# 1999
# UNITED STATES SECURITIES AND EXCHANGE COMMISSION
## Washington, D.C. 20549

## FORM 10-K/A

## AMENDMENT NO. 1

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Fiscal Year Ended December 31, 1999

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 1-983**

# National Steel Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Incorporated under the Laws of the State of Delaware** | **25-0687210** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **4100 Edison Lakes Parkway, Mishawaka, IN** | **46545-3440** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**Registrant's telephone number, including area code:** **219-273-7000**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of each exchange on which registered |
|---|---|
| Class B Common Stock | New York Stock Exchange |
| First Mortgage Bonds, 8⅜% Series due 2006 | New York Stock Exchange |

**Securities registered pursuant to Section 12(g) of the Act:**

**None**

**(Title of class)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____ .

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

At March 15, 2000, there were 41,288,240 shares of the registrant's common stock outstanding consisting of 22,100,000 shares of Class A Common Stock and 19,188,240 shares of Class B Common Stock.

Aggregate market value of voting stock held by non-affiliates: $129,591,210.

The amount shown is based on the closing price of National Steel Corporation's Common Stock on the New York Stock Exchange on March 15, 2000. Voting stock held by officers and directors is not included in the computation. However, National Steel Corporation has made no determination that such individuals are "affiliates" within the meaning of Rule 405 under the Securities Act of 1933.

**Documents Incorporated By Reference:**

Selected portions of the 2000 Proxy Statement of National Steel Corporation are incorporated by reference into Part III of this Report on Form 10-K.

Item 8 to Registrant's Form 10-K for the Fiscal Year Ended December 31, 1999 is hereby amended as follows:

In the Consolidated Balance Sheets which appear on page 33, retained earnings at December 31, 1999 is changed from ''362.6'' to ''362.8''.

In the Consolidated Statements of Cash Flows which appear on page 34 under the caption ''Cash Flows from Operating Activities''

- for the year ended December 31, 1998, the amount for accounts payable is changed from ''4.4'' to ''(4.4)'' and
- for the year ended December 31, 1997, the amount for deferred income taxes is changed from ''(21.8)'' to ''(21.6)''.

In the Consolidated Statements of Cash Flows which appear on page 34 under the caption ''Cash Flows from Investing Activities''

- for the year ended December 31, 1999, net proceeds from disposal of non-core assets is changed from ''0.6'' to ''0.8'' and
- for the year ended December 31, 1998, Net Cash Provided by (Used in) Investing Activities is changed from ''(168.4)'' to ''(166.4)''.

In the table describing long-term obligations which appears on page 42 in Note 5—Long-Term Obligations, the Continuous Caster Facility Loan balance at December 31, 1999 is changed from ''83.9'' to ''93.9''.

In the table describing future minimum payments for all long-term obligations and leases as of December 31, 1999, which appears on page 43 in Note 5—Long-Term Obligations under the caption ''Operating Leases'' for the year 2003, the amount is changed from ''45.8'' to ''46.8''.

In the table describing the significant components of deferred tax assets and liabilities which appears on page 47 in Note 8—Income Taxes,

- Total deferred tax assets at December 31, 1999 is changed from ''446.5'' to ''446.6'',
- Deferred tax assets net of valuation allowance at December 31, 1998 is changed from ''366.2'' to ''386.2'' and
- Net deferred tax assets after valuation allowance at December 31, 1998 is changed from ''202.8'' to ''202.6''.

A complete copy of Item 8, including these corrections, is attached to this Form 10-K/A.

**Item 14. Exhibit**

Attached hereto as Exhibit 23 is the Consent of Independent Auditors.

## SIGNATURE

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 3, 2000.**

NATIONAL STEEL CORPORATION

By: /S/ GLENN H. GAGE

Glenn H. Gage

*Senior Vice President and Chief Financial Officer*

## Item 8. Financial Statements

The following consolidated financial statements of National Steel Corporation and subsidiaries are submitted pursuant to the requirements of Item 8:

### National Steel Corporation and Subsidiaries
### Index to Financial Statements

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and related notes. The financial statements, presented on pages 32 to 55, have been prepared in conformity with generally accepted accounting principles and include amounts based upon our estimates and judgments, as required. Management also prepared the other information included in the Form 10-K and is responsible for its accuracy and consistency with the financial statements. The financial statements have been audited in accordance with generally accepted auditing standards and reported upon by our independent auditors, Ernst & Young LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and committees of the board. We believe the representations made to the independent auditors during the audit were valid and appropriate. Ernst & Young LLP's audit report is presented on page 31.

National Steel Corporation maintains a system of internal accounting control designed to provide reasonable assurance for the safeguarding of assets and reliability of financial records. The system is subject to review through its internal audit function, which monitors and reports on the adequacy of and compliance with the internal control system and appropriate action is taken to address control deficiencies and other opportunities for improving the system as they are identified. Although no cost effective internal control system will preclude all errors and irregularities, management believes that through the careful selection, training and development of employees, the division of responsibilities and the application of formal policies and procedures, National Steel Corporation has an effective and responsive system of internal accounting controls.

The Audit Committee of the Board of Directors, which is composed solely of non-employee directors, provides oversight to the financial reporting process through periodic meetings. The Audit Committee is responsible for recommending to the Board of Directors, subject to approval by the Board and ratification by stockholders, the independent auditors to perform audit and related work for the Company, for reviewing with the independent auditors the scope of their audit of the Company's financial statements, for reviewing with the Company's internal auditors the scope of the plan of audit, for meeting with the independent auditors and the Company's internal auditors to review the results of their audits and the Company's internal accounting controls and for reviewing other professional services being performed for the Company by the independent auditors. Both the independent auditors and the Company's internal auditors have free access to the Audit Committee.

Management believes the system of internal accounting controls provides reasonable assurance that business activities are conducted in a manner consistent with the Company's high standards of business conduct, and the Company's financial accounting system contains the integrity and objectivity necessary to maintain accountability for assets and to prepare National Steel Corporation's financial statements in accordance with generally accepted accounting principles.

Yutaka Tanaka
*Chairman & Chief Executive Officer*

John A. Maczuzak
*President & Chief Operating Officer*

Glenn H. Gage
*Senior Vice President & Chief Financial Officer*

## REPORT OF ERNST & YOUNG LLP

## INDEPENDENT AUDITORS

*Board of Directors*

*National Steel Corporation*

We have audited the accompanying consolidated balance sheets of National Steel Corporation and subsidiaries (the ''Company'') as of December 31, 1999 and 1998, and the related consolidated statements of income, cash flows, and changes in stockholders' equity and redeemable preferred stock—Series B for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

Indianapolis, Indiana
January 25, 2000

## National Steel Corporation and Subsidiaries
## Consolidated Statements of Income

**(Dollars in Millions, Except Per Share Amounts)**

| | Years Ended December 31, 1999 | 1998 | 1997 |
|---|---|---|---|
| **Net Sales** | $2,849.6 | $2,848.0 | $3,139.7 |
| Cost of products sold | 2,581.7 | 2,496.8 | 2,674.4 |
| Selling, general and administrative expense | 147.8 | 153.6 | 141.3 |
| Depreciation | 140.1 | 129.1 | 134.5 |
| Equity income of affiliates | (2.1) | (1.2) | (1.5) |
| Unusual credit | — | (26.6) | — |
| **Income (Loss) from Operations** | (17.9) | 96.3 | 191.0 |
| Other (income) expense | | | |
| Interest and other financial income | (11.5) | (15.8) | (19.2) |
| Interest and other financial expense | 39.6 | 26.7 | 33.8 |
| Net gain on disposal of non-core assets and other related activities | (0.8) | (2.7) | (58.7) |
| **Income (Loss) before Income Taxes and Extraordinary Item** | (45.2) | 88.1 | 235.1 |
| Income taxes (credit) | (2.1) | 4.3 | 16.2 |
| **Income (Loss) before Extraordinary Item** | (43.1) | 83.8 | 218.9 |
| Extraordinary item | — | — | (5.4) |
| **Net Income (Loss)** | (43.1) | 83.8 | 213.5 |
| Less preferred stock dividends | — | — | 10.2 |
| **Net Income (Loss) Applicable to Common Stock** | $ (43.1) | $ 83.8 | $ 203.3 |
| **Basic Earnings Per Share:** | | | |
| Income (loss) before extraordinary item | $ (1.04) | $ 1.94 | $ 4.82 |
| Extraordinary item | — | — | (.12) |
| Net Income (Loss) Applicable to Common Stock | $ (1.04) | $ 1.94 | $ 4.70 |
| **Diluted Earnings Per Share:** | | | |
| Income (loss) before extraordinary item | $ (1.04) | $ 1.94 | $ 4.76 |
| Extraordinary item | — | — | (.12) |
| Net Income (Loss) Applicable to Common Stock | $ (1.04) | $ 1.94 | $ 4.64 |
| Weighted average shares outstanding (in thousands) | 41,411 | 43,202 | 43,288 |
| Dividends paid per common share | $ 0.28 | $ 0.28 | $ — |

See notes to consolidated financial statements.

