Annual Report 2001 • **STEEL DYNAMICS, INC.**

Steel Dynamics, Inc.™

FINANCIAL HIGHLIGHTS (in millions, except earnings per share)

	1997	1998	1999	2000	2001
Net sales	$ 420	$ 515	$ 619	$ 693	$ 607
Income from operations	65	65	89	105	26
Net income	44	32	39	54	3
Diluted earnings per share, in dollars	0.90	0.65	0.82	1.15	0.07
Total assets	641	907	992	1,067	1,180
Stockholder's equity	338	351	391	419	419

CONTENTS

FROM THE COVER: Cascading electric sparks surround giant, glowing graphite electrodes as they bore into steel scrap at SDI's melt shop at Butler, Indiana. To start the melting process, 65 megawatts of power are applied.

CORPORATE PROFILE

Steel Dynamics, Inc. is a young, growing, profitable mid-sized Midwestern steel manufacturer based in Fort Wayne, Indiana. Organized in 1993, we have become one of North America's lowest-cost steel producers.

Using advanced mini-mill technology—automated casting, rolling, and coating equipment—we recycle steel scrap, melting it in electric arc furnaces and converting it into high-quality steel products.

Our Flat Roll Division at Butler, Indiana, produces hot-rolled, cold-rolled, and coated steel sheet. Butler has special expertise in the manufacture of light-gauge, micro-alloyed, and high-strength steels. Current annual hot-roll production capacity at Butler is about 2.2 million tons. Butler began commercial operation in 1996.

Our Structural and Rail Division at Columbia City, Indiana, is preparing to begin production in 2002. It will manufacture a broad range of structural shapes and beams, as well as standard and premium rail for use by North American railways. Construction of this $315 million facility began in May 2001. Its initial annual capacity will be in the range of 1.0 to 1.3 million tons.

At the end of March 2002, SDI employed more than 700 highly motivated, highly skilled, and well-paid employees. We benefit from an operating culture that rewards performance through incentive compensation, profit sharing, and stock options for employees at all levels.

For additional information, please visit our Web site: www.steeldynamics.com.

Our NASDAQ Trading Symbol is STLD.

A MESSAGE FROM THE PRESIDENT AND CEO

April 8, 2002

To Our Shareholders:

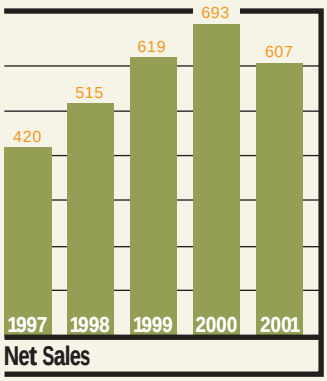
Following a record year in 2000, Steel Dynamics fell short of its full potential in 2001, but fared better than many of its peers in the domestic steel industry. The primary reason for this loss of momentum was low selling prices for flat-rolled steel, a consequence of the flood of unfairly traded imported steels and the continuing U.S. recession. The average selling price for our flat-roll steel products in 2001 was down 17 percent from 2000 levels.

Fortunately, early in 2002 we began to see a significant strengthening in our order backlog, allowing us to resume more efficient production scheduling. As a result, and because of strengthening selling values, we're becoming much more optimistic about profit margins improving throughout 2002. We believe this uptick in market activity is a result of diminished steel supplies due to the closing of several domestic mills and to the reduced pace of steel imports. Import volume may have slowed because of recent U.S. trade actions, and in anticipation of additional actions by the U.S. government.

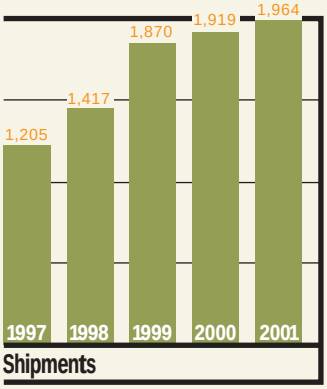
Any significant increase in the underlying demand for steel will be very positive for SDI, but how fast the industrial economy will rebound this year is unknown. We believe we're one of the best-positioned companies within our industry to take advantage of an improving economy and the favorable outcomes of trade cases and Section 201 tariffs.

Despite the difficult business environment in 2001, we can point to a number of significant accomplishments during the year:

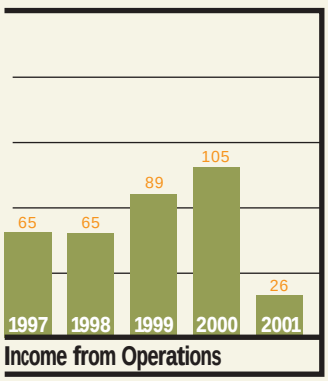
- Steel Dynamics showed a profit of $3.1 million for 2001, or $.07 per diluted share, after pretax charges of $3.4 million related to a customer bankruptcy filing and $2.3 million related to a lawsuit settlement. Start-up costs associated with expansion projects reduced earnings by $19.5 million. We believe these projects are essential to the company's continued growth and will pay off in higher earnings over the next several years.
- Our Flat Roll Division continued to perform extremely well, manufacturing and marketing high-quality hot-band, cold-rolled, and coated steel, while maintaining high productivity and, under the circumstances, reasonable operating margins. Our 2001 steel shipments increased about 2 percent in spite of lower market demand for flat-rolled steel.
- Upon receiving our environmental permits in April 2001, we made rapid progress on the construction of our new structural steel and rail mill near Columbia City, Indiana. Construction of the $315 million facility began in late May 2001. We expect to commence production of the first structural products in the second quarter of 2002 and to begin rail production early in 2003. The facility will add 1.0 to 1.3 million tons to our annual production capacity. We believe our new Structural and Rail Division offers significant growth potential, both in revenues and profitability.
- Consistent with our corporate objectives, we completed the year with no layoffs or short-timing of our workforce.



