OREGON STEEL MILLS INC
Form 10-K
March 19, 2003

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT FILED PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002 COMMISSION FILE NUMBER 1-9887

OREGON STEEL MILLS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	94-0506370
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
1000 S.W. BROADWAY SUITE 2200 PORTLAND, OREGON	97205
(Address of principal executive office)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (503) 223-9228

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

Title of each class	Name of each exchange on which registered
Common Stock, $.01 par value per share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

None

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.[X]

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
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Indicate by check mark whether the registrant (1) is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes X No
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The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant at June 28th, 2002, was approximately $153,460,617. The aggregate market value was computed by reference to the price at which the common equity was last sold as of the last business day of the registrant's most recently completed second fiscal quarter.

Indicate the number of shares outstanding of each of the registrant's classes of stock as of January 31, 2003:

COMMON STOCK, $.01 PAR VALUE	25,789,854
(Title of Class)	(Number of shares outstanding)

DOCUMENTS INCORPORATED BY REFERENCE:

Proxy statement for the Registrant's Annual Meeting of Stockholders to be held May 1, 2003 is incorporated by reference into Part III of this report.

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PART I

ITEM 1. BUSINESS

GENERAL

Oregon Steel Mills, Inc. ("Company" or "Registrant") was founded in 1926 by William G. Gilmore and was incorporated in California in 1928. The Company reincorporated in Delaware in 1974. The Company changed its name in December 1987 from Gilmore Steel Corporation to Oregon Steel Mills, Inc.

During 2002, the Company and its subsidiaries operated two steel minimills and seven finishing facilities in the western United States and Canada. The Company manufactures and markets one of the broadest lines of specialty and commodity steel products of any domestic minimill company. The Company emphasizes the cost efficient production of higher margin specialty steel products targeted at a diverse customer base located primarily west of the Mississippi River and in western Canada. The Company's manufacturing flexibility allows it to manage actively its product mix in response to changes in customer demand and individual product cycles. The Company is organized into two business units known as the Oregon Steel Division and Rocky Mountain Steel Mills ("RMSM") Division.

The Oregon Steel Division is centered on the Company's steel plate minimill in Portland, Oregon ("Portland Mill"), which supplies steel for the Company's steel plate and large diameter pipe finishing facilities. The Oregon Steel Division's steel pipe mill in Napa, California ("Napa Pipe Mill") is a large diameter steel pipe mill and fabrication facility. The Oregon Steel Division also produces large diameter pipe and electric resistance welded ("ERW") pipe at its 60% owned pipe mill in Camrose, Alberta, Canada ("Camrose Pipe Mill").

The RMSM Division consists of steelmaking and finishing facilities of CF&I Steel, L.P. ("CF&I") (dba Rocky Mountain Steel Mills) located in Pueblo, Colorado ("Pueblo Mill"). The Company owns 87% of New CF&I, Inc. ("New CF&I"), which owns a 95.2% general partnership interest in CF&I. In addition, the Company owns directly a 4.3% limited partnership interest in CF&I. The Pueblo Mill is a steel minimill which supplies steel for the Company's rail, rod and bar, and seamless tubular finishing mills.

OREGON STEEL DIVISION

PORTLAND MILL. The Portland Mill is the only hot-rolled steel plate minimill and steel plate production facility in the eleven western states. The Portland Mill has the capability to produce slab thicknesses of 6", 7", 8" or 9" and finished steel plate in widths up to 136".

During 1997, the Company completed the construction of a Steckel Combination Mill ("Combination Mill") at its Portland Mill. The project included installation of a new reheat furnace, a 4-high rolling mill with coiling furnaces, a vertical edger, a down coiler, on-line accelerated cooling, hot leveling and shearing equipment, extended roll lines, and a fully automated hydraulic gauge control system.

The Combination Mill gives the Company the ability to produce steel plate in commercially preferred dimensions and sizes, increase its manufacturing flexibility and supply substantially all the Company's plate requirements for large diameter line pipe, as well as coiled plate for applications such as the smaller diameter ERW pipe manufactured at the Camrose Pipe Mill. The Combination Mill produces discrete steel plate in widths from 48" to 136" and in thicknesses from 3/16" to 8". Coiled plate can be produced in widths of 48" to 120" and in thicknesses that range from 0.09" to 0.75". With the Combination Mill, the Company is in a position to produce all grades of discrete steel plate and coiled plate for all of the Company's commodity and specialty plate markets, including heat-treated applications.

NAPA PIPE MILL. The Napa Pipe Mill produces large diameter steel pipe of a quality suitable for use in high pressure oil and gas transmission pipelines. The Napa Pipe Mill can produce pipe with an outside diameter ranging from 16" to 42", with wall thicknesses of up to 1-1/16" and in lengths of up to 80 feet, and can process two different sizes of pipe simultaneously in its two finishing sections. Although the Portland Mill can supply substantially all of the Napa Pipe Mill's specialty plate

requirements, due to market conditions and other considerations, the Napa Pipe Mill may purchase steel plate from third-party suppliers.

CAMROSE PIPE MILL. The Company acquired a 60% interest in the Camrose Pipe Mill in June 1992 from Stelco, Inc. ("Stelco"), a large Canadian steel producer. The Camrose Pipe Mill has two pipe manufacturing mills, a large diameter pipe mill similar to the Napa Pipe Mill and an ERW pipe mill which produces steel pipe used by the oil and gas industry. The large diameter pipe mill produces pipe in lengths of up to 80 feet with a diameter ranging from 20" to 42". The ERW mill produces pipe in sizes ranging from 4.5" to 16" in diameter.

See Part I, Item 2, "Properties", for discussion of the operating capacities of the Portland Mill, the Napa Pipe Mill and the Camrose Pipe Mill.

RMSM DIVISION

On March 3, 1993, New CF&I, a wholly-owned subsidiary of the Company, acquired a 95.2% interest in a newly formed limited partnership, CF&I Steel, L.P. ("CF&I"), a Delaware limited partnership. The remaining 4.8% interest was owned by the Pension Benefit Guaranty Corporation ("PBGC"). CF&I then purchased substantially all of the steelmaking, fabricating, metals and railroad business assets of CF&I Steel Corporation. In August of 1994, New CF&I sold a 10% equity interest in New CF&I to a subsidiary of Nippon Steel Corporation ("Nippon"). In connection with that sale, Nippon agreed to license to the Company a proprietary technology for producing deep head-hardened ("DHH") rail products as well as to provide certain production equipment to produce DHH rail. In November 1995, the Company sold equity interests totaling 3% in New CF&I to two subsidiaries of the Nissho Iwai Group ("Nissho Iwai"), a large Japanese trading company. In 1997, the Company purchased the 4.8% interest in CF&I owned by the PBGC. In 1998, the Company sold a 0.5% interest in CF&I to a subsidiary of Nippon.

Shortly after the acquisition of the Pueblo Mill in 1993, the Company began a series of major capital improvements designed to increase yields, improve productivity and quality and expand the Company's ability to offer specialty rail, rod and bar products. The primary components of the capital improvements at the Pueblo Mill are outlined below.

STEELMAKING. The Company installed a ladle refining furnace and a vacuum degassing facility and upgraded both continuous casters. During 1995, the Company eliminated ingot casting and replaced it with more efficient continuous casting methods that allow the Company to cast directly into blooms. These improvements expanded the Pueblo Mill steelmaking capacity to 1.2 million tons.

ROD AND BAR MILL. At the time of its acquisition, the rod and bar mills at the Pueblo Mill were relatively old and located in separate facilities, which resulted in significant inefficiencies as the Company shifted production between them in response to market conditions. In 1995, the Company commenced operation of a new combination rod and bar mill with a new reheat furnace and a high speed rod train, capable of producing commodity and specialty grades of rod and bar products. These improvements enable the Company to produce a wider range of high margin specialty products, such as high-carbon rod, merchant bar and other specialty bar products, and larger rod coil sizes, which the Company believes are preferred by many of its customers.

RAIL MANUFACTURING. At the time of the Company's acquisition of the Pueblo Mill, rail was produced by ingot casting using energy-intensive processes with significant yield losses as the ingots were reheated, reduced to blooms and then rolled into rail. Continuous casting has increased rail yields and decreased rail manufacturing costs. In 1996, the Company invested in its railmaking capacity by entering into the agreement with Nippon for the license of its proprietary technology to produce DHH rail, and acquired the production equipment necessary to produce the specialty rail. DHH rail is considered by the rail industry to be longer lasting and of higher quality than rail produced using conventional methods and, accordingly, the DHH rail usually has a corresponding higher average selling price. The Company believes it is able to meet the needs of a broad array of rail customers with both traditional and DHH rail.

SEAMLESS PIPE. Seamless pipe produced at the Pueblo Mill consists of seamless casing, coupling stock and standard and line pipe. Seamless pipe casing is used as a structural retainer for the walls of oil or gas wells. Standard and line pipe are used to transport liquids and gasses both above and

underground. The Company's seamless pipe mill is equipped to produce the most widely used sizes of seamless pipe (7" outside diameter through 10-3/4" outside diameter) in all standard lengths. The Company's production capability includes carbon and heat treated tubular products. The Company also sells semi-finished seamless pipe (referred to as green tubes) for processing and finishing by others.

See Part I, Item 2, "Properties", for discussion of the operating capacities of the Pueblo Mill.

PRODUCTS

OVERVIEW

The Company manufactures and markets one of the broadest lines of specialty and commodity steel products of any domestic minimill company. Through acquisitions and capital improvements, the Company has expanded its range of finished products from two in 1991, discrete plate and large diameter welded pipe, to eight currently by adding ERW pipe, rail, rod, bar, seamless pipe and coiled plate. It has also expanded its primary selling region from the western United States to national and international markets. (See Note 3 to the Consolidated Financial Statements.)

The following chart identifies the Company's principal products and the primary markets for those products.

	PRODUCTS	MARKETS
OREGON STEEL DIVISION	Specialty steel and coiled plate	Steel service centers Heavy equipment manufacturers Railcar manufacturers Pressure vessel manufacturers Welded pipe mills
	Commodity steel and coiled plate	Steel service centers Construction Ship and barge manufacturers Heavy equipment manufacturers
	Large diameter steel pipe	Oil and petroleum natural gas transmission pipelines Construction
	Electric resistance welded (ERW) pipe	Oil and natural gas line pipe Construction
RMSM DIVISION	Rail	Rail transportation
	Rod and Bar products	Construction Durable goods Capital equipment
	Seamless pipe	Oil and petroleum producers
	Semi-finished	Seamless tube mills

The following table sets forth for the period indicated the tonnage shipped and the Company's total shipments by product class:

PRODUCT CLASS	TONS SHIPPED 2002	2001	2000
Oregon Steel Division:			
Steel Plate	402,000	463,100	709,900
Coiled Plate	65,600	8,900	16,900
Large Diameter Steel Pipe	444,600	281,300	71,300
Electric Resistance Welded Pipe	34,800	76,400	73,400
Total Oregon Steel Division	947,000	829,700	871,500
RMSM Division:			
Rail	384,100	246,000	314,700
Rod and Bar	419,700	432,500	395,100
Seamless Pipe (FN1)	30,000	97,700	10,400
Semi-finished	2,700	4,700	36,800
Total RMSM Division	836,500	780,900	757,000
Total Company	1,783,500	1,610,600	1,628,500

(FN1) The Company suspended operation at the seamless pipe mill from May 1999 to September 2000, from November 2001 to April 2002 and from mid-August 2002 to mid-September 2002.