## NATIONAL STEEL CORPORATION AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS
**(Dollars in Millions, Except Per Share Amounts)**

| | December 31, 1999 | December 31, 1998 |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash and cash equivalents | $ 58.4 | $ 137.9 |
| Receivables, net | 322.8 | 245.7 |
| Inventories | 519.7 | 472.8 |
| Deferred tax assets | 28.2 | 23.3 |
| Other | 29.5 | 19.9 |
| **Total current assets** | 958.6 | 899.6 |
| Investments in affiliated companies | 21.8 | 19.5 |
| Property, plant and equipment, net | 1,446.4 | 1,270.5 |
| Deferred tax assets | 178.0 | 179.3 |
| Intangible pension asset | 63.0 | 89.5 |
| Other assets | 32.7 | 25.6 |
| | $2,700.5 | $2,484.0 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities | | |
| Accounts payable | $ 246.1 | $ 241.7 |
| Current portion of long-term obligations | 31.2 | 30.3 |
| Short-term borrowings | — | 6.9 |
| Salaries, wages, benefits and related taxes | 109.5 | 95.7 |
| Pension | 78.6 | 14.9 |
| Income taxes | 11.9 | 22.6 |
| Other accrued liabilities | 120.6 | 134.7 |
| **Total current liabilites** | 597.9 | 546.8 |
| Long-term obligations | 555.6 | 285.8 |
| Long-term pension liabilities | 91.6 | 128.5 |
| Minimum pension liabilities | 68.5 | 140.5 |
| Postretirement benefits other than pensions | 433.0 | 398.1 |
| Other long-term liabilities | 120.7 | 134.0 |
| Commitments And Contingencies | | |
| **Stockholders' equity** | | |
| Common Stock par value $.01: | | |
| Class A—authorized 30,000,000 shares; issued and outstanding 22,100,000 shares in 1999 and 1998 | 0.2 | 0.2 |
| Class B—authorized 65,000,000 shares; issued 21,188,240 shares in 1999 and 1998 | 0.2 | 0.2 |
| Additional paid-in capital | 491.8 | 491.8 |
| Retained earnings | 362.8 | 417.5 |
| Treasury stock, at cost: 2,000,000 shares in 1999; 1,109,700 shares in 1998 | (16.3) | (8.4) |
| Accumulated other comprehensive income (loss): | | |
| Minimum pension liability | (5.5) | (51.0) |
| **Total stockholders' equity** | 833.2 | 850.3 |
| | $2,700.5 | $2,484.0 |

See notes to consolidated financial statements.

## NATIONAL STEEL CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS

**(Dollars in Millions)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | **1999** | **1998** | **1997** |
| **Cash Flows from Operating Activities:** | | | |
| Net income (loss) | $ (43.1) | $ 83.8 | $ 213.5 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation | 140.1 | 129.2 | 134.5 |
| Net gain on disposal of non-core assets | (0.8) | (2.7) | (58.8) |
| Extraordinary item (net) | — | — | 5.4 |
| Deferred income taxes | (2.9) | (19.6) | (21.6) |
| Changes in assets and liabilities: | | | |
| Receivables | (77.1) | 38.4 | 4.8 |
| Inventories | (46.9) | (98.6) | 56.4 |
| Accounts payable | 4.4 | (4.4) | 0.9 |
| Pension liability (net of change in intangible pension asset) | 26.9 | (86.5) | (24.0) |
| Postretirement benefits | 24.9 | 26.5 | 34.9 |
| Accrued liabilities | (1.2) | (46.9) | 1.5 |
| Other | (16.1) | 12.5 | (15.3) |
| **Net Cash Provided by Operating Activities** | 8.2 | 31.7 | 332.2 |
| **Cash Flows from Investing Activities:** | | | |
| Purchases of property, plant and equipment | (318.3) | (171.1) | (151.8) |
| Net proceeds from sale of assets | 0.5 | 1.4 | — |
| Net proceeds from disposal of non-core assets | 0.8 | 3.3 | 320.6 |
| Acquisition of ProCoil | (7.7) | — | (0.3) |
| **Net Cash Provided by (Used in) Investing Activities** | (324.7) | (166.4) | 168.5 |
| **Cash Flows from Financing Activities:** | | | |
| Redemption of Preferred Stock—Series A and B | — | — | (83.8) |
| Repurchase of Class B common stock | (7.9) | (8.4) | — |
| Prepayment of related party debt and associated costs | — | — | (158.8) |
| Debt repayment | (55.4) | (34.2) | (35.0) |
| Borrowings—net | 311.9 | 14.7 | 3.9 |
| Payment of released Weirton benefit liabilities and unreleased Weirton liabilities and their release in lieu of cash dividends on Preferred Stock—Series B | — | — | (19.2) |
| Dividend payments on common stock | (11.6) | (12.1) | — |
| Dividend payments on Preferred Stock—Series A and B | — | — | (4.2) |
| **Net Cash Provided by (Used in) Financing Activities** | 237.0 | (40.0) | (297.1) |
| **Net Increase (Decrease) In Cash and Cash Equivalents** | (79.5) | (174.7) | 203.6 |
| **Cash and cash equivalents, at beginning of the year** | 137.9 | 312.6 | 109.0 |
| **Cash and cash equivalents, at end of the year** | $ 58.4 | $ 137.9 | $ 312.6 |
| **Supplemental Cash Payment Information** | | | |
| Interest and other financing costs paid | $ 30.6 | $ 27.7 | $ 38.9 |
| Income taxes paid | 19.2 | 17.2 | 45.2 |

See notes to consolidated financial statements.

**NATIONAL STEEL CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND REDEEMABLE PREFERRED STOCK—SERIES B**

**(Dollars in Millions)**

| | Common Stock— Class A | Common Stock— Class B | Preferred Stock— Series A | Additional Paid-In Capital | Retained Earnings | Treasury Stock | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity | Redeemable Preferred Stock— Series B |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at January 1, 1997** | $0.2 | $0.2 | $ 36.7 | $465.3 | $142.6 | $ — | $ (0.5) | $644.5 | $ 63.5 |
| Comprehensive Income: | | | | | | | | | |
| Net income | | | | | 213.5 | | | 213.5 | |
| Other comprehensive income: Minimum pension liability | | | | | | | (0.6) | (0.6) | |
| Comprehensive income | | | | | | | | 212.9 | |
| Amortization of excess of book value over redemption value of Redeemable Preferred Stock—Series B | | | | | 1.3 | | | 1.3 | (1.3) |
| Cumulative dividends on Preferred Stock—Series A and B | | | | | (11.6) | | | (11.6) | |
| Redemption of Preferred Stock —Series A | | | (36.7) | | | | | (36.7) | |
| Redemption of Redeemable Preferred Stock—Series B and related settlement with Avatex | | | | 26.5 | | | | 26.5 | (62.2) |
| **Balance at December 31, 1997** | 0.2 | 0.2 | — | 491.8 | 345.8 | — | (1.1) | 836.9 | — |
| Comprehensive Income: | | | | | | | | | |
| Net income | | | | | 83.8 | | | 83.8 | |
| Other comprehensive income: Minimum pension liability | | | | | | | (49.9) | (49.9) | |
| Comprehensive income | | | | | | | | 33.9 | |
| Dividends on common stock | | | | | (12.1) | | | (12.1) | |
| Purchase of 1,109,700 shares of Class B common stock | | | | | | (8.4) | | (8.4) | |
| **Balance at December 31, 1998** | 0.2 | 0.2 | — | 491.8 | 417.5 | (8.4) | (51.0) | 850.3 | — |
| Comprehensive loss: | | | | | | | | | |
| Net loss | | | | | (43.1) | | | (43.1) | |
| Other comprehensive income: Minimum pension liability | | | | | | | 45.5 | 45.5 | |
| Comprehensive income | | | | | | | | 2.4 | |
| Dividends on common stock | | | | | (11.6) | | | (11.6) | |
| Purchase of 890,300 shares of Class B common stock | | | | | | (7.9) | | (7.9) | |
| **Balance at December 31, 1999** | $0.2 | $0.2 | $ — | $491.8 | $362.8 | $(16.3) | $ (5.5) | $833.2 | $ — |

See notes to consolidated financial statements.

## Note 1. Description of the Business and Significant Accounting Policies

National Steel Corporation (together with its majority owned subsidiaries, the ''Company'') is a domestic manufacturer engaged in a single line of business, the production and processing of steel. The Company targets high value-added applications of flat rolled carbon steel for sale primarily to the automotive, construction and container markets. The Company also sells hot and cold-rolled steel to a wide variety of other users including the pipe and tube industry and independent steel service centers. The Company's principal markets are located throughout the United States.