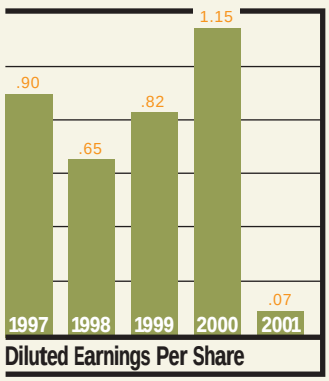
Net Sales
(dollars in millions)



Shipments
(net tons in thousands)

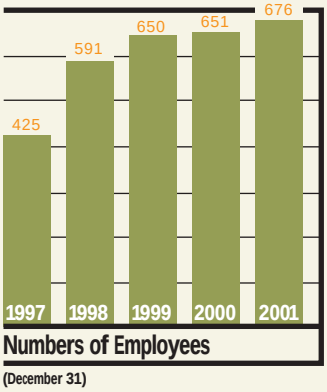


Income from Operations
(dollars in millions)



Diluted Earnings Per Share
(dollars)

By contrast, and in preparation for the start-up of operations at our new structural and rail mill in 2002, SDI began hiring new employees in 2001, and we expect to hire more than 100 additional workers at Columbia City in the first half of 2002.



- New Millennium Business Systems, co-owned by SDI and New Process Steel, generated earnings in 2001, its first full calendar year of production. It has succeeded in gaining market acceptance for its innovative joist and deck products, achieving wider distribution than we had initially expected. Building on its coverage of the Upper Midwest from its plant in northeastern Indiana, New Millennium has now shipped products to more than 30 states.
- Steel Dynamics ended the year 2001 in good financial shape as we benefited from lower scrap costs and lower interest rates on our bank debt. Cash flow generated by our Flat Roll Division financed a significant part of the investment in the new structural and rail mill. In 2001 we initiated steps to refinance and diversify the company's debt, and completed the refinancing in March 2002 with a $200 million senior unsecured note offering and a new secured senior credit facility. Previously, the company had been financed entirely by equity and bank lending.

FINANCIAL RESULTS

Sales for 2001 declined to $607 million, down 12 percent from 2000. Lower selling prices severely reduced our margins, especially in the second half of the year. Net income in 2001 was $3.1 million, down 94 percent from $53.8 million in 2000. On a per-share basis, 2001 earnings were $.07 per diluted share, compared with $1.15 per diluted share in 2000. Our capital expenditures in 2001 were $90.7 million, primarily related to construction of our new Columbia City structural and rail mill.

MARKET CONDITIONS

After a slowdown in the second half of 2000, we were hopeful that a U.S. economic recovery would be underway by the second half of 2001. Conditions in the U.S. steel market remained weak throughout 2001. The events of September 11 knocked any early recovery off course. We saw no improvement and, in fact, experienced deterioration in steel market conditions in the second half of 2001.

STRUCTURAL AND RAIL BUSINESS

As mentioned above, we began construction of our new greenfield structural and rail mill in northeastern Indiana in May 2001. This mill will allow us to enter the markets for "long" products, including structural shapes such as wide-flange beams, channels, angles, zees, pilings, and rails for railway use. This manufacturing facility will be one of the world's most cost-effective production operations for these types of products, taking advantage of state-of-the-art automated casting and rolling technologies in a plant designed to maximize throughput. We expect to ramp up production beginning in the second quarter of 2002 and proceeding into 2003.

We believe our structural steel and rail products will gain rapid customer acceptance, particularly in the large markets of the Midwest and Northeastern United States. We are closer to these geographies, as well as to Canada, than any of our competitors, giving us a favorable shipping-cost advantage. With our low cost structure, we can be very competitive in the marketplace, but, as in our flat-roll business, we expect customers to value our products highly because of their quality, and because of SDI's delivery flexibility and customization capabilities.

I'm very pleased with the rapid progress we've made in construction of the new mill, which is on target for completion and start-up within a record 12-month period. I salute Dick Teets, vice president and general manager of the Structural and Rail Division, and his talented design and construction team for their dedicated efforts, and for their patience during the project delay.

IRON DYNAMICS

In the first quarter of 2001, we completed the replacement of the submerged-arc furnace at our Iron Dynamics subsidiary and restarted production there. The plant operated in start-up mode for several months to verify its ability to produce liquid pig iron in production quantities.

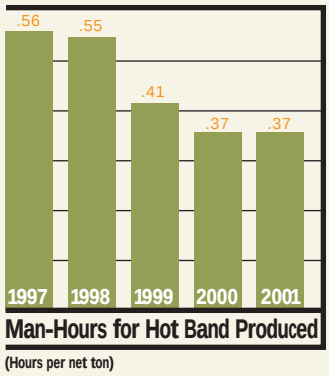
We idled the facility at the end of June because certain technical issues needed to be addressed and, under current business conditions, IDI's product could not compete with lower-cost steel scrap and pig iron.

Early in 2002, we announced that the $59 million in bank debt owed by IDI was being extinguished, in a manner acceptable to all parties, in return for a package of cash and Steel Dynamics common stock paid to lenders. With the resolution of technical issues, and under better market conditions, the plant may be reactivated in the future, but this is not likely before 2003.

