President's Award Breakfast Keynote Address

John Ferriola, Chief Operating Officer of Steelmaking Operations, Nucor Steel

May 5, 2009 • St. Louis, Mo.

AIST President Andrew S. Harshaw presented John J. Ferriola with the 2009 AIST William T. Hogan, S.J. Lecture Award in appreciation for his keynote lecture presented before a sold-out crowd of 750 people at the AISTech 2009 President's Award Breakfast in St. Louis, Mo.

AIST President Andrew S. Harshaw (left) presents John J. Ferriola with the 2009 William T. Hogan, S.J. Lecture Award for his keynote address.

Back to the Future

Thank you for that generous introduction. It is an honor to have the opportunity to address the President's Award Breakfast.

Many of us are reflecting back upon the past these days, trying to figure out what happened to the booming global markets we were enjoying just one year ago. Determining which factors in the past led to success or failure in the future can be a challenging exercise, in the best of times. In the unprecedented economic climate we are living through today, it is a formidable but essential task.

And that is why, this morning, I am going to invite all of you to travel "Back to the Future" with me.

Many of you probably remember the 1985 movie, "Back to the Future." Michael J. Fox plays Marty McFly, a teenage boy who gets sent back to 1955, where he accidently attracts his mother's romantic interest, threatening his future existence and the future existence of his brother and sister.

Marty carries with him a picture of his family. As his siblings begin to disappear from the photo, he has to figure out how to set things right so he can get back to his future.

If we had a picture of our industry's global marketplace today, it would include three figures: the iron and steel industry, the economy, and the government. And what we have to do is make sure we are learning the right lessons from the past to set things right and make sure we are not erased from that photo.

Our job is to make sure our industry is not "erased"!

But before we look at the past, let's take a moment and discuss what future we are working toward. Let's paint a picture of how we want the future to look.

In our vision of the future, the global financial system has returned to health. Credit is flowing freely, and businesses and individuals are borrowing again.

In our future, governments in free market economies have worked hard to ensure that World Trade Organization rules are being enforced, cracking down on currency manipulation and illegal subsidies. Trade deficits have approached a fair balance, and the playing field for trade is level.

In our future, the commodities markets have stabilized, and consumer demand has returned to more normal levels. Economic stimulus money has jump-started demand around the globe and reduced oversupply. Another round of consolidation and modernization has been completed, especially in China, and companies have resumed manufacturing on an "as needed" basis.

At Nucor, we will not only be ready for this revitalized market, we will aggressively take the steps necessary to get there.

To do that, we need to travel back to the years 2000 through 2004, and examine what is the same, what's different, and what lessons we can learn from those lean years.

In 2000, the steel industry was reeling from a series of mostly self-inflicted problems. The U.S. market was extremely fragmented. Outdated, inefficient technologies had been sustained by favorable market conditions. Many companies carried high employee legacy costs.

John Ferriola presents his keynote address.

When demand dropped by almost 15% from 2000 to 2001, it was a crisis. Capacity utilization fell to 70% (Figure 1). Wall Street's capital markets abandoned our industry. Funds were not available to maintain or modernize our mills.

The result was a massive wave of bankruptcy and consolidation. Over 40 steel companies declared bankruptcy, 17 of which entirely liquidated their operations (Figure 2). Production from outdated facilities was replaced by lower cost, high efficiency mills.