Since 1986, the Company has had cooperative labor agreements with the United Steelworkers of America (the ''USWA''), the International Chemical Workers Union Council of the United Food and Commercial Workers and other labor organizations, which collectively represent 82% of the Company's employees. The Company entered into five-year agreements with these labor organizations in 1999. Additionally, these 1999 agreements contain a no-strike clause also effective through the term of the agreements.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of National Steel Corporation and its majority-owned subsidiaries. Intercompany accounts and transactions have been eliminated in consolidation.

### *Revenue Recognition*

Substantially all revenue is recognized when products are shipped to customers.

### *Cash Equivalents*

Cash equivalents are short-term liquid investments consisting principally of time deposits and commercial paper at cost which approximates market. Generally, these investments have maturities of three months or less at the time of purchase.

### *Receivables*

Receivables consist of trade and notes receivable and other miscellaneous receivables including refundable income taxes. Concentration of credit risk related to trade receivables is limited due to the large numbers of customers in differing industries and geographic areas and management's credit practices. Receivables are shown net of allowances, and estimated claims of $19.6 million and $16.9 million at December 31, 1999 and 1998, respectively. Activity relating to the allowance was as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | Dollars in millions | | |
| Balance, January 1 | $16.9 | $17.6 | $19.3 |
| Provision for doubtful accounts | 2.8 | 1.3 | 1.0 |
| Doubtful accounts written off, net of recoveries | (0.6) | (0.4) | 0.1 |
| Other, net | 0.5 | (1.6) | (2.8) |
| Balance, December 31 | $19.6 | $16.9 | $17.6 |

## Risk Management Contracts

In the normal course of business, the Company enters into certain derivative financial instruments, primarily commodity purchase swap contracts and zero cost collars, to manage its exposure to fluctuations in commodity prices. The Company designates the financial instruments as hedges for specific anticipated transactions. Gains and losses from hedges are classified in the consolidated statement of income in cost of goods sold when the contracts are closed. Cash flows from hedges are classified in the consolidated statement of cash flows under the same category as the cash flows from the related anticipated transaction. The Company does not enter into any derivative transactions for speculative purposes. (See Note 14. Risk Management Contracts.)

*Inventories*

Inventories are stated at the lower of last-in, first-out (''LIFO'') cost or market.

Based on replacement cost, inventories would have been approximately $145.6 million and $178.2 million higher than reported at December 31, 1999 and 1998, respectively. In 1999 and 1998 there were no liquidations of LIFO inventory values. During 1997 certain inventory quantity reductions caused liquidations of LIFO inventory values that did not have a material effect on net income.

Inventories as of December 31, are as follows:

| | 1999 | 1998 |
|---|---|---|
| | Dollars in millions | |
| **Inventories** | | |
| Finished and semi-finished | $461.4 | $421.6 |
| Raw materials and supplies | 196.3 | 197.2 |
| | 657.7 | 618.8 |
| Less LIFO reserve | 138.0 | 146.0 |
| | $519.7 | $472.8 |

*Investments in Affiliated Companies*

Investments in affiliated companies (corporate joint ventures and 20.0% to 50.0% owned companies) are stated at cost plus equity in undistributed earnings since acquisition. Undistributed deficit of affiliated companies included in retained earnings at December 31, 1999 and 1998 amounted to $1.5 million and $1.9 million, respectively. (See Note 10. Non-Operational Income Statement Activities.)

In May 1997, the Company acquired an additional 12% of the equity in ProCoil Corporation (''ProCoil'') for approximately $0.4 million, bringing the Company's total ownership to 56% as of December 31, 1997. On March 31, 1999, the Company completed the acquisition of the remaining 44% minority interest of ProCoil for $7.7 million in cash. The acquisition was accounted for using the purchase method of accounting. During the third quarter of 1999, the excess purchase price over the book value of the underlying assets was allocated to property, plant and equipment to reflect their fair value and will be depreciated over the remaining useful life of these assets.

*Property, Plant and Equipment*

Property, plant and equipment are stated at cost and include certain expenditures for leased facilities. Interest costs applicable to facilities under construction are capitalized. Capitalized interest amounted to $13.0 million in 1999, $3.8 million in 1998 and $5.3 million in 1997. Depreciation of capitalized interest amounted to $3.6 million in both 1999 and 1998 and $4.5 million in 1997.

Property, plant and equipment as of December 31, are as follows:

| | 1999 | 1998 |
|---|---|---|
| | Dollars in millions | |
| Land and land improvements | $ 180.1 | $ 187.1 |
| Buildings | 313.5 | 310.1 |
| Machinery and equipment | 3,235.6 | 2,978.3 |
| Total property, plant and equipment | 3,729.2 | 3,475.5 |
| Less accumulated depreciation | 2,282.8 | 2,205.0 |
| Net property, plant and equipment | $1,446.4 | $1,270.5 |

*Depreciation*

Depreciation of production facilities, equipment and capitalized lease obligations are generally computed by the straight-line method over their estimated useful life or, if applicable, remaining lease term, if shorter. The following useful lives are used for financial statement purposes:

| | |
|---|---|
| Land improvements | 10–20 years |
| Buildings | 15–40 years |
| Machinery and equipment | 3–15 years |

Depreciation of furnace relinings are computed on the basis of tonnage produced in relation to estimated total production to be obtained from such facilities.

*Research and Development*

Research and development costs are expensed when incurred as a component of cost of products sold. Expenses for 1999, 1998 and 1997 were $10.7 million, $11.0 million and $10.9 million, respectively.

*Financial Instruments*

Financial instruments consist of cash and cash equivalents and long-term obligations (excluding capitalized lease obligations). The fair value of cash and cash equivalents approximates their carrying amounts at December 31, 1999. The carrying value of long-term obligations (excluding capitalized lease obligations) exceeded the fair value by approximately $1.2 million at December 31, 1999. The fair value is estimated using discounted cash flows based on current interest rates for similar issues.

*Earnings per Share (Basic and Diluted)*

Basic Earnings per Share (''EPS'') is computed by dividing net income available to common stockholders by the weighted average number of common stock shares outstanding during the year. Diluted EPS is computed by dividing net income available to common stockholders by the weighted-average number of common stock shares outstanding during the year plus potential dilutive instruments such as stock options. The effect of stock options on diluted EPS is determined through the application of the treasury stock method, whereby proceeds received by the Company based on assumed exercises are hypothetically used to repurchase the Company's common stock at the average market price during the period. If a net loss is incurred, dilutive stock options are considered antidilutive and are excluded from the dilutive EPS calculation.

The calculation of the dilutive effect of stock options on the weighted average shares is as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | Shares in thousands | | |
| Denominator for basic earnings per share—weighted-average shares | 41,411 | 43,202 | 43,288 |
| Effect of stock options | — | 69 | 485 |
| Denominator for diluted earnings per share | 41,411 | 43,271 | 43,773 |

Options to purchase common stock of 1,069,993 shares in 1999, 429,967 shares in 1998 and 194,000 shares in 1997 were outstanding, but were excluded from the computation of diluted earnings per share because a net loss was incurred or the exercise prices were greater than the average market price of the common shares during those years.

*Stock-Based Compensation*

The Company has elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (''APB 25'') and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recorded. The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (''SFAS'') No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). (See Note 15. Long-Term Incentive Plan)

*Use of Estimates*

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expense during the year. Actual results could differ from those estimates.

*Reclassifications*

Certain amounts in prior years consolidated financial statements have been reclassified to conform with the current year presentation.

*Impact of Recently Issued Accounting Standards*

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (''SFAS 133''), which was required to be adopted in years beginning after June 15, 1999. In June 1999, the FASB issued SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133*, which delays the required adoption date of SFAS No. 133 to all fiscal quarters of all fiscal years beginning after June 15, 2000. SFAS 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings. The Company has not yet determined what the effect of SFAS 133 will be on earnings and the financial position of the Company.

**Note 2. Audit Committee Inquiry and Securities and Exchange Commission Inquiry**

In the third quarter of 1997, the Audit Committee of the Company's Board of Directors was informed of allegations about managed earnings, including excess reserves and the accretion of such reserves to income over multiple periods, as well as allegations about deficiencies in the system of internal controls. The Audit Committee engaged legal counsel who, with the assistance of an accounting firm, inquired into these matters. The Company, based upon the inquiry, restated its financial statements for certain prior periods. On January 29, 1998, the Company filed a Form 10-K/A for 1996 and Forms 10-Q/A for the first, second and third quarters of

1997 reflecting the restatements. (See these Forms for information about the restatement, the report of legal counsel to the Audit Committee and the recommendations, approved by the Board of Directors, to improve the Company's system of internal controls contained in the aforementioned report.) In accordance with the recommendations, the Company in early 1998 undertook an assessment of its internal control over financial reporting, made improvements and engaged a major independent accounting firm to examine and report on management's assertion about the effectiveness of the Company's internal control over financial reporting. The accounting firm's report was issued in March 1999 and indicated that in that firm's opinion, management's assertion that the Company maintained effective internal control over financial reporting, including safeguarding of assets, as of March 1, 1999 is fairly stated, in all material respects, based upon the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (''COSO''). Because of inherent limitations in internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of internal control over financial reporting, including safeguarding of assets, to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Securities and Exchange Commission (the ''Commission'') has authorized an investigation pursuant to a formal order of investigation relating to the matters described above. The Company has been cooperating with the staff of the Commission and intends to continue to do so. Additionally, a complaint has been filed seeking shareholder class action status and alleging violations of the federal securities laws, generally relating to the matters described above. The lawsuit was dismissed with prejudice, but the plaintiffs have filed an appeal of the dismissal.

