ability, strength,
diversification
results

Commercial Metals Company

2002 Annual Report

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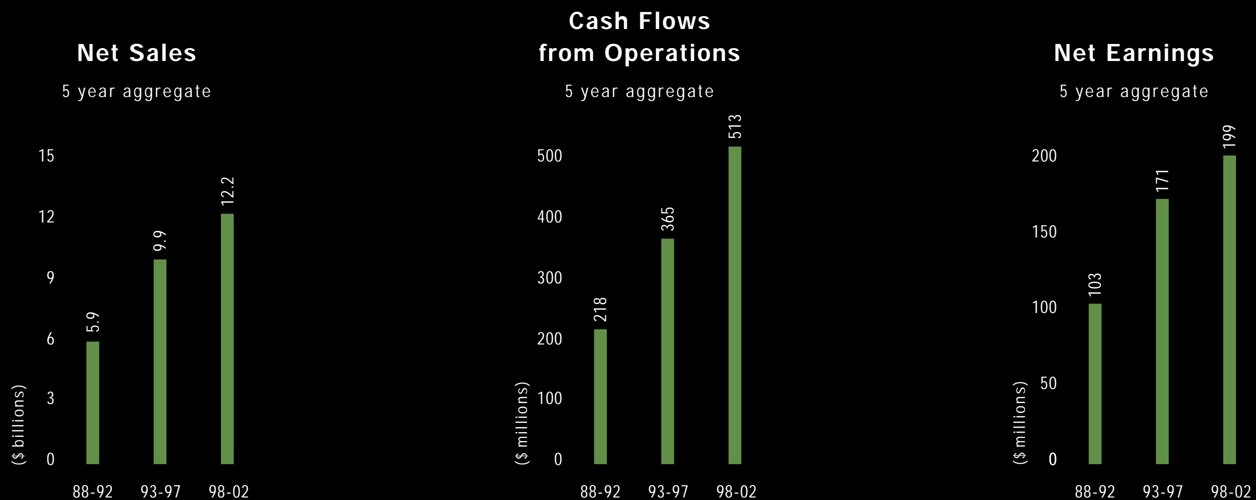
Commercial Metals Company and subsidiaries manufacture, recycle and market steel and metal products and related materials through a network of over 130 locations. The Manufacturing group includes 4 steel minimills, 29 steel fabrication plants, 5 steel joist plants, a castellated and cellular beam fabricator, 4 steel fence post manufacturing plants, a heat treating plant, a railcar rebuilding facility, 27 concrete-related product warehouses, a railroad salvage company and a copper tube mill. Recycling operations include 44 metal processing plants across the Sunbelt. Through its network of 16 marketing and distribution offices, 4 processing facilities and other investments and joint ventures around the world, the Company markets, distributes and processes primary and secondary metals, steel, ores, concentrates, industrial minerals, ferroalloys, chemicals and industrial products used in a variety of industries.



Financial Highlights

(in thousands, except share data)	Year ended August 31, 2002	2001**	% Increase
Net sales	$2,446,777	$2,441,216	—
Net earnings	40,525	23,772	70
Diluted earnings per share	1.43	0.90	59
Cash flows from operations***	107,423	94,945	13
Net working capital	379,005	273,713	38
Cash dividends per share	0.275	0.26	6
Cash dividends paid	7,521	6,780	11
Average diluted shares outstanding*	28,275,291	26,320,988	7
Stockholders' equity	501,306	433,094	16
Stockholders' equity per share*	17.58	16.56	6
Total assets	1,230,076	1,081,671	14

Consolidated Trends

(dollars in millions)	2002	2001**	2000**	1999**	1998
Net sales	$2,446.8	$2,441.2	$2,661.4	$2,251.4	$2,367.6
Operating profit	82.6	67.0	98.0	94.5	86.1
Average net assets	793.0	835.0	789.1	671.6	571.7
Cash flows from operations***	107.4	94.9	114.7	102.7	93.5
Operating profit return on net assets	10.4%	8.0%	12.4%	14.1%	15.1%
Cash flow return on net assets	13.5%	11.4%	14.5%	15.3%	16.3%
Cash flow return on beginning stockholders' equity	24.8%	22.7%	27.4%	26.9%	26.3%

Tonnages Shipped

(short tons in thousands)	2002	2001	2000	1999	1998
Steel mill rebar shipments	971	833	808	725	779
Steel mill structural and other shipments	1,200	1,070	1,045	960	1,229
Total mill tons shipped	2,171	1,903	1,853	1,685	2,008
Fab plant rebar shipments	559	535	472	391	390
Fab plant structural, joist, and post shipments	425	451	483	450	449
Total fabrication tons shipped	984	986	955	841	839
Scrap metal tons processed and shipped	2,568	2,308	2,380	2,036	1,948

* Prior years restated for stock split.
** Restated, see footnote 14.
*** Before changes in operating assets and liabilities.

To Our Stockholders

Fiscal 2002: Ability/strength/ diversification/ results in the face of major external challenges.

For the year ended August 31, 2002, your Company reported net earnings per diluted share of $1.43 on net earnings of $40.5 million, substantially above the prior year results, and net sales of $2.4 billion. Cash flows from operations before changes in operating assets and liabilities for the year were $107 million or $3.80 per diluted share. Net earnings for the fourth quarter were $9.0 million or $0.31 per diluted share on net sales of $673 million. For the fourth quarter of 2002, cash flows from operations were $30 million. The Company generated free cash flow for the third consecutive year.

Our results for the year were relatively good under very challenging circumstances. However, our results for the fourth quarter were below our expectations; conditions in our important end use markets generally showed little improvement and in some instances deteriorated, and our average selling prices declined in most parts of our Manufacturing segment. Our vertical integration, product diversification and geographic dispersion all contributed to our relatively better performance for the fiscal year. In a sense, our track record is proven more in difficult times than in good.

Major positives for the year included solid results in steel manufacturing and fabrication, decent earnings in copper tube production, a turnaround in Recycling and improved profitability in Marketing and Distribution. The principal negative factors were the persistent global economic slowdown and very high import levels at depressed prices in some of our major product lines, which was not offset by those of our businesses that benefited from higher imports. Domestic competition, in turn, became even more aggressive.

Fiscal 2002 began only 11 days before the tragic events commonly referred to as 9/11. Suffice it to say, the ramifications were extraordinary. There were as well a number of other major external developments unrelated to 9/11 which altered the year significantly. Perhaps the preeminent event was the final collapse of the hi-tech bubble which spread to the entire stock market, compounded by the corporate financial and accounting scandals. While there is some disagreement on the extent to which the equity market weakness impacted the economy, there is no disagreement that—following a robust recovery during the first calendar quarter of 2002—the growth of the U.S. economy slowed dramatically. Similarly, the global pickup also lost momentum except for non-Japan Asia.

Business investment has been an area of notable weakness. The biggest drop in our key markets has been in non-residential construction spending; indeed, construction of factories, offices and other commercial buildings has fallen to the lowest level in six years. Public works outlays for institutional buildings, highways and bridges have remained at a healthy level, but not enough of an offset to the reduced expenditures in the private sector. Residential construction has slipped, although it remains at a high level, and hotel/motel building dropped. Consequently, we experienced a margin squeeze in our Manufacturing segment and our fiscal fourth quarter was considerably weaker than normal.

A helpful development was the weakening of the U.S. dollar during the latter part of our fiscal year, although the impact was not as strong as we expected. One reason is that world production and supply of many steel products and nonferrous metals remained excessive.

Another positive development was the Section 201 trade action on various steel products imported into the U.S. However, absent much of a decrease in domestic supply for most of our steel mill products, we have not seen a significant pickup in prices.

The bottom line is that conditions in our important end use markets generally showed little improvement and in some instances deteriorated.

We split the shares and increased the cash dividend.

On May 20, 2002, the Company's board of directors declared a two-for-one stock split in the form of a 100% stock dividend on the Company's common stock. The directors declared a quarterly cash dividend of eight cents per share; this new cash dividend rate on the post-split shares represented a 23% increase in the cash dividend. CMC has paid 152 consecutive quarterly cash dividends.

Last year's financial highlights included further balance sheet strengthening and financing achievements.

With respect to our balance sheet, fiscal 2002 was a year of significant accomplishment. At year-end our stockholders' equity rose to $501 million or $17.58 per share. Net working capital was $379 million, and the current ratio

stood at 1.9. Long-term debt as a percentage of total capitalization declined to 32% while the ratio of total debt to total capitalization plus short-term debt fell to 32%. Good cash flows from operations, the sale of SMI-Owen and a substantial equity infusion from the exercise of stock options were major contributors. At year-end we had no short-term debt and, in fact, had significant temporary investments.

During fiscal 2002 we consummated several key elements of our financing requirements. We renewed the accounts receivable securitization program which provides funding up to approximately $130 million. We renegotiated and expanded the larger (364 day) tranche of our unsecured revolving bank credit facilities ending with total contractual bank lines of $174.5 million. These actions provide CMC increased short-term borrowing capacity, flexibility and liquidity. Additionally, we have numerous banks around the world with whom we have informal borrowing lines for corporate and trade finance purposes. Regarding long-term debt, we have in place the three bullet public debt borrowings which mature in 2005, 2007 and 2009. In April 2002, we executed an interest rate swap on the 2005 notes, which reduced our interest rate from 7.20% to a current rate of 3.88%.

CMC's steel minimills increased profits despite price resistance throughout the year.

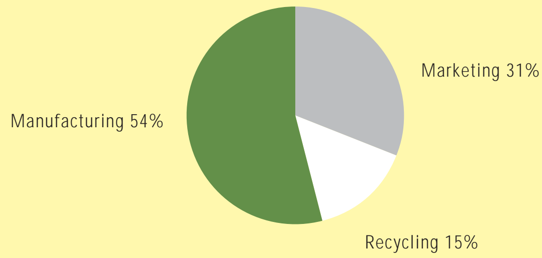
Year-to-date operating profit for our four steel mills was 27% above fiscal 2001 because of turnarounds at the South Carolina and Alabama mills and steady results at the Arkansas mill, which more than offset a reduced profit at the Texas mill (it was still a very solid year for SMI-Texas). The principal factor for the earnings improvement was higher volume, whereas selling prices were abysmal and increases met resistance. In addition, our product mix was less than optimal with significant quantities of lower value-added, semi-finished billets shipped. For the year, tons melted and rolled increased 17% and 19%, respectively, while shipments rose 14% to 2.2 million tons. During the second half of the year raw material and other input costs increased significantly while mill prices edged only slightly higher. The average annual mill selling price was $15 per ton below last year, while the average selling price for finished goods plummeted a like amount. Fourth quarter comparisons were similar. Reinforcing bar, merchant bar and light structural prices all were, simply put, atrocious. Conversely, the average scrap purchase cost was up $6 per ton and rose $17 per ton for the fourth quarter compared with last year. Utility costs declined nearly $2.4 million compared with the previous year, although in the fourth quarter they increased by $800 thousand against the fourth quarter of fiscal 2001.

Further growth continued in steel fabrication although product area profits were mixed.

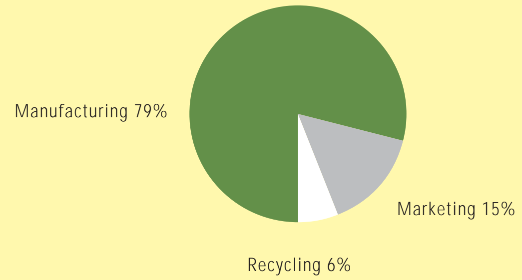
Fiscal 2002 was not as good a year in our downstream steel fabrication and related businesses after a string of very good years. The Company suffered two significant but unrelated events requiring retroactive writedowns at two rebar fabrication operations. The total amount of the adjustment is $3 million net after tax and represents the cumulative amounts required to adjust the balance sheets of these two facilities as of August 31, 2002. The $3 million adjustment affects four fiscal years, from 1999 to 2002, a period of time in which the Company earned in excess of $150 million net after tax. In the first instance, we uncovered a theft and an apparent accounting fraud spanning four years at a facility in South Carolina. The total adjustment required to restate the accounting records to their proper balances was $1.8 million net after tax. In the second instance, we discovered accounting errors related to losses on rebar fabrication and placement jobs at a facility in California, some of which date back to fiscal 2000, the year of acquisition. The resulting charge was $1.2 million net after tax. The effects from both incidents on the year and quarter ended August 31, 2002 were $600,000 and $250,000 net after tax, respectively. In accordance with generally accepted accounting principles, we have restated our prior period financial statements to recognize the $2.4 million after-tax in the appropriate period. We have taken immediate action to strengthen compliance with our internal control policies.

Fourth quarter operating profit in steel fabrication was well below the strong quarter last year. One general problem was having to bid jobs at farther distances because of the weaker construction market. A considerable part of the decline in profitability was attributable to lower profits for rebar fabrication as the softer markets put pressure on margins, and several plants recorded losses. We continued to grow our concrete-related products division which posted higher profits, and the steel post plants continued their solid performance. The steel joist business was breakeven for the year which represented an improvement over the prior year; both prices and shipments were considerably lower, but reduced operating costs and shop efficiencies helped significantly. Structural steel fabrication—excluding the results from SMI-Owen and prior year litigation accrual—was less profitable than last year. A big plus for the year was the sale on March 28, 2002 of substantially all the

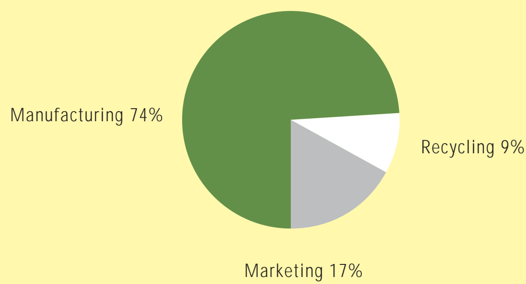
2002 Net Sales



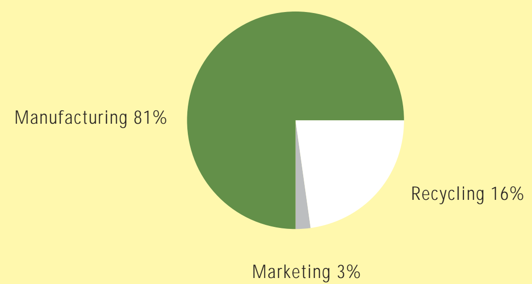
2002 Operating Profit



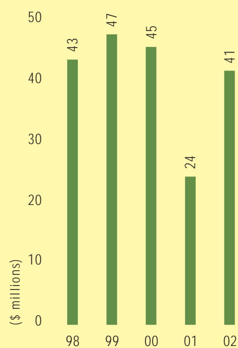
2002 Capital Expenditures



2002 Depreciation and Amortization

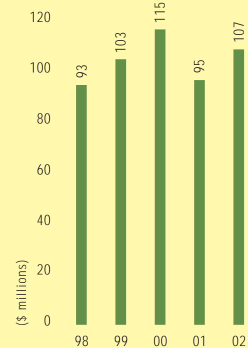


Net Earnings**



** Prior years restated, see footnote 14.

Cash Flows*,**



* Before changes in operating assets and liabilities.
** Prior years restated, see footnote 14.

assets of SMI-Owen (our heavy structural fabrication operation). Shipments from all of our fab plants totaled 984,000 tons, slightly below the prior year.

We plan to continue our growth in rebar fabrication, joists, specialty beams, niche applications of structural steel, fence posts, concrete-related products, heat treating of steel and other related fabricated steel products and components.

Building more strength in the Copper Tube Division.

Following several strong years, the copper tube mill had a lower profit in fiscal 2002. Production and shipment levels were a record, but spreads on water tube fell during the year and the operating profit was down. We are building on our strength—both in marketing and operations—including ramp up of the 50% addition to our plant in Virginia. The principal economic driver remains housing starts and apartments and, secondarily, hotels/motels. The product mix included increased quantities of HVAC products and line sets. In the marketplace we continue to adapt to the consolidation among our buyers.

A turnaround year for the Recycling segment.

The Secondary Metals Processing Division had a much better fiscal 2002, led by a major improvement in the steel scrap market in the second half of the year, albeit from very depressed levels. Conversely, nonferrous markets remained under considerable price pressure. Total tons shipped year-to-year were up 8%. The net effect was that gross margin increased by 11%. Results were aided as well by increased productivity, high asset turnover and reduced costs. Versus last year, the average ferrous scrap price rose by $6 per ton to $81 per ton and shipments increased 10% to 1.5 million tons. The fourth quarter average ferrous price was $92 per ton, or $18 per ton above the prior year's fourth quarter. The average nonferrous scrap price for the year was approximately 9% lower than a year ago at only $947 per ton while nonferrous shipments were essentially flat. Total volume of scrap processed during fiscal 2002, including our CMC Steel Group operations, reached 2.6 million tons, up 11% from 2001.

At year end, inventory levels and costs were at relatively low levels. Both ferrous and nonferrous operations should be profitable for fiscal 2003. We are poised to capitalize on better markets and to continue our turnaround and rationalization at underperforming facilities. Additionally, we expect that our national account program to enhance sourcing of industrial scrap will continue its growth.

The Marketing and Distribution segment increased profits in the face of continued global oversupply.

To better reflect the evolving nature of this business for CMC, we have renamed the Marketing and Trading segment "Marketing and Distribution." Operating profit for this segment increased 82% compared with last year. Net sales were slightly higher at $777 million, buoyed by strong performance in Australia and Europe, primarily in the distribution and processing side of the business. Sales were impacted by depressed economies, oversupply in most markets and intense competition from domestic suppliers in the respective markets. Margins were compressed for numerous steel products, nonferrous metal products and industrial raw materials and products. International steel prices and volumes for steel and nonferrous semis picked up during the latter part of the year, which helped second half results.

A contributing factor for the improved results was the acquisition of the remaining shares in Coil Steels Group in Australia on September 3, 2001. Additionally, performance by our heat treating operation in Australia and the relatively new Europickling joint venture in Belgium improved as the year progressed.

Capital investments paused, but growth continued and is planned to increase further in fiscal 2003.

Capital spending was approximately $54 million in fiscal 2002 including the acquisition of Coil Steels Group. The capital plan for fiscal 2003 reflects an increase in expenditures to $88 million, including planned acquisitions and significant carryover projects. There are no major projects planned at the steel mills this year, rather smaller roundouts, productivity improvements and maintenance expenditures. The budget includes expansion in downstream businesses, both acquisitions and greenfield.

The global economy has slowed amid considerable uncertainty, and we expect a weaker fiscal 2003 but with a stronger second half.

We are in a post-bubble economy! Economic growth in the U.S. is slow, bumpy and uneven. Our specific markets reflect the soft demand and remain highly competitive. The outlook for our markets generally has become weaker, in some cases significantly so. The manufacturing sector still is growing, but again has lost steam. Private non-residential construction is not likely to improve

before mid-calendar year 2003 although public construction ought to hold steady. Residential building has weakened somewhat, but housing sales and starts remain at a vigorous level spurred by three-decade low mortgage rates. Economic growth outside the U.S. also has moderated sharply, especially in Europe. On the other hand, most analysts don't expect the global economy to fall into a double-dip recession.

Amid the uncertainty, the fiscal 2003 quarterly results are likely to be erratic and with a relatively weak first half. We face a number of other challenges including increased insurance costs and higher energy costs. By segment operating profit, we anticipate a decrease in Manufacturing, not much change in Recycling and an increase in Marketing and Distribution. Diluted earnings per share are forecast to decrease because diluted average shares will rise further. Our balance sheet should remain strong.

CMC is well-positioned to exploit long-term opportunities.

Our challenge is to continue growing in a manner which increases our earnings per share and return on capital and generates free cash flow over time. Further consolidation is a virtual certainty in the industries in which we participate, and we plan to participate in a prudent way. The reasons are compelling, the foremost of which are an inadequate return on capital for most companies, numerous bankruptcies, a high degree of fragmentation, the necessity for rationalization of non-competitive capacity and more effective marketing.

CMC's history goes back more than 86 years. By most key internal measures we are a successful company. But there still is much more for us to achieve. We are committed to creating long-term growth and building earnings power through continuous internal improvements, selective acquisitions, a focus on cash flow, strong regional positions and outstanding people. In the past several years we have taken major steps to increase our output, expand our product lines, add value downstream and build our talent pool.

Strategically our focus remains on creating economic value by participating in industry consolidation, forming strategic alliances, growth in value-added businesses, redeploying assets and increasing our earnings power and cash flows.

A tribute upon the retirement of Marvin Selig.

In August, Marvin Selig retired from the Company as chairman and chief executive officer of the CMC Steel Group and a member of CMC's board of directors. In 1947 in a cornfield in Seguin, Texas, he founded what later developed into the CMC Steel Group and is still today the home of SMI-Texas. Marvin has earned his place as a titan in the minimill industry, and his wisdom and leadership is missed.

Cautionary statement concerning forward-looking comments.

This letter to stockholders contains forward-looking statements regarding the outlook for the Company's financial results including net earnings, product pricing and demand, production rates, energy expense, insurance expense, interest rates, inventory levels, acquisitions, and general market conditions. These forward-looking statements generally can be identified by phrases such as the Company or its management "expects," "anticipates," "believe," "ought," "should," "could," "likely," "appears," "projected," "forecast," or other words or phrases of similar impact. There is inherent risk and uncertainty in any forward-looking statements. Variances will occur and some could be materially different from management's current opinion. Developments that could impact the Company's expectations include interest rate changes, construction activity, litigation claims and settlements, difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes, metals pricing over which the Company exerts little influence, increased capacity and product availability from competing steel minimills and other steel suppliers including import quantities and pricing, court decisions, industry consolidation or changes in production capacity or utilization, global factors including credit availability, currency fluctuations, energy and insurance prices and decisions by governments impacting the level of steel imports and pace of overall economic activity.

