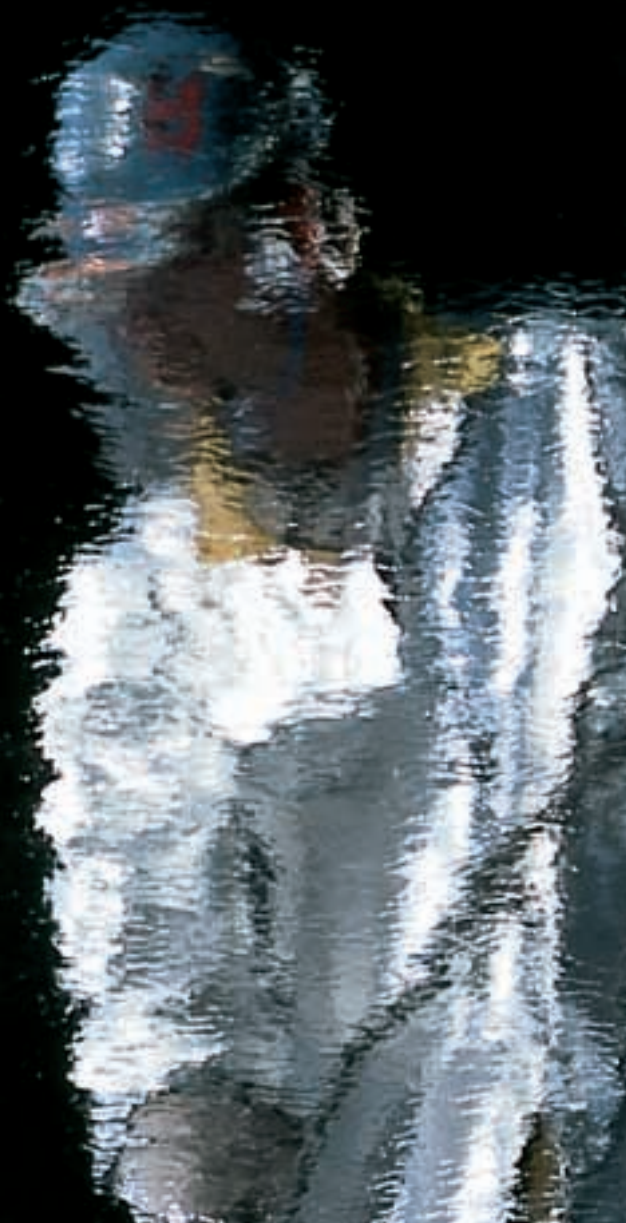


Annual Report
1998
Steel Dynamics, Inc.





On the cover, Jeff Vinson's image is reflected in newly coated steel on SDI's hot-rolled, hot-dip galvanizing line 1. At left is a fuller view of Vinson at work, skimming impurities from the surface of the molten zinc pot—"drossing the pot," as it's called. In the photo on the opposite page are the "brightener bars" which, in molten state, aid in the adherence of the various coatings SDI applies to steel in its cold mill.



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To Our Valued Shareholders

For Steel Dynamics, 1998 was a year of significant company accomplishments, even though as an industry the steel business was about to suffer one of its worst economic periods in decades.

While the soft markets experienced by the flat-rolled steel industry during the first half of 1998 gave way to the virtual collapse of the steel markets during the third and fourth quarters, amidst an avalanche of unfairly traded imports, SDI steadfastly pursued a twin objective: attain the lowest operating costs and highest operating profits per ton in the steel industry consistent with the company's high standards of quality and

the year were \$515 million versus \$420 million in 1997, an increase of 23%. Pretax income in 1998 was \$52.6 million versus \$59.4 million in 1997. Our net income of \$31.7 million in 1998 was down from \$43.9 million in 1997, due mainly to SDI's having reached a full statutory effective tax rate in 1998. In 1997, SDI realized the last of its tax benefits from the loss carryforwards resulting from its original start-up.

