

FUELING OHIO'S ECONOMY



About the cover

In Mingo Junction, Wheeling-Pittsburgh Steel Corp. operates the world's most advanced continuous electric arc furnace (EAF). A continuous EAF does not start each batch anew with a dry pile of unmelted scrap. Rather, it retains some molten metal from batch to batch. The electrodes heat the molten metal, which in turn heats the scrap, reducing electricity consumption. The furnace cost \$120 million.

AN ENERGY-INTENSIVE INDUSTRY

The Ohio steel industry is the largest industrial energy consuming sector in the state, yet it is also a producer of electricity and an innovator in conservation. The nine steel companies that make up the Ohio Steel Council spend \$1.6 billion on energy each year to operate their Ohio-based facilities. In recent years, Ohio steel producers have invested millions of dollars to conserve energy, reducing the amount of electricity and natural gas consumed per ton of steel produced. By re-burning blast furnace gases – a process known as co-generation – Ohio steel companies heat their own buildings, provide heat and steam for production operations and generate 351,197 MkwH of new electricity per year.

While Ohio steel companies and the United Steelworkers support alternative and renewable forms of energy – and promote good stewardship of the environment – conventional energy sources remain a source of concern.

Ohio is in need of a comprehensive energy policy that will address the cost and supply of energy, and ensure a competitive industrial sector that can compete with companies elsewhere in the world where energy may be less costly.



ELECTRICITY

Time is Running Out

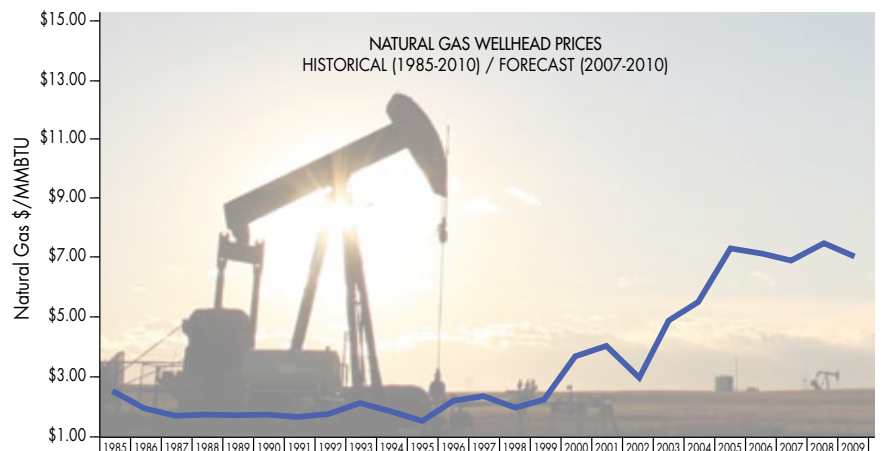
As one of the largest consumers of electricity in the state, Ohio steel companies are gravely concerned about the dysfunctional state of Ohio's electricity markets. Rate Stabilization Plans (RSPs), which were put in place five years ago following the passage of S.B. 3, are set to expire at the end of 2008. And yet, Ohio's electricity markets are not free and competitive and are not capable of generating true market prices. In other states where RSPs have been allowed to expire, such as Maryland, companies have been forced to close their plants and move elsewhere.

NATURAL GAS

Supply is Tight, Markets Volatile

Since the 1990s, natural gas prices have increased by more than three times, a cost that will be difficult for Ohio's manufacturing sector to sustain over time. Natural gas prices have fallen since the winter of 2005, but they remain historically high, and any hiccup in supply could produce another spike in pricing. While acknowledging the role of alternative energy resources, the Ohio steel industry – with the notable exception of the United Steelworkers – is also in favor of:

- Opening additional federal and state lands and offshore resources to exploration;
- Increasing natural gas pipeline capacity and streamlining the approval process for new natural gas projects; and
- Expediting the permitting process for exploration on federal lands and the Outer Continental Shelf.





A PURPOSEFUL RECOVERY PUTS STEEL ON TOP AGAIN

In the last five years, the Ohio steel industry has effected a remarkable recovery. Steel companies and the United Steelworkers collaborated in the formation of new work rules and job descriptions that have reduced the number of employees required per ton of steel produced. It is now a lean industry whose value-added output is on a level with the late 1990s, before an onslaught of unfairly traded steel imports undercut the industry.