SDI'S STRENGTHS AND OUTLOOK

I'm very optimistic about SDI's future. I believe our strategy to take advantage of market opportunities in the U.S. steel industry will pay off as more high-cost domestic producers face the realities of their cost structures. Our profitability in 2001, in the face of dreadful steel market conditions, validates our low-cost model. We continue to put in place steel manufacturing assets that will allow a high degree of profitability in a stronger market and generate significant positive cash flow.

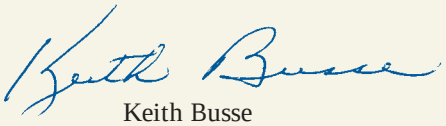
In addition to our low cost structure, SDI's strengths lie in our well-trained and motivated nonunion Midwestern workforce, our technical know-how in constructing and operating very efficient steel manufacturing facilities, our use and management of up-to-date steelmaking technology, our sound financial footing, and the absence of legacy costs.



In this report, our managers and employees provide in their words additional detail about SDI's business, our operating approach, and those factors we believe will drive our growth. We are excited about the company's prospects, and I hope from this report you will sense the enthusiasm we have for the future.

As always, I wish to thank our investors and business associates, our employees and their families, and our customers for their valuable and continued support.

Sincerely,



Keith Busse

President and Chief Executive Officer

DISCUSSION OF TRADE CASES

Since 1998, Steel Dynamics and other domestic steel producers have suffered from a market rocked by unfairly priced imported steel. Early in 2001, SDI joined with the Steel Manufacturers Association and other steel companies to urge the U.S. government to take comprehensive action against these continued and blatant violations of U.S. trade laws. In June 2001, the Bush Administration initiated a Section 201 action, and in October the U.S. International Trade Commission ruled that domestic producers have been seriously injured due to the increased imports. We believe that significant steps to assure that U.S. trade laws are enforced were long overdue.

On March 5, 2002, the Bush administration acted courageously, in spite of substantial domestic and international pressure, in announcing Section 201 remedies, including tariffs as high as 30 percent on imports of flat-rolled steel. We salute the Bush administration for making this bold move, which we believe is consistent with the severity of the steel import crisis. The administration's action will help the beleaguered U.S. steel industry, and we hope it will lead to a reduction in excess, inefficient global steel capacity, both in the United States and abroad.

Separately, in 2001, SDI and other American steel companies saw progress in trade cases filed against specific countries whose hot-rolled and cold-rolled sheet had been imported into the U.S. at unfairly low prices. The hot-roll case resulted in duties on future imports from 11 countries, and in the cold-roll case, duties are likely to be imposed on cold-roll imports from 20 countries. Although these cases do not offer comprehensive relief against all importers, and the duties are applied after the fact, they nevertheless are effective against certain transgressors, and these penalties are applied in addition to Section 201 tariffs.

Steel Dynamics believes in free trade and fair trade. For too long, the United States has freely opened its borders to imports, but has not demanded open markets abroad. We believe the American steel industry, and others, are at risk unless this imbalance is corrected. If strides can also be made in reducing excess global steel-production capacity, including shutdowns of inefficient operations both here and abroad, the world's steel markets will become healthier and better balanced. We expect imports to continue to represent a healthy share of U.S. steel consumption as U.S. consumption exceeds domestic-production capacity, but these imports must be fairly priced and fairly traded.

—Keith Busse

FLAT-ROLL STEEL MILL: LOW COST, HIGH QUALITY

Mark Millett
Vice President and General Manager, Flat Roll Division

Mark Millett is responsible for the Flat Roll Division and other operations at Butler, Indiana. Here he discusses SDI's thin-slab flat-roll mill and what distinguishes it as one of the country's most productive electric arc furnace mini-mills.

Q: From a competitive standpoint, what are the strengths of SDI's Flat Roll Division?

First of all, we're very cost-competitive. We're one of the lowest-cost carbon-steel producers in the country. A fundamental team strength is the ability to procure, construct, and ramp up capital assets very effectively, thereby minimizing fixed costs. Prudent technology and equipment selection results in high efficiency and productivity. More importantly, we recognize that success is not driven solely by state-of-the-art equipment, but by the creation of a culture in which to exploit it.

Secondly, we've focused on superior quality and have developed value-added products that result in average selling values well above those of our peers. As a result, we maintain one of the highest operating profits per ton in the industry, allowing us to make money even at the incredibly low market prices we saw in 2001.

Q: You cite SDI's employee culture as one of its greatest strengths. What does this mean?

There's no doubt that our employees constitute our greatest asset. They are dedicated, committed, and hardworking, continually striving for excellence. Our philosophy is to reward employees through incentive programs that allow them to share in the company's success. Our operating employees receive bonuses for the production of quality product, and conversion bonuses based on the efficient use of raw materials, services, and other consumables. Furthermore, all employees participate in profit-sharing and stock-option plans.

We have a great amount of trust and respect for our

BARRY SCHNEIDER

HOT MILL MANAGER

His team has produced more than 2 million tons of hot-rolled sheet steel during each of the past two years.

The hot-strip mill is a symphony of rugged specialized mechanical equipment and refined computer-technology-based systems—massive horsepower and brute force implemented with very precise split-second control. In less than a minute, the mill reduces a 20-ton, two-inch-thick glowing slab of steel down to a steel strip only a fraction of an inch thick. Production-team members perform individually, yet must execute in unison to be successful in achieving high productivity and high quality.

Communication is what makes us successful. Teams communicate continuously among themselves and with other work groups. The people who best know our operations are the people running the mill. We meet regularly to discuss all facets of our business. We set goals, coordinate production, and troubleshoot as a team to best understand and improve our process.

employees. We continually communicate with them and involve them in the decision-making process. We give them high levels of responsibility while holding them accountable for their actions. Their creativity and ingenuity are the cornerstone of our success.