During 1998, SDI was involved with four major start-ups. Successful start-ups are positive events, for they either signify a project's fruition or, perhaps, the launching of a new one. In the short term, though, they are a drag on earnings, but we are building your company and that is part of the territory.

Throughout 1998, SDI continued to successfully start up and commission its new cold mill, and although only able to realize a partial year's benefit from the full integration of this world-class facility, we are very pleased to report that all units are now operating at near capacity.

In late June, our new meltshop, second caster, and second tunnel furnace began operations. Like the cold mill, this new facility was also only able to realize a partial year's production benefit. In addition, we were hampered by an unexpected electrical energy crisis during the summer, resulting in an unplanned reduction in volume. Presently, however, our new meltshop facilities are also operating at close to full

capacity. We were also able to successfully modify our electrical service agreement with American Electric Power to establish a fixed electrical rate for our general service and to further limit the number of hours and the circumstances under which AEP will be allowed to interrupt SDI's electrical service.

Our Iron Dynamics (IDI) scrap substitute start-up was delayed from an anticipated December 1998 launch to March of 1999 for a variety of reasons, ranging from supplier delays to our decision to make certain field modifications to IDI's developing proprietary technology. We continue to believe that this technology will embody the lowest capital cost per annual metric tonne of capacity and will yield the best operating results of any virgin ironmaking technology known today. During January and February, we enjoyed early success



Steel—in absolute terms, let alone on an inflation-adjusted basis—may be one of the best commodity buys on earth.

service, and continue to implement the company's growth strategy. In the final analysis, the ability to achieve these goals in the midst of such negative market conditions is the acid test of a company's character, and we believe that SDI more than met the test.

Not surprisingly, the devastating conditions in the domestic and international steel markets did in fact have a negative impact on SDI's financial results, but the impact was considerably less severe for SDI than for most other companies in the steel industry, many of which are awash in red ink and some of which even sought bankruptcy protection. In contrast, SDI achieved one of the highest operating profits (\$50 per ton) in the steel industry on shipments of 1,414,950 tons, an increase in volume of 211,703 tons or 18%. Our net sales for

in operating IDI's new rotary hearth furnace to produce "DRI" (direct reduced iron) with "metallization" rates (percentages of pure iron) that we believe will give us excellent results when combined with the second stage of the IDI process, converting the DRI into liquid pig iron in a submerged arc furnace. On March 24, the submerged arc furnace successfully produced its first heat of liquid pig iron.

Last but not least, we anticipate that core construction work will commence in May on our new world-class structural steelmaking facility that will be built on our greenfield site in Whitley County, Indiana. Preliminary site work has been ongoing for some time, while awaiting the government's issuance for public comment of the new plant's air permit. That having now occurred, we are anxious to get started and to make up for some of the lost time. All major equipment has been ordered and will be arriving throughout 1999. We anticipate a mid-2000 completion and start-up.

During 1998 and early 1999, SDI achieved certain significant milestones which will bode well for our future. Our operating teams at Butler produced 7,000 tons of hot-rolled bands in a single day, and are now producing hot-rolled steel for 0.33 man-hours per ton. Our new cold mill in Butler has run at an annualized rate of 1.2 million tons, and our coating lines have achieved a production rate of 30,000 tons per month. Our cold mill employees have achieved a labor rate of 0.35 man hours per ton. Collectively, this amounts to only 2/3 of a man-hour per ton for finished products, most likely the best in the world, with still more to be achieved.

SDI's Butler employees helped the company earn ISO-9002 certification, and employees in the cold mill contributed to that operation's being recommended for QS-9000 certification, which will make SDI eligible to provide quality products to the critical automotive and appliance communities. In early 1999, General Motors announced that it would pursue a business relationship with SDI, making our company the first mini-mill to be directly included in that company's elite cadre of suppliers. In addition, Daimler Chrysler informed SDI that the Heidtman Steel/Steel Dynamics team was one of its top-rated suppliers in 1998, a significant accomplishment for our company, which has been producing steel for only three years.

