

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

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INDIA


INDUSTRY RESTRUCTURING IN THE USA

Joint India/OECD/ISI Workshop, New Delhi (India), 16-17 May 2006.


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United States Steel



United States Steel Corporation


Industry Restructuring In the USA

OECD Workshop on Steel

May 17, 2006



USA Steel Industry - Historic Perspective



- Rise of subsidized foreign competition in the 1960's and 1970's
- Growing strength of mini-mills in the 1980's and 1990's
- Use of substitute materials such as aluminum and plastics throughout these years

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USA Steel Industry - Historic Perspective

Decade of the 1990's

- Stagnant industry
- Shrinking prices
- Few Global players
- "Home" consolidation

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North American Production Profile – Circa 2000


Million net tons Selected US and Canadian Steel Producers

Company	Production (Million net tons)
U.S. Steel	13
Bethlehem	11
Nucor	10
LTV	9
National Steel	7
AK Steel	6
Ispat Inland	6
Dofasco	5
Stelco	5
Steel Dynamics	3
Weirton	3
Rouge	3
Geneva	3
Wheeling-Pitt	2
Trico Steel	2
Republic	2
Gulf States	2
WCI Steel	1
Acme	1


Top 3 represented approx 28% of US capacity

Source: Company public filings, presentations and AIST Steel News.com, "Steel Industry Bankruptcies".

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USA Steel Industry - Historic Perspective




Barriers to Consolidation were Brutal

- Legacy obligations
- Labor agreements
 - Employment security provisions
 - Restrictive work rules
 - Many job classifications
 - Uncompetitive benefit structure
- Debt levels

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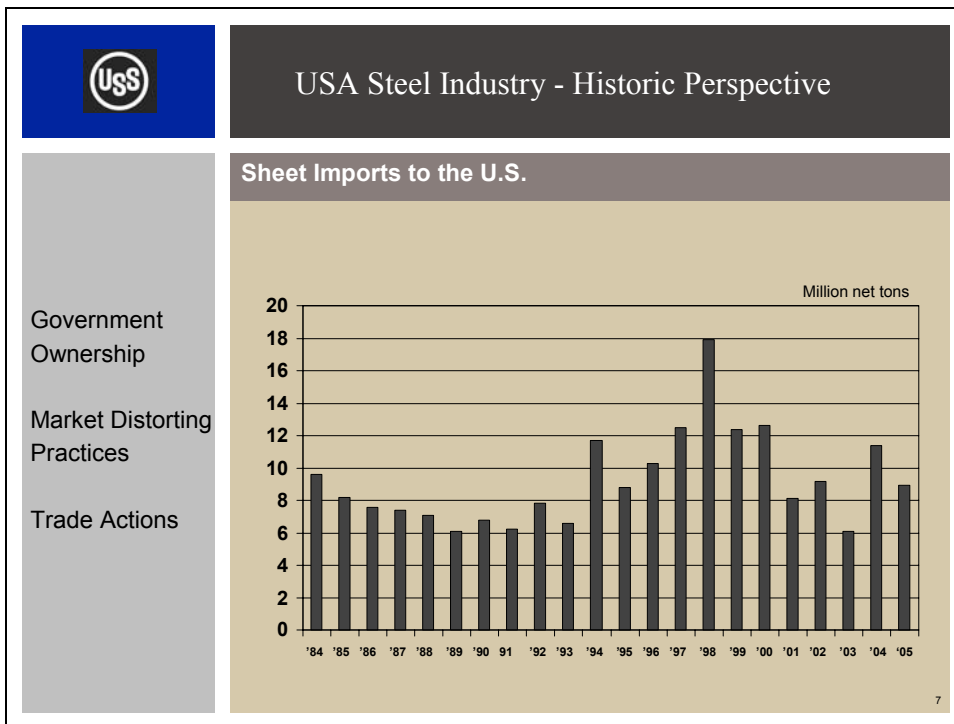


USA Steel Industry - Historic Perspective



- Maximize cash
- Excess supply
- Downward price pressure
- Worsening financial performance
- Bankruptcies
 - Geneva – February 1999 (2nd time)
 - Wheeling-Pittsburgh – November 2000 (2nd time)
 - LTV – December 2000 (2nd time)
 - Bethlehem – October 2001
 - National – March 2002
 - Birmingham – June 2002
 - Weirton – May 2003


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USA Steel Industry - Historic Perspective

