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# Situation Overview

April 27, 2004



# Introduction

- Purpose of Today's Presentation
  - Current situation and issues
  - Forecast without restructuring
  - No discussion of a solution today
  
- Business Forecast Presentation
  
  
- Restructuring Process

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# Summary



# Summary

## Stelco is in trouble. It can be saved, but we must act now

### Survival of Stelco

- Goal → Restructure and ensure long-term viability & competitiveness.
- Failure will result in liquidation.
- Potential to be a highly competitive North American steel company.

### Need for Action

- Operations have consumed \$140 million in cash since January 2003.
- Pre-tax income has deteriorated substantially from 1999 through the 2004 Forecast.
  - Cumulative reductions of 1,800 employees.
  - Reduced spending on repairs & maintenance by \$50 million annually.
- No access to capital.



## Summary *(cont'd)*

### A Restructuring Must be Implemented by January 2005

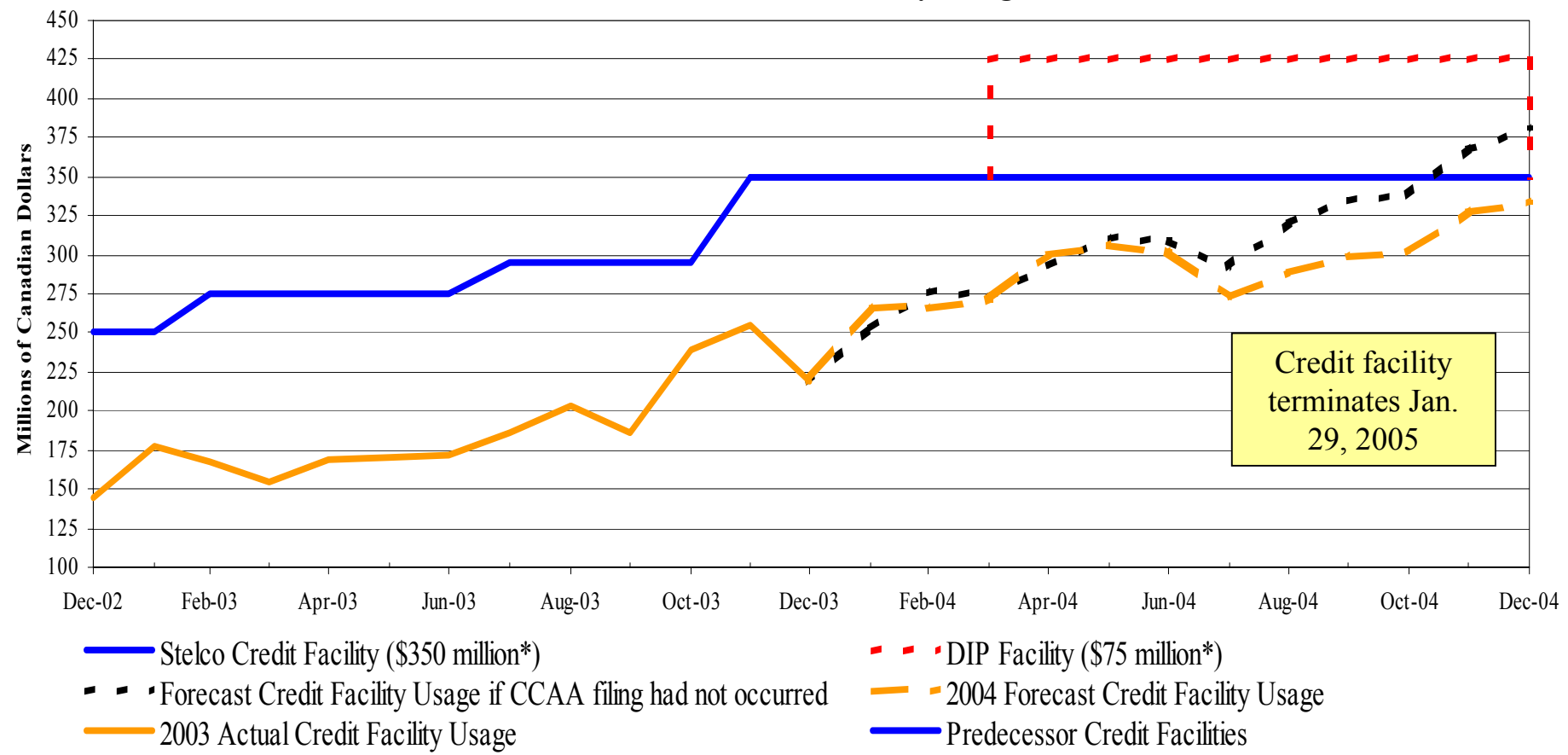
- Financial losses will continue to exhaust liquidity
- Lake Erie rougher motor - - no funds available to repair/replace.
- Lake Erie union contract expires July 31, 2004.
- Customers and suppliers need to see progress in the restructuring.
- Risk of an early collapse in pricing
- Stelco must demonstrate progress to its bankers.
  - Consent required to extend the CCAA stay of proceedings.
  - Funding can be terminated upon default or adverse change
  - Require that a CCAA Plan must be approved by December 2004



# Summary (cont'd)

## We Would Run Out of Money Later This Year

Stelco Inc. - Credit Facility Usage



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# 1. Industry Dynamics & Factors Contributing to Stelco's Insolvency



# 1. Industry Dynamics & Factors Contributing to Stelco's Insolvency

## A Changing Industry Has Left Stelco Uncompetitive

### Industry Dynamics

- Unprecedented steel pricing swings (2000-2003).
- Excess production capacity throughout the past decade.
- Uncompetitive productivity base (North America).
- Restricted capital investment (North America).
- Limited consolidation (until 2002).
- Limited pricing power with suppliers and customers.
- Approximately 40 North American steel companies were restructured (Chapter 11 or CCAA).



# 1. Industry Dynamics & Factors Contributing to Stelco's Insolvency *(cont'd)*

## Internal Problems and an Inability to Invest

- **Labour Relations**
  - 5.1 election, adversarial bargaining.
  
- **Substantial Legacy Costs, Which are Continuing to Grow**
  
- **Corporate Strategy / Decision Making**
  - Plate Mill Investment (\$100 million).
  - Market Positioning (exposure to spot market hot roll).
  
- **Unable to Raise Funds to Execute Capital Plan**
  - Unable to complete LE Phase II
  - Continued Operation of Obsolete Equipment (56" Mill, Pickle Lines, etc.).
  - Continued Energy Dependency (Co-Generation).



