

Report Date: March 24, 2010

ABC Steel Corporation

100 Main Street
Pittsburgh, PA

Credit Limit Requested: \$XXX

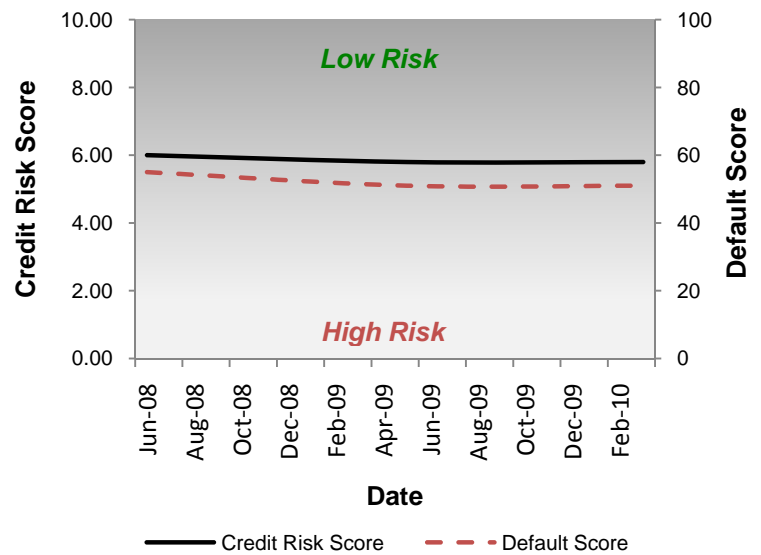
Advised Credit Limit: \$XXX

Credit Alert Recommendation: Yes

Trend Analysis

Scoring History

Date	Credit Risk Score	Default Score
June 11, 2008	6.0	55
May 7, 2009	5.8	51
Feb 1, 2010	5.8	51
March 24, 2010	5.8	51



ABC Steel Corporation (ABC Steel) operates as an integrated steel producer with major production operations in North America and Central Europe. ABC Steel is also engaged in several other business activities, most of which are related to steel manufacturing. These include the production of coke in both North America and Central Europe; and the production of iron ore pellets from taconite, transportation services (railroad and barge operations), real estate operations, and engineering and consulting services in North America.

ABC Steel has three reportable segments: Flat-rolled Products (Flat-rolled), ABCSE and Tubular Products (Tubular). The Flat-rolled segment includes ABC Steel's North American integrated steel mills involved in the production of slabs, sheets, tin mill products, strip mill plates and rounds for Tubular, as well as all coke production facilities in the ABC and Canada. These operations primarily serve North American customers in the service center, conversion, transportation (including automotive), construction, container, and appliance and electrical markets.

The ABCSE segment includes the operating results of ABCSK, ABC Steel's integrated steel mill in Slovakia; and ABC Steel Serbia (ABCSS), ABC Steel's integrated steel mill and other facilities in Serbia. ABCSE primarily serves customers in the central, western and southern European construction, service center, conversion, container, transportation (including automotive), appliance and electrical, and oil, gas and petrochemical markets. ABCSE produces and sells sheet, strip mill plate, tin mill and tubular products, as well as heating radiators and refractories.

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The Tubular segment includes the operating results of ABC Steel's tubular production facilities primarily in the ABC. These operations produce and sell both seamless and electric resistance welded tubular products and primarily serve customers in the oil, gas and petrochemical markets.

Other Businesses include the production and sale of iron ore pellets, transportation services, the management and development of real estate, and engineering and consulting services.

Credit Evaluation:

ABC Steel has been and continues to be adversely impacted by the weak global economic climate as reflected. The company has incurred consecutive net losses, expects to incur another (see the outlook below), is leveraged and reports negative cash flow.

The company incurred losses during the fourth quarter in their Flat-rolled segment (Operating Loss \$284.0 million); however, this segment improved from the third quarter, primarily due to higher pricing, improved volumes, and reduced facility restart costs. Raw steel capability utilization rates in Flat-rolled for the quarter increased to 64 percent versus 58 percent in the third quarter.

Of further significance, ABC Steel's Tubular segment returned to profitability with operating income of \$39 million in the fourth quarter of 2009, compared to an operating loss of \$21.0 million during the third quarter. The quarter or quarter improvement was primarily due to increased shipments and operating efficiencies. That being said, we feel ABC Steel's tubular markets continue to be negatively impacted by global inventory trade imbalances as it relates to imports from China.