Stanley A. Rabin

Stanley A. Rabin
Chairman, President
and Chief Executive Officer

November 5, 2002

The ultimate challenge for any company is to perform well when conditions are less than optimal. In recent years, Commercial Metals Company has met such a challenge head on. We have maintained our focus and emerged from the recession as one of the strongest steel and metals companies in the United States.

Our business strategy has paid off, enabling us in fiscal 2002 to outperform our competitors and extend our track record of 25 consecutive years of profitability. We were rewarded in the past fiscal year for our unique combination of ability, strength and diversity. These qualities, embodied by Commercial Metals' management and workforce, have produced both near-term results and great promise for the years ahead.

The promise of Commercial Metals is also rooted in another, perhaps more primary meaning of "promise." We have always known that the reputation of our Company depends on our doing what we say we will do and reporting clearly on what we have done—in short, maintaining our integrity. For more than 85 years, this integrity has been fundamental to fulfilling the long-term promise of our Company, helping us achieve positive results for our Company and for our shareholders.

ability

CMC

We consistently demonstrate our ability to generate cash flows, maximize capital investments and build value.

strength

With expert management and
strong financial resources,
we have been able to maintain
positive results.

CMC

diversification

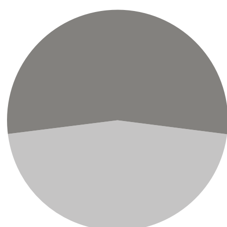
The diversity of CMC's business units, product lines and facility locations optimize the Company's earnings power.

Manufacturing

(dollars in millions)	2002	2001**	2000**	1999**	1998
Net sales	$1,332.7	$1,321.1	$1,356.7	$1,206.0	$1,233.9
Operating profit	71.4	56.7	72.1	83.6	74.8
Average net assets	556.2	593.6	569.4	501.5	423.9
Cash flows*	92.9	90.7	100.6	94.8	86.1
Operating profit return on net assets	12.8%	9.6%	12.7%	16.7%	17.6%
Cash flow return on net assets	16.7%	15.3%	17.7%	18.9%	20.3%

Net Sales

Manufacturing 54%



Rest of CMC 46%

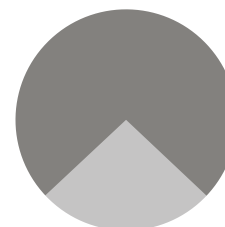
Operating Profit

Manufacturing 79%

Rest of CMC 21%

Capital Expenditures

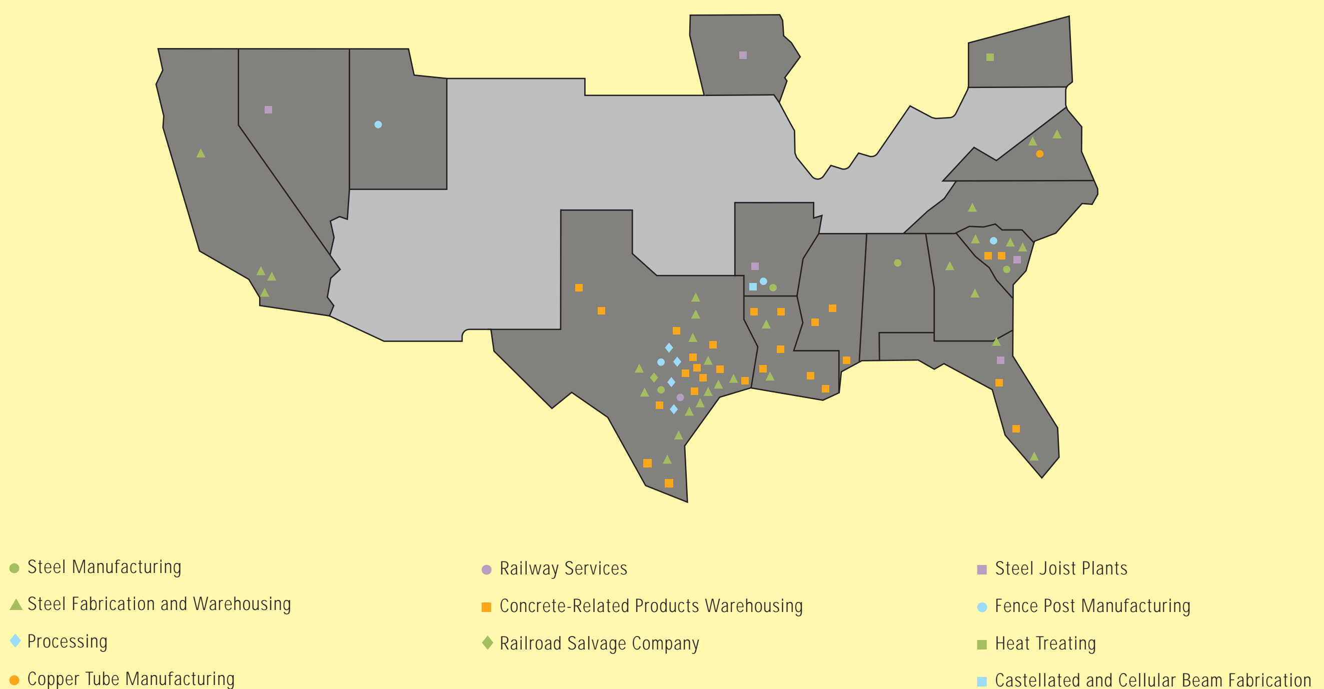
Manufacturing 74%



Rest of CMC 26%

* Before changes in operating assets and liabilities.
** Restated, see footnote 14.

In fiscal 2002 we participated in the rebuilding of the Pentagon after the terrorist attacks of September 11, 2001. While we always have great satisfaction in helping build the nation's infrastructure and facilities, the people of CMC took added patriotic pride in this endeavor.



We responded to reduced

CMC Steel Group

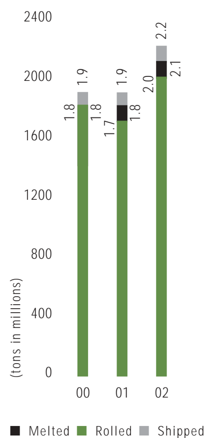
The CMC Steel Group consists of four steel minimills, 29 steel fabrication plants, five steel joist plants, a castellated and cellular beam fabricator, four steel fence post manufacturing plants, a heat treating plant, a railcar rebuilding facility, 27 concrete-related product warehouses, 10 scrap processing facilities and a railroad salvage company.

The CMC Steel Group completed its third best financial performance in fiscal year 2002, an impressive feat considering the toll imports and softening markets had on the steel industry.

We responded to severely reduced margins by focusing on customer support and relying on the inherent strengths in our vertical integration. The steel mills returned to full schedule and productivity improved. The fabrication shops and concrete-related products branches continued to expand through acquisitions and internal growth. And profitability turnarounds were achieved in the tough structural fab and joist markets.

After 55 years of service, CMC Steel Group founder and chief executive officer, Marvin Selig, announced his retirement effective August 31, 2002. The organization's succession planning has provided a smooth transition to new chief executive officer, Clyde Selig, as well as to other members of the management team including Russ Rinn, CMC Steel Group President, West; Jeff Selig, CMC Steel Group President, East; Binh Huynh, Executive Vice President-Structural and Joist; and Avery Hilton, Executive Vice President-Mills. All are highly respected within the Company and the industry.

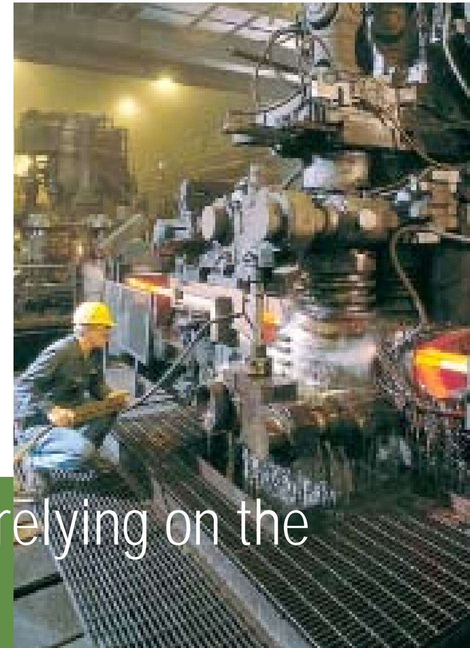
CMC Steel Mills



Minimill Operations

SMI-South Carolina continued to build market share by utilizing the increased production capacity from the Danieli inline mill installed in fiscal 1999 and the melt shop ladle metallurgical station commissioned in fiscal 2000. Earnings were improved in fiscal 2002 in spite of reduced margins caused by increased raw material prices and reduced selling prices. The State of South Carolina honored the plant for having the lowest injury frequency in their SIC category.

SMI-Texas surpassed melting, rolling and shipping figures from the prior two years and produced a solid earnings report. By serving current market areas and continuing to increase special bar quality capabilities, the Seguin mill was able to withstand market forces and further solidify its



margins by focusing on customer support and relying on the inherent strengths in our vertical integration.

competitive edge. The highway building initiative by the State of Texas has provided good opportunities for the Seguin mill.

SMI-Alabama set all-time records in melt and mill production, and finished goods shipments en route to a significant profitability turn-around. Even though production costs were lowered, escalating scrap costs and lower selling prices caused margins to be squeezed. The Company completed its ISO 9001-2000 certification.

SMI-Arkansas achieved modest gains in sales and net earnings by diversifying its product line. Despite import pressure, the Southern Post Company maintained its volume and market share in the steel fence post market. Combined, the four post shops set an all-time farm post shipping record and exceeded the prior year's profitability.

Rebar and Structural Steel Fabrication

Our rebar fabrication shipments matched the records set in fiscal 2001. Weakening demand in the second half and stiff competition began to drive the average selling price down. The start up of South Metro Rebar in Atlanta and SMI Rebar Farmville in Virginia combined with the acquisition of SMI Valley Steel in Harlingen, Texas, expanded the rebar business into new markets.

Of particular interest during fiscal 2002 was our participation in the rebuilding of the Pentagon after the terrorist attacks of September 11, 2001. While CMC Steel Group employees have always had great satisfaction in helping build the nation's infrastructure and facilities, the recycled, rolled and fabricated steel provided by our companies added patriotic pride to their endeavors.

Profits returned to the structural fabrication division through careful job selection in a very tight market. In the first half of the year, sales were ahead of fiscal 2001 with profits far ahead of last year which included a litigation accrual. The assets of SMI-Owen Steel Company, a large structural fabrication business in Columbia, South Carolina, were sold in the second half. Heavy structural fabrication and installation on the scale of projects undertaken by SMI-Owen Steel Company were not considered core to our growth strategy. South Carolina Steel recorded its best safety record in history by reaching one million man hours worked without a lost time accident in August.

Joist Division

The CMC Steel Group's joist businesses broke even, an improvement over the prior year, despite a significant market downturn. The performance was aided by a successful cost reduction and restructuring program. The new Iowa plant reported a profit in its first full year of operation.

The outlook for fiscal 2003

The demand for the cellular beam product is growing at a modest but steady rate. Cell beam production has been consolidated in the Arkansas facility. Marketing efforts to inform architects and engineers on this new product are continuing.

Concrete-Related Products

Sales and net earnings grew during fiscal 2002 for the concrete-related products division while it continued to grow its distribution network as the prime supplier of concrete accessories, highway products and concrete forming systems in the South Central and South Atlantic regions. The acquisition of Dowel Assembly Manufacturing Co. (DAMCO) in Jackson, Mississippi, combined with improved manufacturing efficiencies at Construction Materials, Inc. increased highway market share. Branches in Orlando and Charleston were added to further develop opportunities in Florida and South Carolina, respectively. In Texas, the Shepler's South Houston rental facility was upgraded to accommodate increased rental activity.

Scrap Yards

Scrap metal recycling facilities in the East achieved another record year of total shipments and impressive growth in net earnings. In the West, scrap recyclers produced improved profits and cash flow. Both groups were able to profitably fulfill the strategic mission of providing a significant part of the group's scrap needs as well as the market needs of others.

Additional Operations

In fiscal 2002, we launched Spray Forming International (SFI), a stainless steel cladding operation located adjacent to SMI-South Carolina. SFI will use the patented Osprey Metals Ltd. process to metallurgically bond stainless steel to carbon steel in producing stainless clad billets. The billets will be rolled in a conventional bar mill to provide engineers a cost-effective, high quality, corrosion resistant product to help extend the life of bridges and roads.

Allegheny Heat Treating, a heat treating facility located in Chicora, Pennsylvania, maintained good profitability in a depressed market through cost controls and product diversification. An induction furnace line targeting high quality SBQ rounds and tubing was installed. The formation of

is for continued stiff competition as a shake-out in the minimill and steel fabrication areas continue.

Impact Metal Products, a specialized sales organization focusing on value-added mill products, was successful in gaining market share.

Safety Railway Service began a program during fiscal 2002 to establish mobile railcar repair services at customer facilities throughout the country. An additional effort undertaken in fiscal 2002 was a railcar cleaning operation added to the Victoria, Texas plant.

Outlook

The outlook for fiscal 2003 is for continued stiff competition as a shake-out in the minimill and steel fabrication areas continue. The decade-long growth in the industry's production capacities has led to aggressive competition. The CMC Steel Group's response: • up-to-date, highly efficient, flexible bar mills • demonstrated service to its customers that has built confidence and established strong ties • a proven system of vertically integrated companies that serve the market well, and • an entrepreneurial management structure and conservative accounting. All will serve to continue the Company's stability and success in the industry.

Howell Metal Company

Howell Metal Company manufactures copper tubing for the plumbing, air conditioning and refrigeration industries. This fully integrated copper minimill utilizes both secondary and virgin copper in the manufacturing process. The copper is melted, cast, extruded and drawn into water and refrigeration tubing.

Marketing of tubular products has become increasingly sophisticated. Efforts to warehouse and ship smaller quantities for increased turns to our customers have proven to be a viable alternative to historic supply chain scenarios. We are continually trying new marketing and distribution techniques to conform to ever-changing markets.

Sales of line sets have increased over last year, and we should grow our market share to 10% by the end of next year. That would equate to 5 to 7 million pounds of line set sales. We are still focusing on value-added products to help increase margins.

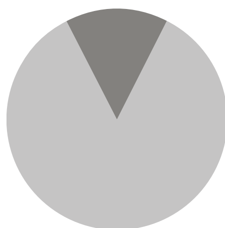
Howell Metal Company has completed its expansion to 75 million pounds of production capability. We are still in the start-up phase with a second shift being added with increases in production forthcoming as the new year begins.

Recycling

(dollars in millions)	2002	2001	2000	1999	1998
Net sales	$378.1	$393.8	$462.6	$301.9	$414.9
Operating profit (loss)	5.1	(2.3)	5.8	(5.0)	(1.4)
Average net assets	76.4	86.3	93.3	92.9	90.5
Cash flows*	13.8	9.5	16.8	8.5	10.6
Operating profit return on net assets	6.7%	NA	6.2%	NA	NA
Cash flow return on net assets	18.1%	11.0%	18.0%	9.1%	11.7%

Net Sales

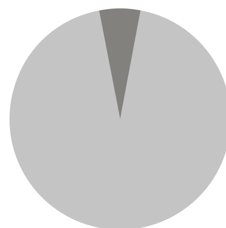
Recycling 15%



Rest of CMC 85%

Operating Profit

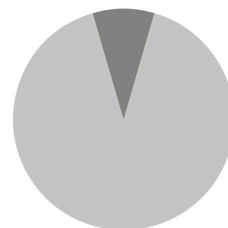
Recycling 6%



Rest of CMC 94%

Capital Expenditures

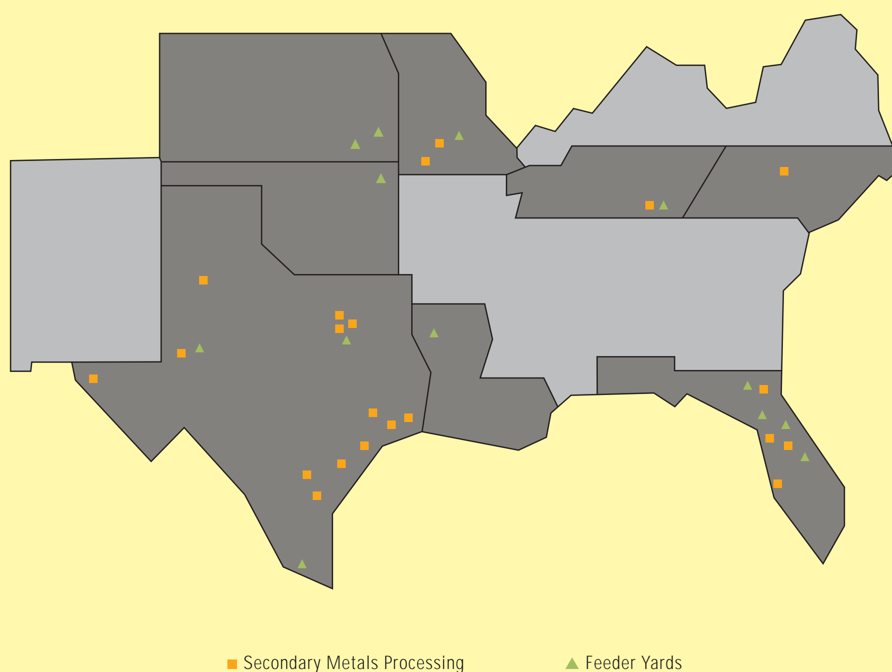
Recycling 9%

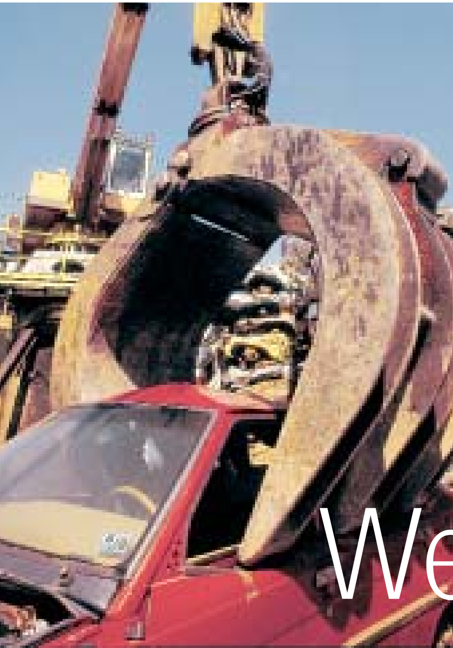


Rest of CMC 91%

* Before changes in operating assets and liabilities.

Our regional approach in managing recycling operations allows us to better control inventory by sharing loads and increasing inventory turnover and also allows us to utilize high powered management more economically by spreading the cost over several facilities.





We remain a commodities

Secondary Metals Processing Division

We have been fortunate to have each quarter of this fiscal year outperform the similar quarter of fiscal 2001. Likewise, each quarter of fiscal 2002 has been better than the previous quarter. Most of this success has been due to the resurgence of the ferrous scrap market, helped by the weakening dollar and the Section 201 action taken by the Administration. While ferrous scrap prices are double digit dollars per ton higher than last year, they remain slightly lower than the average price prevailing during the previous decade. Our other major segment, nonferrous scrap, isn't behaving as well. Nonferrous prices are mostly lower compared to a year earlier with the exception of nickel which is considerably higher and copper which is on par with the year earlier.

Our success during fiscal 2002 was a result of increased volume in ferrous scrap (almost 1.5 million tons versus 1.36 million the previous year) and improved prices, which on average were $80.81 per short ton versus $75.55 per short ton FOB our plants during the previous year. Though ferrous scrap pricing increased by almost $20 per short ton from the beginning to the end of the year, most of the increase occurred in the fourth quarter. Nonferrous volume increased by about 1,000 tons from fiscal 2001 to 238,000 tons. Average sales prices diminished by $91.70 per short ton from fiscal 2001.

business and will retain our competitive edge by stressing the importance of being a low cost processor.

Currently, most of our growth remains internally generated, with one exception. During the latter part of fiscal 2002, we acquired the transportation assets and scrap accounts of Sampson Iron & Metal in Beaumont, Texas. The business has been consolidated into our previously owned Beaumont scrap processing plant. All other capital projects performed during the year were modest in scope and meant to benefit existing locations. We also purchased an "operating" warehouse and associated property we were previously leasing in Houston, Texas.

We consolidated the scrap processing operations of Midland/Odessa, Texas into our two Odessa locations. The Midland plant had a small shredder that has been shuttered. Other than general ongoing improvements, no significant changes have been made at our other facilities.

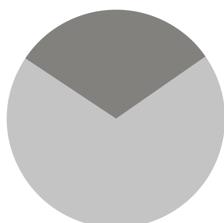
Our regional approach in managing our division versus single unit plants operating independently has further strengthened our organization. It allows us to better control inventory by sharing loads. This also has the net affect of increasing inventory turnover. The regional structure also allows us to utilize high powered management more economically by spreading the cost over several facilities. This concept also fosters teamwork while giving us a more dominant presence within our geographic regions. We remain a commodity business and realize we will only retain our competitive edge by stressing the importance of being a low cost processor. Similarly, by paying close attention to the details of our business, we are hopeful that we can improve upon this past year's results in fiscal 2003.