**Note 3. Capital Structure**

At December 31, 1999, the Company's capital structure was as follows.

Class A Common Stock: The Company had 30,000,000 shares of $.01 par value Class A Common Stock authorized, of which 22,100,000 shares were issued and outstanding and owned by NKK U.S.A. Corporation. Each share is entitled to two votes. Dividends of $0.28 per share were paid in 1999 and 1998. No cash dividends were paid on the Class A Common Stock in 1997 or 1996. As a result of its ownership of the Class A Common Stock, NKK U.S.A. Corporation controls approximately 69.7% of the voting power of the Company.

Class B Common Stock: The Company had 65,000,000 shares of $.01 par value Class B Common Stock authorized, 21,188,240 shares issued, and 19,188,240 outstanding net of 2,000,000 shares of Treasury Stock. Dividends of $0.28 per share were paid in 1999 and 1998. No cash dividends were paid on the Class B Common Stock in 1997. All of the issued and outstanding shares of Class B Common Stock are publicly traded and are entitled to one vote.

On August 26, 1998, the Board of Directors authorized the repurchase of up to two million shares of the Class B Common Stock. In March 1999, the Company completed the repurchase of these shares at a total cost during 1998 and 1999 of $16.3 million.

In years prior to 1997, the Company had two series of preferred stock outstanding. Both of these series of stock were redeemed in the fourth quarter of 1997.

Prior to redemption, which occurred on December 29, 1997, there were 5,000 shares of $1.00 par value Series A Preferred Stock issued and outstanding. All of this stock was owned by NKK U.S.A Corporation. Annual dividends of $806.30 per share were cumulative and payable quarterly. Dividend payments of approximately $4 million were paid in 1997. This stock was redeemed at its book value of approximately $36.7 million plus accrued dividends through the redemption date. This stock had not been subject to mandatory redemption provisions.

The Company also had 10,000 shares of Redeemable Preferred Stock—Series B issued and outstanding prior to the redemption of these shares on November 24, 1997. This stock had been owned by Avatex Corporation (''Avatex''—formerly known as FoxMeyer Health Corporation). Annual dividends of $806.30 per share were cumulative and payable quarterly. This stock was subject to mandatory redemption on August 5, 2000 at a price of $58.3 million. The difference between this price and the book value of the stock was being amortized to retained earnings. Concurrent with the stock repurchase in 1997, the Company and Avatex settled Avatex's obligations relating to certain Weirton liabilities for which Avatex agreed to indemnify the Company in prior recapitalization programs. In 1997, dividends were accrued and paid on this stock through November 4, 1997.

**Note 4. Segment Information**

The Company has one reportable segment: Steel. The Steel segment consists of two operating segments, the Regional Division and the Granite City Division, that produce and sell hot and cold-rolled steel to automotive, construction, container, and pipe and tube customers as well as independent steel service centers. The Company's operating segments are primarily organized and managed by geographic location. A third operating segment, National Steel Pellet Company, has been combined with ''All Other'' as it does not meet the quantitative thresholds for determining reportable segments. ''All Other'' includes the Company's pellet operations, transportation divisions, administrative office and certain steel processing and warehousing operations. ''All Other'' revenues from external customers are attributable primarily to steel processing, warehousing and transportation services.

The Company evaluates performance and allocates resources based on operating profit or loss before income taxes. The accounting policies of the Steel segment are the same as described in Note 1 to the financial statements. Intersegment sales and transfers are accounted for at market prices and are eliminated in consolidation.

| | 1999 | | | 1998 | | |
|---|---|---|---|---|---|---|
| | Steel | All Other | Total | Steel | All Other | Total |
| | | | Dollars in millions | | | |
| Revenues from external customers | $2,831.9 | $ 17.7 | $2,849.6 | $2,829.1 | $ 18.9 | $2,848.0 |
| Intersegment revenues | 654.4 | 3,171.4 | 3,825.8 | 612.4 | 3,131.0 | 3,743.4 |
| Depreciation expense | 110.8 | 29.3 | 140.1 | 99.4 | 29.7 | 129.1 |
| Segment income (loss) from operations | (29.1) | 11.2 | (17.9) | 128.9 | (32.6) | 96.3 |
| Segment assets | 1,708.6 | 991.9 | 2,700.5 | 1,524.3 | 959.7 | 2,484.0 |
| Expenditures for long-lived assets | 237.4 | 80.9 | 318.3 | 128.6 | 42.5 | 171.1 |

Included in ''All Other'' intersegment revenues in 1999 and 1998, respectively, is $2,907.6 million and $2,886.9 million of qualified trade receivables sold to National Steel Funding Corporation, a wholly-owned subsidiary.

The following table sets forth the percentage of the Company's revenues from various markets for 1999, 1998 and 1997:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Automotive | 32.6% | 29.5% | 27.0% |
| Construction | 23.5 | 26.6 | 24.8 |
| Containers | 11.6 | 11.3 | 11.0 |
| Pipe and Tube | 6.3 | 5.6 | 7.3 |
| Service Centers | 20.0 | 19.5 | 21.3 |
| All Other | 6.0 | 7.5 | 8.6 |
| | 100.0% | 100.0% | 100.0% |

No single customer accounted for more than 10.0% of net sales in 1999, 1998 or 1997. Export sales accounted for approximately 2.0% of revenues in 1999, 2.1% in 1998 and 2.0% in 1997. The Company has no long-lived assets that are maintained outside of the United States.

**Note 5. Long-Term Obligations**

Long-term obligations were as follows:

| | December 31, 1999 | December 31, 1998 |
|---|---|---|
| | Dollars in millions | |
| First Mortgage Bonds, 9.875% Series due March 1, 2009, with general first liens on principal plants, properties and certain subsidiaries | $300.0 | $ — |
| First Mortgage Bonds, 6.375% Series due August 1, 2005, with general first liens on principal plants, properties and certain subsidiaries | 75.0 | 75.0 |
| Vacuum Degassing Facility Loan, 10.336% fixed rate due in semi-annual installments through 2000, with a first mortgage in favor of the lenders | 4.3 | 12.4 |
| Continuous Caster Facility Loan, 10.057% fixed rate to 2000 when the rate will be reset to a current rate. Equal semi-annual payments due through 2007, with a first mortgage in favor of the lenders | 93.9 | 101.2 |
| Pickle Line Loan, 7.726% fixed rate due in equal semi-annual installments through 2007, with a first mortgage in favor of the lender | 68.2 | 73.7 |
| ProCoil, various rates and due dates | 4.7 | 17.3 |
| Capitalized lease obligations | 23.5 | 16.6 |
| Other | 17.2 | 19.9 |
| Total long-term obligations | 586.8 | 316.1 |
| Less long-term obligations due within one year | 31.2 | 30.3 |
| Long-term obligations | $555.6 | $285.8 |

Future minimum payments for all long-term obligations and leases as of December 31, 1999 are as follows:

| | Capitalized Leases | Operating Leases | Other Long-Term Obligations |
|---|---|---|---|
| | Dollars in millions | | |
| 2000 | $ 9.9 | $ 58.1 | $ 23.2 |
| 2001 | 10.0 | 46.9 | 23.8 |
| 2002 | 3.3 | 42.2 | 26.4 |
| 2003 | 3.0 | 46.8 | 25.7 |
| 2004 | 0.9 | 43.4 | 27.3 |
| Thereafter | — | 30.3 | 436.9 |
| Total payments | 27.1 | $267.7 | $563.3 |
| Less amount representing interest | 3.6 | | |
| Less current portion of obligations under capitalized leases | 8.0 | | |
| Long-term obligations under capitalized leases | $ 15.5 | | |
| Assets under capitalized leases: | | | |
| Machinery and equipment | $ 50.3 | | |
| Less accumulated depreciation | (33.6) | | |
| | $ 16.7 | | |

Operating leases include a coke battery facility which services Granite City and expires in 2004, a continuous caster and the related ladle metallurgy facility which services Great Lakes and expires in 2008, and an electrolytic galvanizing facility which services Great Lakes and expires in 2001. Upon expiration, the Company has the option to extend the leases or purchase the equipment at fair market value. The Company's remaining operating leases cover various types of properties, primarily machinery and equipment, which have lease terms generally for periods of 2 to 20 years, and which are expected to be renewed or replaced by other leases in the normal course of business. Rental expense totaled $71.8 million in 1999, $73.1 million in 1998, and $75.3 million in 1997.

