2006

HALF-YEAR REPORT

Swiss Steel

Dear Shareholder

STEEL MARKETS REMAIN BUOYANT

The measures introduced by our group in recent years are having a sustainable impact. In addition, further consolidation within the steel sector has played a key role in the favorable development of business. The global economic recovery is also impacting business positively, with raw material and energy prices experiencing a sharp rise and robust demand driving up revenue for our steel products.

SWISS STEEL RECORDS VERY POSITIVE HALF-YEAR RESULT

Our results for the first half of 2006 were highly favorable. All steel production and processing plants in Switzerland and Germany, as well as distribution companies, performed extremely well in their markets and contributed to our record figures. The acquisitions made in 2004 and 2005 have now fully impacted our half-year result. Edelstahl Witten-Krefeld GmbH was consolidated for the first time on 1 April 2005 and is now included for the full six months in this first half-year report.

In the period under review we successfully leveraged the favorable market environment in the steel sector and further strengthened our focus on long product business. Average revenues rose due to the afore-mentioned favorable market conditions and raw material price movements, as well as on account of improvements made in the product mix of most business fields during the first six months of 2006. Plant capacities were optimally used. While the flood damage suffered by the Emmenbrücke plant in August 2005 has left no lasting impact, efforts to restore all damaged facilities to working order continued to occupy our management and employees in the first six months of 2006.

The Swiss Steel Group‘s net income from sales rose to CHF 1614.9 million (2005: CHF 1272 million), while operating profit before depreciation and amortization (EBITDA) increased to CHF 171.5 million (2005: CHF 140.7 million), corresponding to an EBITDA margin of 10.6% of net income from sales (2005: 11.1%). Organic growth and growth achieved through acquisitions led to a rise in total revenues of CHF 360.0 million or 27.9%, while operating profit (EBIT) climbed by CHF 20.3 million or 18.2% to CHF 131.8 million (EBIT margin 8.2%; 2005: 8.8%).

In the first half of 2006 we posted record earnings after taxes (EAT) of CHF 86.0 million (2005: CHF 63.9 million) and a free cash flow before acquisition of Group companies of CHF 47.0 million (2005: CHF -6.1 million).

Total assets increased by CHF 176.7 million to CHF 1831.3 million (31.12.2005: CHF 1654.6 million), primarily as a result of additions to property, plant and equipment and an increase in inventories and accounts receivable trade. The higher figure for property, plant and equipment reflects the measures taken to implement our future-proof investment program in individual plants. At CHF 356.8 million (31.12.2005: CHF 367.2 million), net borrowing is now well below the credit lines at our disposal. A long-term consortium credit is available to the Group for the purposes of financing the operating business. The liquidity status is sound. The EUR/CHF exchange rate – an important factor for our Swiss plants – remained favorable in the period under review.

The Swiss Steel share continued to perform above average during the first half of fiscal 2006, rising by 97% and finishing on 30 June 2006 56% above the value at the beginning of the year. Income per registered or bearer share increased year-on-year by CHF 1.17 to CHF 4.56 (2005: CHF 3.39), while the annualized return on equity (ROE) amounted to 32.6% (2005: 37.3%).

The half-year financial statements were drawn up in accordance with Swiss GAAP FER 12.

SWISS STEEL'S TRANSFORMATION INTO A GLOBALLY ACTIVE STEEL GROUP

Integration of Edelstahl Witten-Krefeld GmbH, which was taken over on 1 April 2005, has turned us into a globally active steel group with branches on all continents. In conjunction with the distribution organization of our principal shareholder, the SCHMOLZ+BICKENBACH Group, we hold a strong position in the global market for high-grade steel long products. We intend to leverage this potential even more systematically in future, through even closer affiliation. This will enable us to stay close to our customers in all key markets and deliver the requisite offerings.

STAHL GERLAFINGEN AG: HIGH DEMAND FOR REINFORCING AND INDUSTRIAL STEEL

Due to demand exceeding our production capacity in all areas, prices for our products were continually driven up, resulting in a favorable above-target margin despite rising prices for scrap metal. In the reinforcing steel area, a German supplier conducted an aggressive pricing campaign in a bid to gain additional market shares in all mesh types. We responded to this by deciding to produce meshes also for the German market. These products sold well, and the revenues generated had a positive impact on operating profit. With our merchant bar/wide flat products, which make up our second pillar alongside reinforcing steel, we penetrated new application areas. And with regular deliveries to German shipyards, we made a breakthrough in this interesting market segment. We also supplied additional manufacturers of truck semi-trailers. Output at all production plants was significantly increased year-on-year thanks to the favorable market situation.