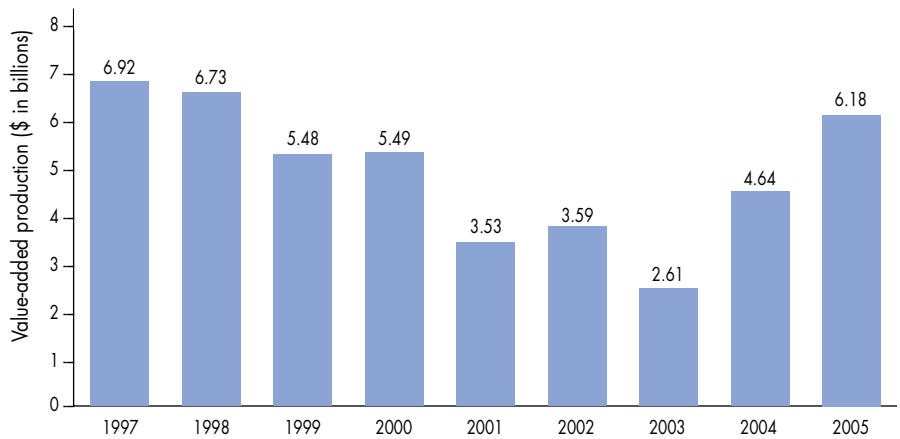
Ohio's steel industry has reasserted its place in Ohio's economy as a significant contributor of economic well-being. In 2007 and beyond, steel, along with other industries that make up the state's manufacturing sector, will account for 27.5 percent of commercial activities tax (CAT) revenues, the largest share of any sector, ahead of retail and wholesale sectors.

OHIO STEEL ECONOMIC IMPACT ON THE STATE

Number of Ohio jobs tied to steel	96,913
Ohio labor income generated by the steel industry and industries tied to steel	\$4.8 billion
Ohio value-added production by steel and industries tied to steel	\$7.2 billion

Source: IMPLAN, a widely used economic model for measuring an industry's ripple effect on an economy.

OHIO STEEL INDUSTRY GROWTH



Source: U.S. Annual Survey of Manufactures

The graph shows that while value-added production decreased during a period of restructuring and consolidation following the imports crisis of 1998, it has fully recovered. At the same time, the industry's efficiency – as a measure of value-added production per employee – has increased by 150 percent in recent years.

RANK OF STATES IN STEEL PRODUCTION

1	2	3	4	5
Pennsylvania	Ohio	Indiana	Illinois	Alabama
\$7.83 billion*	\$6.18 billion*	\$5.70 billion*	\$3.50 billion*	\$1.72 billion*

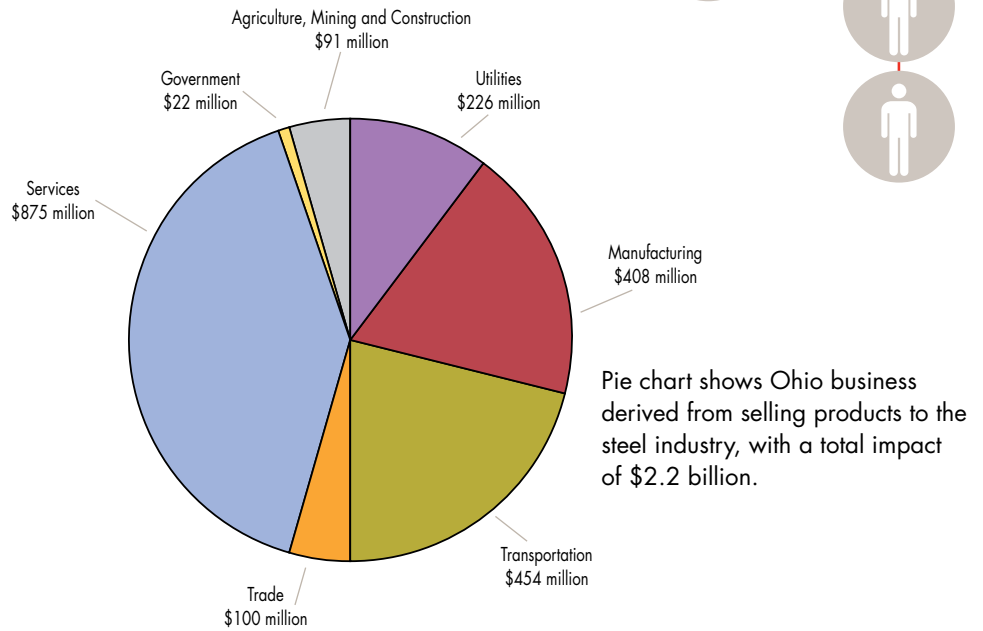
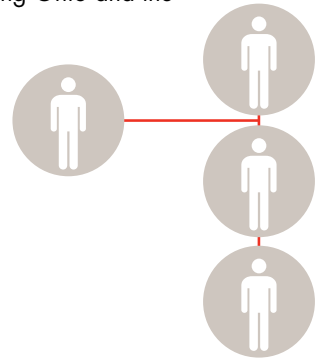
*Value-added steel production as reported in the U.S. Annual Survey of Manufactures



GENERATING BUSINESS FOR OHIO SUPPLIERS

Ohio steel mills are large manufacturing operations that depend on products and services from other industries, such as transportation, mining, recycling and waste management. Ohio's steel industry, including steel processors and forging facilities, purchase about \$2.2 billion in products and services from other Ohio companies. Suppliers to the steel industry are represented on the Ohio Steel Council as associate members, and take an active role in discussions that help resolve issues facing Ohio and the steel industry.