OREGON STEEL DIVISION

STEEL PLATE AND COIL. The Company's specialty grade and commodity steel plate is produced at the Portland Mill on the Combination Mill. The Combination Mill allows for the production of discrete plate widths up to 136" and coiled plate up to 120" wide. The majority of steel plate is commonly produced and consumed in standard widths and lengths, such as 96" x 240". Specialty steel plate consists of hot-rolled carbon, high-strength-low-alloy, alloy and heat-treated steel plate. Specialty steel plate has superior strength and performance characteristics as compared to commodity steel plate and is typically made to order for customers seeking specific properties, such as improved malleability, hardness or abrasion resistance, impact resistance or toughness, higher strength and the ability to be more easily machined and welded. These improved properties are achieved by chemically refining the steel by either adding or removing specific elements, and by accurate temperature control while hot-rolling or heat-treating the plate. Specialty steel plate is used to manufacture railroad cars, mobile equipment, bridges and buildings, pressure vessels and machinery components. Commodity steel plate is used in a variety of applications such as the manufacture of storage tanks, machinery parts, ships and barges, and general load bearing structures. Coiled plate is the feeder stock for the manufacture of ERW pipe, welded tubing, spiral welded

pipe and for conversion into cut-to-length plate.

The heat-treating process of quenching and tempering improves the strength, toughness, and hardness of the steel. Quenched and tempered steel is used extensively in the mining industry, the manufacture of heavy transportation equipment, construction and logging equipment, and armored vehicles for the military. In early 1994, the Company installed a hot leveler at the heat-treat facility which flattens the steel plate following heat-treatment and ensures that the steel plate will retain its desired shape after cooling. These additions enable the Company to manufacture a superior hardened plate product.

LARGE DIAMETER STEEL PIPE. The Company manufactures large diameter, double submerged arc-welded ("DSAW") steel pipe at its Napa and Camrose Pipe Mills. Large diameter pipe is manufactured to demanding specifications and is produced in sizes ranging from 16" to 42" in outside diameter with wall thickness of up to 1 1/16" and in lengths of up to 80 feet. At the pipe mills, the Company also offers customers several options, which include internal linings, external coatings, double end pipe joining and, at the Napa Pipe Mill, full body ultrasonic inspection. Ultrasonic inspection allows examination of the ends, long seam welds and the entire pipe body for steelmaking or pipemaking defects and records the results. The Company's large diameter pipe is used primarily in pressurized underground or underwater oil and gas transmission pipelines where high quality is absolutely necessary.

The Company's ability to produce high-quality large diameter pipe and other specialty steel plate products was enhanced by the installation of the vacuum degassing facility at the Portland Mill in 1993. The vacuum degassing process reduces the hydrogen content of the final product, which increases its resistance to hydrogen-induced cracking. The vacuum degassing facility enables the Company to produce some of the highest quality steel plate and line pipe steel.

ERW PIPE. The Company produces smaller diameter ERW pipe at the Camrose Pipe Mill. ERW pipe is produced in sizes ranging from approximately 4.5" to 16" in diameter. The pipe is manufactured using coiled steel formed on a high frequency ERW mill. The principal customers for this product are oil and gas companies that use it for gathering lines to supply product to feed larger pipeline systems.

RMSM DIVISION

RAIL. The Company produces standard carbon and high-strength head-hardened rail at its Pueblo Mill. The Pueblo Mill is the sole manufacturer of rail west of the Mississippi River and one of only two rail manufacturers in the Western Hemisphere. Rails are manufactured in the six most popular rail weights (ranging from 115 lb/yard through 141 lb/yard), in 39 and 80-foot lengths. The primary customers for the Pueblo Mill's rail are the major western railroads, with an increased share of the eastern railroad business in recent years. The Company has also developed a major presence in the Canadian and Mexican rail markets. Rail is also sold directly to rail contractors, transit districts and short-line railroads.

As part of its capital improvement program, the Company improved its rail manufacturing facilities to include the production of in-line head-hardened rail. In-line head-hardened rail is produced through a proprietary technology, known as deep head-hardened or DHH technology, which is licensed from a third party. In 2002, the Company produced approximately 144,000 tons of head-hardened product using the DHH technology. The in-line DHH technology allows the Company to produce head-hardened product up to the capacity of the rail facility. Rail

produced using the improved in-line technology is considered by many rail customers to be longer lasting and of higher quality than rail produced with traditional off-line techniques. In 2001, the Pueblo Mill began producing and marketing an improved head-hardened rail called High Carbon Pearlite ("HCP"). This rail metallurgy was designed for heavy application situations such as heavy tonnage curves.

ROD AND BAR PRODUCTS. The Company's rod and bar mill located at the Pueblo Mill is able to produce coils of up to 6,000 pounds. The improved steel quality and finishing capabilities allow the Company to manufacture rods up to 1" in diameter, and to manufacture a variety of high-carbon rod products such as those used for spring wire, wire rope and tire bead. The Company produces several sizes of coiled rebar in the most popular grades for the reinforcement of concrete products.

SEAMLESS PIPE. The Company's seamless pipe mill at the Pueblo Mill produces seamless casing, coupling stock and standard and line pipe. The primary use of these products is in the transmission and recovery of oil and natural gas resources, through either above ground or subterranean pipelines. The seamless mill produces both carbon and heat-treated tubular products. The Company also markets green tubes to other tubular mills for processing and finishing. Due to market conditions, operation at the seamless pipe mill was suspended from May 1999 to September 2000, from November 2001 to April 2002 and from mid-August 2002 to mid-September 2002.

RAW MATERIALS AND SEMI-FINISHED SLABS

The Company's principal raw material for the steel minimills at the Portland and Pueblo Mills is ferrous scrap metal derived from, among other sources, junked automobiles, railroad cars and railroad track materials and demolition scrap from obsolete structures, containers and machines. In addition, direct-reduction iron ("DRI"), hot-briquetted iron ("HBI") and pig iron (collectively "alternate metallics") can substitute for a limited portion of the scrap used in minimill steel production, although the sources and availability of alternate metallics are substantially more limited than those of scrap. The purchase prices for scrap and alternate metallics are subject to market forces largely beyond the control of the Company, and are impacted by demand from domestic and foreign steel producers, freight costs, speculation by scrap brokers and other conditions. The cost of scrap and alternate metallics to the Company can vary significantly, and the Company's product

prices often cannot be adjusted, especially in the short-term, to recover the costs of increases in scrap and alternate metallics prices.

The long-term demand for steel scrap and its importance to the domestic steel industry may increase as steelmakers continue to expand scrap-based electric arc furnace capacity; however, the Company believes that near-term supplies of steel scrap will continue to be available in sufficient quantities at competitive prices. In addition, while alternate metallics are not currently cost competitive with steel scrap, a sustained increase in the price of steel scrap could result in increased implementation of these alternative materials.

With the expanded finishing capability available to the Company from the 1997 completion of the Combination Mill, along with the manufacturing flexibility to purchase semi-finished steel slabs at a lower cost, the Company has consequently purchased material quantities of semi-finished steel slabs on the open market for the Portland Mill since 1999 and each year thereafter. These purchases are made on the spot market and are dependent upon slab availability. The slab market and pricing are subject to significant volatility and slabs may not be available at reasonable prices in the future.

From mid-January to March 2003, the Company temporarily shut down its Portland Mill melt shop in response to both adverse market conditions and a high level of slab inventories at the end of 2002. The melt shop resumed operations in early March 2003, however, the Company expects a further temporary closure to occur on or about May 2003. The Company has forecasted that semi-finished slab purchases for the Portland Mill will meet the majority of its production needs for 2003. The Company is assessing the short and long term operation of the melt shop and considering the feasibility of producing semi-finished slabs versus the availability and cost of similar slabs for purchase. The book value of assets and other commitments associated with the melt shop operations ("Melt Shop Assets") was approximately $42 million at December 31, 2002. In the event the Company were to permanently cease production at the Portland Mill melt shop, the Company would expense the associated Melt Shop Assets with a charge to operating income.

MARKETING AND CUSTOMERS

Steel products are sold by the Company principally through its own sales organizations, which have sales offices at various locations in the United States and Canada and, as appropriate, through foreign sales agents. In addition to selling to customers who consume steel products directly, the Company also sells to intermediaries such as steel service centers, distributors, processors and converters.

The sales force is organized both geographically and by product line. The Company has separate sales forces for plate, coiled plate, large diameter steel pipe, ERW pipe, rod and bar, seamless pipe and rail products. Most of the Company's sales and are initiated by contacts between sales representatives and customers. Accordingly, the Company does not incur substantial advertising or other promotional expenses for the sale of its products. Except for contracts entered into from time to time to supply rail and large diameter steel pipe to significant projects (see Part II, Item 7 "Management's Discussion and Analysis of Financial Conditions and Results of Operation"), the Company does not have any significant ongoing contracts with customers, and orders placed with the Company generally are cancelable by the customer prior to production. Although no single customer or group of affiliated customers represented more than 10% of the Company's sales revenue in 2000 and 2001, during 2002 the Company had sales to one customer, Kern River Gas Transmission Company, which accounted for nearly 20% of its total revenue for the year. It is not expected that sales to any customer in 2003 will represent more than 10% of total sales.

The Company does not have a general policy permitting return of purchased steel products except for product defects. The Company does not routinely offer extended payment terms to its customers.

The demand for a majority of the Company's products is not generally subject to significant seasonal trends. The Company's rail products are impacted by seasonal demand, as dictated by the major railroads' procurement schedules. Demand for oil country tubular goods ("OCTG"), which include both seamless pipe and ERW pipe, can be subject to seasonal factors, particularly for sales to Canadian customers. Overall demand for OCTG is subject to significant fluctuations due to the volatility of oil and gas prices and North American drilling activity as well as other factors includ-

ing competition from imports. The Company does not have material contracts with the United States government and does not have any major supply contracts subject to renegotiation.

OREGON STEEL DIVISION

SPECIALTY STEEL PLATE. Customers for specialty steel are located throughout the United States, but the Company is most competitive west of the Mississippi River, where transportation costs are less of a factor. Typical customers include steel service centers and equipment manufacturers. Typical end uses include pressure vessels, construction and mining equipment, machine parts, rail cars and military armor.