I must, however, save the most important accolades for last. In the end, hot mills and cold mills do not make steel. People make steel. New mills and new ironmaking facilities

do not just simply get built. They are inspired, designed, guided, superintended, fretted over, and invested with loads of TLC by people, and, most importantly, by people like our employees, our most valuable assets, who are by far the best in the world at what they do.

And what about our valued customers and suppliers, who have stood by us during these difficult times? They, too, are the best in the world. Quality seeks quality. Their contributions have helped make a difference in a market pricing environment that we have not seen since the 1950s. In some ways, this speaks volumes about the resiliency of this industry. Steel—in absolute terms, let alone on an inflation-adjusted basis—may be one of the best commodity buys on earth.

Our employees, our most valuable assets, are by far the best in the world at what they do.

Overall, I do believe that, in the first quarter of 1999, we will have seen the bottom of the steel market and the bottom of SDI's financial results. The economy is in excellent shape, and with dumped imports potentially abating—brought about in part as a result of successful trade cases brought by SDI and other steel industry players in September—we should begin to see considerably improved earnings in 1999. If that occurs, and we trust it will, our growth plans of 1996, 1997, and 1998 should begin to significantly contribute to our earnings.

And I remain confident that the best employees in the industry will continue to overachieve and establish new industry milestones.

Sincerely,



Keith Busse
President and CEO



In Praise of 591 Extraordinary Individuals

When Steel Dynamics was founded, in 1993, management made a commitment: the company would ask *all* employees to take an active role in the company, maintaining high standards of quality and keeping costs as low as possible.

This is not the way most steel-making companies function.

SDI envisioned a grassroots management effort—with critical decisions made by those closest to actual production, and with employee ownership fostered by participation in stock-option and profit-sharing programs.

“For SDI to have performed in a superior way during this trying time is a tribute to the company’s employees. In a normalized market, with this team of people, we can be extraordinarily successful.”

Some observers scoff at the notion that the folks who make the steel should be encouraged to take leadership in the company, that they could actually be the primary energy of the organization.

“Our success is manifest from having a group of people with no preconceived ideas—individuals relatively new to the industry, unburdened by tradition—not knowing that it can’t be done!” says Mark Millett, vice president and general manager of the Butler facility, a metallurgist and one of the pioneers of thin-slab steel casting.

SDI has the finest steel-making equipment in the world. Day and night, weekday and weekend, that machinery is in motion, producing SDI’s high-quality product. But good equipment alone doesn’t make a company productive. People do. And, as Keith Busse points out, SDI has the finest group of employees in the industry. Some are veterans, others newcomers to the business. All have demonstrated their commitment to ensuring customer satisfaction by producing products that meet global quality standards.

“SDI shareholders are concerned about value,” says Tracy Shellabarger, vice president and chief financial officer. “So are our employees, who think like investors because they *are* investors. All employees are shareholders in the company. On the screen of every SDI computer terminal is an icon that reads ‘Stock Price.’ From the casting deck in the hot mill, to the pickle line in the cold mill, to the receptionist’s desk at our headquarters in Fort Wayne, hundreds of SDI employees click on that icon several times a day. They want to know how their investment in the company is faring in the marketplace.”

As it has moved forward on two fronts—actual production and building new capacity—SDI has relied heavily on employees’ bringing to the workplace a large measure of the entrepreneurial energy that underlies all of today’s successful business ventures. This has paid off for the company, its employees, and its stockholders.

“The expansive growth at Butler, while operating the existing facilities, has been stressful for everyone—employees *and* their families,” says Mark Millett. “But we’re coming to the end of that phase with the successful completion of these projects. Now watch out: the talents of these individuals have been unleashed and focused on taking world-class standards of productivity, quality, and cost structure to new levels.

“The various expansions, meanwhile, have created well-earned opportunities for our people—individuals with experience moving into management positions, creating other opportunities down the line. Having eager, enthusiastic, can-do-anything individuals managing our \$600 million facility is an excellent example of SDI’s entrepreneurial culture.”