For every one job in steel, another three jobs are generated.



BUILDING SUSTAINABLE COMMUNITIES

Each year Ohio Steel Council member companies invest \$4.4 million annually in school programs and scholarships, environmental education, worker training and employee tuition. Together, Ohio steel producers and United Steelworkers contribute \$5.3 million to the United Way, Habitat for Humanity and other charitable organizations each year.

INVESTING IN CAPITAL PROJECTS

Ohio's steel producers invest in excess of \$315 million annually in capital projects that employ Ohio companies and Ohio skilled labor.

- Mittal Steel USA – Cleveland is investing \$30 million in major improvements to the company's blast furnace and \$23.5 million to complete a new galvannealing line.
- The Timken Company in Canton is investing \$60 million in an expansion of its Canton rolling operations. When it is complete in mid-2008, it will create about 30 jobs.
- WCI Steel, Inc. is installing a new walking beam furnace at its hot strip mill (\$36.7 million) and a new baghouse system at its basic oxygen furnace (\$29.3 million). In all, the company will invest at least \$125 million in the Warren-based plant over the next four years.
- V&M STAR is investing \$35 million in its Youngstown steelmaking facility and \$40 million in rolling upgrades.



WCI Steel's new \$29.3 million baghouse in Warren, Ohio, will reduce environmental emissions and support new federal air quality standards.



STEELMAKERS CALL FOR LONG-TERM ENERGY POLICY

To Our Legislators and Other Friends of Steel:

In 2006, the Ohio steel industry performed admirably, sustaining high production numbers at or above 2004 and 2005 levels. In spite of a slow start, we expect 2007 to shape up as another good year. In the past dozen years or so, Ohio's steel industry has faced difficult issues brought about by stiff global competition, but we have succeeded in bringing about a full recovery. Increasingly, the future is looking bright.

Nevertheless, we are facing a number of very critical issues, most significantly, energy. The steel industry is the largest industrial energy consuming sector in the state, spending more than \$1.6 billion annually.

Natural gas continues to be in short supply and pricing is therefore volatile and subject to sharp increases, such as we experienced in the winter of 2005.

With regard to energy pricing, we are gravely concerned about the rapidly approaching expiration of Rate Stabilization Plans (RSPs), which will occur at the end of 2008 unless legislative action is taken. We are looking forward to working with Gov. Ted Strickland, the governor's energy adviser Mark Shanahan and the General Assembly to develop a solution.

The Council recently passed a resolution asking Gov. Strickland, the Office of Consumer Counsel, the Public Utilities Commission of Ohio and the General Assembly to extend RSPs and to advocate before the Federal Energy Regulatory Commission (FERC) to change "last bid in" marginal pricing for electricity wholesale markets.

The Council looks forward to supporting the governor's administration in the development of a long-term energy policy that will address the supply and cost of conventional energy sources, as well as the role of alternative and renewable resources. Manufacturing operations in Ohio must compete globally with companies that are not facing the same high cost of energy that we are here in Ohio.

Yet another challenge is China, where steel production is exploding. It has increased by more than four times in 10 years, now accounting for a full 35 percent of the world's production, four times that of the United States. China's production is well ahead of what that country can consume yet production continues with help from the most generous government subsidies of any country in the world.

Demand for steel worldwide remains steady, but we will continue to monitor the situation in China closely. In a global marketplace, a single country has the capability to disrupt market patterns anywhere in the world.

In our annual report this year, we provide you with a snapshot of our economic value to the state. Hard numbers representing our far-reaching impact may be valuable in persuading your colleagues in state government of the importance of addressing issues critical to steel and the state's manufacturing sector, such as energy.

We are proud to report that Ohio remains a top-ranked state in steel manufacturing, second only to Pennsylvania. **There are 267 steel producing, process and forging establishments in 66 of Ohio's 88 counties.**

We look forward to working with you on many important issues over the next year, and, once again, we congratulate you on the important tax reform package of 2004-2005.

Respectfully,

Patrick Tatom
Co-Chairman
Ohio Steel Council
President and CEO
WCI Steel, Inc.

Lee Fisher
Co-Chairman
Ohio Steel Council
Lieutenant Governor
Director, Ohio Department of Development



OHIO STEEL COUNCIL MEMBERS

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Cleveland State University
Lorain Tubular Operations, U.S. Steel Corp.
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Ohio House of Representatives
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ASSOCIATE MEMBERS

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