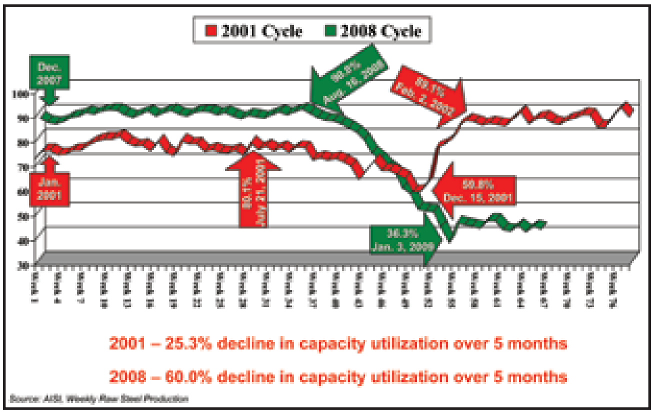
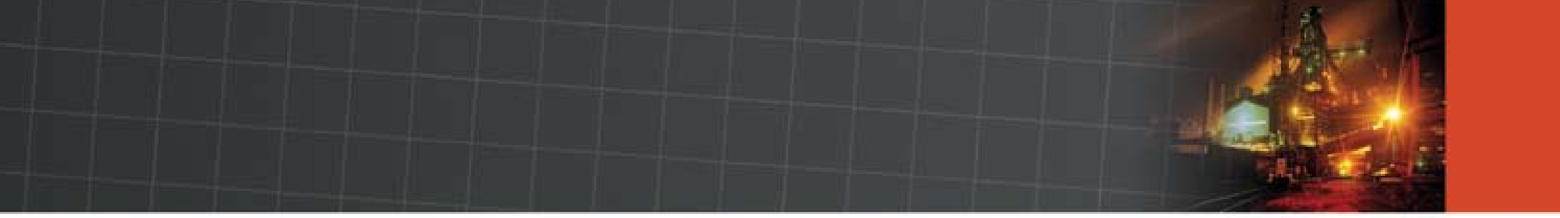


***Figure 1** — Steel capacity utilization in the United States, then and now.*

***Figure 2** — Steel bankruptcies in the United States, 1998–2004.*



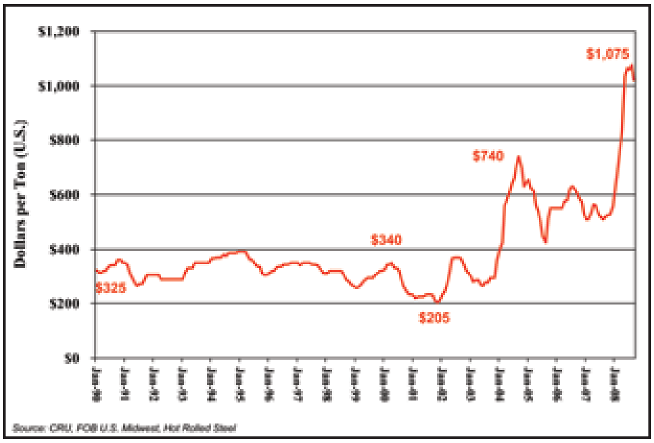


Figure 3 – Steel pricing for hot rolled steel, 1990 through the third quarter of 2008.

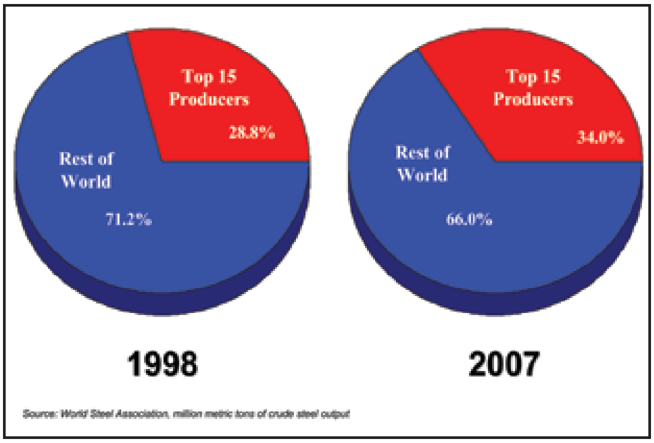


Figure 4 – Top global steel producers, 1998 vs. 2007.

By 2004, demand had recovered and scrap and steel prices had reached historic highs (Figure 3). Nearly 20 mergers and acquisitions were completed or under way, comprising almost 30% of U.S. capacity.