Dick Teets couldn’t agree more. Dick is vice president and

general manager of the structural-steel project in Whitley County, Indiana. An engineer, Dick oversaw the SDI design-build team that planned and constructed the Butler complex. Later he ran the rolling and finishing operations there before undertaking his new assignment.

“We build capital assets for fewer dollars per annual ton of operating capacity than anyone else in the industry,” Dick says. “There’s one reason for this: our people. They don’t think in the box, they don’t accept conventional industry wisdom about what can and can’t be done, and they take ownership in what they do. My team looks at capital and operating costs as if it were their own money. They’re good stewards of investors’ dollars. What we did at Butler we’ll do again in Whitley County. We’ll create the best plant of its kind in the world, and our product will be extremely competitive.”

Iron Dynamics Vice President Larry Lehtinen—whose long experience in the industry has touched on everything from mining iron ore to steel production—has not only overseen the construction of Iron Dynamics from the outset, he’s also spearheaded the many innovations that have accompanied that complex process.

“It’s been a long road, a unique challenge,” Larry says. “What we’re doing here is new, a first-of-a-kind effort, and we’re inventing as we go. I firmly believe that the new technology we’re developing will be revolutionary. Fortunately, we’ve been blessed with a uniquely talented, hardworking, dedicated, and resilient team here at IDI. There’s an old Finnish word my dad taught me, ‘Sisu,’ that I would use to describe the IDI group. Loosely translated, Sisu means ‘guts,’ ‘determination,’ ‘true grit,’ ‘never quit.’ This group definitely has Sisu!”

Getting the word out about SDI’s products—their quality and competitive pricing—is John Nolan’s job. John is vice president of sales and marketing. He’s been with SDI from the beginning.

“In the next two years, SDI will develop a degree of marketing sophistication that has not historically been a focus of the mini-mill community,” John says. “As we do so, we’ll have a tremendous advantage—our ability to fulfill orders quickly with top-quality product. Customers are amazed at this.

“In many cases, we’re their only mini-mill supplier. They can hardly believe that our product is of equivalent or superior quality to that of the integrated mills they deal with. But when customers or potential customers tour our facilities, they see for themselves how well our employees work together. They understand then how we’re able to do what we do.”

Having fared better than the competition during a tough year, having finished important projects and begun others in the face of market chaos, SDI’s management team is enthusiastic and confident about the company’s prospects.

For one thing, SDI’s product is a vital commodity. Just as iron is one of the core elements of the universe, steel—strong and durable, hard yet pliable—is one of the core building blocks of any industrial society. It is also the environmentally superior choice of building materials, and the most cost-effective.

For another, the company has a uniquely skilled and energetic group of employee/owners who, having endured the uncertainty of 1998, are anxious to ply their skills in a recovered marketplace.

“Nineteen ninety-eight was one of the most disastrous years in the history of the domestic steel industry,” says Tracy Shellabarger. “For SDI to have performed in a superior way during this trying time is a tribute to the company’s employees. In a normalized market, with this team of people, we can be extraordinarily successful.”

In the next 10 pages of this report, you’ll meet a few of these extraordinary employees. Says Dick Teets, “We think you’ll be as impressed with them as we are.”



Lehtinen



Millett



Nolan



Shellabarger



Teets

The Faces *and* Voices *of* SDI

JON MILLER

Pulpit Operator, Reversing Mill ▼

“Looking at this picture, you see that I work in a high-tech booth high above the shop floor, pushing buttons to make things happen. What you don’t see is that when something breaks down, I’m down there on the floor helping to fix what’s wrong, getting grease on my hands. There are no prima donnas around here. We all fix problems, which shortens downtime. That’s why we’re a world-class steelmaker. We pull together when we work.”





TOM GEIGER
Pulpit Operator, Meltshop, Hot Mill ▲

“The first time I saw the electric arc furnace operate, I knew that’s what I wanted to do. I had never operated equipment like that before. It isn’t easy to learn—there’s a lot to keep track of—but I had great teachers. They were patient with me, and now I feel like a pro.”

