ATI

Allegheny Technologies 2003 Annual Report

Our Vision
Allegheny Technologies is creating the world's leading specialty materials company. The cornerstones of our value system are based on achieving the highest ethical standards, maintaining strong customer focus and providing challenging and rewarding opportunities for our employees.

Our objective is to provide an attractive investment to our stockholders by earning a premium return on our total invested capital over the long term.

We are driven by these strategies:
- Pursue high-margin global markets for specialty materials
- Leverage multi-materials capabilities
- Drive improved operating performance and customer service through the ATI Business System—a systemic and integrated business system based on the principles: (1) Make to Use, (2) Elimination of Waste, and (3) People Connect the System
- Strengthen and defend commodity stainless steel position at acceptable return on capital
- Opportunistically undertake joint ventures, acquisitions and other business combinations within prudent financial policy

ATI

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ATI Executive Committee
(standing L to R)
Terry Dunlap
Jack Shilling
Tom Williams
Pat Hassey
Lynn Davis
Dave Hogan
(seated L to R)
Rich Harshman
Jon Walton
Doug Kittenbrink

Message from the Chairman

To open this year's annual report, I'll introduce you to Pat Hassey, our new President and Chief Executive Officer. Pat comes to Allegheny Technologies from Alcoa, Inc. as a 35-year veteran of the metals industry, all with Alcoa.

His experience is primarily on the fabrication side of metals, including three years as President of Alcoa Europe, SA. He also served as an Executive Vice-President and member of Alcoa's Executive Committee. Over the years with Alcoa, he gained extensive and deep experience in the Flat-Rolled Products segment of the specialty metals businesses as a Group President, and also chaired Alcoa's Aerospace Market Sector Lead Team.

Pat joined ATI as President and CEO on October 1, 2003, after a short consulting period with the ATI businesses. I believe that Pat along with our management team and employees can do great things for this Company. Earnings must be improved. ATI can become a more effective competitor within our markets, grow in our strategic strengths, and generate increasing value for our customers with profitable growth for our stockholders.

Pat understands the challenges facing this Company and the markets we serve. He also understands that the future of any enterprise is created through the implementation of a well-understood strategic vision.

As you know, Jim Murdy retired as President and CEO in September 2003. Jim and I worked closely together during his 15-year career with the Company. I join with the Board in extending to Jim our deep appreciation for his many contributions.

The Company is evolving and the profile of our Board of Directors is changing. In 2003, Brian Simmons and George Kourpias left our Board of Directors. Both made important contributions to our business through their tenure. Directors Paul Brentlinger, Fred Fetterolf and Bill Ouchi will retire from our Board in May of 2004. Paul and Fred have been members of the Board since Allegheny Ludlum went public in 1987 and have provided guidance and advice to every President and Chairman of the Company. Professor Ouchi's unique insights into the global markets and economies have aided our strategies.

In addition, the Board of Directors has nominated H. Kent Bowen and John D. Turner for election to our Board in May. Kent is a professor of business administration at Harvard University and has extensive knowledge of materials and operations management technology. John was Chairman and CEO of Copperweld until his retirement in 2003 and has broad management experience in the metals industry.

Also in May, Pat Hassey becomes Chairman of Allegheny Technologies. I plan to retire as Chairman after the annual meeting and will remain a member of the Board of Directors. I've been with the Company for almost 50 years and have witnessed a lot of change. We started as primarily a domestic stainless steel company and are now a global leader in the technology and production of a wide variety of specialty metals, with operations in 18 countries. I believe that Allegheny Technologies is well positioned for an exciting future.

Sincerely,

Bob Bozzone
Chairman of the Board
March 2004

Message from the President and Chief Executive Officer

Year In Review—2003

As the year drew to a close, we began to see significant signs that U.S. market conditions were beginning to improve. In December, as demand was strengthening, we announced price increases, effective in January 2004, for most of our flat-rolled products as well as a pricing policy revision for our nickel-based alloy and specialty steel alloy long products. We announced additional price increases for our stainless steel flat-rolled products in January, February and March 2004, ending the lowest conversion margins ever experienced in our Company's history.

While we were focusing on cash generation, cost reductions and preparing Allegheny Technologies to benefit and take strong advantage of a market recovery, we generated $80 million of cash flow from operations, and had no borrowings under our secured domestic credit facility.

Our strong emphasis on safety continued. Compared to 2002, ATI's OSHA Recordable Incident Rate improved by 29 percent and the Lost Workday Incident Rate improved by 38 percent, placing us far better than industry averages.

We developed and accelerated the implementation of a new "ATI Business System", which drives our "lean manufacturing" initiatives, improves quality and yields, further reduces overhead structures and cost, and delivers excellent customer reliability and service. The basics of this system begin with dignity and respect for the people who do the work and who drive ever-increasing efficiency and cost reductions by eliminating waste in a people-driven and systemic way across the ATI companies. In addition, we initiated a "Strategic Renewal Process" to refine our product offerings and guide our manufacturing investments for improved results throughout the Company.

We've begun to see the early benefits of these two initiatives. As an example, even though costs to purchase major raw materials increased over 27 percent during 2003, the dollars tied up in our raw materials, in process inventories, and finished goods were up less than 1 percent.

ATI continued to invest in technology, research and development. We introduced several new alloys to better serve our customers' needs. Among these alloys are three with significant potential for future growth:

- 718 Plus™ alloy, a new (patents pending) nickel-based superalloy that increases the temperature capability of the commonly used aerospace 718 alloy. 718 Plus alloy is a cost-effective new alternative to meet the demanding needs of next-generation jet engines.
- ATI™ 425 titanium, an innovative new patented titanium alloy that is a cost-effective alternative to the most common high-strength titanium alloy.
- AL 2003™ alloy, a new patented stainless steel duplex alloy that is an economic alternative to higher nickel-bearing stainless steels and duplex alloys.

These new proprietary alloys will well serve our markets and customers who choose to use them, and they help keep ATI companies at the leading edge of new product innovation and performance.

In June, we announced the formation of Uniti LLC, our industrial titanium joint venture with VSMPO-AVISMA of Russia. Uniti is off to a good start and gaining real traction in the global markets for industrial titanium products.

Vision for ATI

We are now able to focus on profitable growth, while transitioning our businesses during 2004 for long-term sustained success.

I decided to join ATI because I believe this is a potentially great Company, with great opportunities, great people and leading technologies. ATI is committed to providing good jobs for our employees and being a responsible and productive corporate citizen in the communities where we operate…all within

a values-based framework of integrity and leadership. Yet, it is a Company needing to overcome some difficult circumstances and challenges.

On January 29, 2004, I presented to the ATI Board of Directors our strategic direction and what we intend to accomplish in 2004:

- **"Fix" our stainless steel business**—returning Allegheny Ludlum to long-term profitable growth and cash generation
- **Finish the expansion of our high performance metals long products rolling mill in Richburg, SC**—profitably growing our Allvac business market position and returns
- **Expand our exotic alloys business through yearly incremental investment in our Wah Chang operations** with increasing profitability and returns
- **Manage our Engineered Products segment businesses to contribute as a core business sector** with good returns and cash generation
- **Grow in China**
- **Improve the ATI balance sheet**
- **Deliver positive earnings per share growth**

To "**fix" our stainless steel business** means returning Allegheny Ludlum to long-term profitable growth and cash generation. Market conditions have been difficult in this business since 2001. Domestic consumption of stainless steel sheet and strip, our Flat-Rolled Products segment's largest product line, fell by 18 percent in 2001, compared to 2000, and consumption remained at low levels through 2003. Compounding the problem, stainless steel capacity was added in the U.S. during this period. Pricing suffered, falling to historically low levels.

In February of 2004, we announced the J&L Specialty Steel Asset Purchase Agreement, contingent upon certain conditions and normal governmental approvals. This acquisition is expected to complement and enhance our competitive position in the North American stainless steel marketplace.

We now have an ongoing dialogue with the United Steelworkers of America (USWA) leadership. The USWA leadership is aware of the competitive challenges facing the U.S. stainless steel industry. By working together, under a new framework, combining the investments we are making with the right cost structure, and utilizing the new ATI Business System, Allegheny Ludlum can sustain its position as one of the premier metals companies in the world.

We've invested in this business and most of our capital base is relatively new. Our melt shop upgrade in Brackenridge, PA is on plan. The first of our two new electric arc furnaces began operation in November 2003. The second is on plan to be completed during the fourth quarter 2004.

Turning to our High Performance Metals segment, commercial aerospace, this segment's largest end-use market, was still suffering in 2003 from the dramatic downturn that resulted from the tragic events of September 11, 2001. By the end of 2003, demand for our nickel-based superalloys and premium titanium alloys from commercial aerospace stabilized. Most analysts see a commercial aerospace recovery in the 2005/2006 time period, which means that we should begin to see some signs of improvement in our orders 12 to 18 months before that, due to the lead times of our specialty materials.

During this extended commercial aerospace cyclical slump, we were fortunate to have the means to invest in our business. Today, we are better positioned to supply both sides of the ocean with our high performance metals as a result of investments made in our Monroe, NC and Sheffield, U.K. facilities. In addition, we plan to **finish the expansion of our high performance metals long products rolling mill** in the second quarter 2004. This rolling mill, located in Richburg, SC, provides enhanced technological capabilities enabling ATI to grow market positions for our nickel-based superalloy, titanium alloy, zirconium and specialty steel product lines.

Our exotic alloys business demonstrated good performance in 2003 from both a sales growth and income contribution perspective. It benefited from sustained high demand from high-energy physics and government markets, as well as corrosion markets in Asia. We forecast attractive profitable growth for this business. We aim to continue as the premier supplier of these products to the U.S. government and meet the growing demand from the corrosion, medical imaging and biomedical markets. We plan to **expand our exotic alloys business through yearly incremental investment in our Wah Chang operations** to generate increasing profitability and returns.

We expect our smallest segment, **Engineered Products, to contribute as a core business sector** with good returns and cash generation. Importantly, this segment was profitable during the very difficult market environment in 2003. These tungsten carbide cutting tools, forging and casting products and processing service businesses remain key assets. We expect them to generate cash and improve returns.

International growth has long been a focus of ATI. Nearly 25 percent of our total revenue in 2003 represents export sales and sales by our non-U.S. manufacturing companies. Export sales were aided during 2003 by a 20 percent increase, compared to 2002, in sales through our international offices in Asia. A combination of a weaker dollar, the industrial boom in China, and the prospects for global recovery bodes well for our international sales.

For example, production continued to ramp up at STAL, our Precision Rolled Strip® products joint venture in China. Orders have been strong and STAL is nearly full. As a result of the success of STAL, we are considering our options to **grow in China**.

Finally, two of the most important items in our strategic plan are to

- **improve the ATI balance sheet**
- **deliver positive earnings per share growth**.

We know what needs to be done and either already have the plans in place to achieve our goals, or will be initiating other new actions to achieve our goals.

In Summary

As I said, I joined ATI because of the many outstanding opportunities here. Accelerating the deployment of the ATI Business System and leading this Company to compete profitably in the ever-changing global economy are at the foundation of those opportunities.

Jim Murdy, who retired as President and CEO on September 30, 2003, positioned ATI for a smooth and effective leadership transition with the Company on a firm financial foundation for growth.

I also want to express my sincere appreciation to all of ATI's Board of Directors for their many contributions to the successes of ATI over the years.

In May of this year, Bob Bozzone plans to retire as ATI's Chairman of the Board. Bob has provided invaluable guidance to me, and our entire management team. He was a key factor in my decision to join ATI. Bob's leadership has been influential to this Company. We all are grateful to him and look forward to his continuing contribution as a member of the ATI Board of Directors.

Sincerely,

Pat Hassey
President and Chief Executive Officer

March 2004

Corporate Self-Governance—
Our Commitment to Integrity

We at ATI are committed to a strong self-governance program. We have long-believed that honesty and integrity are vitally important to the success of our Company. The Company's Corporate Governance Guidelines have been approved by the Board of Directors and, along with the charters of the Board committees, provide the framework for the governance of Allegheny Technologies. These guidelines reflect the Board's commitment to monitor the effectiveness of decision making at the Board and management level, with a view to achieving ATI's strategic objectives. The Guidelines are available on our website, www.alleghenytechnologies.com.

Our Corporate Guidelines for Business Conduct and Ethics apply to all directors, officers and employees and set forth clear standards to guide the conduct of our daily affairs. Our commitment is to reflect, in each of our actions, the highest level of integrity and ethics in our dealings with our Board of Directors, stockholders, fellow employees, customers, suppliers, creditors, government agencies and authorities, and the public.

Our self-governance efforts incorporate long-standing training programs that address a myriad of subjects including antitrust, ethics, environmental compliance, export compliance and trading in securities, as well as training in various human resources issues, including safety.

In order to monitor the effectiveness of our compliance efforts, we consistently perform audits throughout the organization to confirm adherence to Company policies and procedures and financial controls.

We understand that confidence in our Company is in large measure dependent upon the reliability and transparency of our financial statements. Accordingly, our commitment to integrity in financial reporting recognizes our responsibility for providing timely information that fairly reflects our financial position and results of operations.

We encourage employees to communicate concerns before they become problems. Our corporate ombudsman and the ethics officers at our operating companies provide confidential resources for employees to surface their concerns without fear of reprisal. Building and maintaining trust, respect and communication among our employees are essential to the effectiveness of our self-governance program.

ATI Products and Markets

Diversified Global Markets

(Percent of Allegheny Technologies' 2003 Sales)

Market	Percent
Aerospace	18%
Construction and Mining	13%
Automotive	12%
Electrical Energy	12%
Chemical Process Industry/Oil and Gas	11%
Food Equipment and Appliances	9%
Machine and Cutting Tools	8%
Medical	4%
Government Defense	4%
Conversion Services	3%
Electronics/Communication/Computers	3%
Transportation	2%
Other	1%

Diversified Products and Services

(Percent of Allegheny Technologies' 2003 Sales)

Product	Percent
High Value:	
Precision and Standard Strip	21%
Nickel-Based Alloys and Specialty Steels	16%
Titanium and Titanium Alloys	13%
Tungsten Materials	10%
Exotic Alloys	8%
Total High Value	68%
Commodity Products:	
Stainless Steel Sheet and Plate	22%
Silicon Electrical Steel and Tool Steel	7%
Cast and Forged Materials	3%
Total Commodity Products	32%
Total Specialty Materials	100%

Price Ranges of Major Products

(Approximate Price Ranges in $ Per Pound)

Product	Low		High
Exotic Alloys	$22.00	-	$276.00
Titanium Alloys	$3.45	-	$69.80
Nickel-Based Alloys	$2.85	-	$37.90
Precision and Standard Strip	$0.72	-	$9.62
Stainless Steel Sheet and Plate	$0.51	-	$3.54
Silicon Electrical Steel	$0.45	-	$1.35

Sales by Geographic Area

(Percent of Allegheny Technologies' 2003 Sales)

Area	Percent
United States	77%
United Kingdom	5%
Germany	4%
France	3%
Canada	2%
China	2%
Japan	1%
Other	6%

Segment Information

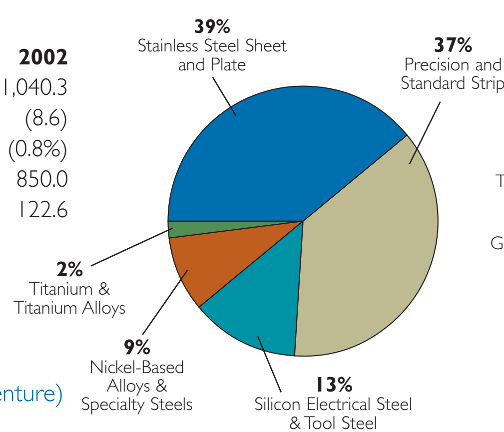
(Percent of Each Segment's 2003 Sales)

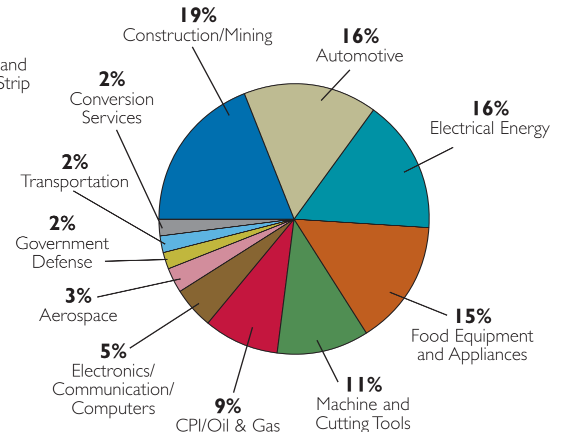
Financial Results ($ in millions) | **Major Products** | **Major Markets**