*Credit Arrangements*

The Company's credit arrangements consist of a Receivables Purchase Agreement with commitments of up to $200.0 million that expires in September 2002 and a new $200.0 million credit facility secured by the Company's inventories (the ‘‘Inventory Facility’’) that expires in November 2004. The new inventory credit facility replaces the previous $150 million inventory credit facilities which were due to expire in 2000.

The Company is currently in compliance with all covenants of, and obligations under, the Receivables Purchase Agreement, the Inventory Facility and other debt instruments. On December 31, 1999, there were no cash borrowings outstanding under the Receivables Purchase Agreement or the Inventory Facility, and outstanding letters of credit under the Receivables Purchase Agreement totaled $48.4 million. During 1999, the maximum availability under the Receivables Purchase Agreement, after reduction for letters of credit outstanding, varied from $71.8 million to $151.6 million and was $151.6 million as of December 31, 1999.

Various debt and certain lease agreements include restrictions on the amount of stockholders' equity available for the payment of dividends. Under the most restrictive of these covenants, stockholders' equity in the amount of $392.0 million was free of such limitations at December 31, 1999.

**Note 6. Pension and Other Postretirement Employee Benefits**

The Company has various qualified and nonqualified pension plans and other postretirement employee benefit (''OPEB'') plans for its employees. The following tables provide a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the periods ended September 30, 1999 and 1998, and the plans funded status at September 30 reconciled to the amounts recognized on the balance sheet on December 31, 1999 and 1998:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | Dollars in millions | | | |
| Reconciliation of benefit obligation | | | | |
| Benefit obligation, October 1 Prior Year | $2,213.2 | $2,077.2 | $ 794.9 | $ 710.8 |
| Service cost | 31.1 | 27.3 | 13.1 | 11.2 |
| Interest cost | 142.1 | 151.9 | 51.9 | 52.3 |
| Participant contributions | — | — | 4.9 | 4.9 |
| Other contributions | 5.1 | 7.2 | — | — |
| Plan amendments | 92.3 | — | 4.2 | — |
| Actuarial loss (gain) | (126.4) | 113.1 | (60.0) | 67.6 |
| Benefits paid | (157.7) | (163.5) | (57.8) | (51.9) |
| Benefit obligation, September 30 | $2,199.7 | $2,213.2 | $ 751.2 | $ 794.9 |
| Reconciliation of fair value of plan assets | | | | |
| Fair value of plan assets, October 1 Prior Year | $1,830.1 | $1,846.5 | $ 97.3 | $ 82.7 |
| Actual return on plan assets | 237.9 | 17.1 | 17.0 | 9.6 |
| Company contributions | 29.4 | 122.8 | 57.9 | 52.0 |
| Participant contributions | — | — | 4.9 | 4.9 |
| Other contributions | 5.1 | 7.2 | — | — |
| Benefits paid | (157.7) | (163.5) | (57.8) | (51.9) |
| Fair value of plan assets, September 30 | $1,944.8 | $1,830.1 | $ 119.3 | $ 97.3 |
| Funded Status | | | | |
| Funded status, September 30 | $ (254.9) | $ (383.1) | $(631.9) | $(697.6) |
| Unrecognized actuarial (gain) loss | (90.0) | 124.7 | (159.3) | (95.1) |
| Unamortized prior service cost | 156.9 | 75.4 | 4.2 | — |
| Unrecognized net transition obligation | 17.8 | 26.6 | 345.9 | 373.2 |
| Fourth quarter reimbursement from trust | — | — | (5.5) | — |
| Fourth quarter contributions | — | 13.0 | 13.6 | 11.4 |
| Net amount recognized, December 31 | $ (170.2) | $ (143.4) | $(433.0) | $(408.1) |

Pursuant to the terms of the 1993 Settlement Agreement between the Company and the United Steelworkers of America (''USWA''), a VEBA Trust was established. Under the terms of the agreement, the Company agreed to contribute a minimum of $10.0 million annually. Effective August 1, 1999, a new five-year agreement was ratified between the Company and the USWA and the requirement for mandatory contributions to the VEBA Trust was eliminated over the term of the agreement. Prior to the new agreement, a $5.0 million contribution was made to the Trust in 1999. In 1998, there was no contribution made to the VEBA Trust due to a special agreement with the USWA. The Company was reimbursed $5.5 million during the fourth quarter of 1999 by the Trust in recognition of benefits paid during the year to participants of the Funded Hourly Postretirement Welfare Plan.

Other contributions reflect reimbursements from the Weirton Steel Corporation (''Weirton''), the Company's former Weirton Steel Division, for retired Weirton employees whose pension benefits are paid by the Company but are partially the responsibility of Weirton. An offsetting amount is reflected in benefits paid.

Due to a November 30, 1997 acquisition, assets and liabilities disclosed at 1998 year-end for the Weirton benefit plans were determined as of November 30, 1998. Except for a discount rate of 7.00%, the November 30, 1998 assumptions were the same as the September 30, 1998 assumptions disclosed below. Effective in 1999, the Weirton benefit plans results are determined as of September 30. The impact of this change in measurement date was not material.

The following table provides the amounts recognized in the consolidated balance sheet as of December 31 of both years:

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| | Dollars in millions | | | |
| Prepaid benefit cost | $ 30.8 | $ 20.5 | $ N/A | $ N/A |
| Accrued benefit liability | (201.0) | (163.9) | (433.0) | (408.1) |
| Additional minimum liability | (68.5) | (140.5) | N/A | N/A |
| Intangible asset | 63.0 | 89.5 | N/A | N/A |
| Accumulated other comprehensive income | 5.5 | 51.0 | N/A | N/A |
| Recognized amount | $(170.2) | $(143.4) | $(433.0) | $(408.1) |

The projected benefit obligation, accumulated benefit obligation (''ABO'') and fair value of plan assets for pension plans with an ABO in excess of plan assets were $1,741.8 million, $1,627.5 million and $1,451.8 million, respectively, as of December 31, 1999 and $1,747.0 million, $1,613.8 million and $1,331.6 million, respectively, as of December 31, 1998.

The following table provides the components of net periodic benefit cost for the plans for fiscal years 1999, 1998 and 1997.

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 1999 | 1998 | 1997 | 1999 | 1998 | 1997 |
| | Dollars in millions | | | | | |
| Net periodic cost | | | | | | |
| Service cost | $ 31.1 | $ 27.3 | $ 24.1 | $13.1 | $11.2 | $11.3 |
| Interest cost | 146.8 | 151.9 | 115.0 | 53.0 | 52.3 | 48.6 |
| Expected return on assets | (162.2) | (159.3) | (101.2) | (9.7) | (8.3) | (5.1) |
| Prior service cost amortization | 10.8 | 10.8 | 11.2 | — | — | — |
| Actuarial (gain)/loss amortization | 6.1 | 0.2 | — | (3.0) | (8.5) | (6.7) |
| Transition amount amortization | 8.8 | 8.8 | 8.8 | 27.3 | 27.3 | 27.3 |
| Net periodic benefit cost | $ 41.4 | $ 39.7 | $ 57.9 | $80.7 | $74.0 | $75.4 |

The Company generally uses a September 30 measurement date. The assumptions used in the measuring of the Company's benefit obligations and costs are shown in the following table:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | Weighted-average assumptions, September 30 | | |
| Discount rate | 7.50% | 6.75% | 7.50% |
| Expected return on plan assets—Pension | 9.75% | 9.75% | 9.75% |
| Expected return on plan assets—Retiree Welfare | 9.75% | 9.75% | 9.25% |
| Rate of compensation increase | 4.18% | 4.20% | 4.70% |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects on 1999 service and interest cost and the accumulated postretirement benefit obligation at September 30, 1999:

| | 1% Increase | 1% Decrease |
|---|---|---|
| | Dollars in millions | |
| Effect on total of service and interest cost components of net periodic postretirement health care benefit cost | $ 7.6 | $ (7.8) |
| Effect on the health care component of the accumulated postretirement benefit obligation | 73.4 | (75.9) |

The Company has assumed a 6.3% health-care cost trend rate at September 30, 1999, reducing 0.65% for two years, reaching an ultimate trend rate of 5.0% in 2003.

