The Iron & Steel Technology Conference and Exposition Town Hall Review

John Callaway, moderator

Recovering from a long sick leave that lasted more than four years, the improved health of the steel industry was the talk of the town. A panel of 10 steel executives discussed the dramatic turnaround at AISTech 2004 during the Town Hall Opening Session in Nashville, Tenn. In a panel discussion moderated by Chicago broadcaster John Callaway, steel producers and suppliers talked about everything from bankruptcies and job losses to making a profit and the future of steel demand. Answering questions that were posed from both Callaway and the audience, the panelists discussed the restructuring and consolidations. Excerpts from the Town Hall Opening Session are contained within this article.

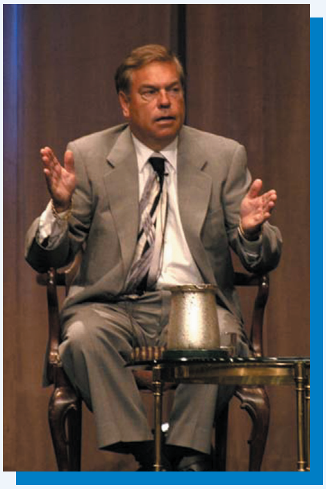
The industry executives are cautiously optimistic, despite concerns with unusually volatile prices for scrap and other raw materials.

"As we look to the future, focusing on the market will determine our continued success," said John Ferriola, executive vice president of Nucor Corp. "The three areas we need to focus on are consolidation, China and currency. If we watch, those three megatrends will determine the market over the next three to five years, and that will determine our success."

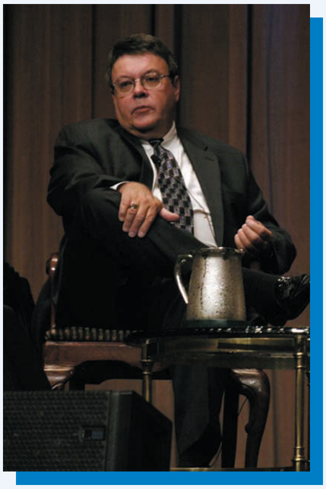
John P. Surma Jr., president and chief operating officer, U. S. Steel Corp., stressed the importance and asked attendees to carry the message of safety awareness to steelworkers. "Regardless of what else we do, if we aren't the safest company against all other world-class manufacturers, we are not successful. The successful companies are also the safest companies."

The Town Hall panelists (pictured below left to right) included **Keith E. Busse**, president and chief executive officer, Steel Dynamics Inc.; **Joseph Curtin**, president and chief operating officer, Tube City Inc.; **Robert A. Derks**, chief executive officer, Carmeuse North America; **John Ferriola**, executive vice president, Nucor Corp.; **V. John Goodwin**, chief operating officer, International Steel Group Inc.; **H. Avery Hilton Jr.**, executive vice president — mills, CMC Steel Group; **Charles Messina**, vice president, Praxair Metals Technologies; **John P. Surma Jr.**, president and chief operating officer, U. S. Steel Corp.; **David Sutherland**, president and chief executive officer, IPSCO Inc.; and **Patrick G. Tatom**, president and chief executive officer, WCI Steel Inc.

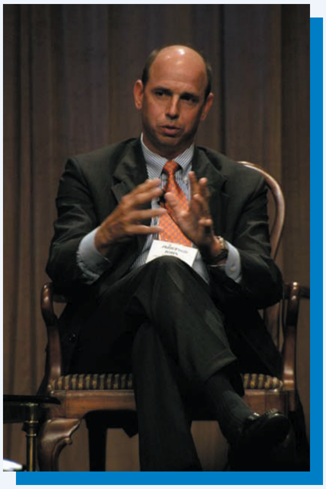
Q: When did you sense that the steel industry was turning around?



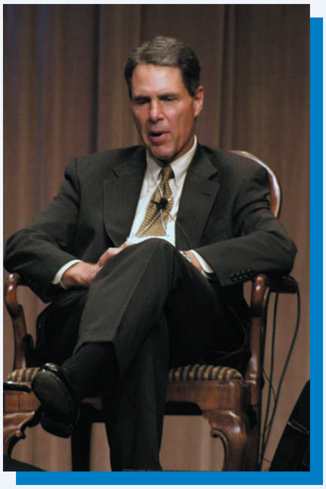
John Goodwin: On a wintery night in 2002 in Cleveland, an old friend of mine, David McCall, (USWA District 1 director) was looking for somebody who wanted to put any kind of money into the LTV Steel Co. to get it out of bankruptcy. There wasn't anyone, with one exception of a guy from Nucor named Rodney Mott. Through these two men, we learned the power of people, whether union or non-union. If you have the right leadership on both sides of the equation, anything can happen. Dave McCall is a man of vision for the steelworkers and knew that major change had to take place for the industry to have any future while sitting on top of 22 bankruptcies. Dave and Rodney joined forces and put together a groundbreaking and innovative contract with the help of the leadership of the union and the management. When you think of the companies that now make up ISG, three of them — LTV, Acme and Bethlehem — had a 17 million ton capacity, and we came very close to that capacity being gone from this country. But it did not go away because of two men with vision, knowing that the basic integrated steel industry had to change and change dramatically.



Keith Busse: I believe the sea change came in the fall of 2003. You have to look at this industry through the veil of the best of times and the worst of times, and I think we were the inverse of that. This industry has moved with the worst of times for many, many years, with the devastation of the dumping activity of 1998 and 1999. The industry started to surge, but in the year 2000, the economy fell into a recession which short-circuited moving forward. The worst year was 2001. 2003 was a mediocre year, but by the end, the market took off; and as a result, restructuring took place. That had to happen because of the bankruptcies that occurred, because of restructured labor agreements and because of capital costs of older technologies that ended. The industry consolidated, and that was a major sea change event.