Further progress was made within the framework of the multi-year project to renew and extend the heavy product mill. In the first six months of 2006 the cooling bed was extended, and shears, stackers and strapping machines installed. The next major extension phase will be carried out this autumn, doubling production capacity and incorporating additional dimensions and qualities in the mill sequences. The descaling unit which is scheduled for completion at the same time will also enable higher surface-quality rolling.

We expect demand for reinforcing steel to continue at the current level, which will allow us to keep prices high. As a result of the two-month production stoppage at the heavy product mill due to renovations, capacity for this product area will be temporarily reduced during the second half-year. For further information, see page 7.

VON MOOS STAHL AG: IMPORTANT INVESTMENTS FOR THE FUTURE

Demand, which in recent years has been persistently weak, appears to have strengthened. Incoming orders for high-grade, bright and free cutting steel were significantly above the previous-year figure and well above target, resulting in high-level utilization of our steel and rolling mill capacities. Production volumes rose year-on-year, with sales of higher-grade steel also above both target and the previous-year figures. Prices remained generally stable in the period under review, although slight price increases were achieved in the segment for special steel for forging and cold-heading applications as well as for simple structural steel.

The situation in the scrap metal market remains unstable. Another sharp rise in scrap metal prices is expected. Energy prices are also expected to rise strongly compared to the previous-year period.

The important investment projects launched last year – installation of equipment for thermo-mechanical treatment and the pre-production of ring weights at the rolling mill – are proceeding according to plan. Following a test phase, the energy management system for optimizing electricity consumption is now going live at the steelworks. In order to increase

capacity and enhance quality, the company plans to add a fourth strand to the continuous casting plant and build a new raw materials logistics center.
The outlook for the second half-year looks favorable. Our high-grade, bright and free cutting steel has enjoyed robust demand since March, and this looks set to continue. The higher prices already achieved for the entire product portfolio for the third quarter of 2006 also reinforce this trend. Nevertheless, large western European steel suppliers are showing signs of aggressive behavior in an apparent bid to win market share.

STEELTEC GROUP: GROWTH IN ALL MARKET SEGMENTS

Demand for bright steel reached a new high over the first six months of 2006. All of our key sales segments report stable to slightly rising order volumes. Developments in the automobile industry are of particular importance for Steeltec. High numbers of car registrations were recorded in Europe and overseas exports. Production capacity load was high in all our main sales markets, driven by strong and at times rising demand for our high-resistance steel products and components. Growth is particularly robust in the market for heavy commercial vehicles. Since the beginning of this year, demand from the hydraulics and pneumatics industry has been rising slowly but surely. In recent months there has been a marked rise in orders for general structural steel products, although this has not yet had any discernible impact on the bright steel business.
Material availability is stable among bright steel manufacturers and traders. Since longer delivery times defined by some manufacturers are covered by stock in hand, there should be no supply shortfalls either now or in the foreseeable future.
Prices have developed in different ways depending on product group. While prices were adjusted downward for general automotive steel at the beginning of this year, prices for the special steel produced by Steeltec have remained constant. Adjustments to some basic prices necessitated by rising scrap metal prices were once more carried out successfully in line with the surcharge policy.
The forward-looking Steeltec project to modernize the bar drawing plant, a three-phase project commenced in the summer of 2003, was successfully completed at the end of June. The new bar-drawing production line, more than 100 meters in length, provides Steeltec with one of the most modern bar drawing plants in Europe, and has fully lived up to our high expectations in terms of productivity and processing reliability. This investment, coupled with the wire drawing plant which went on-stream in the summer of 2006, is consistent with the growth strategy defined for high-resistance special steel products.
We expect incoming orders and sales to remain stable in the second half-year. The requirements forecasts of some of our main customers are higher than planned. To date, the priority has been on high-resistance special steels. These increased demands have given rise to expectations of another price hike.

EDELSTAHLWERKE SÜDWESTFALEN GMBH: ECONOMIC RECOVERY IS HAVING AN IMPACT

At the beginning of 2006, expansion continued in all major economic regions. Following its good business performance in 2005, Edelstahlwerke Südwestfalen recorded continued strong demand in all key markets and target industries for the first half of 2006, driven by increased requirements from steel processors and higher stock orders from dealers. Business performance was also boosted by robust investment activities in Europe. The German economy also developed along the same lines. Following a period of stagnation in the last few months of 2005, economic growth accelerated in the early months of 2006 due to higher private consumption and sustained investment activities.