The top 15 producers in the world went from producing one-quarter of the world's steel to over one-third (Figure 4). Capacity utilization in the United States leveled out at nearly 100%. Better workplace practices and more flexible labor agreements were adopted.

These changes – although painful to a lot of the industry – were necessary to bring about a healthier and stronger iron and steel industry in the latter half of this decade.

What is different in 2009? Steel production is down almost 30% globally, and over 50% here in America – significantly worse than we saw in 2000 (Figure 5). But there are not as many problems within our industry that need to be fixed.

That said, there are still some opportunities for improvement.

- Consolidation needs to continue throughout the industry, particularly in the Chinese market.
- There is still obsolete capacity around the globe that is energy-inefficient and environmentally irresponsible, and it needs to be shut down.

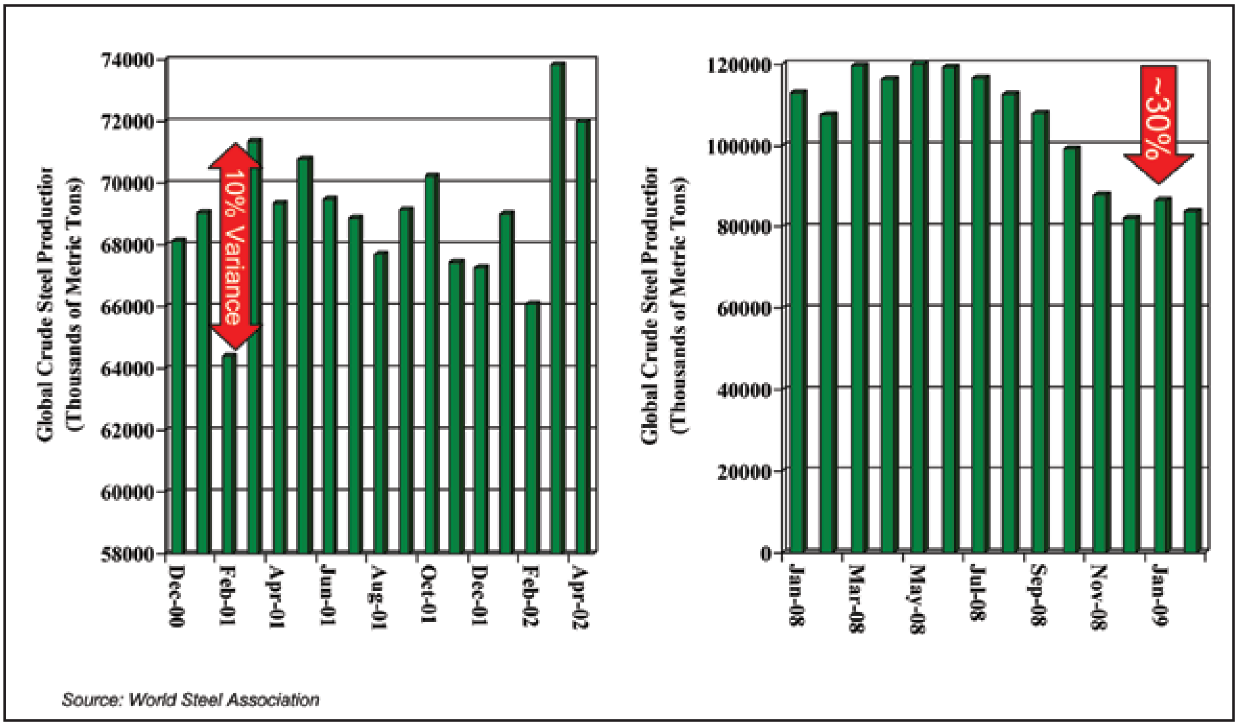


Figure 5 – Steel pricing for hot rolled steel, 1990 through the third quarter of 2008.

