

Bellach/Switzerland, 8.6.2005

## To our business partners

### Ladies and Gentlemen

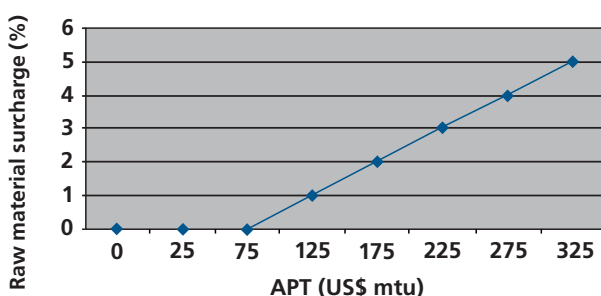
The world market prices for raw materials have risen sharply in the last few months. Everyone has certainly noticed the continuous price increases for fuels. The whole processing industry is affected by the general price increases of raw materials, which are being justified by the super-proportional increase in demand in the Asian markets and the associated limited availability of raw materials.

Since the beginning of 2004, the prices for the raw materials for cemented carbide and HSS have also risen in an extreme manner (see Appendix 1). This has led to a significant rise in the prices of raw materials for cemented carbide and HSS tools. Up to now, we have been able to compensate this increase in costs by increasing the efficiency in our production lines. In the last few months, however, the procurement prices for raw materials have risen to such an extent that we are no longer able to carry this cost increase on our own. There are also no indications that the situation on the raw material market will ease off in the next few months.

For the above-mentioned reasons, we are now forced to introduce a raw material surcharge for metal cutting tools made from cemented carbide and HSS. This raw material surcharge will be linked to the price notation for the raw material tungsten carbide, and will be re-determined by us on a monthly basis on the basis of market prices. We will explain the principles for the calculation of the raw material surcharges in the following paragraphs.

#### Carbide tools

Cemented carbide consists to 85 % of tungsten carbide. The raw material for the production tungsten carbide is ammonium para-tungstate (APT). APT is traded on the commodity exchanges, and there are also daily notations that represent the price per ton (MTU). Between the years 1990 and 2003, the average notation for APT was 50 US\$ per MTU (see Appendix 1). From 2004, the value of APT has risen to the record level of 200 US\$ per MTU at the end of May. An increase in the price of APT by 50 US\$ per MTU corresponds on average to a price increase of 1% in relation to the selling price of a tungsten carbide milling tool. The raw material surcharge to be levied depending on the price notation for APT is shown in Fig. 1.

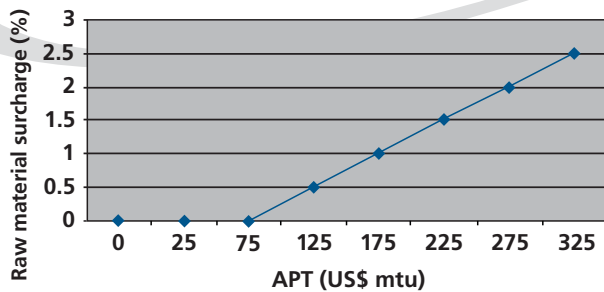


**Fig. 1:**  
Raw material surcharge for cemented carbide dependent on the price of APT

(Source for the APT prices:  
International Tungsten Industry Association, ITIA,  
[www.metalbulletin.com](http://www.metalbulletin.com))

## Tools from HSS

The price increases for HSS can be attributed above all to the increase in raw material prices for the alloying elements tungsten, vanadium, chromium and molybdenum. In principle, the same reasons apply for the increase in raw material prices for HSS as for cemented carbide. Tungsten constitutes the highest alloying component, and the prices of the other alloying elements behave in a manner congruent to tungsten. The price notation for APT is therefore also used as a basis for the raw material surcharge for HSS. An increase in the price of APT by 50 US\$ per MTU corresponds on average to a price increase of 0.5% in relation to the selling price of an HSS end milling tool.



**Fig. 2:**  
**Raw material surcharge for HSS  
dependent on the price for APT**

(Source for the APT prices:  
International Tungsten Industry Association, ITIA,  
[www.metalbulletin.com](http://www.metalbulletin.com))

## Method of calculation

In each case, the raw material surcharges for the following month will be charged according to the APT notation on the 30<sup>th</sup> of the previous month as the average value of the previous month, and will remain constant for the whole month. The first raw material surcharge will be imposed on 1.7.2005.

Reports on the price development of APT and the raw material surcharge resulting from this can be followed on our Homepage [www.fraisa.com](http://www.fraisa.com), while the official notation for APT can be found on the Internet address [www.metalbulletin.com](http://www.metalbulletin.com).

We hope that you will understand why we have been compelled to introduce this measure, and we assure you that we will do everything in our power to continue to provide you with cost-effective high-performance tools. We will also be pleased to be of assistance at any time should you have any further questions.

Yours sincerely

Fraisa SA

Josef Maushart  
CEO

Thomas Nägelin  
Sales & Marketing Director

**Appendix 1:**

**Price notations for the major raw materials for HSS and cemented carbide**

(Source: [www.metalbulletin.com](http://www.metalbulletin.com))