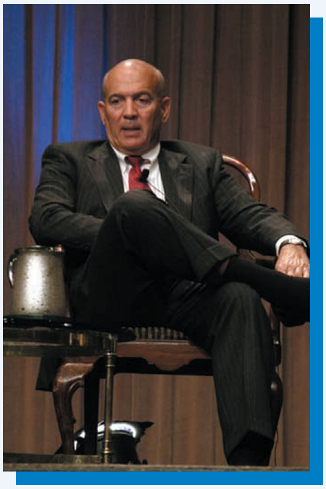


John Surma: IISI held an industry meeting in 2001 in Paris, with senior executives charged with predicting the megatrends that would shape the industry for the next five years. Of those in the steel industry who were there, not one of the experts mentioned China or raw materials. There is a lesson to be learned in that the experts didn't see the changes coming. And there may be things coming now that we don't see either, but the trends that resulted in the steel shortage today, or at least the supply and demand balance, were building then. Perhaps the experts didn't look hard enough. In 2003, U. S. Steel tried to find a way for consolidation to occur when we saw the possibility of a new deal with the union based on productivity, where we could make steel with the more flexible work rules that were pioneered by the ISG contract. We began to have some reasonable position to generate some capital, and with a few things coming together at one time — a new position with labor and the opportunity for capital — we could actually add assets and become a growing company. We were just about over the edge, and I emphasize that it was a very, very close call for the industry at that time. It was a very courageous position by the steelworkers. The changes were necessary and were courageously undertaken by the steelworkers, not just by the leadership, but by the rank and file. It was also a courageous position by President Bush as well. The president gave us a chance to generate some capital, and some management who were willing to take a risk saw a vision for a better industry, not just more of the same.

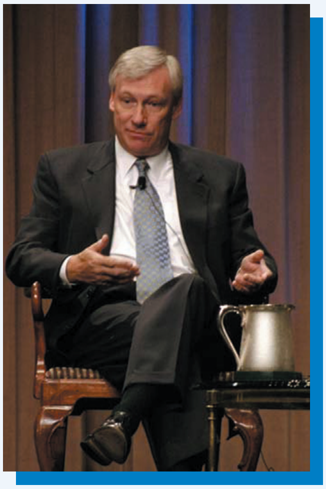


Patrick Tatom: Ironically, at WCI, we started feeling success with the filing of bankruptcy. We were one of the last to file, as we held off as long as we could, but in September 2003, we filed. [Going forward from that point] it was the affirmations of our customers and our business model and the products we produce — the need for those in the marketplace was a huge affirmation for us. The United Steelworkers had to support us with our business model. They were big on consolidation, and as a small steel producer, we

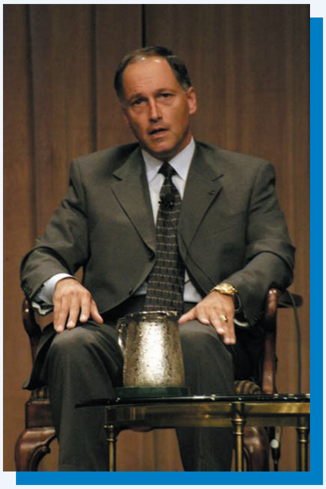
Q: With the many recent changes, is the steel industry in a healthy position as we look to the next three to five years?



Joseph Curtin: We hope it's healthy, but as a supplier, we are a little nervous. We've come through several years of being hit very hard with the number of bankruptcies out there. I doubt that there's any supplier who has been part of the steel industry who hasn't been hit hard in some way, shape or form. There are some companies that are healthier than others. Hopefully, the prosperous times will continue and allow everyone to rebuild. But if this economy would change, if there is another terrorist attack in the U.S., the economy could reverse itself very quickly. If something happens in China with their steel capacity growing the way it is, near 270 million tons, they could start dumping steel in the world marketplace and it could make a significant difference to all of us.



Robert Derks: As a critical supplier, one of the sea changes that we've seen is as we've changed our business model, the steel companies have come to the table in a cooperative fashion to recognize our needs as a supplier for the long term and understand that we had been under-invested in our facilities and had difficulty being a good, reliable supplier. We're now working with everyone on a much more cooperative basis than we had in the past. That is healthy for the industry. The vendors have a lot to offer, if given the chance. We see that change literally throughout the industry, and it has been a very positive change. We're in the process of rebuilding our facilities, and we need another couple of years yet because our facilities were not kept up as we were going through the financial difficulties of being a supplier to the industry during bankruptcy. So we are rebuilding and reinvesting heavily to meet the current and future demand. Some things we have little or no control over, but we're very positive. We see changes in the working relationships that allow our customers to lower their costs in the future.



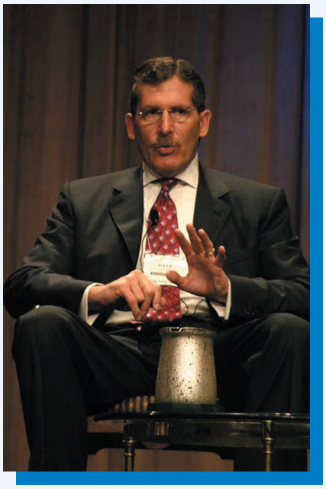
Charles Messina: From a global perspective, I see a lot of investments taking place around the world. I see domestic companies making investments in foreign countries to enhance their position and soften the cyclical peaks and valleys that we've seen in the last 25 years. Domestically, I see a dramatic change in the leadership in the steel companies. I see strong leaders able to push decision making down to the plant level and the supervisor level as a result of downsizing and consolidation and the education of managers today. We have very sophisticated people running companies that are more in tune with economies today, rather than just making tons.