Figure 6 — *Value of U.S. dollar vs. exports, 1998–2009.*

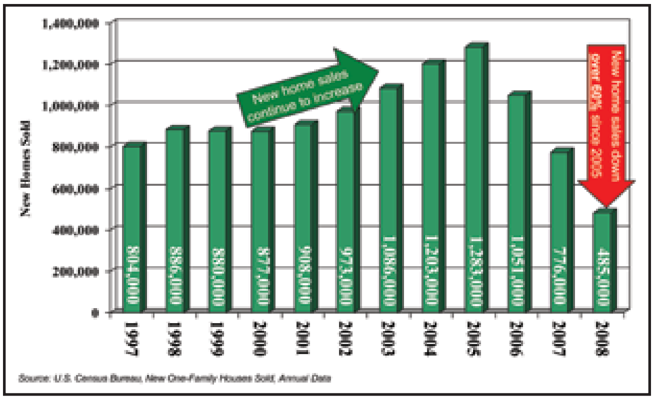


Figure 7 — *New home sales, 1997–2008.*

- We need to push the development of advanced steels to compete with other materials looking to meet our customer's needs for higher strength and lower weight.
- We must have a comprehensive and coordinated campaign against bad government regulations.

Although there is still some work to be done, as an industry we're in a strong position to succeed.

So, if the problems we are experiencing today are not primarily the result of our own mistakes, where do we need to take action?

One of the key differences between then and now is the economy and the nature of the current recession.

In 2000, credit was still available and consumers were using it to buy products. But because of the skyrocketing value of the dollar (Figure 6), they were buying imported products and not domestically manufactured products. Steel pricing dropped as demand for steel vanished. Companies like Bethlehem Steel disappeared while companies like Wal-Mart expanded.

Spending on consumer goods and new residential housing continued to grow (Figure 7). Credit was still available to those who had reason to spend it (Figure 8). The underlying financial system was still operating as if nothing was wrong.

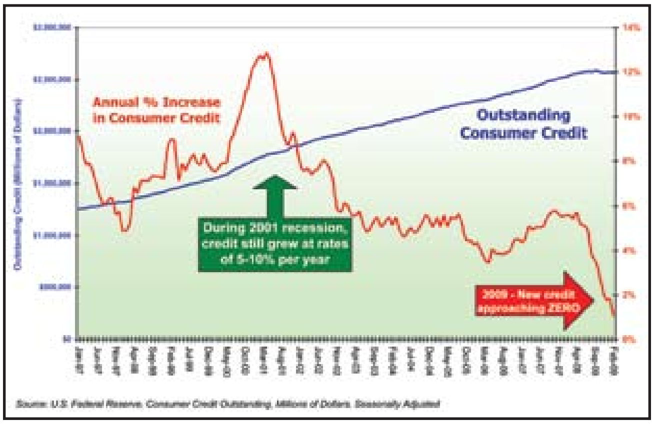


Figure 8 — *Consumer credit, 1997–2009.*

It would take almost another decade for the cracks in the financial system to break wide open.

The recent sub-prime debacle and the collapse of housing prices, followed by the resulting credit crisis have created a system-wide economic failure unlike anything we saw in 2001. The unavailability of credit for our customers has drastically reduced demand.

And we don't believe we'll see that kind of credit-fueled demand return any time soon. While we believe that, ultimately, the problems with the financial system will be resolved and credit will begin to flow once again, we also believe that our nation is transitioning from a debt-driven economy to a savings-driven economy. Consumers will be using less debt, and end-use demand will be determined by what they can afford as opposed to what they can borrow. This reduction in end-use demand will put pressure on our industry to maintain a balance of supply to demand.

This may seem like a bad thing — we all enjoyed the market created by "credit-on-steroids." But now we've experienced the hangover. And it's clear that highly leveraged demand is not a sustainable model for economic growth.