Q: Tell us about the technology SDI uses.

Recycled steel scrap is melted in large electric arc furnaces to produce liquid steel for refinement in a ladle metallurgy station. The molten steel is inductively stirred for cleanliness, temperature is finitely adjusted for casting, and alloys are added to adjust chemical composition specific to a customer's need. Then a state-of-the-art thin-slab casting machine continuously converts the molten steel into thin rectangular slabs for direct transfer to the rolling mill. There the slab is progressively reduced in thickness. Our seven-stand hot-strip mill is equipped with the latest electronic and hydraulic controls to adjust thickness and flatness. After leaving the hot-rolling mill, the steel is wound into coils ready for shipment, or for additional processing into cold-rolled sheet, cold-rolled galvanized, or hot-rolled galvanized value-added products.

Q: The market for flat-rolled sheet in 2001 was very challenging, particularly after the events of September 11, yet SDI's flat-roll mill remained profitable for the year. How do you explain it?

Given the worst steel market in decades, we were fortunate to maintain relatively high output levels for the year and managed to ship approximately 2 million tons in 2001. The fourth quarter, however, was very tough from an order backlog and pricing perspective. We intentionally throttled back in the fourth quarter to an 80-percent operating rate to assure average selling values that would maintain operating profitability, as opposed to filling the mill at absurdly low prices.

Fortunately, market conditions abruptly changed for the better in mid-December, and we developed a full quarter's backlog early in 2002.

Q: If SDI's 2001 flat-roll shipments remained consistent with those of 2000, why didn't profits?

The short answer is selling price. Our costs were well under control, and even though we believe that we had one of the highest operating profits per ton in the industry, our margins were significantly lower than in previous years.

A flood of low-priced foreign steel imported into the U.S. market clobbered selling prices at a time when domestic steel consumption was softening and steel inventories had grown. Exacerbating the problem were several domestic steel producers, operating under Chapter 11, that were clearing out their finished goods inventories, or even continuing to produce new steel in some cases, and selling it at fire-sale prices.

The upside for SDI is that we were able to avoid consolidated losses until the fourth quarter due to our favorable cost structure. We are extremely well-positioned to return to higher levels of profitability as demand and prices rebound.

CHRIS STOCK

SALES MANAGER, FLAT ROLL DIVISION

Chris is responsible for sales and sales support at the Butler works.

We're able to offer customers a broad and expanding array of high-quality products, including light-gauge hot-rolled sheet, cold-rolled, and galvanized products for exposed applications. Our metallurgists are able to formulate steel alloys to meet the needs of specific applications. Our flat-roll mill is very responsive to customer needs. For example, we've processed special rush orders to meet customers' emergency requirements in record time.

Each quarter my job is to see that we not only maximize the number of tons we sell, but optimize the product mix to achieve the best possible profit margins. In 2001, this job was a real challenge, but we continued to develop many new products. This is paying dividends as the market shows recovery in the first quarter of 2002.

Q: The Butler flat-roll mill seems to achieve better performance than competitors' flat-roll mini-mills. Why?

We involved an experienced operating group early in the technology- and equipment-selection process, allowing for efficient plant design and equipment selection. The group's involvement in the construction phase resulted in an intimate knowledge of the mill, thereby facilitating a rapid start-up and quick transition to profitability. The Butler mill was cash-flow positive in only four months after its start-up in 1996.

We continue to refine our equipment and processes to stay ahead of our competition. Our employees are very capable and very committed to success. The same people operate and maintain the equipment, they work in flexible teams, and they are highly rewarded for what they know and do. The know-how and commitment of our employees is world-class and is recognized throughout the industry.

Q: Does SDI benefit from any product quality advantages with its flat-rolled steel? If so, does this result in a price premium?

Yes, we have some competitive advantages related to product quality. A uniform slab temperature entering the hot-strip mill, combined with the best rolling technologies available, results in very consistent product dimensions—the best gauge, shape, and profile control in the industry. This translates into maximum yield for the customer.

Additionally, our hot-strip mill is tuned to run very light-gauge hot band, down to .040 of an inch. Some customers successfully substitute our light-gauge hot band for higher-priced cold-rolled steel, allowing us to garner a premium for this more valuable hot band, while giving the customer substantial savings over purchasing cold-rolled.

Also, many of our products have been well-accepted in niche markets. These include light-gauge, high-strength, low-alloy grades used by the automotive industry, electric motor lamination steels, and some grades of galvanized steels.

Q: What opportunities and challenges do you see ahead for SDI in the flat-roll business?

I believe we're well-positioned to take advantage of improved market conditions. I expect our results to rebound with the economic recovery and when the industry's difficulties can be sorted out, a process that appears to have begun early in 2002. Imports will have to remain at acceptable levels while the economy strengthens for SDI to return to full, normalized profit margins. Over the longer term, both domestic and global steel production has to be rationalized by eliminating capacity—in particular the high-cost, least-efficient production. In the meantime, the United States must moderate the flow of unfairly imported steel while the domestic steel industry tries to modernize its infrastructure and lower its cost structure. We believe that our being one of the lowest-cost producers—using state-of–the-art technology and having no legacy obligations—will allow us to continue to compete successfully in a global market.