Section 201 tariff program

Takeover of ailing steel companies' pensions by the PBGC



USA Steel Industry - Historic Perspective




Conditions for Consolidation Improve

Progressive labor agreements

- Reduced job classes and workforces
- Profit Sharing
- Pensions
 - U. S. Steel defined benefit plan closed to new participants
 - National and all new hires participate in a multi-employer defined contribution plan
- Healthcare
 - Introduction of cost-sharing mechanisms, contributions and caps on company costs for retirees

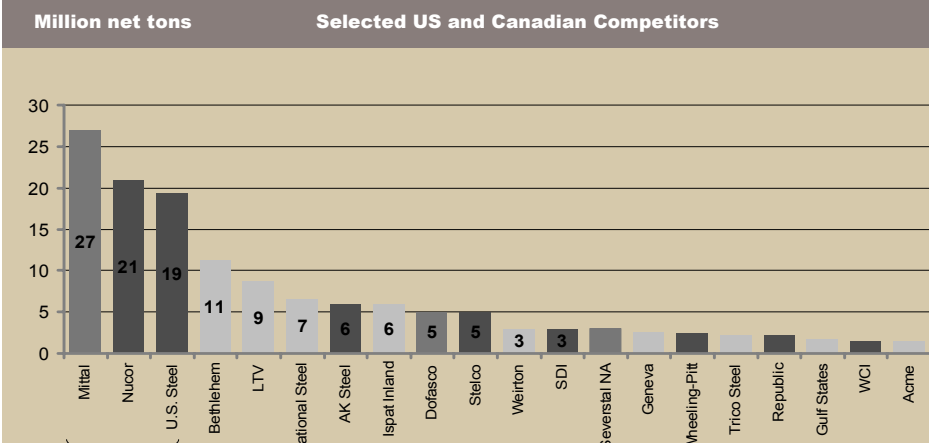
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North American Production Profile

Million net tons

Selected US and Canadian Competitors



Company	Production (Million net tons)
Mittal	27
Nucor	21
U.S. Steel	19
Bethlehem	11
LTV	9
National Steel	7
AK Steel	6
Ispat Inland	6
Defasco	5
Stelco	5
Weirton	3
SDI	3
Severstal NA	
Geneva	
Wheeling-Pitt	
Trico Steel	
Republic	
Gulf States	
WCI	
Acme	

