S.C. Siderurgica S.A.
Hunedoara, Romania
A Restructuring Case Study

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Majority State-owned Siderurgica, located in Hunedoara, is Romania's largest steel long products producer

- Founded in 1884
- Once the largest steel producer in Romania
- Now highly financially distressed
- 1997 sales: 675,000 tons / $194 million
- 1999 sales: 289,000 tons / $74 million
- 28% domestic market share in long products
- 40% export sales, 44% of Romania's long products exports in 1999
- 8,648 employees
- Obsolete operations were shut down in 1999, with workforce reduction of more than 6,000 at that time

The core company is essentially a mini-mill

- 2 EAF melt shops with approximately 415,000 tpy liquid steel capacity
- 2 active rolling mills
- Relatively new continuous caster in #2 EAF Shop (commissioned 1998)
- New 550,000 tpy capacity furnace is under construction in #2 EAF Shop
- Integrated flow is no longer operational

Siderurgica was identified as a “Workout/Liquidation” company within the World Bank-sponsored PSAL accelerated privatization program

- The primary owner is the Romanian State Ownership Fund (71.1%)
- Outside Intervention was started in early 2000 to turn the company around, then sell it if possible
- The Outside Intervention involved enterprise restructuring, turnaround, and interim management, with deep CEE experience
- The program was designed with two phases:
  - Phase I - Diagnostic Analysis and Turnaround/Restructuring Plan
  - Phase II - Turnaround Implementation and Privatization, or Liquidation
- Phase I required Government approval at the Cabinet level

Outside intervention began in late March, 2000

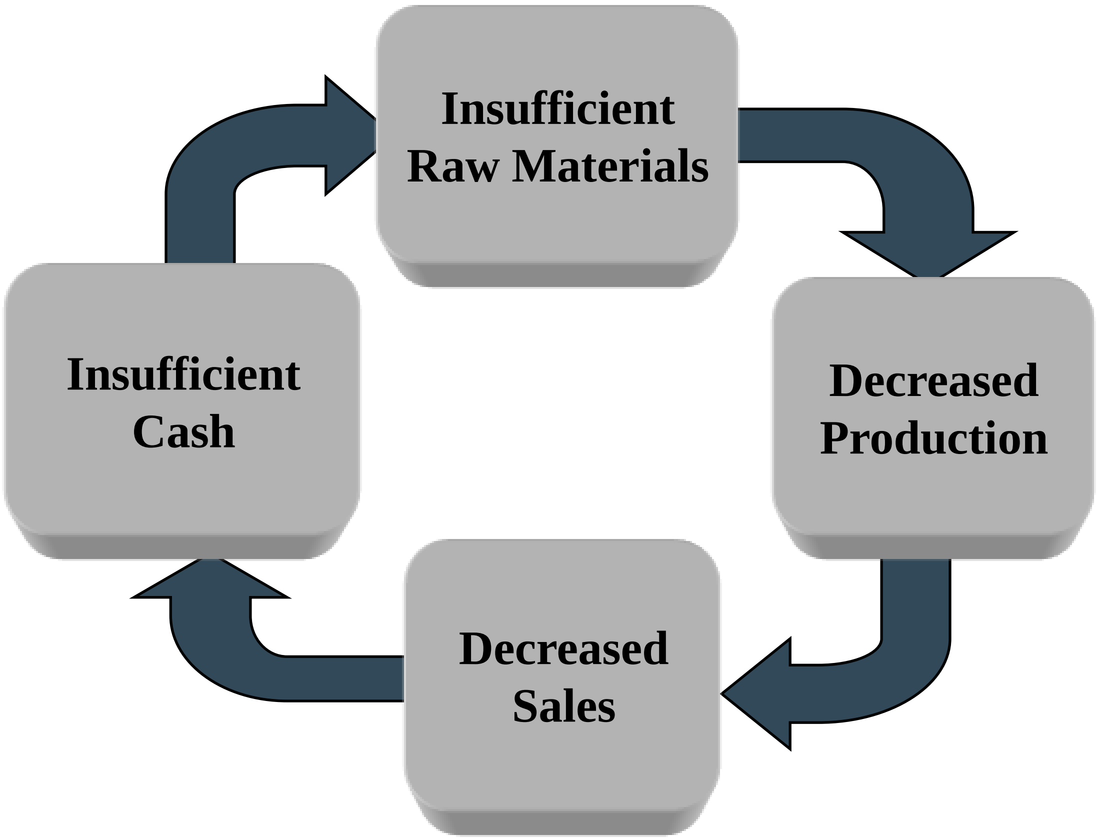
Siderurgica faced severe problems that could not be solved by existing management and ownership