# 1. Industry Dynamics & Factors Contributing to Stelco's Insolvency *(cont'd)*

## We Have Taken Steps to Address our Problems

- Extensive Internal Strategic Review Process
- External Strategic Review Process (Hatch Consulting)
- Economic Impact Study
- Cost Improvement Teams
- Integrated Manufacturing Excellence Teams
- Enhanced Employee Communications
- Customer/Supplier Meetings

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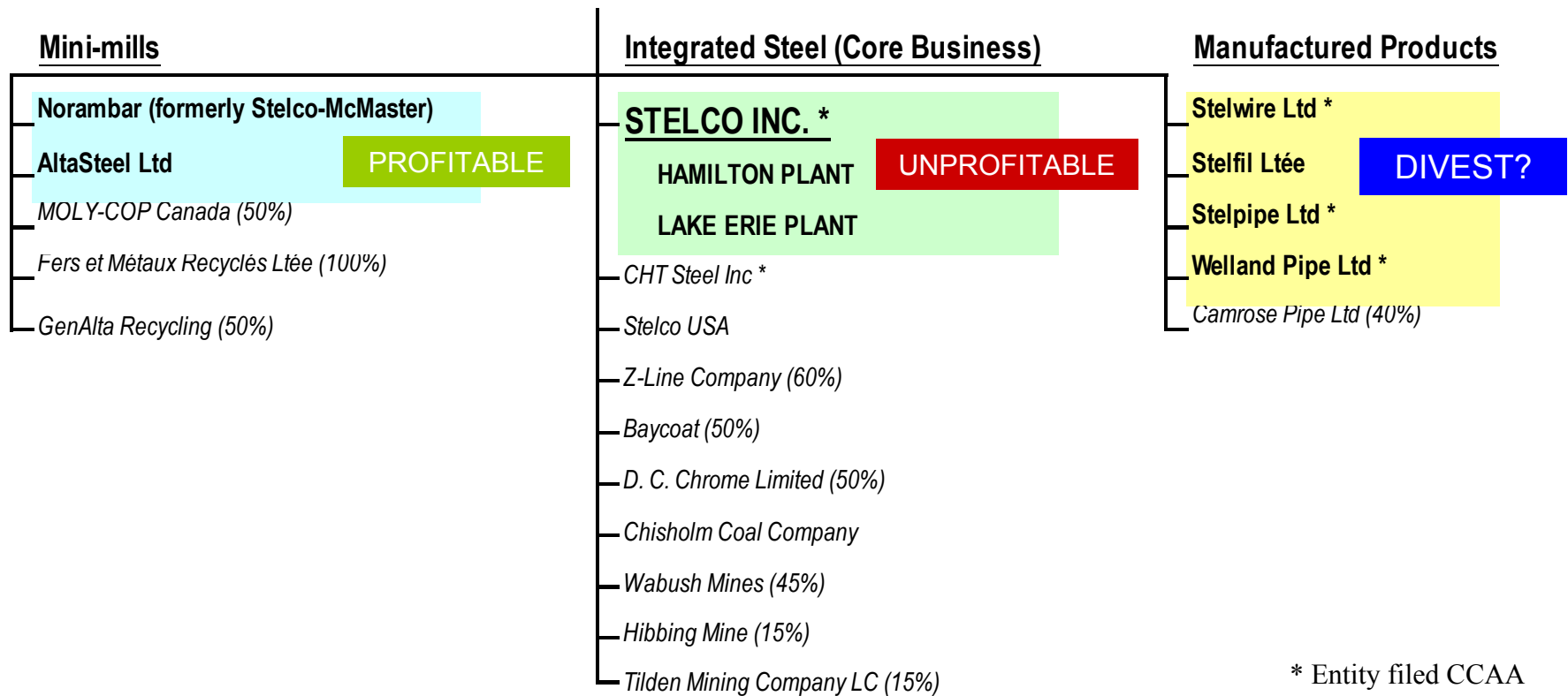