Avery Hilton: We are cautiously optimistic. The consolidation of our industry has given us a lot of reason for optimism. Particularly when the tough times come again, there will be more discipline in the marketplace and there will be better rationalization and utilization of capacity than before. On the downside, China is a threat. I was recently visiting a minimill there with the capacity of 6 ½ million tons. Today, they're installing equipment to double that capacity to 13 million. That's just one example of the tremendous growth in steelmaking capacity. If the demand for steel products reduces dramatically, that capacity has to go somewhere, and it could certainly be a threat to our shipments. I'm concerned about the raw materials — not only availability, but pricing. We've seen alloys double and triple, and the electricity cost is increasing. Almost all of the commodities that we use, not withstanding scrap, are going up dramatically. We have been able to pass those increases on, but how long will that last? When the consumers quit buying the material at those prices, that will become a big question mark. As long as demand is good, we've very bullish on the steel business.

Q: Is there a quality issue in the industry today? Are steelmakers still as concerned with quality?

John Ferriola: The quality of the steel that is being put out by the industry as a whole is better than it has ever been. There is a continuing focus on quality. Speaking for Nucor, we have very sophisticated quality control programs There are more quality programs in effect today than there were several years ago. The technology has advanced to where we have machines to measure quality information for us. It's there, it's available, it's computerized and it's more efficient than it was five years ago.

David Sutherland: I believe that the level of quality and the attention that we're paying to it is as high today as it has ever been. Our company's incentive programs deal as much with the quality of the product going out as it does with the volume of it. And our workers can see their pay fluctuate on a daily basis as to whether it's good material or bad. Quality is very important. The technology that has come along with the introduction of new facilities is such that the technology keeps the quality control information for you. There is less human intervention, and it is more of a function of a piece of equipment telling you if the gauge or width or grade is right.



Q: How are steel producers dealing with the education and recruitment issues?

John Ferriola: The issue is twofold. One, some schools are closing, and the programs aren't as active as they have been in the past; and two, the steel industry is not glamorous. At Nucor and some other companies, there's a real focus on going out to the universities and doing some active campaigning and active recruiting. We have to make our industry more attractive by sharing information with the students. Today, people have a misguided vision of what the steel industry is. If you have a young electrical engineer just coming out of college and going into a facility like Berkeley, S.C., or Crawfordsville, Ind., where they can see the technology, they are amazed at how it differs from what they have in their minds. It's an educational process of letting the students know what the industry is all about. If we do that, we can attract young students.

Q: What are your overall thoughts on the steel industry today?

David Sutherland: I don't underestimate the implications of the restructuring and the consolidation that has taken place. It has been significant and it's not only domestic. While we will always remain a cyclical industry, I think the nature of the cycles going forward will be different than they have been in the past. The nature of our business in terms of the depths of the peaks and valleys and the spreads of the cycles will be very different. That will leave all of us with a lot of challenges but also many opportunities and a great place to invest, both as managers of steel facilities and to those who supply us.

President's Breakfast Keynote Address

Rodney B. Mott, President and Chief Executive Officer
International Steel Group
Thursday, Sept. 16, 2004

The Dynamics of Our Industry: Changes, Challenges and Commitments

Today I want to talk about the industry and talk about a different tone that I think the industry is going through. I use the title, "Changes, Challenges and Commitments," and I do believe it's an exciting time for the steel business. It also has been a dynamic industry through the ups and downs of the cyclical business. But I think it is time to recognize some of the changes we have faced are changes that were well intended, are necessary and are behind us; that we can look forward to the challenges of today and certainly — as yesterday's town hall panel talked a lot about — both the changes that were key to the industry and the challenges ahead. And maybe some of those challenges that were brought on are related to the success of the industry. Certainly we have to talk about and understand the commitments that we make to our industry, and believe me, they are pretty basic, but important to understanding the key to our long-term success.

As the keynote speaker, I feel obliged to tell you how the world looks according to my crystal ball.

In the town hall meeting, the panel was asked to talk about some significant change that they think has made a difference in the industry in recent years. They made some excellent points, and I'd like to reiterate some of those and add some thoughts to what was presented.

I broke down the changes that we faced recently into five different categories:

Rodney B. Mott, president and chief executive officer of International Steel Group Inc. and future chief executive officer of Mittal Steel Co.'s U.S. operations, Mittal ISG, has more than 30 years of management experience in the metals industry. Prior to assuming the leadership of ISG, he was president and chief executive officer of Pechiney Rolled Products North America, a division of Pechiney SA. Mr. Mott began his metals management career at the Fairless Works of U. S. Steel, where he held positions of increasing responsibility during a 14-year tenure.

He entered the minimill steel business as superintendent of operations for Lone Star Steel, a division of Lone Star Industries. He then joined Nucor as department manager for hot rolling as part of the team that built and started the first flat roll facility at Nucor. He advanced to the position of vice president/general manager of Nucor Steel, where he was responsible for the construction and start-up of Nucor's two newest flat rolled steel mills.

Mr. Mott holds a master's degree in management science from Trenton State University and a bachelor's degree in industrial engineering from Northeastern University.

Rodney Mott

- Global changes — basically things that affected all of us, a lot of which were beyond our control.
- Legacy changes — again, some historical problems and adjustments we had to make for the industry.
- Cultural changes — the overall focus on productivity and cost control that goes with that.
- Consolidation changes — that was much needed and probably the most significant change in the industry.
- Economic changes — changes, again, that were beyond our control, but we have some charts and statistics that will explain how these changes have made a permanent change in our industry.

Global Change

Bankruptcies. The most significant changes globally have been the bankruptcies. We're hopeful the bankruptcies are behind us now.

They were painful; the bankruptcies were not predictable. We know they caused a lot of stress and moral issues in the industry. But again, there was probably no recourse, and let's look to the fact that they are over with and our industry has become much stronger, as it relates to the financial wherewithal and the fear going forward.

Imports. The next topic that I think has changed permanently is the fear of imports. I'm not saying that imports won't come back. I want to recognize the fact that imports are necessary in our business and will always be part of our business. We want imports to come in on a fair trade basis. We want to recognize that our industry can be cost-competitive on an international basis if trade is fair. But we do need to recognize in our industry how we have to flex for the future. How our marketplace, when they have an increased demand for steel, can count on us to support the additional materials that come in to support manufacturing in this country.

