

Algoma's Sustainability Report

For Today and Tomorrow

At Algoma, we are committed to building a sustainable business that delivers for all of our stakeholders. We take this accountability seriously, because we are more than a steel company, we are a vital part of the community.

More than ever, we are focusing our efforts on the long-term viability of our Company: building a business for today and tomorrow; working to minimize our impact on the environment; and securing a positive future for our Company, our people and the communities in which we live.



Economic Responsibility

Valuing a sustainable return on investment for all stakeholders.



Environmental Responsibility

Valuing the resources we use and the environment that supports us.



Social Responsibility

Valuing our people and the communities in which we operate.

Financial Sustainability

At Algoma we are committed to ensuring our economic strength and competitive position for today and tomorrow. To this end, we have made significant progress in 2004 to improve our Company's risk profile and to elevate shareholder value.

Through our Margin Improvement Plan, introduced in January 2003, we have achieved \$120 million in benefits to date, and identified a further \$150 million of potential opportunities. This plan was initiated with the goal to improve our trend-line profitability and to offset increases to input prices and other escalating costs outside the control of management. One of the challenges facing our Company is increased costs for raw materials and this plan should assist in partially mitigating the effect of those increases.

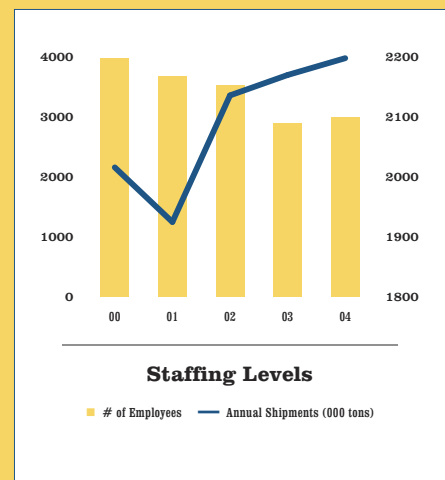
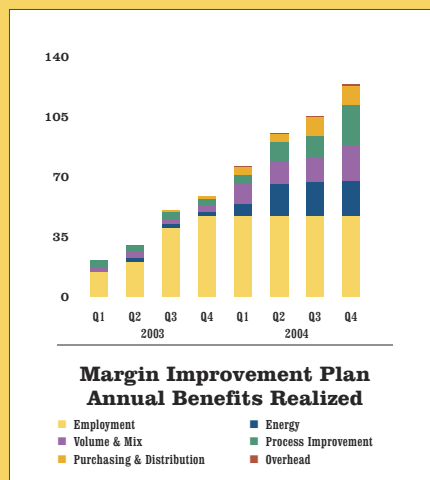
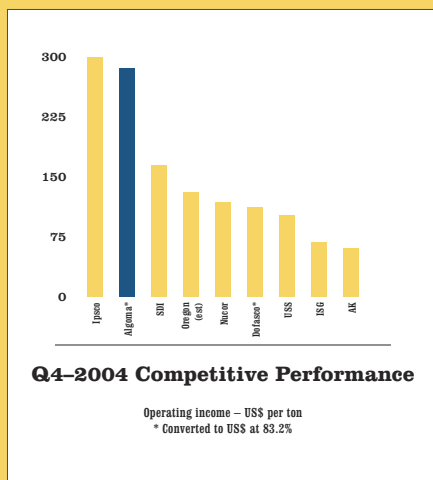
Algoma is one of the lowest cost producers in North America, as evidenced by our strong performance in 2004 in terms of operating income per ton versus our competitors and cost comparisons compiled by independent sources. Other factors which contribute to our strong position include the low cost conversion of ladle steel directly into coils on the Direct Strip Production Complex, our self sufficiency in coke, favourable prices contracted into early 2006 for a majority of our coal needs, and a large blast furnace linked to efficient steelmaking assets.