## 2. Overview of the Business

# Where we are today

## Most of Our Operations are Currently Unprofitable

### Stelco Inc.



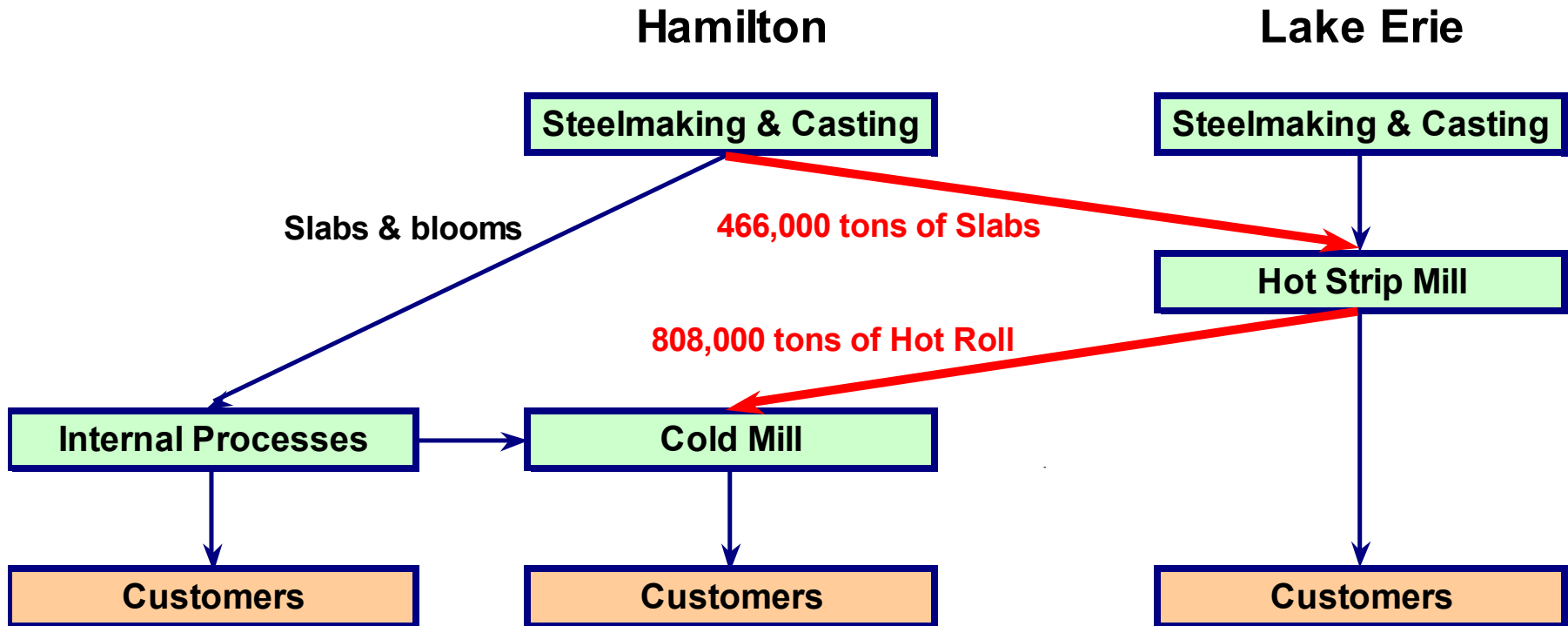
\* Entity filed CCAA





# 3.1 Operations (cont'd)

## The Fates of Hamilton & Lake Erie are Linked



\*\*\* *Future steel integration = transfers of ~ 1.5 Mil Tons each way*



## 3.2 *Sales & Marketing*

## 3.2 Sales & Marketing



### Our Product Mix is Changing

Tons Shipped (in thousands) - Integrated Steel					
Shipments	2000A	2001A	2002A	2003A	2004F
Slabs	144	-	3	129	130
Billets	-	-	-	-	-
<b>Plate</b>	<b>350</b>	<b>283</b>	<b>219</b>	<b>47</b>	<b>-</b>
Hot Roll	1,798	2,101	2,222	2,307	2,392
Cold Roll	407	382	410	435	434
Coated	711	666	695	691	788
Bars	279	242	287	274	308
Rods	354	300	257	236	160
<b>Total</b>	<b>4,044</b>	<b>3,974</b>	<b>4,094</b>	<b>4,120</b>	<b>4,212</b>

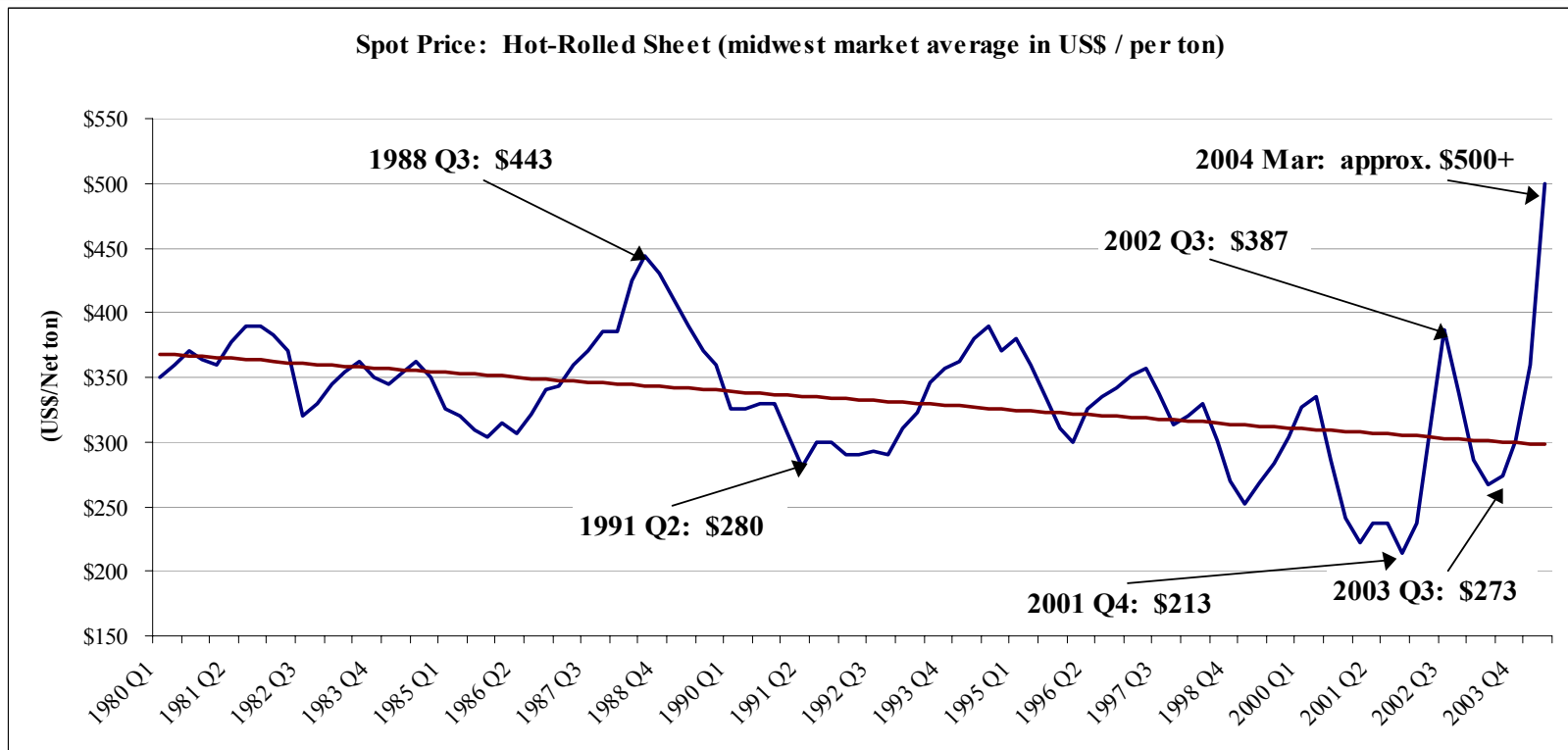
\* Steel Shipments to third parties, including Stelwire, Stelfil, Stelpipe, Stelcam



## 3.2 Sales & Marketing (cont'd)

### Recent Price Increases Unlikely to Last

*"We expect that steel prices (including surcharges) will peak in the near term and decline by \$150-200/ton over the second half of 2004. As steel prices recede from record levels and Nucor's scrap surcharges decline, we expect to see margin pressure over the second half of 2004 as imports are attracted to the high domestic steel price premium" (JP Morgan / April 23, 2004)*



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## 4. Costs

- 4.1 Total Costs
- 4.2 Purchased Raw Materials & Energy
- 4.3 Conversion Costs
- 4.4 Employment Levels
- 4.5 Other Employment Costs (including Pensions & OPEBs)



# 4.1 Total Costs (Integrated Steel)

## Employment Costs Represent 41% of Conversion Costs

	2004 Forecast (in Millions)	% of Conversion Costs
<u>Conversion Costs:</u>		
Wages & Salaries	\$359	25%
Other Employment Costs *	244	16%
Fuels & Utilities	354	24%
Supplies & Rentals	210	14%
Repairs & Maintenance	122	8%
Other	199	13%
<b>Total Conversion Costs</b>	<b>\$1,488</b>	<b>100%</b>
Raw Materials	823	
<b>Total Manufacturing Costs</b>	<b>\$2,311</b> **	

\* Other Employment Costs includes pensions, OPEBs, employment insurance, Canada pension plan, life insurance and employee health taxes.