Tariffs/duties. We've talked a lot in recent years about tariffs and duties — are they necessary? Again, they were properly used in 2001 with the Section 201 tariffs, which allowed a window for restructuring in our industry. This was a very proper use by the government interfering with business on a free trade basis, to allow long-term restructuring.

We need to keep watching what's happening with imports. We need to be monitoring that as the existing system is set up to do, but I don't think we need to be in fear of the imports coming as we were before.

Exchange rates. Exchange rates tie right into the thought on what happens on imports. If exchange rates stay in line and are allowed to float on an international basis, we can compete again. We have a very strong industry here in North America.

International prices. We're seeing a change in international prices. International prices are moving up. International pricing has typically supported the domestic pricing in our industry. Yes, there are times when exchange rates or interest rates can affect the way people do business around the world. But over the long haul, the international pricing has always been at a discount to domestic pricing. And over the long haul, our customers have always supported the domestic steel industry and have a willingness to pay a premium for the quality and the service they get in North America.

Legacy Change

Another change that we've seen, I refer to as the legacy change.

Mature industry. It's been a mature industry; there's been too much attention focused on it being a rustbelt industry. It is mature — let's be afraid we don't leave the maturing to a dying industry. Let's go back to being a vibrant industry. Let's not use the word *mature,* other than it is a mature business model and that we're going to improve that going forward.

Downsizing. Yes, there's been downsizing. There's been downsizing related to companies failing and also downsizing due to lack of capital investment coming back into our industry. We need to put that behind us and get back to reinvesting in the industry.

Shutdowns. The plants that have been shut down — well, some of these plants did not come back. But you know, with the productivity gains we've seen throughout the industry, and the growth of the minimills coming back with a new, very cost-effective capacity, we have a healthy industry. To shut down plants, it was probably proper rationalization and it was a needed reduction in capacity overall.

High employment costs. High employment costs have been talked about for a lot of years. Again, let's put it behind us. Employment costs on an hourly basis are going to stay high, but with the emphasis now on productivity in the workplace. The cost per man-hour in North America, where our workers are the most productive in the world, allows us to de-emphasize this model. High employment cost is a way of life. It's necessary to keep a good, skilled work force in place.

Health care costs. We've also had a lot of talk about runaway health care costs. Well, we've made some adjustments to that.

Working with the union leadership, looking across the alternatives in our benefits organizations, all the companies have done a good job of adjusting their medical costs and still provide good security to the employees and their families.

Safety nets. We've also developed good safety nets — a way for people to have security if the steel company should fail. Some of these safety net items have been the use of the PBCG to prop up the retirement program. Some of the other safety nets are the health care tax credit program — again, the government stepped forward to help the retirees; companies like ISG stepping forward and doing a transition assistance program, a program that allows the older workers to move on into retirement with some supplement for the early years of retirement. And of course, a lot of attention has been given to the VEBAs, the willingness of the companies like ISG to take a very large percentage of the profits during the good years and put it into funds for the retirees. So you can see the changes in legacy have been addressed, and it makes the industry much stronger going forward.

Cultural Change

Next I'd like to talk about what I believe is the most significant change, and that would be the change in culture. Steel is an industry that has told the outside world, the investment world, that we're old and mature and set in our ways. Well, now we've created an industry with a new culture. A culture that will accept change — change in every part of the business.

Motivated work force. We have motivated work forces. They are willing to try different things to make their companies strong, and the companies are willing to accept that the workers are a very vital part of the success of the company.

Union cooperation and leadership. I don't know how this industry could have gone forward without the spirit of cooperation that we've seen from the union's national leadership. Every day now, as we go forward in our plants, looking to see how we're going to run the operations, we count on the union leadership to also be part of that. Basically, we learn the business from those on the shop floor, very experienced and skilled workers working with management — a management that's focused on business issues and not operational issues to make the workplace better.

Job consolidations and flexibility. Workers who are willing to accept more responsibility, workers who will take additional assignments, or a change in assignment as needed in order to make the company more effective and enhance the productivity model - productivity that's world-class. And we have to apologize to nobody for our high-paid workers.

Effective production bonuses. And of course, effective production bonuses. Certainly, workers are always motivated to do good for their company but would like to share in the financial gain. And I think whenever we look at workers who are doing more, or a plant that's running exceptionally, the workers should share in that.

Trust and responsibility. We also work with the model of trust and responsibility – and you're hearing this more and more across the industry.

Less supervision and staff. Places where we can work with less supervision and fewer staff, possibly even no supervision, with a work force that knows its job and is properly motivated.

Empowering the workers. What a great tool we freed up there. What a hidden asset that we all got great payback on for free. Workers that will tell us how to make better quality, how to improve yields. Workers that will tell us different ways to schedule operations. And of course, workers who will help us make the better decision of where to spend capital in their facilities in order to make it a stronger business.

I always get a thrill referring to a quote coming from Leo Gerard, the USWA president: "The United Steelworkers of America… and ISG have embraced a new working relationship that will set the standard in the steel industry in this country."

This is a quote we are so proud of at ISG. We were the ones who worked with the union to set the new standard in the relationship with the union. We've set a standard with a labor contract that will be used by all our peer companies. But again, we feel that it's proper for the industry, and we look forward to using this contract with the union for the long term in order to make the business stronger.

The United Steelworkers of America… and ISG have embraced a new working relationship that will set the standard in the steel industry in this country.

— **Leo Gerard, USWA president**

Consolidation

The next topic we refer to is consolidation (diagram of companies) — certainly a big change going back to the year 2000. So many different companies, so many different hurdles to face. A shrinking marketplace. An unwillingness to give up market share when the market is going soft.