Marketing and Distribution

(dollars in millions)	2002	2001	2000	1999	1998
Net sales	$777.0	$771.2	$903.3	$801.6	$788.5
Operating profit	14.2	7.8	19.2	22.6	20.6
Average net assets	95.5	137.5	129.1	131.5	114.5
Cash flows*	10.8	6.7	11.8	14.2	12.5
Operating profit return on net assets	14.9%	5.7%	14.9%	17.2%	18.0%
Cash flow return on net assets	11.3%	4.9%	9.1%	10.8%	10.9%

Net Sales

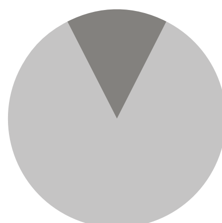
Marketing 31%



Rest of CMC 69%

Operating Profit

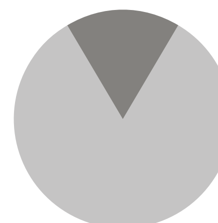
Marketing 15%



Rest of CMC 85%

Capital Expenditures

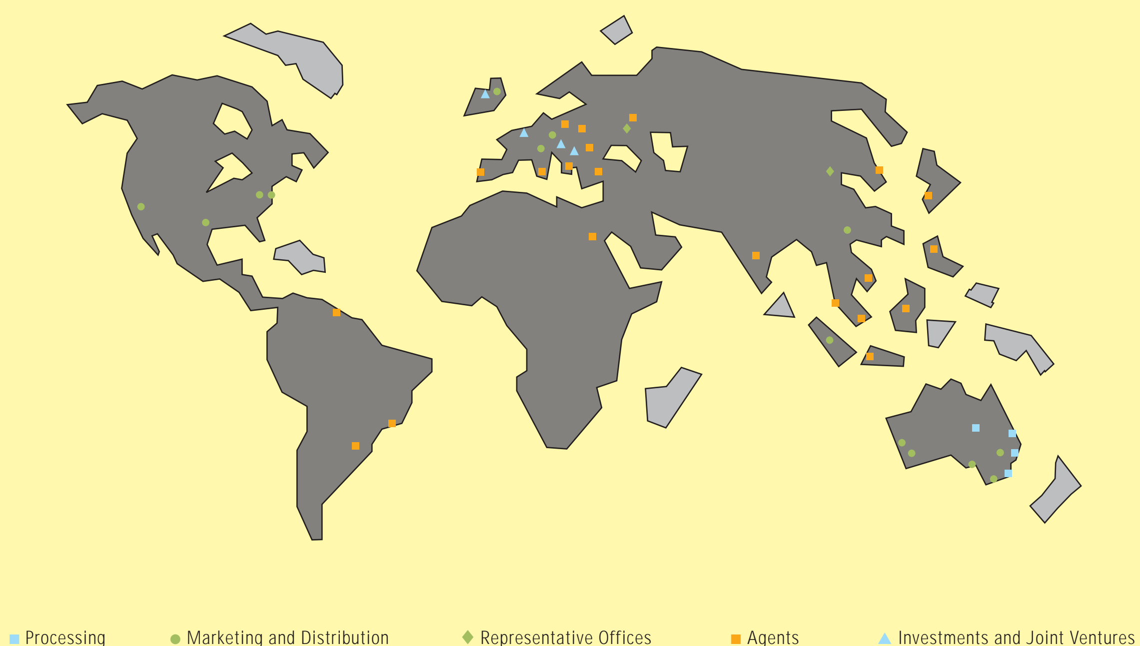
Marketing 17%

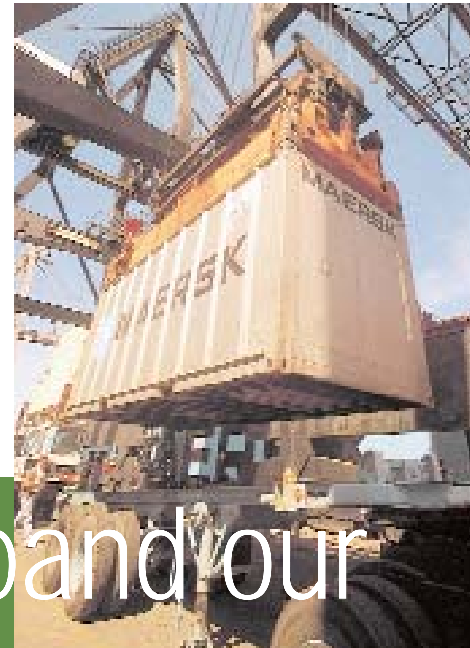


Rest of CMC 83%

* Before changes in operating assets and liabilities.

The Marketing and Distribution group's profitability and return on assets in fiscal 2002 was significantly better than fiscal 2001. We believe our diversification—geographically, by product lines and by industry—underlies our marketing strength.





We continue to expand our

Marketing and Distribution

We have changed our name from the Marketing and Trading group to the Marketing and Distribution group. The name change better reflects our business activities and provides focus on our strategy to grow our value-added businesses and services.

Our group is comprised of four major divisions: • Cometals • Commonwealth Metal • Dallas Trading • International.

The Marketing and Distribution group's profitability and return on assets in fiscal 2002 was significantly better than fiscal 2001. Fiscal 2002 was a year of two distinct halves. The first half was impacted by September 11 as well as slow growth in the U.S., Asia and Europe. The second half was much stronger with all four divisions performing strongly.

Our diversification—geographically, by product lines and by industry—underlies our marketing strength.

The company culture of integrity, reliability and honesty is embraced in all of our divisions. With a strong reputation in the marketplace, we are able to grow our business. We are in excellent shape going into fiscal 2003 and our performance will be impacted only by a major downturn in global economies and/or extraordinary events.

Cometals Division

Cometals Division markets and distributes minerals, ores, refractories, alloys and industrial raw materials in North America, China, Europe and the CIS. Fiscal 2002 was another profitable year for Cometals Division. Despite extremely difficult market conditions, we exceeded our projections and we were able to achieve better results than the previous year. It gives us great satisfaction to note that our conservative business approach and our diversified product range helped us during these challenging times. During the year, we were able to drastically reduce our working capital and to increase our operating profit return on net assets to well above our projections.

Cometals continues to operate out of four locations in Fort Lee, Beijing, Moscow and an agency in Belgium. Additionally, we now start to benefit from the newly created company, Cometals (Tianjin) International Trade Company, Limited, in the Tianjin Free Trade Zone. We are planning further expansion of our operations in China with additional focus on imports and domestic distribution.

While the world becomes more transparent and more competitive, we continue to expand our business in areas where our services, knowledge, reliability and infrastructure are appreciated. Cometals' future outlook is favorable since China's growth continues at a steady pace and the

business in areas where our services, knowledge, reliability and infrastructure are appreciated.

Russian economy is improving and showing signs of stability. The reduced value of the U.S. dollar should help us further in Western Europe.

Cometals' energetic and experienced team enjoys an excellent reputation in the marketplace and is ready to confront the challenges ahead. We are committed to deliver high quality business and good results to our shareholders and the best possible service to our suppliers and customers worldwide.

Commonwealth Metal Division

Commonwealth Metal Division markets aluminum, copper and stainless semi-fabricated products throughout North America. We serve as a vital link in the global supply chain, facilitating trade between world-class producers to distributors, metal processors and original equipment manufacturers in many diversified industries.

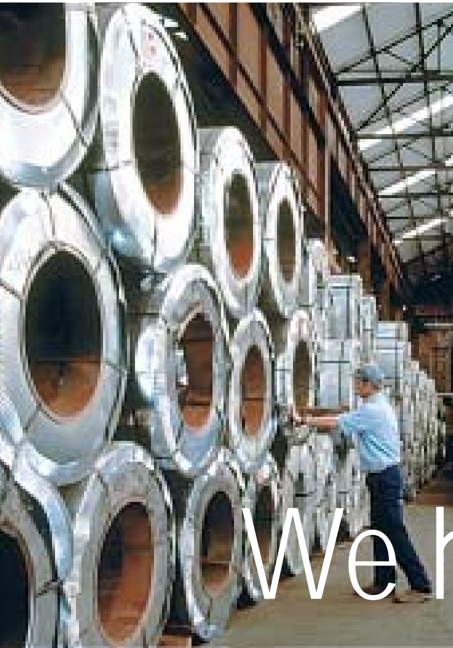
During fiscal 2002, the Division's growth stalled in the midst of a cyclical decline across virtually all our market segments. Caught in the downdraft of a severe manufacturing recession, our volume and sales dropped significantly. Yet, despite these adverse market conditions, we were able to remain profitable by cutting costs, minimizing credit losses and maintaining margins. In the aftermath of September 11, we recovered with steadily rising sales in each successive quarter of fiscal 2002.

Our business withstood the test of difficult times through the continued support from our core suppliers, product diversification, financial strength, and conservative credit policies.

Key elements which serve as "shock absorbers" for our ongoing business strategy include: • a widely diversified product mix • a highly stratified customer base • a broad based pool of quality suppliers • a functionally rich service menu • a reliable range of delivery programs, and • a cadre of experienced professionals.

We enhanced our performance this year with the introduction of stainless steel as our third product group. Commonwealth can now provide our customers a unique single source for three main specialty metals. We also concentrated our efforts on opening new supply lines in China, the world's most rapidly growing metals market, and began exporting product to Chinese manufacturers and multinationals alike.

Notwithstanding the current market difficulties, we continue to invest heavily in new systems, technology and our people. During the course of the year, we established a



We have adapted to current

more efficient workflow, began a systems implementation, and ramped up our ISO quality system according to the new 2000 standard.

Overall, we have adapted to current industry and economic conditions, and are taking the necessary steps to improve our operating performance and prepare for future growth.

Dallas Trading

The Dallas Trading Division markets and distributes steel semi-finished long and flat products, aluminum semi-finished flat rolled and extruded products, nonferrous scrap, steel scrap, steel and aluminum re-rolling stock into the Americas and other global markets from a diverse base of international and domestic sources. We provide our customers and suppliers with professional marketing, trading, financial and logistical services.

Our financial results were substantially better than fiscal 2001, even though it was a tumultuous year. We were challenged by the continued economic downturn here in the U.S., the events and aftermath of September 11, trade restrictions against specific steel imports into the U.S., increased competition from domestic steel mills and economic and political disarray in Latin America.

During the second half of fiscal 2002, Dallas Trading strategically marketed niche steel products into the U.S. that were either not affected by Section 201 or were from countries not included in the trade action. Import restrictions, coupled with low inventory levels, forced higher prices—particularly in the flat rolled area. Our bookings picked up dramatically for these products during the last half of fiscal 2002, but subsequent easing of those restrictions along with uncertainty in the global financial markets resulted in a conservative view towards future purchases.

During the year we successfully implemented a new trading and back office system providing increased efficiencies and tremendous reporting capability. We continued our trader trainee program and added several specialized traders to help us diversify our products, geographical service and customer base. In addition, we added key personnel to our administrative staff to keep up with our ever-changing business.

Fiscal 2002 financial results were better than fiscal 2001, and the Dallas Trading team is prepared and motivated to overcome the challenges that lie ahead in fiscal 2003.

industry and economic conditions, and are taking the necessary steps to prepare for future growth.

International Division

Our business covers Europe, Asia and Australia. Our main product is steel; however, in certain regions we market and distribute Industrial products, raw materials and special metals. We have strategic value-added investments in processing, heat treatment, warehousing and marketing joint ventures with suppliers.

Our European region is continuing its path of successful diversification with a marked improvement in operating and net profitability. Our strategy of providing valuable services as a link between the producers and consumers in the most efficient way attainable is being recognized and rewarded in the marketplace.

Our focus on Central Eastern European suppliers and our marketing presence in the European Union is well complimented by our traditional international steel marketing business and new alliances and investments in value-added businesses and processing. Our shift to higher value-added products is proving successful. We have started a niche business in cold rolled strip, and our Europickling business has commenced satisfactorily.

Our Asian steel operations have resources located in growth markets. In particular, we are well placed to expand our steel distribution activity in China. Steel consumption growth in China leads the world and CMC has the skills, resources and people to grow our business in China. This will be a major focus, but we will proceed with our usual caution. Growth has returned to southeast Asia, and we see stronger business activity in our Inter-Asia steel business as well as opportunities to increase sourcing for our marketing and distribution business.

Our Australian businesses had a record year, and we are well placed to continue on through fiscal 2003. The Australian economy outperformed most developed world economies, and we benefited through market rationalization and our expansion into steel processing and distribution.

All our businesses in Australia performed exceptionally well. Our purchase of the remaining interest in Coil Steels Group in September 2001 proved especially successful.

Coil Steels Distribution is a national sheet and coil distributor of BHP Steel products. We have a valued and strong relationship with BHP Steel, and we plan to grow this relationship. After year end, Coil Steels acquired the business of Horans Sheet and Coil in Sydney, and this will add growth in fiscal 2003.

Coil Steels Processing is a leading coil processor in the three states of Australia along the Eastern seaboard. Capacity exceeds 500,000 MT per annum, and we process for our own distribution business plus toll process for third parties.

Manufacturing Management

CMC Steel Group: Clyde P. Selig, Russell Rinn, Binh K. Huynh, Jeff H. Selig; Howell Metal Company: A. Leo Howell

Recycling Management

Harry J. Heinkele, Robert J. Melendi, Alan Postel, Larry Olschwanger, Carl J. Nastoupil, Joseph R. Reichard, Rocky Adams, Jim Vermillion, Richard L. Goulde, Chuck Grossman

Marketing and Distribution Management

Murray R. McClean, Kevin S. Aitken, J. Matthew Kramer, Eugene L. Vastola, Eliezer Skornicki, Hanns Zöllner

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2002 Financial Review

Selected Financial Data

(dollars in thousands, except share data)	2002	2001**	2000**	1999**
Operations				
Net sales	$2,446,777	$2,441,216	$2,661,420	$2,251,442
EBITDA	143,425	133,295	164,562	146,507
Depreciation and amortization	61,579	67,272	66,583	52,054
EBIT	81,846	66,023	97,979	94,453
EBITDA/interest expense	7.7	4.8	6.0	7.5
Interest expense	18,708	27,608	27,319	19,650
Earnings before income taxes	63,138	38,415	70,660	74,803
Income taxes	22,613	14,643	26,070	27,829
Effective tax rate	35.8%	38.1%	36.9%	37.2%
Net earnings	40,525	23,772	44,590	46,974
Cash flows from operations before changes in current assets and liabilities	107,423	94,945	114,693	102,724
Balance Sheet Information				
Cash and temporary investments	124,313	55,921	20,057	44,665
Accounts receivable	207,844	202,095	352,203	297,664
Inventories	268,040	223,859	270,368	247,154
Total current assets	794,152	622,803	702,405	643,376
Property, plant and equipment				
Original cost	921,779	896,896	856,128	804,247
Net of depreciation and amortization	378,155	395,851	407,512	402,272
Capital expenditures	54,057	53,022	69,627	141,752
Total assets	1,230,076	1,081,671	1,170,092	1,079,074
Commercial paper	—	—	79,000	10,000
Notes payable	—	3,793	13,466	4,382
Total current liabilities	415,147	349,090	438,231	357,648
Net working capital	379,005	273,713	264,174	285,728
Current ratio	1.9	1.8	1.6	1.8
Acid test ratio	1.1	1.0	0.8	1.0
Long-term debt	255,969	251,638	261,884	265,590
Long-term debt as a percent of total capitalization	32.4%	35.2%	36.8%	37.6%
Total debt/total capitalization plus short-term debt	32.5%	36.4%	44.7%	39.6%
Deferred income taxes	32,813	30,405	31,131	23,263
Total stockholders' equity	501,306	433,094	418,805	418,312
Total capitalization	790,088	715,137	711,821	707,165
Return on beginning stockholders' equity	9.4%	5.7%	10.7%	12.3%
Cash flow (before changes in operating assets and liabilities) return on beginning stockholders' equity	24.8%	22.7%	27.4%	26.9%
Stockholders' equity per share*	17.58	16.56	15.90	14.52
Share Information				
Diluted earnings per share*	1.43	0.90	1.56	1.61
Stock dividends/splits per share	100%	—	—	—
Cash dividends per share of common stock*	0.275	0.26	0.26	0.26
Total cash dividends paid	7,521	6,780	7,304	7,540
Average diluted common shares*	28,275,291	26,320,988	28,500,170	29,253,080
Other Data				
Number of employees at year-end	7,659	7,956	8,379	7,630
Stockholders of record at year-end	2,271	2,526	2,691	2,550

* Restated for stock splits

** Fiscal years 2001, 2000 and 1999 have been restated, see footnote 14, Restatement of Prior Periods, to the consolidated financial statements

1998	1997	1996	1995	1994	1993	1992
$2,367,569	$2,258,388	$2,322,363	$2,116,779	$1,666,234	$1,568,506	$1,165,792
133,584	119,312	130,342	111,388	80,321	71,819	55,876
47,460	43,720	41,599	38,134	30,143	27,361	25,628
86,124	75,592	88,743	73,254	50,178	44,458	30,248
7.4	8.2	8.2	7.3	8.7	7.6	5.6
18,055	14,637	15,822	15,246	9,271	9,397	9,951
68,069	60,955	72,921	58,008	40,907	35,061	20,297
25,355	22,350	26,897	19,800	14,737	13,400	7,787
37.2%	36.7%	36.9%	34.1%	36.0%	38.2%	38.4%
42,714	38,605	46,024	38,208	26,170	21,661	12,510
93,450	83,195	89,894	76,634	61,666	53,632	39,718
30,985	32,998	24,260	21,018	38,269	47,439	47,426
318,655	289,735	294,611	268,657	228,035	163,387	164,126
257,231	220,644	186,201	208,114	133,748	136,601	106,213
673,500	585,276	539,483	534,105	446,085	398,495	378,263
680,401	570,604	506,969	456,705	370,556	327,166	297,314
318,462	247,261	222,710	209,739	156,808	139,323	130,690
119,915	70,955	47,982	39,311	48,152	37,613	24,503
1,002,617	839,061	766,756	748,103	604,877	541,961	515,738
40,000	—	—	—	20,000	—	—
60,809	—	—	—	21,000	—	—
426,063	278,144	264,073	268,382	270,966	215,030	203,921
247,437	307,132	275,410	265,723	175,119	183,465	174,342
1.6	2.1	2.0	2.0	1.6	1.9	1.9
.8	1.2	1.2	1.1	1.1	1.1	1.3
173,789	185,211	146,506	158,004	72,061	76,737	87,221
30.1%	33.0%	29.1%	32.9%	21.6%	23.5%	28.0%
41.5%	34.4%	30.7%	35.5%	39.2%	32.9%	39.5%
21,376	20,834	21,044	18,553	19,077	14,773	12,492
381,389	354,872	335,133	303,164	242,773	235,421	212,104
576,554	560,917	502,683	479,721	333,911	326,931	311,817
12.0%	11.5%	15.2%	15.7%	11.1%	10.2%	6.2%
26.3%	24.8%	29.7%	31.6%	26.2%	25.3%	19.5%
13.09	12.02	11.10	9.86	8.51	7.98	7.46
1.41	1.27	1.51	1.26	0.88	0.73	0.44
—	—	—	—	33%	—	—
0.26	0.26	0.24	0.24	0.23	0.20	0.20
7,717	7,777	7,246	7,211	6,705	5,635	5,515
30,241,572	30,439,454	30,552,316	30,414,172	29,886,246	29,767,570	28,810,636
7,376	7,103	6,681	6,272	4,314	3,904	3,834
2,672	2,674	2,593	2,256	2,190	1,973	2,249

Management's Discussion and Analysis of Financial Condition and Results of Operations

We manufacture, recycle, market and distribute steel and metal products through a network of over 130 locations in the United States and internationally.

Manufacturing Operations

We conduct our manufacturing operations through the following:

- 4 steel mills, commonly referred to as "minimills," that produce reinforcing bar, angles, flats, small beams, rounds, fence-post sections and other shapes
- 29 steel plants that bend, cut and fabricate steel, primarily reinforcing bar and angles
- 1 plant that produces copper tubing
- 27 warehouses that sell or rent supplies for the installation of concrete
- 6 plants that produce special sections for floors and ceiling support
- 4 plants that produce steel fence posts
- 1 plant that treats steel with heat to strengthen and provide flexibility
- 1 plant that rebuilds railcars
- 1 railroad salvage company

Recycling Operations

We conduct our recycling operations through 44 metal processing plants located in the states of Texas, South Carolina, Florida, North Carolina, Oklahoma, Kansas, Missouri, Tennessee, Louisiana and Georgia.

Marketing and Distribution Operations

We market and distribute steel, copper and aluminum coil, sheet and tubing, ores, metal concentrates, industrial minerals, ferroalloys and chemicals through our network of 16 marketing and distribution offices, 4 processing facilities and joint ventures around the world. Our customers use these products in a variety of industries.

You should read this management's discussion and analysis in connection with your review of our consolidated audited financial statements and the accompanying footnotes.

Critical Accounting Policies and Estimates

The following are important accounting policies, estimates and assumptions that you should understand as you review our financial statements. We apply these accounting policies and make these estimates and assumptions to prepare financial statements under generally accepted accounting principles. Our use of these accounting policies, estimates and assumptions affects our results of operations and our reported amounts of assets and liabilities. Where we have used estimates or assumptions, actual results could differ significantly from our estimates.

Revenue Recognition Generally, we recognize sales when title passes. For a few of our steel fabrication operations, we recognize net sales and profits from certain long-term fixed price contracts by the percentage-of-completion method. In determining the amount of net sales to recognize, we estimate the total costs and profits expected to be recorded for the contract term, and the recoverability of costs related to change orders. These estimates could change, resulting in changes in our earnings.

Contingencies We make accruals as needed for litigation, administrative proceedings, government investigations, including environmental matters, and contract disputes. We base our environmental liabilities on estimates regarding the number of sites for which we will be responsible, the scope and cost of work to be performed at each site, the portion of costs that we expect we will share with other parties and the timing of the remediation. Where timing of expenditures can be reliably estimated, we discount amounts to reflect our cost of capital over time. We record these and other contingent liabilities when they are probable and when we can reasonably estimate the amount of loss. Where timing and amounts cannot be precisely estimated, we estimate a range, and we recognize the low end of the range without undiscounting. Also, see footnote 10, Commitments and Contingencies, in the consolidated financial statements for the year ended August 31, 2002.

Inventory Cost We determine inventory cost for most domestic inventories by the last-in, first-out method, or LIFO. At the end of each quarter, we estimate both inventory quantities and costs that we expect at the end of the fiscal year for these LIFO calculations, and we record an amount on a pro-rata basis. These estimates could vary substantially from the actual year-end results, causing an adjustment to cost of goods sold. See footnote 15, Quarterly Financial Data, to the consolidated financial statements. We record all inventories at the lower of their cost or market value.