Overall, the steel sector remains weak; however, we believe that the U.S. and global economies are in the early stages of a gradual recovery and may be supported by continued improvement in credit markets and inventory restocking.

The company is vertically integrated, well capitalized and liquid. We believe the company has also been reducing its operating costs and implementing proactive financial restructuring efforts to maximize liquidity.

Based on this assessment, we believe the requested credit limit has merit as of today; however, based on the dollar amount involved, we believe it is critical to stay close to this risk so you are positioned to react should the need arise into the future based on the company's results or macroeconomic events.

- The company's ProfitGuard Credit Risk Score is **5.8** (scale of 1 to 10 with 10 being lowest risk).
- The company's ProfitGuard Default Score is **51** (scale of 1 to 100 with 100 being lowest likelihood of default).
- The company's payment experience has ranged from 9 to 12 days beyond terms over the past year. The company is currently paying its vendors approx. 11 days beyond terms.
 - Based on 713 total payments experiences of which 239 were reported as slow.
 - We find the indication of 3 negative payment items (Collection, Dispute, or NSF).
 - Highest Credit \$9,000,000.
- We find the presence of open suits (77), liens (2), or judgments (1). May have been paid, terminated, or released.

The following financial highlights are based on the ABC Steel's consolidated 12/31/09 fiscal results:

- Net Sales \$11.0 billion, down 53% from the prior year (Q4 Net Sales \$3.3 billion).
- Net Loss \$1.4 billion, compared to Net Income \$2.1 billion in the prior year period (Q4 Net Loss \$268.0 million).
- Cash & Cash Equivalents \$1.2 billion.
- Current Assets \$5.0 billion.
- Current Liabilities \$2.4 billion.
- Current Ratio 2.08:1 with Working Capital \$2.6 billion.

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- Total Assets \$15.4 billion.
- Total Liabilities \$10.4 billion.
- Debt to Worth Coverage 2.23x.
- Tangible Net Worth \$2.7 billion.
- Negative Net Operating Cash Flow \$61.0 million for the twelve months ended 12/31/09.
- Negative Free Cash Flow \$533.0 million for the twelve months ended 12/31/09.

Liquidity

- As of December 31, 2009, ABC Steel had \$1.2 billion of cash and \$2.5 billion of total liquidity as compared to \$0.7 billion of cash and \$2.1 billion of total liquidity at December 31, 2008.

Recent Events

- March 16, 2010: ABC Steel Corp. sold \$600 million of senior notes, an increase from an originally planned \$500 million. The notes were issued at a price of 99.125 with a 7.375% coupon. The maturity date for the notes is 4/1/2020.
- Jan 12, 2010: The battle between ABC Steel Corp. and the Canadian government moved to the courtroom this week, with the government threatening to force the company to sell its Canadian operations in the hope of returning laid-off workers to their jobs and the steelmaker asking to have the case dismissed.

The Pittsburgh-based steelmaker's attorney, argued in court in Toronto Tuesday that the Investment Canada Act, under which ABC Steel reportedly agreed to staffing and production levels for its Canadian plants, is "too vague" and does not provide companies with the proper right to defend themselves, according to a Bloomberg report.

"An investor is left to guess what 'justifies non-compliance' means," Bloomberg quoted Barrack as saying.

The Canadian government is seeking as much as C\$14 million (\$13.5 million) in fines or an order forcing ABC Steel to sell the Canadian operations. ABC Steel operates two integrated steel plants in Canada. Both formerly were operated by XYZ Inc., which sold them to ABC Steel in 2007.

ABC Steel idled much of its ABC Steel Canada operations last March when economic conditions worsened, forcing the company to reduce steel production throughout North America. Several U.S. plants also were idled in the move.

Some steel production has returned to the Hamilton plant, but workers at the Nanticoke operations remain off the job in a labor dispute. Workers have been locked out of LES in Ontario since August.

The Canadian government contends that ABC Steel breached employment and production agreements it reached with Canada when it shut down the plants. According to the government, ABC Steel agreed to certain staffing levels and production requirements at the plants as conditions of government approval of its takeover of the former Steel Company.

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ABC Steel is challenging the legality of the Investment Canada Act and is seeking to have the case dismissed.