Top 3 represent 57% of US capacity

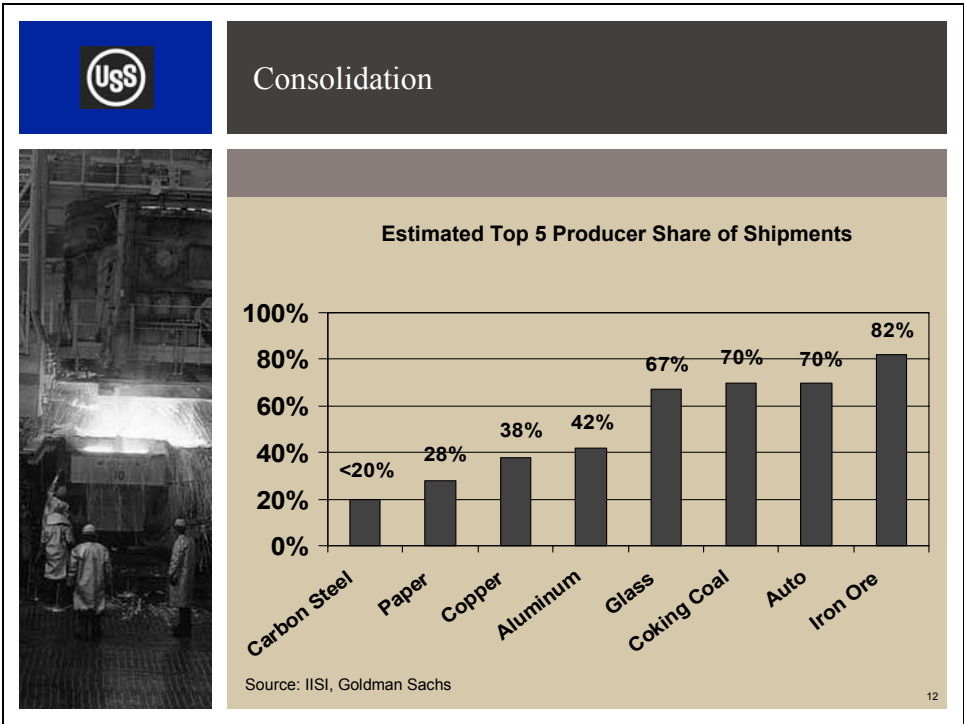
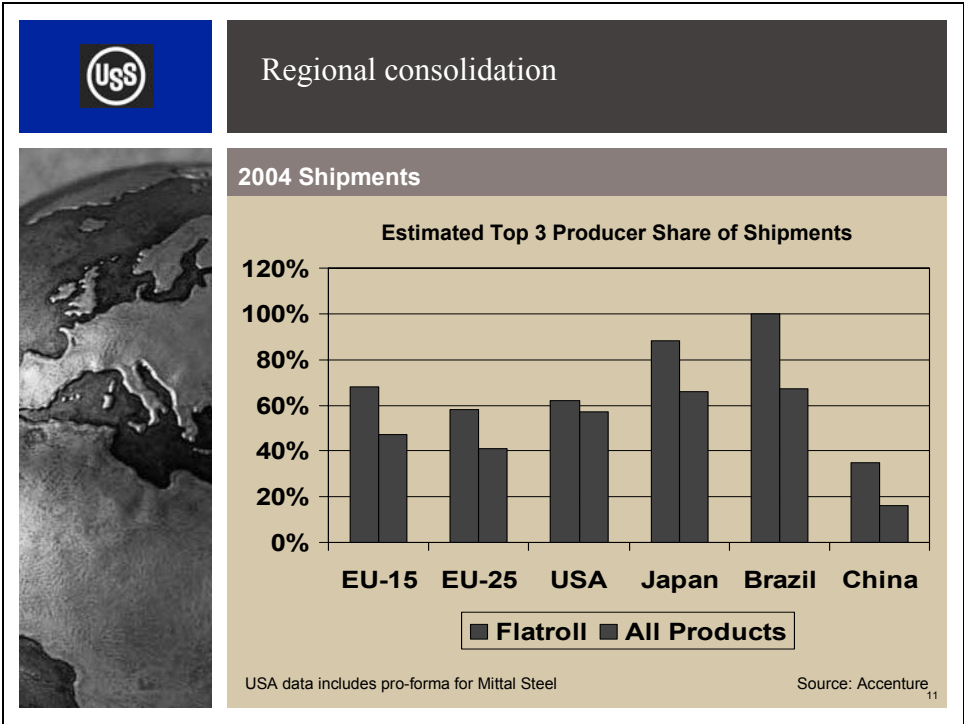
Estimated current capacity.


Part of a larger global enterprise

Consolidated or shut down during prior cycle.


Source: Company public filings and presentations.

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Drivers of USA Steel Industry Consolidation




Many Factors are Contributing to Increased M&A Activity

Synergies	<ul style="list-style-type: none">• Integration of upstream with downstream• Optimize configuration of regional assets• Modernize / upgrade facilities
Improved Capital Markets Position	<ul style="list-style-type: none">• Higher returns• Resulting in higher trading multiples
Improved Upstream Position	<ul style="list-style-type: none">• Securing low cost raw materials will be a key competitive advantage
Balance Sheet Flexibility	<ul style="list-style-type: none">• Easier to make acquisitions• Improved liability position (pension/OPEB)
Diversification	<ul style="list-style-type: none">• Reduce average cost per ton• Asset optimization

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USA Consolidation Challenges and Opportunities



Acquisitions create accounting/finance challenges and opportunities

- Evaluating investments
- Due diligence
- Arranging financing
- Pro formas/SEC filings
- Pre-takeover planning
- Synergy tracking
- Day 1 - Leadership
- Implementing Internal Controls and Systems



Strategies & Alliances

State of the Steel Industry Today

Two good years don't make a trend

Successful restructuring of the North American industry

U.S. Steel

- Consolidation
- Administrative transformation process
- Executive ranks revamp
- Streamlined operations

Fewer, stronger, larger, more competitive companies

Customers are the winners

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Background of U. S. Steel




U.S. Steel Domestic Workforce Reduction

May 2003	December 2005
26,454	19,994

U.S. Steel Domestic Raw Steel Capacity

April 2003	December 2005
Million Net Tons	
12.8	19.4

	<h2>Consolidation and the Future</h2>
	<h3>Lessons From The Past</h3> <p>Internal</p> <ul style="list-style-type: none">LeadershipCan not produce our way out of a downturnMaintain capital investmentCompetitive labor structure <p>17</p>

	<h2>Consolidation and the Future</h2>
	<h3>Lessons From The Past</h3> <p>External</p> <ul style="list-style-type: none">Subsidies have no place in the steel industryTrade laws must be maintained <p>18</p>