Flat-Rolled Products

	2003	2002
Sales	$1,043.5	$1,040.3
Operating Loss	$ (14.1)	$ (8.6)
Percent of Sales	(1.4%)	(0.8%)
Identifiable Assets	$ 787.9	$ 850.0
International Sales	$ 140.6	$ 122.6

Allegheny Ludlum
Allegheny Rodney
STAL (Chinese Joint Venture)
(60% Ownership)
Uniti Titanium (International Joint Venture)
(50% Ownership)

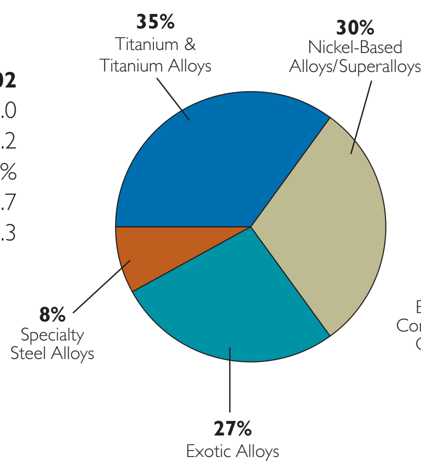


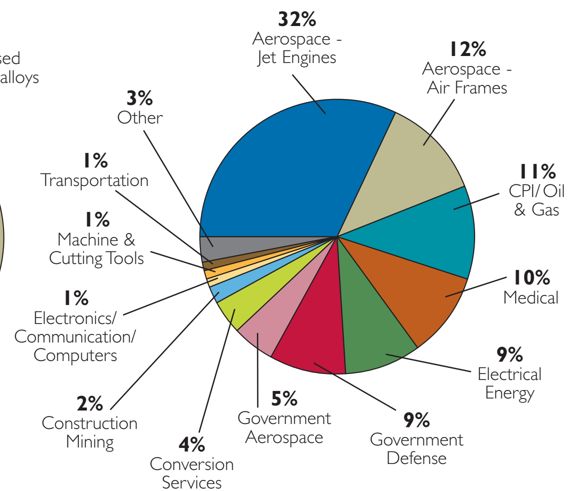


High Performance Metals

	2003	2002
Sales	$ 641.7	$ 630.0
Operating Profit	$ 26.2	$ 31.2
Percent of Sales	4.1%	5.0%
Identifiable Assets	$ 602.0	$ 594.7
International Sales	$ 223.2	$ 247.3

Allvac
Allvac Ltd
Wah Chang

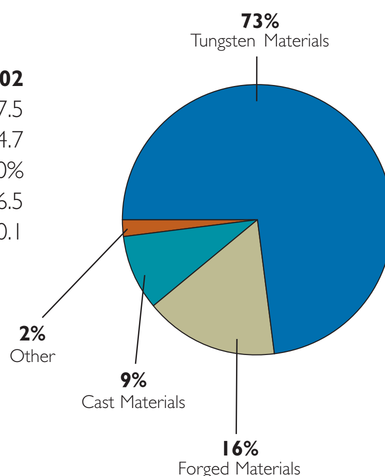


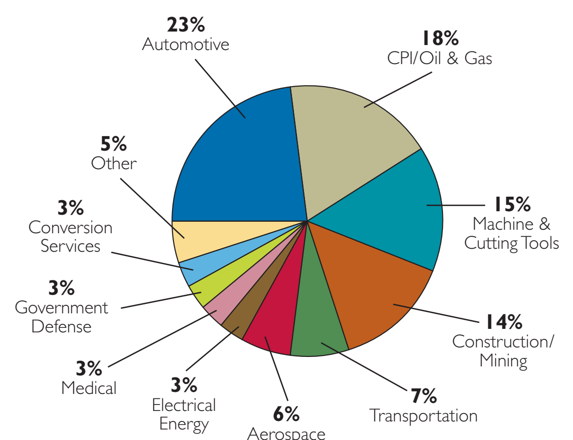


Engineered Products

	2003	2002
Sales	$ 252.2	$ 237.5
Operating Profit	$ 7.8	$ 4.7
Percent of Sales	3.1%	2.0%
Identifiable Assets	$ 178.1	$ 186.5
International Sales	$ 78.1	$ 70.1

Metalworking Products
Portland Forge
Casting Service
Rome Metals





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Management's Discussion and Analysis of Financial Condition and Results of Operations

Allegheny Technologies Incorporated is one of the largest and most diversified producers of specialty materials in the world. We use innovative technologies to offer global markets a wide range of specialty materials. High-value products include super stainless steel, nickel-based and cobalt-based alloys and superalloys, titanium and titanium alloys, specialty steels, tungsten materials, exotic alloys, which include zirconium, hafnium and niobium, and highly engineered strip and Precision Rolled Strip® products. In addition, we produce commodity specialty materials such as stainless steel sheet and plate, silicon electrical and tool steels, and forgings and castings. Unless the content requires otherwise, "we," "our," "us" and similar terms refer to Allegheny Technologies Incorporated and its subsidiaries.

Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations are forward looking statements. Actual results or performance could differ materially from those encompassed within such forward looking statements as a result of various factors, including those described below.

Overview

Business conditions remained very difficult in 2003 resulting in a net loss before the cumulative effect of a change in accounting principle for 2003 of $313.3 million, or $3.87 per share, which included after-tax restructuring, litigation and tax charges of $190.5 million. Sales increased 2% to $1,937.4 million for 2003 as higher selling prices, primarily due to the effect of raw material surcharges, offset lower shipments for most of our major products resulting from the continued weakness in many of the markets we serve. Operating results were significantly negatively impacted by higher raw material and energy costs, and increased retirement benefit expenses, which offset $117 million in cost reductions. Operating results included $62.4 million of pretax restructuring charges and a $138.5 million charge to record a valuation allowance for a major portion of our net deferred tax assets. Additionally, on March 10, 2004, we received an unfavorable jury verdict concerning a lease of property in San Diego, CA, and recognized litigation expense of $22.5 million in our 2003 operating results.

Demand for commodity stainless steel products remained depressed for most of 2003 due to the continued weakness in the U.S. industrial economy, especially in the non-residential construction and most capital goods markets. This weak demand and pricing environment for products of the Flat-Rolled Products segment, the negative effects of rapidly rising raw material costs on our last-in, first-out ("LIFO") inventory accounting methodology and higher energy costs offset the positive effects of cost reductions and resulted in an operating loss of $14.1 million. Sales for the High Performance Metals segment improved 2% primarily due to strong demand for our exotic materials, especially from the government and chemical processing markets. However, operating profit for the High Performance Metals segment declined 16% to $26.2 million due primarily to continued weak demand for products used in commercial aerospace and land-based turbines for power generation, two key markets for our nickel-based alloys and superalloys and titanium alloys, and rising raw material and energy costs, which offset the positive effects of our cost reduction efforts. Results for the Engineered Products segment improved, as sales increased 6%, and operating profit increased 66% to $7.8 million due to improved demand from the oil and gas markets, plus cost reduction initiatives.

Retirement benefit expenses increased $112.6 million in 2003 to $134.4 million due to the severe decline in the equity markets for 2000 through 2002, a lower expected return on benefit plan investments, and a lower discount rate assumption for determining liabilities. Substantially all of the increase in expense was non-cash as we were not required to make a contribution to our pension plan in 2003, and we do not expect to be required to make cash contributions to the defined benefit pension plan for at least the next several years.

During 2003, we continued to focus on enhancing our leading market positions, reducing costs, and improving liquidity. Our accomplishments from these important efforts included:

- Significant progress toward the completion in 2004 of our two major strategic capital investments, both of which began in 2002. The first of two new electric arc furnaces for our flat-rolled products melt shop located in Brackenridge, PA began operation in November 2003 and the second furnace is scheduled to be completed in the second half of 2004. The second project is a major upgrade and expansion of our high performance metals long products rolling mill facility located in Richburg, SC, which is expected to begin producing product in the second quarter of 2004. We believe these projects will provide state-of-the-art operating capabilities, increased efficiencies, lower operating costs, and expanded capacity.
- Introduction of a number of new alloys to better serve our customers' needs, demonstrating our ongoing commitment to technology and product development.
- Creation of a new joint venture, Uniti LLC, to accelerate growth and expand our participation in global markets for industrial titanium ingot and mill products.
- Realization of $117 million in gross cost reductions, before the effects of inflation, exceeding our initial 2003 goal of $90 million. A significant portion of these cost reductions resulted from our continuing efforts to streamline processes and improve productivity. During 2003, we reduced our salaried workforce across all of our operations, including the corporate office, by approximately 16%. Overall employment was reduced by 9% in 2003.

- Continued success in implementing the ATI Business System, which is driving lean manufacturing throughout our operations. For example, even though costs of our major raw materials increased approximately 27% during 2003, gross inventory increased by less than 1%, reflecting our ATI Business System initiatives. At December 31, 2003, managed working capital was 30.7% of annualized sales compared to 32.4% of annualized sales at 2002 year-end. We define managed working capital as accounts receivable and gross inventories less accounts payable.
- Significant improvement in safety. As a result of our continuing focus on and commitment to safety, in 2003 our OSHA Total Recordable Incident Rate improved by 29% and Lost Time Case Rate improved by 38% compared to 2002.
- Improved and more stable financial liquidity. During the 2003 second quarter, we entered into a $325 million four-year senior secured domestic revolving credit facility. The facility, which replaced a $250 million unsecured facility, is secured by all accounts receivable and inventory of our U. S. operations, and includes capacity for up to $150 million in letters of credit. While there were no borrowings under the secured credit facility during 2003, a portion of the letters of credit capacity is being utilized. Cash flow from operations for 2003 was $82.0 million and cash on hand increased to $79.6 million at December 31, 2003, $20.2 million higher than at the end of 2002.

As a result of actions taken in 2003, we believe ATI should benefit from improving business conditions in 2004. Our goal is to achieve profitability in our Flat-Rolled Products segment and improve operating earnings in our High Performance Metals and Engineered Products segments in 2004. Reducing costs will remain a focus, and our 2004 cost reduction objective is $104 million. While retirement benefit expense will again be a significant negative to financial results, it will remain largely non-cash. Retiree medical benefits represent a significant portion of our retirement benefit expense and we are exploring ways to reduce these costs. While we are concerned about raw material and energy price volatility, especially for nickel and natural gas, we are taking actions to manage the impact of this volatility internally and we are increasing selling prices for many of our products. Our current 2004 capital expenditures are expected to be between $60 and $70 million, which is within our forecasted depreciation expense of $72 million.

Results of Operations

Sales were $1.94 billion in 2003, $1.91 billion in 2002 and $2.13 billion in 2001. International sales represented approximately 23 percent of total sales for all years.

Operating profit was $19.9 million in 2003, $27.3 million in 2002 and $54.3 million in 2001. Losses before taxes were $280.2 million, $103.8 million and $36.4 million, respectively. These results included restructuring charges and litigation expense in 2003 of $84.9 million, and restructuring charges of $42.8 million and $74.2 million in 2002 and 2001, respectively. Our measure of operating profit, which we use to analyze the results of our business segments, excludes corporate expenses, net interest expense, management transition and restructuring costs, other costs net of gains on asset sales, and retirement benefit expense or income. We believe operating profit, as defined, provides an appropriate measure of controllable operating results at the business segment level.

A severe decline in the equity markets in 2000 through 2002 and higher benefit liabilities from long-term labor contracts negotiated in 2001 resulted in retirement benefit expenses of $134.4 million in 2003 and $21.8 million for 2002, compared to retirement benefit income of $53.1 million for 2001.

Net losses, before the cumulative effect of change in accounting principle, were $313.3 million, $65.8 million and $25.2 million for 2003, 2002 and 2001, respectively. The net loss for 2003 included a $138.5 million charge for a valuation allowance on our net deferred tax assets, pretax restructuring charges of $62.4 million relating to asset impairments in the Flat-Rolled Products segment and workforce reductions across all operating segments and the corporate office and $22.5 million for litigation expense. As a result of recording the deferred tax valuation allowance, results for 2003, include an income tax provision of $33.1 million, whereas 2002 and 2001 pretax losses were reduced by income tax benefits of $38.0 million and $11.2 million, respectively. 2002 included charges of $42.8 million related to the indefinite idling of our Massillon, OH stainless steel plate facility in the Flat-Rolled Products segment, and workforce reductions. 2001 included charges of $74.2 million for the permanent idling of the Houston, PA melt shop in the Flat-Rolled Products segment, workforce reductions and other asset impairments. Operating results for 2003 and 2002 exclude goodwill amortization expense while 2001 included goodwill amortization expense of $5.8 million.

We operate in three business segments: Flat-Rolled Products, High Performance Metals and Engineered Products. These segments represented the following percentages of our total revenues for the years indicated:

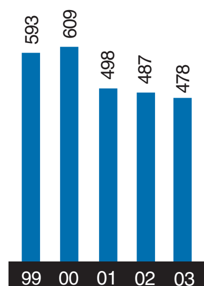
	2003	2002	2001
Flat-Rolled Products	54%	55%	51%
High Performance Metals	33%	33%	36%
Engineered Products	13%	12%	13%

Information with respect to our business segments is presented below and in Note 10 of the Notes to Consolidated Financial Statements.

Flat-Rolled Products

(In millions)	2003	% Change	2002	% Change	2001
Sales to external customers	$1,043.5	0.3%	$1,040.3	(3.7%)	$1,080.4
Operating loss	(14.1)	(64.0%)	(8.6)	78.5%	(40.0)
Operating loss as a percentage of sales	(1.4%)		(0.8%)		(3.7%)
International sales as a percentage of sales	13.5%		11.8%		12.0%

ATI Flat-Rolled Products Shipped
(thousands of tons)



Our Flat-Rolled Products segment produces, converts and distributes stainless steel, nickel-based alloys and superalloys, and titanium and titanium-based alloys in sheet, strip, plate and Precision Rolled Strip® products, as well as silicon electrical steels and tool steels. The operations in this segment include Allegheny Ludlum, Allegheny Rodney, Allegheny Ludlum's 60% interest in the Chinese joint venture company known as Shanghai STAL Precision Stainless Steel Co., Limited ("STAL"), and our 50% interest in the industrial titanium joint venture known as Uniti LLC. The remaining 40% interest in STAL is owned by Baosteel Group, a state authorized investment company whose equity securities are publicly traded in the People's Republic of China. The financial results of STAL are consolidated into the segment's operating results with the 40% interest of our minority partner recognized on the statement of operations as other income or expense. The remaining 50% interest in Uniti LLC is held by VSMPO-AVISMA, a Russian producer of titanium, aluminum and specialty steel products. We account for the results of the Uniti joint venture using the equity method since we do not have a controlling interest.

2003 Compared to 2002

Sales for the Flat-Rolled Products segment for 2003 were $1,043.5 million, essentially the same as 2002, which was due primarily to the effect of raw material surcharges offsetting lower volumes and base selling prices. Weak demand and base pricing for products of the Flat-Rolled Products segment, especially commodity stainless steel, which persisted for most of 2003, plus the negative effects of rapidly rising raw material costs and higher energy costs resulted in an operating loss of $14.1 million for 2003 compared to an operating loss of $8.6 million in 2002.

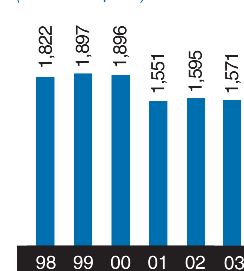
Finished tons shipped in 2003 declined by 2% to 478,353 tons compared to shipments of 487,335 tons for 2002. The average transaction prices to customers increased by 2% to $2,178 per ton in 2003 due primarily to higher raw materials surcharges, which offset a 4% decline in average base selling prices, which exclude the affect of surcharges. Shipments of commodity products (including stainless steel hot roll and cold roll sheet, stainless steel plate and silicon electrical steel, among other products) decreased 2% while average prices for these products increased 3%. The decline in shipments was primarily attributable to continued depressed demand for commodity stainless steel sheet and plate due to the continued weakness in the U.S. industrial economy, especially in the non-residential construction and most capital goods markets. The increase in average prices was primarily due to higher raw material surcharges, principally for nickel. Commodity stainless steel base selling prices, which exclude surcharges, declined 4% in 2003 compared to 2002. During the same period, consumption in the U.S. of stainless steel strip, sheet and plate products was flat according to the Specialty Steel Institute of North America (SSINA). High-value product shipments in the segment (including strip, Precision Rolled Strip®, super stainless steel, nickel alloy and titanium products) decreased 1%, while average prices for high-value products were flat. Increased shipments of Precision Rolled Strip® products in Europe and Asia were partially offset by the overall decline in shipments of other high-value products. Certain of these high-value products are used in the consumer durables and capital goods markets, both of which continued to be impacted by the weak U.S. economy in the markets we serve, which negatively affected shipments.