Property, Plant and Equipment Our manufacturing and recycling businesses are capital intensive. We evaluate the value of these assets and other long-lived assets whenever a change in circumstances indicates that their carrying value may not be recoverable. Some of the estimated values for assets that we currently use in our operations utilize judgments and assumptions of future undiscounted cash flows that the assets will produce. If these assets were for sale, our estimates of their values could be significantly different because of market conditions, specific transaction terms and a buyer's different viewpoint of future cash flows. Also, we depreciate property, plant and equipment on a straight-line basis over the estimated useful lives of the assets. Depreciable lives are based on our estimate of the assets' economically useful lives. To the extent that an asset's actual life differs from our estimate, there could be an impact on depreciation expense or a gain/loss on the disposal of the asset in a later period. We expense major maintenance costs as incurred.

Other Accounting Policies For additional information on our accounting policies, see footnote 1, Summary of Significant Accounting Policies, to the consolidated financial statements.

New Accounting Pronouncements See footnote 1, Summary of Significant Accounting Policies, to the consolidated financial statements.

Consolidated Results of Operations

As discussed in footnote 14, Restatement of Prior Periods, we have restated the 2001 and 2000 financial statements and the 2001 and 2000 financial information included in our management's discussion and analysis.

	Year ended August 31,		
(in millions except share data)	2002	2001	2000
Net sales	$ 2,447	$ 2,441	$ 2,661
Net earnings	40.5	23.8	44.6
Cash flows*	107.4	94.9	114.7
International sales	776	755	879
As % of total	32%	31%	33%
LIFO effect on net earnings			
expense (income)	1.0	(1.1)	3.4
Per diluted share**	0.04	(0.04)	0.12
LIFO reserve	8.1	6.5	8.2
% of inventory on LIFO	72%	70%	71%

* Before changes in operating assets and liabilities

** Adjusted for stock split

Our results in fiscal 2002 reflect the impact of significant external factors. Our fiscal year began on September 1, 2001, only 10 days before the September 11 terrorist attacks, which dramatically affected United States commercial activity. Capital markets also suffered during our fiscal 2002 period due to the collapse of the technology market bubble and corporate financial and accounting scandals. Following signs of an economic recovery during the first calendar quarter of 2002, the growth of the U.S. economy instead slowed during the second and third calendar quarters. Economic activity also lost momentum in most global markets, perhaps except for non-Japan Asia.

Our 2002 results reflect notable weakness in business investment. We saw big declines in key markets such as non-residential construction spending for factories, offices and other commercial buildings. Public works outlays for institutional buildings, highways and bridges remained strong, but did not offset reduced expenditures in the private sector. Residential construction activity fell, although it remains at a historically high level. Hotel/motel building also fell. Consequently, we experienced lower margins in our manufacturing segment, especially during our fiscal fourth quarter.

The weakening of the U.S. dollar during the latter part of our fiscal year helped our results, although the impact was not as strong as we expected. We believe that one reason is that world production and supply of many steel products and nonferrous metals remained excessive.

During fiscal 2002, the U.S. government implemented tariffs on imported steel products that compete with most of the products manufactured by our minimills. However, because production by our U.S. competitors remained constant, we have not seen a significant increase in prices. Conditions in our important end use markets generally showed little improvement and in some instances deteriorated.

The following financial events were significant this year:

1. 2002 earnings were much higher than 2001, even excluding the $5.4 million after-tax litigation accrual recorded last year in the manufacturing segment.
2. At year end 2002, we had no short-term financing needs and had, in fact, significant temporary investments.
3. Steel minimill earnings were higher in 2002 due to increased production and shipments in spite of lower selling prices and higher scrap costs.
4. During the current year, our steel group received a nonrecurring graphite electrode litigation settlement of $1.6 million after-tax.
5. Our steel group realized a $3.4 million after-tax gain from the sale of the assets of SMI-Owen Steel Company in 2002.

6. We discovered a theft and accounting fraud and accounting errors at two rebar fabrication operations totalling $3.0 million after-tax. See footnote 14, Restatement of Prior Periods, to the consolidated financial statements.

7. Copper tube profits decreased in spite of record production and shipments because of lower selling prices and margins.

8. Our recycling segment returned to profitability during 2002 mostly due to the recently improved ferrous scrap market.

9. Our marketing and distribution group's profit was higher than last year, but some markets remained weak. Our acquisition of the Coil Steels Group in September 2001 significantly contributed to profits.

10. Financing costs decreased due to lower requirements, reduced interest rates and the beneficial effect of an interest rate swap.

11. A lower effective income tax rate, due primarily to the favorable completion of IRS audits, added $1.0 million to net earnings in 2002.

Segments

Unless otherwise indicated, all dollars below are pre-tax. Financial results for our reportable segments are consistent with the basis and manner in which we internally disaggregate financial information for making operating decisions. We have three reportable segments: manufacturing, recycling, and marketing and distribution. The following table shows net sales and operating profit (loss) by business segment. Our operating profit (loss), as presented below, is the sum of our earnings (loss) before income taxes, interest expense owed to third parties and discounts on the sales of accounts receivable.

	Year ended August 31,		
(in millions)	2002	2001	2000
Net sales:			
Manufacturing	$ 1,333	$ 1,321	$ 1,357
Recycling	378	394	463
Marketing and distribution	777	771	903
Operating profit (loss):			
Manufacturing	71.4	56.7	72.1
Recycling	5.1	(2.3)	5.8
Marketing and distribution	14.2	7.8	19.2

2002 Compared to 2001

Manufacturing We include our steel group and our copper tube division in our manufacturing segment .

Our manufacturing operating profit in 2002 increased $14.7 million (26%) as compared to 2001 on marginally more ($12 million) net sales. We achieved this increase in operating profit for two primary reasons in 2002: (i) the nonrecurrence of the prior year litigation accrual in the amount of $8.3 million, and (ii) the current year gain on the sale of the steel group's heavy structural fabrication operation, SMI-Owen, in the amount of $5.2 million. Excluding those items, our manufacturing segment's operating profit was slightly higher than last year.

Increased production and shipments at our steel group's minimills more than offset lower selling prices, increased scrap purchase costs and lower copper tube earnings. Also, we spent less in 2002 on utilities, and we recorded lower depreciation and amortization expense. However, fiscal 2002 was not a good year in the steel group's downstream steel fabrication and related businesses due to lower profits in rebar fabrication and structural steel fabrication, excluding SMI-Owen.

The table below reflects steel and scrap prices per ton:

	August 31,	
(dollars per ton)	2002	2001
Average mill selling price-total sales	$ 269	$ 284
Average mill selling price-finished goods only	275	290
Average fabrication selling price	608	646
Average ferrous scrap purchase price	80	74

Minimills During 2002, operating profit for our four steel minimills rose 27% compared with 2001, despite lower selling prices. SMI South Carolina had a $2.8 million profit in 2002 compared to a $1.6 million loss in 2001. SMI Alabama turned around as well with a $2.5 million profit in 2002 compared to a $2.2 million loss in 2001. Profits at SMI Arkansas were up 4% in the current year period. These improvements more than offset a 7% decline in profits at SMI Texas as compared to 2001. A major reason for the minimills' improved profitability was a 14% increase in shipments because of continued public projects infrastructure construction. Shipments were 2,171,000 tons in 2002 compared to 1,903,000 in 2001. Mill production also increased over last year. Tons rolled were up 19% to 2,026,000 in 2002. Tons melted were up 17% to 2,100,000 in 2002. Even though demand was strong, the average total mill selling price at $269 per ton was $15 (5%) below last year. Also, in 2002, we sold more semi-finished billets, a product with a lower selling price than our average. Average scrap purchase costs were $6 per ton (8%) higher than in 2001, resulting in smaller margins. Utility expenses declined by $2.4 million as compared to 2001. Decreases in natural gas costs more than offset higher electricity costs. Also, depreciation and amortization expenses decreased by $5.2 million in 2002, primarily because SMI-South Carolina fully depreciated

its mill rolls and guides as well as certain melt shop equipment. The mills also received $2.5 million from a nonrecurring graphite electrode litigation settlement in 2002.

The U.S. government's new tariffs cover most of the steel minimills' products and range from 15-30% the first year, declining over the next two years. An import licensing and monitoring system and an anti-surge mechanism will further strengthen these remedies. Also, the U.S. administration plans to continue discussions with other steel producing nations to remove excess global capacity and eliminate subsidies.

Fabrication and Other Businesses Operating profit in the steel group's fabrication and other businesses increased by $12.1 million (57%) in 2002 as compared to 2001. Excluding the 2002 gain on the sale of SMI-Owen ($5.2 million) and the 2001 litigation accrual ($8.3 million), operating profits in 2002 decreased by $1.3 million (4%) as compared to 2001.

Near the end of fiscal 2002, we discovered two significant, but unrelated events, requiring retroactive writedowns at two rebar fabrication operations. The total amount of the adjustments required to correct the August 31, 2002 balance sheets of these two facilities was $4.6 million. These adjustments affect four fiscal years from 1999 to 2002. In August 2002, we uncovered a theft and an accounting fraud which occurred over four years at a rebar fabrication plant in South Carolina. The total adjustment required to revert the accounting records to their proper balances was $2.7 million. In September 2002, we discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which date back to its acquisition in fiscal 2000. The resulting charge was $1.9 million. The South Carolina incident resulted in a $900 thousand expense in fiscal 2002. The remaining $3.7 million for both instances was attributed $885 thousand to fiscal 2001, $2.6 million to fiscal 2000, and $227 thousand to 1999, resulting in prior period adjustments to these previously reported financial statements. We have taken immediate action to strengthen compliance with our internal control policies.

Fabrication plant shipments totaled 984,000 tons, down fractionally from 986,000 tons shipped in 2001. The average fabrication selling price in 2002 decreased $38 per ton (6%) as compared to 2001. Rebar fabrication markets were softer in 2002 as a result of intense competition, and several plants reported losses. During the fourth quarter 2002, we acquired the real estate, equipment, inventory and work in process of Varmicon, Inc. in Harlingen, Texas. We now operate this rebar fabrication facility under the name of SMI-Valley Steel. The steel joist operations, which includes cellular and castellated beams, were breakeven in 2002, an improvement over the loss in 2001. Both prices and shipments decreased, but lower operating costs and shop efficiencies helped significantly. Also, in 2001 these operations incurred $8.9 million in start-up costs. Structural steel fabrication profits, excluding SMI-Owen and the prior year litigation accrual, were down in 2002 compared to 2001. However, our concrete-related products operations were more profitable in 2002. We continued to expand this business through the acquisition in the fourth quarter of Dowel Assembly Manufacturing Company, or DAMCO, in Jackson, Mississippi. DAMCO manufactures dowel baskets and has an epoxy coating business.

In 2002, the steel group started Spray Forming International, a stainless steel cladding operation located in South Carolina. Spray Forming International will use a patented process to produce stainless clad billets.

Copper Tube Our copper tube division's operating profit decreased 59% with 7% less net sales as compared to 2001. Copper tube shipments increased 3% from 2001 to a record 59.3 million pounds, and production increased 5% from 2001 to a record 56.2 million pounds. However, average sales prices dropped 10% in 2002 compared to 2001. The biggest factor was lower apartment and hotel/motel construction. Consequently, demand for plumbing and refrigeration tube was not as strong. The 2002 product mix included increased quantities of HVAC products and line sets. In the marketplace, we continued to adapt to the consolidation among our buyers. The difference between sales price and copper scrap purchase cost (commonly referred to as "the metal spread"), declined 8% in 2002 compared to 2001. Lower raw material purchase costs did not fully compensate for the decline in selling prices.

Recycling Our recycling segment reported an operating profit of $5.1 million in 2002 compared with an operating loss of $2.3 million in 2001. Net sales in 2002 were 4% lower at $378 million as compared to 2001. However, gross margins were 11% above last year, primarily because we shipped 8% more total tons. Demand for ferrous scrap improved both in the U.S. and internationally. The segment processed and shipped 1,494,000 tons of ferrous scrap in 2002, 10% more than in 2001. Ferrous sales prices were on average $81 per ton, an increase of $6 from 2001. Nonferrous shipments were flat at 238,000 tons. The average 2002 nonferrous scrap sales price of $947 per ton was 9% lower than in 2001. Increased productivity, higher asset turnover and reduced costs contributed to the improved 2002 results. The total volume of scrap processed, including the steel group's processing plants, was 2,568,000 tons, an increase of 11% from the 2,308,000 tons processed in 2001.

In June 2002, we acquired most of the transportation assets of Sampson Steel Corporation in Beaumont, Texas. These assets will be combined with our existing scrap processing facility in Beaumont. Earlier in the year we closed our Midland, Texas facility, resulting in a writedown of $455,000 on certain equipment.

Marketing and Distribution Net sales in 2002 for our marketing and distribution segment increased 1% to $777 million as compared to 2001. Operating profit in 2002 increased 82% to $14.2 million as compared to 2001, mostly due to better results from our Australian operations. International steel prices and volumes for steel and nonferrous semifinished products improved during the second half of 2002, primarily in the distribution and processing businesses. However, depressed economies, oversupply in most markets and intense competition from domestic suppliers in the respective markets caused compressed margins for numerous steel products, nonferrous metal products and industrial raw materials and products. The U.S. dollar weakened against major currencies, a beneficial development.

In September 2001, we completed our acquisition of Coil Steels Group, an Australian service center in which we already owned a 22% share. This acquisition provided $2.2 million of additional profits and $69.0 million in net sales during 2002. Sales and profits for the Company's pre-existing business in Australia also improved significantly. However, this increase in net sales was more than offset by decreased sales in our U.S. operations due to fewer imports into the United States.

Operating profits for the U.S. divisions improved significantly due to Cometals which returned to more historical levels, and Dallas Trading which benefited from the U.S. tariff legislation. Lower margins at Commonwealth on semi-finished products almost offset these improvements. Our European operations' net sales decreased slightly in 2002 as compared to 2001, but profits improved significantly. The segment's recent strategy of growing its downstream marketing and distribution business offset the continuing very difficult trading conditions.

Other Selling, general and administration as well as employee's retirement plans expenses were higher in 2002 as compared to 2001, mostly due to the acquisition of Coil Steels Group and discretionary items, such as bonuses and profit sharing. This increase was consistent with the improvement in our operating profitability. Interest expense decreased by $8.9 million (32%) from 2001 largely due to lower interest rates and much lower average short-term borrowings. Also, during 2002 we entered into two interest rate swaps (see footnote 4, Credit Arrangements, to the consolidated financial statements) which resulted in interest expense savings. During 2002, we favorably resolved all issues for our federal income tax returns through 1999. Due to the lack of any material adjustments, we have reevaluated the tax accruals and, consequently, reduced the net tax expense by $1.0 million during 2002.

Near-Term Outlook

We expect that fiscal 2003 will be weaker than 2002. The global economy slowed in 2002 amid considerable uncertainty, and economic growth in the United States remains slow and uneven. Our specific markets reflect the soft demand and remain very competitive. The outlook for our markets generally is weaker, in some cases significantly so. The manufacturing sector continues to grow slowly. We do not expect private, nonresidential construction to improve before mid-calendar year 2003, but we expect public construction to hold steady.

Residential building slowed in 2002, but housing sales and starts remain at a historically high level because of the lowest mortgage rates in three decades. Economic growth outside the United States also slowed, especially in Europe. On the other hand, most analysts don't expect the global economy to fall into a double-dip recession.

The fiscal 2003 quarterly results are likely to be erratic and the first half of fiscal 2003 could be relatively weak. In addition to market conditions, we face a number of other challenges including increased insurance costs and higher energy costs. By segment, we anticipate a decrease in operating profit for manufacturing, little change in recycling and an increase in marketing and distribution. We expect fiscal 2003 diluted earnings per share to decrease because diluted average shares will rise further. Our balance sheet should remain strong.

During 2002, we had capital spending of $47 million plus $7 million for the acquisition of the remaining shares of Coil Steels Group, compared to capital spending of $53 million in fiscal 2001. We have focused on reducing short-term financing needs during the past two fiscal years. We plan to increase capital expenditures to $88 million for fiscal 2003. Fiscal 2003 capital expenditures will include expansion in downstream rebar fabrication and concrete-related products operations in the steel group and the acquisition of the flat-rolled assets of Horans, a small service center in Australia. We have no major projects planned at the steel mills for fiscal 2003, only smaller enhancements and maintenance expenditures. All segments will continue to focus on improving or disposing of underperforming operations, especially if they no longer fit our strategic direction.

Long-Term Outlook

We are well-positioned to exploit long-term opportunities. Our challenge is to continue growing in a manner which increases our earnings per share and return on capital and generates free cash flows over time. Further consolidation is a virtual certainty in the industries in which we participate, and we plan to participate in a prudent way. The reasons for further consolidation include an inadequate return on capital for most companies, numerous bankruptcies, a high degree of fragmentation, the need to eliminate non-competitive capacity and more effective marketing.

The outlook section contains forward-looking statements regarding the outlook for our financial results including net earnings, product pricing and demand, production rates, energy expense, insurance expense, interest rates, inventory levels, acquisitions and general market conditions. These forward-looking statements can generally be identified by phrases such as we or our management "expects," "anticipates," "believes," "plans to," "ought," "could," "should," "likely," "appears," "projects," "forecasts," or other similar words or phrases. There is inherent risk and uncertainty in any forward-looking statements. Variances will occur and some could be materially different from our current opinion. Developments that could impact our expectations include the following:

- interest rate changes
- construction activity
- litigation claims and settlements
- difficulties or delays in the execution of construction contracts resulting in cost overruns or contract disputes
- metals pricing over which we exert little influence
- increased capacity and product availability from competing steel minimills and other steel suppliers including import quantities and pricing
- court decisions
- industry consolidation or changes in production capacity or utilization
- global factors including credit availability
- currency fluctuations
- energy and insurance prices
- decisions by governments impacting the level of steel imports and the pace of overall economic activity.

2001 Compared to 2000

Segments

Manufacturing Our manufacturing net sales for 2001 for the manufacturing segment decreased by 3% compared to 2000. Despite an increase in both mill and fabrication shipments, net sales decreased due to lower selling prices. Operating profit as restated decreased $15.4 million (21%) in 2001 as compared to 2000. The adverse charge for litigation of $8.3 million caused more than half of the decrease. Also, 2001 copper tube profits dropped from their record levels in 2000. Steel group profits, excluding the litigation accrual, decreased slightly as well. We recorded pre-tax LIFO income of $1.7 million in 2001 compared to LIFO expense of $5.2 million in 2000, primarily in the manufacturing segment.

	August 31,	
(dollars per ton)	2001	2000
Average mill selling price-total sales	$ 284	$ 306
Average mill selling price-finished goods only	290	314
Average fab selling price	646	647
Average ferrous scrap purchase price	74	91

Minimills Our steel minimills recovered in the second half of 2001 despite very weak markets throughout the year. The four steel mills' operating profit decreased 27% as compared to 2000. An operating loss at the Alabama mill and lower profits in Texas and Arkansas contributed significantly to the decrease. The lower profits were partially offset by significantly lower losses at South Carolina. Tons melted and rolled decreased 3% to 1.8 and 1.7 million tons, respectively. Shipments rose by 3% to 1.9 million tons. The average mill selling price decreased $22 (7%) in 2001 as compared to 2000. The average selling price for finished goods decreased $24 per ton (8%) in 2001 as compared to 2000. The average scrap purchase cost for the mills decreased $17 per ton (19%) in 2001, which offset the decreases in selling prices. However, utility costs rose $9.8 million (13%) as compared to 2000. Import levels and more aggressive competition caused sales prices to drop.

Excluding prior year graphite electrode settlements, operating profit in 2001 at SMI-Texas decreased 16% and at SMI-Arkansas decreased 24% as compared to 2000. SMI-Alabama reported an operating loss in 2001 as compared to an operating profit in 2000. The price drops especially hurt SMI-Alabama. Record shipments at the SMI-South Carolina mill caused losses to decrease by $8.1 million in 2001 to $1.6 million This mill was profitable in the second half of 2001. Selling prices continued to be significantly lower, and utility and scrap purchase costs were down as well.

Fabrication and Other Businesses In 2001, our downstream steel fabrication businesses had another solid year. We have restated 2001 operating results by $885 thousand for the accounting fraud at the South Carolina rebar facility. Also, we reduced fiscal 2000 operating profits by $677 thousand and $1.9 million, respectively, for the accounting fraud at the South Carolina rebar facility and the accounting errors at the California rebar manufacturing and placement operation. We discovered both events near the end of fiscal 2002. Excluding a net pre-tax gain of $5.5 million from the sale of land and improvements in fiscal 2000, net sales remained the same in 2001 as compared to 2000. Operating profits increased 30% as compared to 2000, excluding the 2001 litigation accrual of $8.3 million for an adverse court ruling and the 2000 $5.5 million gain on the sale. Fabricated steel shipments of 986,000 tons increased 3% as compared to 2000; however, this included new capacity. Although prices were mixed, the annual average fab selling price remained unchanged. Steel joist and cellular beam manufacturing operations incurred $8.9 million in start-up costs for four projects. A major turnaround in large structural steel jobs fabricated by SMI-Owen more than offset these costs.

Copper Tube Our copper tube division's operating profit decreased 29% in 2001 as compared to 2000. Shipments decreased less than 1% in 2001 to 57.3 million pounds, and metal spreads declined 13% in 2001 as compared to 2000. Production at the plant decreased consistently with shipments. Although the housing sector of the U.S. economy remained relatively strong, demand for plumbing and refrigeration tube was softer than in the prior year. In the second half of 2001, we added line sets to our product mix, although shipments of this new product were not yet significant.

Capital Improvements Our capital improvements decreased significantly to $53 million as compared to $70 million in 2000, primarily in the manufacturing segment. The $70 million included the expansion at the copper tube mill and the installation of a ladle metallurgical station at SMI-South Carolina. In fiscal 2001, we substantially completed the copper tube mill expansion.