COMMODITY STEEL PLATE. Most of the customers for the Company's commodity steel plate are located in the western United States, primarily in the Pacific Northwest. The Company's commodity steel plate is typically sold to steel service centers, fabricators and equipment manufacturers. Service centers typically resell to other users with or without additional processing such as cutting to a specific shape. Frequent end uses of commodity steel plate include the manufacture of rail cars, storage tanks, machinery parts, bridges, barges and ships.

LARGE DIAMETER STEEL PIPE. Large diameter steel pipe is marketed on a global basis, and sales generally consist of a small number of large orders from natural gas pipeline companies, public utilities and oil and gas producing companies. The Company believes that the quality of its pipe enables it to compete effectively in international as well as domestic markets. Domestically, the Company has historically been most competitive in the steel pipe market west of the Mississippi River. The Camrose Pipe Mill is most competitive in western Canada. Sales of large diameter pipe generally involve the Company responding to requests to submit bids.

ERW PIPE. The principal customers for ERW pipe produced at the Camrose Pipe Mill are in the provinces of Alberta and British Columbia, where most of Canada's natural gas and oil reserves are located. The Company believes its proximity to these gas fields gives the Company a competitive advantage. Demand for ERW pipe produced at the Camrose Pipe Mill is largely dependent on the level of exploration and drilling activity in the gas fields of western Canada.

RMSM DIVISION

RAIL. The primary customers for the Pueblo Mill's rail are the major western railroads, with an increased share of the eastern railroad business in recent years. The Company has also developed a major presence in the Canadian and Mexican rail markets. Rail is also sold directly to rail distributors, transit districts and short-line railroads. The Company believes its proximity to the North American rail markets benefits the Company's marketing efforts.

BAR PRODUCTS. The Company sells its bar products, primarily reinforcing bar, to fabricators and distributors. The majority of these customers are located in the United States, west of the Mississippi River.

ROD PRODUCTS. The Company's wire rod products are sold primarily to wire drawers ranging in location from the Midwest to the West Coast. The demand for wire rod is dependent upon a wide variety of markets, including agricultural, construction, capital equipment and the durable goods segments. The Company entered the high carbon rod market during 1995 as a direct result of the investment in the new rolling facility. Since that time, the Company's participation in the higher margin, high carbon rod market has steadily increased, to the point where it now represents nearly two-thirds of total rod product shipments. Typical end uses of high carbon rod include spring wire, wire rope and tire bead.

SEAMLESS PIPE. The Company's seamless pipe is sold primarily through its internal sales force to a large number of oil exploration, production companies and directly to companies outside of the OCTG industry, such as

construction companies. The market for the Company's seamless pipe is primarily domestic. The demand for this product is determined in large part by the number and drilling depths of the oil and gas drilling rigs working in the United States.

COMPETITION AND OTHER MARKET FACTORS

The steel industry is cyclical in nature, and high levels of steel imports, worldwide production overcapacity and other factors have adversely affected the domestic steel industry in recent years. The Company also is subject to industry trends and conditions, such as the presence or absence of

sustained economic growth and construction activity, currency exchange rates and other factors. The Company is particularly sensitive to trends in the oil and gas, construction, capital equipment, rail transportation and durable goods segments, because these industries are significant markets for the Company's products.

Competition within the steel industry is intense. The Company competes primarily on the basis of product quality, price and responsiveness to customer needs. Many of the Company's competitors are larger and have substantially greater capital resources, more modern technology and lower labor and raw material costs than the Company. Moreover, U.S. steel producers have historically faced significant competition from foreign producers. The highly competitive nature of the industry, combined with excess production capacity in some products, results in significant sales pricing pressure for certain of the Company's products.

OREGON STEEL DIVISION

SPECIALTY STEEL PLATE. The Company's principal domestic competitor in the specialty steel plate market is Bethlehem Steel Corp. ("Bethlehem"), the largest plate producer in North America and currently operating under an October 2001 Chapter 11 bankruptcy filing. Bethlehem has reportedly accepted an $1.5 billion offer to be acquired by International Steel Group ("ISG"). In 2002, ISG acquired LTV's steel mills and Acme Steel. ISG has not publicly revealed how they plan to operate Bethlehem's plate mills. Bethlehem owns five plate mills located in Indiana, Pennsylvania, and Maryland, of which three are currently operating, with an estimated annual capacity in excess of two million tons, including the largest plate heat treating tonnage capacity in North America. Bethlehem aggressively markets to major national accounts in fabrication and heavy-duty manufacturing as a single source supplier. Although not a major competitor in the western states, U.S. Steel Corporation, located in Indiana, is the second largest domestic specialty plate producer and does represent a significant competitor in the Midwest.

COMMODITY STEEL PLATE. The Company's principal domestic commodity plate competitor is IPSCO Inc. ("IPSCO"). IPSCO brought into production a green field 120" wide Steckel mill in Iowa in 1998, with that mill operating to nearly the same specifications as the Portland Mill. IPSCO also operates a smaller 72" wide Steckel mill in Saskatchewan, Canada, and in early 2001, completed a new 120" wide Steckel mill in Mobile, Alabama. IPSCO competes primarily in the Midwest commodity plate market, in other selected target markets and in the coiled plate market throughout the U.S. Nucor Corporation's new green field plate mill (circa 2001) in Hertford, North Carolina has an operating capacity of one million tons per year, which has further increased competition in the steel plate market.

Until its shut-down in November 2001 and subsequent Chapter 11 bankruptcy filing in January 2002, Geneva Steel ("Geneva") was a major competitor of the Company in the commodity plate market. Geneva has not restarted and is generally regarded as permanently shut down and a candidate for liquidation. Geneva, located in Provo, Utah, was the only integrated steel making facility west of the Mississippi, and had historically produced approximately 1.8 million tons of commodity plate and coil per year.

LARGE DIAMETER PIPE. The Company's principal domestic competitors in the large diameter steel pipe market at this time are Berg Steel Pipe Corporation, located in Florida, and South Texas Steel, located in Texas. International competitors consist primarily of pipe producers from Japan, Europe and Canada, with the principal Canadian competitor being IPSCO. Demand for the Company's pipe in recent years is primarily a function of new construction of oil and gas transportation pipelines and to a lesser extent maintenance and replacement of existing pipelines. Construction of new pipelines domestically depends to some degree on the level of oil and gas exploration and drilling activity.

ERW PIPE. The competition in the market for ERW pipe is based on availability, price, product quality and responsiveness to customers. The need for this product has a direct correlation to the number of drilling rigs in the United States and Canada. Principal competitors in the ERW product in western Canada are IPSCO and Prudential Steel Ltd., a wholly-owned subsidiary of Maverick Tube Corporation, located in Calgary, Alberta.

RMSM DIVISION

RAIL. The majority of current rail requirements in the United States are replacement rails for existing rail lines. Imports have been a significant factor in the domestic rail market in recent

years. The Company's capital expenditure program at the Pueblo Mill provided the rail production facilities with continuous cast steel capability and in-line head-hardening rail capabilities necessary to compete with other producers. Pennsylvania Steel Technologies, a division of Bethlehem, is the only other domestic rail producer at this time.

ROD AND BAR. The competition in bar products includes a group of minimills that have a geographical location close to the markets in or around the Rocky Mountains. The Company's market for wire rod ranges from the Midwest to the West Coast. Domestic rod competitors include North Star Steel, Cascade Steel Rolling Mills, Keystone Steel and Wire for commodity grades and GS Industries, Ivaco Rolling Mills and North Star Steel for high carbon rod products.

SEAMLESS PIPE. The Company's primary competitors in seamless pipe include a number of domestic and foreign manufacturers. The Company has the flexibility to produce relatively small volumes of specified products on short notice in response to customer requirements. Principal domestic competitors include U.S. Steel Corporation and North Star Steel, a division of Cargill, for seamless product. Lone Star Steel competes with its welded ERW pipe in lieu of seamless, which is acceptable for some applications.

ENVIRONMENTAL MATTERS

The Company is subject to extensive United States and foreign, federal,

state and local environmental laws and regulations concerning, among other things, wastewater, air emissions, toxic use reduction and hazardous materials disposal. The Portland and Pueblo Mills are classified in the same manner as other similar steel mills in the industry as generating hazardous waste materials because the melting operation of the electric arc furnace produces dust that contains heavy metals. This dust, which constitutes the largest waste stream generated at these facilities, must be managed in accordance with applicable laws and regulations.

The Clean Air Act Amendments ("CAA") of 1990 imposed responsibilities on many industrial sources of air emissions, including the Company's plants. In addition, the monitoring and reporting requirements of the law subject all companies with significant air emissions to increased regulatory scrutiny. The Company submitted applications in 1995 to the Oregon Department of Environmental Quality ("DEQ") and the Colorado Department of Public Health and Environment ("CDPHE") for permits under Title V of the CAA for the Portland and Pueblo Mills, respectively. A Title V permit was issued for the Portland Mill and related operations in December 2000 and modified it in April 2002. See "Environmental Matters-RMSM Division" below for a description of CAA compliance issues relating to the Pueblo Mill. The Company does not know the ultimate cost of compliance with the CAA, which will depend on a number of site-specific factors. Regardless of the outcome of the matters discussed below, the Company anticipates that it will be required to incur additional expenses and make additional capital expenditures as a result of the law and future laws regulating air emissions.

The Company's future expenditures for installation of and improvements to environmental control facilities, remediation of environmental conditions, penalties for violations of environmental laws, and other similar matters are difficult to predict accurately. It is likely that the Company will be subject to increasingly stringent environmental standards, including those relating to air emissions, waste water and storm water discharge and hazardous materials use, storage, handling and disposal. It is also likely that the Company will be required to make potentially significant expenditures relating to environmental matters, including environmental remediation, on an ongoing basis. Although the Company has established reserves for environmental matters described below, additional measures may be required by environmental authorities or as a result of additional environmental hazards, identified by such authorities, the Company or others each necessitating further expenditures. Accordingly, the costs of environmental matters may exceed the amounts reserved. Expenditures of the nature described below or liabilities resulting from hazardous substances located on the Company's currently or previously owned properties or used or generated in the conduct of its business, or resulting from circumstances, actions, proceedings or claims relating to environmental matters, may have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows.

OREGON STEEL DIVISION

In May 2000, the Company entered into a Voluntary Clean-up Agreement with the Oregon Department of Environmental Quality ("DEQ") committing the Company to conduct an investigation of whether, and to what extent, past or present operations at the Company's Portland Mill may have affected sediment quality in the Willamette River. Based on preliminary findings, the DEQ has requested the Company to begin a full remedial investigation ("RI"), including areas of investigation throughout the Portland Mill, and implement source control as required. The Company estimates that costs of the RI study could range from $900,000 to $1,993,000 over the next two years. Based on a best estimate, the Company has accrued a liability of $1,284,000 as of December 31,

2002. The Company has also recorded a $1,284,000 receivable for insurance proceeds that are expected to cover these RI costs because the Company's insurer is defending this matter, subject to a standard reservation of rights, and is paying these RI costs as incurred. Based upon the results of the RI, the DEQ may require the Company to incur costs associated with additional phases of investigation, remedial action or implementation of source controls, which could have a material adverse effect on the Company's results of operations because it may cause costs to exceed available insurance or because insurance may not cover those particular costs. The Company is unable at this time to determine if the likelihood of an unfavorable outcome or loss is either probable or remote, or to estimate a dollar amount range for a potential loss.