Higher order volumes were reported in particular for rust-, acid- and heat-resistant steel and structural steel. The market for these high-grade steel long products was particularly lively at the beginning of the year. The general market situation for structural steel remains stable. The automobile industry and related suppliers such as forges and bearing manufacturers are working at high capacity. Incoming orders, sales and revenue are high, while prices are stable and rising. In the period under review, the persistently high cost of scrap metal and alloys was offset by price adjustments in all key markets. The good level of demand was reflected above all in optimum utilization of capacity at all production plants.

Edelstahlwerken Südwestfalen is currently implementing an investment program to modernize and enhance the efficiency of its production plants. After nine months of planning and construction, the company's largest individual investment project for a new lifting bar oven for the combined facility in Siegen, worth CHF 20 million, was completed in May. The oven meets all expectations in terms of thermal output, energy consumption and decarburization of the blooms to be heated.

Since the market for high-grade steel is not expected to change significantly over the next few months, we expect business to continue performing positively.

EWK GROUP: IMPORTANT INVESTMENT PROJECTS FOR FURTHER POSITIVE GROWTH

The global economy was in good shape in the first few months of 2006. International leading indicators point to further strong growth, although the high prices of energy and raw materials have once more dampened economic development. After dipping in the fourth quarter of 2005, economic growth was ramped up again in the USA, driven by private consumption and high investments in business. Economic recovery was sustained in Latin America due to the ongoing rise in raw material prices. In Europe, the economic mood has visibly brightened, boosted additionally by robust corporate investment activities.

At the beginning of the year, countries in central and eastern Europe were still enjoying economic recovery. Economic growth remained strong in most countries in Asia, particularly in China and in India, where growth rates remain high.

Between January and June 2006, demand for high-grade steel long products continued to rise steadily, reaching levels well above expectation. This positive trend is reflected primarily in good use of capacity at all production plants, in the continued strong demand for high-grade steel and tool steel, and in the higher revenue and results for the current financial year.

Following stoppage at the end of 2005/ beginning of 2006 and commissioning of the new lifting bar oven, production at the steelworks got off to an excellent start, with specific performance even higher and shorter processing times. Production volume was raised to meet existing customer requirements. Mid-2006 saw the start of preparatory work to build additional heat treatment ovens in Witten. Renovation work aimed at bringing together the assembly operations at the Krefeld plant is proceeding according to plan.

Based on the good order situation in the first six months of the year, business performance is expected to continue in this positive vein in the second half-year.

NEGOTIATIONS ON THE SALE OF THE MAJORITY HOLDING IN STAHL GERLAFINGEN AG

As already announced, we are currently conducting negotiations with AFV Acciaierie Beltrame of Vicenza, on the sale of 65% of our holding in Stahl Gerlafingen AG. An Italian family-run company with steelworks and rolling mills in Italy, France, Belgium and Luxembourg, the Beltrame

Group produces some 2.5 million tons of steel per year and generates revenue of around EUR 1.1 billion. AFV Acciaierie Beltrame is the European market leader for unalloyed steel bars. Once the transaction is completed, Stahl Gerlafingen will benefit from optimal conditions for further growth and development. The collaboration with AFV Acciaierie Beltrame provides additional production and marketing potential. Swiss Steel's remaining 35% holding in Stahl Gerlafingen AG will also allow our Group to continue exploiting synergies with our majority shareholder, SCHMOLZ+BICKENBACH. We will also participate in future distributions of profit by Stahl Gerlafingen AG. Sale of the holding should be completed by the third quarter of 2006.

OUTLOOK

The global economy is still developing favorably. Demand for our products remains strong, and our plants are working at good capacity. The high cost of raw materials and alloys will largely be absorbed in our product prices. The rising price of electricity and natural gas is a source of major concern. Our efforts to produce and market high-grade steels will be strengthened, among other things by major investments in all our plants. We are continually expanding cooperation with our principal shareholder, SCHMOLZ+BICKENBACH Group, and in so doing increasing our presence in various sales markets. We will push ahead with preparations for the merger of Edelstahlwerke Südwestfalen GmbH and Edelstahl Witten-Krefeld GmbH, scheduled for completion on 1 January 2007. This merger will provide us with synergies in terms of marketing, manufacturing costs and investments. Once the planned sale of 65% of our stake in Stahl Gerlafingen AG is completed, the company will be deconsolidated and measured in future at equity. Our Group is optimistic about the second half of 2006, although production stoppages due to maintenance work must be taken into account.