Recycling Our recycling segment incurred an operating loss of $2.3 million in 2001 as compared to a $5.8 million operating profit in 2000. Tons processed and shipped decreased 4% as compared to 2000; however, net sales decreased 15% as compared to 2000. Due to high scrap imports, weak domestic steel mills and the strong U.S. dollar, ferrous prices fell $21 per ton (22%) as compared to $75 per ton in 2000, and shipments fell 5%. A sharp drop in terminal market values resulted in lower nonferrous margins. The average nonferrous scrap price was 5% lower on volumes which were 2% higher as compared to 2000. Increased productivity, high asset turnover and reduced expenses mitigated the effects of weak markets.

The total volume of scrap processed and shipped in 2001, including our steel group operations, decreased slightly to 2.3 million tons from 2.4 million tons in fiscal 2000.

Marketing and Distribution Our marketing and distribution segment's net sales decreased in 2001 by 15% to $771 million, and operating profits were 59% lower as compared to 2000. Depressed global economies, oversupply in most markets and intense competition from domestic suppliers in the respective markets contributed significantly to the decline. Also, the strong U.S. dollar continued to hamper the segment's results in various parts of the world. Margins were compressed for most steel products, nonferrous metal products and industrial raw materials and products. Our strategy in recent years to enhance regional businesses helped in the difficult market and currency conditions.

Most importantly, we achieved profitability even as we continued a major commitment to develop quality people in sales and administration to provide for long-term growth. We continued to diversify and build business by adding product and geographic areas. We expanded regional trade as well, and continued to increase our operations in the processing of the materials and products we buy and sell.

2002 Liquidity and Capital Resources

We discuss liquidity and capital resources on a consolidated basis. Our discussion includes the sources and uses of our three operating segments and centralized corporate functions. We have a centralized treasury function and use inter-company loans to efficiently manage the short-term cash needs of our operating divisions. We invest any excess funds centrally.

We rely upon cash flows from operating activities, and to the extent necessary, external short-term financing sources. Our short-term financing sources include the issuance of commercial paper, sales of accounts receivable and borrowing under our bank credit facilities. From time to time, we have issued long-term public debt. Our investment grade credit ratings and general business conditions affect our access to external financing on a cost-effective basis. Depending on the price of our common stock, we may realize significant cash flows from the exercise of stock options.

Moody's Investors Service (P-2), Standard & Poor's Corporation (A-2) and Fitch (F-2) rate our $174.5 million commercial paper program, which is up from $135 million in 2001, in the second highest category. To support our commercial paper program, we have unsecured revolving credit agreements with a group of eight banks. Our $129.5 million facility expires in August 2003 and our $45 million facility expires in August 2004. We plan to continue our commercial paper program and the revolving credit agreements in comparable amounts to support the commercial paper program.

For added flexibility, we may secure financing from the sale of certain accounts receivable in an amount not to exceed $130 million. We continually sell accounts receivable on an ongoing basis to replace those receivables that we have collected from our customers. Our long-term public debt, which was $255 million at August 31, 2002, is investment grade rated by Standard & Poor's Corporation (BBB), Fitch (BBB) and by Moody's Investors Services (Baa1). We have access to the public markets for potential refinancing or the issuance of additional long term debt. Also, we have numerous informal, uncommitted credit facilities available from domestic and international banks. These credit facilities are priced at bankers' acceptance rates or on a cost of funds basis.

Credit ratings affect our ability to obtain short- and long-term financing and the cost of such financing. If the rating agencies were to reduce our credit ratings, we would pay higher financing costs and possibly would have less availability of the informal, uncommitted facilities. In determining our credit ratings, the rating agencies consider a number of both quantitative and qualitative factors. Such factors include earnings, fixed charges such as interest, cash flows, total debt outstanding, off balance sheet obligations and other commitments, total capitalization and various ratios calculated from these factors. The rating agencies also consider predictability of cash flows, business strategy, industry condition and contingencies. We are committed to maintaining our investment grade credit ratings.

Certain of our financing agreements include various covenants. The most restrictive of these covenants requires us to maintain an interest coverage ratio of greater than three times and a debt to capitalization ratio of 55% as defined in the financing agreement. A few of the agreements provide that if we default on the terms of another financing agreement, it is considered a default under these agreements. We have complied with the requirements, including the covenants of our financing agreement as of and for the year ended, August 31, 2002.

Our unsecured revolving credit agreements and accounts receivable securitization agreement include ratings triggers. The trigger in the revolving credit agreements is solely a means to reset pricing for facility fees and, if a borrowing occurs, on loans. Within the accounts receivable securitization agreement, the ratings trigger is contained in a "termination event," but the trigger is set at catastrophic levels. The trigger requires a combination of ratings actions on behalf of two independent rating agencies and is set at levels seven ratings categories below our current rating.

Our manufacturing and recycling businesses are capital intensive. Our capital requirements include construction, purchases of equipment and maintenance capital at existing facilities. We plan to invest in new operations. We also plan to invest in working capital to support the growth of our businesses, maintain our ability to repay maturing long-term debt when due at its earliest maturity in 2005 and pay dividends to our stockholders.

Our management continues to assess alternative means of raising capital, including potential dispositions of under-performing or non-strategic assets. Any potential future major acquisitions could require additional financing from external sources such as the sale of common stock.

Cash Flows Our cash flows from operating activities primarily result from sales of steel and related products and, to a lesser extent, from sales of nonferrous metal products. We have a diverse and generally stable customer base. We use futures or forward contracts as needed to mitigate the risks from fluctuations in foreign currency exchange rates and metals commodity prices (see footnote 5, Financial Instruments, Market and Credit Risk, in the consolidated financial statements).

The volume and price of the orders from our U.S. customers in the manufacturing and construction sectors affect our cash flows from operating activities. Our international marketing and distribution operations also significantly affect our cash flows from operating activity. The weather can influence the volume of products we ship in any given period. Also, the general economy, the strength of the U.S. dollar, governmental action, and various other factors beyond our control influence our volumes and prices. These periodic fluctuations in our prices and volumes can result in variations in cash flows from operations. Despite these fluctuations, we have historically relied on operating activities as a steady source of cash.

Cash flows from operations before changes in operating assets and liabilities in 2002 increased to $107.4 million from $94.9 million in 2001 due mostly to higher earnings. Depreciation and amortization expense decreased $5.7 million in 2002 primarily because SMI South Carolina fully depreciated its mill rolls and guides as well as certain melt shop equipment. We realized a $4.1 million increase in the tax benefits from stock issued under option and purchase plans during 2002. Our cash flows increased by $2.4 million in 2002 as a result of deferred income taxes, due largely to additional depreciation which was granted under new tax legislation.

Net cash flows from operating activities decreased to $96.6 million in 2002 as compared to $192.6 million in 2001, primarily as a result of decreased funding from sales of accounts receivable. Net working capital in 2002 increased to $379 million from $274 million in 2001, primarily due to increased temporary investments and higher receivables. Increases in accounts payable more than offset the increase in inventories. The ratio of current assets to current liabilities was 1.9 at August 31, 2002, increased from 1.8 at August 31, 2001. Excluding Coil Steels Group, CSG, and SMI-Owen, which were facilities acquired and sold in 2002, accounts and notes receivable at August 31, 2002 were $41.2 million more than at August 31, 2001. The increase resulted because we did not request as much funding from the accounts receivable that we sold to financial institutions. Excluding CSG and SMI-Owen, inventories and accounts payable, accrued expenses, other payables and income taxes at August 31, 2002 increased by $37.2 million and $67.0 million, respectively, as compared to 2001. Inventories in the steel group, excluding SMI-Owen, increased $22.3 million. The majority of the increase occurred at the minimills because of higher scrap purchase costs and higher inventory quantities. Steel fabrication and post inventories increased as well. Inventories in marketing and distribution, excluding CSG, increased $15.1 million in 2002 mostly due to shipments in transit and customer delays. Accounts payable in marketing and distribution, excluding CSG, increased by $65.5 million in 2002 due to higher inventory purchases and extended terms with vendors. Accounts payable in the steel group at the minimills increased $9.9 million in 2002. Also, during 2002, we received $15.0 million from a litigation settlement (see footnote 10, Commitments and Contingencies, to the consolidated financial statements). Increased profits resulted in an increase of $5.7 million in income taxes payable. During 2002, we received $5.2 million for the contract balance and settlement of disputed change orders on an old large structural steel fabrication contract at SMI-Owen.

We invested $47.2 million in property, plant and equipment in 2002, which was $5.8 million less than in 2001. In addition, in 2002, we acquired the remaining shares of CSG for $6.8 million, net of cash. We received $19.7 million during 2002 for the sale of the assets of SMI-Owen. We expect capital spending for fiscal 2003 to be $88 million, including both new construction and acquisitions to expand our downstream businesses. At August 31, 2002, we had $91.1 million in temporary investments, as compared to $23.0 million at 2001.

We needed much less short-term financing during 2002 than during 2001, primarily due to better management of working capital, higher earnings, the litigation settlement, the sale of SMI-Owen and cash from stock issued under incentive and purchase plans. These events enabled us to repay all of our short-term borrowings. In 2002, we also made our final payment on the 8.49% long-term notes.

In May 2002, our Board of Directors declared a two-for-one stock split in the form of a stock dividend on our common stock payable June 28, 2002 to our shareholders of record on June 7, 2002 (see footnote 7, Capital Stock, to the consolidated financial statements). On June 28, 2002, we issued 16,132,583 additional shares of common stock. At August 31, 2002, 28,518,453 shares of common stock were issued and outstanding, and 3,746,713 were held in our treasury. Also, we issued 2,361,265 additional shares of common stock during 2002 because more employees exercised stock options, and we issued more shares than last year under our employee stock purchase plan because of the significant increase in our average market price per share. We issued all shares from treasury shares. As a result of this activity, our cash flows increased by $30.2 million in 2002 as compared to $4.4 million from such activity in 2001.

We paid dividends of $7.5 million during 2002, slightly more than the $6.8 million we paid during 2001. On May 20, 2002, our directors declared a quarterly cash dividend of eight cents per share on common stock. We paid this quarterly cash dividend on July 19 to stockholders of record at July 5, 2002. This new cash dividend rate on the after-split shares represents a 23% increase in our cash dividend. This was the 151st consecutive quarterly cash dividend we have paid.

We believe that we have sufficient liquidity for fiscal year 2003 and the foreseeable future.

Contractual Obligations

The following table represents our contractual obligations as of August 31, 2002 (dollars in thousands):

	Payments Due Within*				
	Total	1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
Long-term debt (1)	$ 256,600	$ 631	$105,859	$ 50,033	$ 100,077
Operating leases (2)	23,986	9,347	8,996	3,953	1,690
Unconditional purchase obligations (3)	53,698	17,388	12,345	7,102	16,863
Total contractual cash obligations	$ 334,284	$ 27,366	$127,200	$ 61,088	$ 118,630

*We have not discounted the cash obligations in this table.

(1) Total amounts are included in the August 31, 2002 consolidated balance sheet. See footnote 4, Credit Arrangements, to the consolidated financial statements.

(2) Includes minimum lease payment obligations for noncancelable equipment and real-estate leases in effect as of August 31, 2002. See footnote 10, Commitments and Contingencies, to the consolidated financial statements.

(3) About 35% of these purchase obligations are for inventory items to be sold in the ordinary course of business; most of the remainder are for freight and supplies associated with normal revenue-producing activities.

At August 31, 2002, we received $2,141,000 of net funding from the sales of accounts receivable. If we terminated the accounts receivable program on August 31, 2002, we would have to pay the first $2.1 million of collections from these accounts to third party financial institutions. We complied with the terms of this program as of, and for the year ended August 31, 2002.

Other Commercial Commitments

We maintain stand-by letters of credit to provide support for certain transactions that our customers or suppliers request. At August 31, 2002, we had committed $20.9 million under these arrangements. A cash deposit included in current other assets on the consolidated balance sheet collateralized $6 million of these commitments. All commitments expire within one year.

At the request of a customer and its surety bond issuer, we have agreed to indemnify the surety against all costs the surety may incur should our customer fail to perform its obligations under construction contracts covered by payment and performance bonds issued by the surety. We are the customer's primary supplier of steel, and steel is a substantial portion of our customer's cost to perform the contracts. We believe we have adequate controls to monitor the customer's performance under the contracts including payment for the steel we supply. As of August 31, 2002, the surety had issued bonds in the total amount (without reduction for work performed to that date) of $2,193,000 which are subject to our guaranty obligation under the indemnity agreement.

Contingencies

In the ordinary course of conducting our business, we become involved in litigation, administrative proceedings, government investigations including environmental matters, and contract disputes. We may incur settlement, fines, penalties or judgments because of some of these matters. While we are unable to estimate precisely the ultimate dollar amount of exposure or loss in connection with these matters, we make accruals we deem necessary. The amounts we accrue could vary substantially from amounts we pay due to several factors including the following: evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process, and the uncertainties involved in litigation. Accordingly, we cannot always estimate a meaningful range of possible exposure. We believe that we have adequately provided in our financial statements for the estimable potential impact of these contingencies. We also believe that the outcomes will not significantly affect the long-term results of operations or our financial position. However, they may have a material impact on earnings for a particular period.

Construction Contract Disputes See footnote 10, Commitments and Contingencies, to the consolidated financial statements.

Environmental and Other Matters We are subject to federal, state and local pollution control laws and regulations in all locations where we have operating facilities. We anticipate that compliance with these laws and regulations will involve continuing capital expenditures and operating costs.

Our original business and one of our core businesses for over eight decades is metals recycling. In the present era of conservation of natural resources and ecological concerns, we are committed to sound ecological and business conduct. Certain governmental regulations regarding environmental concerns, however well intentioned, are contrary to the goal of greater recycling. Such regulations expose us and the industry to potentially significant risks.

We believe that recycled materials are commodities that are diverted by recyclers, such as us, from the solid waste streams because of their inherent value. Commodities are materials that are purchased and sold in public and private markets and commodities exchanges every day around the world. They are identified, purchased, sorted, processed and sold in accordance with carefully established industry specifications.

Environmental agencies at various federal and state levels classify certain recycled materials as hazardous substances and subject recyclers to material remediation costs, fines and penalties. Taken to extremes, such actions could cripple the recycling industry and undermine any national goal of material conservation. Enforcement, interpretation, and litigation involving these regulations are not well developed.

The U.S. Environmental Protection Agency, or EPA, or an equivalent state agency notified us that we are considered a potentially responsible party, or PRP, at fourteen sites, none owned by us. We may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, or CERCLA, or a similar state statute to conduct remedial investigation, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. We are involved in litigation or administrative proceedings with regard to several of these sites in which we are contesting, or at the appropriate time we may contest, our liability at the sites. In addition, we have received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites.

In fiscal 2002, we incurred environmental expense of $12.1 million. This expense included the cost of environmental personnel at various divisions, permit and license fees, accruals and payments for studies, tests, assessments, remediation, consultant fees, baghouse dust removal and various other expenses. Approximately $507 thousand of our capital expenditures for 2002 related to costs directly associated with environmental compliance. At August 31, 2002, $5.0 million was accrued for environmental liabilities of which $1.5 million is classified as other long-term liabilities.

Dividends

We have paid quarterly cash dividends in each of the past 39 consecutive years. We paid dividends in 2002 at the rate of 0.065 cents per share each quarter for the first three quarters, and 0.08 cents per share for the fourth quarter.

Market Risk

Approach to Minimizing Market Risk See footnote 5, Financial Instruments, Market and Credit Risk, for disclosure regarding our approach to minimizing market risk. Also, see footnote 1, Summary of Significant Accounting Policies, to the consolidated financial statements. The following types of derivative instruments were outstanding at August 31, 2002, in accordance with our risk management program.

Currency Exchange Forwards We enter into currency exchange forward contracts as economic hedges of international trade commitments denominated in currencies other than the United States dollar, or, if the transaction involves our Australian, United Kingdom or German subsidiaries, their local currency. No single foreign currency poses a primary risk to us. Fluctuations that cause temporary disruptions in one market segment tend to open opportunities in other segments.

Effective September 1, 2002, we changed most of our European subsidiaries' functional currency to the Euro. We do not anticipate that this change will have a significant impact on our financial results.

Commodity Prices We base pricing in some of our sales and purchase contracts on forward metal commodity exchange quotes which we determine at the beginning of the contract. Due to the volatility of the metal commodity indexes, we enter into metal commodity forward or futures contracts for copper, aluminum and zinc. These forwards or futures mitigate the risk of unanticipated declines in gross margins on these contractual commitments. Physical transaction quantities will not match exactly with standard commodity lot sizes, leading to small gains and losses from ineffectiveness.

Interest Rate Swaps See footnote 4, Credit Arrangements, regarding our strategy for managing the fluctuations in interest rates on our long-term debt.

The following table provides certain information regarding the foreign exchange and commodity financial instruments discussed above.

Foreign Currency Exchange Contract Commitments as of August 31, 2002:

Amount	Currency	Range of Hedge Rates	U.S. $ Equivalent
15,342,000	Euro	$1.0239–0.8682	$ 15,090,000
2,238,446,000	Japanese yen	0.0089–0.0078	18,348,000
13,907,000	British pound	1.6291–1.5162	21,549,000
78,599,000	Australian dollar	0.5711–0.4992	43,288,000
734,000	New Zealand dollar	0.4674–0.4667	344,000
			98,619,000
Revaluation as of August 31, 2002, at quoted market			98,366,000
Unrealized gain			$ 253,000

- Substantially all foreign currency exchange contracts mature within one year.
- Hedge rates reflect foreign currency conversion to U.S. dollar.

As of August 31, 2001:

Revaluation at quoted market	$ 69,184,000
Unrealized loss	$ 1,327,000

Metal Commodity Contract Commitments as of August 31, 2002:

Terminal Exchange	Metal	Long/ Short	# of Lots	Standard Lot Size	Total Weight	Range or Amount of Hedge Rates Per MT	Total Contract Value at Inception
London Metal Exchange (LME)	Copper	Long	450	25 MT	11,250 MT	$1,505.50–1,641.17	$ 692,000
	Copper	Short	175	25 MT	4,375 MT	1,536.54	269,000
	Zinc	Long	25	25 MT	625 MT	858.00	21,000
	Aluminum	Long	2,276	25 MT	56,900 MT	1,301.50–1,449.00	4,024,000
	Aluminum	Short	3,350	25 MT	83,750 MT	1,289.00–1,399.00	4,408,000
New York Mercantile Exchange	Copper	Long	328	25,000 lbs.	8.2 MM lbs.	Per 100/wt. 67.00–75.70	5,733,000
Commodities Division (Comex)	Copper	Short	69	25,000 lbs.	1.7 MM lbs.	68.20–70.20	1,194,000
							16,341,000
Revaluation as of August 31, 2002, at quoted market							16,502,000
Unrealized loss							$ 161,000

- Seven lots mature after one year
- MT = Metric Tons
- MM = Millions

As of August 31, 2001:

Revaluation at quoted market	$ 10,733,000
Unrealized loss	$ 158,000

Financial Ratios and Statistics

	Year ended August 31,		
	2002	2001	2000
Liquidity			
Current ratio	1.9	1.8	1.6
Acid test ratio	1.1	1.0	0.8
Cash flow to long-term debt	0.4	0.4	0.4
Turnover			
Average day's sales	$ 6.7 million	$ 6.7 million	$ 7.3 million
Accounts receivable			
No. of days' sales outstanding	52.5	50.1	48.1
Inventories			
No. of days' sales on hand	45.3	37.4	41.7
Leverage			
Long-term debt as a percent of total capitalization	32.4%	35.2%	36.8%
Total debt to total capitalization plus short-term debt	32.5%	36.4%	44.7%
Ratio of total debt to tangible net worth	0.5	0.6	0.9
Ratio of total liabilities to total assets	0.6	0.6	0.6
Short-term borrowings as a percent of total borrowings	0.0%	1.4%	25.5%
Coverage			
Times interest earned pre-tax	4.4	2.4	3.6
EBITDA/interest expense	7.7	4.8	6.0
Fixed charge coverage pre-tax	3.1	2.0	2.9
Taxes			
Effective tax rate	35.8%	38.1%	36.9%
Profitability			
Pre-tax profit margin on net sales	2.6%	1.6%	2.7%
Profit margin on sales	1.7%	1.0%	1.7%
Return on beginning equity	9.4%	5.7%	10.7%
Cash flow return on beginning stockholders' equity	24.8%	22.7%	27.4%

Dividend Data and Price Range of Common Stock*

2002 Fiscal Quarter	Price Range of Common Stock High	Price Range of Common Stock Low	Cash Dividends
1st	$16.50	$12.25	6.5¢
2nd	18.40	16.33	6.5¢
3rd	23.99	18.00	6.5¢
4th	24.88	16.97	8¢

2001 Fiscal Quarter	Price Range of Common Stock High	Price Range of Common Stock Low	Cash Dividends
1st	$14.10	$11.07	6.5¢
2nd	12.88	9.88	6.5¢
3rd	13.51	11.90	6.5¢
4th	16.37	12.63	6.5¢

* Adjusted for stock split

Consolidated Statements of Earnings

(in thousands, except share data)	Year ended August 31, 2002	As restated– see footnote 14 2001	As restated– see footnote 14 2000
Net sales	$ 2,446,777	$ 2,441,216	$ 2,661,420
Costs and expenses:			
Cost of goods sold	2,129,378	2,143,900	2,333,930
Selling, general and administrative expenses	220,868	212,424	211,403
Employees' retirement plans	14,685	10,611	18,108
Interest expense	18,708	27,608	27,319
Litigation accrual	—	8,258	—
	2,383,639	2,402,801	2,590,760
Earnings before income taxes	63,138	38,415	70,660
Income taxes	22,613	14,643	26,070
Net earnings	$ 40,525	$ 23,772	$ 44,590
Basic earnings per share	$ 1.48	$ 0.91	$ 1.59
Diluted earnings per share	$ 1.43	$ 0.90	$ 1.56

See notes to consolidated financial statements.

