

## THE COMPANY

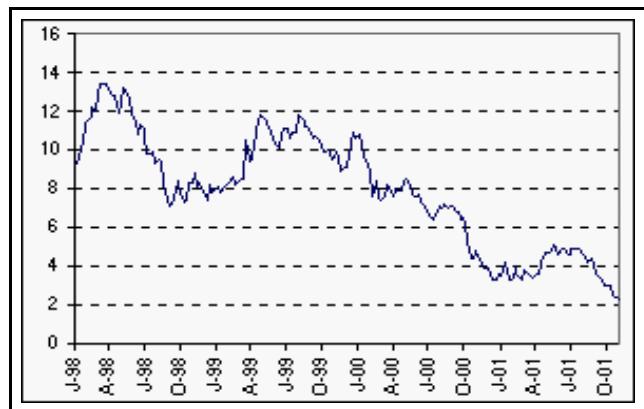
Stelco Inc. is engaged in producing, manufacturing and selling a wide variety of steel products, including flat-rolled, manufactured and tubular products. The company is one of Canada's largest steel producers with output of 5.2 million tons and net sales of over \$3.1 billion in 1999. Stelco's primary strategic objective of enhancing shareholder value is being met by improving operational performance, increasing sales of value-added products and repurchasing common shares in the open market.

## FINANCIAL DATA\*

	1999	2000	2001e
Earnings per Share (\$)	0.97	0.40	(0.70)
Price to Earnings (times)	8.2	n/a	n/a
Dividend (\$)	0.12	0.12	0.00
Dividend Yield (%)	1.50	1.50	0.00
Book Value (\$)*	13.80	9.74	9.04
Price to Book Value (times)	0.58	0.82	0.88

\* Adjusted to reflect one-time charges related to pension and other post-employment benefits, effective Jan. 1, 2000.

## HISTORICAL SHARE PRICES



## WHY ABC FUNDS BOUGHT STELCO

Despite difficult market conditions throughout the North American steel industry, Stelco has maintained profitability and has continued to operate at high capacity. An aggressive capital expenditure program is nearing completion and substantial financial benefits are expected. Operational improvements have boosted capacity, improved efficiency and resulted in meaningful cost savings. Notwithstanding excellent production numbers and a healthy balance sheet, the share price does not reflect the true value of the company.

Stelco reached a high of \$12.20 in May 1999 but its share price has retreated and currently trades around \$8.00. At this level, Stelco is priced at 8.25 times 1999 earnings of \$0.97 and pays a \$0.12 dividend, yielding 1.5%. It is important to note that effective January 1, 2000 Stelco recorded a significant charge to retained earnings to account for regulatory changes regarding pension and other post-employment benefits. However, this after-tax adjustment will neither affect cash flow nor the operations of the company. This write-down will reduce the book value to approximately \$10.00 although Stelco will still be priced at a discount to book.

Under the capable leadership of James Alfano, President and CEO, management has defined a clear strategic direction for Stelco. The company is committed to achieving several objectives, including creating and maintaining a safe workplace, preserving and enhancing the environment, improving the quality and service to customers, reducing costs and achieving greater levels of productivity. Capital expenditures have amounted to almost \$700 million since 1997 and in 2000 another \$200 million is expected to be spent on upgrading existing technology and production facilities. Once currently approved projects are completed, Stelco plans to reduce capital spending significantly and concentrate on realizing the financial gains from its revitalized asset base.

To further the objective of increasing shareholder value Stelco has begun repurchasing outstanding shares. In fiscal 1999, \$6.1 million worth of common shares were repurchased and cancelled. In the first quarter of fiscal year 2000, 1.2 million common shares were repurchased for \$9.6 million. The TSE has also accepted Stelco's notice of intention to make a normal course issuer bid for up to 5,200,000 common shares (5% of shares outstanding) before March 15, 2001. This share repurchase is anti dilutive at present prices; the reduction in the number of shares will improve earnings per share and increase its book value.

Stelco has no controlling shareholder and is an attractive takeover candidate. In order to protect the interests of its shareholders in the event of a buyout, management has adopted a shareholder rights plan. This provides Stelco, the board of directors and its shareholders time to examine any unsolicited offer and to pursue more attractive alternatives. Overall, given Stelco's extensive modernization program, improvements in steel pricing and earnings outlook, discount to book value and growing cash flow, we believe that Stelco is very undervalued and is a very attractive longer-term fundamental value holding.

## UPDATES

Stelco Inc. continues to offer excellent value for patient investors. At recent price levels, Stelco trades well below book value, at less than 7 times forecasted earnings and pays a dividend that yields approximately 1.5%. We believe that investors are currently discounting both an economic recession and a cyclical low for steel prices. However, now that a "soft-landing" scenario is more likely, a recovery in the steel sector, and especially Stelco's share price, is long overdue.

The benefits of Stelco's modernization program and various capacity upgrades are clearly translating into operational and financial gains. Annualized production for the second quarter reached 5.7 million tons and generated revenue of \$804 million for the period. On a per share basis, Stelco earned \$0.28 for the quarter. This figure included \$0.04 per share of a non-cash accounting charge related to employee benefits, as mentioned in our original analysis. If the effects of this unusual charge were removed, earnings per share would have been \$0.32, a 23% increase from the \$0.26 earned in the second quarter of last year.