Operating results for 2003 were adversely affected by higher raw material costs, which increased significantly in 2003, especially during the second half of the year. For example, the cost of nickel, a major raw material in the production of many stainless steel alloys, increased 97% in 2003 from an average cost of $3.26 per pound for the month of December 2002 to an average cost of $6.43 per pound for December 2003, as priced on the London Metals Exchange. While we were able to offset a significant portion of the increase through raw material surcharges in the pricing of our products, these higher costs had a negative effect on cost of sales as a result of our LIFO inventory accounting methodology. For 2003, we incurred approximately $36 million of expense for these cost increases, including LIFO inventory charges of $27 million and cost increases of $9 million for certain raw materials which are not subject to our surcharges. In addition, natural gas and electricity costs for 2003 were approximately $12 million higher than 2002.

We continued to aggressively reduce costs and streamline our operations. In 2003, we achieved gross cost reductions, before the effects of inflation, of $60 million. Major areas of cost reductions, before the effects of inflation, included $19 million from operating efficiencies, $18 million from procurement, $13 million from lower compensation and fringe benefit expenses, and $10 million from reduced depreciation expense and other fixed cost savings. During 2003, we implemented further workforce reductions of approximately 140 salaried employees representing approximately 13% of the salaried workforce. These workforce reductions were substantially complete by the end of 2003 and resulted in a pretax severance charge of $5 million in 2003. In addition, we indefinitely idled our Washington Flat-Rolled coil facility located in Washington, PA and recorded an asset impairment charge related to the remaining assets located at Houston, PA reflecting projected utilization. These actions resulted in a total pretax, non-cash asset impairment charge of $47.5 million in the 2003 fourth quarter. These expenses are presented as restructuring costs on the statement of operations and are not included in the results for the segment. These cost reduction actions are expected to result in annual pretax cost savings of approximately $10 million. Since 2000, the salaried workforce has been reduced by approximately 41%.

Apparent Domestic Consumption of Stainless Steel Sheet and Strip

(thousands of tons)



(Source: SSINA)

We continued to invest to enhance our specialty metals capabilities, increase efficiencies and reduce costs. Our strategic capital investment to upgrade the Brackenridge, PA melt shop, which commenced in 2002 and is expected to cost approximately $35 million, is on schedule. The first of the two new electric arc furnaces began operation in November 2003 and the second furnace is scheduled to be completed in the second half of 2004. Cost savings are estimated to be over $20 million annually after completion of the project.

2002 Compared to 2001

Sales for the Flat-Rolled Products segment decreased 3.7% in 2002 resulting in an operating loss of $8.6 million for the year. Operating results continued to be severely impacted by very low demand and declining prices for most stainless steel products, but improved compared to 2001 results due to on-going efforts to reduce costs. Finished tons shipped in 2002 further declined by 2% to 487,335 tons compared to shipments of 498,066 tons for 2001. The average price of flat-rolled products decreased by 1% to $2,134 per ton in the 2002 period. Shipments of commodity products (including stainless steel hot roll and cold roll sheet, stainless steel plate and silicon electrical steel, among other products) decreased 5% while average prices for these products were flat. The decline in shipments was primarily attributable to continued depressed demand for stainless steel sheet and plate due to the weak U.S. industrial economy. The slight increase in average prices was primarily due to higher raw material surcharges, principally for nickel. High-value product shipments in the segment (including strip, Precision Rolled Strip®, super stainless steel, nickel alloy and titanium products) increased 5%, while average prices for high-value products decreased 7%. Increased shipments of Precision Rolled Strip® products in Europe and Asia were partially offset by the overall decline in shipments of other high-value products. Certain of these high-value products are used in the consumer durables and capital goods markets, both of which were impacted by the weak U.S. economy, which negatively affected prices. Operating results for 2002 were also adversely affected by settlement of a dispute with the United Steelworkers of America ("USWA") regarding profit sharing related to prior years, which resulted in a pretax charge of $3.9 million in the fourth quarter.

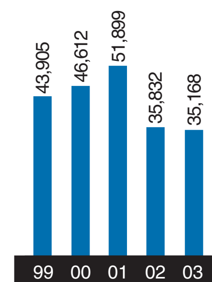
During 2002 we continued to aggressively reduce costs and achieved gross cost reductions, before the effects of inflation, of $80 million for the full year. We indefinitely idled our Massillon, OH stainless steel plate facility, due primarily to continuing poor demand for wide continuous mill plate products. This action resulted in a pretax, non-cash asset impairment charge of $34.4 million in the 2002 fourth quarter. In addition, during the 2002 third quarter, we announced further workforce reductions of approximately 230 salaried employees representing approximately 20% of the salaried workforce. These workforce reductions were substantially complete by the end of the third quarter and resulted in a pretax severance charge of $4 million, net of a pension curtailment gain, in the 2002 third quarter. These expenses are presented as restructuring costs on the statement of operations and are not included in the results for the segment.

High Performance Metals

(In millions)	2003	% Change	2002	% Change	2001
Sales to external customers	$641.7	1.9%	$630.0	(18.4%)	$771.8
Operating profit	26.2	(16.0%)	31.2	(62.0%)	82.0
Operating profit as a percentage of sales	4.1%		5.0%		10.6%
International sales as a percentage of sales	34.8%		39.3%		36.0%

Our High Performance Metals segment produces, converts and distributes a wide range of high performance alloys including nickel- and cobalt-based alloys and superalloys, titanium and titanium-based alloys, exotic alloys such as zirconium, hafnium, niobium, tantalum and their related alloys, and other specialty alloys and metals, primarily in slab, ingot, billet and long products such as bar, rod, wire, coil and seamless tube. The operations in this segment include Allvac, Allvac Ltd (U.K.) and Wah Chang, which also produces and sells zirconium chemicals.

ATI Nickel-Based and Specialty Steel Alloys Shipped
(thousands of lbs.)

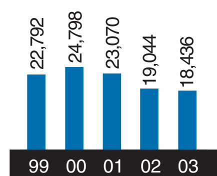


2003 Compared to 2002

Sales for the High Performance Metals segment increased 1.9% to $641.7 million in 2003 primarily due to strong demand for our exotic materials, especially for the government and chemical processing markets, which offset continued weakness in the commercial aerospace and land-based turbine power generation markets. However, operating profit for the High Performance Metals segment declined 16% to $26.2 million because of lower demand and prices for nickel-based alloys and superalloys, specialty steel alloys and titanium-based alloys, which represent approximately 70% of the segment's sales. In addition, rising raw material costs offset cost reduction efforts.

Shipments of nickel-based and specialty steel alloys decreased 2%, while average prices increased 3% due primarily to product mix. Titanium mill products shipments decreased 3% and average prices decreased 3%. Shipments for exotic alloys increased 14% and average prices increased 4%. Backlog of confirmed orders for the segment was approximately $270 million at December 31, 2003 and approximately $300 million at December 31, 2002.

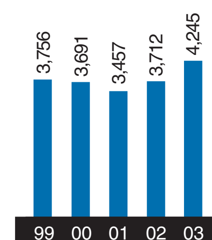
ATI Titanium Mill Products Shipped
(thousands of lbs.)



Operating profit for 2003 was adversely affected by higher raw material costs, which increased significantly in 2003, especially during the second half of the year. These higher costs had a negative effect on cost of sales as a result of our LIFO inventory accounting methodology, resulting in $11.7 million of expense for 2003, compared to $7.4 million of LIFO income in 2002. Operating profit in 2002 was adversely impacted by the effects of a seven month labor strike settled in March 2002 at our Wah Chang operation, which produces our exotic alloys.

We continued to aggressively reduce costs in 2003. Gross cost reductions, before the effects of inflation, for 2003 totaled approximately $45 million. Major areas of cost reductions, before the effects of inflation, included $23 million from operating efficiencies, $13 million from procurement, and $9 million from hourly and salary labor cost savings. During 2003, we implemented further workforce reductions, which affected approximately 200 employees, or 19% of the salaried workforce. In connection with these reductions, which were substantially completed by the end of the year, we recorded charges of $3 million for the related severance costs. These expenses are presented as restructuring costs on the statement of operations and are not included in the results for the segment. These cost reduction actions are expected to result in annual pretax cost savings of approximately $10 million.

ATI Exotic Alloys Shipped
(thousands of lbs.)



We continued to invest to enhance our specialty metals capabilities, increase efficiencies and reduce costs. Our strategic capital investment to upgrade our long products rolling mill facility located in Richburg, SC, which is expected to cost approximately $46 million, began in 2002 and is expected to start producing product in the second quarter of 2004. The project includes mutual conversion agreements with Outokumpu Oyj's U.S. subsidiary, Outokumpu Stainless, giving us access to process our products at Outokumpu Stainless' facility and Outokumpu Stainless access to process their stainless steel long products at our Richburg facility.

2002 Compared to 2001

Sales for the High Performance Metals segment declined 18.4% in 2002 primarily as a result of reduced demand for nickel-based alloys and superalloys, and titanium and titanium-based alloys from the segment's two largest markets, commercial aerospace and power generation. This decrease in sales was partially offset by improved shipments of exotic alloys primarily for the mining, high energy physics, government and corrosion markets. Shipments of nickel-based alloys and superalloys and specialty steel alloys decreased 31%, while average prices increased 1%. Titanium mill products shipments decreased 17% and average prices increased 1%. Shipments for exotic alloys increased 7% and average prices increased 8%. Increases in prices for 2002, compared to 2001, were primarily the result of favorable changes in product mix.

Operating profit for 2002 declined 62% primarily as a result of the reduced sales volume, which was partially offset by efforts to reduce costs. Gross cost reductions, before the effects of inflation, for 2002 totaled approximately $42 million. Operating profit in 2002 was also adversely impacted by the effects of a seven month labor strike, which was settled in March 2002, at our Wah Chang operation, which produces our exotic alloys.

Backlog of confirmed orders for the segment was approximately $300 million at December 31, 2002 and approximately $350 million at December 31, 2001. While the backlog for our exotic materials remained strong, we expected demand for products used in commercial aerospace, which historically has been the segment's largest end-use market, to remain depressed in 2003. As a result, in the 2002 third and fourth quarters we announced further workforce reductions, which affected approximately 285 employees at the Allvac and Allvac Ltd operations. In connection with these reductions, we recorded charges of $3.3 million for the related severance costs. These expenses are presented as restructuring costs on the statement of operations and are not included in the results for the segment.

Engineered Products

(In millions)	2003	% Change	2002	% Change	2001
Sales to external customers	$252.2	6.2%	$237.5	(13.9%)	$275.8
Operating profit	7.8	65.5%	4.7	(61.7%)	12.3
Operating profit as a percentage of sales	3.1%		2.0%		4.5%
International sales as a percentage of sales	31.0%		29.5%		33.4%

Our Engineered Products segment's principal business consists of the production of tungsten powder, tungsten carbide materials and carbide cutting tools. The segment also produces carbon alloy steel impression die forgings, large grey and ductile iron castings, and provides conversion services for titanium and other specialty metals. The companies in this segment are Metalworking Products, Portland Forge, Casting Service and Rome Metals. In the 2003 fourth quarter, as a result of organization changes, Rome Metals became part of this segment, which was formerly the Industrial Products segment.

2003 Compared to 2002

Sales for the Engineered Products segment increased 6.2%, to $252.2 million in 2003, compared to 2002, and operating profit increased 65.5%, to $7.8 million. Demand for our tungsten products from the oil and gas, medical and automotive markets improved during 2003. Demand also improved for forgings and castings. Segment operating profit improved primarily due to higher sales and the impact of cost reductions, which totaled $9 million in 2003.

In the second half of 2003, we announced an additional restructuring of the European operations of Metalworking Products. Restructuring charges of approximately $3 million associated with this consolidation are presented as restructuring costs on the 2003 statement of operations and are not included in segment results. These cost reductions are expected to result in $2 million in annual pretax cost savings.

2002 Compared to 2001

Sales and operating profit for the Engineered Products segment decreased 13.9% and 61.7%, respectively, in 2002, compared to 2001 results. Continued weak demand from most U.S. industrial markets negatively impacted operating results for all businesses in the segment. The decline in operating results was partially offset by ongoing efforts to reduce costs, which totaled approximately $12 million in 2002. During the second half of 2002, we announced workforce reductions of approximately 150 employees primarily at the European operations of Metalworking Products. These workforce reductions resulted in a severance charge of $1.1 million in the 2002 fourth quarter. These expenses are presented as restructuring costs on the statement of operations and are not included in the results for the segment.

Corporate Expenses

Corporate expenses were $20.5 million in 2003 compared to $20.6 million in 2002 and $25.5 million in 2001. Cost controls and reductions in the number of corporate employees that were implemented over this period were offset in 2003 by increased compensation expense associated with our long-term, stock-based compensation plan due to the significant increase in our stock price in the 2003 fourth quarter.

Interest Expense, net

Interest expense, net of interest income, was $27.7 million for 2003, compared to $34.3 million for 2002 and $29.3 million for 2001. The effect of "receive fixed, pay floating" interest rate swap contracts of $150 million, related to our $300 million of 8.375% 10-year Notes issued in December 2001, decreased interest expense by $6.7 million in 2003 and $4.9 million in 2002, compared to the fixed interest expense of the Notes. Interest expense in 2003 was reduced by $2.1 million from interest capitalization on capital projects.

Interest expense is presented net of interest income of $6.2 million for 2003, $3.0 million for 2002 and $1.4 million for 2001. The increases in interest income for 2003 and 2002 primarily relate to interest on settlements of prior years' tax liabilities.

Restructuring Costs

Restructuring costs were $62.4 million, $42.8 million and $74.2 million in 2003, 2002 and 2001, respectively.

In 2003, we recorded charges of $62.4 million, including $47.5 million for impairment of long-lived assets in the Flat-Rolled Products segment, $11.1 million for workforce reductions across all business segments and the corporate office, and $3.8 million for facility closure charges including present-valued lease termination costs, net of forecasted sublease rental income, at the corporate office. In the 2003 fourth quarter, based on existing and projected operating levels at our remaining operations in Houston, PA and at our Washington Flat Roll coil facility located in Washington, PA, we determined that the net book values of these facilities were in excess of their estimated fair market values based on expected future cash flows. Charges for the Houston facility and the Washington Flat Roll coil facility were recorded to write down the net book values of these facilities to their estimated fair market values. These asset impairment charges do not impact current operations at these facilities. The workforce reductions affected approximately 375 employees across all segments and the corporate office. Approximately $5 million of the severance charges will be paid from the Company's pension plan, and at December 31, 2003, approximately $9 million of the workforce reduction and facility closure charges are future cash costs that will be paid over the next ten years. Cash to meet these obligations is expected to be generated from one or more of the following sources: internally generated funds from operations, current cash on hand, or borrowings under existing credit lines.

In 2002, we recorded total charges of $42.8 million related to the indefinite idling of our Massillon, OH stainless steel plate facility, due to continuing poor demand for wide continuous mill plate products, and further workforce reductions across all of our operations. The Massillon, OH stainless steel plate facility was indefinitely idled in the 2002 fourth quarter, and resulted in a pretax non-cash asset impairment charge of $34.4 million, representing the excess of the book value of the facility over its estimated fair market value. In addition, during the second half of 2002, and in light of continuing weak demand in the markets we serve, we announced workforce reductions of approximately 665 employees. These workforce reductions were substantially complete by the end of the first half of 2003, and resulted in a pretax, primarily cash, severance charge of $8.4 million, net of a retirement benefits curtailment gain. These expenses are presented as restructuring costs on the statement of operations and are not included in segment results. Of the $42.8 million restructuring charge recorded in 2002, $8.4 million resulted in expenditures of cash.

In 2001, we recorded total charges of $74.2 million related to the permanent idling of the Houston, PA stainless steel melt shop, workforce reductions and other asset impairments. Of this total charge, $55.6 million related to the Houston, PA stainless steel melt shop, which was permanently idled in the 2001 fourth quarter, and other asset impairments; $9.8 million related to pension and termination benefits; $5.8 million related to severance and personnel costs; and $3.0 million related to contractual obligations and other exit costs. The workforce reductions affected approximately 520 employees across all of our business segments and our corporate office, and were substantially complete by the end of 2001. Of the $74.2 million restructuring charges recorded in 2001, approximately $5 million, resulted in expenditures of cash.

At December 31, 2003, substantially all cash expenditures related to the 2002 and 2001 restructuring charges had been paid.

Other Expenses, Net of Gains on Asset Sales

Other expenses, net of gains on asset sales includes charges incurred in connection with closed operations, pretax gains and losses on the sale of surplus real estate, non-strategic investments and other assets, operating results from equity-method investees, minority interest and other non-operating income or expense. These items are presented primarily in selling and administrative expenses, and in other income (expense) in the statement of operations and resulted in net charges of $47.7 million, $11.6 million and $14.8 million in 2003, 2002, and 2001, respectively.