Benedikt Niemeyer
Chairman of the Board of Directors

Marcel Imhof
Chief Executive Officer

23 August 2006

CONSOLIDATED FINANCIAL STATEMENTS OF SWISS STEEL – FIRST HALF-YEAR 2006 (WITH PREVIOUS-YEAR COMPARISON)

CONSOLIDATED INCOME STATEMENT (In CHF million)	1.1.–30.6.06	1.1.–30.6.05
Net income from sales	1'614.9	1'272.0
Change in semi-finished and finished goods	37.9	20.9
Currency effects	-1.2	-1.3
TOTAL REVENUES	**1'651.6**	**1'291.6**
Material expenses	-866.4	-707.5
Energy expenses	-122.6	-79.4
GROSS PROFIT	**662.6**	**504.7**
Auxiliary supplies and operating materials	-95.2	-59.5
Personnel expenses	-241.1	-186.7
Other operating and administrative expenses	-162.0	-126.1
Other operating income	7.0	8.0
Income from non-consolidated investments	0.2	0.3
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION (EBITDA)*	**171.5**	**140.7**
Depreciation and amortization	-39.7	-29.2
OPERATING PROFIT (EBIT)	**131.8**	**111.5**
Financial result	-8.7	-11.1
EARNINGS BEFORE TAXES (EBT)	**123.1**	**100.4**
Income taxes	-37.1	-36.5
EARNINGS AFTER TAXES (EAT)	**86.0**	**63.9**

*of which profit from the sale of property, plant and equipment CHF -1.6 million (2005: CHF 0.5 million).
of which extraordinary income of CHF 0.0 million (2005: CHF -1.7 million).

SWISS STEEL SHARE (In CHF)	FIRST HALF-YEAR 2006	FIRST HALF-YEAR 2005	2005
Net income per share	4.56	3.39	6.48
Shareholders' equity per share	29.73	22.92	26.47
Share price high/low	75/38	29/18	44/18

CONSOLIDATED BALANCE SHEET (In CHF million)	**30.06.2006**	%	**31.12.2005**	%	**30.06.2005**	%
Intangible assets	3.3		4.1		0.0	
Property, plant and equipment	499.2		468.9		437.3	
Financial assets	6.8		3.7		5.4	
TOTAL NON-CURRENT ASSETS	**509.3**	27.8	**476.7**	28.8	**442.7**	24.5
Inventories	731.6		693.8		682.3	
Accounts receivable trade	472.5		367.7		544.4	
Other receivables	58.5		47.2		58.3	
Accrued income and prepaid expenses	34.5		40.1		27.2	
Cash and cash equivalents	24.9		29.1		48.5	
TOTAL CURRENT ASSETS	**1'322.0**	72.2	**1'177.9**	71.2	**1'360.7**	75.5
TOTAL ASSETS	**1'831.3**	100.0	**1'654.6**	100.0	**1'803.4**	100.0
Share capital	188.7		188.7		188.7	
Capital reserves	94.3		94.3		7.7	
Treasury shares	0.0		-0.1		0.0	
Revaluation reserves	0.5		0.5		45.5	
Retained earnings	271.7		203.9		189.8	
Cumulated foreign currency conversion differences	5.8		7.9		0.8	
TOTAL SHAREHOLDERS' EQUITY EXCLUDING MINORITY INTERESTS	**561.0**		**495.2**		**432.5**	
Minority interests	0.0		4.2		0.0	
TOTAL SHAREHOLDERS' EQUITY	**561.0**	30.6	**499.4**	30.2	**432.5**	24.0
Liabilities from long-term debt	34.4		35.9		505.6	
Long-term provisions	294.0		286.7		229.1	
TOTAL LONG-TERM LIABILITIES	**328.4**	18.0	**322.6**	19.5	**734.7**	40.7
Liabilities from short-term debt	347.3		374.8		85.0	
Trade accounts payable	368.8		269.7		300.5	
Short-term provisions	143.8		108.9		164.5	
Other short-term liabilities	40.3		44.6		53.6	
Accrued liabilities	41.7		34.6		32.6	
TOTAL SHORT-TERM LIABILITIES	**941.9**	51.4	**832.6**	50.3	**636.2**	35.3
TOTAL LIABILITIES	**1'270.3**	69.4	**1'155.2**	69.8	**1'370.9**	76.0
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1'831.3**	100.0	**1'654.6**	100.0	**1'803.4**	100.0