**Note 7. Other Long-Term Liabilities**

Other long-term liabilities at December 31, consisted of the following:

| | 1999 | 1998 |
|---|---|---|
| | Dollars in millions | |
| Deferred gain on sale leasebacks | $ 10.0 | $ 14.3 |
| Insurance and employee benefits (excluding pensions and OPEBs) | 79.5 | 84.5 |
| Plant closings | 10.7 | 15.3 |
| Other | 20.5 | 19.9 |
| Total Other Long-Term Liabilities | $120.7 | $134.0 |

**Note 8. Income Taxes**

Deferred income taxes reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax assets and liabilities at December 31 are as follows:

| | 1999 | 1998 |
|---|---|---|
| | Dollars in millions | |
| Deferred tax assets | | |
| Accrued liabilities | $ 96.6 | $ 82.6 |
| Employee benefits | 211.6 | 222.1 |
| Net operating loss (''NOL'') carryforwards | 25.8 | 0.6 |
| Leases | 4.5 | 7.1 |
| Federal tax credits | 86.6 | 85.1 |
| Other | 21.5 | 21.6 |
| Total deferred tax assets | 446.6 | 419.1 |
| Valuation allowance | (49.9) | (32.9) |
| Deferred tax assets net of valuation allowance | 396.7 | 386.2 |
| Deferred tax liabilities | | |
| Book basis of property in excess of tax basis | (170.3) | (156.9) |
| Excess tax LIFO over book | (12.5) | (14.8) |
| Other | (7.7) | (11.9) |
| Total deferred tax liabilities | (190.5) | (183.6) |
| Net deferred tax assets after valuation allowance | $ 206.2 | $ 202.6 |

In 1999 and 1998, the Company determined that it was more likely than not that approximately $534 million and $525 million, respectively, of future taxable income would be generated to justify the net deferred tax assets after the valuation allowance. Accordingly, the Company recognized additional deferred tax assets of $3.6 million in 1999 and $29.5 million in 1998.

Significant components of income taxes (credit) are as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | Dollars in millions | | |
| Current taxes payable: | | | |
| Federal tax | $— | $ 21.7 | $ 35.6 |
| State and foreign | 0.8 | 2.2 | 2.2 |
| Deferred tax credit | (2.9) | (19.6) | (21.6) |
| Income taxes (credit) | $(2.1) | $ 4.3 | $ 16.2 |

The reconciliation of income tax computed at the federal statutory tax rates to the recorded income taxes (credit) is as follows:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | Dollars in millions | | |
| Tax at federal statutory rates | $(15.6) | $ 30.8 | $ 82.3 |
| State income taxes, net | — | 0.7 | (1.3) |
| Change in valuation allowance | 16.3 | (29.4) | (68.1) |
| Depletion | (3.2) | (2.2) | (5.2) |
| Other, net | 0.4 | 4.4 | 8.5 |
| Income taxes (credit) | $ (2.1) | $ 4.3 | $ 16.2 |

At December 31, 1999, the Company had unused NOL carryforwards of approximately $69.3 million, which expire in 2019, and had unused alternative minimum tax credit and other tax credit carryforwards of approximately $86.6 million which may be applied to offset its future regular federal income tax liabilities. These tax credits may be carried forward indefinitely.

**Note 9. Weirton Liabilities**

In 1984, NKK purchased a 50% equity interest in the Company from Avatex. As a part of these transactions, Avatex agreed to indemnify the Company, based on agreed-upon assumptions, for certain ongoing employee benefit liabilities related to the Company's former Weirton Steel Division (''Weirton''), which had been divested through an Employee Stock Ownership Plan arrangement in 1984. In 1990, NKK purchased an additional 20% equity interest in the Company from Avatex. As a part of the 1990 transaction, Avatex contributed $146.6 million to the Company for employee benefit related liabilities and agreed that dividends from the Redeemable Preferred Stock—Series B would be primarily used to fund pension obligations of Weirton. Under this arrangement, it was agreed that the Company would release Avatex from its indemnification obligation at the time of the scheduled redemption of the Redeemable Preferred Stock—Series B or at an earlier date if agreed to by the parties. The Redeemable Preferred Stock—Series B was scheduled to be redeemed in the year 2000. Avatex also agreed in 1984 to indemnify the Company against certain environmental liabilities related to Weirton and the Company's subsidiary, The Hanna Furnace Corporation (''Environmental Liabilities''). In 1994, Avatex prepaid $10.0 million to the Company with respect to these Environmental Liabilities. In 1995, the Company redeemed one half of the outstanding Redeemable Preferred Stock—Series B for approximately $67 million, with the proceeds going to partially fund the Weirton pension obligations.

During the fourth quarter of 1997, the Company redeemed all remaining Redeemable Preferred Stock—Series B held by Avatex, which had a book value including accrued dividends of $62.6 million. In addition, the Company finalized a settlement with Avatex regarding certain employee benefit liabilities associated with Weirton, as well as the Environmental Liabilities. As a result of the redemption and settlement, in 1997, the Company made a payment of $59.0 million to Avatex and paid an additional $10.0 million, without interest, in 1998. In connection with the settlement, Avatex released any claims to amounts received, or to be received, with respect to settlements reached in a lawsuit brought by the Company and Avatex against certain former insurers of the Company, wherein recovery was sought for past and future environmental claims, which included the Environmental Liabilities. During the fourth quarter of 1997, the Company recognized insurance proceeds (net of taxes and expenses) aggregating approximately $13.6 million related to the settlement of such lawsuit. The Company also retained the $9.2 million remaining balance of the Environmental Liabilities prepayment made by Avatex in 1994.

Under its settlement with Avatex, the Company has recorded liabilities for the Weirton pension obligation, certain other Weirton employee benefit liabilities and the Environmental Liabilities and has relieved Avatex from any future indemnity obligation with regard to all such liabilities.

The redemption of Redeemable Preferred Stock—Series B and the related transactions described above, which are the resolution of the 1990 recapitalization plan, were reflected as a capital transaction resulting in an increase in additional paid-in capital of approximately $26.5 million in 1997.

**Note 10. Non-Operational Income Statement Activities**

A number of non-operational activities are reflected in the consolidated statement of income in each of the three years ended December 31, 1999. A discussion of these items follows.

*Unusual Credit*

During the third quarter of 1998, the Company recorded an unusual credit of $26.6 million resulting from the settlement of a lawsuit seeking a reduction in the assessed value of the Company's real and personal property at Great Lakes relating to the 1991 through 1997 tax years. The Company received tax refunds and was granted a lower assessment base that has resulted in additional tax savings.

*Net Gain on the Disposal of Non-Core Assets and Other Related Activities*

In 1999, 1998 and 1997, the Company disposed, or made provisions for disposing of, certain non-core assets. The effects of these transactions and other activities relating to non-core assets are presented as a separate component in the consolidated statements of income. A discussion of these items follows.

During the first and fourth quarters of 1999, the Company sold properties located in Michigan. The Company received proceeds of $0.8 million (net of taxes and expenses) and recorded a net gain in the same amount from the sales of these properties.

During the second quarter of 1998, the Company sold two properties located at Midwest. The Company received proceeds (net of taxes and expenses) of $3.3 million and recorded a net gain of $2.7 million related to the sales.

On April 1, 1997, the Company completed the sale of its 21.7% minority equity interest in the Iron Ore Company of Canada (''IOC'') to North Limited, an Australian mining and metal company. The Company received proceeds (net of taxes and expenses) of $75.3 million in exchange for its interest in IOC and recorded a $37.0 million gain. The Company will continue to purchase iron ore at fair market value from IOC pursuant to the terms of long-term supply agreements.

On June 12, 1997, the Company completed the sale of the Great Lakes No. 5 coke battery and other related assets, including coal inventories, to a subsidiary of DTE Energy Company (''DTE''). The Company received proceeds (net of taxes and expenses) of $234.0 million in connection with the sale and recorded a total loss on the transaction of $14.3 million. The Company utilized a portion of the proceeds to prepay the remaining $154.3 million of the related party coke battery debt, resulting in an extraordinary loss of $5.4 million (net of a tax benefit of $1.4 million). As part of the arrangement, the Company has agreed to operate the battery under an operation and maintenance agreement executed with DTE, and will purchase the majority of the coke produced from the battery under a requirements contract, with the price being adjusted during the term of the contract, primarily to reflect changes in production costs.

In the second quarter of 1997, the Company also recorded a charge of $3.6 million for exit costs related to the decision to cease operations of American Steel Corporation, a wholly-owned subsidiary which pickled and slit steel.

In 1997, the Company sold four non-core coal properties and recorded a net gain of $11.8 million. In conjunction with one of the property sales, the purchaser agreed to assume the potential environmental liabilities and as a result, the Company eliminated the related accrual of approximately $8.0 million. Additionally, during 1997, the Company received new information related to closed coal properties employee benefit liabilities and other expenses and reduced the related accrual by $19.8 million. In aggregate the above coal properties' transactions resulted in a gain of $39.6 million in 1997.