In 2003, charges for closed companies related to legal, environmental, insurance and other matters were approximately $30 million higher than in 2002. These charges include $22.5 million related to litigation, as more fully described in Note 14, "Commitments and Contingencies," in the Notes to Consolidated Financial Statements, and which is included in selling and administrative expenses in the consolidated statement of operations; and changes in our estimates of our liability for environmental closure costs and for liabilities under retrospectively-rated insurance programs. In 2002, we recognized a pretax charge of $6.5 million for our approximate 30% share of the net losses in New Piper Aircraft ("New Piper"), and for the write-off of the carrying value of this investment. In 2001, a pretax charge of $5.6 million was recorded to write-off our minority interest in the e-Business site, MetalSpectrum, which terminated operations during the 2001 second quarter.

Retirement Benefit (Expense) Income

Retirement benefit expenses have increased significantly over the past three years due to lower pension investments as a result of severe declines in the equity markets in 2000 through 2002, and higher benefit liabilities from long-term labor contracts negotiated in 2001. Retirement benefit expense was $134.4 million for 2003 and $21.8 million for 2002, compared to pretax retirement benefit income of $53.1 million for 2001. The increases in retirement benefit expenses have negatively effected both cost of sales and selling and administrative expenses. The effect of retirement benefit (expense) income on cost of sales and selling and administrative expenses for the years ended 2003, 2002 and 2001 were as follows:

(In millions)	2003	2002	2001
Cost of sales	$ (94.6)	$ (9.9)	$ 45.9
Selling and administrative expenses	(39.8)	(11.9)	7.2
Total retirement benefit expense	$(134.4)	$ (21.8)	$ 53.1

Retirement benefit expenses for 2004 are expected to be approximately $143 million, with effects on cost of sales and selling and administrative expenses similar to 2003. Pension expense is expected to decline to approximately $75 million pretax for 2004 from $92 million for 2003 as actual returns on pension assets in 2003 were higher than expected, partially offset by a lower assumed discount rate to value pension benefit liabilities. The projected rise in medical benefit inflation and lower assumed discount rate is expected to result in postretirement medical expenses of approximately $68 million for 2004 compared to $42 million for 2003. The projected 2004 postretirement medical expense does not include the expected favorable impact of the Medicare Prescription Drug, Improvement and Modernization Act, which was signed into law on December 8, 2003. The Act provides for a federal subsidy, with tax-free payments commencing in 2006, to sponsors of retiree health care benefits plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Based upon estimates from our actuaries, we expect that the federal subsidy included in the law will result in a reduction in the Other Postretirement Benefits obligation of up to $70 million. This reduction has not been reflected in the 2003 financial statements or in the 2004 estimated expense because authoritative accounting guidance regarding how the reduction in the obligation is to be recognized in the financial statements is pending. Approximately 76%, or $109 million, of the estimated 2004 retirement benefit expense is expected to be non-cash.

Income Taxes

In the 2003 fourth quarter we recorded a $138.5 million valuation allowance on our net deferred tax asset, based upon the results of our quarterly evaluation concerning the estimated probability that the net deferred tax asset would be realizable. This charge did not affect cash or our ability to utilize any of our deferred tax assets on future tax returns. Our income tax provision (benefit) for 2003, 2002, and 2001 was $33.1 million, $(38.0) million and $(11.2) million, respectively. The income tax benefits recognized in 2002 and 2001 include the effects of cash refunds of income taxes paid in prior years. In 2003 and 2002, we received $65.6 million and $45.6 million, respectively, in income tax refunds, and we recognized $7.2 million of income taxes receivable at December 31, 2003, which we expect to receive in the first half of 2004. Under current tax laws we are limited in our ability to carryback any current year or future tax losses to prior periods to obtain cash refunds of taxes paid during those periods. Current year federal tax losses, if any, can be carried forward for up to 20 years and applied against taxes owed in those future years. As of December 31, 2003, we had a federal income tax net operating loss carryforward deferred tax asset of approximately $29 million, which we are able to carryforward until 2023.

Deferred taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, and differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income taxes represent future tax benefits or costs to be recognized when those temporary differences reverse. At December 31, 2003, we had a net deferred tax asset of $34.3 million, net of a valuation allowance of $178.8 million, including the $138.5 million 2003 fourth quarter deferred tax valuation allowance and previously recorded deferred tax valuation allowances on state income tax net operating loss carryforwards. A significant portion of our deferred tax asset, prior to the valuation allowance, relates to postretirement employee benefit obligations, which have been recorded in the accompanying financial statements but are not recognized for income tax reporting until the benefits are paid. These benefit payments are expected to occur over an extended period of years. No valuation allowance was required on $34.3 million of net deferred tax assets based upon our ability to utilize these assets within the carryback, carryforward period, including consideration of tax planning strategies that we would undertake to prevent an operating loss or tax credit carryforward from expiring unutilized. We intend to maintain a valuation allowance on the net deferred tax assets until a realization event occurs to support the reversal of all or a portion of the reserve.

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.

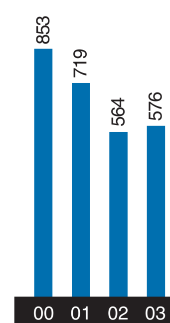
Our ability to access the credit markets in the future to obtain additional financing, if needed, will be influenced by our credit rating. In December 2003, Standard & Poor's Ratings Services lowered its long-term credit ratings for our debt to BB- from BB and we remained on CreditWatch with negative 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%

Capital expenditures for 2003 were $74.4 million compared to $48.7 million in 2002, as spending increased for our two major strategic capital projects: two new electric arc furnaces at our flat-rolled products melt shop located in Brackenridge, PA, and investments to enhance the capabilities at our high performance metals long products rolling mill facility located in Richburg, SC. The first electric arc furnace in the Flat-Rolled Products segment commenced operations in the 2003 fourth quarter. The second furnace is expected to be operational in the second half of 2004, and the high performance metals long products facility is expected to be operational in the second quarter of 2004. Capital expenditures in 2002 were significantly less than the $104.2 million spent in 2001, as we controlled our investment spending due to the uncertain economy and to preserve liquidity. Capital expenditures for 2004 are expected to be between $60 and $70 million, with a large portion representing carryover investment in the two major 2003 projects.

Debt

Total debt outstanding increased $13.0 million, to $532.1 million at December 31, 2003, from $519.1 million at December 31, 2002. The increase was primarily related to $14.7 million of project financing for the High Performance Metals segment rolling mill enhancement capital project. Total debt outstanding is impacted by the fair value of interest rate swap contracts. During 2003, we terminated some of these interest rate swap contracts associated with our 8.375%, ten-year Notes due 2011, and received $15.3 million in cash. The value of these interest rate contracts that were sold remains a component of the reported value of the Notes, and is recognized ratably as a reduction to interest expense over the remaining term of the Notes. At December 31, 2003 and 2002, the accounting treatment required to adjust currently outstanding swap contracts to fair value resulted in the recognition of net assets of $1.4 million and $18.7 million, respectively, on the balance sheet, included in other assets, with an offsetting increase in long-term debt. The debt to capitalization ratio increased to 75.3% at December 31, 2003 from 53.6% at December 31, 2002. The higher ratio results primarily from the decline in stockholders' equity arising from 2003 operating results, including the impact of restructuring and litigation charges, and the recognition of a $138.5 million deferred tax valuation allowance, which was partially offset by reductions in our minimum pension liability of $47.0 million.

During the 2003 second quarter, we entered into a $325 million four-year senior secured domestic revolving credit facility ("the secured credit facility" or "the facility"). The facility, which replaced a $250 million unsecured facility, is secured by all accounts receivable and inventory of our U. S. operations, and includes capacity for up to $150 million in letters of credit. As of December 31, 2003, there had been no borrowings made under either the secured credit facility or the former unsecured credit facility since the beginning of 2002. Outstanding letters of credit issued under the secured credit facility were approximately $94 million at December 31, 2003.

The secured credit facility limits capital expenditures, investments and acquisitions of businesses, new indebtedness, asset divestitures, payment of dividends, and common stock repurchases which we may incur or undertake during the term of the facility without obtaining permission of the lending group. In addition, the secured credit facility contains a financial covenant, which is not measured unless our undrawn availability under the facility is less than $150 million. This financial covenant, when measured, requires us to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to fixed charges of at least 1.0 to 1.0. EBITDA is adjusted for non-cash items such as income/loss on investments accounted for under the equity method of accounting, non-cash pension expense/income, and that portion of retiree medical and life insurance expenses paid from our VEBA trust. EBITDA is reduced by capital expenditures, as defined in the facility, and cash taxes paid, and increased for cash tax refunds. Fixed charges include gross interest expense, dividends paid and scheduled debt payments. At December 31, 2003, our undrawn availability under the facility, which is calculated including outstanding letters of credit, other uses of credit and domestic cash on hand, was $263 million, and the amount that we could borrow at that date prior to requiring the application of a financial covenant test was $113 million. We expect our undrawn availability will decrease by approximately $22 million in connection with our planned appeal of the unfavorable jury verdict we received on March 10, 2004. During at least the first half of 2004, due to rising raw material prices and improving business volumes, we expect to maintain a lower domestic cash balance from 2003 year end levels, and we may borrow funds from the secured facility from time-to-time to support working capital requirements or investment opportunities. We believe that our available borrowing capacity will be sufficient to meet our requirements.

Borrowings under the secured credit facility bear interest at our option at either: (1) the one-, two-, three- or six-month LIBOR rate plus a margin ranging from 2.25% to 3.00% depending upon the level of borrowings; or (2) a base rate announced from time-to-time by the lending group (i.e. the Prime lending rate) plus a margin ranging from 0% to 0.75% depending upon the level of borrowings. In addition, the secured credit facility contains a facility fee of 0.25% to 0.50% depending on the level of undrawn availability. The facility also contains fees for issuing letters of credit of 0.125% per annum and annualized fees ranging from 2.25% to 3.00% depending on the level of undrawn availability under the facility. Our overall borrowing costs under the secured credit facility are not affected by changes in our credit ratings.

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 our existing credit facilities.

In December 2001, we issued $300 million of 8.375% Notes due December 15, 2011. Interest on the Notes is payable semi-annually, on June 15 and December 15, and is subject to adjustment under certain circumstances. These Notes contain default provisions with respect to default for the following, among other things: nonpayment of interest on the Notes for 30 days, default in payment of principal when due, or failure to cure the breach of a covenant as provided in the Notes. Any violation of the default provision could result in the requirement to immediately repay the borrowings. These Notes are presented on the balance sheet net of issuance costs of $5.9 million, which are being amortized over the life of the debt.

In 2002, we entered into "receive fixed, pay floating" arrangements for $150 million related to the 8.375% ten-year Notes, which effectively converted this portion of the Notes to variable rate debt. In 2003, some of these interest rate swaps were terminated for $15.3 million in cash. Subsequently in 2003, new "receive fixed, pay floating" interest rate swaps were entered into which re-established the $150 million interest rate swap position. The result of the "receive fixed, pay floating" arrangements for the years ended December 31, 2003 and 2002, was a decrease in interest expense of $6.7 million and $4.9 million, respectively, compared to the fixed interest expense of the Notes that would otherwise be applicable.

A summary of required payments under financial instruments (excluding accrued interest) and other commitments are presented below.

(In millions)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Contractual Cash Obligations					
Total Debt including Capital Leases	$532.1	$ 27.8	$10.1	$ 25.4	$468.8
Operating Lease Obligations	47.1	11.9	20.6	8.5	6.1
Other Long-term Liabilities (A)	83.4	—	51.7	7.6	24.1
Unconditional Purchase Obligations					
Raw materials (B)	353.9	274.8	79.1	—	—
Capital spending	10.7	10.7	—	—	—
Other (C)	15.0	13.3	1.4	0.3	—
Other Financial Commitments					
Lines of Credit (D)	$374.5	$ 21.5	$ —	$351.1	$ 1.9
Guarantees	16.6	—	—	—	—

(A) Other long-term liabilities exclude pension liabilities and accrued postretirement benefits.

(B) We have contracted for physical delivery for certain of our raw materials to meet a portion of our needs. These contracts are based upon fixed or variable price provisions. We used current market prices as of December 31, 2003 for raw material obligations with variable pricing.

(C) We have various contractual obligations that extend through 2011 for services involving production facilities and administrative operations. Our purchase obligation as disclosed represents the estimated termination fees payable if we were to exit these contracts.

(D) Drawn amounts are included in total debt. Includes $94.3 million utilized under the $325 million domestic secured credit facility for standby letters of credit, which renew annually and are used to support: $49.2 million of financing outside of the domestic secured credit facility, primarily for our foreign based operations; $26.9 million in workers compensation and general insurance arrangements; $14.9 million related to environmental matters; $2.1 million related to international trade; and $1.2 million for other legal matters.

Retirement Benefits

As of November 30, 2003, our measurement date for pension accounting, the value of the accumulated pension benefit obligation (ABO) exceeded the value of pension investments by approximately $195 million. A minimum pension liability was recognized in 2002 as a result of a severe decline in the equity markets from 2000 through 2002, higher benefit liabilities from long-term labor contracts negotiated in 2001, and a lower assumed discount rate for valuing the pension liabilities. Accounting standards require that a minimum pension liability be recorded if the value of pension investments is less than the ABO at the annual measurement date. Accordingly, in the 2002 fourth quarter, we recorded a charge against stockholders' equity of $406 million, net of deferred taxes, to write off our prepaid pension cost representing the previous overfunded portion of the pension plan, and to record a deferred pension asset for unamortized prior service cost relating to prior benefit enhancements. In the fourth quarter 2003, our adjustment of the minimum pension liability resulted in a $47 million increase to stockholders' equity, presented as other comprehensive income (loss). The recognition of the minimum pension liability in 2002, and the adjustment of the minimum pension liability in 2003 does not affect our reported net loss and does not have a cash impact. In accordance with accounting standards, the full charge against stockholders' equity would be reversed in subsequent years if the value of pension plan investments returns to a level that exceeds the ABO as of a future annual measurement date. As of the 2003 annual measurement date, the value of pension investments was $1.8 billion and the ABO was $2.0 billion. Based upon current actuarial analyses and forecasts, the ABO is projected to be $2.0 billion at the 2004 annual measurement date, assuming no changes in the discount rate used to value benefit obligations.

We do not expect to be required to make contributions to our U.S. defined benefit pension plan for at least the next several years based upon current actuarial analyses and forecasts. However, further significant declines in the value of plan investments in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. Depending on the timing and amount, a requirement that we fund our defined benefit pension plan could have a material adverse effect on our results of operations and financial condition.

Beginning in the second half of 2001, we began funding certain retiree health care benefits for Allegheny Ludlum using investments held in a Voluntary Employee Benefit Association (VEBA) trust. This allows us to recover a portion of the retiree medical costs. In accordance with our labor agreements, during 2003 and 2002, we funded $14.2 million and $12.7 million, respectively, of retiree medical costs using the investments of the VEBA trust. We may continue to fund certain retiree medical benefits utilizing the investments held in the VEBA if the value of these investments exceed $50 million. The value of the investments held in the VEBA was over $100 million as of November 30, 2003.

Other

We paid a quarterly dividend of $0.06 per share of common stock during each of the four quarters of 2003 and the fourth quarter of 2002. We paid a quarterly dividend of $0.20 per share of common stock in each of the first three quarters of 2002. On March 11, 2004, the Board of Directors declared a regular quarterly dividend of $0.06 per share of common stock. The dividend will be paid on March 30, 2004, to stockholders of record at the close of business on March 22, 2004.

The payment of dividends and the amount of such dividends depends upon matters deemed relevant by our Board of Directors, such as our results of operations, financial condition, cash requirements, future prospects, and any limitations imposed by law, credit agreements or senior securities, and other factors deemed relevant and appropriate.

Critical Accounting Policies

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, management selects the principle or method that is appropriate in our specific circumstances. Application of these accounting principles requires our management to make estimates about the future resolution of existing uncertainties; as a result, actual results could differ from these estimates. In preparing these financial statements, management has made its best estimates and judgments of the amounts and disclosures included in the financial statements giving due regard to materiality.

Revenue Recognition and Accounts Receivable

Revenue is recognized when title passes or as services are rendered. We have no significant unusual sale arrangements with any of our customers.

We market our products to a diverse customer base, principally throughout the United States. Trade credit is extended based upon evaluations of each customer's ability to perform its obligations, which are updated periodically. Accounts receivable reserves are based upon an aging of accounts and a review for collectibility of specific accounts. Accounts receivable are presented net of a reserve for doubtful accounts of $10.2 million at December 31, 2003 and $10.1 million at December 31, 2002, which represented 3.9% and 4.1%, respectively, of total gross accounts receivable. During 2003, we recognized expense of $2.2 million to increase the reserve for doubtful accounts and wrote-off $2.1 million of uncollectible accounts, which reduced the reserve.