In 2004 Algoma fully benefited from the reductions in employment levels implemented in 2003. Reducing our staff complement by 700 people over thirteen months resulted

in annualized cost reductions of approximately \$45 million. These reductions were achieved while increasing shipments over previous years.

Strong steel markets in 2004 combined with continued control over spending resulted in EBITDA increasing to \$597 million from \$68 million in 2003. Capital expenditures continued to be restrained increasing only slightly to \$42 million from \$37 million in 2003. Asset sales resulted in proceeds of \$15 million, while an equity issue in early 2004 generated net proceeds of \$81.5 million. The net result was a substantially stronger balance sheet with the elimination of bank debt, and a cash and marketable securities balance at year end of \$453 million.

In 2005 the management team will be focused on investigating strategic options, guided by the objective of maximizing value for our shareholders. We anticipate substantial advancement of this strategic review in 2005, which should provide a longer-term direction for Algoma.



A Commitment to the Environment

Algoma is committed to maximizing resource efficiency with an emphasis on energy and water conservation, and waste management. We maintain strong environmental performance standards with respect to pollution prevention and environmental protection.

In 2004 Algoma successfully achieved facility-wide registration with the globally recognized environmental standard ISO 14001, ensuring our environmental management system is fully aligned with environmental best practices.

Algoma considers energy efficiency a priority and has reduced the energy intensity of our operation by over 8% since 1993. In addition we are pursuing opportunities to introduce cogeneration into the operation to consume waste fuels. Through energy-focused activities, we have reduced overall CO₂ emissions by 10% since 1993 (Canada's commitment under the Kyoto Accord was 6%), and CO₂ intensity by 18%.

Our efforts in resource conservation extend to water as well where we have refined production processes and reconfigured facilities to increase the amount of process water we reuse and recycle. Algoma has reduced one-time consumption and the amount of water discharged by 26.8%. Furthermore, we maintain 100% compliance with regulatory requirements set by provincial authorities for all process water discharges.

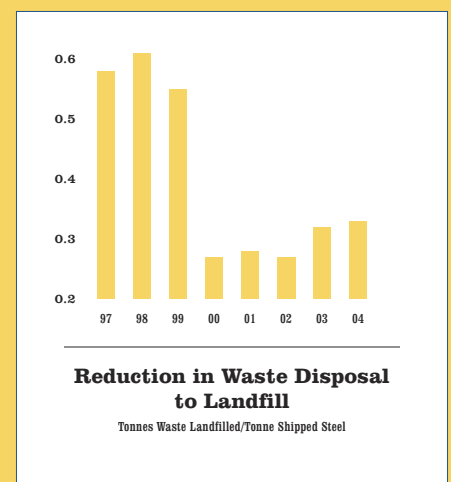
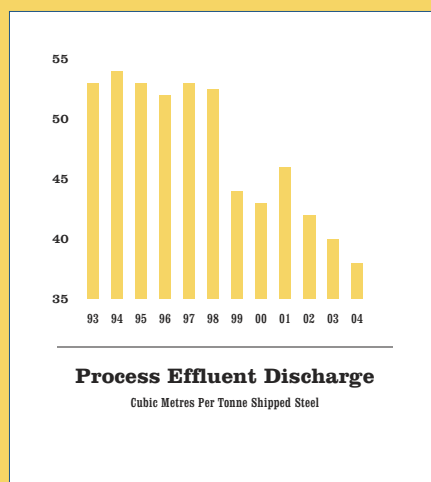
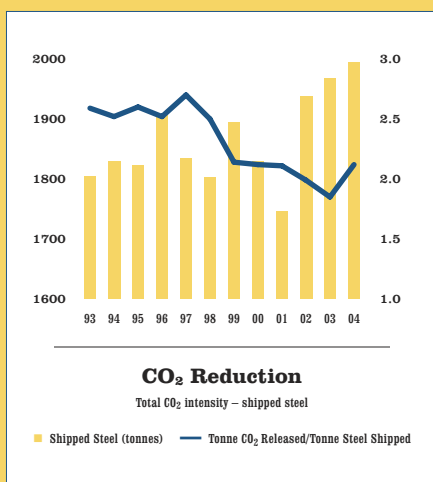
At Algoma, we know the air quality in our community and across the province is vital to our well-being. To this end, we have contributed to ongoing efforts by all Ontario steel produc-