What you see today is the leaders now in consolidation — ISG, U. S. Steel, Nucor, and more recently, Gerdau — going forward with this consolidation. Consolidation is very important in our industry. We need to go forward and do more. In the future, the big three will certainly be there, and we have a question mark below that. That's not to say that others will go away. It implies that they are going to adopt a different business model. Some will become more of a niche player in special products; some will focus on a certain marketplace, maybe value-added products only; some will focus on a particular region, while they may go forward and merge together to create a fourth large

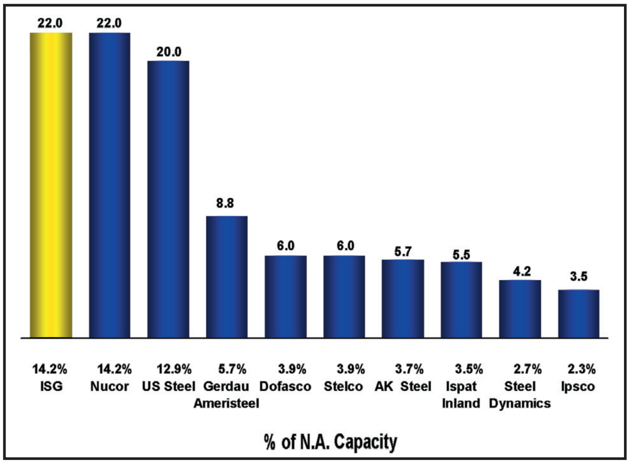


Figure 1
North American steel producers and their relative production capacities. (Source: GS Equity Research)

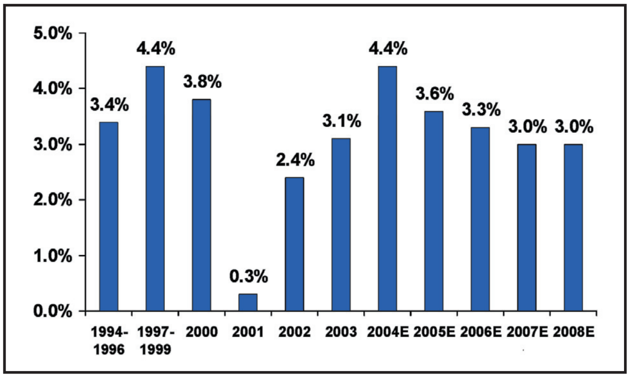


Figure 2
Gross Domestic Product. (Source: Metal Strategies, July–August 2004)

company, or possibly be absorbed further. But either way, however it turns out, consolidation has been good.

Market strength. What do we get out of consolidation? The real key to consolidation, to us, is the market strength we get.

Not individual companies in a soft market that are afraid to reduce their operations and afraid to take on the major customers, so therefore, they push the prices down. We won't have that in the future. We will have companies that can face the large companies with confidence and make sure we get a good return.

Operational flex. We'll also have the operational flex that we need in our industry. Remember, we have a cyclical industry; it will go up and down over time. There will be a time, different from today, when we need to cut back production, and if you have only one blast furnace in your company, that's a difficult thing to face, as opposed to the companies who have multiple operations and can usually schedule outages or major projects at a time when the market goes soft.

Reduced overhead. Certainly, as far as reducing overhead goes, we've taken thousands of people out of the corporate staffs by consolidating the companies.

Optimized facilities and improved CAPEX plan. As for optimizing facilities, there is a lot of work we can do. And of course, there's the improved CAPEX plan. There's been so much wasted capital in each company trying to compete in so many marketplaces, all doing the same projects and ending up with overcapacity in our industry. On a consolidation basis, we will be much more effective in targeting the capital.

Economic Change

In Figure 1, illustrating North America's largest steel producers, ISG is shown to be one of the largest. We use a chart referring to the basic steel capacity, and ISG and Nucor are equal in capacity in creating semi-finished product. Some companies will produce a little more with a higher capacity of utilization, others will be into more shipments, but again, the big three are leading the way. Gerdau is making a strong move, going forward to become the fourth largest, and we are anxious to see how this turns out in the future.

I want to talk a little about the changes in the economic world that we face. Figure 2 shows what happens in our economy — how we got to where we were, and where we are going. The chart indicates gross domestic product in the North American economy, which was traditionally run with a 3½ to 4 percent window. All of a sudden, the GDP fell off in 2001. As I've said earlier, these events were beyond our control.

As the economy picked up, the 4.4 percent that we're facing in 2004 is a growth rate that nobody expected, higher than even the historical levels, and there is no quick way to react to it. That's why we have some of the stress in our business. Going forward, we believe that the economies will run 3 to 3½ percent. It will keep our business strong and keep steel demand up.

As you can see, there is a correlation between steel demand and the economy. Figure 3 illustrates domestic steel consumption. Steel demand and consumption were a little bit slower in 2001, but they are increasing this year and are expected to increase next year, up to a more normal level. Again, we're hopeful of sustaining for the long term a level of more than 130 million tons a year.

Going back to the subject of imports, Figure 4 shows that imports traditionally have been around 25–28 million tons in our industry. In 2001, imports got too high as a relative basis for our overall economy. They fell off in 2003 and 2004, which can be attributed to the steel shortage we have this year. This year the steel import level is too low and will have to be adjusted. But you'll also see in the future, going back to the 28–30 million ton level of imports, you'll notice that the top portion of the chart is the one that is changing most significantly. That's the semi-finished materials coming in. That

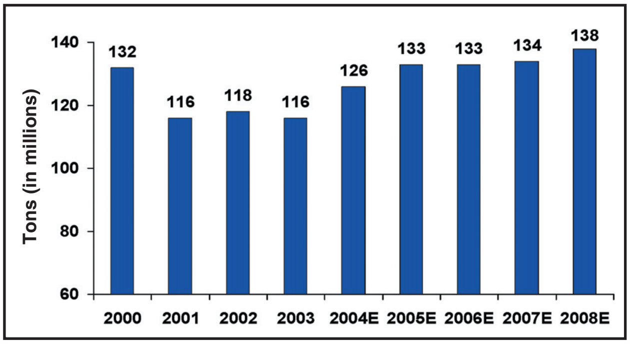


Figure 3
Apparent domestic steel consumption (domestic shipments plus finished steel imports less exports). (Source: AISI and Metal Strategies, July–August 2004)