\*\* Excludes A&S, depreciation etc



## 4.2 *Purchased Raw Materials & Energy*



## 4.2 Purchased Raw Materials and Energy

### Changes in Variable Costs Affect Bottom Line

	Impact of 10% Change (\$ Millions)
Iron Ore Pellets	\$ 2.7
Metallurgical Coal	\$ 15.6
Scrap	\$15.4
Coke	\$ 6.3
Natural Gas	\$ 20.3
Electricity	\$ 8.5



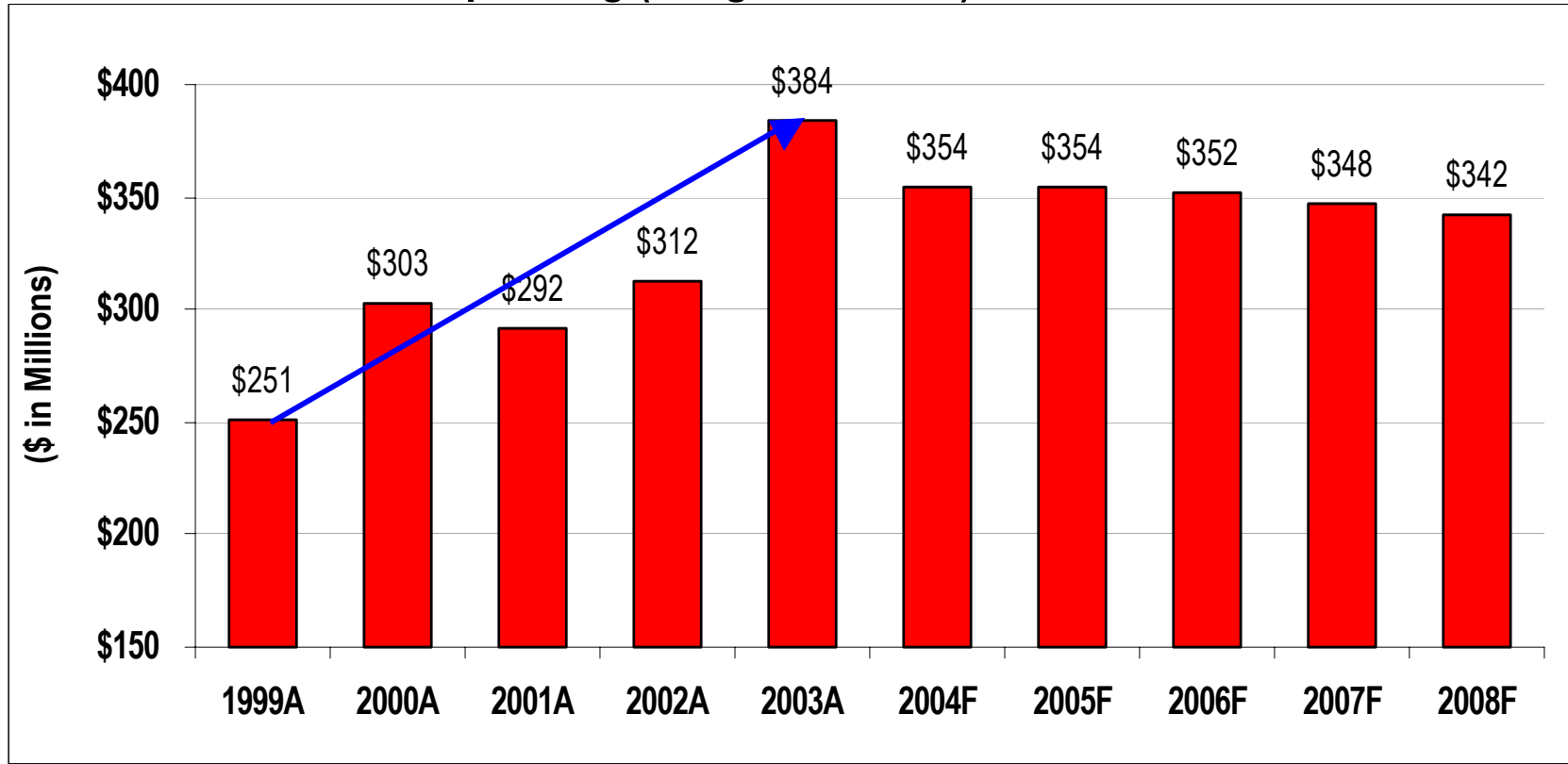
## 4.3 *Conversion Costs*



## 4.3 Conversion Costs (cont'd)

### Energy & Related Costs Are Expected to Remain High

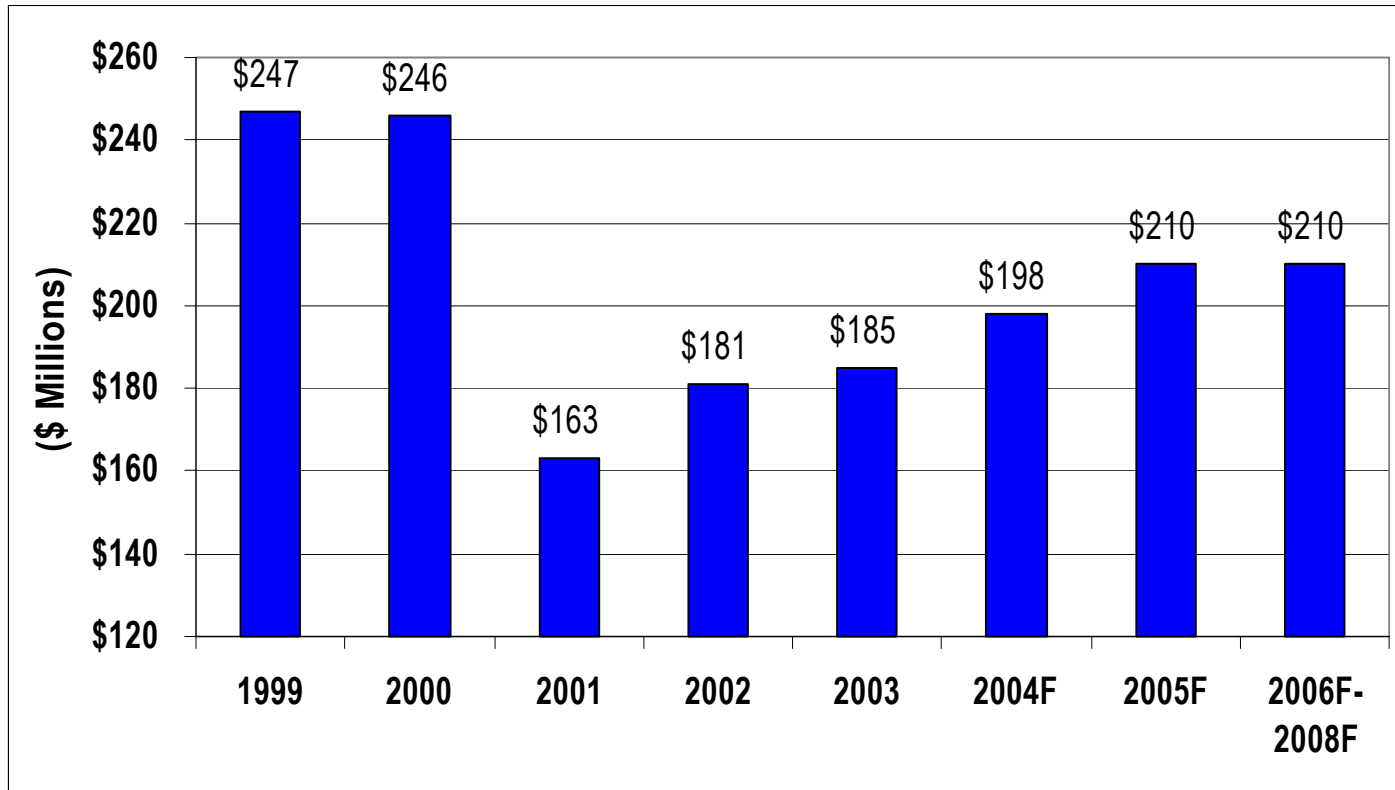
#### ■ Fuels and Utilities Spending (Integrated Steel)