- Excess employment and poor productivity
- High cost production processes and insufficient cost cutting
- Lack of management accountability
- Converting working capital to fixed assets
- Survival only due to direct and indirect State subsidies
- Weak link to the market

...RESULTING IN

- Cash crisis
- High debts and arrears that could not possibly be paid

The Death Spiral



Turnaround Planning (*Crisis Management*) differs from Strategic Planning in some important ways:

ELEMENT	TURNAROUND PLAN	STRATEGIC PLAN
Time Horizon	90 days	2 to 5 years
Financial Focus	Cash Flow	Return on Investment
Net Income (book value)	Not important	Very important
Balance Sheet	Current portion only	Both Current and Long Term portions
Overall Objective	Survival	Growth and Income

The Outside Intervention Phase I work focused on Turnaround Planning in order to stabilize the company for Privatization in Phase II

An expert team was sent Hunedoara to ensure the company's survival

- Interim management was proposed, but rejected
- Key Shadow Management team members:
  - Ronald Ashkin, USA, Shadow CEO and Project Director
  - JF, Spain, Shadow CFO
  - GD, USA, Senior Technical Consultant
  - RJ, Iran, Financial Analyst
- A Turnaround Action Plan was devised within the first month
- Only two primary strategies:
  - Strategy 1: Implement short-term actions that generate immediate cash
  - Strategy 2: Take actions to stop uses of cash that do not support immediate production needs

Existing management was responsible for implementing the turnaround, with oversight by the Consultant