- On June 1, 2009, General Motors Corp. filed for Chapter 11 bankruptcy and ABC Steel Corporation was listed as an unsecured creditor with a balance of \$9,587,431.
- Jan 7, 2009: The company said in a press release that it filed a petition with other parties in response to a surge of Chinese seamless standard, line and pressure pipe entering the U.S. market after a September 2009 filing.

The petitioners are seeking to have remedial duties assessed on certain imports that entered the ABC after the filing of petitions, but prior to the time in which duties are normally assessed.

Under U.S. and international law, duties can be assessed on imports that entered the U.S. market up to 90 days prior to such a determination where evidence exists that the foreign producers accelerated imports in an attempt to avoid duties, ABC Steel said.

In the current case, the company added, Chinese imports of seamless standard, line and pressure pipe increased by more than 290 percent in the three months after the petition was filed, compared with the three months prior to the filing.

- May 4, 2009: ABC Steel Corporation (NYSE: ABC) announced today that it had completed its public offering of \$862,500,000 principal amount of 4% Senior Convertible Notes due 2014 and 27,140,000 shares of its Common Stock which includes \$112,500,000 aggregate principal amount of Notes and 3,540,000 shares of common stock subject to the underwriters' over-allotment options which was exercised in full. ABC Steel received net proceeds of approximately \$1,496 million and intends to use \$655 million to repay all amounts outstanding under its three-year term loan due October 2010 and five-year term loan due May 2012. The remainder of the proceeds will be used for general corporate purposes. After this offering, ABC Steel has approximately 143,315,000 shares of Common Stock outstanding.
- On April 28, 2009: ABC Steel Corporation ("ABC Steel") executed and delivered an underwriting agreement with J.P. Morgan Securities Inc. and Morgan Stanley & Co. Incorporated on behalf of themselves and the other underwriters ("Notes Underwriters") relating to the issuance and sale of \$750,000,000 aggregate principal amount of its 4.0% Senior Convertible Notes due 2014 ("Notes") and granted the Notes Underwriters an option to acquire up to an additional \$112,500,000 aggregate principal amount of the Notes. The Notes are senior unsecured obligations of ABC Steel.
- April 2, 2009: - ABC Steel Corp. said Thursday it is delaying indefinitely a \$1 billion upgrade of a coke plant near Pittsburgh to cut costs as the global economic downturn saps demand for steel. The Pittsburgh-based company has said the project at the plant was expected to create more than 600 construction jobs and ensure thousands of existing jobs. The improvements were meant to reduce environmental emissions at the plant, the country's largest production facility for coke -- coal that's baked and used as a fuel in steel making. The move was another indication of the toll taken on steel companies by the global economic crisis. ABC Steel has laid off thousands of workers since late last year, when demand and prices plummeted for the metal used in everything from autos to appliances. Last year's sudden slump came just weeks after some steel makers posted record profits. "The ongoing global economic crisis has forced the company to make difficult but necessary decisions in all areas of our operations," the company said in a statement. "These conditions have forced us to delay the Investment Program and we cannot speculate as to when conditions will improve enough to allow work to resume."

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- March 3, 2009: ABC Steel Corporation (NYSE: ABC) announced today that further consolidation is necessary to maximize efficiency while meeting customer demands. Operations to be temporarily idled over the next several weeks are the finishing and coking operations at HW in Hamilton, Ontario, and the steelmaking and finishing operations at LEW near Nanticoke, Ontario. Coking operations at LEW will continue production. Approximately 1,500 employees will be affected. Earlier today, ABC Steel representatives met with federal and provincial officials as well as representatives of the USW at these facilities to notify them of the temporary idling. ABC Steel plans to continue to temporarily concentrate production at MVW near Pittsburgh, Pa.; GW in Gary, Ind.; and FW near Birmingham, Ala. "The difficult decision to continue to temporarily consolidate our production, we believe, is a necessary response to current market conditions," said ABC Steel Chairman and CEO.
- Feb 5, 2009: More layoffs have hit the tubular operations of ABC Steel Corp., Pittsburgh. Work force reductions at its Texas, plant are coming not only from its soon-to-be defunct drawn-over-mandrel (DOM) business, but also from the energy pipe and tube business there. Randy Dean, president of United Steelworkers union Local 4134, confirmed that 159 workers have been laid off in the past week, bringing the total to 240. Feb 2, 2009: Another 100 workers are slated to be laid off at ABC Steel Canada's HW in Hamilton, Ontario, this month, primarily from the bar mill and billet and bloom areas of the steel works, Rolf Gerstenberger, president of United Steelworkers union Local 1005 said Monday. Management informed the union that poor business conditions led to the decision to temporarily shut down the bar mill. "They are not saying anything about when it might restart," he said, noting that the company shipped out its final bar orders from the mill the week before Christmas. Since late October, HW has completed orderly shutdowns of the blast furnace, steelmaking and casting facilities and conditioning mill, according to Gerstenberger. By the end of February, approximately 700 of HW 1,700 employees will have been laid off. The flat-rolled products finishing end is still running, in addition to cokemaking facilities, Gerstenberger said. "We have coke ovens running, but they're piling it up on the ground," while the blast furnace remains idled, he added. Hamilton also continues to receive hot-rolled coils from ABC Steel's LEW in, Ontario, and rolls it through the cold mill and coating lines, he said.