## 4.3 Conversion Costs *(cont'd)*

### We've Been Unable to Invest in Repairs & Maintenance

- Repairs & Maintenance Expenses (Integrated Steel)



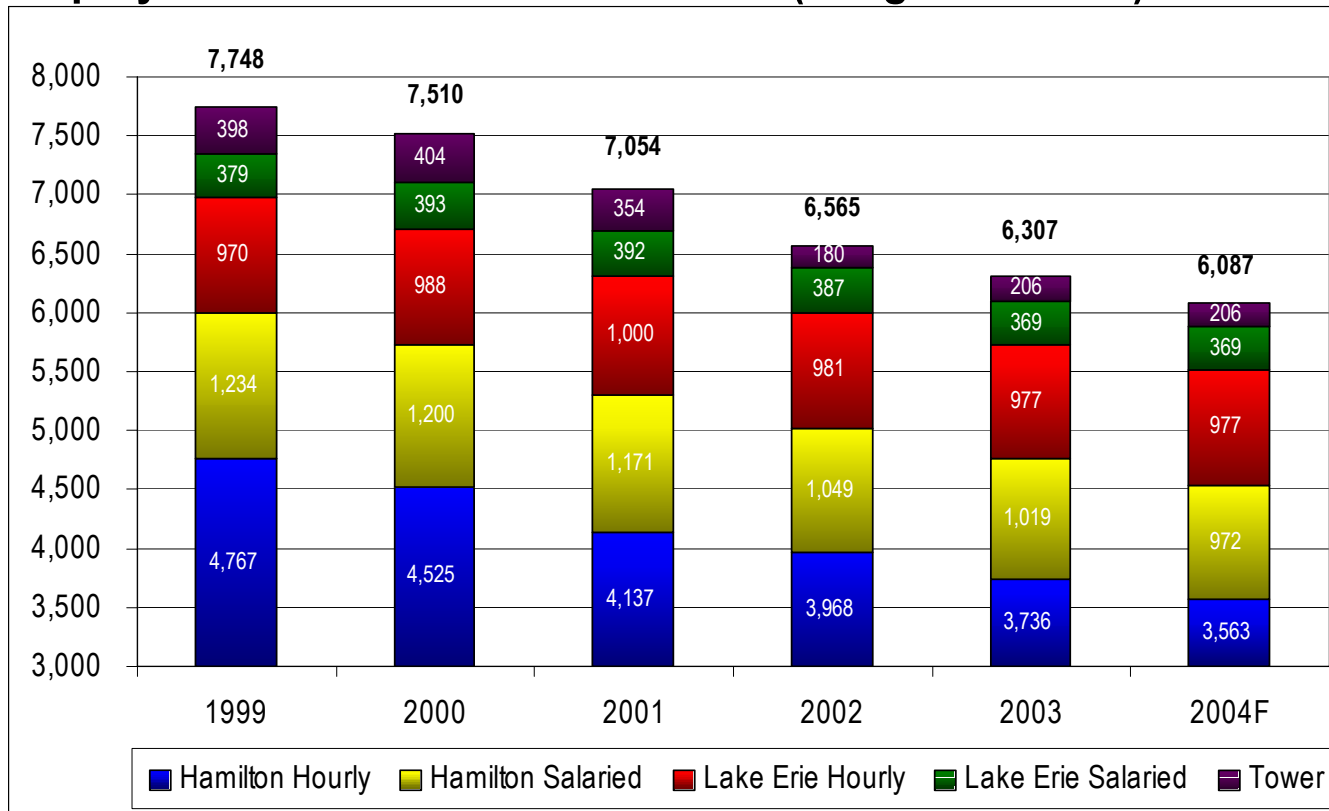


## 4.4 *Employment Levels*

# 4.4 Employments Levels

## Employment Levels Have Declined (Attrition)

### ■ Employment Level Trend 1999 – 2004 (Integrated Steel)



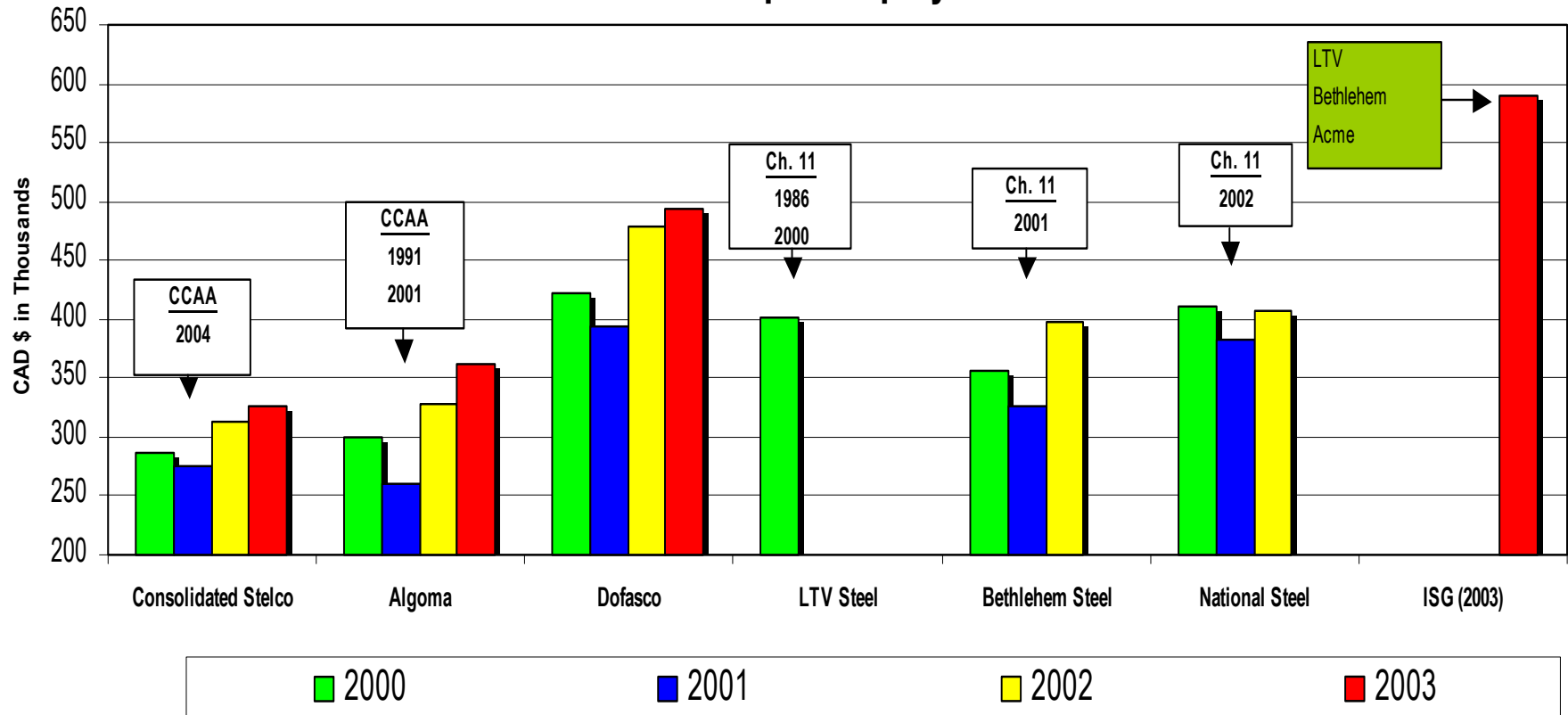
➤ Hourly employment level has decreased by 21%, salaried 34% from 1999 through the 2004 Forecast.