In a related manner, in December 2000, the Company received a general notice letter from the U.S. Environmental Protection Agency ("EPA"), identifying it, along with 68 other entities, as a potentially responsible party ("PRP") under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") with respect to contamination in a portion of the Willamette River that has been designated as the "Portland Harbor Superfund Site." The letter advised the Company that it may be liable for costs of remedial investigation and remedial action at the site (which liability, under CERCLA, is joint and several with other PRPs) as well as for natural resource damages that may be associated with any releases of contaminants (principally at the Portland Mill site) for which the Company has liability. At this time, nine private and public entities have signed an Administrative Order of Consent ("AOC") to perform a remedial investigation/feasibility study ("RI/FS") of the Portland Harbor Superfund Site under EPA oversight. The RI/FS is expected to take three to five years to complete. The Company is a member of the Lower Willamette Group, which is funding that investigation, and it signed a Coordination and Cooperation Agreement with the EPA that binds it to all terms of the AOC. The Company's cost associated with the RI/FS for 2002 is approximately $195,000, all of which has been covered by the Company's insurer. As a best estimate of the RI/FS costs for years after 2002, the Company has accrued $600,000 as of December 31, 2002. The Company has also recorded a $600,000 receivable for insurance proceeds that are expected to cover these RI/FS costs because the Company's insurer is defending this matter, subject to a standard reservation of rights, and is paying these RI/FS costs as incurred. Although the EPA has not yet defined the boundaries of the Portland Harbor Superfund Site, the AOC requires the RI/FS to focus on an "initial study area" that does not now include the portion of the Willamette River adjacent to the Portland Mill. The study area, however, may be expanded. At the conclusion of the RI/FS, the EPA will issue a Record of Decision setting forth any remedial action that it requires to be implemented by identified PRPs. A determination that the Company is a PRP could cause the Company to incur costs associated with remedial action, natural resource damage and natural resource restoration, the costs of which may exceed available insurance or which may not be covered by insurance, which therefore could have a material adverse effect on the Company's results of operations. The Company is unable to estimate a dollar amount range for any related remedial action that may be implemented by the EPA, or natural resource damages and restoration that may be sought by federal, state and tribal natural resource trustees.

On April 18, 2001, the United Steelworkers of America (the "Union"), along with two other groups, filed suit against the Company under the citizen suit provisions of the Clean Air Act ("CAA") in U.S. District Court in Portland, Oregon. The suit alleges that the Company has violated various air emission limits and conditions of its operating permits at the Portland Mill approximately 100 times since 1995. The suit seeks injunctive relief and unspecified civil penalties. On January 30, 2003, the federal district court judge dismissed the majority of the plaintiffs' claims and limited the type of relief the plaintiffs could receive if they succeeded in proving the remaining

allegations. Subsequently, the federal magistrate granted plaintiffs leave to amend their complaint, but any amendments must be consistent with the judge's ruling, which significantly limits the claims and type of relief that may be alleged. The Company believes it has factual and legal defenses to the allegations and intends to defend the matter vigorously. Although the Company believes it will prevail, it is not presently possible to estimate the liability if there is ultimately an adverse determination.

RMSM DIVISION

In connection with the acquisition of the steelmaking and finishing facilities located at Pueblo, Colorado ("Pueblo Mill"), CF&I accrued a liability of $36.7 million for environmental remediation related to the prior owner's operations. CF&I believed this amount was the best estimate of costs from a range of $23.1 million to $43.6 million. CF&I's estimate of this liability was based on two remediation investigations conducted by environmental engineering consultants, and included costs for the Resource Conservation and Recovery Act facility investigation, a corrective measures study, remedial action, and operation and maintenance associated with the proposed remedial actions. In October 1995, CF&I and the Colorado Department of Public Health and Environment ("CDPHE") finalized a postclosure permit for hazardous waste units at the Pueblo Mill. As part of the postclosure permit requirements, CF&I must conduct a corrective action program for the 82 solid waste management units at the facility and continue to address projects on a prioritized corrective action schedule which substantially reflects a straight-line rate of expenditure over 30 years. The State of Colorado mandated that the schedule for corrective action could be accelerated if new data indicated a greater threat existed to the environment than was presently believed to exist. At December 31, 2002, the accrued liability was $29.9 million, of which $25.9 million was classified as non-current on the consolidated balance sheet.

The CDPHE inspected the Pueblo Mill in 1999 for possible environmental violations, and in the fourth quarter of 1999 issued a Compliance Advisory indicating that air quality regulations had been violated, which was followed by the filing of a judicial enforcement action ("Action") in the second quarter of 2000. In March 2002, CF&I and CDPHE reached a settlement of the Action, which was approved by the court (the "State Consent Decree"). The State Consent Decree provides for CF&I to pay $300,000 in penalties, fund $1.5 million of community projects, and to pay approximately $400,000 for consulting services. CF&I is also required to make certain capital improvements expected to cost approximately $20 million, including converting to the new single New Source Performance Standards Subpart AAa ("NSPS AAa") compliant furnace discussed below. The State Consent Decree provides that the two existing furnaces will be permanently shut down approximately 16 months after the issuance of a Prevention of Significant Deterioration ("PSD") air permit. CF&I applied for the PSD permit in April 2002. Terms of that permit are still under discussion with the State and it has not yet been issued.

In May 2000, the EPA issued a final determination that one of the two electric arc furnaces at the Pueblo Mill was subject to federal NSPS AA. This determination was contrary to an earlier "grandfather" determination first made in 1996 by CDPHE. CF&I appealed the EPA determination in the federal Tenth Circuit Court of Appeals, and that appeal is pending. CF&I has negotiated a settlement of this matter with the EPA. Under that agreement and overlapping with the commitments made to the CDPHE described below, CF&I committed to the conversion to the new NSPS AAa compliant furnace (to be completed approximately two years after permit approval and expected to cost, with all related emission control improvements, approximately $20 million), and to pay approximately $450,000 in penalties and fund certain supplemental environmental projects valued at approximately $1.1 million, including the installation of certain

pollution control equipment at the Pueblo Mill. The above mentioned expenditures for supplemental environmental projects will be both capital and non-capital expenditures. Once the settlement agreement is finalized, the EPA will file either one or two proposed federal Consent Decrees, which, if approved by the court, will fully resolve all NSPS and PSD issues. At that time CF&I will dismiss its appeal against the EPA. If the proposed settlement with the EPA is not approved, which appears unlikely, it would not be possible to estimate the liability if there were ultimately an adverse determination of this matter.

In response to the CDPHE settlement and the resolution of the EPA action, CF&I has accrued $2.8 million as of December 31, 2002, for possible fines and non-capital related expenditures.

In December 2001, the State of Colorado issued a Title V air emission permit to CF&I under the CAA requiring that the furnace subject to the EPA action operate in compliance with NSPS AA standards. This permit was modified in April 2002 to incorporate the longer compliance schedule that is part of the settlement with the CDPHE and the EPA. In September 2002, the Company submitted a request for a further extension of certain Title V compliance deadlines, consistent with a joint petition by the State and the Company for an extension of the same deadlines in the State Consent Decree. This modification gives CF&I adequate time (at least 15 1/2 months after CDPHE issues the PSD permit) to convert to a single NSPS AAa compliant furnace. Any decrease in steelmaking production during the furnace conversion period when both furnaces are expected to be shut down will be offset by increasing production prior to the conversion period by building up semi-finished steel inventory and, if necessary, purchasing semi-finished steel ("billets") for conversion into rod products at spot market prices at costs comparable to internally generated billets. Pricing and availability of billets is subject to significant volatility. However, the Company believes that near term supplies of billets will continue to be available in sufficient quantities at favorable prices.

In a related matter, in April 2000, the Union filed suit in U.S. District Court in Denver, Colorado, asserting that the Company and CF&I had violated the CAA at the Pueblo Mill for a period extending over five years. The Union sought declaratory judgement regarding the applicability of certain emission standards, injunctive relief, civil penalties and attorney's fees. On July 6, 2001, the presiding judge dismissed the suit. The 10th Circuit Court of Appeals on March 3, 2003 reversed the District Court's dismissal of the case and remanded the case for further hearing to the District Court. No decision has been yet reached whether to further appeal this ruling. While the Company does not believe the suit will have a material adverse effect on its results of operations, the result of litigation, such as this, is difficult to predict and an adverse outcome with significant penalties is possible. It is not presently possible to estimate the liability if there is ultimately an adverse determination on appeal.

LABOR MATTERS

The labor contract at CF&I expired on September 30, 1997. After a brief contract extension intended to help facilitate a possible agreement, on October 3, 1997, the Union initiated a strike at CF&I for approximately 1,000 bargaining unit employees. The parties, however, failed to reach final agreement on a new labor contract due to differences on economic issues. As a result of contingency planning, CF&I was able to avoid complete suspension of operations at the Pueblo Mill by utilizing a combination of new hires, striking employees who returned to work, contractors and salaried employees.

On December 30, 1997, the Union called off the strike and made an unconditional offer on behalf of its members to return to work. At the time of this offer, because CF&I had permanently replaced the striking employees, only a few vacancies existed at the Pueblo Mill. Since that time, vacancies have occurred and have been filled by formerly striking employees ("Unreinstated Employees"). As of December 31, 2002, approximately 773 Unreinstated Employees have either returned to work or have declined CF&I's offer of equivalent work. At December 31, 2002, approximately 157 Unreinstated Employees remain unreinstated.

On February 27, 1998, the Regional Director of the National Labor Relations Board ("NLRB") Denver office issued a complaint against CF&I, alleging violations of several provisions of the National Labor Relations Act ("NLRA"). On August 17, 1998, a hearing on these allegations commenced before an Administrative Law Judge ("Judge"). Testimony and other evidence were presented at various sessions in the latter part of 1998 and early 1999, concluding on February 25, 1999. On May 17, 2000, the Judge rendered a decision which, among other things, found CF&I liable for certain unfair labor practices and ordered as remedy the reinstatement of all 1,000 Unreinstated Employees, effective as of December 30, 1997, with back pay and benefits, plus interest, less interim earnings. Since January 1998, the Company has been returning unreinstated strikers to jobs as positions became open. As noted above, there were approximately 157 Unreinstated Employees as of December 31, 2002. On August 2, 2000, CF&I filed an appeal with the NLRB in Washington, D.C. A separate hearing concluded in February 2000, with the judge for that hearing rendering a decision on August 7, 2000, that certain of the Union's actions undertaken since the beginning of the strike did constitute misconduct and violations of certain provisions of

the NLRA. The Union has appealed this determination to the NLRB. In both cases, the non-prevailing party in the NLRB's decision will be entitled to appeal to the appropriate U.S. Circuit Court of Appeals. CF&I believes both the facts and the law fully support its position that the strike was economic in nature and that it was not obligated to displace the properly hired replacement employees. The Company does not believe that final judicial action on the strike issues is likely for at least two to three years.