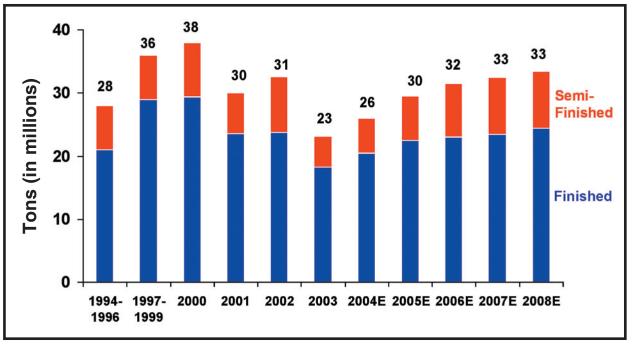


Figure 4
Steel imports. (Source: Metal Strategies, July–August 2004)

is where our industry needs to flex. We need to bring in slabs from offshore and run them through our finishing operations in North America.

One of the things that have affected our business is exchange rates. Figure 5 represents a grouping of international exchange rates. The dollar got too strong in 2001 and 2002. That led to the cheap imports coming in. I don't know if it was dumping, but I do know that the exchange rates affected that dramatically. We are seeing a more normal exchange rate now and going forward. We believe that, as it normalizes into the rates shown on the chart, our business will be stronger and the imports will be in balance with our own production.

With that said, let's face the challenges.

Challenges

Material shortages. The challenges of today include material shortages in all commodities. We're facing it in all our alloys, every one of our additions to steel, all the commodities that we touch.

The first challenge in materials is scrap. You can see in Figure 6 how cheap scrap got just a few years back, all the way to below $100 a ton. That is not a level that is sustainable, not a level that would allow reinvestment in scrap processing or a collection system. Scrap prices have to be higher in order to allow more scrap to come back into the marketplace, and there has to be reinvestment back into that business.

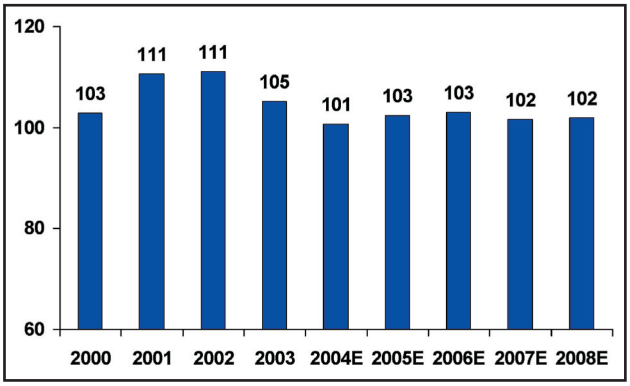


Figure 5
International exchange rates (US$ Trade-Weighted Index 1996 = 100). (Source: Metal Strategies, July–August 2004)

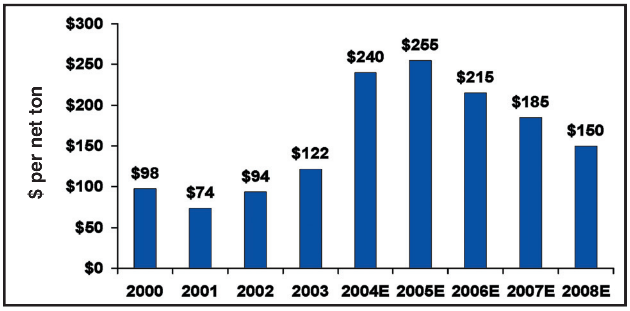


Figure 6
Scrap prices. (Source: Metal Strategies, July–August 2004)

Should scrap be as high as $300? No way, that's too high of a return. There's something wrong when scrap prices go that high. But I believe it's a short-term situation. I think when people see the money that could be made in scrap, more scrap will be coming back. But of course, we also know that there is a limited field of scrap, and there has been a lot less steel put out in recent years, so there will be less scrap coming back.

So we see pretty much a normal demand in that area.

Coke prices are another concern. The integrated mills are all worried about coke. You can see in Figure 7 how low coke prices were just a few years ago — less than $100 a ton. They stepped up to a level of about $150 last year, and that was probably a proper pricing for coke. Below $100 was too low. Today's pricing, which you see spiking in the graph, is not sustainable and will not be there long-term. Coke can be made for $60 a ton, over the cost of coal.

You can make adequate return on coke on the basis of $60 over coal, and we think that's what it will be long-term.

Facility utilization. There's still room to go as far as matching up the facilities to the market demand is concerned.

The way to take cost out of the business is to maximize service and minimize freight. There also needs to be a focused product mix, where the facilities focus on the products they make best,

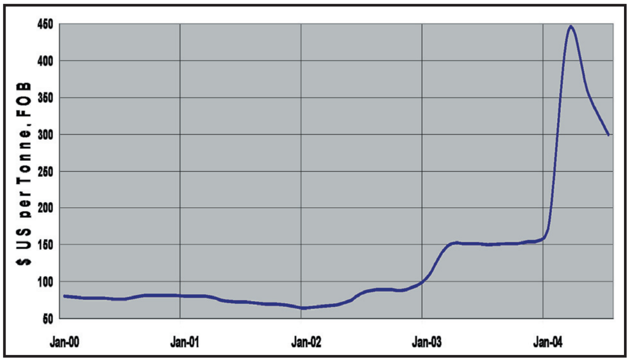


Figure 7
Coke prices: Chinese coke (10.5 percent ash) export price. (Source: WSD)

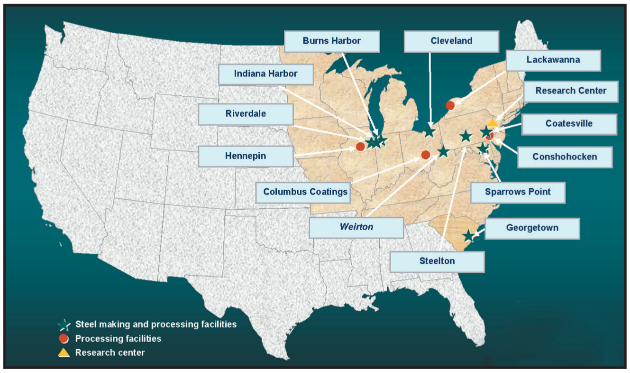


Figure 8
Production facilities close to key customers.

not all plants making all products. That allows us to optimize production.