*Extraordinary Item*

An extraordinary loss of $5.4 million (net of a tax benefit of $1.4 million) was reflected in 1997 income. This loss relates to early debt repayment costs related to debt associated with the Great Lakes No. 5 coke battery, which was sold in the second quarter of 1997.

**Note 11. Related Party Transactions**

Summarized below are transactions between the Company and NKK (the Company's principal stockholder) and other affiliates accounted for using the equity method.

*NKK Transactions*

During 1998, the Company entered into a Turnkey Engineering and Construction Contract with NKK Steel Engineering, Inc. (''NKK SE''), a subsidiary of NKK, to design, engineer, construct and install a continuous galvanizing facility at Great Lakes. The Agreement was unanimously approved by all directors of the Company who were not then, and never have been, employees of NKK. The purchase price payable by the Company to NKK SE for the facility is approximately $139.7 million. During 1999 and 1998, $98.4 million and $15.2 million, respectfully, was paid to NKK SE relating to the above mentioned contract and $6.5 million is included in accounts payable, net of a $9.3 million retention, at December 31, 1999.

During 1999, the Company purchased from a trading company in arms' length transactions at competitively bid prices, approximately $24.8 million of finished-coated steel produced by NKK of which $0.6 million is included in accounts payable at December 31, 1999. The Company entered into agreements with NKK in order to fulfill the delivery requirements of a contract with a major automotive customer at a fixed price. During 1999, the Company recorded a loss of $5.4 million relating to these agreements. The Company anticipates that approximately $5.8 million of finished coated steel produced by NKK will be purchased during 2000 so that the Company can fulfill its obligation to the customer. Of this amount, approximately $3.2 million of product has been received during the first two months of 2000.

During 1999, the Company also purchased from trading companies in arms' length transactions at competitively bid prices, approximately $22.6 million of slabs produced by NKK. The Company has committed to purchase an additional $3.8 million of slabs produced by NKK during the first quarter of 2000. Effective as of February 16, 2000, the Company entered into a Steel Slab Products Supply Agreement with NKK, the initial term of which extends through December 31, 2000 and will continue on a year-to-year basis thereafter until terminated by either party on six months notice. Pursuant to the terms of this Agreement, the Company will purchase steel slabs produced by NKK at a price determined in accordance with a formula set forth in the Agreement. The quantity of slabs to be purchased is negotiated on a quarterly basis. This Agreement was unanimously approved by all directors of the Company who were not then, and never have been, employees of NKK.

During 1997, the Company purchased from trading companies in arms length transactions approximately $4.3 million of finished coated steel produced by NKK.

Effective May 1, 1995, the Company entered into an Agreement for the Transfer of Employees (''Agreement'') which supercedes a prior arrangement with NKK. The Agreement was unanimously approved by all directors of the Company who were not then, and never have been, employees of NKK. Pursuant to the terms of this Agreement, technical and business advice is provided through NKK employees who are transferred to the employ of the Company. The Agreement further provides that the term can be extended from year to year after expiration of the initial term, if approved by NKK and a majority of the directors of the Company who were not then, and never have been, employees of NKK. The Agreement has been extended through calendar year 2000 in accordance with this provision. Pursuant to the terms of the Agreement, the Company is obligated to reimburse NKK for the costs and expenses incurred by NKK in connection with the transfer of these employees, subject to an agreed upon cap. The cap was $7.0 million during each of 1999, 1998 and 1997 and will remain at that amount during 2000. The Company incurred expenditures of approximately $6.3 million, $6.0 million and $6.6 million under this Agreement during 1999, and 1998 and 1997, respectively. In addition, the

Company utilized various other engineering services provided by NKK and incurred expenditures of approximately $0.3 million, $0.9 million and $1.3 million for these services during 1999, and 1998 and 1997, respectively.

In 1999 and 1998, cash dividends of $0.28 per share, or approximately $6.2 million, were paid on 22,100,000 shares of Class A Common Stock owned by NKK. In 1997 cash dividends of approximately $4.0 million were paid on the Preferred Stock-Series A. On December 29, 1997, all shares of Preferred Stock—Series A were redeemed. (See Note 3. Capital Structure.)

The Company prepaid related party debt of $154.3 million in June of 1997. (See Note 10. Non-Operational Income Statement Activity.)

*Affiliate Transactions*

The Company is contractually required to purchase its proportionate share of raw material production or services from certain affiliated companies. Such purchases of raw materials and services aggregated $35.8 million in 1999, $34.3 million in 1998 and $38.3 million in 1997. Additional expenses were incurred in connection with the operation of a joint venture agreement. (See Note 13. Other Commitments and Contingencies.) Accounts payable at December 31, 1999 and 1998 included amounts with affiliated companies accounted for by the equity method of $4.1 million and $3.8 million, respectively. Accounts receivable at December 31, 1999 and 1998 included amounts with affiliated companies of $5.8 million and $5.5 million, respectively.

The Company has agreed to purchase its proportionate share of the limestone production from an affiliated company, which will approximate $2 million per year. These agreements contain pricing provisions that are expected to approximate market price at the time of purchase.

The Company sold various prime and non-prime steel products to an affiliated company at prices that approximate market price. Sales totaled approximately $16.2 million in 1999, $12.6 million in 1998 and $13.1 million in 1997.

**Note 12. Environmental Liabilities**

The Company's operations are subject to numerous laws and regulations relating to the protection of human health and the environment. Because these environmental laws and regulations are quite stringent and are generally becoming more stringent, the Company has expended, and can be expected to expend in the future, substantial amounts for compliance with these laws and regulations. Due to the possibility of future changes in circumstances or regulatory requirements, the amount and timing of future environmental expenditures could vary substantially from those currently anticipated.

It is the Company's policy to expense or capitalize, as appropriate, environmental expenditures that relate to current operating sites. Environmental expenditures that relate to past operations and which do not contribute to future or current revenue generation are expensed. With respect to costs for environmental assessments or remediation activities, or penalties or fines that may be imposed for noncompliance with such laws and regulations, such costs are accrued when it is probable that liability for such costs will be incurred and the amount of such costs can be reasonably estimated. The Company has accrued an aggregate liability for such costs of approximately $6.9 million and $3.8 million as of December 31, 1999 and 1998, respectively.

The Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (''CERCLA''), and similar state statutes generally impose joint and several liability on present and former owners and operators, transporters and generators for remediation of contaminated properties regardless of fault. The

Company and certain of its subsidiaries are involved as a potentially responsible party (''PRP'') at a number of CERCLA and other environmental cleanup proceedings. At some of these sites, the Company does not have sufficient information regarding the nature and extent of the contamination, the wastes contributed by other PRPs, or the required remediation activity to estimate its potential liability. With respect to those sites for which the Company has sufficient information to estimate its potential liability, the Company has accrued an aggregate liability of approximately $13.7 million and $11.2 million as of December 31, 1999 and 1998, respectively.

The Company has also recorded reclamation and other costs to restore its shutdown coal locations to their original and natural state, as required by various federal and state mining statutes. The Company has recorded an aggregate liability of approximately $2.0 million at both December 31, 1999 and 1998 relating to these properties.

Since the Company has been conducting steel manufacturing and related operations at numerous locations for over sixty years, the Company potentially may be required to remediate or reclaim any contamination that may be present at these sites. The Company does not have sufficient information to estimate its potential liability in connection with any potential future remediation at such sites. Accordingly, the Company has not accrued for such potential liabilities.

As these matters progress or the Company becomes aware of additional matters, the Company may be required to accrue charges in excess of those previously accrued. Although the outcome of any of the matters described, to the extent they exceed any applicable accruals or insurance coverages, could have a material adverse effect on the Company's results of operations and liquidity for the applicable period, the Company has no reason to believe that such outcomes, whether considered individually or in the aggregate, will have a material adverse effect on the Company's financial condition.

**Note 13. Other Commitments and Contingencies**

The Company has an interest in DNN Galvanizing Limited Partnership, a joint venture which constructed a 400,000 ton per year continuous galvanizing line to serve North American automakers. The joint venture coats steel products for the Company and an unrelated third party. The Company is a 10% equity owner of the facility, an unrelated third party is a 50% owner and a subsidiary of NKK owns the remaining 40%. The Company is committed to utilize and pay a tolling fee in connection with 50% of the available line-time of the facility. The agreement extends for 20 years after the start of production, which commenced in January 1993.

The Company has a 50% interest in a joint venture with an unrelated third party, which commenced production in May 1994. The joint venture, Double G Coatings Company, L.P. (''Double G''), constructed a 300,000 ton per year coating facility near Jackson, Mississippi which produces galvanized and Galvalume® steel sheet for the construction market. The Company is committed to utilize and pay a tolling fee in connection with 50% of the available line-time at the facility through May 10, 2004. Double G provided a first mortgage on its property, plant and equipment and the Company has separately guaranteed $16.2 million of Double G's debt as of December 31, 1999.