CONSOLIDATED CASH FLOW STATEMENT (In CHF million)	**1.1.–30.6.06**	**1.1.–30.6.05**
Net income	86.0	63.9
Depreciation and amortization	39.7	30.0
Changes in provisions	42.2	40.5
Other non-cash positions	3.0	29.3
Income from non-consolidated investments	-0.2	0.0
Loss/(profit)from the sale of property, plant and equipment	1.6	0.0
Cash flow before changes in net working capital	172.3	163.7
Changes in inventories	-38.7	-23.8
Changes in accounts receivable trade	-105.9	-52.2
Changes in other accounts receivable	-5.6	-19.4
Changes in trade accounts payable	94.7	-83.9
Changes in other short-term liabilities	2.7	27.6
CASH FLOW FROM OPERATIONS	**119.5**	**12.0**
Investment in property, plant and equipment	-71.9	-20.3
Proceeds from the sale of property, plant and equipment	2.4	2.2
Other changes in financial assets	-3.0	0.0
CASH FLOW FROM INVESTING ACTIVITIES BEFORE ACQUISITION OF GROUP COMPANIES	**-72.5**	**-18.1**
CASH FLOW BEFORE ACQUISITION OF GROUP COMPANIES	**47.0**	**-6.1**
NET CASH EFFECTS FROM ACQUISITION OF GROUP COMPANIES	**0.6**	**-154.2**
CASH FLOW FROM INVESTING ACTIVITIES	**-71.9**	**-172.3**
FREE CASH FLOW	**47.6**	**-160.3**
Changes in liabilities from long-term debt	-1.5	364.0
Changes in liabilities from short-term debt	-27.5	-168.3
Dividends	-18.9	-6.9
CASH FLOW FROM FINANCING ACTIVITIES	**-47.9**	**188.8**
Effects of foreign currency conversion	-3.9	0.4
CHANGES TO CASH AND CASH EQUIVALENTS	**-4.2**	**28.9**
Cash and cash equivalents as at 1.1	29.1	19.6
Cash and cash equivalents as at 30.6	24.9	48.5
CHANGES TO CASH AND CASH EQUIVALENTS	**-4.2**	**28.9**

The previous-year figures were adjusted by recording investments in property, plant and equipment under financial leasing, and reporting changes in provisions for inventories and in accounts receivable trade as non-cash items.

SEGMENT INFORMATION

The Group is active only in the steel sector. The key sales markets are as follows:

(In CHF million)		NET INCOME FROM SALES 1.1-30.6		INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT 1.1-30.6	HEADCOUNT (POSITIONS) 30.6	
Switzerland	**2006**	**230.0**	**14.2%**	**17.4**	**1‘267**	**22.3%**
	2005	169.5	13.3%	13.0	1‘242	22.4%
Germany	**2006**	**711.6**	**44.1%**	**53.4**	**3‘951**	**69.5%**
	2005	618.6	48.6%	13.8	3‘804	68.6%
Italy	**2006**	**138.3**	**8.6%**	**0.0**	**8**	**0.2%**
	2005	123.5	9.7%	0.0	8	0.2%
France	**2006**	**146.4**	**9.1%**	**0.0**	**15**	**0.3%**
	2005	123.3	9.7%	0.1	15	0.3%
Other European countries	**2006**	**186.6**	**11.6%**	**0.3**	**18**	**0.3%**
	2005	137.4	10.8%	0.1	35	0.6%
America	**2006**	**150.9**	**9.3%**	**0.6**	**271**	**4.8%**
	2005	76.4	6.0%	0.4	277	5.0%
Asia/Australia	**2006**	**44.0**	**2.7%**	**0.1**	**108**	**1.9%**
	2005	21.5	1.7%	0.1	112	2.0%
Africa	**2006**	**7.1**	**0.4%**	**0.1**	**49**	**0.9%**
	2005	1.8	0.1%	0.1	51	0.9%
TOTAL	**2006**	**1‘614.9**	**100.0%**	**71.9**	**5‘687**	**100.0%**
	2005	1‘272.0	100.0%	27.6	5‘544	100.0%

THE COMPANY’S CORPORATE BODIES

BOARD OF DIRECTORS

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Dr. Gerold Büttiker

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Michael Storm

Dr Alexander von Tippelskirch

Dr Helmut J. Burmester

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Axel Euchner, Chief Financial Officer

Joseph Koller, Chief Controlling Officer/Chief Risk Officer

BUSINESS AREA MANAGEMENT

Max C. Diggelmann, Stahl Gerlafingen AG

Walter J. Hess, von Moos Stahl AG

Gerd Münch, Steeltec AG

Karl Haase, Edelstahlwerke Südwestfalen GmbH
Edelstahl Witten-Krefeld GmbH

CREATE VALUES WITH STEEL

Swiss Steel

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