LUCY MATTHEWS
Inside Sales, Butler ►

“A lot of customers tour our mill because they have to see for themselves how we can make a coil of steel in 90 minutes in one continuous process. They’re amazed when we tell them how quickly we can fill their order versus how long it takes the integrated mills. They’re fascinated and surprised by how efficient we are and how lean, too—how few people we have in administration. They generally leave excited about their future as SDI customers and the benefits SDI’s efficiency will provide them—excellent quality at a good price.”





JIM NORTON

Craneman, Pickle Line, Cold Mill ◀

“The idea is to make sure that the steel we’re making is prime, that it’s quality product. I like having a say-so in what goes out the door. It isn’t just ‘the company.’ It’s me. What customers see on the outside says everything about us. That’s why we take time to fix equipment properly before a problem gets worse—before somebody gets hurt or our quality is compromised.”

GREG MEYERS

Switchman, Transportation Department, Butler ▶

“When this plant was being built, I drove a truck for a company that supplied building materials. Every time I made a delivery, I saw the company growing—literally. Employees would tell me what a great company it was. When SDI went public, I bought a hundred shares of stock. That was well over a year before I came to work here. Now I have stock options as an employee. It’s nice to work for a company you own stock in. It’s great to know that when you give 110 percent as an employee, that determines how the company does.”





DAN HARPER (pictured with Andrew Meyer, Ron Penick, and Mark Velkoff)
Exit Operator, Galvanizing Line 2, Cold Mill ▲

“A crew is fluid, not static. Everybody can and does do several different things. Operators wrap coils; wrappers can be operators. We’re very versatile. If the line is shut down for some reason, we do maintenance. My boss trusts that I’m doing what I’m supposed to be doing. I’m 25 years old, a grown man. I know what I’m supposed to do, and I do it. Supervisors treat us like adults, and being a stockholder makes you want to do better every day.”

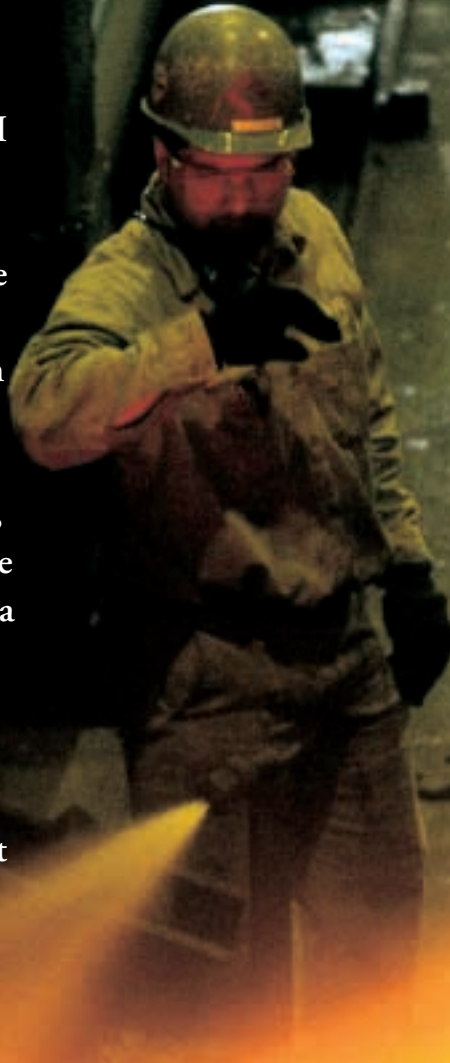
MATT HELMKAMP
Delivery Operator, Galvanizing Line 1, Cold Mill ►

“Trust is a key word here. All these lines are big, and we have only a few operators. You have to have trust. You can’t be everywhere watching a person do his or her job and expect to do your own. We have the freedom not to go through the higher-ups for everything. They trust that if you have a problem, you’ll fix it. At SDI, you don’t have to have a committee meeting to change a bolt.”