# 4.4 Employments Levels (cont'd)

## Our Productivity Lags Behind the Competition

### Net Sales per Employee



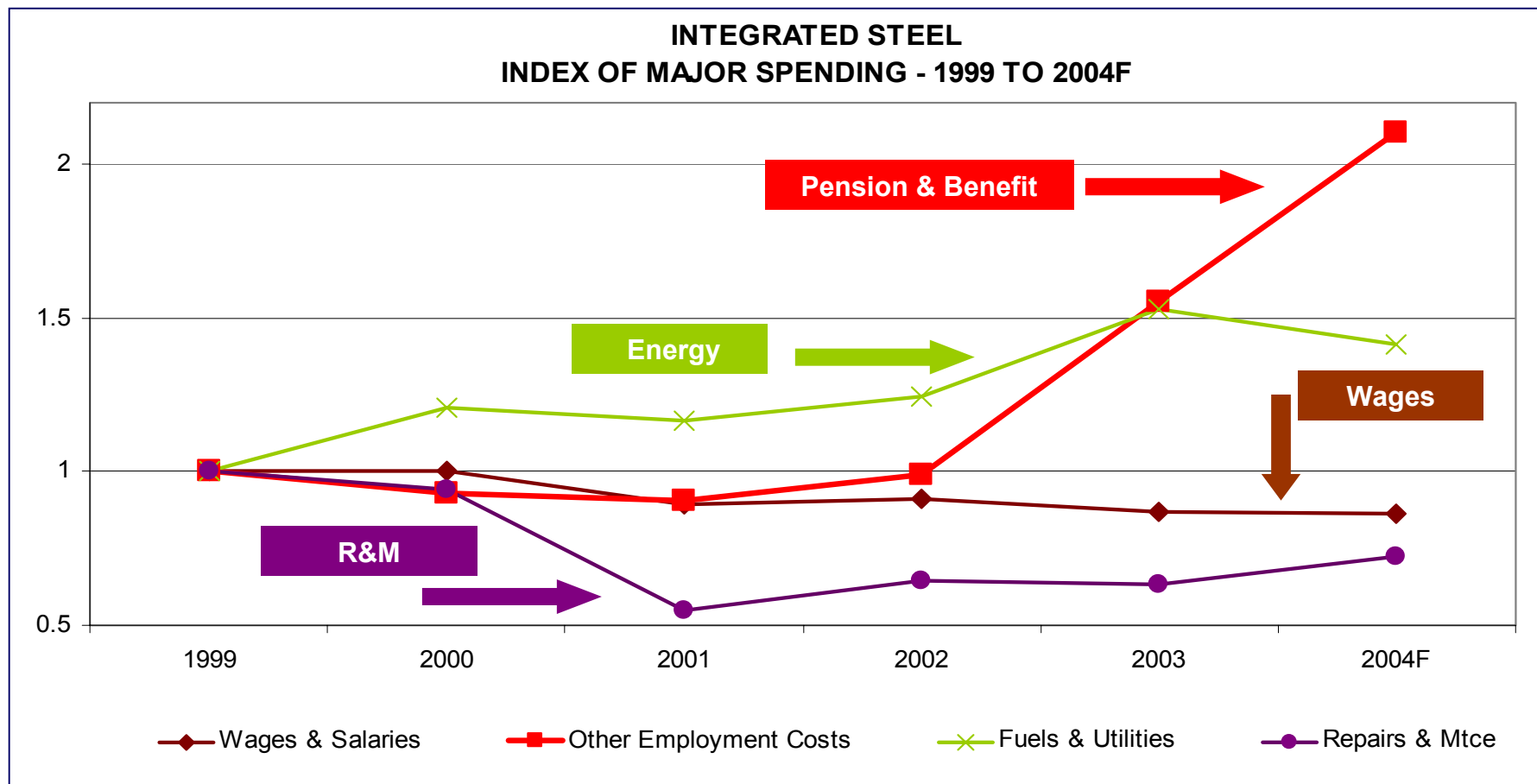


## 4.5 *Other Employment Costs* *(including Pensions & OPEBs)*



## 4.5 Other Employment Costs

### Pension/Benefit Costs are Outpacing All Other Costs

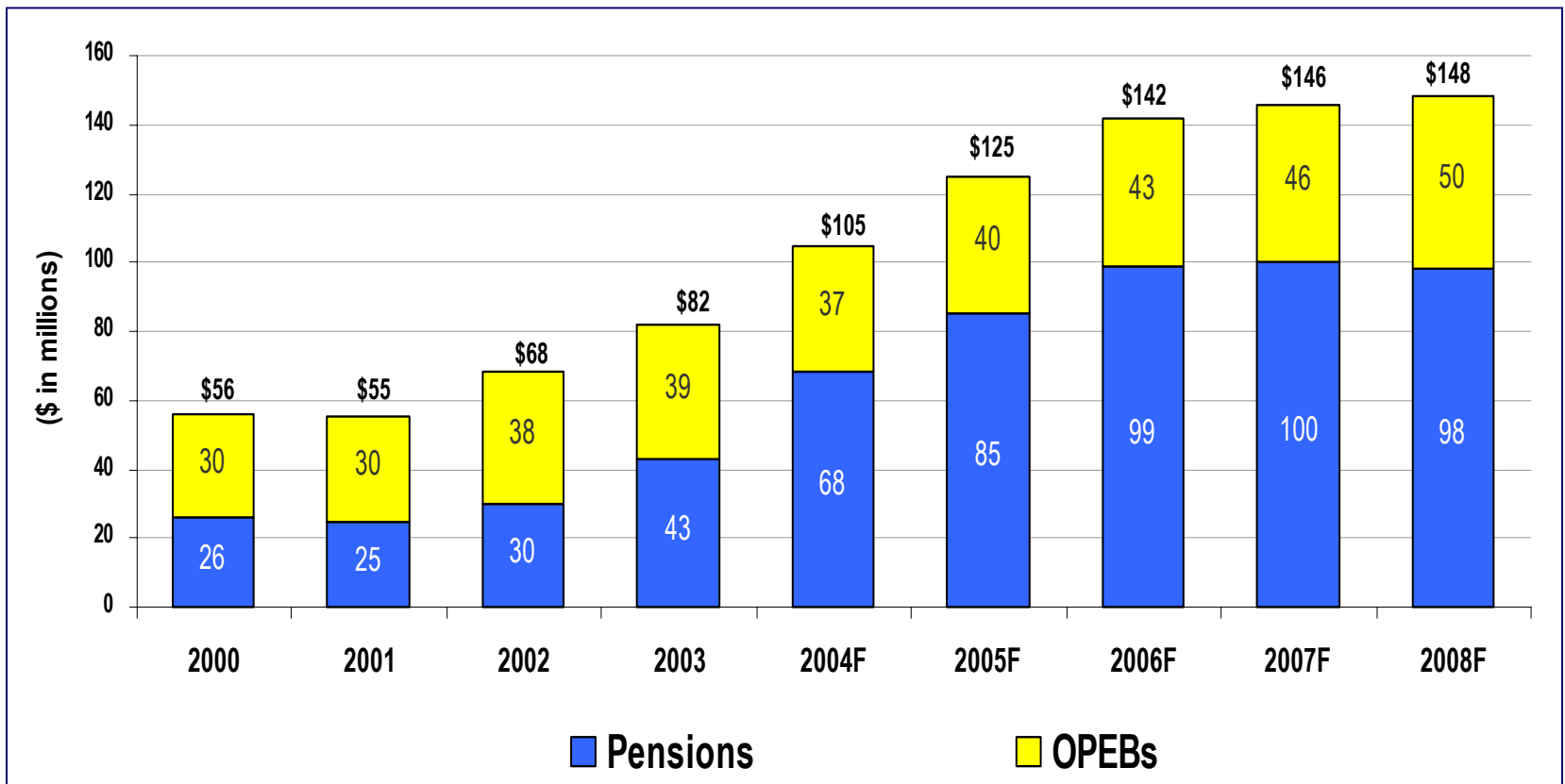