ers to reduce emissions that contribute to smog and acid rain. Over the last ten years, Algoma has reduced sulphur dioxide emissions by 90% and nitrogen oxide emissions by 33%. Going forward, as we move to retrofit and upgrade our furnaces and boilers, we plan to introduce new low-NO_x technology into the new burner designs.

Waste management is another ongoing challenge at Algoma. We are actively pursuing alternatives to landfill for the many by-products of integrated steelmaking. Since 1997 we have succeeded in reducing waste disposal to landfill by 43%.

In keeping with our environmental policy, and consistent with our commitment to maintain the high standards of an ISO 14001 environmental management system, we have set some aggressive targets for our operation for 2005. These include:

- Maintain 100% compliance with water effluent
- Complete the removal and disposal of stored PCB material
- Complete the final year of a voluntary Environmental Management Agreement and negotiate a new agreement
- Continue to reduce particulate emissions through an aggressive Road Dust Reduction Program



Our Workplace and Our Community

At Algoma, we are building a healthy, safe, results-oriented workplace where employees are encouraged to contribute and share in the success of the Company. Our financial success allows us to provide active community support and leadership, enhancing the quality of life of our employees, our families and our neighbours.

Through extensive organizational redesign, proactive communications and the development of our leaders, we are building an entrepreneurial, action-oriented culture where people are focused on results and committed to keeping their word and earning their keep. We value and encourage the involvement of all employees in a respectful environment where full, true and plain disclosure is the communications standard.

We have adopted a zero injury philosophy with a goal to achieve zero lost time performance. Over the last ten years we have made significant strides in this direction, reaching consecutively low first treatment frequency levels. Algoma's joint health and safety team actively promotes safety through new employee inductions and department specific training by focusing on hazards in the mill, safe work procedures and job safe practices. As well, in 2004 the committee provided refresher training for all supervisors and managers on essential legislation and Algoma's Health and Safety Program.

Despite our diligent focus on safety, in April 2004 one of our employees suffered fatal injuries from a fall while working at the basic oxygen steel production unit. This tragedy solidifies our relentless commitment to keeping safety top of mind to ensure tragedies like this are never forgotten and never repeated.

In 2005 Algoma will conduct a thorough review of its existing health and safety program in an effort to reinforce the positive aspects of the program and introduce new, innovative

ideas to stimulate a step change improvement toward a goal of zero lost time injuries. Additionally, as a preventative measure we will implement an ergonomic program, focusing on reducing pains and strains in the workplace. At the community level, Algoma Steel will continue to be an active participant in the Sault Ste Marie Safe Communities Partnership and the Sault Ste Marie IAPA.

Employee well being was further enhanced in 2004 through Algoma's profit-share program which enabled all employees to share directly in the success of the Company. Strong financial performance generated an initial \$10,000 payout to every employee in November, 2004 with an average \$7,000 balance based on 2004 results payable March 31, 2005.

Our charitable giving program combined with in-kind contributions and employee volunteerism enables us to address community needs in five areas of focus including healthcare, education, sports and recreation, social services, and arts, culture and the environment. This year Algoma, together with our employees and retirees collectively donated more than \$200,000 to the United Way in support of 22 community-based agencies that ensure our contribution goes where it is needed most. In 2004 Algoma was also a strong contributor to many other worthy causes, some of which include RotaryFest, the Juvenile Diabetes Research Foundation, the Art Gallery of Algoma, the High School CPR Program, Easter Seals, the Alzheimer's Society, the Algoma Fall Festival and the Soup Kitchen.



United Way Campaign



RotaryFest Parade



Algoma Family Day