In the event there is an adverse determination of these issues, Unreinstated Employees could be entitled to back pay, including benefits, plus interest, from the date of the Union's unconditional offer to return to work through the date of their reinstatement or a date deemed appropriate by the NLRB or an appellate court. The number of Unreinstated Employees entitled to back pay may be limited to the number of past and present replacement workers; however, the Union might assert that all Unreinstated Employees should be entitled to back pay. Back pay is generally determined by the quarterly earnings of those working less interim wages earned elsewhere by the Unreinstated Employees. In addition to other considerations, each Unreinstated Employee has a duty to take reasonable steps to mitigate the liability for back pay by seeking employment elsewhere that has comparable working conditions and compensation. Any estimate of the potential liability for back pay will depend significantly on the ability to assess the amount of interim wages earned by these employees since the beginning of the strike, as noted above. Due to the lack of accurate information on interim earnings for both reinstated and Unreinstated Employees and sentiment of the Union towards the Company, it is not currently possible to obtain the necessary data to calculate possible back pay. In addition, the NLRB's findings of misconduct by the Union may mitigate any back pay award with respect to any

Unreinstated Employees proven to have taken part or participated in acts of misconduct during and after the strike. Thus, it is not presently possible to estimate the liability if there is ultimately an adverse determination against CF&I. An ultimate adverse determination against CF&I on these issues may have a material adverse effect on the Company's consolidated financial condition, results of operations, or cash flows. CF&I does not intend to agree to any settlement of this matter that will have a material adverse effect on the Company. In connection with the ongoing labor dispute, the Union has undertaken certain activities designed to exert public pressure on CF&I. Although such activities have generated some publicity in news media, CF&I believes that they have had little or no material impact on its operations.

During the strike by the Union at CF&I, certain bargaining unit employees of the Colorado & Wyoming Railway Company ("C&W"), a wholly-owned subsidiary of New CF&I, refused to report to work for an extended period of time, claiming that concerns for their safety prevented them from crossing the picket line. The bargaining unit employees of C&W were not on strike, and because the other C&W employees reported to work without incident, C&W considered those employees to have quit their employment and, accordingly, C&W declined to allow those individuals to return to work. The various unions representing those individuals filed claims with C&W asserting that C&W had violated certain provisions of the applicable collective bargaining agreement, the Federal Railroad Safety Act ("FRSA"), or the Railway Labor Act. In all of the claims, the unions demand reinstatement of the former employees with their seniority intact, back pay and benefits.

The United Transportation Union, representing thirty of those former employees, asserted that their members were protected under the FRSA and pursued their claim before the Public Law Board ("PLB"). A hearing was held in November 1999, and the PLB, with one member dissenting, rendered an award on January 8, 2001 against C&W, ordering the reinstatement of those claimants who intend to return to work for C&W, at their prior seniority, with back pay and benefits, net of interim wages and benefits received elsewhere. On February 6, 2001, C&W filed a petition for review of that award and has referred the matter back to the PLB to determine the specific Relief which should be granted as to each claimant in accordance with the terms of the award. On May 23, 2002, C&W filed an appeal of the District Court's order in the United States Court of Appeals. The appeal was dismissed as being premature given that the hearing on back pay had not yet occurred. The Company does not believe an adverse determination against C&W of this matter would have a material adverse effect on the Company's results of operations.

The Transportation-Communications International Union, Brotherhood Railway Carmen Division, representing six of those former C&W employees, asserted that their members were pro-

tected under the terms of the collective bargaining agreement and pursued their claim before a separate PLB. A hearing was held in January 2001, and that PLB, with one member dissenting, rendered an award on March 14, 2001 against C&W, ordering the reinstatement of those claimants who intend to return to work for C&W, at their prior seniority, with back pay and benefits, net of interim wages earned elsewhere. As of December 31, 2002, two of the six former employees have accepted a settlement from C&W. The Company does not believe an adverse determination against C&W of this matter would have a material adverse effect on the Company's results of operations.

EMPLOYEES

As of December 31, 2002, the Company had approximately 2,000 full-time employees. Within the Oregon Steel Division, except as noted below, the employees of the Portland Mill, the Napa Pipe Mill and the corporate headquarters are not represented by a union. In December 2002, 13 employees of a small technical department at the Portland Mill voted in favor of allowing Northwest Metal Producers Association ("NWMPA") to represent them in collective bargaining with management. Approximately 50 employees at the Camrose Pipe Mill are members of the Canadian Autoworkers Union ("CAW") and are working under the terms of a collective bargaining agreement that expires in 2003. Approximately 600 employees of the RMSM Division work under collective bargaining agreements with several unions, including the United Steelworkers of America. The Company and the United Steelworkers of America have been unable to agree on terms for a new labor agreement and are operating under the terms of the Company's last contract offer, which was implemented in 1998. See "Business-Labor Matters".

The domestic employees of the Oregon Steel Division participate in the Employee Stock Ownership Plan ("ESOP"). As of December 31, 2002, the ESOP owned approximately 3% of the Company's outstanding common stock. At the discretion of the Board of Directors, common stock is contributed to the ESOP. The Company also has profit participation plans for its employees, with the exception of bargaining unit employees of Camrose and executive officers of the Company, which permit eligible employees to share in the pretax income of their operating unit. The Company may modify, amend or terminate the plans, at any time, subject to the terms of various labor agreements.

AVAILABLE INFORMATION

The public may read and copy any materials the Company file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC and that the address of that site is www.sec.gov.

The Company's Web site is www.oregonsteel.com. The Company makes available free of charge, on or through its Web site, its annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission ("SEC"). Information contained on the Company's Web site is not part of this report.

ITEM 2. PROPERTIES

OREGON STEEL DIVISION

The Portland Mill is located on approximately 143 acres owned by the Company in the Rivergate Industrial Park in Portland, Oregon, near the confluence of the Columbia and Willamette rivers. The operating facilities principally consist of an electric arc furnace, ladle metallurgy station, vacuum degasser, slab casting equipment and the Combination Mill, as well as an administrative office building. The Company's heat-treating facilities are

located nearby on a 5-acre site owned by the Company.

The Company owns approximately 152 acres in Napa, California, with the Napa Pipe Mill occupying approximately 92 of these acres. The Company also owns a 325,000 square foot steel fabricating facility adjacent to the Napa Pipe Mill. The fabricating facility is not currently operated by the Company, but is instead leased to operators on a short-term basis, and consists of industrial buildings containing equipment for the production and assembly of large steel products or components.

The Camrose Pipe Mill is located on approximately 67 acres in Camrose, Alberta, Canada, with the large diameter pipe mill and the ERW pipe mill occupying approximately four acres and three acres, respectively. In addition, there is a 3,600 square foot office building on the site. The sales staff leases office space in Calgary, Alberta, Canada. The property, plant and equipment of Camrose, and certain other assets, are collateral for the Camrose (CDN) $15 million revolving credit facility (see Note 6 to the Consolidated Financial Statements).

RMSM DIVISION

The Pueblo Mill is located in Pueblo, Colorado on approximately 570 acres. The operating facilities principally consist of two electric arc furnaces, a ladle refining furnace and vacuum degassing system, two 6-strand continuous round casters for producing semi-finished steel, and three finishing mills (a rail mill, a seamless pipe mill, and a rod and bar mill). Due to market conditions, operation at the seamless pipe mill was suspended from May 1999 to September 2000, from November 2001 to April 2002 and from mid-August 2002 to mid-September 2002.

At December 31, 2002, the Company had the following nominal capacities, which are affected by product mix:

		PRODUCTION CAPACITY	PRODUCTION IN 2002
		(TONS)	
Portland Mill:	Melting	840,000	456,600
	Finishing	1,200,000	847,000
Napa Pipe Mill:	Steel Pipe	400,000	360,700
Camrose Pipe Mill:	Steel Pipe	320,000	26,500
Pueblo Mill:	Melting	1,200,000	916,600
	Finishing Mills (FN1)	1,200,000	852,100

(FN1) Includes the production capacity and production in 2002 of 150,000 tons and 32,500 tons, respectively, of the seamless pipe mill.

The Company's 10% First Mortgage Notes due 2009 ("10% Notes") are secured, in part, by a lien on substantially all of the property, plant and equipment of the Company, exclusive of Camrose. New CF&I and CF&I (collectively, the "Guarantors") have pledged substantially all of their property, plant and equipment and certain other assets as security for their guarantees of the 10% Notes. (See Note 6 to the Consolidated Financial Statements.)

ITEM 3. LEGAL PROCEEDINGS

See Part I, Item 1, "Business - Environmental Matters", for discussion of (a) the lawsuits initiated by the Union alleging violations of the CAA, and (b) the environmental issues at the Portland Mill and RMSM.

See Part I, Item 1, "Business - Labor Matters", for the status of the

labor dispute at RMSM.

The Company is party to various other claims, disputes, legal actions and other proceedings involving contracts, employment and various other matters. In the opinion of management, the outcome of these matters should not have a material adverse effect on the consolidated financial condition of the Company.

The Company maintains insurance against various risks, including certain types of tort liability arising from the sale of its products. The Company does not maintain insurance against liability arising out of waste disposal, on-site remediation of environmental contamination or earthquake damage to its Napa Mill and related properties because of the high cost of that coverage. There is no assurance that the insurance coverage carried by the Company will be available in the future at reasonable rates, if at all.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No matters were voted upon during the fourth quarter of the year ended December 31, 2002.

EXECUTIVE OFFICERS OF THE REGISTRANT

Officers are elected by the Board of Directors of the Company to serve for a period ending with the next succeeding annual meeting of the Board of Directors held immediately after the annual meeting of stockholders.

The name of each executive officer of the Company, age as of February 1, 2003 and position(s) and office(s) held by each executive officer are as follows:

NAME	AGE	POSITION(S)	DATE ASSUMED PRESENT POSITION(S)
Joe E. Corvin	58	President and Chief Executive Officer	January 2000
L. Ray Adams	52	Vice President, Finance Chief Financial Officer and Treasurer	March 1991
Michael D. Buckentin	41	Vice President, Operations - Oregon Steel Division	July 2001
Larry R. Lawrence	55	Senior Vice President, Sales - Oregon Steel Division	July 2001
Steven M. Rowan	57	Vice President, Materials and Transportation	February 1992
Robert A. Simon	41	Vice President and General Manager - RMSM Division	September 2000

Jeff S. Stewart	41	Corporate Controller	January 2000

Each of the executive officers named above has been employed by the Company in an executive or managerial role for at least five years.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the New York Stock Exchange. At December 31, 2002, the number of common stockholders of record was 906. Information on quarterly dividends and common stock prices is shown on page 27 and incorporated herein by reference.