Inventories

At December 31, 2003, we had net inventory of $359.7 million. Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO) and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs. Most of our inventory is valued utilizing the LIFO costing methodology. Inventory of our non-U.S. operations is valued using average cost or FIFO methods. Under the LIFO inventory valuation method, changes in the cost of raw materials and production activities are recognized in cost of sales in the current period even though these material and other costs may have been incurred at significantly different values. In a period when raw material or other costs are extremely volatile, the use of the LIFO inventory method may result in cost of sales expense which is not indicative of cash costs. In a period of rising prices, cost of sales expense is typically higher than the cash costs, and inventory as presented on the balance sheet is typically lower than it would be under most alternative costing methods.

We evaluate product lines on a quarterly basis to identify inventory values that exceed estimated net realizable value. The calculation of a resulting reserve, if any, is recognized as an expense in the period that the need for the reserve is identified. At December 31, 2003, no such reserves were required. It is our general policy to write-down to scrap value any inventory that is identified as obsolete and any inventory that has aged or has not moved in more than twelve months. In some instances this criterion is up to twenty-four months.

Asset Impairment

We monitor the recoverability of the carrying value of our long-lived assets. An impairment charge is recognized when the expected net undiscounted future cash flows from an asset's use (including any proceeds from disposition) are less than the asset's carrying value, and the asset's carrying value exceeds its fair value. Changes in the expected use of a long-lived asset group, and the financial performance of the long-lived asset group and its operating segment, are evaluated as indicators of possible impairment. Future cash flow value may include appraisals for property, plant and equipment, land and improvements, future cash flow estimates from operating the long-lived assets, and other operating considerations.

At December 31, 2003, we had $198 million of goodwill on our balance sheet. Changes in the goodwill balance from 2002 are due to foreign currency translation. Of the total, $112 million related to the Flat-Rolled Products segment, $61 million related to the High Performance Metals segment, and $25 million related to the Engineered Products segment. Goodwill is required to be reviewed annually, or more frequently if impairment indicators arise. The impairment test for goodwill is a two-step process. The first step is a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. If this comparison reflects impairment, then the loss would be measured as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of the fair value of the reporting unit over the fair value of all recognized and unrecognized assets and liabilities.

Subsequent to our adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), on January 1, 2002, we perform our annual evaluation of goodwill for possible impairment during the fourth quarter. Our evaluation of goodwill for possible impairment includes estimating the fair market value of each of the reporting units which have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to recent public sale transactions of similar businesses, if any. These valuation methods require us to make estimates and assumptions regarding future operating results, cash flows including changes in working capital and capital expenditures, selling prices, profitability, and the cost of capital. Although we believe that the estimates and assumptions used were reasonable, actual results could differ from those estimates and assumptions. Based upon the transition and annual impairment analyses, no goodwill impairment was determined to exist.

Income Taxes

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, or differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income taxes represent future tax benefits (assets) or costs (liabilities) to be recognized when those temporary differences reverse. We evaluate on a quarterly basis whether, based on all available evidence, we believe that our deferred income tax assets will be realizable. Valuation allowances are established when it is estimated that it is probable (more likely than not) that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. Future realization of deferred income tax assets ultimately depends upon the existence of sufficient taxable income within the carryback, carryforward period available under tax law.

The recognition of a valuation allowance is recorded as a non-cash charge to the income tax provision with an offsetting reserve against the deferred income tax asset. Should we generate pretax losses in future periods, a tax benefit would not be recorded and the valuation allowance recorded would increase. Under these circumstances the net loss recognized and net loss per share for that period would be larger than a comparable period when a favorable tax benefit was recorded. However, tax provisions or benefits would continue to be recognized, as appropriate, on state and local taxes, and taxes related to foreign jurisdictions. The recognition of a valuation allowance does not affect our ability to utilize the deferred tax asset in the future. The valuation allowance could be reduced or increased in future years if the estimated realizability of the deferred income tax asset changes, based upon consideration of all available evidence, including changes in the carryback period available under tax law.

At December 31, 2003, we had a net deferred income tax asset, net of deferred income tax liabilities, of $34.3 million. This net deferred income tax asset is presented net of the $138.5 million valuation allowance recognized in the 2003 fourth quarter, and valuation allowances for certain state tax benefits that are not currently expected to be realized. A significant portion of our deferred income tax asset relates to postretirement employee benefit obligations, which have been recognized for financial reporting purposes but are not deductible for income tax reporting purposes until the benefits are paid. These benefit payments are expected to occur over an extended period of years. We have not had a federal net operating loss or tax credit carryforward expire unutilized.

Contingencies

When it is probable that a liability has been incurred or an asset has been impaired, we recognize a loss if the amount of the loss can be reasonably estimated.

We are subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants into the air or water, and the disposal of hazardous substances, and which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which we have been identified as a potentially responsible party ("PRP") under the Federal Superfund laws, and comparable state laws. We could incur substantial cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or non-compliance with environmental permits required at our facilities. We are currently involved in the investigation and remediation of a number of our current and former sites as well as third party sites under these laws.

With respect to proceedings brought under the Federal Superfund laws, or similar state statutes, we have been identified as a PRP at approximately 33 of such sites, excluding those at which we believe we have no future liability. Our involvement is limited or de minimis at approximately 15 of these sites, and the potential loss exposure with respect to any of the remaining 18 individual sites is not considered to be material.

We are a party to various cost-sharing arrangements with other PRPs at the sites. The terms of the cost-sharing arrangements are subject to non-disclosure agreements as confidential information. Nevertheless, the cost-sharing arrangements generally require all PRPs to post financial assurance of the performance of the obligations or to pre-pay into an escrow or trust account their share of anticipated site-related costs. In addition, the Federal government, through various agencies, is a party to several such arrangements.

Environmental liabilities are recorded when our liability is probable and the costs are reasonably estimable. In many cases, investigations are not at a stage where we are able to determine whether we are liable or, if liability is probable, to reasonably estimate the loss, or certain components thereof. Accordingly, as investigation and remediation of these sites proceed and as we receive new information, we expect that we will adjust our accruals to reflect the new information. Future adjustments could have a material adverse effect on our results of operations in a given period, but we cannot reliably predict the amounts of such future adjustments. At December 31, 2003, our reserves for environmental matters totaled approximately $41 million.

Environmental liabilities are recorded when our liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or our recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations do not take into account the effects of inflation, and anticipated expenditures are not discounted to their present value. The accruals are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect allocations among PRPs at Federal Superfund sites or similar state-managed sites after an assessment is made of the likelihood that such parties will fulfill their obligations at such sites and after appropriate cost-sharing or other agreements are entered. Our measurement of environmental liabilities is based on currently available facts, present laws and regulations, and current technology. Such estimates take into consideration our prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of our environmental experts in consultation with outside environmental specialists, when necessary. Estimates of our liability are further subject to additional uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the participation, number and financial condition of other PRPs, as well as the extent of their responsibility for the remediation.

Based on currently available information, we do not believe that there is a reasonable possibility that a loss exceeding the amount already accrued for any of the matters with which we are currently associated (either individually or in the aggregate) will be an amount that would be material to a decision to buy or sell our securities. Future developments, administrative actions or liabilities relating to environmental matters, however, could have a material adverse effect on our financial condition and results of operations.

Retirement Benefits

We have defined benefit pension plans and defined contribution plans covering substantially all of our employees. We have not made contributions to the U.S. defined benefit pension plan in more than seven years. We are not required to make a contribution to the U.S. defined benefit pension plan for 2004, and, based upon current actuarial analyses and forecasts, we do not expect to be required to make cash contributions to the U.S. defined benefit pension plan for at least the next several years.

We account for our defined benefit pension plans in accordance with SFAS 87, which requires that amounts recognized in financial statements be determined on an actuarial basis, rather than as contributions are made to the plan. A significant element in determining our pension (expense) income in accordance with SFAS 87 is the expected investment return on plan assets. In establishing the expected return on plan investments, which is reviewed annually in the fourth quarter, we take into consideration input from our third party pension plan asset managers and actuaries regarding the types of securities the plan investments are invested in, how those investments have performed historically, and expectations for how those investments will perform in the future. For 2003, in light of the declines in the equity markets in 2000 through 2002, which comprise a significant portion of our pension plan investments, we lowered our expected return on pension plan investments to 8.75%, from a 9% expected return on pension plan investments which was used in 2002. This assumed rate is applied to the market value of plan assets at the end of the previous year. This produces the expected return on plan assets that is included in annual pension (expense) income for the current year. While the actual return on pension plan investments for 2003 was 13.1%, our expected return on pension plan investments for 2004 remains at 8.75%. The effect of increasing, or lowering, the expected return on pension plan investments by 0.25% results in additional annual income, or expense, of approximately $4 million. The cumulative difference between this expected return and the actual return on plan assets is deferred and amortized into pension income or expense over future periods. The expected return on plan assets can vary significantly from year-to-year since the calculation is dependent on

the market value of plan assets as of the end of the preceding year. Accounting principles generally accepted in the United States allow companies to calculate the expected return on pension assets using either an average of fair market values of pension assets over a period not to exceed five years, which reduces the volatility in reported pension income or expense, or their fair market value at the end of the previous year. However, the Securities and Exchange Commission currently does not permit companies to change from the fair market value at the end of the previous year methodology, which is the methodology that we use, to an averaging of fair market values of plan assets methodology. As a result, our results of operations and those of other companies, including companies with which we compete, may not be comparable due to these different methodologies in calculating the expected return on pension investments. If the five year average of the fair market values of plan assets had been used to calculate retirement benefit costs, we estimate that retirement benefit expense for 2003 would have been approximately $100 million less than the $134 million expense recognized using the fair market value approach.

At the end of November of each year, we determine the discount rate to be used to value pension plan liabilities. In accordance with SFAS 87, the discount rate reflects the current rate at which the pension liabilities could be effectively settled. In estimating this rate, we receive input from our actuaries regarding the rates of return on high quality, fixed-income investments with maturities matched to the expected future retirement benefit payments. Based on this assessment at the end of November 2003, we established a discount rate of 6.5% for valuing the pension liabilities as of the end of 2003, and for determining the pension expense for 2004. We had previously assumed a discount rate of 6.75% for 2002, which determined the 2003 expense, and 7% for 2001, which determined the 2002 expense. The effect of lowering the discount rate to 6.5% increased pension liabilities by approximately $62 million at 2003 year-end, and is expected to increase pension expense by $4 million in 2004. The effect on pension liabilities for changes to the discount rate, as well as the net effect of other changes in actuarial assumptions and experience, are deferred and amortized over future periods in accordance with SFAS 87.

Accounting standards require a minimum pension liability be recorded when the value of pension assets is less than the accumulated benefit obligation (“ABO”) at the annual measurement date. As of November 30, 2003, our measurement date for pension accounting, the value of the accumulated pension benefit obligation (ABO) exceeded the value of pension investments by approximately $195 million. In the 2002 fourth quarter, as a result of a severe decline in the equity markets in 2000 through 2002, higher benefit liabilities from long-term labor contracts negotiated in 2001, and a lower assumed discount rate for valuing the pension liabilities, we recorded a non-cash charge against stockholders’ equity of $406 million, net of deferred taxes, to write off our prepaid pension cost representing the previous overfunded portion of the pension plan, and to record a deferred pension asset of $165 million for the unamortized prior service cost relating to prior benefit enhancements. In the fourth quarter of 2003, our adjustment of the minimum pension liability resulted in a $47 million increase to stockholders’ equity, presented as Other Comprehensive Income (Loss). The recognition of the minimum pension liability in 2002, and the adjustment of minimum pension liability in 2003 does not affect our reported net loss and does not have a cash impact. In accordance with accounting standards, the charge against stockholders’ equity will be adjusted in the fourth quarter of subsequent years to reflect the value of pension assets compared to the ABO as of the end of November. If the level of pension assets exceeds the ABO as of a future measurement date, the full charge against stockholders’ equity would be reversed.

We also sponsor several postretirement plans covering certain hourly and salaried employees and retirees. These plans provide health care and life insurance benefits for eligible employees. In certain plans, our contributions towards premiums are capped based upon the cost as of a certain date, thereby creating a defined contribution. For the non-collectively bargained plans, we maintain the right to amend or terminate the plans in the future. We account for these benefits in accordance with SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions” (“SFAS 106”), which requires that amounts recognized in financial statements be determined on an actuarial basis, rather than as benefits are paid. We use actuarial assumptions, including the discount rate and the expected trend in health care costs, to estimate the costs and benefits obligations for the plans. The discount rate, which is determined annually at the end of November of each year, is developed based upon rates of return on high quality, fixed-income investments. At the end of 2003, we determined this rate to be 6.5%, a reduction from a 6.75% discount rate in 2002 and a 7% discount rate in 2001. The effect of lowering the discount rate to 6.5% from 6.75% increased 2003 postretirement benefit liabilities by approximately $22 million, and 2004 expenses are expected to increase by approximately $3 million. Based upon significant cost increases quoted by our medical care providers and predictions of continued significant medical cost inflation in future years, the annual assumed rate of increase in the per capita cost of covered benefits for health care plans was 10.4% for 2004 and was assumed to gradually decrease to 5.0% in the year 2014 and remain level thereafter.

The Other Postretirement Benefits obligation at end of year 2003, does not include the expected favorable impact of the Medicare Prescription Drug, Improvement and Modernization Act, which was signed into law on December 8, 2003. The Act provides for a federal subsidy, with tax-free payments commencing in 2006, to sponsors of retiree health care benefits plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Based upon estimates from our actuaries, we expect that the federal subsidy included in the law will result in a reduction in the Other Postretirement Benefits obligation of up to $70 million. This reduction is not reflected in the 2003 financial statements or in estimates of 2004 expense because authoritative accounting guidance regarding how the benefit is to be recognized in the financial statements is pending.

Certain of these postretirement benefits are funded using plan investments held in a VEBA trust. The expected return on plan investments is a significant element in determining postretirement benefits expenses in accordance with SFAS 106. In establishing the expected return on plan investments, which is reviewed annually in the fourth quarter, we take into consideration the types of securities the plan investments are invested in, how those investments have performed historically, and expectations for how those investments will perform in the future. For 2003, as a result of a reduction in the percentage of the VEBA's private equity investments, we lowered our expected return on investments held in the VEBA trust to 9%. A 15% return on investments was assumed in prior years. This assumed long-term rate of return on investments is applied to the market value of plan investments at the end of the previous year. This produces the expected return on plan investments that is included in annual postretirement benefits expenses for the current year. The effect of lowering the expected return on plan investments resulted in an increase in annual postretirement benefits expense of approximately $7 million for 2003. Our expected return on investments in the VEBA trust remains 9% for 2004.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). Under SFAS 143, obligations associated with the retirement of tangible long-lived assets, such as landfill and other facility closure costs, are capitalized and amortized to expense over an asset's useful life using a systematic and rational allocation method. This standard is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 on January 1, 2003 resulted in a charge of $1.3 million, net of tax, or $0.02 per share, which was recognized in our first quarter 2003 statement of operations as a cumulative change in accounting principle, primarily for asset retirement obligations related to landfills.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This statement establishes accounting guidelines for the recognition and measurement of liabilities for costs associated with exit or disposal activities initially at fair value in the period in which the liabilities are incurred, rather than at the date of a commitment to an exit or disposal plan. This standard was effective January 1, 2003 for all exit or disposal activities initiated after that date. We adopted this standard at January 1, 2003. As a result of adopting this standard, our 2003 restructuring charge of $3.8 million related to lease termination costs at the corporate office includes a discounted present value of lease termination costs, net of sublease estimates, as required by SFAS 146. Restructuring expense that will be recognized over the next several years based on present-valued amounts and these assumptions is approximately $0.7 million, in total.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others" ("FIN 45"). This interpretation changes the accounting recognition and disclosure requirements for certain guarantees issued on behalf of other parties which represent either a contingent or a non-contingent obligation for the guarantor to make payments or to perform specified activities. Effective January 1, 2003, FIN 45 mandates the separate fair value recognition of guarantees entered into on or after that date. As of December 31, 2003, we had no material guarantees as defined in FIN 45.

In December 2003, the FASB issued a revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). A variable interest entity ("VIE") is one where the contractual or ownership interests in an entity change with changes in the entity's net asset value. This interpretation requires the consolidation of a VIE by the primary beneficiary, and also requires disclosure about VIEs where an enterprise has a significant variable interest but is not the primary beneficiary. VIEs that are considered to be special purpose entities require recognition under FIN 46 in the 2003 fourth quarter. FIN 46, as revised, is applied to all other VIEs in the 2004 first quarter. As of December 31, 2003, we had no interests in entities qualifying as VIEs, and therefore we were not impacted by any of the recognition provisions of FIN 46.