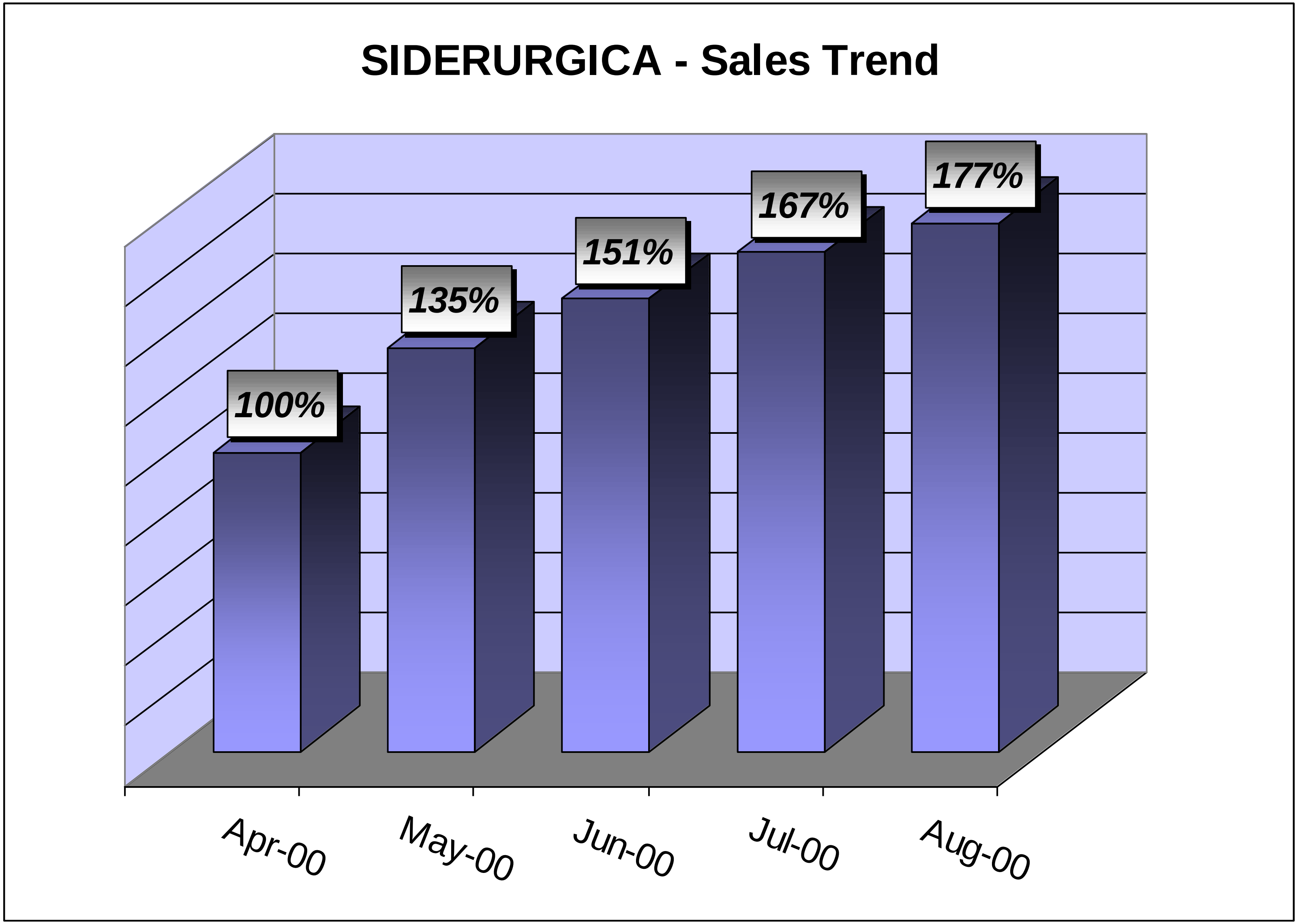
Some key recommended turnaround actions:

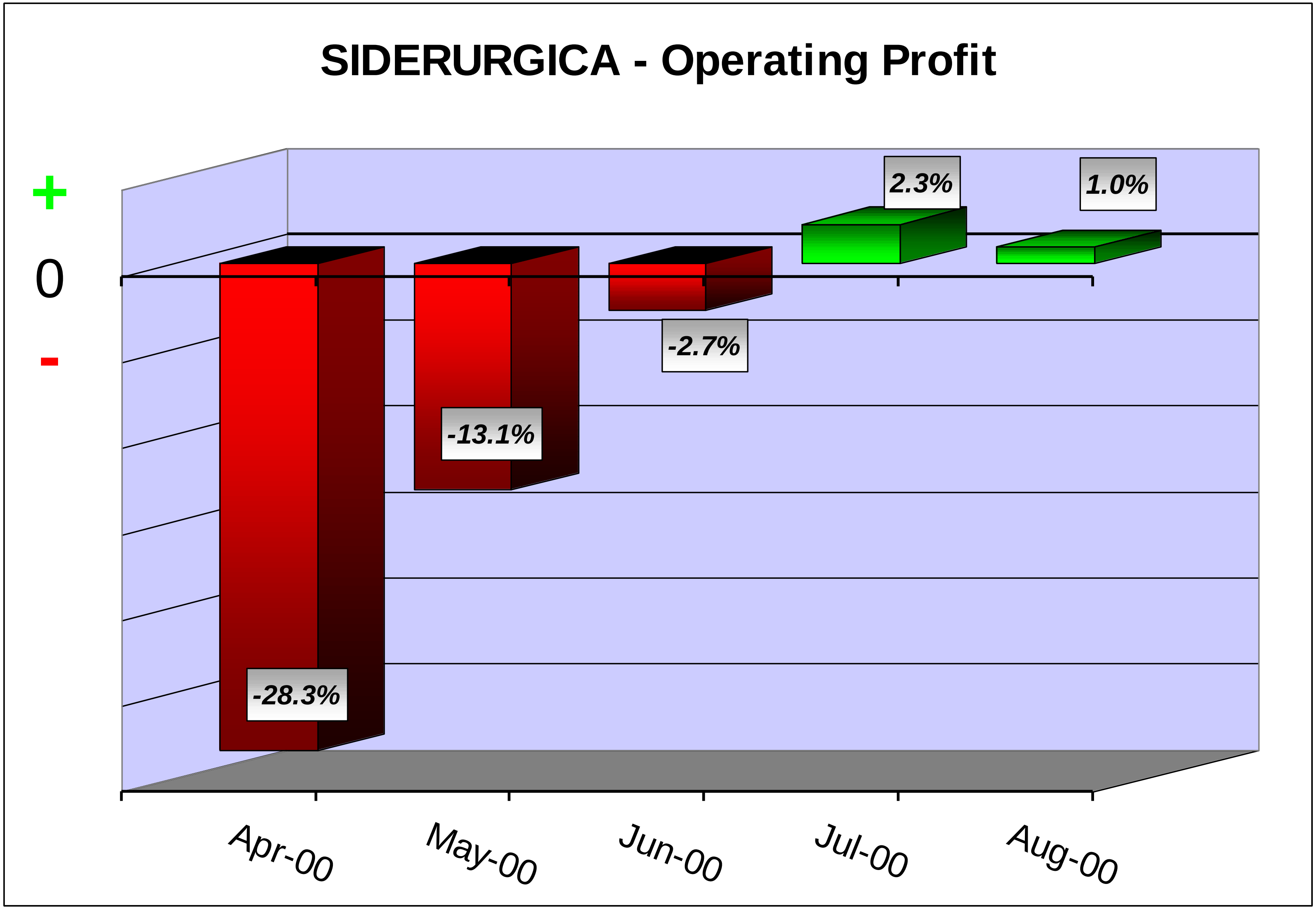
- Creation of internal scrap production task force
- Use of internal scrap from shut down facilities
- Liquidation or recycling of obsolete inventory
- Improved collections and tightened credit policies
- Direct cost reduction
- Overhead cost reduction
- Sale of idle assets
- Culling of low volume and low profit product lines
- Renegotiation of credits and tax payments
- Stopping investment in new EAF until new owner could be found