FRED SPANNUTH

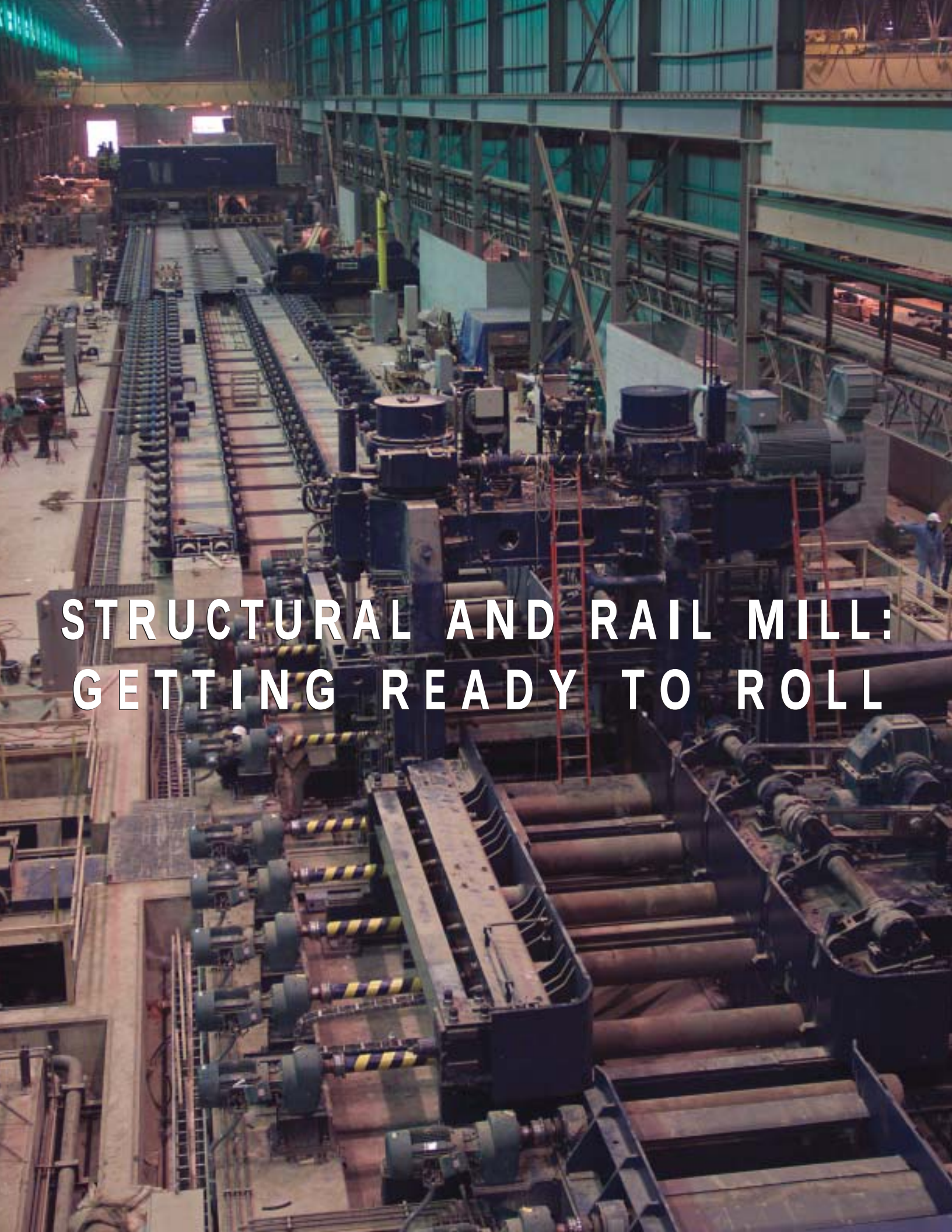
COLD MILL ELECTRICIAN

He's responsible for maintaining electrical systems in SDI's cold-rolling mill, which includes a pickling line and two galvanizing lines.

What I like about working in the cold mill is the variety of work and the opportunity to participate in problem solving. We electricians never have two days that are the same.

I'm responsible for all electrical systems in the shop, ranging from the incoming power supply, drive systems, and automation controls, to the processing equipment itself. The job is more than fixing things and doing preventive maintenance; we're all part of a team, always looking for ways to make the plant run better and more efficiently.

Some of the best ideas come from production operators. They may suggest a general idea to increase output, reduce waste, or improve product quality. We listen to the idea, see how it would be implemented, refine it, and discuss it with the other crews. A lot of improvements come about this way.



STRUCTURAL AND RAIL MILL: GETTING READY TO ROLL

Dick Teets
Vice President and General Manager, Structural and Rail Division

Dick Teets has been very busy the past year. He's responsible for the construction and operation of the company's new Columbia City structural steel and rail mill. Here Dick provides an update on the project and his perspective on this business.

Q: Why did SDI decide to enter the structural steel market?

We saw an opportunity here similar to the one we saw in the flat-roll steel business before we built our Butler mill. We concluded that we could successfully become *the* low-cost manufacturer, and that our location in the upper Midwest would give us a freight-saving advantage against competitors.

Although demand varies somewhat with the economy, approximately 5 to 6 million tons of structural steel are used in the United States each year. The number of domestic manufacturers of beams and related products had diminished as the integrated steel companies and other high-cost producers became uncompetitive. In fact, with the shutdown of Northwestern Wire & Steel last year, there are no other structural steel producers remaining in the Midwest. Our analysis showed that seven of the top-10 structural steel-consuming states are within 500 miles of our location. In addition to the U.S. market, we also see a great opportunity to serve the Canadian market from our mill in northeastern Indiana.

Q: What contribution do you expect the structural business to make to the company—and when?