RANDY RATHBURN
Roller, Hot Mill ▶

“People like to be respected. People like to be treated like partners. That’s what we are at SDI—partners. Part of partnership is sharing ownership. Everybody here cares about how SDI stock is doing because everybody owns it. Somebody will get on the radio and say, ‘What’s the stock price today?’ Or they’ll check on the computer. One thing about being an owner: owners make less money when tough times hit. That’s how it was last year. We didn’t go bankrupt, didn’t go down to working only three days a week—which was the case at a steel company where I used to work—or not at all, which was how some of our competitors fared. One of the reasons SDI still did well during a bad year is because we don’t have a production-versus-management mentality. We all work together like partners. That’s how it ought to be.”





JOHN HILTON

Switchman, Transportation Department, Butler ◀

“I hated my job. I was miserable and in a bad mood all the time. The people I worked with had no work ethic. They came to work to collect a paycheck, period. That’s not my cup of tea. I took a pay cut to come to work here. I was happy after the first week. My wife and kids noticed a big change. I’m still not making as much as I did in my old job, but I’m getting there. Attitudes are good here, very upbeat. Last year, when things were starting to get tough in the industry, we had a meeting. Our president, Keith Busse, told us: ‘Things are going to get bad. But they’ll get better.’ He respected us enough to talk to us like adults. He was honest with us. Tell me, how many people can deliver news like that and get a standing ovation? This place impresses me. The only thing I beat myself up for is not coming here three years sooner.”

KARL HERMANN

Supervisor, Cold Mill ▶

“At the steel company where I used to work, the old-style management attitude was: ‘Just do what I say. You don’t need to know why.’ There they said we had the authority to do things, but here it’s true. Here we chart our own course. Corporate doesn’t bridle us with bureaucratic handcuffs. People at SDI take a very concerted ownership role. In my old job, for example, a hydraulic leak, say, could go unfixed for months because some chart said we were over the limit on overtime. Never mind that the leak amounted to losses of thousands of dollars. Here, an employee will point out such a leak and say, ‘What’s that costing us?’ *Us*. That’s the key; not *them*, us. When I interviewed with SDI, I realized immediately that the investment that I put into my job would come back, for all of us. That’s why I was willing to move my family 600 miles to northeastern Indiana.”





ANNETTE ANGLIN

Quality-control Lab Technician, Galvanizing Line 2, Cold Mill ▲

“We constantly strive to improve quality. My job is to look for defects. I’m the last employee to look at the product before it’s wrapped and shipped. I look for coating irregularities, roll marks—anything that won’t be acceptable to the customer. I also take micrometer readings and do lab tests for coating thickness and hardness. We work as a team to correct quality problems as quickly as possible, so that most of the time we’re making prime coated steel. Quality is an attitude of cooperation, constant improvement, and respect—for each other and for the customer.”