The Company has entered into certain commitments with suppliers which are of a customary nature within the steel industry. Commitments have been entered into relating to future expected requirements for such commodities as coal, coke, iron ore pellets, natural and industrial gas, electricity and certain transportation and other services. Commitments have also been made relating to the supply of pulverized coal and coke briquettes. Certain commitments contain provisions which require that the Company ''take or pay'' for specified quantities without regard to actual usage for periods of up to 12 years. In 2000 and 2001 the Company has commitments with ''take or pay'' or other similar commitment provisions for approximately $291.9 million and $247.6 million, respectively. The Company fully utilized all such ''take or pay'' requirements during the past three years and purchased $350.5 million, $315.0 million and $305.5 million in 1999, 1998 and 1997, respectively, under these contracts. The Company believes that production requirements will be such that consumption of the products or services purchased under these commitments will occur in the normal production process. The Company also believes that pricing mechanisms in the contracts are such that the products or services will approximate the market price at the time of purchase.

The Company is involved in various routine legal proceedings which are incidental to the conduct of its business. Management believes that the Company is not party to any pending legal proceeding which, if decided adversely to the Company, would individually or in the aggregate, have a material adverse effect on the Company.

## Note 14. Risk Management Contracts

In the normal course of business, operations of the Company are exposed to continuing fluctuations in commodity prices, foreign currency values, and interest rates that can affect the cost of operating, investing, and financing. Accordingly, the Company addresses a portion of these risks, primarily commodity price risk, through a controlled program of risk management that includes the use of derivative financial instruments. The Company’s objective is to reduce earnings volatility associated with these fluctuations to allow management to focus on core business issues. The Company’s derivative activities, all of which are for purposes other than trading, are executed within the guidelines of a documented corporate risk management policy. The Company does not enter into any derivative transactions for speculative purposes.

The amounts of derivatives summarized in the following paragraphs indicate the extent of the Company’s involvement in such agreements but do not represent its exposure to market risk through the use of derivatives.

*Commodity Risk Management*

In order to reduce the uncertainty of price movements with respect to the purchase of zinc, the Company enters into derivative financial instruments in the form of swap contracts and zero cost collars with a major global financial institution. These contracts typically mature within one year. While these hedging instruments are subject to fluctuations in value, such fluctuations are generally offset by changes in the value of the underlying exposures being hedged. The Company had contracts to hedge future zinc requirements (up to 50% of annual requirements) in the amounts of $13.1 million and $18.5 million at December 31, 1999 and 1998, respectively. The fair value of the zinc to be purchased under these contracts approximated the contract value at December 31, 1999 and 1998.

The estimated fair value of derivative financial instruments used to hedge the Company’s risks will fluctuate over time. The fair value of commodity purchase swap contracts and zero cost collars are calculated using pricing models used widely in financial markets.

## Note 15. Long-Term Incentive Plan

The Long-Term Incentive Plan, established in 1993, has authorized the granting of options for up to 3,400,000 shares of Class B Common Stock to certain executive officers and other key employees of the Company. The Non-Employee Directors Stock Option Plan, also established in 1993, has authorized the grant of options for up to 100,000 shares of Class B Common Stock to certain non-employee directors. The exercise price of the options equals the fair market value of the Common Stock on the date of the grant. All options granted have ten year terms. Options generally vest and become fully exercisable ratably over three years of continued employment. However, in the event that termination of employment is by reason of retirement, permanent disability or death, the option must be exercised in whole or in part within 24 months of such occurrences. There were 2,122,701 and 2,390,394 options available for granting under the stock option plans as of December 31, 1999 and 1998, respectively.

The Company cancelled 563,167 options during 1998, and replaced them with Stock Appreciation Rights (“SARs”). In accordance with APB 25, the Company recorded $1.9 million of compensation expense in 1998. No compensation expense was recorded in 1999. In addition, the Company cancelled 66,666 and 241,968 SARs and converted them back to options during 1999 and 1998, respectively.

As permitted by SFAS 123, the Company has chosen to continue accounting for stock options at their intrinsic value at the date of grant consistent with the provisions of APB 25. Accordingly, no compensation expense has been recognized for the stock option plans. Had compensation cost for the option plans been determined based on the fair value at the grant date for awards in 1999, 1998, and 1997 consistent with the provisions of SFAS 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| | Dollars in millions, except EPS | | |
| Net income—pro forma | $(43.7) | $83.6 | $213.5 |
| Basic earnings per share—pro forma | (1.06) | 1.93 | 4.70 |
| Diluted earnings per share—pro forma | (1.06) | 1.93 | 4.64 |

As a result of the aforementioned replacement of stock options with SARs, a recovery of prior years' pro forma expense for those options was required in 1998 and 1997. The recovery offset compensation costs to be recorded.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Dividend yield | 3.1% | 2.7% | 2.9% |
| Expected volatility | 57.2% | 48.9% | 41.4% |
| Risk-free interest rate | 5.4% | 4.7% | 6.5% |
| Expected term (in years) | 7.0 | 6.8 | 7.0 |

A reconciliation of the Company's stock option activity and related information follows:

| | Number of Options | Exercise Price (Weighted Average) |
|---|---|---|
| Balance outstanding at January 1, 1997 | 1,159,735 | $14.03 |
| Granted | 304,500 | 9.37 |
| Forfeited | (132,470) | 12.99 |
| Cancelled and replaced with SARs | (653,265) | 14.14 |
| Balance outstanding at December 31, 1997 | 678,500 | 12.10 |
| Granted | 429,500 | 12.88 |
| Forfeited | (51,167) | 11.83 |
| Cancelled and replaced with SARs | (563,167) | 12.61 |
| SARs cancelled and converted to options | 241,968 | 12.51 |
| Balance outstanding at December 31, 1998 | 735,634 | 12.31 |
| Granted | 304,000 | 8.27 |
| Forfeited | (36,307) | 13.12 |
| SARs cancelled and converted to options | 66,666 | 12.48 |
| Balance outstanding at December 31, 1999 | 1,069,993 | $11.15 |

The following table summarizes information about stock options outstanding at December 31, 1999:

| Range of Exercise Prices | Number Outstanding at 12/31/99 | Weighted Average Remaining Life (in years) | Weighted Average Exercise Price | Number Exercisable at 12/31/99 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $5⅞ to $9 | 340,334 | 8.9 | $ 8.06 | 14,999 | $ 6.76 |
| $9 to $13 | 377,994 | 4.1 | 10.38 | 230,328 | 10.91 |
| $13 to $19 | 351,665 | 4.2 | 14.96 | 207,331 | 14.84 |
| Total | 1,069,993 | 5.7 | $11.15 | 452,658 | $12.57 |

There were 170,634 exercisable stock options with a weighted average exercise price of $13.27 as of December 31, 1998.

## Note 16. Quarterly Results of Operations (Unaudited)

Following are the unaudited quarterly results of operations for the years 1999 and 1998.

| Three Months Ended | 1999 | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Dollars in millions, except per share amounts | | | | |
| Net sales | $657.9 | $707.3 | $724.5 | $759.9 |
| Gross margin | 18.5 | 38.2 | 33.1 | 38.1 |
| Net loss | (24.1) | (4.6) | (7.6) | (6.8) |
| Basic and diluted earnings per share: | | | | |
| Net loss | $ (0.58) | $ (0.11) | $ (0.18) | $ (0.17) |

| Three Months Ended | 1998 | | | |
|---|---|---|---|---|
| | March 31 | June 30 | September 30 | December 31 |
| Dollars in millions, except per share amounts | | | | |
| Net sales | $708.4 | $747.8 | $706.4 | $685.4 |
| Gross margin | 39.9 | 60.0 | 58.8 | 63.4 |
| Unusual credit | — | — | (26.6) | — |
| Net income | 5.9 | 26.5 | 32.5 | 18.8 |
| Basic and diluted earnings per share: | | | | |
| Net income | $ 0.14 | $ 0.61 | $ 0.75 | $ 0.44 |

**Exhibit 23**

## CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the following Registration Statements:

- *Form S-8 No. 33-51991 pertaining to the 1994 and 1995 Stock Grants to Union Employees,*
- *Form S-8 No. 33-51081 pertaining to the 1993 National Steel Corporation Long Term Incentive Plan,*
- *Form S-8 No. 33-51083 pertaining to the 1993 National Steel Corporation Non-Employee Director's Stock Option Plan, and*
- *Form S-8 No. 33-61087 pertaining to the National Steel Retirement Savings Plan and National Steel Represented Employee Retirement Savings Plan;*

of our report dated January 25, 2000, with respect to the consolidated financial statements of National Steel Corporation and subsidiaries included in the Amendment No. 1 to the Annual Report (Form 10-K/A) for the year ended December 31, 1999.

ERNST & YOUNG LLP

Indianapolis, Indiana
April 3, 2000