Another reason to be optimistic is because of the actions of the third figure in our picture — the government. But we need to keep the pressure on them.

In 2002, the Bush administration briefly imposed steel tariffs under section 201 of the Trade Act. Beyond those efforts to level the playing field for trade, the government took little action, and let our industry resolve its own internal problems.

But this time there is little more for us to do as an industry. So we need government to again step up to support American manufacturing and American jobs. There are some promising signs that they will.

The federal government passed the stimulus bill, which includes just over $57 billion for new infrastructure projects. Additionally, the retention of the "Buy America" clause will help ensure that American taxpayer dollars are used to help American workers. Now we need to make sure that this money is actually spent in accordance with the Buy America provision.

The Obama administration has indicated that it will seek to implement new regulatory controls on the financial industry. The purpose

is to provide more oversight and place appropriate restraints on risk-taking, and to restore confidence to the credit markets. We need to make sure this happens.

The government also needs to ensure that it is considering the needs of American manufacturing when determining policy.

This means not forcing us back into untenable relationships with our labor force through legislation like the grossly misnamed "Employee Free Choice Act" or as part of a national health care initiative.

It means not passing climate legislation that will merely encourage the relocation of industry to unregulated markets like China, which will actually increase global carbon emissions.

And it means not imposing new regulatory burdens that will cause energy costs to spike.

We need to make sure that our elected officials understand the impact of these policies on our industry.

Finally, we need to continue the fight to make the playing field level for trade. Globalization is a good thing; it expands our markets, creates new trade relationships, and allows goods and raw materials to flow around the planet. But when governments ignore or break the rules by which we agreed to trade – by engaging in currency manipulation, employing illegal export subsidies, or intervening in commodities negotiations – then our businesses are forced to compete against entire nations. Our government must hold these parties accountable at the WTO and in our trade agreements.

If our government and financial institutions can get their act together, and the iron and steel industry can remember the lessons we learned from 2000 to 2004, we will be able to make our vision of the future a reality.

In the movie "Back to the Future," Marty needed a bolt of lightning to power his time machine so he could get back home. But he didn't just sit around in his Delorean waiting to get lucky in a thunderstorm. He put a plan into motion to make sure he was in the right place at the right time to get the 1.21 gigawatts that would propel him to the future.

Nucor also has a plan to get back to the future, and we invite you to join us in action.

We have taken a leadership position on environmental stewardship, now being the largest recycler in the United States. Steel recycling is the ultimate "green job."

We have continued to realize production efficiencies that are good for the environment and good for business.

And we are forging ahead with new steel technologies to make sure we maintain the edge over substitute materials.

Through the intelligence, innovation and skills of our Nucor teammates, our company has become a leader in efficiency in every measure: raw material and energy consumption, conversion cost, and labor cost per ton. Our teammates have driven this efficiency through hard work and seasoned experience.

We have maintained our fiscal strength, remaining among the most financially stable steel companies in the world. We have retained modest debt and a strong cash position.

We are actively reaching out to our elected officials, in all our states and in Washington, D.C., to ensure they are getting the message: American manufacturing is the backbone of this economy. We put people to work at good wages and make high-quality products you can count on and are safe to use. If America's elected leaders take care of their part of the bargain, we will take care of our part!

Marty McFly made it back home to 1985 to find that, not only had he restored the future, but the confrontation he had caused between his father and the bully, Biff, led to a better future for them all.

We are on the verge of doing the same. Our industry is primed and ready to take advantage of a restored and revitalized American economy. We will come out of this downturn even stronger and more profitable than we went in.

Thank you for asking me here today to share my thoughts with you. And thank you once again for honoring me and the entire Nucor team with the AIST Steelmaker of the Year Award.

I look forward to working with all of you to make our vision of the future a reality. ✦

John Ferriola presents his keynote address before a sold-out crowd of 750 at AISTech 2009 in St. Louis, Mo.