Financial Condition and Liquidity

We believe that internally generated funds, current cash on hand and available borrowings under existing secured credit lines will be adequate to meet foreseeable liquidity needs. We have not borrowed funds under our primary credit facilities during 2003 or 2002. However, a portion of the secured credit facility is utilized to support letters of credit.

Our ability to access the credit markets in the future to obtain additional financing, if needed, will be influenced by our credit rating. In December 2003, Standard & Poor's Ratings Services lowered its long-term credit ratings for our debt to BB- from BB and we remained on CreditWatch with negative implications. In February 2004, Moody's Investor Service downgraded our senior implied rating to B1 from Ba3, our $300 million senior unsecured Notes to B3 from B2, and our guaranteed $150 million debentures to B1 from Ba3, while continuing to review our credit ratings for possible downgrades. Changes in our credit rating do not impact our access to, or cost of, our existing credit facilities.

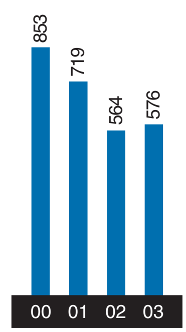
We have no off-balance sheet financing relationships with variable interest or structured finance entities.

Cash Flow and Working Capital

In 2003, cash generated by operations of $82.0 million, asset sales of $9.8 million, and proceeds from financing activities of $27.7 million were used to invest $74.4 million in capital equipment, primarily for two major capital projects (in the Flat-Rolled Products and High Performance Metals segments), pay dividends of $19.4 million, and increase cash balances by $20.2 million, to $79.6 million at December 31, 2003. In 2002, cash generated from operations of $204.2 million and net proceeds from asset sales of $9.2 million were used to reduce debt by $85.5 million, invest $48.7 million in capital equipment (primarily in the High Performance Metals segment), pay dividends of $53.2 million, and increase cash balances by $25.7 million. Cash transactions plus cash on hand at the beginning of the year resulted in an ending cash position of $59.4 million at December 31, 2002.

Managed Working Capital

($ millions)



Working capital decreased $105.1 million to $348.6 million at December 31, 2003, compared to $453.7 million at December 31, 2002. The current ratio, current assets divided by current liabilities, decreased to 1.9 at December 31, 2003 from 2.3 at December 31, 2002 primarily due to a decrease in net inventories, income tax refunds receivable, and deferred income taxes.

As part of managing the liquidity of the business, we focus on controlling inventory, accounts receivable and accounts payable. In measuring performance in controlling this managed working capital, we exclude the effects of the LIFO inventory valuation reserves, excess and obsolete inventory reserves, and reserves for uncollectible accounts receivable which, due to their nature, are managed separately. During 2003, managed working capital, which we define as gross inventory plus accounts receivable less accounts payable, increased by $11.8 million to $575.5 million at December 31, 2003. This increase in managed working capital resulted from an increase in accounts receivable due to a higher level of sales in the 2003 fourth quarter compared to the fourth quarter of 2002, and a $3.3 million increase in inventory mostly as a result of higher raw material costs, primarily nickel. Since the end of 2000, we have reduced managed working capital by $277 million, or 33%.

The components of managed working capital were as follows:

(In Millions)	December 31, 2003	December 31, 2002	December 31, 2001
Accounts receivable	$ 248.8	$ 239.3	$ 274.6
Inventory	359.7	392.3	488.9
Accounts payable	(172.3)	(171.3)	(155.3)
Subtotal	436.2	460.3	608.2
Allowance for doubtful accounts	10.2	10.1	12.3
LIFO reserve	111.7	74.7	77.2
Corporate and other	17.4	18.6	21.0
Managed working capital	$ 575.5	$ 563.7	$ 718.7
Annualized prior 2 months sales	$1,874.0	$1,741.0	$1,956.0
Managed working capital as a % of sales	30.7%	32.4%	36.7%