Initial capacity of the new mill will be 1.0 to 1.3 million tons per year, depending on the mix of products. As we reach capacity, we expect these tons to translate into a significant addition to the company's revenues and income. Product diversification into two new markets—

BOB JOHNSON

ROLLING MILL SUPERVISOR

Bob is overseeing installation of the new mill's breakdown mill and reheat furnace. Bob had 32 years' experience at a large integrated structural mill before joining SDI.

SDI's biggest advantage is its people. As we get ready to start production, the people we're hiring have an excellent attitude. They're ready to learn, and they quickly become part of our team. When I ask my guys to take on a project, they expand on it. The team takes ownership. I feel confident our crews can accomplish any goal set for them due to their enthusiasm and skills, and their ability to work as a group. I think our approach of bringing together a mix of industry veterans, skilled craftsmen, engineers, and some very committed and eager new employees works very well.

Another important thing to me is SDI's management approach. Our managers know their employees by their first names. Front-line supervisors at SDI are given a lot more responsibility. We don't need six or seven layers of management to get a simple task decided, and that saves both time and money. Frankly, SDI is the best place in the steel industry I can think of to be a supervisor.

structural steel and rail—should help to stabilize SDI's results through economic and market cycles.

The pace of our success will depend in part on how quickly the nonresidential construction market rebounds in 2002 and 2003. We expect the mill to begin limited production before the end of the second quarter of 2002. During the start-up phase, we will perform production trials on a variety of products. As we enter the market, we will be aggressive in demonstrating our capabilities and product quality, as well as our commitment to customer service. By 2003, we plan to be producing and shipping a wide range of products, including rail. Our decision to manufacture rail as well as structural steel gives us greater flexibility, and we expect rail to become a significant part of our product mix. We are projecting that the mill will become profitable early in 2003.

Q: What progress has been made on construction of the new facility?

We began construction in May 2001, expecting to complete the mill and be ready to begin product testing in 13 months. After a construction-start delay of nearly two years, we had our engineering ready to go and much of the construction material and manufacturing equipment already on site. Our experienced team has made excellent progress by working closely with contractors during construction. Contractors are performing well, taking advantage of a mild winter and benefiting from a well-staged construction plan. Construction and equipment installation have proceeded ahead of schedule.

Q: How many people will the new mill employ? How will you train them?

At full capacity, we expect to employ about 325 people. Our approach is to hire early in the project many of the people who will operate the mill, so they have an opportunity to be involved in construction and to become knowledgeable about our equipment and processes. The first hired were technical and managerial people. Many of our managers and supervisors, most of whom have been on board for several years, have experience making structural steel. Some additional plant personnel will come from the steel industry, but most will be hired from the surrounding community.

SDI is a team-oriented culture, and we train our new employees in our way of doing things. We teach them about operating and maintaining equipment and about our processes and systems. We emphasize commitment to quality, customer satisfaction, and cost vigilance, which are all related to our incentive and rewards programs. We conduct thorough safety training that emphasizes the need to be constantly careful and alert to hazards. To get an introduction to working safely in

PAUL KOTSENAS

RAIL AND SPECIAL PROJECTS MANAGER

Paul is point man in developing SDI's rail business with America's railways.

Over the last six months I've met with most of our potential railway customers in North America. I tell them Steel Dynamics is preparing to offer high-quality rail with the tightest dimensional tolerances available anywhere in the world–and we'll manufacture it in the longest lengths possible, up to 320 feet. These are products they want to use, but which other domestic manufacturers can't supply.

The railroads are definitely interested. We sense North American freight railroads are preparing to increase their rail-laying activity in the next few years. Additionally, as Congress debates Amtrak's future and mulls different federal rail-funding approaches, a number of regional high-speed passenger rail initiatives in the United States appear to be gaining momentum. There are also continuing opportunities in new and expanded public transit systems.

We will be in a good position to provide the high-quality rail needed for these projects.

a structural steel-producing environment, several of our crews recently received training on rolling-mill equipment similar to ours at an operating mill in Germany. When the structural mill begins production, we will have a very well-trained and motivated team of employees in place.

Q: What products will this mill produce?

When you talk about structural steel, there's quite a range of products. Our mill has been designed to produce a wide range of shapes and sizes. The shapes will include beams, channels, and angles—and each shape will be produced in many sizes. For example, we'll produce beams in a range of 8-inch to 36-inch web height and also in a variety of weights per foot. In addition, we'll produce long-length standard- and premium-grade rails in various cross-sectional sizes.

Q: Tell us about the mill's capabilities and its design.

We've done numerous things to make this mill a very productive facility. We're using the latest generation of proven technologies for casting and rolling. We've added improvements that will enhance product quality, reduce maintenance costs, and increase uptime. For example, one major advantage in the rolling mill is a fast roll-change capability. Traditional structural steel rolling mills require several hours for a changeover of rolling equipment between different shapes or sizes of product. We'll be able to make a transition in less than 30 minutes. This will increase the mill's equipment utilization—the percentage of time each day that we're actually producing steel.

As with our Butler mill, the plant will use a high-speed data network to coordinate plant floor production, scheduling, and other business functions. Among the automated functions will be continuous, precise monitoring of product dimensions. We truly expect product quality to be second to none, and our productivity to be the highest of any structural steel and rail mill in North America. Overall, we expect the combination of a very productive plant design, state-of-the-art equipment, and our dedicated team to be a winning combination as SDI enters the structural and rail business.