Commercial Metals Company and Subsidiaries

Consolidated Balance Sheets

(in thousands, except share data)	August 31, 2002	August 31, As restated– see footnote 14 2001
Assets		
Current assets:		
Cash	$ 33,245	$ 32,921
Temporary investments	91,068	23,000
Accounts receivable (less allowance for collection losses of $5,958 and $5,192)	207,844	202,095
Notes receivable from affiliate	143,041	95,515
Inventories	268,040	223,859
Other	50,914	45,413
Total current assets	794,152	622,803
Property, plant and equipment:		
Land	29,099	29,315
Buildings	119,592	109,549
Equipment	727,650	704,469
Leasehold improvements	34,637	33,213
Construction in process	10,801	20,350
	921,779	896,896
Less accumulated depreciation and amortization	(543,624)	(501,045)
	378,155	395,851
Other assets	57,769	63,017
	$ 1,230,076	$ 1,081,671

See notes to consolidated financial statements.

(in thousands, except share data)	August 31, 2002	As restated– see footnote 14 2001
Liabilities and Stockholders' Equity		
Current liabilities:		
Short-term borrowings	$ —	3,793
Accounts payable	275,209	201,114
Accrued expenses and other payables	133,631	133,895
Income taxes payable	5,676	—
Current maturities of long-term debt	631	10,288
Total current liabilities	415,147	349,090
Deferred income taxes	32,813	30,405
Other long-term liabilities	24,841	17,444
Long-term debt	255,969	251,638
Commitments and contingencies		
Stockholders' equity:		
Capital stock:		
Preferred stock	—	—
Common stock, par value $5.00 per share: authorized 40,000,000 shares; issued 32,265,166 and 16,132,583 shares; outstanding 28,518,453 and 13,078,594 shares	161,326	80,663
Additional paid-in capital	170	13,930
Accumulated other comprehensive loss	(1,458)	(1,961)
Retained earnings	392,004	422,309
	552,042	514,941
Less treasury stock 3,746,713 and 3,053,989 shares at cost	(50,736)	(81,847)
	501,306	433,094
	$ 1,230,076	$ 1,081,671

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in thousands)	2002	As restated–see footnote 14 2001	As restated–see footnote 14 2000
	August 31,		
Cash Flows From (Used By) Operating Activities:			
Net Earnings	$ 40,525	$ 23,772	$ 44,590
Adjustments to earnings not requiring cash:			
Depreciation and amortization	61,579	67,272	66,583
Provision for losses on receivables	3,985	4,371	948
Deferred income taxes	2,408	(726)	7,868
Tax benefits from stock plans	4,467	404	274
Gain on sale of SMI-Owen	(5,234)	—	—
Other	(307)	(148)	(5,570)
Cash Flows From Operations Before Changes in Operating Assets and Liabilities	107,423	94,945	114,693
Changes in Operating Assets and Liabilities, net of effect of Coil Steels Group Acquisition and Sale of SMI-Owen:			
Decrease (increase) in accounts receivable	(1,165)	10,222	(55,488)
Funding from accounts receivable sold–net change	(40,000)	40,000	—
Decrease (increase) in inventories	(37,206)	46,508	(23,213)
Decrease (increase) in other assets	(6,874)	6,011	(36,433)
Increase (decrease) in accounts payable, accrued expenses, other payables and income taxes	67,038	(2,497)	3,269
Increase (decrease) in other long-term liabilities	7,397	(2,597)	5,780
Net Cash Flows From Operating Activities	96,613	192,592	8,608
Cash Flows From (Used By) Investing Activities:			
Purchases of property, plant and equipment, net	(47,223)	(53,022)	(69,627)
Acquisition of Coil Steels Group, net of cash received	(6,834)	—	—
Sale of Assets of SMI-Owen	19,705	—	—
Sales of property, plant and equipment	3,496	2,866	9,323
Temporary investments–net change	(68,068)	(23,000)	—
Other investments	—	—	(2,966)
Net Cash Used By Investing Activities	(98,924)	(73,156)	(63,270)
Cash Flows From (Used by) Financing Activities:			
Short-term borrowings–net change	(9,981)	(88,673)	78,084
Payments on long-term debt	(10,101)	(8,786)	(4,750)
Stock issued under incentive and purchase plans	30,238	4,383	5,958
Treasury stock acquired	—	(6,716)	(41,934)
Dividends paid	(7,521)	(6,780)	(7,304)
Net Cash From (Used by) Financing Activities	2,635	(106,572)	30,054
Increase (Decrease) in Cash	324	12,864	(24,608)
Cash at Beginning of Year	32,921	20,057	44,665
Cash at End of Year	$ 33,245	$ 32,921	$ 20,057

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(in thousands, except share data)	Common Stock Number of Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock Number of Shares	Treasury Stock Amount	Total
Balance, September 1, 1999, as previously reported	16,132,583	$ 80,663	$ 14,131	$ (774)	$ 368,177	(1,726,323)	$ (43,739)	$ 418,458
Prior period adjustments (see footnote 14)					(146)			(146)
Balance, September 1, 1999, as restated	16,132,583	80,663	14,131	(774)	368,031	(1,726,323)	(43,739)	418,312
Comprehensive income:								
Net earnings*					44,590			44,590
Other comprehensive loss–								
Foreign currency translation adjustment, net of taxes of $440				(817)				(817)
Comprehensive income								43,773
Cash dividends					(7,304)			(7,304)
Treasury stock acquired						(1,465,100)	(41,934)	(41,934)
Stock issued under incentive and purchase plans			100			231,515	5,858	5,958
Balance, August 31, 2000	16,132,583	80,663	14,231	(1,591)	405,317	(2,959,908)	(79,815)	418,805
Comprehensive income:								
Net earnings*					23,772			23,772
Other comprehensive loss–								
Unrealized loss on derivatives, net of taxes of $7				(14)				(14)
Foreign currency translation adjustment, net of taxes of $192				(356)				(356)
Comprehensive income								23,402
Cash dividends					(6,780)			(6,780)
Treasury stock acquired						(271,500)	(6,716)	(6,716)
Stock issued under incentive and purchase plans			(301)			177,419	4,684	4,383
Balance, August 31, 2001	16,132,583	80,663	13,930	(1,961)	422,309	(3,053,989)	(81,847)	433,094
Comprehensive income:								
Net earnings					40,525			40,525
Other comprehensive income (loss)–								
Foreign currency translation adjustment, net of taxes of $276				513				513
Unrealized loss on derivatives, net of taxes of $(5)				(10)				(10)
Comprehensive income								41,028
Cash dividends					(7,521)			(7,521)
2-for-1 stock split	16,132,583	80,663	(17,354)		(63,309)	(3,053,989)		
Stock issued under incentive and purchase plans			(873)			2,361,265	31,111	30,238
Tax benefits from stock plans			4,467					4,467
Balance, August 31, 2002	32,265,166	$ 161,326	$ 170	$ (1,458)	$ 392,004	(3,746,713)	$ (50,736)	$ 501,306

* As restated–see footnote 14.

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

NOTE 1 *Summary of Significant Accounting Policies*

Nature of Operations The Company manufactures, recycles and markets steel and metal products and related materials. Its manufacturing and recycling facilities and primary markets are located in the Sunbelt from the mid-Atlantic area through the West. Through its global marketing offices, the Company markets and distributes steel and nonferrous metal products and other industrial products worldwide. As more fully discussed in note 13, the manufacturing segment is the most dominant in terms of capital assets and operating profit.

Consolidation The consolidated financial statements include the accounts of the Company and its subsidiaries except CMC Receivables, Inc. (CMCR). See note 2. All significant intercompany transactions and balances are eliminated in consolidation.

Revenue Recognition Generally, sales are recognized when title passes to the customer. Some of the revenues related to the steel fabrication operations are recognized on the percentage of completion method. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that completion costs for certain projects will be further revised in the near-term.

Temporary Investments The Company considers investments that are short-term (generally with original maturities of three months or less) and highly liquid to be temporary investments.

Inventories Inventories are stated at the lower of cost or market. Inventory cost for most domestic inventories is determined by the last-in, first-out (LIFO) method; cost of international and remaining inventories is determined by the first-in, first-out (FIFO) method.

Property, Plant and Equipment Property, plant and equipment is recorded at cost and is depreciated on a straight-line basis over the estimated useful lives of the assets. Provision for amortization of leasehold improvements is made at annual rates based upon the estimated useful lives of the assets or terms of the leases, whichever is shorter. At August 31, 2002, the useful lives used for depreciation and amortization were as follows:

Buildings	7 to 40 years
Equipment	3 to 15 years
Leasehold improvements	3 to 10 years

We evaluate the carrying value of property, plant and equipment whenever a change in circumstances indicates that the carrying value may not be recoverable from the undiscounted future cash flows from operations. If we determine that impairment exists, we reduce the net book values as warranted. Major maintenance is expensed as incurred.

Start-Up Costs Start-up costs associated with the acquisition and expansion of manufacturing and recycling facilities are expensed as incurred.

Environmental Costs The Company accrues liabilities for environmental investigation and remediation costs based upon estimates regarding the number of sites for which the Company will be responsible, the scope and cost of work to be performed at each site, the portion of costs that will be shared with other parties and the timing of remediation. Where amounts and timing can be reliably estimated, amounts are discounted. Where timing and amounts cannot be reasonably determined, a range is estimated and the lower end of the range is recognized on an undiscounted basis.

Income Taxes The Company and its U.S. subsidiaries file a consolidated federal income tax return, and federal income taxes are allocated to subsidiaries based upon their respective taxable income or loss. Deferred income taxes are provided for temporary differences between financial and tax reporting. The principal differences are described in footnote 6, Income Taxes. Benefits from tax credits are reflected currently in earnings. The Company provides for taxes on unremitted earnings of foreign subsidiaries.

Foreign Currency The functional currency of the Company's international subsidiaries in Australia, the United Kingdom, and Germany is the local currency. The remaining international subsidiaries' functional currency is the United States dollar. Translation adjustments are reported as a component of accumulated other comprehensive loss.

Effective September 1, 2002, most of the Company's subsidiaries in Europe changed their functional currency to the Euro. The Company does not anticipate that this change will have a material impact on its financial condition or results of operation.

Use of Estimates The preparation of financial statements in conformity with generally accepted accounting principles requires management to make significant estimates regarding assets and liabilities and associated revenues and expenses. Management believes these estimates to be reasonable; however, actual results may vary.

Derivatives The Company records derivatives on the balance sheet as assets or liabilities, measured at fair value. Gains or losses from the changes in the values of the derivatives are recorded in the statement of earnings, or are deferred if they are highly effective in achieving offsetting changes in fair values or cash flows of the hedged items during the term of the hedge.

Reclassifications Certain reclassifications have been made in the 2001 and 2000 financial statements to conform to the classifications used in the current year.

Recently Issued Accounting Standards Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, must be adopted by the Company in the first quarter of its fiscal year 2003, and will be applied to all goodwill and other intangible assets recognized on the balance sheet, regardless of when those assets were initially recognized. Goodwill will no longer be amortized, but must be tested for impairment as of the beginning of the fiscal year of adoption and annually thereafter. Goodwill was $6.8 million at August 31, 2002. Management does not believe that the implementation of SFAS 142 will result in an impairment charge.

In August 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, effective for the Company in fiscal 2003. This standard requires entities to record the fair value of a liability for an asset retirement obligation when it is incurred by increasing the carrying amount of the related long-lived asset. The liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful lives of the assets.

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, that refines criteria for assets classified as held for sale, further refines rules regarding impairment of long-lived assets and changes the reporting of discontinued operations. SFAS No. 144 is effective for the Company's fiscal 2003.

SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, was issued in June 2002. It is effective for all such activities initiated after December 31, 2002. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value only when incurred.

Management believes that the adoption of SFAS Nos. 143, 144 and 146 will have no significant impact on the results of operations or financial position of the Company.

NOTE 2 *Sales of Accounts Receivable*

In 2001, the Company and several of its subsidiaries entered into three-year agreements to periodically sell trade accounts receivable to the Company's wholly-owned unconsolidated special purpose affiliate (CMCR). Depending on the Company's level of financing needs, the affiliate receives funds from a third party financial institution up to a $130 million maximum. The Company utilizes this arrangement as an alternative to short-term borrowing. The key components of such arrangements with financial institutions were as follows as of August 31:

(in thousands)	2002	2001
Total accounts receivable sold	$ 148,101	$ 156,779
Less notes receivable from affiliate	145,960	98,281
Net proceeds from financial institutions	$ 2,141	$ 58,498

The notes receivable from affiliate are presented net of allowance of $2.9 million and $2.7 million at August 31, 2002 and 2001, respectively. These notes represent amounts withheld for credit and other reserves, as well as excess funding capacity not currently needed by the Company. Discounts (which aggregated $793 thousand and $976 thousand for the years ended August 31, 2002 and 2001, respectively) represented primarily the costs of funds and were included in selling, general and administrative expenses.

NOTE 3 *Inventories*

Before deduction of LIFO reserves of $8,074,000 and $6,476,000 at August 31, 2002 and 2001, respectively, inventories valued under the first-in, first-out method approximated replacement cost.

At August 31, 2002 and 2001, 72% and 70%, respectively, of total inventories were valued at LIFO. The remainder of inventories, valued at FIFO, consisted mainly of material dedicated to the marketing and distribution business.

The majority of the Company's inventories are in the form of finished goods, with minimal work in process. Approximately $15.3 million and $10.8 million were in raw materials at August 31, 2002 and 2001, respectively.

NOTE 4 *Credit Arrangements*

In August 2002, the Company increased its commercial paper program to permit maximum borrowings of up to $174.5 million, an increase from the prior year $135 million level. It is the Company's policy to maintain contractual bank credit lines equal to 100% of the amount of all commercial paper outstanding.

On August 8, 2002, the Company arranged an unsecured revolving credit agreement with a group of eight banks consisting of a 364-day, $129.5 million facility. This facility is in addition to the previously existing $45 million facility that matures August 14, 2004. These agreements provide for borrowing in United States dollars indexed to LIBOR. Facility and other fees of 0.150% and 0.125% per annum are payable on the 364-day and multi-year credit lines, respectively. No compensating balances are required.

The Company has numerous informal credit facilities available from domestic and international banks. These credit facilities are priced at bankers' acceptance rates or on a cost of funds basis. No compensating balances or commitment fees are required under these credit facilities.

Long-term debt and amounts due within one year as of August 31, are as follows:

(in thousands)	2002	2001
7.20% notes due July 2005	$ 104,775	$ 100,000
6.75% notes due February 2009	100,000	100,000
6.80% notes due August 2007	50,000	50,000
8.49% notes due December 2001	—	7,142
Other	1,825	4,784
	256,600	261,926
Less current maturities	631	10,288
	$ 255,969	$ 251,638

Interest on these notes is payable semiannually.

On April 9, 2002, the Company entered into two interest rate swaps to convert a portion of its fixed interest rate long-term debt commitment to a floating interest commitment. These arrangements adjust the Company's fixed to floating interest rate exposure as well as reduce overall financing costs. The swaps effectively convert interest on the $100 million debt due July 2005 from a fixed rate of 7.20% to a six month LIBOR (determined in arrears) plus 2.02%. The floating rate was 3.88% at July 15, 2002, the most recent reset date. The total fair value of both swaps was $4,775,000 at August 31, 2002 and is recorded in other long-term assets, with a corresponding increase in the 7.20% long-term notes, representing the change in fair value of the hedged debt.

Certain of the note agreements include various covenants. The most restrictive of these requires maintenance of an interest coverage ratio of greater than three times and a debt/capitalization ratio of 55% (as defined).

The aggregate amounts of all long-term debt maturities for the five years following August 31, 2002 are (in thousands): 2003–$631; 2004–$563; 2005–$105,296; 2006–$17; 2007–$50 and thereafter–$100,093.

Interest expense is comprised of the following:

	Year ended August 31,		
(in thousands)	2002	2001	2000
Long-term debt	$ 16,499	$ 17,532	$ 18,419
Commercial paper	145	7,076	4,816
Notes payable	2,064	3,000	4,084
	$ 18,708	$ 27,608	$ 27,319

Interest of $447,000, $1,111,000, and $808,000 was capitalized in the cost of property, plant and equipment constructed in 2002, 2001, and 2000, respectively. Interest of $18,879,000, $28,704,000, and $27,536,000 was paid in 2002, 2001, and 2000, respectively.

NOTE 5 *Financial Instruments, Market and Credit Risk*

Generally accepted accounting principles require disclosure of an estimate of the fair value of the Company's financial instruments as of year end. These estimated fair values disregard management intentions concerning these instruments and do not represent liquidation proceeds or settlement amounts currently available to the Company. Differences between historical presentation and estimated fair values can occur for many reasons including taxes, commissions, prepayment penalties, make-whole provisions and other restrictions as well as the inherent limitations in any estimation technique.

Due to near-term maturities, allowances for collection losses, investment grade ratings and security provided, the following financial instruments' carrying amounts are considered equivalent to fair value:

- Cash and temporary investments
- Accounts receivable/payable
- Short-term borrowings
- Notes receivable/payable

The Company's long-term debt is predominantly publicly held. Fair value was determined by indicated market values.

(in thousands)	2002	2001
Long-Term Debt:		
Carrying amount	$ 256,600	$ 261,926
Estimated fair value	259,656	252,531

The Company maintains both corporate and divisional credit departments. Limits are set for customers and countries. Credit insurance is used for some of the Company's divisions. Letters of credit issued or confirmed by sound financial institutions are obtained to further ensure prompt payment in accordance with terms of sale; generally, collateral is not required.

In the normal course of its marketing activities, the Company transacts business with substantially all sectors of the metals industry. Customers are internationally dispersed, cover the spectrum of manufacturing and distribution, deal with various types and grades of metal and have a variety of end markets in which they sell. The Company's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, no additional credit risk, beyond amounts provided for collection losses, is believed inherent in the Company's accounts receivable.

The Company's worldwide operations and product lines expose it to risks from fluctuations in foreign currency exchange rates and metals commodity prices. The objective of the Company's risk management program is to mitigate these risks using futures or forward contracts (derivative instruments). The Company enters into metal commodity forward contracts to mitigate the risk of unanticipated declines in gross margin due to the volatility of the commodities' prices, and enters into foreign currency forward contracts which match the expected settlements for purchases and sales denominated in foreign currencies. The Company designates as hedges for accounting purposes only those contracts which closely match the terms of the underlying transaction. These hedges resulted in substantially no ineffectiveness in the statements of earnings for the years ended August 31, 2002 and 2001. Certain of the foreign currency and all of the commodity contracts were not designated as hedges for accounting purposes, although management believes they are essential economic hedges. The changes in fair value of these instruments resulted in a $208 thousand decrease and a $452 thousand increase in cost of goods sold for the years ended August 31, 2002 and 2001, respectively. All of the instruments are highly liquid and none are entered into for trading purposes or speculation.

See footnote 4, Credit Arrangements, regarding the Company's interest rate hedges.

NOTE 6 *Income Taxes*

The provisions for income taxes include the following:

	Year ended August 31,		
(in thousands)	2002	2001	2000
Current:			
United States	$ 15,173	$ 13,498	$ 14,731
Foreign	1,670	80	573
State and local	644	1,863	2,637
	17,487	15,441	17,941
Deferred	5,126	(798)	8,129
	$ 22,613	$ 14,643	$ 26,070

During 2002, the Company favorably resolved all issues for its federal income tax returns through 1999. Management has reevaluated the tax accruals resulting in a net decrease of approximately $1,000,000.

Taxes of $11,016,000, $8,691,000 and $26,363,000 were paid in 2002, 2001 and 2000, respectively.

Deferred taxes arise from temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements. The sources and deferred long-term tax liabilities (assets) associated with these differences are:

	August 31,	
(in thousands)	2002	2001
Tax on difference between tax and book depreciation	$ 38,457	$ 33,873
U.S. taxes provided on foreign income and foreign taxes	11,857	11,586
Net operating losses (less allowances of $780 and $2,035)	(561)	(1,090)
Alternative minimum tax credit	(1,713)	(1,713)
Other accruals	(9,183)	(6,330)
Other	(6,044)	(5,921)
Total	$ 32,813	$ 30,405

Current deferred tax assets of $12.3 and $11.0 million at August 31, 2002 and 2001, respectively, were included in other assets on the consolidated balance sheets. These deferred taxes were largely due to different book and tax treatments of various allowances and accruals. No valuation allowances were required at August 31, 2002 or 2001 for the current deferred tax assets.

The Company uses substantially the same depreciable lives for tax and book purposes. Changes in deferred taxes relating to depreciation are mainly attributable to differences in the basis of underlying assets recorded under the purchase method of accounting. As noted above, the Company provides United States taxes on unremitted foreign earnings. Net operating losses consist of $120 million of state net operating losses that expire during the tax years ending from 2006 to 2022. These assets will be reduced as tax expense is recognized in future periods. The $1.7 million alternative minimum tax credit is available indefinitely. The FSC Repeal and Extraterritorial Income Exclusion Act of 2000 replaced the Foreign Sales Corporation (FSC) tax benefits with the "extraterritorial income" exemption (ETI) for fiscal year 2002 and the years thereafter. The ETI exclusion maintains the same level of tax benefit for current FSC users.