# 4.5 Other Employment Costs (cont'd)

## Pension/Benefit Costs Will Rise Dramatically

■ Pensions and OPEBs Cash Funding - Integrated Steel Business (Mercer)



➤ Does not include funding for solvency

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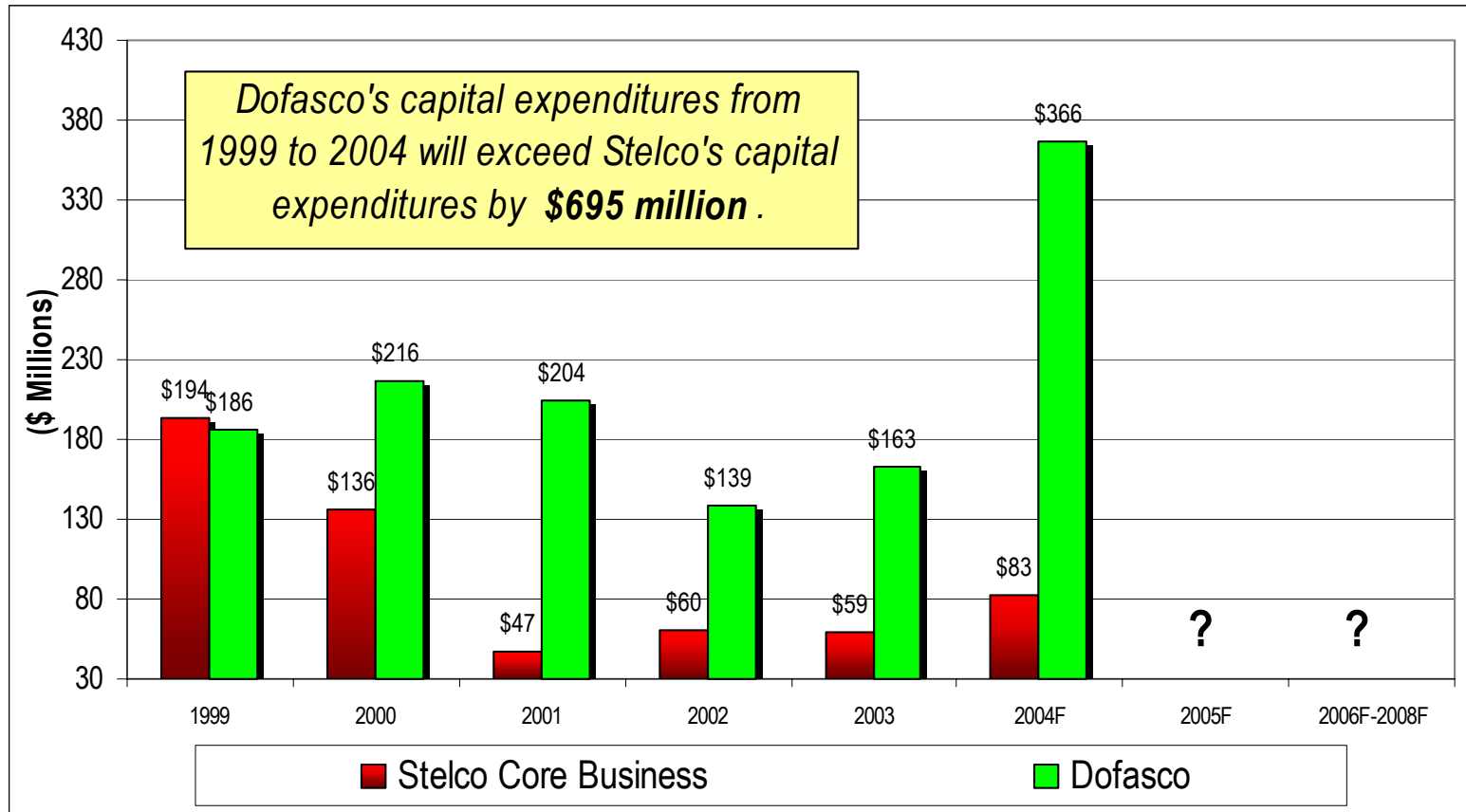