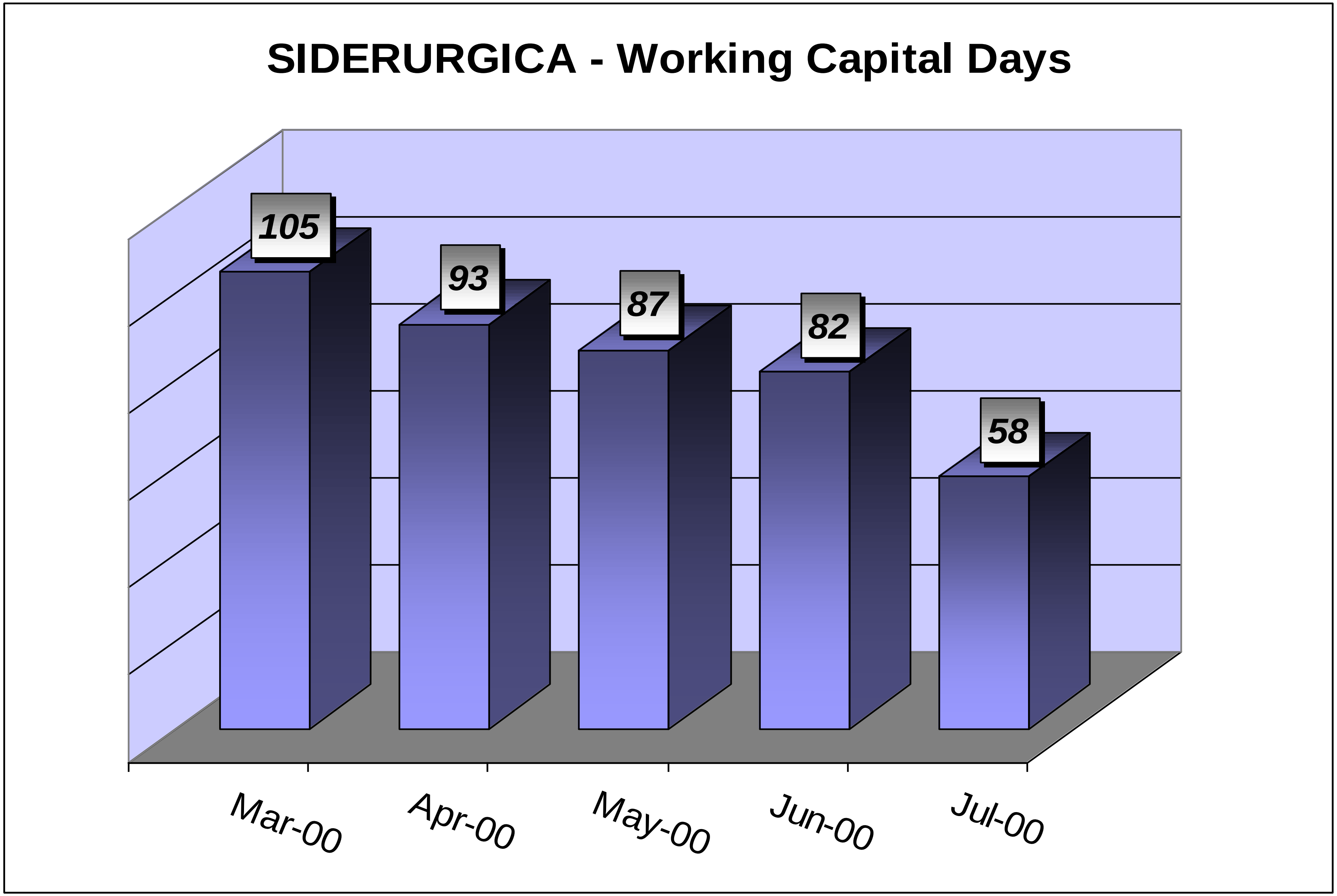
This action plan included only internal, actionable items

Rapid and dramatic results were shown while The Outside Intervention team was active, in the six months from March through September, 2000

- Because of the internal scrap processing initiative, ERA2000, there was adequate scrap available for making liquid steel
- Because there was scrap, both liquid steel and finished goods production were on a strong uptrend from the beginning of the year:
  - Melt shops ran near capacity
  - July, 2000, liquid steel production was 231% higher than in January
- Sales were also on a strong uptrend from the beginning of the year
  - Sales rose successively each month since April
- Because sales volume increased and cost of scrap decreased, Siderurgica earned a positive operating profit starting in July, 2000
  - The company last showed a positive annual operating profit in 1997
- Working Capital Days decreased by 45% between March and July


SIDERURGICA - Sales Trend
100%
135%
151%
167%
177%
Apr-00
May-00
Jun-00
Jul-00
Aug-00


SIDERURGICA - Operating Profit
+
0
-
-28.3%
-13.1%
-2.7%
2.3%
1.0%
Apr-00
May-00
Jun-00
Jul-00
Aug-00


SIDERURGICA - Working Capital Days
105
93
87
82
58
Mar-00
Apr-00
May-00
Jun-00
Jul-00

Siderurgica's turnaround defied the Conventional Wisdom

- Conventional Wisdom says that it is too time consuming and expensive to restructure prior to privatization
  - Sell "As-Is" and let the new owner do the difficult work
  - This results in low (or no) valuation and unsolved problems
- This is analogous to crashing your car, then selling it without repairing it
- The Siderurgica case illustrates that an intensive, focused turnaround program can recover value for the owners prior to privatization, even in the face of severe obstacles
- However, the political will to follow the economic imperative is a prerequisite for successful turnaround