The Indenture under which the Company's 10% Notes were issued contains potential restrictions on new indebtedness and various types of disbursements, including common stock dividends. One of the restrictions on cash dividends is based on the cumulative amount of the Company's consolidated net income, as defined. Under that restriction, there was no amount available for cash dividends at December 31, 2002. In addition, the Company cannot pay cash dividends under its Credit Agreement without prior approval from its lenders. (See Note 6 to the Consolidated Financial Statements and Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources").

ITEM 6. SELECTED FINANCIAL DATA

	YEAR ENDED DECEMB		
	2002	2001	2000
	(IN THOUSANDS, EXCEPT TONNAGE, PER TO		
INCOME STATEMENT DATA:			
Sales (FN1)	$ 904,950	$ 780,887	$ 672,017
Cost of sales	783,940	694,941	619,016
Settlement of litigation	--	(3,391)	--
Loss (gain) on sale of assets	(1,283)	(10)	(290)
Selling, general and administrative expenses	58,600	64,300	51,486
Incentive compensation	3,761	244	698
Operating income	59,932	24,803	1,107
Interest expense	(36,254)	(35,595)	(34,936)
Other income (expense), net	2,843	3,044	4,355

Minority interests	(3,036)	(339)	(7)
Income tax benefit (expense)	(10,032)	2,159	11,216
Net income (loss) before extraordinary loss and cumulative effect of change in accounting principle	13,453	(5,928)	(18,265)
Extraordinary loss from extinguishment of debt, net of tax	(1,094)	--	--
Cumulative effect of change in accounting principle, net of tax	(17,967)	--	--
Net income (loss)	$ (5,608)	$ (5,928)	$ (18,265)
COMMON STOCK INFORMATION:			
Basic earnings (loss) per share	$ (0.21)	$ (0.22)	$ (0.69)
Diluted earnings (loss) per share	$ (0.20)	$ (0.22)	$ (0.69)
Cash dividends declared per share	$ --	$ --	$ 0.06
Weighted average common shares & common equivalents outstanding			
Basic	26,388	26,378	26,375
Diluted	26,621	26,378	26,375
BALANCE SHEET DATA (AT DECEMBER 31):			
Working capital	$150,377	$ 53,462	$ 108,753
Total assets	849,362	869,576	880,354
Current liabilities	145,085	205,607	126,748
Long-term debt	301,428	233,542	314,356
Total stockholders' equity	306,990	318,586	331,645
OTHER DATA:			
Depreciation and amortization	$ 45,868	$ 46,097	$ 46,506
Capital expenditures	$ 18,246	$ 12,933	$ 16,684
Total tonnage sold:			
Oregon Steel Division	947,000	829,700	871,500
RMSM Division	836,500	780,900	757,000
Total tonnage sold	1,783,500	1,610,600	1,628,500
Operating margin (FN2)	6.5%	2.7%	0.1%
Operating income per ton sold (FN2)	$33	$13	$1

(FN1) Includes freight revenues of $54.5 million, $54.8 million and $36.1 million, in 2002, 2001, and 2000, respectively, and sale of electricity of $19.1 million and $2.8 million in 2001 and 2000, respectively. During 2001 and 2000, the Portland Mill was the beneficiary of a committed power supply contract with a local utility company. Under the contract, the utility guaranteed to supply an amount of electricity to the mill at a fixed rate. During the west coast electricity shortage in 2000 and 2001, the Company agreed not to use a daily determined portion of the guaranteed supply and was compensated by the local utility at a daily-determined rate per megawatt/hour. The revenue from this was included in operating income because the Company made an operational choice to not use power in return for compensation rather than to produce product. There was no direct cost of sales associated with this transaction and, accordingly, the net revenue (compensation in excess of contracted price) fully impacted operating income for the period.

(FN2) Excludes settlement of litigation and gains and losses on sale of assets.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following information contains forward-looking statements, which are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements made in this report that are not statements of historical fact are forward-looking statements. Forward-looking statements made in this report can be identified by forward-looking words such as, but not limited to, "expect," "anticipate," "believe," "intend," "plan," "seek," "estimate," "continue," "may," "will," "would," "could," and similar expressions. These forward-looking statements are subject to risks and uncertainties and actual results could differ materially from those projected. These risks and uncertainties include, but are not limited to, general business and economic conditions; competitive products and pricing, as well as fluctuations in demand; the supply of imported steel and subsidies provided by foreign governments to support steel companies domiciled in their countries; changes in U.S. or foreign trade policies affecting steel imports or exports; potential equipment malfunction; work stoppages; plant construction and repair delays; reduction in electricity supplies and the related increased costs and possible interruptions of supply; changes in the availability and costs of raw materials and supplies used by the Company; costs of environmental compliance and the impact of governmental regulations; risks related to the outcome of the pending union dispute; and failure of the Company to predict the impact of lost revenues associated with interruption of the Company's, its customers' or suppliers' operations.

The consolidated financial statements include the accounts of the Company and its subsidiaries, which include wholly- owned Camrose Pipe Corporation, which through ownership in another corporation holds a 60% interest in Camrose Pipe Company ("Camrose"); and 87% owned New CF&I, which owns a 95.2% interest in CF&I. The Company also directly owns an additional 4.3% interest in CF&I. In January 1998, CF&I assumed the trade name Rocky Mountain Steel Mills. All significant intercompany balances and transactions have been eliminated.

The Company currently has two aggregated operating divisions known as the Oregon Steel Division and the RMSM Division. (See Note 2 to the Consolidated Financial Statements on discussion of the Company's aggregate reporting of its operating units). The Oregon Steel Division is centered at the Portland Mill. In addition to the Portland Mill, the Oregon Steel Division includes the Napa Pipe Mill and the Camrose Pipe Mill. The RMSM Division consists of the steelmaking and finishing facilities of the Pueblo Mill, as well as certain related operations.

The following table sets forth, for the periods indicated, the percentage of sales represented by selected income statement items and information regarding selected balance sheet data.

	YEAR ENDED DECEM	
	2002	2001

INCOME STATEMENT DATA:		
Sales	100.0%	100.0%
Cost of sales	86.6	89.0
Settlement of litigation	--	(0.4)
Loss (gain) on sale of assets	(0.1)	--
Selling, general and administrative expenses	6.5	8.2
Incentive compensation	0.4	--
Operating income	6.6	3.2
Interest expense	(4.0)	(4.6)
Other income (expense), net	0.3	0.4
Minority interests	(0.3)	(0.1)
Pretax income (loss)	2.6	(1.1)
Income tax benefit (expense)	(1.1)	0.3
Net income (loss) before extraordinary loss and cumulative effect of change in accounting principle	1.5	(0.8)
Extraordinary loss from extinguishment of debt of tax	(0.1)	--
Cumulative effect of change in accounting principle, net of tax	(2.0)	--
Net loss	(0.6)%	(0.8)
BALANCE SHEET DATA (AT DECEMBER 31):		
Current ratio	2.0:1	1.3:1
Total debt as a percentage of capitalization	47.6%	49.3%
Net book value per share	$11.90	$12.36

The following table sets forth by division, for the periods indicated, tonnage sold, revenues and average selling price per ton.

	YEAR ENDED DECEMBER 31,		
	2002	2001	2000
TOTAL TONNAGE SOLD:			
Oregon Steel Division:			
Plate and coil	467,600	472,000	726,800
Welded pipe	479,400	357,700	144,700
Total Oregon Steel Division	947,000	829,700	871,500
RMSM Division:			
Rail	384,100	246,000	314,700
Rod and Bar	419,700	432,500	395,100
Seamless Pipe (FN1)	30,000	97,700	10,400
Semi-finished	2,700	4,700	36,800

Total RMSM	836,500	780,900	757,000
Total Company	1,783,500	1,610,600	1,628,500
PRODUCT SALES (IN THOUSANDS): (FN2)			
Oregon Steel Division	$ 535,049	$ 414,994	$ 363,624
RMSM Division	315,448	291,993	269,505
Total Company	$ 850,497	$ 706,987	$ 633,129
AVERAGE SELLING PRICE PER TON:(2)			
Oregon Steel Division	$ 565	$ 500	$ 417
RMSM Division	$ 377	$ 374	$ 356
Company Average	$ 477	$ 439	$ 389

(FN1) The Company suspended operation of the seamless pipe mill from May 1999 until October 2000, from November 2001 to April 2002 and from mid-August 2002 to mid-September 2002.

(FN2) Product sales and average selling price per ton exclude freight revenues of $54.5 million, $54.8 million and $36.1 million, in 2002, 2001, and 2000, respectively, and sale of electricity of $19.1 million and $2.8 million in 2001 and 2000, respectively. During 2001 and 2000, the Portland Mill was the beneficiary of a committed power supply contract with a local utility company. Under the contract the utility guaranteed to supply an amount of electricity to the mill at a fixed rate. During the west coast electricity shortage in 2000 and 2001, the Company agreed not to use a daily determined portion of the guaranteed supply and was compensated by the local utility at a daily-determined rate per megawatt/hour. The revenue from this was included in operating income because the Company made an operational choice to not use power in return for compensation rather than to produce product. There was no direct cost of sales associated with this transaction and, accordingly, the net revenue (compensation in excess of contracted price)fully impacted operating income for the period.

The Company's long range strategic plan emphasizes the commitment to increase the Company's offering of specialty products, particularly in the plate, rail, rod and welded pipe businesses, while seeking to reduce the impact of individual product cycles on the Company's financial performance. To achieve these goals, the Company is developing additional product offerings and extending its market from the western United States to a national marketing presence.

The Company's operating results were positively affected in 2002 by, among other things, increased demand for welded pipe products. However, increased pricing pressure in plate products continued in 2002. The specialty and commodity plate markets have been impacted by both new sources of domestic supply and continued imports from foreign suppliers, which have adversely affected average selling prices for the Company's plate products. High fixed costs motivate steel producers to maintain high output levels even in the face of falling prices, thereby increasing further downward pressures on selling prices. The domestic steel industry and the Company's business are highly cyclical in nature and these factors have adversely affected the profitability of the Company.

On March 5, 2002, President Bush announced the imposition of restrictions on a wide range of steel imports for three years, including a 30%

tariff on steel plate and hot-rolled coil and a 30% tariff on imports of steel slabs in excess of 5.4 million tons in year one. The tariffs on steel plate,

coil, and slabs decline to 24% in year two and 18% in year three. The tariffs for steel slabs are for imports in excess of 5.9 million tons in year two and 6.4 million tons in year three. Imports from Mexico, a large exporter of slab to the U.S., and Canada and certain developing countries are exempted from these restrictions. This action is expected to reduce the supply of certain steel products available on the U.S. market, thereby increasing the prices domestic steel manufacturers can charge for those products. These restrictions did not materially impact either the supply or the cost of steel slabs which the Company purchases on the open market to process into steel plate and coil.