Longer production runs and better yields will mean higher productivity and lower cost. But along the way, we still have to evaluate underutilized facilities, and what I see is a great amount of excess capacity, especially in the cold rolling area.

What we've done within ISG is look at our facilities and try to get them to take a focused approach. Four of our plants are clustered in the Chicago area and can work together on a regional basis so they're not competing in the marketplace (Figure 8). And each mill can take the lead in a particular product category and market segment. ISG plans to use the same approach going into the Midwest and the East Coast. Sparrows Point is not teamed up with the other plants, other than the semi-finished materials, but it is also positioned to open up ISG in the international marketplace.

Managing energy costs. Every one of our engineering groups should focus on how we're going to manage energy long term.

In the energy world, the change we have to go through is recognizing that what we see in the press is not necessarily what we face in the industry. We can cover ourselves on long-term contracts. We are going to get better at using hedging mechanisms to protect our industry through the changes and the energy costs. Our engineers are getting better and better at using alternate sources, switching from natural gas to coal in the blast furnaces, switching from coal back over to oil when oil comes down, and then reversing that cycle today when the oil prices are very high.

The other thing we need to focus on is vertical integration. What a wonderful world we have when we can go back and integrate our operations. Minimills are talking about integrating backward. The steel mills should look at the blast furnace shops integrating backward into the coal mines, and in the energy world, we should look at integrating backward and using more cogeneration units and using more waste gas to make energy for our own use.

Markets, pricing and surcharges. The markets, the pricing, and the use of surcharges certainly are a challenge going forward.

Where are we in operating costs today? Back in March 2004, the industry showed very diverse operating costs (Figure 9). We at ISG are very proud that we're on the left side of the chart, representing the lower side of cost operations. If we had looked at that six months ago, we would have been grouped with other minimills. Today we're grouped with other integrated producers. Basically we're getting to be an industry with more of a level playing field, more of a normalized cost of doing business, and a cost where we can compete on an international basis.

We will look forward to recognizing the pricing of scrap costs on track together and that we will be able to anticipate where pricing is going. Figure 9 shows steel prices — prices that have doubled from one year to the next. We can't live this way. Our marketplace will not be able to survive long-term if we do not get better control or a better predictor of our own prices.

Conservative financial plan. The next challenge is financial planning. The financial planning that we are going to have to do — again, recognizing that we are a cyclical business — is going to have to be very conservative. We have to go through each

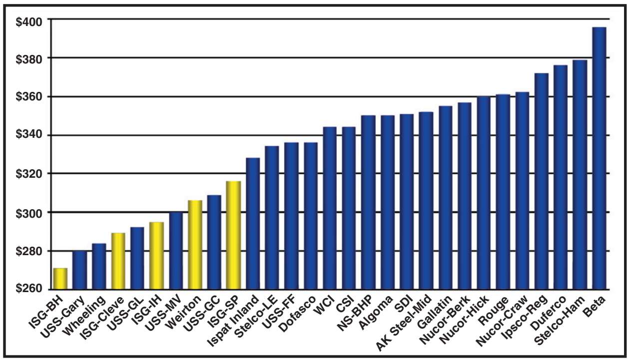


Figure 9
North American hot band operating and overhead costs ($/ton), excluding legacy and financial costs. (Source: Metal Strategies, March 2004)

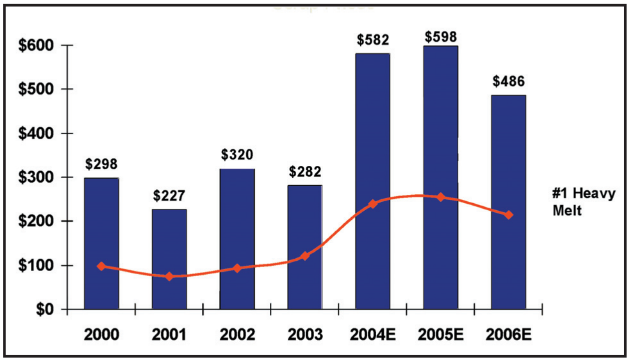


Figure 10
Hot rolled sheet prices ($/net ton). (Source: Metal Strategies, July–August 2004)

company to get a stronger balance sheet and a stronger capital structure. *Investment grade* is the buzzword. We need to have investment grade statistics so that we have access to the capital markets, so that we can go out there and fund some of the good projects that we have going forward. But we have to maintain good liquidity because there will be another cycle coming, and we all want to be able to weather the storm. We will want to weather it not by going into debt, but by having the reserves necessary on a short-term basis. We need a growth strategy, of course; everybody in the business world is required to have a growth strategy or accept the fact that their business is dying.

I already touched on the use of CAPEX. The investment world wants to hear us doing the little things — increasing productivity, taking out a bottleneck, getting the highest possible return on every dollar that you spend.

And of course, the Sarbanes-Oxley Act* is another one of those challenges. We all have to address it. It's going to be very, very necessary for the executives of our industry to show the world that we are an industry that has been proud of our tradition of integrity in financial reporting.

The world. The final challenge that I'd like to talk about is the world around us. Rather than go through and talk about all the issues, I will just bring up China. We can talk about the world, and we end up talking about China over and over again. The world is a challenge to us, but in talking about the world events, economies like China are a lot like talking about the weather. And what an issue of the day! (Editor's note: Hurricane Ivan caused extensive damage in many areas of the eastern U.S. at the time of AISTech 2004.)