Outlook

Commenting on ABC Steel's outlook, CEO said, "We expect to report an overall first quarter 2010 operating loss in line with the fourth quarter 2009 as gradually improving business conditions are not yet fully reflected in our operating results. We continue to experience improved order rates from several of our end markets. Automotive, service center, converter and appliance customer order rates in North America and Europe are at or near their highest levels in the last twelve months, while in other markets, such as construction in North America, demand remains soft, but due to the low levels of inventory and the anticipated seasonal increases in activity at the end of the first quarter, our construction order book remains stable. A gradually strengthening economy should result in improvements in real demand, while apparent demand will likely be positively influenced by the restocking of the manufacturing supply chain, which we believe is under way. Relatively low levels of flat-rolled product imports, if continued, are also expected to support improved order rates. Our Tubular operations are also continuing to experience favorable demand trends, most notably in alloy product at our welded operations in East Texas. At the same time, spot market prices are increasing across all of our segments in response to increased order rates and global raw material cost pressures.

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We continue to believe that the U.S. and global economies are in the early stages of a gradual recovery. While we are becoming more optimistic, primarily due to improvements we are starting to see in the manufacturing sector, we remain cautious in our outlook for end user demand."

Flat-rolled results for first quarter 2010 are expected to be comparable to fourth quarter 2009 as the benefits of increases in average realized prices and shipments and reduced facility repair and maintenance costs are expected to be offset by the absence of approximately \$55 million of favorable effects from LIFO inventory liquidations and adjustments to employee layoff benefits. Average realized prices are expected to increase from fourth quarter 2009 as we expect to begin realizing the impact of increasing spot market prices later in the first quarter. Increases in our index-based contract prices would be realized later as higher published market price assessments enter the index calculations for future periods. We are currently making steel at six of our seven North American steelmaking locations, with the exception being our Lake Erie Works, which represents approximately ten percent of our annual Flat-rolled raw steel capability. We expect to complete maintenance work on our largest blast furnace, the #14 Blast Furnace at GW, late in the first quarter and have all available capacity in operation at these six locations before the end of the quarter. Overall, raw steel capability utilization rates are expected to increase from the fourth quarter of 2009.

First quarter 2010 results for ABCSE are expected to be comparable to the fourth quarter 2009 as the benefits of increased shipments and operating efficiencies are expected to be offset by higher raw material costs. While euro-based transaction prices are expected to be comparable to the fourth quarter, reported average realized prices are expected to be lower due to foreign currency translation effects. We expect to complete maintenance work on the #3 Blast Furnace at ABCSK in early February and operate all five of our blast furnaces for the remainder of the quarter.

We expect our Tubular operations to remain profitable in the first quarter. However, results are expected to decrease from the fourth quarter as the benefits of increased shipments are expected to be offset by increased costs as we continue to increase production to meet increased order rates, as well as the absence of the \$10 million of favorable fourth quarter items disc ABCSE above. Seamless and welded tubular product prices are expected to improve throughout the quarter, as a result of recently enacted price increases. However, reported average realized prices are expected to decrease slightly as compared to the fourth quarter due to a higher proportion of welded tubular product shipments. We expect increased operating rates at all of our pipe facilities in the first quarter, most notably our welded pipe facility in East Texas. These expected increases should also benefit our Flat-rolled operations that supply substrate requirements to our welded pipe facilities.