The Company expects to ship approximately 1.8 million tons of product during 2003. The Oregon Steel Division anticipates that it will ship approximately 270,000 tons of welded pipe and approximately 700,000 tons of plate and coil products during 2003. The product mix is expected to shift in terms of tons, from 51% of welded pipe and 49% of plate and coil in 2002, to approximately 25% and 75%, respectively in 2003. This shift in product mix is expected to have a material negative impact on the 2003 average sales price and operating income for the division. The RMSM Division anticipates that it will ship approximately 390,000 tons of rail, and approximately 440,000 tons of rod and bar products. Seamless pipe shipments will be dependent on market conditions in the drilling industry. While the Company anticipates that product category average selling prices will be similar in 2003 as in 2002, higher raw material and energy costs are expected to have a negative impact on the operating income for the division. Accordingly, the Company expects consolidated operating income to be significantly lower in 2003 versus 2002. However, the Company expects liquidity to remain adequate through 2003 unless there is a substantial negative change in overall economic markets.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon its consolidated financial statements, which have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"). The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates. This includes allowance for doubtful accounts, inventories, income taxes, contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. This provides a basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions, and these differences may be material.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. As of December 31, 2002, the allowance of doubtful accounts was approximately $4.4 million. In establishing a proper allowance for doubtful accounts, the Company evaluates the collectibility of its accounts receivable based on a combination of factors. In cases where management

is aware of the circumstances that may impair a specific customer's ability to meet its financial obligations, the Company records a specific allowance against amounts due from customers, and thereby reduces the net recognized receivable amount the Company reasonably believes will be collected. For all other customers, the Company evaluates the allowance for doubtful accounts based on the length of time the receivables are past due, historical collection experience, customer credit-worthiness and economic trends.

INVENTORY. The Company's inventory consists of raw materials, semi-finished, finished products and operating stores and supplies. At December 31, 2002, inventory was approximately $162.8 million. If appropriate, the Company's inventory balances are adjusted to approximate the lower of manufacturing cost or market value. No such adjustment was required in 2002. Manufacturing cost is determined using the average cost method.

ENVIRONMENTAL LIABILITIES. All material environmental remediation liabilities for non-capital expenditures, which are both probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation.

Adjustments are made when additional information is available that suggests different remediation methods or when estimated time periods are changed, thereby affecting the total cost. The best estimate of the probable cost within a range is recorded; however, if there is no best estimate, the low end of the range is recorded and the range is disclosed. Even though the Company has established certain reserves for environmental remediation, additional remedial measures may be required by environmental authorities and additional environmental hazards, necessitating further remedial expenditures, may be asserted by these authorities or private parties. Accordingly, the costs of remedial measures may exceed the amounts reserved.

LITIGATION LIABILITIES. All material litigation liabilities, which are both probable and estimable, are recorded in the financial statements based on the nature of the litigation, progress of the case, and opinions of management and legal counsel on the outcome. Adjustments are made when additional information is available that alters opinions of management and legal counsel on the outcome of the litigation. The best estimate of the probable cost within a range is recorded; however, if there is no best estimate, the low end of the range is recorded and the range is disclosed.

EMPLOYEE BENEFITS PLANS AND OTHER POST-RETIREMENT BENEFITS. Annual pension and other post-retirement benefits ("OPRB") expenses are calculated by third party actuaries using standard actuarial methodologies. The actuaries assist the Company in making estimates based on historical information, current information and estimates about future events and circumstances. Significant assumptions used in the valuation of pension and OPRB include expected return on plan assets, discount rate, rate of increase in compensation levels and the health care cost trend rate. The Company accounts for the defined benefit pension plans using Statement of Financial Accounting Standards No. 87, "EMPLOYER'S ACCOUNTING FOR PENSIONS" ("SFAS No. 87"). As a result of continuing declines in interest rates and the market value of the Company's defined benefit pension plans' assets, the Company was required to increase the minimum pension liability at December 31, 2002 by $10.5 million. This adjustment did not impact current earnings. For further details regarding the Company's benefits and post-retirement plans, see Note 11 to the Consolidated Financial Statements.

DEFERRED TAXES. Deferred income taxes reflect the differences between

the financial reporting and tax bases of assets and liabilities at year-end based on enacted tax laws and statutory tax rates. Tax credits are recognized as a reduction of income tax expense in the year the credit arises. A valuation allowance is established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

COMPARISON OF 2002 TO 2001

SALES. Consolidated sales for 2002 of $905.0 million increased $124.1 million, or 15.9%, from sales of $780.9 million for 2001. Included in 2001 sales are $19.1 million in electricity sales; the Company did not have any sales of electricity in 2002. Revenues from product sales increased 20.3% to $850.5 million in 2002 from $707.0 million in 2001. Shipments were up 10.7% at 1,783,500 tons for 2002 compared to 1,610,600 tons for 2001. The average product selling price per ton increased from $439 in 2001 to $477 in 2002. Growth in both product sales and related average selling prices were due primarily to higher shipments of welded pipe and rail products and higher rod and bar prices in 2002.

OREGON STEEL DIVISION. For 2002, the division shipped 947,000 tons of plate, coil and welded pipe products, compared to 829,700 tons in 2001. This increase was due to significantly higher shipments of welded pipe resulting from the supply of more than 370,000 tons of large diameter pipe to Kern River Gas Transmission Company, for its Kern River Expansion Project. Average selling price per ton increased in 2002 to $565 from $500 in the prior year. The increase was mainly due to a shift in product mix towards higher priced welded pipe products attributable to the Kern River Expansion Project pipe order.

RMSM DIVISION. For 2002, the division shipped 836,500 tons, compared to 780,900 tons in 2001. The increase was due to higher shipments of rail products, partially offset by decreased rod and bar shipments, as well as decreased seamless pipe and semi-finished products. Average product selling price per ton increased to $377 in 2002 from $374 in 2001. The shift of product mix to rail in 2002 was the principal reason for the improved pricing. In addition, the demand for seamless pipe remained sluggish throughout 2002, and as a result, the seamless mill was temporarily

shut down for the periods from November 2001 to April 2002 and from mid-August 2002 to mid-September of 2002.

GROSS PROFITS. Gross profit was $121.0 million, or 13.4% of sales, for 2002 compared to $85.9 million, or 11.0% of sales, for 2001. The increase of $35.1 million in gross profit was positively impacted by increased sales of high-priced welded pipe from the Napa Pipe Mill, and increased sales of rail products and higher rod and bar prices at the RMSM Division.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses ("SG&A") of $58.6 million for 2002 decreased by 8.9%, from $64.3 million for 2001. SG&A expenses decreased as a percentage of total sales to 6.5% in 2002 from 8.2% in 2001. The decrease was due to higher general adminstrative costs in 2001, including such non-recurring items as $3.1 million of seamless pipe commission fees and $4.0 million of environmental and other legal expenses reserves.

INTEREST EXPENSE. Total interest expense increased $659,000, or 1.9%, to $36.3 million in 2002, compared to $35.6 million in 2001. The Company issued its 10% First Mortgage Notes due 2009 ("10% Notes") on July 15, 2002 in order to

refinance its 11% First Mortgage Notes due 2003 ("11% Notes"). Although the Company's 10% Notes bear a lower interest rate than the 11% Notes, the Company incurred increased interest expense primarily attributable to the additional interest accrued on the 11% Notes which were outstanding concurrently with the 10% Notes for the period of July 15 to August 14, 2002. This was partially offset by the lower average borrowing levels from the Company's credit facility in 2002. In 2001, interest expense included additional expensed loan fees due to the amendment of the Company's credit facility.

INCOME TAX EXPENSE. The effective income tax expense rate was 42.7% for 2002 versus an effective income tax benefit rate of 26.7% for 2001. The effective income tax rate for 2002 varied principally from the combined state and federal statutory rate due to a 1.7 million increase in the valuation allowance for state tax credit carryforwards.

COMPARISON OF 2001 TO 2000

SALES. Consolidated sales for 2001 of $780.9 million increased $108.9 million, or 16.2%, from sales of $672.0 million for 2000. Included in 2001 sales are $19.1 million in electricity sales and $54.8 million in freight revenue. Included in 2000 sales is $2.8 million in electricity sales and $36.1 million in freight revenue. Revenues from product sales increased 11.7% to $707.0 million in 2001 from $633.1 million in 2000. Shipments were down 1.1% at 1,610,600 tons for 2001 compared to 1,628,500 tons for 2000. However, the average product selling price per ton increased from $389 in 2000 to $439 in 2001. Growth in both product sales and related average selling prices were due primarily by the shift in product mix from plate and coil products to welded and seamless pipe products. Freight revenue increased in response to product sales growth, as well as the product mix and customer preference on shipping.

OREGON STEEL DIVISION. For 2001, the division shipped 829,700 tons of plate, coil and welded pipe products, compared to 871,500 tons in 2000. This decrease was due to a weakness in market demand and also due, in large part, to the 6-day temporary curtailment at the Portland Mill during August of 2001. This curtailment was in response to the plate market decline. Despite the decline in total shipments, average selling price per ton, net of revenues from the electricity sales and shipping revenues, increased in 2001 to $500 from $417 in the prior year. The increase was in large part due to greater mix of higher priced welded pipe products attributable to the increased pipe orders at the Napa Pipe Mill. Also included in 2001 sales is $16.9 million in electricity sales. The Company sold approximately 50% of excess power load in its melting facility at the Portland Mill back to the local utility under an electricity exchange contract, which expired in October 2001.

RMSM DIVISION. For 2001, the division shipped 780,900 tons, compared to 757,000 tons in 2000. The increase was due to higher shipments of seamless pipe and rod and bar products, partially offset by decreased rail shipments caused by capital program reductions by the major railroads. Average product selling price per ton increased to $374 in 2001 from $356 in 2000. The shift of product mix to seamless pipe in 2001 was the principal reason for the improved pricing, as seamless pipe has the highest selling price per ton of all the division's products. Due to the adverse market conditions in the prior year, no seamless products were shipped during the first nine months of 2000 because the operation was temporarily shut down. While performance of seamless products

for the first half of 2001 was strong, market conditions again deteriorated as demand from oil and gas distributors decreased toward the second half of the year, due to significant decline of oil and natural gas prices. As a result, the seamless mill was temporarily shut down in November 2001 and for the balance of

the year. Also included in 2001 sales is $2.2 million in electricity sales.

GROSS PROFITS. Gross profit was $85.9 million, or 11.0%, for 2001 compared to $53.0 million, or 7.9%, for 2000. The increase of $32.9 million in gross profit was primarily related to the increased sales of high-priced welded pipe and seamless pipe products. Additionally, the sale of electricity positively impacted gross profit margin. This increase in gross profit was partially offset by continued manufacturing overhead costs at the Portland Mill that did not decline with the lower melt shop production that occurred as a result of the sale of electricity back to the local utility.