Is China the hurricane that hasn't been named? Is it coming after us and going to get us? Well, you know, just like the weather, the thing to do with China is to track it. Track it, anticipate it, hear what damage it is doing, listen to the statistics coming out of there and adjust to it as needed.

We can't predict the weather. We can't predict what China is going to do. All we can do is track it and be ready.

We need to recognize that developing countries *will* affect our economy. They will also sputter as they grow, but their growth will be continued.

Commitments

My final thoughts for the business are that we need to return our focus to the commitments that we need to make in the business; commitments to shareholders, to customers and to employees; commitments where it is the company's role to really stay out of the way and just facilitate the commitments that we are making.

Employees. Our commitments are first to the employees. Recognizing in our business that we have a very difficult work environment, we require very highly skilled workers doing dangerous work. They are entitled to a very fair pay — a pay that is commensurate with the industrial climate we are in. They should be the highest-paid individuals in the industry, highest paid in the world of manufacturing in North America.

Benefits. Our workers should also know that their families have good benefits and good health care while they are at the workplace. Our government has to recognize the need for businesses to provide health care benefits for workers and adjust the national health care programs to recognize what the workplace does in providing benefits.

And workers are entitled to share the gain. As the companies are having windfall profits, we should share them, just like we share the pain when business is lousy and we have to go to reduced work schedules.

Job security. I think employees are entitled to job security. I also think employees have to recognize the need to adjust their work schedules so that they can maintain their security. I've already talked about sharing responsibilities with employees — the need to have open communication with employees if they are going to help us run our business.

Communities. And of course, there is the commitment to the families and communities where our workers are. Our operations affect more than the workplace and more than our companies. Our taxes are going into the schools and into the local communities, and as we've gone through various consolidations, we've seen over and over again the effects we have on these communities.

Retirees. We've taken a lot of punishment for leaving retirees behind. We are going to continue to recognize that retirees are a very vital part of our business. They got us here and we've got to recognize them going forward. But we also have to

*The Sarbanes-Oxley Act of 2002 introduced major changes to the regulation of financial practice, corporate governance and public accounting.

get society to adjust to the needs of the retirees. We have to work harder with the political process on national health care for retirees. This, in turn, will lead to a more level playing field, where our costs represent the same business model that all of our competitors in North America have. What is done on a national and international basis should reflect retiree health care as a social issue and not a business issue.

How is it going for our employees? We feel that we've made a commitment to them and we're getting good feedback. The employees at ISG know we want their opinion; we know they're working harder and they're working together. We feel that we have put them in charge of the operations, and we count on them to use their own judgment. Overall, that leads to a great attitude in the workplace. There are some, though, who recognize that working in a steel mill can be fun. I like this quote that we picked out of an employee survey from a caster pulpit operator, "I was baby-sitting my three grandkids. Working here is a lot easier than watching those kids."

Customers. We need quality in all our products. Without the quality, a customer is not going to buy the product. The customer is entitled to good service. The customer is entitled to us working on continued product development. That is probably the key to the research and development that we need to do in the industry. New products and new applications for steel must continue to be developed.

The customers are entitled to having steel available when they need it. They are entitled to knowing what the price will be at the time they put the order in, so that they can work on their business plan. We have to work more with our customers on coming up with a mechanism that makes steel pricing predictable for those business plans. And certainly, we need relationships with customers, but in turn, we should be able to align ourselves with the winners in each of the businesses where we are selling steel. We cannot have the weakest of the customers pushing down steel prices and putting our industry at risk.

Shareholders. Shareholders want to know that you have a proper product to sell, you can make it on a competitive basis for your marketplace, maintain strong capital structure and focus on profitability. Not just token profits, but profits that represent ongoing adequate return on capital invested, and that's where we have to go in our business on a long-term basis. Your company reputation and your industry reputation mean a lot. We've always had an industry with integrity, but now we need to have an industry that is dynamic and is promoting the idea that it is a growth industry. We want to make sure that we are an employer in an industry of choice as we go out and try to recruit people into our industry.

And we all need a strategic growth plan. At ISG, we go out and make a commitment to our shareholders, and we have to develop a growth plan. We have a growth plan right now targeting six arenas. As you see on the chart, we have several areas that we focus on internally for growth in the company whether it be yield, facility coordination, value-added processing or domestic acquisitions and eventually international acquisitions, but along the way, we need to have more of a focus on raw materials. We think each of those will enable us to grow our business.

Industry Outlook for 2005 Versus 2004

Average prices	Higher
Annual shipments	Higher
Raw materials	Flat
Energy	Flat
Employment	Higher
• VEBA	
• Profit Sharing	
Profitability	???

Outlook on the Future

The final point I have is to give a few comments on a brief outlook for the future. And I don't pretend to be a pundit like those on Wall Street who like to tell us where our industry is going. But I do have a few quick opinions of what I see over the next six to nine months.

What I see in the world around us is strong world economies. Everywhere, steel demand is going up as more and more countries are developed. Overall, demand for steel will remain strong. In the United States, we will see sustained economic growth, barring some unforeseen geopolitical event.

We need to talk a little bit more — it is a dynamic industry. We need to reflect on the changes we've gone through, the challenges and the commitments that we're going to make within the industry. But I do hope, as we go forward, rather than some of the gloom and doom of the recent years, and rather than the concern with some of the issues beyond our control, we'll get out there and promote the idea that the steel industry in North America *is* a dynamic industry. ✦

In October, Ispat International NV and International Steel Group Inc. approved a definitive agreement to merge. The newly combined company, Mittal Steel, will be the largest and most global steel company in the world, with operations in 14 countries on four continents and 165,000 employees. Lakshmi N. Mittal will be chairman and chief executive officer of Mittal Steel. Wilbur L. Ross, chairman of ISG, will become a board member of Mittal Steel. Aditya Mittal will be president, group chief financial officer and a board member. Malay Mukherjee will be chief operating officer. Rodney Mott, president and chief executive officer of ISG, will become chief executive officer of Mittal Steel's combined U.S. operations.