Quantitative and Qualitative Disclosures About Market Risk and Other Matters

Board of Directors

On May 28, 2003, we announced that Brian P. Simmons resigned from our Board of Directors. On January 6, 2004, we announced that George J. Kourpias resigned from our Board of Directors for health reasons, effective December 31, 2003.

On July 10, 2003, L. Patrick Hassey became a member of the Board of Directors. On that date, ATI's Board of Directors selected Mr. Hassey to become President and Chief Executive Officer, effective October 1, 2003, succeeding James. L. Murdy, who retired effective September 30, 2003. Effective upon his retirement on September 30, 2003, Mr. Murdy resigned from our Board of Directors.

On January 14, 2004, we announced that Robert P. Bozzone would retire as of Chairman of the Board of Directors, effective after the Annual Meeting of Stockholders in May 2004. Upon Mr. Bozzone's retirement, the Board of Directors plans to name L. Patrick Hassey, 58, Chairman, in addition to his responsibilities as President and Chief Executive Officer. Mr. Bozzone will remain a director of ATI.

J&L Specialty Steel Transaction

On February 17, 2004, we announced that an Asset Purchase Agreement was signed with Arcelor S. A. ("Arcelor") and J&L Specialty Steel, LLC under which a wholly owned ATI subsidiary will acquire substantially all of the assets of J&L Specialty Steel. The transaction, which is targeted for closing on May 3, 2004, is conditioned upon completion of due diligence, the successful negotiation of new collective bargaining agreements with the USWA at both Allegheny Ludlum and J&L Specialty Steel, approval by ATI's secured lenders, and customary regulatory approvals. J&L Specialty Steel is a leading manufacturer of flat-rolled stainless steel products, and is a wholly owned subsidiary of Arcelor. The purchase price for the assets acquired will be determined under the Asset Purchase Agreement based upon the net working capital of J&L Specialty Steel, and will include $7.5 million in cash at closing, up to $7.5 million payable in one year, and the remaining amount payable in installments through 2011.

Forward-Looking Statements

From time to time, the Company has made and may continue to make "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Certain statements in this report relate to future events and expectations and, as such, constitute forward-looking statements. Forward-looking statements include those containing such words as "anticipates," "believes," "estimates," "expects," "would," "should," "will," "will likely result," "forecast," "outlook," "projects," and similar expressions. Such forward-looking statements are based on management's current expectations and include known and unknown risks, uncertainties and other factors, many of which the Company is unable to predict or control, that may cause our actual results or performance to materially differ from any future results or performance expressed or implied by such statements. Various of these factors are described from time to time in the Company filings with the Securities and Exchange Commission, including Reports on Form 10-Q. We assume no duty to update our forward-looking statements.

Factors that could cause actual results to differ from those in such forward-looking statements include the following:

Cyclical Demand for Products. The cyclical nature of the industries in which our customers operate cause demand for our products to be cyclical, creating uncertainty regarding future profitability. Various changes in general economic conditions affect the industries in which our customers operate. These changes include decreases in the rate of consumption or use of our customers' products due to economic downturns. Other factors causing fluctuation in our customers' positions are changes in market demand, lower overall pricing due to domestic and international overcapacity, currency fluctuations, lower priced imports and increases in use or decreases in prices of substitute materials. As a result of these factors, our profitability has been and may in the future be subject to significant fluctuation. Partly as a result of weak general economic conditions in the markets we serve that have caused demand for our products to decrease, we have experienced operating and net losses, and our financial condition has been adversely affected. These conditions could continue, adversely affecting our ability to produce and sell our products profitably.

A significant portion of the sales of our High Performance Metals segment represent products sold to customers in the commercial aerospace industry. Economic and other factors, including the September 11, 2001 terrorist attacks, that have been adversely affecting the airline industry have resulted in overall reduced demand

for the products that we sell to the commercial aerospace market. The downturn in the commercial aerospace industry could continue to adversely affect our results of operations, and our business and financial condition could be materially adversely affected.

Product Pricing. The recent trend of price deflation for many commodity products has adversely affected prices for many of our commodity products, including stainless steel, and may continue to do so. Intense competition and excess manufacturing capacity in the commodity stainless steel industry have resulted in reduced prices, excluding raw material surcharges, for many of our stainless steel products. As a result of these factors, our revenues, operating results and financial condition have been and may continue to be adversely affected.

Although inflationary trends in recent years have been moderate, during the same period certain critical raw material costs, such as nickel and scrap containing iron and nickel, have been volatile. We primarily use the LIFO method of inventory accounting that reflects current costs in the cost of products sold. We consider these costs, the increasing costs of equipment and other costs in establishing our sales pricing policies and have instituted raw material surcharges and indices on many of our products to the extent permitted by competitive factors in the marketplace.

We change prices on certain of our products from time to time. The ability to implement price increases is dependent on market conditions, economic factors, raw material costs and availability, competitive factors, operating costs and other factors, some of which are beyond our control. The benefits of any price increases may be delayed due to long manufacturing lead times and the terms of existing contracts.

Volatility of Prices of Critical Raw Materials; Unavailability of Raw Materials. We rely to a substantial extent on outside vendors to supply certain raw materials that are critical to the manufacture of products. Purchase prices and availability of these critical raw materials are subject to volatility. At any given time, we may be unable to obtain an adequate supply of these critical raw materials on a timely basis, on price and other terms acceptable, or at all.

If suppliers increase the price of critical raw materials, we may not have alternative sources of supply. In addition, to the extent that we have quoted prices to customers and accepted customer orders for products prior to purchasing necessary raw materials, we may be unable to raise the price of products to cover all or part of the increased cost of the raw materials.

The manufacture of some of our products is a complex process and requires long lead times. As a result, we have in the past and may in the future experience delays or shortages in the supply of raw materials. If unable to obtain adequate and timely deliveries of required raw materials, we may be unable to timely manufacture sufficient quantities of products. This could cause us to lose sales, incur additional costs, delay new product introductions and suffer harm to our reputation.

While we enter into raw materials futures contracts from time to time to hedge exposure to price fluctuations, such as for nickel, we cannot be certain that our hedge position adequately reduces exposure. We believe that we have adequate controls to monitor these contracts, but we may not be able to accurately assess exposure to price volatility in the markets for critical raw materials.

In addition, although we occasionally use raw materials surcharges to offset the impact of increased costs, competitive factors in the marketplace can limit our ability to institute such surcharges, and there can be a delay between the increase in the price of raw materials and the realization of the benefit of surcharges. For example, since we generally use in excess of 35,000 tons of nickel each year, a hypothetical change of $1.00 per pound in nickel prices would result in increased costs of approximately $70 million. In addition, we also use in excess of 270,000 tons of ferrous scrap in the production of our Flat-Rolled products. During 2003 and entering into 2004, ferrous scrap prices have increased significantly. A hypothetical change of $10.00 per ton would result in increased costs of approximately $2.7 million.

We acquire certain important raw materials that we use to produce specialty materials, including nickel, chrome, cobalt, titanium sponge and ammonia paratungstate, from foreign sources. Some of these sources operate in countries that may be subject to unstable political and economic conditions. These conditions may disrupt supplies or affect the prices of these materials.

Volatility of Energy Prices; Availability of Energy Resources. Energy resources markets are subject to conditions that create uncertainty in the prices and availability of energy resources upon which we rely. We rely upon third parties for our supply of energy resources consumed in the manufacture of products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by political and economic factors beyond our control. Disruptions in the supply of energy resources could temporarily impair the ability to manufacture products for customers. Further, increases in energy costs, or changes in costs relative to energy costs paid by competitors, has and may continue

to adversely affect our profitability. To the extent that these uncertainties cause suppliers and customers to be more cost sensitive, increased energy prices may have an adverse effect on our results of operations and financial condition. We use approximately 10 to 12 million MMBtu's of natural gas annually, depending upon business conditions, in the manufacture of our products. These purchases of natural gas expose us to risk of higher gas prices. For example, a hypothetical $1.00 per MMBtu increase in the price of natural gas would result in increased annual energy costs of approximately $10 to $12 million.

As part of our risk management strategy, from time to time, we purchase swap contracts to manage exposure to changes in energy costs. The contracts obligate us to make or receive a payment equal to the net change in value of the contract at its maturity. These contracts are designated as hedges of the variability in cash flows of a portion of our forecasted energy payments.

Substantial Debt Relative to Equity. We have a substantial amount of debt relative to our equity capitalization, which increases our vulnerability to adverse economic and industry conditions, limits our ability to obtain additional financing, makes it potentially more difficult to pay dividends as we have in the past, limits our flexibility in planning for or reacting to changes in our industry, and places us at a competitive disadvantage when compared to competitors with less relative amounts of debt.

Risks Associated with Retirement Benefits. Our U.S. defined benefit pension plan was funded in accordance with ERISA as of December 31, 2003. Based upon current actuarial analyses and forecasts, we do not expect to be required to make contributions to the defined benefit pension plan for at least the next several years. However, a significant decline in the value of plan investments in the future or unfavorable changes in laws or regulations that govern pension plan funding could materially change the timing and amount of required pension funding. Depending on the timing and amount, a requirement that we fund our defined benefit pension plan could have a material adverse effect on our results of operations and financial condition.

In 2001 and prior years, our U.S. defined benefit pension plan was fully funded with assets significantly in excess of the projected benefit obligation. Under Internal Revenue Code (Section 420) provisions, certain amounts that we paid for retiree health care benefits could be reimbursed annually from the excess pension plan assets. During the 2001 second quarter, we recovered $35.0 million under these provisions. While not affecting reported operating profit, cash flow from operations increased by the recovered amount. Our ability to be reimbursed for retiree medical costs in future years is dependent upon the level of pension surplus, if any, as computed under regulations of the Internal Revenue Service, as of the beginning of each year. The level of pension surplus (the value of pension assets less pension obligations) changes constantly due to the volatility of pension asset investments. Due to the decline in the U.S. equities market from 2000 through 2002, the pension funded status at the beginning of 2004 is substantially below the threshold required for reimbursement of retiree medical costs in 2004. The ability to resume reimbursement from pension assets for retiree health care costs in future periods will depend upon the performance of the pension investments, and any changes in the Internal Revenue Code and regulations pertaining to reimbursement of retiree health care costs from pension surplus. Beginning in the second half of 2001, we began funding certain retiree health care benefits for Allegheny Ludlum using plan assets held in a Voluntary Employee Benefit Association (VEBA) trust. This allows us to recover a portion of the retiree medical costs that were previously funded from the pension surplus. During 2003, we were able to fund $14.2 million of retiree medical costs using the assets of the VEBA trust. We may continue to fund certain retiree medical benefits utilizing the plan assets held in the VEBA if the value of these plan assets exceed $50 million.

Risks Associated with Accessing the Credit Markets. Our ability to access the credit markets in the future to obtain additional financing, if needed, is influenced by the Company's 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 our existing credit facilities.

Credit Agreement Covenant. The agreement governing our secured bank credit facility imposes a number of covenants on us. For example, it contains covenants that create limitations on our ability to, among other things, effect acquisitions or dispositions or incur additional debt, and require us to, among other things, maintain a financial ratio when our available borrowing capacity measured under the credit agreement decreases below $150 million. Our ability to comply with the financial covenant may be affected by events beyond our control and, as a result, we may be unable to comply with the covenant, which may adversely affect our ability to borrow under our secured credit facility if the availability level is below $150 million.

Interest Rate Risk. We attempt to maintain a reasonable balance between fixed- and floating-rate debt to keep financing costs as low as possible. At December 31, 2003, including the effect of interest rate swap agreements, we have approximately $179 million of floating rate debt outstanding with an average interest rate of approximately 1.5%. Since the interest rate on this debt floats with the short-term market rate of interest, we are exposed to the risk that these interest rates may increase. For example, a hypothetical 1% in rate of interest on $179 million of outstanding floating rate debt would result in increased annual financing costs of $1.8 million.

Risks Associated with Environmental Matters. We are subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants into the air or water, and disposal of hazardous substances, and which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which we have been identified as a potentially responsible party ("PRP") under the Federal Superfund laws, and comparable state laws. We could incur substantial cleanup costs, fines and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or non-compliance with environmental permits required at our facilities. We are currently involved in the investigation and remediation of a number of our current and former sites as well as third party locations sites under these laws.

With respect to proceedings brought under the federal Superfund laws, or similar state statutes, we have been identified as a PRP at approximately 33 of such sites, excluding those at which we believe we have no future liability. Our involvement is limited or de minimis at approximately 15 of these sites, and the potential loss exposure with respect to any of the remaining 18 individual sites is not considered to be material.

We are a party to various cost-sharing arrangements with other PRPs at the sites. The terms of the cost-sharing arrangements are subject to non-disclosure agreements as confidential information. Nevertheless, the cost-sharing arrangements generally require all PRPs to post financial assurance of the performance of the obligations or to pre-pay into an escrow or trust account their share of anticipated site-related costs. In addition, the Federal government, through various agencies, is a party to several such arrangements.

We believe that we operate our businesses in compliance in all material respects with applicable environmental laws and regulations. However, we are a party to lawsuits and other proceedings involving alleged violations of, or liabilities arising from environmental laws. When our liability is probable and we can reasonably estimate our costs, we record environmental liabilities in our financial statements. In many cases, investigations are not at a stage where we are able to determine whether we are liable, or if liability is probable, to reasonably estimate the loss, or certain components thereof. Estimates of our liability remain subject to additional uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the participation number and financial condition of other PRPs, as well as the extent of their responsibility for the remediation. Accordingly, we periodically review the accruals, as investigation and remediation of these sites proceed. As we receive new information, we expect that we will adjust our accruals to reflect new information. Future adjustments could have a material adverse effect on our results of operations in a given period, but we cannot reliably predict the amounts of such future adjustments. At December 31, 2003, our reserves for environmental matters totaled approximately $41 million.

Based on currently available information, we do not believe that there is a reasonable possibility that a loss exceeding the amount already accrued for any of the sites with which the we are currently associated (either individually or in the aggregate) will be an amount that would be material to a decision to buy or sell our securities.

Risks Associated with Current or Future Litigation. A number of lawsuits, claims and proceedings have been or may be asserted against us relating to the conduct of our business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits, environmental and stockholder matters. Due to the uncertainties of litigation, we can give no assurance that we will prevail on all claims made against us in the lawsuits that we currently face or that additional claims will not be made against us in the future. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to us, we do not believe that the disposition of any such pending matters is likely to have a material adverse effect on our financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on our results of operations for that period. Also, we can give no assurance that any other matters brought in the future will not have a material effect on our financial condition, liquidity or results of operations.

Labor Matters. We have approximately 8,800 employees. A portion of our workforce is covered by various collective bargaining agreements, principally with the United Steelworkers of America ("USWA"), including: approximately 3,000 Allegheny Ludlum production, office and maintenance employees covered by collective

bargaining agreements between Allegheny Ludlum and the USWA, which are effective through June 2007; approximately 165 Oremet employees covered by a collective bargaining agreement with the USWA which is effective through June 2007; and approximately 600 Wah Chang employees covered by a collective bargaining agreement with the USWA which continues through March 2008. Negotiations are ongoing for a new collective bargaining agreement with the USWA affecting approximately 100 employees at the Casting Service facility in LaPorte, Indiana. During the 2003 second quarter, we requested the re-opening of labor agreements with the USWA pertaining to the Allegheny Ludlum and Oremet operations. Discussions with the USWA on this matter are ongoing.

Generally, agreements that expire may be terminated after notice by the union. After termination, the union may authorize a strike. A strike by the employees covered by one or more of the collective bargaining agreements could have a materially adverse affect on our operating results. There can be no assurance that we will succeed in concluding collective bargaining agreements with the unions to replace those that expire.

Risks Associated with Acquisition and Disposition Strategies. We intend to continue to strategically position our businesses in order to improve our ability to compete. We plan to do this by seeking specialty niches, expanding our global presence, acquiring businesses complementary to existing strengths and continually evaluating the performance and strategic fit of existing business units. We regularly consider acquisition, joint ventures, and other business combination opportunities as well as possible business unit dispositions. From time to time, management holds discussions with management of other companies to explore such opportunities. As a result, the relative makeup of the businesses comprising our Company is subject to change. Acquisitions, joint ventures, and other business combinations involve various inherent risks, such as: assessing accurately the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquisition or other transaction candidates; the potential loss of key personnel of an acquired business; our ability to achieve identified financial and operating synergies anticipated to result from an acquisition or other transaction; and unanticipated changes in business and economic conditions affecting an acquisition or other transaction. International acquisitions and other transactions could be affected by export controls, exchange rate fluctuations, domestic and foreign political conditions and a deterioration in domestic and foreign economic conditions.