BRAD BROWN

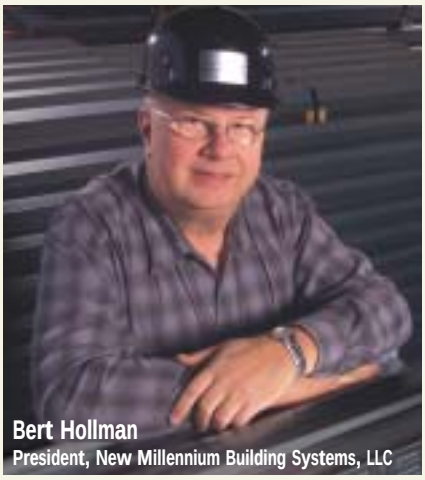
ENVIRONMENTAL ENGINEER

He's responsible for ensuring that SDI's new mill meets stringent environmental standards.

The EPA has strict regulations on emissions for a variety of potentially harmful gases and solids. These regulations get tighter and tighter for each new mill. We're using proven control technologies, plus some innovative new processes, that will ensure that we meet or improve on our permitted levels. For example, our melt shop will be the first to operate with a negative atmosphere to minimize leakage of melt-shop gases into the atmosphere. We're convinced that this mill will be among the cleanest steel mills in the country, if not *the* cleanest.

In our vacuum de-gasser process, we'll recycle carbon monoxide off-gases, rather than burning them, reducing pollution and saving natural gas. The design of this new plant illustrates our engineers' creative approach to developing solutions that achieve our shared environmental objectives—and, when possible, also improve the production process and reduce costs as well.

NEW MILLENNIUM: EXPANDING ITS MARKETS



Bert Hollman
President, New Millennium Building Systems, LLC

Bert Hollman heads up New Millennium, a building-systems fabrication business co-owned by SDI and Houston-based New Process Steel. Bert explains the nature of the business and its future direction.

Q: Tell us about New Millennium's business.

We produce and market steel components for construction of commercial, industrial, and institutional buildings. Specifically, we manufacture joists and joist girders used in building construction, and we also produce steel decking that is used with the joists to support floors and roofs. The flat-roll steel we use is purchased from SDI, and shapes and angles are bought from various suppliers.

Q: How far along are you on meeting your targets for the business?

We began construction of our plant near SDI's Butler mill in northeastern Indiana in December 1999, and began production of joists late in the second quarter of 2000. We began generating a profit for our owners after three months. Our annual capacity is 70,000 tons of joists and 50,000 tons of decking. During 2001, employment reached 200. Importantly, our sales staff has been effective in winning a significant number of construction projects, as well as securing business from metal building manufacturers. We've been successful in gaining acceptance in several important construction markets in the Midwest, including Detroit, Cincinnati, Chicago, Indianapolis, and Milwaukee.

Q: What is the nature of your competition, and what allows you to compete effectively against your competitors?

There are a number of regional players and a couple of companies with national coverage. One major national competitor now has seven plants. This is a business that is very much regionally oriented. The bulk and weight of our products make them expensive to ship over long distances. As a result, building-system suppliers have tended to build fabrication facilities in specific geographical markets to serve those markets.

Our competitive strengths derive from our motivated employees, who are committed to customer service and the economical production of our products—plus the products we manufacture have been well-received by our customers.

Q: How do your products differ from those of your competitors?

We believe our steel-joist system is more flexible than those of most of our competitors. Typically, steel angles and rounds produced by mini-mills are welded together to make joists. The small angles are relatively expensive. We roll-form angled members from slit hot-band steel to use in lieu of these smaller angles. We have the ability to adjust which sizes we roll-form as market prices dictate. Roll-forming tends to increase material utilization and production efficiency, and to decrease material cost. The resulting lower weight of our joists permits our customers to save in other aspects of their building projects.

Q: Tell us about your background and that of your management team.

I've been in this business for nearly 30 years. Having worked in the business years ago with Keith Busse, and after operating my own steel-fabrication business for a number of years, I was excited when Keith approached me about the opportunity to create New Millennium. New Process Steel had expressed interest in investing with Steel Dynamics to create a new building-systems business, and that led to the formation of New Millennium. We've brought together a very competent management team with years of experience in this industry.

Q: What's ahead for New Millennium?

Both SDI and New Process expect us to grow to become an industry leader. As business conditions improve, our team is ready to expand and grow into new geographical markets in the United States.

JEFF McKEE

SHIPPING SUPERVISOR

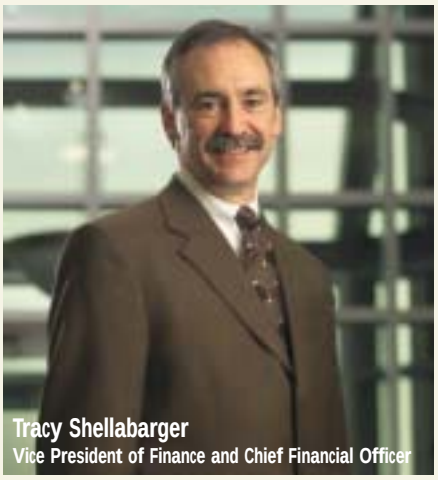
He leads a team that marshals joists, trusses, and decking for shipment by truck to New Millennium's customers.

Our goal is to be sure customers get everything they've ordered for their construction projects. Truck loads are limited to 24 tons, so most jobs require several tractor-trailer rigs. Our crew works as a team to fit the loads on the trailers, which is always a challenge because of the wide variety in joist shapes and sizes.

We know that when a load reaches the customer site, all the components have to be there. So, we double-check everything after it's loaded. When a load rolls out of our yard, we know the product quality is there.

From left: Tom Hartman, Flat Roll Division controller; Theresa Wagler, corporate controller; Rick Poinsatte, New Millennium chief financial officer; Tracy Shellabarger, SDI vice president and chief financial officer; Mary Fink, corporate tax manager; and Bill Kautz, Structural and Rail Division controller.