The Company's effective tax rates were 35.8% for 2002, 38.1% for 2001 and 36.9% for 2000. Reconciliations of the United States statutory rates to the effective rates are as follows:

	Year ended August 31,		
	2002	2001	2000
Statutory rate	35.0%	35.0%	35.0%
State and local taxes	1.0	3.1	2.3
ETI	(1.2)	(1.1)	(0.6)
Other	1.0	1.1	0.2
Effective tax rate	35.8%	38.1%	36.9%

NOTE 7 *Capital Stock*

On May 20, 2002, the Company's Board of Directors declared a two-for-one stock split in the form of a 100% stock dividend on its common stock. This stock split was effective June 28, 2002 to shareholders of record on June 7, 2002. On June 28, 2002 the Company issued 16,132,583 additional shares of common stock and transferred $17,354,000 from paid-in capital and $63,309,000 from retained earnings to common stock. All applicable share and per share amounts in the accompanying consolidated financial statements have been restated to reflect this stock split. Following the stock split, the Company also instituted a quarterly cash dividend of eight cents per share on the increased number of shares.

Stock Purchase Plan Almost all employees may participate in the Company's employee stock purchase plan. The Directors have authorized the annual purchase of up to 200 shares per employee at a discount of 25% from the stock's market price. Yearly activity of the stock purchase plan was as follows:

	2002	2001	2000
Shares subscribed	282,780	347,640	330,000
Price per share	$ 12.48	$ 9.48	$ 11.74
Shares purchased	257,860	74,480	273,980
Price per share	$ 9.48	$ 11.74	$ 9.75
Shares available	366,446		

The Company recorded compensation expense for this plan of $815,000, $291,000 and $890,000 in 2002, 2001 and 2000, respectively.

Stock Option Plans The 1986 Stock Incentive Plan (1986 Plan) ended November 23, 1996, except for awards outstanding. Under the 1986 Plan, stock options were awarded to full-time salaried employees. The option price was the fair market value of the Company's stock at the date of grant, and the options are exercisable two years from date of grant. The outstanding awards under this Plan are 100% vested and expire through 2006.

The 1996 Long-Term Incentive Plan (1996 Plan) was approved in December 1996. Under the 1996 Plan, stock options, stock appreciation rights, and restricted stock may be awarded to employees. The option price for both the stock options and the stock rights will not be less than the fair market value of the Company's stock at the date of grant. The outstanding awards under the 1996 Plan vest 50% after one year and 50% after two years from date of grant and will expire seven years after grant. The terms of the 1996 Plan resulted in additional authorized shares of 52,126 in 2000, 67,270 in 2001, and 1,073,782 in 2002. In addition, the Company's shareholders authorized an additional 1,000,000 shares during 2002.

In January 2000, the Company's stockholders approved the 1999 Non-Employee Director Stock Option Plan and authorized 400,000 shares to be made available for grant. Under this Plan, each outside director of the Company will receive annually an option to purchase 3,000 shares of the Company's stock. In addition, any outside director may elect to receive all or part of fees otherwise payable in the form of a stock option. The price of these options is the fair market value of the Company's stock at the date of the grant. The options granted automatically vest 50% after one year and 50% after two years from the grant date. Options granted in lieu of fees are immediately vested. All options expire seven years from the date of grant.

Combined share information for the three plans is as follows:

	Number	Weighted Average Exercise Price	Price Range Per Share
September 1, 1999			
Outstanding	3,821,522	$ 12.98	$ 6.31–14.91
Exercisable	3,424,636	12.78	6.31–14.91
Granted	773,800	15.45	15.44–15.97
Exercised	(201,732)	11.49	6.31–14.91
Forfeited	(42,730)	14.85	12.25–15.44
Increase authorized	452,126		
August 31, 2000			
Outstanding	4,350,860	$ 13.47	$ 6.31–15.97
Exercisable	3,559,810	13.06	6.31–15.44
Granted	803,672	11.71	10.95–13.23
Exercised	(320,422)	10.70	6.31–15.44
Forfeited	(99,932)	13.82	10.99–15.97
Increase authorized	67,270		
August 31, 2001			
Outstanding	4,734,178	$ 13.36	$9.21–15.97
Exercisable	3,608,052	13.47	9.21–15.97
Granted	805,380	17.28	17.17–21.42
Exercised	(2,212,903)	13.13	9.21–15.97
Forfeited	(80,920)	14.00	11.76–17.17
Increase authorized	2,073,782		
August 31, 2002			
Outstanding	3,245,735	$ 14.46	$10.10–21.42
Exercisable	2,111,744	13.94	10.10–18.05
Authorized			
Shares remaining	1,938,738		

Share information for options at August 31, 2002:

Outstanding				Exercisable	
Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life (Yrs)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$10.10–12.25	828,579	4.4	$11.72	476,224	$11.70
13.13–14.91	1,197,768	2.6	14.13	1,166,462	14.14
15.44–21.42	1,219,388	5.6	16.65	469,058	15.70
$10.10–21.42	3,245,735	4.2	$14.46	2,111,744	$13.94

The Company has maintained its historical method for accounting for stock options, which recognizes no compensation expense for fixed options granted at current market values. Generally accepted accounting principles require disclosure of an estimate of the weighted-average grant date fair value of options granted during the year and pro forma disclosures of the effect on earnings if compensation expense had been recorded.

The Black-Scholes option pricing model used requires the following assumptions as of August 31:

	2002	2001	2000
Risk-free interest rate	4.42%	4.84%	6.34%
Expected life	5.44 years	4.60 years	4.06 years
Expected volatility	.250	.232	.248
Expected dividend yield	1.7%	1.7%	1.9%

Management believes that the results have limited relevance as characteristics of the Company's options such as nontransferability, forfeiture provisions and long lives are inconsistent with the option model's basic purpose of valuing traded options. For purposes of pro forma earnings disclosures, the assumed compensation expense is amortized over the option's vesting period. The pro forma information includes options granted in preceding years.

	2002	2001	2000
Net earnings (in thousands)			
As reported	$ 40,525	$ 23,772	$ 44,590
Pro forma	38,888	22,577	43,097
Diluted earnings per share			
As reported	$ 1.43	$ 0.90	$ 1.56
Pro forma	1.37	0.86	1.51

The weighted-average fair value of options granted in 2002, 2001 and 2000 was $4.52, $2.77 and $3.89, respectively.

Preferred Stock Preferred stock has a par value of $1.00 a share, with 2,000,000 shares authorized. It may be issued in series, and the shares of each series shall have such rights and preferences as fixed by the Board of Directors when authorizing the issuance of that particular series. There are no shares of preferred stock outstanding.

Stockholder Rights Plan On July 28, 1999, the Company's Board of Directors adopted a stockholder rights plan pursuant to which stockholders were granted preferred stock rights (Rights) to purchase one one-thousandth of a share of the Company's Series A Preferred Stock for each share of common stock held. In connection with the adoption of such plan, the Company designated and reserved 100,000 shares of preferred stock as Series A Preferred Stock and declared a dividend of one Right on each outstanding share of the Company's common stock. Rights were distributed to stockholders of record as of August 9, 1999.

The Rights are represented by and traded with the Company's common stock. The Rights do not become exercisable or trade separately from the common stock unless at least one of the following conditions are met: a public announcement that a person has acquired 15% or more of the common stock of the Company or a tender or exchange offer is made for 15% or more of the common stock of the Company. Should either of these conditions be met and the Rights become exercisable, each Right will entitle the holder (other than the acquiring person or group) to buy one one-thousandth of a share of the Series A Preferred Stock at an exercise price of $150.00. Each fractional share of the Series A Preferred Stock will essentially be the economic equivalent of one share of common stock. Under certain circumstances, each Right would entitle its holder to purchase the Company's stock or shares of the acquirer's stock at a 50% discount. The Company's Board of Directors may choose to redeem the Rights (before they become exercisable) at $0.001 per Right. The Rights expire July 28, 2009.

NOTE 8 *Employees' Retirement Plans*

Substantially all employees of the Company and its subsidiaries are covered by defined contribution profit sharing and savings plans. Company contributions, which are discretionary, to all plans were $14,685,000, $10,611,000, and $18,108,000, for 2002, 2001 and 2000, respectively.

NOTE 9 *Postretirement Benefits Other Than Pensions/Postemployment Benefits*

The Company has no significant postretirement obligations. The Company's historical costs for postemployment benefits have not been significant and are not expected to be in the future.

NOTE 10 *Commitments and Contingencies*

Minimum lease commitments payable by the Company and its consolidated subsidiaries for noncancelable operating leases in effect at August 31, 2002, are as follows for the fiscal periods specified:

(in thousands)	Equipment	Real Estate
2003	$ 6,169	$ 3,178
2004	3,499	1,723
2005	2,529	1,245
2006	1,749	823
2007 and thereafter	2,088	983
	$ 16,034	$ 7,952

Total rental expense was $11,774,000, $11,483,000 and $10,664,000 in 2002, 2001 and 2000, respectively.

Construction Contract Disputes During 2001, the Company increased its litigation accrual (included in accrued expenses and other payables) by $8.3 million due to an adverse judgment from a trial. At August 31, 2002 and 2001, $9.8 million and $9.4 million, respectively, were accrued (including interest). The Company has appealed the judgment.

In another matter, a subsidiary of the Company entered into a fixed price contract with the design/builder general contractor (D/B) to furnish, erect and install structural steel, hollow core pre-cast concrete planks, fireproofing, and certain concrete slabs along with related design and engineering work for the construction of a large hotel and casino complex. In connection with the contract, the D/B secured insurance under a subcontractor/vendor default protection policy which named the Company as an insured in lieu of performance and payment bonds. A large subcontractor to the Company defaulted, and the Company incurred unanticipated costs to complete the work. The Company made a claim against the insurance company for all losses, costs, and expenses incurred or arising from the default. A portion of the claim, $6.6 million, was recorded as a claim receivable in other assets at August 31, 2001. During May 2002, the Company and the insurance company settled litigation filed by the Company following the insurer's refusal to pay the claim. The Company recovered $15 million from the insurance company, which included recovery of the $6.6 million claim receivable, receipt of an additional amount ($7.4 million), the release of the balance of $1 million of previously escrowed funds for payment of certain claims by subcontractors to the Company and, subject to certain contingencies, reimbursement of an additional amount (up to $3 million). The $7.4 million in excess of the claim receivable and escrow amount released was recorded as deferred insurance proceeds (in other long-term liabilities at August 31, 2002) pending final resolution of the Company's disputes with the D/B. The Company has also filed a lawsuit against the insurance broker for insurance benefits not received due to the broker's acts, errors and omissions.

Disputes between the Company and the D/B have been submitted to binding arbitration. Depending upon future rulings in the arbitration, a portion of the Company's recovery from the insurance company may be credited toward the Company's claim against the D/B. The Company has filed a claim for approxi-

mately $27 million against the D/B. The claims seeks recovery of unpaid contract receivables, amounts for delay claims and change orders all of which have not been paid by the D/B. At August 31, 2002 and 2001, the Company maintained contract receivables of $7.2 million from the D/B. Such amounts are included within other assets on the accompanying balance sheets. The D/B has not disputed certain amounts owed under the contract, but contends that other deductive items, disputed by the Company, reduce the contract balance by approximately $6.3 million which together with other D/B claims (discussed below) exceed the unpaid contract balance. The Company disputes the deductive items in the D/B's claim and intends to vigorously pursue recovery of the contract balance in addition to all amounts not recovered under insurance program coverage as a result of misrepresentations or omissions of the D/B.

The owner of the Project and the D/B have filed joint claims in the arbitration proceeding against the Company, primarily for alleged delay damages, totaling approximately $144 million which includes alleged delay damages in construction of a retail area adjacent to the Project. Management believes the claims are generally unsubstantiated, and the Company has valid legal defenses against such claims and intends to vigorously defend these claims. Management is unable to determine a range of potential loss related to such claims, and therefore no losses have been accrued; however, it believes the ultimate resolution will not have a material effect on the Company's consolidated financial statements. Due to the uncertainties inherent in the estimating process, it is at least reasonably possible that a change in the Company's estimate of its collection of amounts receivable and possible liability could occur in the near term.

The Company is involved in various other claims and lawsuits incidental to its business. In the opinion of management, these claims and suits in the aggregate will not have a material adverse effect on the results of operations or the financial position of the Company.

Environmental and Other Matters In the ordinary course of conducting its business, the Company becomes involved in litigation, administrative proceedings and governmental investigations, including environmental matters. Management believes that adequate provision has been made in the financial statements for the potential impact of these issues, and that the outcomes will not significantly impact the results of operations or the financial position of the Company, although they may have a material impact on earnings for a particular quarter.

The Company has received notices from the U.S. Environmental Protection Agency (EPA) or equivalent state agency that it is considered a potentially responsible party (PRP) at fourteen sites, none owned by the Company, and may be obligated under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) or similar state statute to conduct remedial investigations, feasibility studies, remediation and/or removal of alleged releases of hazardous substances or to reimburse the EPA for such activities. The Company is involved in litigation or administrative proceedings with regard to several of these sites in which the Company is contesting, or at the appropriate time may contest, its liability at the sites. In addition, the Company has received information requests with regard to other sites which may be under consideration by the EPA as potential CERCLA sites.

Some of these environmental matters or other proceedings may result in fines, penalties or judgments being assessed against the Company. While the Company is unable to estimate precisely the ultimate dollar amount of exposure to loss in connection with the above-referenced matters, it makes accruals as warranted. Due to evolving remediation technology, changing regulations, possible third-party contributions, the inherent shortcomings of the estimation process and other factors, amounts accrued could vary significantly from amounts paid. Accordingly, it is not possible to estimate a meaningful range of possible exposure. It is the opinion of the Company's management that the outcome of these proceedings, individually or in the aggregate, will not have a material adverse effect on the results of operations or the financial position of the Company.

NOTE 11 *Earnings Per Share*

In calculating earnings per share, there were no adjustments to net earnings to arrive at income for any years presented. The stock options granted June 7, 2002, with total outstanding share commitments of 10,000 at year end, are antidilutive.

	August 31,		
	2002	2001	2000
Shares outstanding for basic earnings per share	27,377,083	26,059,122	28,036,052
Effect of dilutive securities:			
Stock options/ purchase plans	898,208	261,866	464,118
Shares outstanding for diluted earnings per share	28,275,291	26,320,988	28,500,170

NOTE 12 *Accrued Expenses and Other Payables*

(in thousands)	August 31, 2002	2001
Salaries, wages and commissions	$ 31,544	$ 30,844
Litigation accruals	16,416	16,048
Employees' retirement plans	15,086	11,749
Insurance	12,987	10,401
Taxes other than income taxes	9,470	10,359
Advance billings on contracts	7,855	15,621
Freight	5,980	4,467
Environmental	3,437	2,675
Accrual for contract losses	2,506	3,278
Interest	1,901	2,491
Contributions	1,788	935
Other	24,661	25,027
	$ 133,631	$ 133,895

NOTE 13 *Business Segments*

The Company's reportable segments are based on strategic business areas, which offer different products and services. These segments have different lines of management responsibility as each business requires different marketing strategies and management expertise.

The Company has three reportable segments consisting of manufacturing, recycling, and marketing and distribution. Manufacturing consists of the CMC steel group's minimills, steel and joist fabrication operations, fence post manufacturing plants, heat treating, railcar rebuilding and concrete-related products, as well as Howell Metal Company's copper tube manufacturing facility. The manufacturing segment's business operates primarily in the southern and western United States. Recycling consists of the Secondary Metals Processing Division's scrap processing and sales operations primarily in Texas, Florida and the southern United States. Marketing and distribution includes both domestic and international operations for the sales and distribution of both ferrous and nonferrous metals and other industrial products. The segment's activities consist only of physical transactions and not speculation.

The Company uses operating profit, profit before tax and return on net assets to measure segment performance. Intersegment sales are generally priced at prevailing market prices. Certain corporate administrative expenses are allocated to segments based upon the nature of the expense. The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

The following presents information regarding the Company's domestic operations and operations outside of the United States:

(in thousands)	External Net Sales for the Year ended August 31, 2002	2001	2000
United States	$ 1,670,497	$ 1,685,981	$ 1,782,189
Non United States	776,280	755,235	879,231
Total	$ 2,446,777	$ 2,441,216	$ 2,661,420

(in thousands)	Long-Lived Assets as of August 31, 2002	2001	2000
United States	$ 421,432	$ 449,056	$ 457,204
Non United States	14,492	9,812	10,483
Total	$ 435,924	$ 458,868	$ 467,687

Summarized data for the Company's international operations located outside of the United States (principally in Europe, Australia and the Far East) are as follows:

(in thousands)	Year ended August 31, 2002	2001	2000
Net sales–unaffiliated customers	$ 378,745	$ 266,609	$ 343,805
Operating profit	8,065	1,958	5,597
Total assets	124,870	83,743	68,556

The following is a summary of certain financial information by reportable segment:

NOTE 13 *Business Segments (Continued):*

2002 (dollars in thousands)	Manufacturing	Recycling	Marketing and Distribution	Corporate	Adjustments and Eliminations	Consolidated
Net sales–unaffiliated customers	$ 1,329,159	$ 354,387	$ 762,584	$ 647	$ —	$ 2,446,777
Intersegment sales	3,587	23,667	14,428	—	(41,682)	—
Net sales	1,332,746	378,054	777,012	647	(41,682)	2,446,777
Operating profit (loss)	71,447	5,098	14,196	(8,102)	—	82,639
Profit (loss) before income taxes	70,765	4,928	11,854	(24,409)	—	63,138
Interest expense	3,949	1,011	1,050	13,145	(447)	18,708
Capital expenditures	39,046	4,723	9,323	965	—	54,057
Depreciation and amortization	49,538	9,650	1,609	782	—	61,579
Total assets	720,450	98,847	262,111	148,668	—	1,230,076
Operating profit return on net assets	12.8%	6.7%	14.9%	—	—	10.4%

2001 (dollars in thousands)	Manufacturing	Recycling	Marketing and Distribution	Corporate	Adjustments and Eliminations	Consolidated
Net sales–unaffiliated customers	$ 1,315,700	$ 371,298	$ 752,723	$ 1,495	$ —	$ 2,441,216
Intersegment sales	5,375	22,539	18,433	—	(46,347)	—
Net sales	1,321,075	393,837	771,156	1,495	(46,347)	2,441,216
Operating profit (loss)	56,700	(2,324)	7,833	4,790	—	66,999
Profit (loss) before income taxes	55,976	(2,482)	5,751	(20,830)	—	38,415
Interest expense	10,585	2,165	1,332	14,637	(1,111)	27,608
Capital expenditures	45,979	5,587	1,208	248	—	53,022
Depreciation and amortization	54,402	11,005	1,124	741	—	67,272
Total assets	739,625	93,268	188,405	60,373	—	1,081,671
Operating profit return on net assets	9.6%	—	5.7%	—	—	8.0%

2000 (dollars in thousands)	Manufacturing	Recycling	Marketing and Distribution	Corporate	Adjustments and Eliminations	Consolidated
Net sales–unaffiliated customers	$ 1,348,994	$ 432,115	$ 881,238	$ (927)	$ —	$ 2,661,420
Intersegment sales	7,732	30,496	22,055	—	(60,283)	—
Net sales	1,356,726	462,611	903,293	(927)	(60,283)	2,661,420
Operating profit	72,135	5,841	19,244	758	—	97,978
Profit (loss) before income taxes	71,930	5,806	17,017	(24,093)	—	70,660
Interest expense	11,007	2,811	1,741	12,568	(808)	27,319
Capital expenditures	61,538	6,220	1,260	609	—	69,627
Depreciation and amortization	52,688	12,152	1,061	682	—	66,583
Total assets	769,536	115,532	242,568	42,456	—	1,170,092
Operating profit return on net assets	12.7%	6.2%	14.9%	—	—	12.4%

NOTE 14 *Restatement of Prior Periods*

In August 2002, the Company uncovered a theft and accounting fraud which had occurred over four years at a rebar fabrication facility in South Carolina. The total adjustment required to restate the accounting records to their proper balances was $2.7 million pre-tax. In a second, unrelated incident, the Company discovered accounting errors related to losses on rebar fabrication and placement jobs at one facility in California, some of which dated from the acquisition of the facility in May 2000. The resulting charge was $1.9 million pre-tax. The South Carolina incident resulted in a $900 thousand pre-tax expense in fiscal 2002. The remaining $3.7 million pre-tax for both instances was attributed $885 thousand in 2001, $2.6 million in 2000 and $227 thousand in 1999. All reported periods have been restated. The effects of the restatement were as follows:

	2001		2000	
($ in thousands, except per share)	As Previously Reported	As Restated	As Previously Reported	As Restated
At August 31:				
Cash	$ 33,289	$ 32,921	$ 20,067	$ 20,057
Accounts receivable	204,032	202,095	354,045	352,203
Inventories	236,679	223,859	277,455	270,368
Total assets	1,084,800	1,081,671	1,172,862	1,170,092
Accounts payable	201,292	201,114	194,538	194,205
Other payables and accrued expenses	133,464	133,895	142,680	142,732
Income taxes payable	1,105	—	678	—
Retained earnings	424,688	422,309	407,128	405,317
Total stockholders' equity	435,473	433,094	420,616	418,805
For the year ended August 31:				
Selling, general and administrative expenses	$ 211,539	$ 212,424	$ 208,808	$ 211,403
Earnings before income taxes	39,300	38,415	73,255	70,660
Net earnings	24,340	23,772	46,255	44,590
Basic EPS	0.93	0.91	1.65	1.59
Diluted EPS	0.92	0.90	1.62	1.56

In addition to the above, beginning retained earnings as of September 1, 1999 was reduced by $146 thousand.