Insurance. We have maintained various forms of insurance, including insurance covering claims related to our properties and risks associated with our operations. Our existing property and liability insurance coverages contain exclusions and limitations on coverage. In connection with renewals of insurance, we have experienced additional exclusions and limitations on coverage, larger self-insured retentions and deductibles and significantly higher premiums. As a result, in the future our insurance coverage may not cover claims to the extent that it has in the past and the costs that we incur to procure insurance may increase significantly, either of which could have an adverse effect on our results of operations.

Political and Social Turmoil. The war on terrorism and recent political and social turmoil, including terrorist and military actions and the implications of the military actions in Iraq, could continue to put pressure on economic conditions in the United States and worldwide. These political, social and economic conditions make it difficult for us, our suppliers and our customers to forecast accurately and plan future business activities, and could adversely affect the financial condition of our suppliers and customers and affect customer decisions as to the amount and timing of purchases from us. As a result, the recovery of our industry from weak demand conditions could be delayed, and our business, financial condition and results of operations could be materially adversely affected.

Export Sales. We believe that export sales will continue to account for a significant percentage of our future revenues. Risks associated with export sales include: political and economic instability, including weak conditions in the world's economies; accounts receivable collection; export controls; changes in legal and regulatory requirements; policy changes affecting the markets for our products; changes in tax laws and tariffs; and exchange rate fluctuations (which may affect sales to international customers and the value of profits earned on export sales when converted into dollars). Any of these factors could materially adversely effect our results for the period in which they occur.

Risks Associated with Government Contracts. Some of our operating companies directly perform contractual work for the U.S. Government. Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) could be asserted against us related to our U.S. Government contract work. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Operations

(In millions except per share amounts)

For the Years Ended December 31,	**2003**	2002	2001
Sales	**$1,937.4**	$1,907.8	$2,128.0
Costs and expenses:			
Cost of sales	**1,873.6**	1,744.5	1,862.3
Selling and administrative expenses	**248.8**	188.3	198.8
Restructuring costs	**62.4**	42.8	74.2
Loss before interest, other income and income taxes	**(247.4)**	(67.8)	(7.3)
Interest expense, net	**27.7**	34.3	29.3
Other income (expense), net	**(5.1)**	(1.7)	0.2
Loss before income tax provision (benefit) and cumulative effect of change in accounting principle	**(280.2)**	(103.8)	(36.4)
Income tax provision (benefit)	**33.1**	(38.0)	(11.2)
Net loss before cumulative effect of change in accounting principle	**(313.3)**	(65.8)	(25.2)
Cumulative effect of change in accounting principle, net of tax	**(1.3)**	—	—
Net loss	**$ (314.6)**	$ (65.8)	$ (25.2)
Basic and diluted net loss per common share before cumulative effect of change in accounting principle	**$ (3.87)**	$ (0.82)	$ (0.31)
Cumulative effect of change in accounting principle	**(0.02)**	—	—
Basic and diluted net loss per common share	**$ (3.89)**	$ (0.82)	$ (0.31)

The accompanying notes are an integral part of these statements.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Balance Sheets

(In millions except share and per share amounts)

	December 31, 2003	December 31, 2002
Assets		
Cash and cash equivalents	**$ 79.6**	$ 59.4
Accounts receivable, net	**248.8**	239.3
Inventories, net	**359.7**	392.3
Income tax refunds	**7.2**	51.9
Deferred income taxes	**—**	20.8
Prepaid expenses and other current assets	**48.0**	32.0
Total Current Assets	**743.3**	795.7
Property, plant and equipment, net	**711.1**	757.6
Cost in excess of net assets acquired	**198.4**	194.4
Deferred pension asset	**144.0**	165.1
Deferred income taxes	**34.3**	85.4
Other assets	**53.8**	95.0
Total Assets	**$1,884.9**	$2,093.2
Liabilities and Stockholders' Equity		
Accounts payable	**$ 172.3**	$ 171.3
Accrued liabilities	**194.6**	161.0
Short-term debt and current portion of long-term debt	**27.8**	9.7
Total Current Liabilities	**394.7**	342.0
Long-term debt	**504.3**	509.4
Accrued postretirement benefits	**507.2**	496.4
Pension liabilities	**220.6**	216.0
Other long-term liabilities	**83.4**	80.6
Total Liabilities	**1,710.2**	1,644.4
Stockholders' Equity:		
Preferred stock, par value $0.10: authorized - 50,000,000 shares; issued - none	**—**	—
Common stock, par value $0.10: authorized - 500,000,000 shares; issued 98,951,490 at 2003 and 2002; outstanding - 80,654,861 shares at 2003 and 80,634,344 shares at 2002	**9.9**	9.9
Additional paid-in capital	**481.2**	481.2
Retained earnings	**483.8**	835.1
Treasury stock: 18,296,629 shares at 2003 and 18,317,146 shares at 2002	**(458.4)**	(469.7)
Accumulated other comprehensive loss, net of tax	**(341.8)**	(407.7)
Total Stockholders' Equity	**174.7**	448.8
Total Liabilities and Stockholders' Equity	**$1,884.9**	$2,093.2

The accompanying notes are an integral part of these statements.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

(In millions)

For the Years Ended December 31,	2003	2002	2001
Operating Activities:			
Net Loss	**$(314.6)**	$ (65.8)	$ (25.2)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Cumulative effect of change in accounting principle	**1.3**	—	—
Depreciation and amortization	**74.6**	90.0	98.6
Non-cash restructuring costs and asset write-offs	**52.6**	39.2	79.7
Deferred income taxes	**72.7**	25.6	24.5
Gains on sales of investments and businesses	**(0.8)**	(2.6)	(2.8)
Change in operating assets and liabilities:			
Deferred pension asset	**67.7**	(4.2)	(49.0)
Accrued income taxes	**44.7**	(3.4)	(48.5)
Inventories	**32.6**	99.4	67.9
Accounts receivable	**(9.5)**	35.6	47.1
Accrued liabilities	**31.4**	(22.6)	(49.9)
Accounts payable	**2.9**	16.5	(12.5)
Other	**26.4**	(3.5)	(7.1)
Cash provided by operating activities	**82.0**	204.2	122.8
Investing Activities:			
Purchases of property, plant and equipment	**(74.4)**	(48.7)	(104.2)
Disposals of property, plant and equipment	**9.8**	9.2	4.3
Proceeds from sales of businesses and investments	**0.8**	2.4	17.9
Other	**(6.5)**	(2.7)	(3.0)
Cash used in investing activities	**(70.3)**	(39.8)	(85.0)
Financing Activities:			
Borrowings of other long-term debt	**28.5**	—	11.5
Payments of long-term debt and capital leases	**(14.6)**	(12.4)	(0.7)
Net repayments under credit facilities	**(1.5)**	(73.1)	(266.6)
Issuance of Allegheny Technologies 8.375% Notes, net	**—**	—	292.5
Net borrowings (repayments)	**12.4**	(85.5)	36.7
Dividends paid	**(19.4)**	(53.2)	(64.2)
Proceeds from interest rate swap settlement	**15.3**	—	—
Exercises of stock options	**0.2**	—	0.2
Purchases of common stock	**—**	—	(3.0)
Cash provided by (used in) financing activities	**8.5**	(138.7)	(30.3)
Increase in cash and cash equivalents	**20.2**	25.7	7.5
Cash and cash equivalents at beginning of year	**59.4**	33.7	26.2
Cash and cash equivalents at end of year	**$ 79.6**	$ 59.4	$ 33.7

Amounts presented on the Consolidated Statements of Cash Flows may not agree to the corresponding changes in balance sheet items due to the accounting for purchases and sales of businesses and the effects of foreign currency translation.

The accompanying notes are an integral part of these statements.

Allegheny Technologies Incorporated and Subsidiaries
Consolidated Statements of Stockholders' Equity

(In millions except per share amounts)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Stockholders' Equity
Balance, December 31, 2000	$9.9	$481.2	$1,050.0	$(482.3)	$ (19.6)	$1,039.2
Net loss	—	—	(25.2)	—	—	(25.2)
Other comprehensive loss, net of tax:						
Foreign currency translation losses	—	—	—	—	(0.2)	(0.2)
Unrealized losses on derivatives	—	—	—	—	(2.2)	(2.2)
Change in unrealized losses on securities	—	—	—	—	(3.7)	(3.7)
Comprehensive loss	—	—	(25.2)	—	(6.1)	(31.3)
Cash dividends on common stock ($0.80 per share)	—	—	(64.2)	—	—	(64.2)
Purchase of common stock	—	—	—	(3.0)	—	(3.0)
Employee stock plans	—	—	(3.1)	7.1	—	4.0
Balance, December 31, 2001	9.9	481.2	957.5	(478.2)	(25.7)	944.7
Net loss	—	—	(65.8)	—	—	(65.8)
Other comprehensive income (loss), net of tax:						
Minimum pension liability adjustment	—	—	—	—	(406.4)	(406.4)
Foreign currency translation gains	—	—	—	—	16.6	16.6
Unrealized gains on derivatives	—	—	—	—	7.4	7.4
Change in unrealized gains on securities	—	—	—	—	0.4	0.4
Comprehensive loss	—	—	(65.8)	—	(382.0)	(447.8)
Cash dividends on common stock ($0.66 per share)	—	—	(53.2)	—	—	(53.2)
Employee stock plans	—	—	(3.4)	8.5	—	5.1
Balance, December 31, 2002	9.9	481.2	835.1	(469.7)	(407.7)	448.8
Net loss	—	—	(314.6)	—	—	(314.6)
Other comprehensive income (loss), net of tax:						
Minimum pension liability adjustment	—	—	—	—	47.0	47.0
Foreign currency translation gains	—	—	—	—	14.4	14.4
Unrealized gains on derivatives	—	—	—	—	4.6	4.6
Change in unrealized losses on securities	—	—	—	—	(0.1)	(0.1)
Comprehensive loss	—	—	(314.6)	—	65.9	(248.7)
Cash dividends on common stock ($0.24 per share)	—	—	(19.4)	—	—	(19.4)
Employee stock plans	—	—	(17.3)	11.3	—	(6.0)
Balance, December 31, 2003	$9.9	$481.2	$ 483.8	$(458.4)	$(341.8)	$ 174.7

The accompanying notes are an integral part of these statements.

Report of Ernst & Young LLP, Independent Auditors

Board of Directors
Allegheny Technologies Incorporated

We have audited the accompanying consolidated balance sheets of Allegheny Technologies Incorporated and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Allegheny Technologies Incorporated and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the financial statements, in 2002 the Company changed its method of accounting for goodwill and other intangible assets.

January 19, 2004 (except for Note 16, as to which the date is
February 17, 2004, and except for Note 14, as to which the date is
March 10, 2004)
Pittsburgh, Pennsylvania

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies —

Principles of Consolidation

The consolidated financial statements include the accounts of Allegheny Technologies Incorporated and its subsidiaries, including the Chinese joint venture known as Shanghai STAL Precision Stainless Steel Co., Limited ("STAL"), in which the Company has a 60% interest. The remaining 40% interest in STAL is owned by Baosteel Group, a state authorized investment company whose equity securities are publicly traded in the People's Republic of China. The financial results of STAL are consolidated into the Company's operating results with the 40% interest of the Company's minority partner recognized on the statement of operations as other income or expense, and on the balance sheet in other long-term liabilities. Investments in which the Company exercises significant influence, but which it does not control (generally a 20% to 50% ownership interest) are accounted for under the equity method of accounting. Significant intercompany accounts and transactions have been eliminated. Unless the context requires otherwise, "Allegheny Technologies," "ATI" and the "Company" refer to Allegheny Technologies Incorporated and its subsidiaries.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements, as well as the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Cash Equivalents and Investments

Cash equivalents are highly liquid investments valued at cost, which approximates fair value, acquired with original maturity of three months or less.

The Company's investments in debt and equity securities are classified as available-for-sale and are reported at fair values, with net unrealized appreciation and depreciation on investments reported as a component of accumulated other comprehensive income (loss).

Accounts Receivable

Accounts receivable are presented net of a reserve for doubtful accounts of $10.2 million at December 31, 2003 and $10.1 million at December 31, 2002. The Company markets its products to a diverse customer base, principally throughout the United States. Trade credit is extended based upon evaluations of each customer's ability to perform its obligations, which are updated periodically. Accounts receivable reserves are determined based upon an aging of accounts and a review for collectibility of specific accounts.

Inventories

Inventories are stated at the lower of cost (last-in, first-out (LIFO), first-in, first-out (FIFO), and average cost methods) or market, less progress payments. Costs include direct material, direct labor and applicable manufacturing and engineering overhead, and other direct costs. Most of the Company's inventory is valued utilizing the LIFO costing methodology. Inventory of the Company's non-U.S. operations is valued using average cost or FIFO methods.

The Company evaluates product lines on a quarterly basis to identify inventory values that exceed estimated net realizable value. The calculation of a resulting reserve, if any, is recognized as an expense in the period that the need for the reserve is identified. It is the Company's general policy to write-down to scrap value any inventory that is identified as obsolete and any inventory that has aged or has not moved in more than twelve months. In some instances this criterion is up to twenty-four months.

Long-Lived Assets

Property, plant and equipment are recorded at cost. The principal method of depreciation adopted for all property placed into service after July 1, 1996 is the straight-line method. For buildings and equipment acquired prior to July 1, 1996, depreciation is computed using a combination of accelerated and straight-line methods. Significant enhancements that extend the lives of property and equipment are capitalized. Costs related to repairs and

maintenance are charged to expense in the year incurred. The cost and related accumulated depreciation of property and equipment retired or disposed of are removed from the accounts and any related gains or losses are included in income.

The Company monitors the recoverability of the carrying value of its long-lived assets. An impairment charge is recognized when the expected net undiscounted future cash flows from an asset's use (including any proceeds from disposition) are less than the asset's carrying value and the asset's carrying value exceeds its fair value. Assets to be disposed of by sale are stated at the lower of their fair values or carrying amounts and depreciation is no longer recognized.

Cost in Excess of Net Assets Acquired

At December 31, 2003, the Company had $198.4 million of goodwill on its balance sheet. Of the total, $112.1 million related to the Flat-Rolled Products segment, $60.9 million related to the High Performance Metals segment, and $25.4 million related to the Engineered Products segment. Goodwill increased $4.0 million during 2003 as a result of the impact of foreign currency translation on goodwill denominated in functional currencies other than the U.S. dollar. Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). Under SFAS 142, goodwill and indefinite-lived intangible assets are no longer amortized but are reviewed annually for impairment, or more frequently if impairment indicators arise. The impairment test for goodwill requires a comparison of the fair value of each reporting unit that has goodwill associated with its operations with its carrying amount, including goodwill. If this comparison reflects impairment, then the loss would be measured as the excess of recorded goodwill over its implied fair value. Implied fair value is the excess of the fair value of the reporting unit over the fair value of all recognized and unrecognized assets and liabilities.

The evaluation of goodwill for possible impairment includes estimating the fair market value of each of the reporting units which have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to recent public sale transactions of similar businesses, if any. These valuation methods require the Company to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, selling prices, profitability, and the cost of capital. Although the Company believes that the estimates and assumptions used were reasonable, actual results could differ from those estimates and assumptions. Subsequent to the adoption of SFAS 142, the Company performs the required annual goodwill impairment evaluation in the fourth quarter of each year. No impairment of goodwill was determined to exist.

Effective January 1, 2002, in accordance with the SFAS 142 pronouncement, the Company discontinued amortizing goodwill. Prior to 2002, cost in excess of net assets acquired related to businesses purchased after November 1970 was amortized on a straight-line basis over periods not exceeding 40 years. Goodwill amortization expense was $5.8 million in 2001, or $0.04 per diluted share. Had the Company applied the non-amortization provisions of SFAS 142 in 2001, the reported results of operations for the year ended December 31, 2001 would have been a net loss of $21.2 million, or $0.27 per diluted share.

Environmental

Costs that mitigate or prevent future environmental contamination or extend the life, increase the capacity or improve the safety or efficiency of property utilized in current operations are capitalized. Other costs that relate to current operations or an existing condition caused by past operations are expensed. Environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable, but generally not later than the completion of the feasibility study or the Company's recommendation of a remedy or commitment to an appropriate plan of action. The accruals are reviewed periodically and, as investigations and remediations proceed, adjustments are made as necessary. Accruals for losses from environmental remediation obligations do not take into account the effects of inflation, and anticipated expenditures are not discounted to their present value. The accruals are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect allocations among potentially responsible parties ("PRPs") at Federal Superfund sites or similar state-managed sites after an assessment is made of the likelihood that such parties will fulfill their obligations at such sites and after appropriate cost-sharing or other agreements are entered. The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations, and current technology. Such estimates take into consideration the Company's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities, and the professional judgment of the Company's environmental experts in consultation with outside environmental specialists, when necessary.