Capital expenditures for 2010 are expected to total approximately \$530 million and remain focused largely on environmental and other infrastructure projects. We continue to evaluate investments of long-term strategic importance, including projects to invest in production of coke and coke substitutes, given that some of our existing coke batteries are approaching the end of their useful lives, to reduce coke requirements in Serbia through coal injection, to enhance our Tubular operations in order to more efficiently serve customers' increased focus on shale natural gas resources and to allow us to increase our participation in the automotive market as vehicle emission and safety requirements become more stringent. In light of the significant capital commitment that such projects would entail over the next several years, we may seek to secure some long-term funding for such projects and general corporate purposes prior to committing to such projects.

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Total costs for pension and other benefits plans are expected to be approximately \$420 million in 2010 compared to \$462 million in 2009. Excluding the \$93 million of charges in 2009 related to various workforce reduction programs and the sale of the XYZ Company early last year, these costs are expected to increase by approximately \$50 million in 2010. Company payments for these plans in 2009 were \$657 million, which included a voluntary contribution of \$140 million to our main defined benefit pension plans, approximately \$75 million related primarily to Voluntary Early Retirement Programs, and reflects the agreement with the United Steelworkers (ABCW) to defer the 2009 mandatory contribution of \$75 million to retiree health and life insurance trusts until 2012. In 2010, we expect to make payments of approximately \$570 million before considering any voluntary contributions to our main defined benefit pension plan. As also agreed with the ABCW, we could further reduce these payments by up to \$75 million should we choose to use the 2008 mandatory contribution to cover 2010 retiree health and life insurance payments and then refund this amount in 2013. At year-end, our pension plans were underfunded on an accounting basis by approximately \$1.7 billion and other benefits plans were underfunded by approximately \$2.9 billion as compared to an underfunded status of \$2.0 billion for pension plans and \$3.1 billion for other benefit plans as of December 31, 2008.

Third Party Credit Data

Bond Rating Co.

- On March 16, 2010, Bond Rating Co. Ratings Services assigned an issue-level rating of 'BB' (the same as the corporate credit rating on the company) and a recovery rating of '3' to ABC Steel Corp.'s \$600 million 7.375% senior notes due April 1, 2020, indicating our expectation of meaningful (50% to 70%) recovery in the event of a payment default. The issue-level and recovery ratings on ABC Steel's existing senior unsecured notes remain unchanged at 'BB' and '3', respectively.
- The company's senior notes (including the new \$600 million note issue) constitute unsecured obligations of ABC Steel and are not guaranteed by the company's subsidiaries. As a result, the senior notes are structurally subordinated to all liabilities of ABC Steel's subsidiaries and are effectively subordinated to ABC Steel's secured obligations (including capital lease obligations) to the extent of the value of the collateral supporting those obligations.
- Although our recovery analysis of ABC Steel's unsecured debt indicates the potential for recovery in excess of the 50% to 70% range applicable to a '3' recovery rating, in accordance with our methodology we have capped recovery ratings for the company's unsecured debt at '3'. In our view, default and valuation modeling is more difficult for high-speculative-grade companies, and unsecured creditors are more likely to be negatively affected by capital structure changes. As a result, Bond Rating Co. generally caps recovery ratings on unsecured debt of 'BB' rating category companies at '3' (which effectively caps the issue level rating at the corporate credit rating level). This is to account for the risk that recovery prospects for unsecured creditors could be impaired prior to an actual default as a result of incurrences of additional priority or pari passu debt, the potential for asset sales that are not accompanied by a commensurate reduction in debt prior to default, or the potential for material non-debt claims.
- According to the company's public filings, the capital structure as of Dec. 31, 2009, included:
 - An unrated \$750 million asset-based revolving credit facility (the ABL facility), secured by a majority of domestic inventory and certain accounts receivable, with borrowing availability subject to a borrowing base;

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- o €200 million (approximately \$288 million) drawn under unrated revolving credit facilities with an aggregate commitment of €270 million for its operations in Slovakia (ABCSK), an unrated €40 million revolving credit facility, and an 800 million Serbian dinar overdraft facility for its operations in Serbia (ABCSS);
- o Obligations under environmental revenue bonds of \$458 million;
- o C\$150 million (approximately \$142 million) under a term note owed to the Province of Ontario by ABC Steel Canada;
- o Capital lease and other obligations of approximately \$59 million;
- o A \$500 million receivables purchase facility (unutilized); and
- o Approximately \$3.063 billion of senior unsecured notes (after giving effect to the new notes).

SAMPLE

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