NOTE 15 *Quarterly Financial Data (Unaudited)*

Summarized quarterly financial data for fiscal 2002, 2001 and 2000 are as follows (in thousands except per share data):

	Three Months Ended 2002				
	As Previously Reported Nov. 30	As Restated Nov. 30	Feb. 28	May 31	Aug. 31
Net sales	$564,880	$564,880	$566,419	$642,908	$672,570
Gross profit	78,095	78,095	74,872	92,116	72,316
Net earnings	8,832	8,482	6,572	16,433	9,038
Basic EPS	0.34	0.32	0.24	0.59	0.32
Diluted EPS	0.33	0.32	0.24	0.56	0.31

	Three Months Ended 2001							
	As Previously Reported Nov. 30	As Restated Nov. 30	As Previously Reported Feb. 28	As Restated Feb. 28	As Previously Reported May 31	As Restated May 31	As Previously Reported Aug. 31	As Restated Aug. 31
Net sales	$594,540	$594,540	$578,330	$578,330	$622,090	$622,090	$646,256	$646,256
Gross profit	70,844	70,844	58,253	58,253	82,893	82,893	85,326	85,326
Net earnings (loss)	(2,233)	(2,421)	1,662	1,590	10,721	10,569	14,190	14,034
Basic EPS (loss)	(0.09)	(0.09)	0.06	0.06	0.41	0.41	0.54	0.54
Diluted EPS (loss)	(0.09)	(0.09)	0.06	0.06	0.41	0.40	0.53	0.53

	Three Months Ended 2000							
	As Previously Reported Nov. 30	As Restated Nov. 30	As Previously Reported Feb. 28	As Restated Feb. 28	As Previously Reported May 31	As Restated May 31	As Previously Reported Aug. 31	As Restated Aug. 31
Net sales	$612,427	$612,427	$637,624	$637,624	$701,209	$701,209	$710,160	$710,160
Gross profit	77,434	77,434	79,132	79,132	87,076	87,076	83,848	83,848
Net earnings	10,233	9,972	10,358	10,317	12,961	12,453	12,703	11,848
Basic EPS	0.36	0.35	0.36	0.36	0.46	0.45	0.47	0.44
Diluted EPS	0.35	0.34	0.35	0.35	0.46	0.44	0.47	0.44

The quantities and costs used in calculating cost of goods sold on a quarterly basis include estimates of the annual LIFO effect. The actual effect cannot be known until the year end physical inventory is completed and quantity and price indices are developed. The quarterly cost of goods sold above includes such estimates. The final determination of inventory quantities and prices resulted in $1.1 million after-tax expense in the fourth quarter 2002. Fourth quarter 2001 net earnings were not significantly impacted. Fourth quarter 2000 net earnings decreased $1.2 million after the final determination of quantities and prices was made.

In recording accruals for workers' compensation expense, management relies on prior years' experience and information from third party administrators in making estimates. Results at the end of fiscal year 2002, 2001 and 2000 indicated a decline in the number of claims resulting in a $1.0 million, $2.1 million and $2.6 million reduction, respectively, in the accrual during the fourth quarters.

Following a revised Court ruling, the Company reduced its litigation accrual by $2.5 million during the fourth quarter 2001 (see note 10).

Independent Auditors' Report

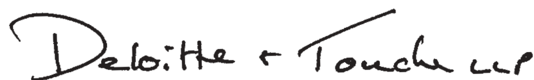
Board of Directors and Stockholders
Commercial Metals Company
Dallas, Texas

We have audited the consolidated balance sheets of Commercial Metals Company and subsidiaries at August 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the three years in the period ended August 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Commercial Metals Company and subsidiaries at August 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 14, the accompanying 2001 and 2000 financial statements have been restated.



Dallas, Texas
November 22, 2002

Commercial Metals Company Directors and Officers

Board of Directors

Stanley A. Rabin
Chairman of the Board, President and Chief Executive Officer; 1

Moses Feldman
President, AeroMed, Inc.
Hatfield, Pennsylvania; 2, 3, 4

A. Leo Howell
Vice President, CMC;
President, Howell Metal Company;
Chairman of Management Committee; 1

Ralph E. Loewenberg
President, R.E. Loewenberg Capital Management Corporation, New York, NY;
Chairman of Compensation Committee; 3, 4

Anthony A. Massaro
Chairman, President and Chief Executive Officer,
The Lincoln Electric Company, Cleveland, Ohio; Chairman of Executive Committee; 3, 4

Robert D. Neary
Retired Co-Chairman of Ernst & Young,
Cleveland, Ohio; 2, 3, 4

Dorothy G. Owen
Chairman-Emeritus,
Owen Steel Company, Inc.
Columbia, South Carolina; 2, 4

Clyde P. Selig
CMC Steel Group
Chief Executive Officer; 1

Robert R. Womack
Retired Chairman and Chief Executive Officer of Bath and Plumbing Products Group of U.S. Industries, Addison, Texas;
Chairman of Audit Committee; 2, 4

Corporate Officers

William B. Larson
Vice President and
Chief Financial Officer

David M. Sudbury
Vice President, Secretary and
General Counsel

Louis A. Federle
Treasurer

Malinda G. Passmore
Controller

Jimmy R. Hodges
Assistant Controller

1 Member of the Management Committee
2 Member of the Audit Committee
3 Member of the Compensation Committee
4 Member of the Executive, Nominating and Corporate Governance Committee

Operations

CMC Steel Group

Steel Manufacturing

SMI Steel-Alabama
101 South 50th St.
Birmingham, AL 35212

SMI Steel-Arkansas
P. O. Box 1147
Magnolia, AR 71754

SMI Steel South Carolina
310 New State Road
Cayce, SC 29033

SMI-Texas
P. O. Box 911
Seguin, TX 78156

Steel Fabrication and Warehousing

Alamo Steel Company
2784 Old Dallas Road
Waco, TX 76705

Allegheny Heat Treating
P. O. Box U
Chicora, PA 16025

C&M Steel
10312 Almond Avenue
Fontana, CA 92335

CMC Steel Fabricators, Inc.
P. O. Box 911
Seguin, TX 78156

Capitol City Steel Company
900 North IH 35
Buda, TX 78610

Capitol Steel, Inc.
2655 N. Foster Dr.
Baton Rouge, LA 70805

Capitol Steel-Slidell
P. O. Box 3219
Slidell, LA 70459

Cary Engineering
534 Old Howell Road
Greenville, SC 29615

CoMet McKinney
2202 McKinney St.
Melissa, TX 75454

CoMet Steel, Inc.
4846 Singleton Blvd.
Dallas, TX 75212

Fontana Steel
12451 Arrow Route
Etiwanda, CA 91739

Fontana Steel
947 Rancheros, Suite A
San Marcos, CA 92069

Fontana Steel
2375 West March Lane
Stockton, CA 95207

Gray Goose Building Products
of Houston
5327 Allen Street
Houston, TX 77007

Houston Steel Service Company
7077 Fairbanks North Houston
Houston, TX 77040

Impact Metal Products
7129 Gadsden Highway
Trussville, AL 35173

Safety Railway Service
Hwy. 59, Aloe Field
Victoria, TX 77901

Safety Steel Service, Inc.
6802 Safety Steel Drive
Corpus Christi, TX 78414

Safety Steel Service, Inc.
255 Skytop Road
Victoria, TX 77901

SMI Florida Fabricators
10483 General Avenue
Jacksonville, FL 32220

SMI Georgia Rebar
P. O. Box 368
Lawrenceville, GA 30046

SMI Joist Company
P. O. Box 2000
Hope, AR 71802

SMI Joist Florida
P. O. Box 310
Starke, FL 32091

SMI Joist Iowa
P. O. Box 340
Iowa Falls, IA 50126

SMI Joist Nevada
8200 Woolery Way
Fallon, NV 89406

SMI Joist South Carolina
850 Taylor Street
Cayce, SC 29033

SMI Rebar North Carolina
2528 N. Chester St.
Gastonia, NC 28052

SMI Rebar South Carolina
2105 S. Beltline
Columbia, SC 29201

SMI Rebar Virginia
9434 Crossroads Parkway
Fredericksburg, VA 22408

SMI Rebar Virginia-Farmville
300 SMI Way
Farmville, VA 23901

SMI Steel Products
P. O. Box 2099
Hope, AR 71802

SMI Valley Steel
2120 Industrial Crossways
Harlingen, TX 78550

South Carolina Steel
113 East Warehouse Ct.
Taylors, SC 29687

South Metro Rebar
6031 LaGrange Blvd. S.W.
Atlanta, GA 39336

Southern Post Company
P. O. Box 1147
Magnolia, AR 71754

Southern Post-South
Carolina
1540 Pine Ridge Dr.
West Columbia, SC 29172

Southern Post-Texas
440 Wonder World Drive
San Marcos, TX 78666

Southern Post-Utah
920 W. 600 North
Brigham City, UT 84302

Southern States Steel
Company
9675 Walden Road
Beaumont, TX 77707

Spray Forming International
310 New State Road
Cayce, SC 29033

Sterling Steel Company
2001 Brittmoore Road
Houston, TX 77043

Suncoast Steel Company
3684 Enterprise Avenue
Naples, FL 34104

Texas Cold Finished
Steel, Inc.
1300 Baker
Houston, TX 77002

Concrete-Related Products

Construction Materials, Inc.
4212 N. Bolton Avenue
Alexandria, LA 71303

Construction Materials, Inc.
18909 Highland Road
Baton Rouge, LA 70821

Construction Materials, Inc.
600 St. George Street
New Orleans, LA 70121

Construction Materials, Inc.
2135 McClellan Street
Shreveport, LA 71103

Construction Materials, Inc.
3310 East Napoleon
Sulphur, LA 70664

Construction Materials, Inc.
1433 Natchitoches Street
West Monroe, LA 71292

Construction Materials, Inc.
3408 A Avenue
Gulfport, MS 39507

Construction Materials, Inc.
338 Distribution Drive
Madison, MS 39110

Damco
1851 Country Club Drive
Jackson, MS 39209

Shepler's
1100 Central Florida Parkway
Orlando, FL 32837

Shepler's
5316 E. Henry Avenue
Tampa, FL 33610

Shepler's
5071 Rivers Avenue
North Charleston, SC 29406

Shepler's
99 North Tyler
Amarillo, TX 79101

Shepler's
4123 Todd Lane
Austin, TX 78744

Shepler's
580-A Graham Rd.
College Station, TX 77845

Shepler's
2309 N. Frazier
Conroe, TX 77303

Shepler's
301 45th Street
Corpus Christi, TX 78405

Shepler's
4844 Singleton Boulevard
Dallas, TX 75212

Shepler's
9103 E. Almeda Road
Houston, TX 77054

Shepler's
2001 Brittmoore Road
Houston, TX 77043

Shepler's
513 32nd Street
Lubbock, TX 79404

Shepler's
Hwy. 281 & East Owassa
Pharr, TX 78577

Shepler's
3203 South IH 35
Round Rock, TX 78664

Shepler's
4911 Whirlwind Drive
San Antonio, TX 78217

Shepler's
2701 E. 77 Sunshine
San Benito, TX 78586

Shepler's
3502 2nd Ave. South
Texas City, TX 77590

Shepler's SMI Supply
500 Huger St.
Columbia, SC 29201

Rail Salvage

SMI Rail
P. O. Box 911
Seguin, TX 78156

Scrap Processing

AMP Recycling
1704 Howard Lane
Austin, TX 78728

CMC-Augusta
1890 Old Savannah Rd.
Augusta, GA 30901

CMC-Cayce
603 Godley Street
Cayce, SC 29033

CMC-Florence
220 W. Ashby Road
Florence, SC 29501

CMC-Lexington
2308 Two Notch Road
Lexington, SC 29072

CMC-North Augusta
1119 Atomic Road
North Augusta, SC 29841

CMC-Spartanburg
7931 Valley Falls Road
Spartanburg, SC 29303

Commercial Metals-Austin Inc.
710 Industrial Blvd.
Austin, TX 78745

Horowitz Salvage
1558 N. Austin St.
Seguin, TX 78155

SMI-Texas
P. O. Box 911
Seguin, TX 78156

Copper Tube Manufacturing

Howell Metal Company
State Route 728
New Market, VA 22844

Recycling

Secondary Metals Processing

Aaron Scrap Metals
Division Commercial
Metals Company
P. O. Box 607069
Orlando, FL 32860-7069
Feeder Yard: Palm Bay, FL

All American Recycling
Division Commercial
Metals Company
4351 W. Hwy. 40
Ocala, FL 34482

American Iron & Metal
Company
Division Commercial
Metals Company
2215 South Good-Latimer
Dallas, TX 75226
Feeder Yard: Waco, TX

Commercial-Levin
Division Commercial
Metals Company
2600 Park Road Extension
Burlington, NC 27215

Commercial Metals Company
5250 College Street
Beaumont, TX 77707

Commercial Metals Company
400 E. 20th St.
Chattanooga, TN 37408
Feeder Yard: Chattanooga, TN

Commercial Metals Company
215 Mockingbird
Clute, TX 77531

Commercial Metals Company
4614 Agnes Street (Hwy. 44)
Corpus Christi, TX 78405
Feeder Yard: Laredo, TX

Commercial Metals Company
601 North Throckmorton
Fort Worth, TX 76106

Commercial Metals Company
71st and Broadway Streets
Galveston, TX 77551

Commercial Metals Company
2160 Harbor Street
Houston, TX 77020

Commercial Metals Company
2015 Quitman Street
Houston, TX 77026

Commercial Metals Company
2038 North Lane Avenue
Jacksonville, FL 32254
Feeder Yard: Lake City, FL

Commercial Metals Company
12th & Iowa Streets
Joplin, Missouri 64802
Feeder Yards: Frontenac, KS
Independence, KS
Miami, OK

Commercial Metals Company
Interstate 27 & County Rd. 58
Lubbock, TX 79401

Commercial Metals Company
3501 West Second Street
Odessa, Texas 79763
Feeder Yard: Odessa, TX

Commercial Metals Company
634 E. Phelps
Springfield, MO 65806
Feeder Yard: Springfield, MO

Commercial Metals Company
1900 N. 62nd Street
Tampa, FL 33619

Commercial Metals Company
398 Industrial Park Drive
Victoria, TX 77905

Commercial Metals Company
8230 Doniphan Dr.
Vinton, TX 79821

Liberty
Division Commercial
Metals Company
1729 North Westmoreland Rd.
Dallas, TX 75212
Feeder Yard: Shreveport, LA

Sun State Recycling
1508 N.W. 55th Place
Gainesville, FL 32653

Sun State Recycling of Ocala
7100 N.W. Gainesville Rd.
Ocala, FL 34475

Marketing and Distribution

CMC (Australia) Pty., Limited
Level 5, 4-8 Woodville Street
Hurstville, Sydney N.S.W. 2220
Australia

CMC (Australia) Pty., Limited
2 Draper Place
Kewdale, Perth WA 6105
Australia

CMC (Australia) Pty., Limited
Tomago Heat Treatment Plant
2/13 Old Punt Road
Tomago, N.S.W. 2322
Australia

CMC (Australia) Pty., Limited
1st Floor, 425-427
Riversdale Road
Hawthorn East, Melbourne
Victoria 3123
Australia

CMC (Europe) AG
Lindenstrasse 14
CH-6340, Baar
Switzerland

CMC Fareast Limited
Unit C, 12th Floor
128 Gloucester Road
Hong Kong

CMC (International) AG
Lindenstrasse 14
CH-6340, Baar
Switzerland

CMC International
(S.E. Asia) Pte. Limited
#03-03 Central Plaza
298 Tiong Bahru Road
Singapore 168730

CMC (UK) Limited
Unit 1, Bradwall Court
Bradwall Road
Sandbach, Cheshire CW11 1GE
United Kingdom

Coil Steels Group
Pty Limited
16 Harbord Street
Granville, Sydney NSW 2142
Australia

Coil Steels (Qld)
Pty Limited
121 Evans Road
Salisbury
Brisbane, Queensland 4107
Australia

Coil Steels (Vic)
Pty Limited
32 Howleys Road
Notting Hill, Melbourne
Victoria 3168
Australia

Coil Steels (SA)
Pty Limited
33-35 Wingfield Road
Wingfield, Adelaide SA 5013
Australia

Cometals
Division Commercial
Metals Company
222 Bridge Plaza South
3rd Floor
Fort Lee, NJ 07024

Commercial Metals
Deutschland GmbH
Sattlerweg 8
D-51429 Bergisch Gladbach
Germany

Commercial Metals
(International) AG
Lindenstrasse 14
CH-6340, Baar
Switzerland

Commonwealth Metal
Division Commercial
Metals Company
560 Sylvan Avenue
Englewood Cliffs, NJ 07632

Dallas Trading
Division Commercial
Metals Company
1929 South 6th Avenue
Arcadia, CA 91006

Dallas Trading
Division Commercial
Metals Company
7800 Stemmons Freeway
Dallas, TX 75247

Perth Steels Pty. Limited
2 Draper Place
Kewdale, Perth WA 6105
Australia

Representative Offices

CMC Cometals, Inc.
Room 500, 27 B.
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Moscow 109004 Russia

Cometals China, Inc.
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Beijing Kerry Centre
1 GuangHua Road,
ChaoYang District
Beijing 100020 China

Joint Venture Offices

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Sattlerweg 8
D-51429 Bergisch Gladbach
Germany

Trinec-CMC Limited
5, Bradwall Court,
Bradwall Road
Sandbach, Cheshire
CW11 1GE
United Kingdom

Europickling N.V.
I.Z. Durmakker
B-9940 Evergem
Belgium

Agents

Athens, Greece
Bangkok, Thailand
Bucharest, Romania
Buenos Aires, Argentina
Cairo, Egypt
Caracas, Venezuela
Delhi, India
Ho Chi Minh City, Vietnam
Istanbul, Turkey
Jakarta, Indonesia
Kaohsiung, Taiwan
Lisbon, Portugal
Manila, Philippines
Milan, Italy
Moscow, Russia
Sao Paulo, Brazil
Seoul, Korea
Shanghai, China
Sosnowiec, Poland
Temse, Belgium
Tokyo, Japan

Divisions and Subsidiaries

Manufacturing

CMC Steel Group

Clyde P. Selig
President & Chief Executive Officer

Russell Rinn
Steel Group President, West Division

Jeff H. Selig
Steel Group President, East Division

H. Avery Hilton, Jr.
Executive Vice President

Binh K. Huynh
Executive Vice President

Howell Metal Company

A. Leo Howell
President

James K. Forkovitch
Vice President

Willard G. Williams
Controller

Recycling

Secondary Metals Processing Division

Harry J. Heinkele
President

Rocky Adams
Vice President - South Texas

Chuck Grossman
Vice President - Southeast U.S.A.

Robert J. Melendi
Vice President - Marketing & Sales

Carl J. Nastoupil
Vice President & Controller

Larry Olschwanger
Vice President - National Accounts

Alan Postel
Vice President - North Texas

Jim Vermillion
Vice President - Central U.S.A.

Joseph R. Reichard
Chief Engineer

Richard L. Goulde
MIS Director

Marketing and Distribution

Murray R. McClean
President

Cometals Division Commercial Metals Company

Eliezer Skornicki
President

John Rothschild
Executive Vice President

Richard Conk
Vice President & Controller

Dennis C. Gates
Vice President

Joel D. Kahn
Vice President

Jeffrey L. Kofsky
Vice President

Manfred R. Roeschel
Vice President

Sergei Frolov
Director, CMC Cometals, Inc.

Weston Liu
Vice President, Cometals;
General Manager,
Cometals China, Inc.

Commonwealth Metal Division Commercial Metals Company

Eugene L. Vastola
President

Henry J. Shrem
Senior Vice President

Steven E. Shur
Vice President

Greg Barczy
Vice President, Technical Director

Charles J. Schaffer
Vice President

Steven I. Halpern
Controller

Dallas Trading Division

J. Matthew Kramer
President

Albert Lee
General Manager, Steel Trading

Joseph D. McNamara
Manager, Steel Trading

Michael Jackson
Assistant Manager,
Nonferrous Products

Theresa Mishler
Manager, Trading Services

James Widman
Manager, Traffic

Mike Neece
Controller

International Division Asia and Australia

Kevin S. Aitken
President

Stephen Pearson
Commercial Director
CMC (Australia) Pty. Ltd.

Mark Morrison
General Manager - Steel
CMC (Australia) Pty. Ltd.

Mark Brennan
Manager, Engineering Steels
CMC (Australia) Pty. Ltd.

John Paterson
General Manager, Cometals,
a division of CMC
(Australia) Pty. Ltd.

Peter Muller
Managing Director
Coil Steels Group

Peter Cook
Director and
Chief Financial Officer
Coil Steels Group

Jimmy Dee
Director, CMC Fareast Ltd.

Kai Leung Chan
General Manager, CMC Interna-
tional (S.E. Asia) Pte. Ltd.

International Division Europe

Hanns Zöllner
President

Ruedi Auf der Maur
Managing Director
Product Manager-Steel

Hans-Ruedi Meuwly
Controller

Roland Wismer
Treasurer

Peter Weyermann
General Manager
CMC (Europe) AG
CMC (International) AG

Richard Adams
Managing Director,
CMC (UK) Ltd.

Klaus Marschall
General Manager
Commercial Metals
Deutschland GmbH

Peter Birkhäuser
Manager-Steel Trading
Commercial Metals
Deutschland GmbH

Corporate Information

Transfer Agent and Registrar

Mellon Investor
Services, LLC
Plaza of the Americas
600 North Pearl Street
Suite 1010
Dallas, Texas 75201-2884
(800) 635-9270

Auditors

Deloitte & Touche LLP
Dallas, Texas

Annual Meeting

January 23, 2003
10:00 A.M. C.S.T.
Dallas Museum of Art
Horchow Auditorium
1717 N. Harwood
Dallas, Texas

Stock Exchange Listing

New York Stock Exchange
Symbol: CMC

Executive Offices

7800 Stemmons Freeway
Dallas, Texas 75247
Telephone: (214) 689-4300
Fax: (214) 689-5886

Form 10-K

Copies of the Corporation's
Form 10-K are available from
Secretary
Commercial Metals Company
P. O. Box 1046
Dallas, Texas 75221-1046

Web Site

www.commercialmetals.com

Sculptures from CMC's 24th Annual "Scrap Can Be Beautiful" contest. Students created the artwork using metal collected at a CMC scrap processing facility.

Design: SullivanPerkins, Dallas, Texas

Commercial Metals Company 7800 Stemmons Freeway Dallas, Texas 75247 www.commercialmetals.com