## 5. Capital Expenditures



# 5. Capital Expenditures

## We Lack the Money to Invest in Our Business





## 5. Capital Expenditures

### We Know the Investments We Need to Make

#### Cost Driven Capital Plan (Under Review)

- Lake Erie Hot Strip Mill (Phase II)
- #4 Pickle Line
- Co-Generation

- Unable to generate cash from Operations
- Unable to attract/raise capital

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## 6. Financial Analysis



## 6. Consolidated Revenues

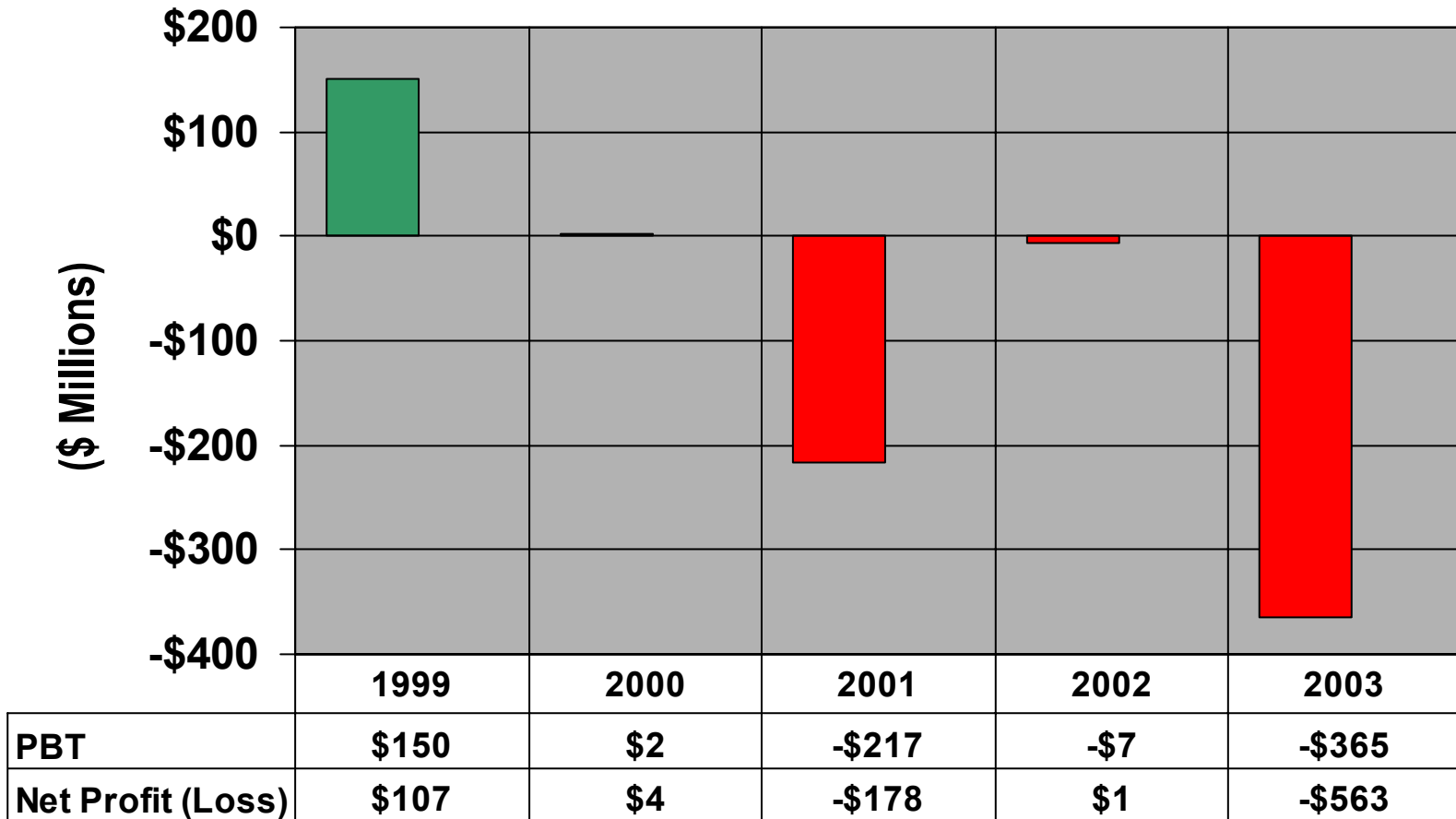
### Integrated Business is the Key

CONSOLIDATED SALES millions \$	<u>2004 Forecast</u>
	<u>Net Sales</u>
INTEGRATED STEEL BUSINESS	\$2,576
Other Businesses	808
Intercompany Eliminations	(201)
Total Consolidated Company	<u><u>\$3,183</u></u>



## 6. Profit Before Tax (History)

**No Meaningful Income in Past 4 Years ( PBT Loss of \$587 Mil)**





## 6. Cost Changes (1999 vs. 2004)

### Certain Costs Have Shifted Dramatically

*Full out production, good selling prices, but more than offset by .....*

STELCO INC CONSOLIDATED	(\$ Million)
Change in Employee Benefits*	\$ (160)
Change in Energy / Raw Materials	\$ (175)
Change in Wages / Salaries	\$ 70
Changes in Subs and JV's	\$ (60)

**(\$325)  
Million**

\* CICA Expense

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## 7. Summary

## The Problem is the Cost Structure NOT the Business

- **Stelco has a viable business model in terms of assets & market position.**
- **Stelco's cost base and capital structure are NOT competitive or sustainable.**
- **Failure will result in liquidation ....**
  - Substantial closure of assets
  - Pension wind-up
  - Substantial benefit termination
  - Much greater job loss
- **A successful restructuring will result in the following:**
  - Ability to raise new capital & invest in plant & equipment.
  - Stelco will be able to focus on key markets where it has competitive advantages.
  - Stelco will become a viable and competitive company in the NA steel industry.

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## 8. The Restructuring Process



# Restructuring Objectives

## Our Goal is a Successful Restructuring

- Ensure that Stelco ...
  - Is viable under all market pricing conditions.
  - Produces adequate cash flow to fund necessary capital expenditures.
  - Preserves stable, productive jobs.
  - Has the financial strength and stability to control its own destiny.



# Restructuring Process

## It Will Only Work if All Work Together

- All Parties Must Contribute
  - Understand and factor in the priorities of each group
  - Contributions are fair, not necessarily equal
  - Objective to minimize impact on most vulnerable
  
- Work Together
  - Consultation and court approval of any equity process
  - Must raise funds to invest in plant/equipment



# Restructuring Summary

## A New Team, A New Approach, A New Future

- A new management group focused on the future.
- Working to rebuild Stelco for all.
- At risk are jobs, economic activity, revenue for government.
- The restructuring process must move forward – time is limited.
- If people want it, we can achieve a successful restructuring.
- That is the best way to ensure
  - Well paying jobs for our employees
  - Security for our retirees
  - Economic and other benefits for the community

