on 01.01.2007



A complete range of services.

Technologically demanding industrial products are created in ever more countries, either by new local suppliers or subsidiaries of established global groups. Wherever such products are manufactured, we are there too. We support our customers with services that give them the certainty of always making the right choices at every phase – from making the steel, through processing, to shipping. That way we strengthen our customers‘ positions in their markets.

Production with comprehensive assortment

At our modern production plants in Switzerland, Germany and France, we produce a wide assortment of high-grade steels ranging from engineering, free-cutting, tool und stainless steels to special materials for the most complex applications. All of our factories are certified to several standards and are approved suppliers to the automobile, aircraft, aerospace, and mechanical engineering industries.

Processing to the desired manufacturing depth

We process our high-grade steels to the depth required by the individual customer. This starts with drawing classic bright steel in every conceivable form, continues with complex heat-treatment processes, and extends as far as the manufacturing of, for instance, fully processed fixed lengths for the automobile industry, or ultrafine stainless wires.

Distribution and services with global customer proximity

In all significant industrial markets of the world, we are close to our customers with our own subsidiary companies or through distributors. With more than 50,000 articles permanently in stock, in addition to our flexible production and processing capacities, we can always deliver, either by an agreed date or just in time. With this dense market penetration we also make a significant contribution to the market success of our customers.

SCHMOLZ + BICKENBACH AG

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