GOOD FINANCIAL DECISION-MAKING A KEY TO SUCCESS



Tracy Shellabarger
Vice President of Finance and Chief Financial Officer

Tracy Shellabarger, the company's chief financial officer, discusses the recent refinancing of SDI's debt and its entering into the high-yield bond markets, as well as the company's employee incentive program.

Q: Why did SDI choose to refinance its debt structure in early 2002, and what was actually done?

We decided during 2001 to put in place a new debt structure that provided us with greater financial flexibility. The events of September 11 and the condition of the capital markets during the fourth quarter of 2001, however, caused us to delay the refinancing until the first quarter of 2002. We concluded the refinancing on March 26.

In addition to the equity invested by our stockholders, our "old" financial structure consisted almost exclusively of bank borrowings, a $450 million senior secured credit facility and a $45 million unsecured credit facility, put in place between 1994 and 1997, during the time we were building our Butler flat-roll mini-mill. Portions of that original bank facility would have become due and payable beginning in 2002, and our revolving credit facility was also scheduled to mature in 2003.

On the other hand, during the past three years, of the more than $328 million we invested in additional capital projects, 87%, or $285 million, of it came from cash generated by our own operations. This presented us with an opportunity to diversify our financial structure by recasting

our debt into a smaller senior secured facility and, for the first time, a longer-term senior unsecured public debt facility, with no principal reduction requirements for seven years.

Accordingly, on March 26 we issued $200 million of our new 9.50% senior unsecured notes, providing us funds that mature over a longer time horizon at a guaranteed rate of interest, and we also entered into a $350 million senior secured credit facility, providing us flexibility in meeting shorter-term financing requirements at varying rates of interest. We believe that this new financing structure, together with our anticipated funding from our Butler and, soon, our Columbia City operations, will allow us to better achieve our current growth initiatives, while providing broader exposure to varied financial markets and longer-term funds.

Q: Much has been written recently about steel industry "legacy costs." What are these and does SDI have any such exposure?

Fortunately, the issue of "legacy costs" has nothing to do with SDI, its operations or its employees. The term has come to refer to obligations that certain other steel industry companies have accumulated over many years to their retirees. These principally have involved promises to pay retiree pension benefits and various post-retirement health care costs that were "unfunded"—that is, not covered by either funded reserves or insurance. Companies exposed to such obligations, therefore, must cover them out of current or future earnings.

SDI, on the other hand, is not faced with this predicament, inasmuch as we fund our benefit plans as we go. For example, we contribute to our 401(k) retirement savings and profit-sharing plan each year and, therefore, the plans are always fully funded. Our profit-sharing plan contribution is based on a percentage of our annual pretax earnings, which increases or decreases in relationship to those earnings.

Q: How does SDI benefit from its employee-incentive programs?

Our culture is unique in the steel industry and positively motivates our employees at all levels. We emphasize decentralized decision-making, at the operational level, and have established an incentive compensation program that is specifically designed to reward employee teams for their efforts in enhancing productivity, improving profitability, and controlling costs. Such achievements, in turn, positively influence our overall operating performance and financial results.

Structural and Rail Division mill, Columbia City, January 2002

We use a very simple concept of employee involvement in day-to-day decision-making, and we try to compensate them in a manner that encourages an entrepreneurial mindset. As a result, a typical production employee should receive more that half of his or her take-home pay from bonuses based upon efficiency and productivity. In addition, we also grant stock options semiannually to all of our employees to further align their financial well-being with that of the company. As the company does better, and as this performance is reflected in the company's stock price, it is our hope that our employees will enjoy a part of this gain through enhanced ownership of our shares. In short, when our company prospers, we want our employees to prosper.

BOB FRANCIS

INFORMATION TECHNOLOGIES MANAGER

With more than 20 years of experience in systems—over a decade in the steel industry—Bob is now responsible for SDI's corporate information systems, after three years as IT manager of the company's Flat Roll Division.

To support SDI's business and manufacturing operations we use multi-tiered software systems on low-cost servers and PCs linked by fiber-optic networks that extend throughout our mills. Not only do these systems enable our operations to work smoothly 24 hours a day, seven days a week, they also minimize labor-intensive activities and reduce cost.

IT supports SDI's business in three primary related areas: manufacturing-operations control, business management and cost control, and commercial interface.

By "commercial interface," I mean sharing information with our customers. Using a standard Internet browser, our customers can access up-to-the-minute information about orders, schedules, shipments, pricing, lead times, etc. Our software provides the flexibility to meet customers' current and future needs.

We have standardized the use of extended mark-up language (XML), which keeps development costs down. For example, we have used XML to tailor Electronic Data Interchange solutions to meet individual customer requirements. When they want to move from EDI to something more robust and flexible, perhaps utilizing technologies such as Web services, we can provide it. I would say we're on the leading edge in the use of Web technologies.

Virtually all our employees use computers in their work environments. They use them to monitor and control processes in their own work areas, as well as to check work flow and manage it throughout the mill. Our systems provide valuable information on resource utilization, machine and process performance, work-group output, product characteristics, and a variety of other data vital to cost control and decision making.

IT specialists work with production people to continually refine these systems. Our integrated systems also provide accurate real-time reporting for business management and cost accounting.

Although these capabilities may sound expensive, they're not. Using relatively low-cost, current technology allows us to be frugal in our IT operations. Expenditures in 2001 were only about one-quarter of 1 percent of sales. Our systems teams are small, but include extremely talented and creative people. Their efforts have put SDI at the forefront of IT development in the steel industry, making a strong contribution to the company's success.