JAN CONWELL

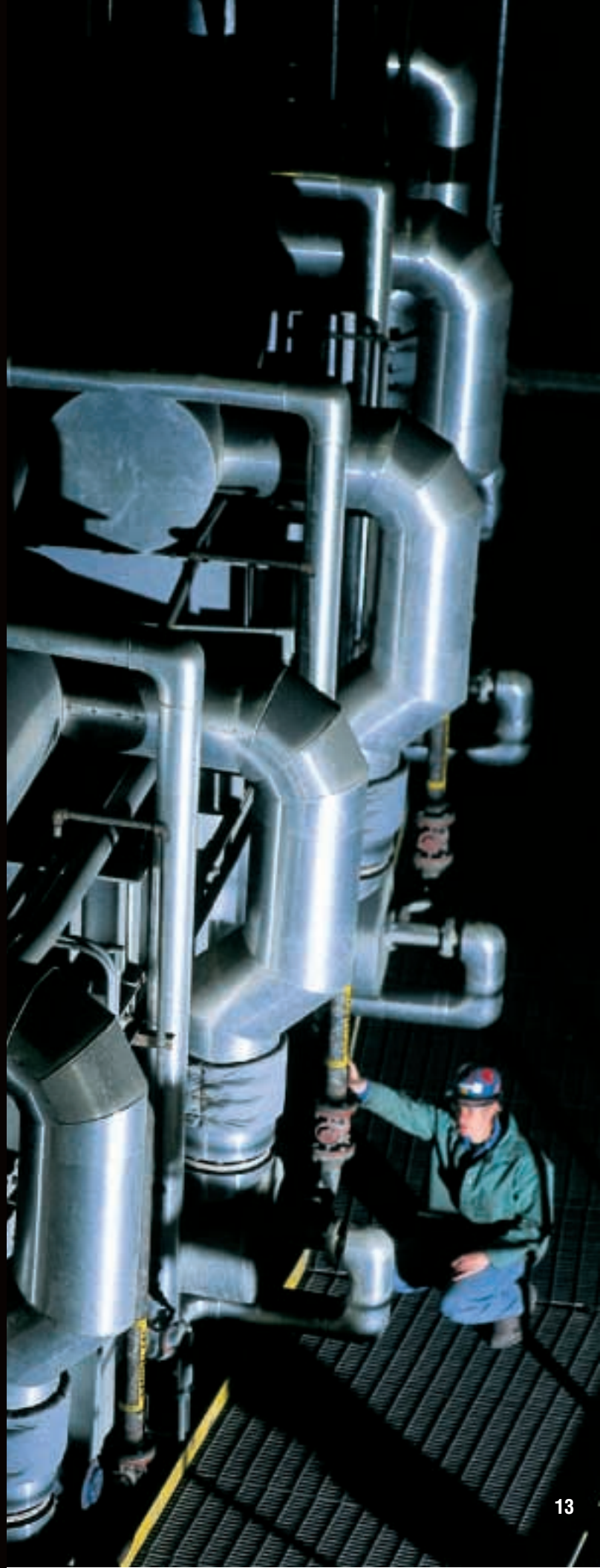
Safety Director ►

“SDI’s accident statistics are far below national steel-industry averages. Of course, we’d like to see our numbers be nothing but zeros. We feel this can be a realistic goal. We had a good year in 1998, and we’re hoping 1999 will be even better. A steel mill doesn’t have to be a dangerous place to work. We can have high quality standards and maintain a safe environment while operating the plant at a high capacity. Our goal is to send all our employees home at the end of the day as healthy and happy as when they arrived.”



DAVE BEDNARZ
Supervisor, Iron Dynamics ▶

“I’ve overseen the construction of the new rotary hearth furnace. In my previous job I was a plant manager, so I took a demotion to come here. But it was worth it to me to be involved in building something of this magnitude, something that has never been done before. It’s a great thing to see a vision come to fruition.”







TIM TIPPMANN

Submerged Arc Furnace Operator, Iron Dynamics ◀

“We’re non-union. I’ve worked in a union before and didn’t like it. Here everybody helps out whether it’s their job or not. We’re a team. That’s pretty cool. I love it here. It’s hard work, but we reap the benefits.”



ROGER SMITH
Head Grinder, Rolling Mill Maintenance
Shop, Cold Mill ◀

“Why did I come to SDI? For growth, stability, and the chance to be in on something new. My previous job was a union environment. The union caused people not to take responsibility. They’d stand around getting paid for nothing. Oil spilled on the floor? ‘Not my problem,’ they’d say. I didn’t like that. I like to take pride in what I do. We have a bottom line at SDI: work in a safe environment, make quality product, and earn money to support our families. I like it here.”

KEVIN PARALA
Meltshop Manager, Structural Mill, Whitley County ▶

“The SDI philosophy about building is that production people design and build their own shop. Why? Because you take more ownership when you build something. You feel more responsibility for how it runs. You know how it’s designed, so there’s less of a learning curve, and you can start-up quicker. So, we design and build our own shop, then hire people to work in it who bring fresh ideas to the table. Having some employees who haven’t been in the steel industry before is a great advantage. They come without preconceived ideas. They come up with things someone with steel experience might not think of. Chances are, someone with steel experience may be thinking in the box. We’re after people who think outside the box—that’s the SDI approach.”