SETTLEMENT OF LITIGATION. In 2001, the Company recorded a $3.4 million gain from litigation settlements with various graphite electrode suppliers.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expenses ("SG&A") of $64.3 million for 2001 increased by 24.9%, from $51.5 million for 2000. SG&A expenses increased as a percentage of total sales to 8.2% in 2001 from 7.7% in 2000. The increase was due in part to $3.1 million in additional seamless pipe commission fees for 2001, as compared to commission fees paid in 2000 when the seamless mill was shut down for the majority of that year. In addition, shipping costs increased 18.1%, from $14.9 million in 2000 to $17.6 million in 2001. This was a direct result of higher volume of shipments on welded and seamless pipe in 2001. The remaining increase from the prior year was due to higher general and administrative costs. This included an increase in bad debt expense of $2.7 million and an increase in reserves for environmental and other legal expenses of $4.0 million.

INTEREST EXPENSE. Total interest expense increased $700,000, or 2.0%, to $35.6 million in 2001, compared to $34.9 million in 2000. The increase in interest expense in 2001 was primarily due to the acceleration of amortized loan fees, additional loan fees, and higher interest costs associated with the amendment of the Company's credit facility in the third and fourth quarters of 2001.

INCOME TAX EXPENSE. Effective income tax benefit rate was 26.7% and 38.0% for 2001 and 2000, respectively. The effective income tax rate for 2001 varied principally from the combined state and federal statutory rate due to the adjustments created by structural changes in the Company's foreign operations, and non-deductible fines and penalties.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2002, the Company's liquidity, comprised of cash, cash equivalents, and funds available under its revolving credit agreement (" Credit Agreement"), totaled approximately $94.9 million, compared to $46.3 million at December 31, 2001.

Cash flow provided by operations for 2002 was $54.1 million compared to $49.5 million in 2001. The items primarily affecting the $4.6 million increase in cash flows were - a) non-cash transactions including: 1) the write-off of $31.9 million worth of goodwill during the first quarter of 2002 resulting in a cumulative effect of change in accounting principle of $18.0 million (net of a $11.3 million tax effect and $2.6 million of minority interest); 2) a non-cash provision for deferred income taxes of $12.1 million in 2002; and 3) the refinancing of the Company's credit facility and the 11% Notes in July 2002 resulting in a $1.1 million extraordinary loss, net of taxes, on the early extinguishment of debt; b) changes in working capital requirements including: 1) increased inventories of $30.4 million versus $2.6 million in 2001; 2) a decrease of $4.6 million in net accounts receivable in 2002 versus an increase of $2.0 million in 2001; 3) a $9.1 million increase operating liabilities in 2002 versus an $18.0 million increase in 2001.

Net working capital at December 31, 2002 increased $96.9 million compared to December 31, 2001, reflecting a $36.4 million increase in current assets and a $60.5 million decrease in current liabilities. The increase in current assets was primarily due to increased cash and inventories ($20.8 million and $30.4 million, respectively). An offset to the increase in current assets was decreases in accounts receivable and deferred tax asset ($4.6 million and $9.9 million, respectively). The accounts receivable for the year ended December 31, 2002, as measured in average daily sales outstanding, decreased to 35 days, as compared to 40 days for the year ended December 31, 2001. The decrease was attributable to a faster turnover of welded pipe and rail product receivables from customers paying earlier in order to utilize cash discounts, and an increased effort on collec-

tions of receivables. The decrease in current liabilities was primarily due to a $61.6 million decrease in short-term borrowings from the Company's credit facility which was paid off with the proceeds of the 10% Notes. In addition, the Company made a series of payments totaling $14.5 million to complete the payoff of the 10-year CF&I acquisition term loan of $67.5 million, incurred by CF&I as part of the purchase price of certain assets of CF&I Steel Corporation on March 31, 1993.

As of December 31, 2002, principal payments on debt are due as follows (in thousands):

2003	-
2004-2008	-
2009	305,000
	$305,000

On July 15, 2002 the Company issued $305 million of 10% Notes in a private offering at a discount of 98.772% and an interest rate of 10%. Interest is payable on January 15 and July 15 of each year. The proceeds of this issuance were used to redeem the Company's 11% Notes (including interest accrued from June 16, 2002 until the redemption date of August 14, 2002), refinance its existing credit agreement, and for working capital and general corporate purposes. The old credit agreement, which was to expire on September 30, 2002, was replaced in July 2002 with a new $75 million credit facility that will expire on June 30, 2005. As of December 31, 2002, the Company had outstanding $305 million principal amount of 10% Notes, which bear interest at 10%. The two subsidiaries of the Company, New CF&I, Inc., and CF&I Steel, L.P. (the "Guarantors") guarantee the 10% Notes. The Notes and the guarantees are secured by a lien on substantially all the property, plant and equipment and certain other assets of the Company (exclusive of Camrose) and the Guarantors. The collateral does not include, among other things, accounts receivable and inventory. The Indenture under which the 10% Notes are issued contains restrictions on new indebtedness and various types of disbursements, including dividends, based on the cumulative amount of the Company's net income as defined. Under these restrictions, there was no amount available for cash dividends at December 31, 2002. In addition, the Company cannot pay cash dividends under its Credit Agreement without prior approval from its lenders.

As of December 31, 2002, the Company, New CF&I, Inc., CF&I Steel, L.P., and Colorado and Wyoming Railway Company are borrowers under the Credit Agreement, which will expire on June 30, 2005. At December 31, 2002, the amount available was the lesser of $70 million or the sum of the product of the Company's eligible domestic accounts receivable and inventory balances and specified advance rates. The Credit Agreement is secured by these assets in addition to a security interest in certain equity and intercompany interests of

the Company. Amounts under the Credit Agreement bear interest based on either (1) the prime rate plus a margin ranging from 0.25% to 1.00%, or (2) the adjusted LIBO rate plus a margin ranging from 2.50% to 3.25%. Unused commitment fees range from 0.25% to 0.50%. As of December 31, 2002, there was no outstanding balance due under the Credit Agreement. Had there been new borrowings in 2002, the average interest rate for the Credit Agreement would have been 5.5%. The unused line fees were 0.50%. The margins and unused commitment fees will be subject to adjustment within the ranges discussed above based on a quarterly leverage ratio. The Credit Agreement contains various restrictive covenants including a minimum consolidated tangible net worth amount, a minimum earnings before interest, taxes, depreciation and amortization ("EBITDA") amount, a minimum fixed charge coverage ratio, limitations on maximum annual capital and environmental expenditures, limitations on stockholder dividends and limitations on incurring new or additional debt obligations other than as allowed by the Credit Agreement. At December 31, 2002, $5.0 million was restricted under the Credit Agreement, $8.2 million was restricted under outstanding letters of credit, and $61.8 million was available for use.

The Company is able to draw up to $15 million of the borrowings available under the Credit Agreement to support issuance of letters of credit and similar contracts. At December 31, 2002, $8.2 million was restricted under outstanding letters of credit.

Camrose maintains a (CDN) $15 million revolving credit facility with a Canadian bank, the proceeds of which may be used for working capital and general business purposes by Camrose. The facility is collateralized by substantially all of the assets of Camrose, and borrowings under this facility are limited to an amount equal to the sum of the product of specified advance rates and Camrose's eligible trade accounts receivable and inventories. This facility expires in September

2004. At the Company's election, interest is payable based on either the bank's Canadian dollar prime rate, the bank's U.S. dollar prime rate, or LIBOR. As of December 31, 2002, the interest rate of this facility was 4.5%. Annual commitment fees are 0.25% of the unused portion of the credit line. At December 31, 2002, there was no outstanding balance due under the credit facility.

During 2002, the Company expended (exclusive of capital interest) approximately $9.0 million and $8.4 million on capital projects at the Oregon Steel Division and the RMSM Division, respectively. Despite the unfavorable net results for 2002, caused by a $18.0 million non-cash goodwill impairment charge required under the new accounting provision of FAS 142, the Company has been able to satisfy its needs for working capital and capital expenditures through operating income and, in part, through its ability to secure adequate financing arrangements. The Company believes that its anticipated needs for working capital and capital expenditures for the next twelve months will be met from funds generated from operations, and if necessary, from the available credit facility.

The Company's level of indebtedness presents other risks to investors, including the possibility that the Company and its subsidiaries may be unable to generate cash sufficient to pay the principal of and interest on their indebtedness when due. In that event, the holders of the indebtedness may be able to declare all indebtedness owing to them to be due and payable immediately, and to proceed against their collateral, if applicable. These actions would likely have a material adverse effect on the Company. In addition, the Company faces potential costs and liabilities associated with environmental compliance and remediation issues and the labor dispute at the Pueblo Mill, as

well as the potential shutdown of the melt shop at the Portland Mill. See "Business-Environmental Matters", "Business-Labor Matters" and "Business-Raw Material and Semi-Finished Slabs" for a description of those matters. Any costs or liabilities in excess of those expected by the Company could have a material adverse effect on the Company.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 2, in Part II, Item 8, "Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements".

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company has entered into certain market-risk-sensitive financial instruments for other than trading purposes, principally short-term debt.

The following discussion of market risks necessarily includes forward-looking statements. Actual changes in market conditions and rates and fair values may differ materially from those used in the sensitivity and fair value calculations discussed. Factors which may cause actual results to differ materially include, but are not limited to: greater than 10% changes in interest rates or foreign currency exchange rates, changes in income or cash flows requiring significant changes in the use of debt instruments or the cash flows associated with them, or changes in commodity market conditions affecting availability of materials in ways not predicted by the Company.

INTEREST RATE RISK

Sensitivity analysis was used to determine the potential impact that market risk exposure may have on the fair values of the Company's financial instruments, including debt and cash equivalents. The Company has assessed the potential risk of loss in fair values from hypothetical changes in interest rates by determining the effect on the present value of the future cash flows related to these market sensitive instruments. The discount rates used for these present value computations were selected based on market interest rates in effect at December 31, 2002, plus or minus 10%.

All of the Company's debt is fixed-rate debt. A hypothetical 10% decrease in interest rates with all other variables held constant would result in an increase in the fair value of the Company's fixed-rate debt by $17.7 million. A hypothetical 10% increase in interest rates with all other variables held constant would result in a decrease in the fair value of the Company's fixed-rate debt by $16.3 million. The fair value of the Company's fixed-rate debt was estimated by considering the impact of the hypothetical interest rates on quoted market prices and current yield. While changes in interest rates impact the fair value of this debt, there is no impact to earnings and cash flows because the Company intends to hold these obligations to maturity unless the Company elects to repurchase its outstanding debt securities at prevailing market prices.

FOREIGN CURRENCY RISK

In general, the Company uses a single functional currency for all receipts, payments and other settlements at its facilities. Occasionally, transactions will be denominated in another currency and a foreign currency forward exchange contract is used to hedge currency gains and losses; however,

at December 31, 2002, the Company did not have any open forward contracts.

ITEM 8. F