Two other important issues should be noted. Firstly, Stelco has purchased 1.3 million shares in the most recent quarter as part of a normal course issuer bid for up to 5% of the common shares outstanding. Year to date, the Company has purchased approximately 2.5 million shares for a total cost of \$20.3 million. These shares were purchased approximately \$2 below book value and, as a result, the share buyback is anti-dilutive. We believe, moreover, that this share buyback is a sign of management's confidence in the business and is a proactive way of boosting per share measures of financial performance. Secondly, labour issues at Stelco-McMaster and Lake Erie Steel were resolved after members of the corresponding unions accepted Stelco's contract offer. These labour agreements are important because they will allow the Company to concentrate its efforts on efficiently running its operations without the threat of production halts.

To its credit, Stelco has been able to weather difficult market conditions over the past several years, most notably during the Asian crisis. More importantly, Stelco remained profitable throughout this period and, in fact, improved its balance sheet. In North America today, even with a cooling economy, demand for high-grade steel is expected to remain firm. We believe that Stelco will continue to be one of the most productive and profitable steel companies given the current market environment.

ABC Funds  
September 8, 2000

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After twenty-five consecutive quarters of profitability, Stelco reported a loss of \$0.07 in the third quarter of fiscal 2000. The North American steel industry was particularly weak throughout the period with under-priced imports accounting for over 45% of the domestic steel market. Stelco's financial results were also adversely affected by commissioning difficulties at Hilton Works, production halts for scheduled maintenance and escalating natural gas costs.

In response to the bleak market conditions, Stelco and other steel manufacturers initiated trade actions to stem the flood of foreign steel products. Encouragingly, imports may be slowing naturally, as fewer shipments reached the United States in each of the past two months. Further, Canadian steel service centre inventories fell to 4.1 months of supply in October from 4.4 months in September. Despite these relatively positive developments, we have adjusted our financial estimates to reflect a more gradual steel price recovery. However, we continue to believe that Stelco offers tremendous value for patient investors and we anticipate a rally once the outlook for the sector improves.

ABC Funds  
December 1, 2000

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The trends that had a detrimental impact on Stelco's third quarter results continued throughout the final quarter of fiscal 2000. A \$0.46 loss reported in the fourth quarter reduced earnings for the year to \$0.04 per share compared to \$0.97 in 1999. The weak results were blamed on record levels of imported steel, declining manufacturing activity and rising natural gas costs. Though times have been extremely tough for the steel industry in general, Stelco's management has taken steps to stabilize the situation. Trade actions have been initiated in co-operation with other steel manufacturers, dividends have been temporarily suspended and capital spending has been curtailed. Stelco also resolved labour issues at Stelpipe as the employees ratified a 3 ½-year labour agreement.

Going forward, Stelco has a \$250 million line of credit available to fund operations until profitability is restored. The first quarter is expected to be the trough in the earnings cycle and we are seeing some positive signs; imports are declining, inventories are shrinking and activity in manufacturing sectors is no longer dramatically slowing. The market usually anticipates an improving economic outlook and, reassuringly, we have seen some recent price support for Stelco's shares.

ABC Funds  
April 20, 2001

## UPDATES (cont'd)

Stelco has reported financial and operating results for the second quarter and the first half of 2001. While the recovery in the steel sector may be more gradual than previously anticipated, some early but encouraging signs could be inferred from the financial statements.

Although the Company reported a loss of \$0.39 per share in the second quarter compared to earnings of \$0.28 in the similar period last year, the results were better than the \$0.59 loss recorded in the first quarter of 2001. Lower volumes and depressed steel prices have been to blame for the weak results over the first half of the year, though the sequential earnings improvement was good to see. While waiting for the market conditions to improve, Stelco's management has concentrated on cost reduction and cash management. Their efforts were rewarded as cost per ton declined \$26 from the first quarter of the current fiscal year, as production volumes grew, production efficiencies were realized and natural gas prices declined. The net result was an increase in EBITDA of \$35 million and an increase in net cash of \$28 million over the course of the quarter.

We are optimistic that Stelco has weathered the worst of the steel industry's cyclical downturn. However, until Asian and European economies show greater strength, trade actions will continue to be necessary in order to protect the domestic steel producers. Antidumping duties have already been instituted against several Asian and Eastern European countries and other actions are pending. South of the border, the United States' International Trade Commission is currently investigating the extent of injury to the domestic steel industry under Section 201 of the Trade Act. The administration has indicated that Canada should be excluded from any trade restrictions and the Government of Canada is working to ensure that access to the U.S. markets is not compromised. However, the Canadian International Trade Tribunal will have to remain vigilant to ensure that foreign steel destined for the United States is not redirected into Canada.

ABC Funds

August 17, 2001

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Stelco has been one of our Value Favourites for some time now. Despite an incredibly difficult operating environment, management has proven its ability to control costs, improve the efficiency and quality of production and preserve cash. Unfortunately, every time steel demand showed early indications of improvement and price increases seemed imminent, foreign steel was dumped into the North American market. In response, the United States International Trade Commission found that foreign steel was damaging U.S. producers and is currently examining various remedies and/or penalties. However, the Canadian government and related trade bodies have shown little interest in ensuring that foreign steel is not simply diverted to our shores. Further, we believe that the economy is in the midst of a recession, which will delay any recovery in demand from the manufacturing sector.

Although we are disappointed with the outcome, our discipline as professional money managers compels us to take tax-losses when required. Therefore, we have recently sold our entire position of Stelco common shares. We will continue to monitor Stelco and at some point we might consider repurchasing the security.

ABC Funds

November 9, 2001