Derivative Financial Instruments and Hedging

The Company accounts for derivative and hedging contracts in accordance with Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). As part of its risk management strategy the Company, from time to time, purchases futures and swap contracts to manage exposure to changes in nickel prices, a component of raw material cost for some of its flat-rolled and high performance metals products, and natural gas, a significant energy cost for all of the Company's businesses. The contracts obligate the Company to make or receive a payment equal to the net change in value of the contract at its maturity. These contracts are designated as hedges of the variability in cash flows of a portion of the Company's forecasted purchases of nickel and natural gas payments. The majority of these contracts mature within one year. The Company accounts for all of these contracts as hedges under SFAS 133. Changes in the fair value of these contracts are recognized as a component of other comprehensive income (loss) in stockholders' equity until the hedged item is recognized in the statement of operations within cost of sales. If a portion of the contract is ineffective as a hedge of the underlying exposure, the change in fair value related to the ineffective portion is immediately recognized as income or expense in the statement of operations within cost of sales.

Foreign currency exchange contracts are used to limit transactional exposure to changes in currency exchange rates. The Company sometimes purchases foreign currency forward contracts that permit it to sell specified amounts of foreign currencies expected to be received from its export sales for pre-established U.S. dollar amounts at specified dates. The forward contracts are denominated in the same foreign currencies in which export sales are denominated. These contracts are designated as hedges of the variability in cash flows of a portion of the forecasted future export sales transactions which otherwise would expose the Company to foreign currency risk. The Company accounts for all of these contracts as hedges under SFAS 133. Changes in the fair value of these contracts are recognized as a component of other comprehensive income (loss) in stockholders' equity until the hedged item is recognized in the statement of operations. If a portion of the contract is ineffective as a hedge of the underlying exposure, the change in fair value related to the ineffective portion is immediately recognized as income or expense in the statement of operations.

Derivative interest rate contracts are used from time to time to manage the Company's exposure to interest rate risks. For example, in 2003 and 2002, the Company entered into interest rate swap contracts for the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the contracts without an exchange of the underlying principal amount. These contracts are designated as fair value hedges. As a result, changes in the fair value of these swap contracts and the underlying fixed rate debt are recognized in the statement of operations.

In general, hedge effectiveness is determined by examining the relationship between offsetting changes in fair value or cash flows attributable to the item being hedged and the financial instrument being used for the hedge. Effectiveness is measured utilizing regression analysis and other techniques, to determine whether the change in the fair market value or cash flows of the derivative exceeds the change in fair value or cash flow of the hedged item. Calculated ineffectiveness, if any, is immediately recognized on the statement of operations.

Foreign Currency Translation

Assets and liabilities of international operations are translated into U.S. dollars using year-end exchange rates, while revenues and expenses are translated at average exchange rates during the period. The resulting net translation adjustments are recorded as a component of accumulated other comprehensive income (loss) in stockholders' equity.

Sales Recognition

Sales are recognized when title passes or as services are rendered.

Research and Development

Company funded research and development costs were $11.5 million in 2003, $12.0 million in 2002 and $11.3 million in 2001 and were expensed as incurred. Customer funded research and development costs were $2.4 million in 2003, $2.7 million in 2002 and $2.0 million in 2001. Customer funded research and development costs are recognized in the consolidated statement of operations in accordance with revenue recognition policies.

Income Taxes

The provision for, or benefit from, income taxes includes deferred taxes resulting from temporary differences in income for financial and tax purposes using the liability method. Such temporary differences result primarily from differences in the carrying value of assets and liabilities. Future realization of deferred income tax assets requires

sufficient taxable income within the carryback, carryforward period available under tax law. The Company evaluates, on a quarterly basis whether, based on all available evidence, it is probable that the deferred income tax assets are realizable. Valuation allowances are established when it is estimated that it is more likely than not that the tax benefit of the deferred tax asset will not be realized. The evaluation, as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," includes the consideration of all available evidence, both positive and negative, regarding historical operating results including recent years with reported losses, the estimated timing of future reversals of existing taxable temporary differences, estimated future taxable income exclusive of reversing temporary differences and carryforwards, and potential tax planning strategies which may be employed to prevent an operating loss or tax credit carryforward from expiring unused. In the 2003 fourth quarter, based upon this quarterly analysis, the Company recorded a $138.5 million valuation allowance for a portion of its net deferred tax assets.

Loss Per Common Share

Basic and diluted loss per share are calculated by dividing the net loss available to common stockholders by the weighted average number of common shares outstanding during the year. The calculation of diluted loss per share excludes the potentially dilutive effect of outstanding stock options since the inclusion in the calculation of loss of per share would result in a lower loss per share and therefore be anti-dilutive.

Stock-based Compensation

The Company accounts for its stock option plans and other stock-based compensation in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB Opinion No. 25, for awards which vest without a performance-based contingency, no compensation expense is recognized when the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of the grant. Compensation expense for fixed stock-based awards, generally awards of non-vested stock, is recognized over the associated employment service period based on the fair value of the stock at the date of the grant. The Company also has performance-based stock award programs which are accounted for under the variable plan rules of APB Opinion No. 25. Compensation expense for these awards of stock, which are earned based on performance-based criteria, is recognized at the measurement date based on the stock price at the end of the performance period, with compensation expense recognized at interim dates based on performance criteria achieved and the Company's stock price at the interim dates.

The following table illustrates the effect on net loss and net loss per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"). For comparative presentation purposes, the effect of the 2003 deferred tax valuation allowance is excluded from the 2003 net of tax amounts.

(In millions, except per share amounts)	**2003**	2002	2001
Net loss as reported	**$(314.6)**	$(65.8)	$(25.2)
Add: Stock-based compensation expense included in net loss,			
net of tax	**7.9**	0.5	0.8
Deduct: Net impact of SFAS 123, net of tax	**(11.2)**	(4.3)	(5.8)
Pro forma loss	**$(317.9)**	$(69.6)	$(30.2)
Net loss per common share:			
Basic and diluted – as reported	**$ (3.89)**	$(0.82)	$(0.31)
Basic and diluted – pro forma	**$ (3.93)**	$(0.86)	$(0.38)

New Accounting Pronouncements

Effective January 1, 2003, as required, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). Under SFAS 143, obligations associated with the retirement of tangible long-lived assets, such as landfill and other facility closure costs, are capitalized and amortized to expense over an asset's useful life using a systematic and rational allocation method.

The Company's adoption of SFAS 143 resulted in recognizing a charge of $1.3 million, net of income taxes of $0.7 million, or $0.02 per share, principally for asset retirement obligations related to landfills in the Company's Flat-Rolled Products segment. This charge is reported in the consolidated statement of operations for the year ended December 31, 2003 as a cumulative effect of a change in accounting principle. The pro forma effects of the application of SFAS 143 as if the Statement had been adopted on January 1, 2001 were not material.

In July 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). This statement establishes accounting guidelines for the recognition and measurement of liabilities for costs associated with exit or disposal activities initially at fair value in the period in which the liabilities are incurred, rather than at the date of a commitment to an exit or disposal plan. This standard was effective January 1, 2003 for all exit or disposal activities initiated after that date. The Company adopted this standard at January 1, 2003. SFAS 146 has no effect on the Company's restructuring charges recorded in 2002 and prior periods.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of the Indebtedness of Others" ("FIN 45"). This interpretation changes the accounting recognition and disclosure requirements for certain guarantees issued on behalf of other parties which represent either a contingent or a non-contingent obligation for the guarantor to make payments or to perform specified activities. Effective January 1, 2003, FIN 45 mandates the separate fair value recognition of guarantees entered into on or after that date. At December 31, 2003, the Company had no material guarantees as defined in FIN 45.

In December 2003, the FASB issued a revised Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). A variable interest entity ("VIE") is one where the contractual or ownership interests in an entity change with changes in the entity's net asset value. This interpretation requires the consolidation of a VIE by the primary beneficiary, and also requires disclosure about VIEs where an enterprise has a significant variable interest but is not the primary beneficiary. VIEs that are considered to be special purpose entities require recognition under FIN 46 in the 2003 fourth quarter. FIN 46, as revised, is applied to all other VIEs in the 2004 first quarter. At December 31, 2003, the Company had no interests in entities qualifying as VIEs.

Reclassifications

Certain amounts from prior years have been reclassified to conform with the 2003 presentation.

Note 2. Inventories —

(In millions)	**December 31, 2003**	December 31, 2002
Raw materials and supplies	**$ 37.5**	$ 32.7
Work-in-process	**356.2**	358.5
Finished goods	**84.9**	80.4
Total inventories at current cost	**478.6**	471.6
Less allowances to reduce current cost values to LIFO basis	**(111.7)**	(74.7)
Progress payments	**(7.2)**	(4.6)
Total inventories	**$359.7**	$392.3

Inventories, before progress payments, determined on the last-in, first-out method were $292.4 million at December 31, 2003 and $327.0 million at December 31, 2002. The remainder of the inventory was determined using the first-in, first-out and average cost methods. These inventory values do not differ materially from current cost.

During 2003 and 2002, inventory usage resulted in liquidations of last-in, first-out inventory quantities. These inventories were carried at the lower costs prevailing in prior years as compared with the cost of current purchases. The effect of these last-in, first-out liquidations was to decrease cost of sales by $7.9 million in 2003 and by $3.7 million in 2002.

Note 3. Debt —

Debt at December 31, 2003 and 2002 was as follows:

(In millions)	**2003**	2002
Allegheny Technologies $300 million 8.375% Notes due 2011, net (a)	**$309.4**	$312.3
Allegheny Ludlum 6.95% debentures, due 2025	**150.0**	150.0
Domestic Bank Group $325 million secured credit agreement	**—**	—
Foreign credit agreements	**35.0**	26.7
Industrial revenue bonds, due through 2007	**20.1**	21.5
Capitalized leases and other	**17.6**	8.6
Total short-term and long-term debt	**532.1**	519.1
Short-term debt and current portion of long-term debt	**(27.8)**	(9.7)
Total long-term debt	**$504.3**	$509.4

(a) Includes fair value adjustments for interest rate swap contracts of $15.2 million (including $1.4 million for interest rate swap contracts currently outstanding and $13.8 million for deferred gains on settled interest rate swap contracts) and $18.7 million at December 31, 2003 and December 31, 2002, respectively.

Interest expense was $33.9 million in 2003, $37.3 million in 2002 and $30.7 million in 2001. Interest expense in 2003 was reduced by $2.1 million from interest capitalization on capital projects. Interest and commitment fees paid were $39.2 million in 2003, $37.5 million in 2002 and $31.1 million in 2001. Net interest expense includes interest income of $6.2 million in 2003, $3.0 million in 2002 and $1.4 million in 2001. Interest income in 2003 was primarily comprised of $4.0 million related to a Federal income tax refund associated with prior years.

Scheduled maturities of borrowings during the next five years are $27.8 million in 2004, $6.6 million in 2005, $3.5 million in 2006, $21.8 million in 2007 and $3.6 million in 2008.

In December 2001, the Company issued $300 million of 8.375% Notes due December 15, 2011 which are registered under the Securities Act of 1933. Interest on the Notes is payable semi-annually, on June 15 and December 15, and is subject to adjustment under certain circumstances. These Notes contain default provisions with respect to default for the following, among other things: nonpayment of interest on the Notes for 30 days, default in payment of principal when due, or failure to cure the breach of a covenant as provided in the Notes. Any violation of the default provision could result in the requirement to immediately repay the borrowings. These Notes are presented on the balance sheet net of issuance costs of $5.9 million, which are being amortized over the life of the debt.

In 2002, the Company entered into interest rate swap contracts with respect to a $150 million notional amount related to the Notes, which involved the receipt of fixed rate amounts in exchange for floating rate interest payments over the life of the contracts without an exchange of the underlying principal amount. These “receive fixed, pay floating” arrangements were designated as fair value hedges, and effectively converted $150 million of the Notes to variable rate debt. As a result, changes in the fair value of the swap contracts and the notional amount of the underlying fixed rate debt are recognized in the statement of operations. In 2003, the Company terminated the majority of these interest rate swap contracts and received $15.3 million in cash. The $15.3 million gain on settlement remains a component of the reported balance of the Notes, and will be ratably recognized as a reduction to interest expense over the remaining life of the Notes, which is approximately eight years. Subsequent to the interest rate swap terminations, the Company entered into new “receive fixed, pay floating” interest rate swap arrangements related to the Notes which re-established, in total, a $150 million notional amount that effectively converted this portion of the Notes to variable rate debt.

The result of the “receive fixed, pay floating” arrangements was a decrease in interest expense of $6.7 million and $4.9 million for the years ended December 31, 2003 and December 31, 2002, respectively, compared to the fixed interest expense of the ten-year Notes. At December 31, 2003 and December 31, 2002, the adjustments of these swap contracts to fair market value resulted in the recognition of assets of $1.4 million and $18.7 million, respectively, on the balance sheet, included in other assets, with offsetting increases in long-term debt. The Company has the ability to terminate the swaps and receive (pay) the asset (liability) fair value of the swaps.

During the 2003 second quarter, the Company entered into a $325 million four-year senior secured domestic revolving credit facility (“the secured credit facility” or “the facility”). The facility, which replaced a $250 million unsecured facility, is secured by all accounts receivable and inventory of the Company’s U. S. operations, and includes capacity for up to $150 million of letters of credit. As of December 31, 2003, there had been no borrowings made under either the secured credit facility or the former unsecured credit facility since the beginning of 2002. The Company’s outstanding letters of credit issued under the secured credit facility were approximately $94 million at December 31, 2003.

The secured credit facility limits capital expenditures, investments and acquisitions of businesses, new indebtedness, asset divestitures, payment of dividends, and common stock repurchases which the Company may incur or undertake during the term of the facility without obtaining permission of the lending group. In addition, the secured credit facility contains a financial covenant, which is not measured if the Company's undrawn availability under the facility is equal to or more than $150 million. This financial covenant, when measured, requires the Company to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to fixed charges of at least 1.0 to 1.0. EBITDA is adjusted for non-cash items such as income/loss on investments accounted for under the equity method of accounting, non-cash pension expense/income, and that portion of retiree medical and life insurance expenses paid from the Company's VEBA trust. EBITDA is reduced by capital expenditures, as defined in the facility, and cash taxes paid, and increased for cash tax refunds. Fixed charges include gross interest expense, dividends paid and scheduled debt payments. At December 31, 2003, the Company's undrawn availability under the facility, which is calculated including outstanding letters of credit, other uses of credit and domestic cash on hand, was $263 million, and the amount that the Company could borrow at that date prior to requiring the application of a financial covenant test was $113 million. The Company expects its undrawn availability will decrease by approximately $22 million in connection with the Company's planned appeal of the unfavorable jury verdict received on March 10, 2004.

Borrowings under the secured credit facility bear interest at the Company's option at either: (1) the one-, two-, three- or six- month LIBOR rate plus a margin ranging from 2.25% to 3.00% depending upon the level of borrowings; or (2) a base rate announced from time-to-time by the lending group (i.e. the Prime lending rate) plus a margin ranging from 0% to 0.75% depending upon the level of borrowings. In addition, the secured credit facility contains a facility fee of 0.25% to 0.50% depending on the level of undrawn availability. The facility also contains fees for issuing letters of credit of 0.125% per annum and annualized fees ranging from 2.25% to 3.00% depending on the level of undrawn availability under the facility. The Company's overall borrowing costs under the secured credit facility are not affected by changes in the Company's credit ratings.

The Company's subsidiaries also maintain credit agreements with various foreign banks, which provide for borrowings of up to approximately $57 million. At December 31, 2003, the Company had approximately $21 million of available borrowing capacity under these foreign credit agreements. These agreements provide for annual facility fees of up to 0.20%.

The Company has no off-balance sheet financing relationships with variable interest entities, structured finance entities, or any other unconsolidated entities. At December 31, 2003, the Company has not guaranteed any third-party indebtedness.

Note 4. Supplemental Financial Statement Information —

Cash and cash equivalents at December 31, 2003 and 2002 were as follows:

(In millions)	**2003**	2002
Cash	**$ 36.9**	$ 16.1
Other short-term investments, at cost which approximates market	**42.7**	43.3
Total cash and cash equivalents	**$ 79.6**	$ 59.4

The estimated fair value of financial instruments at December 31, 2003 and 2002 was as follows:

(In millions)	**2003**		2002	
	Carrying Amount	**Estimated Fair Value**	Carrying Amount	Estimated Fair Value
Cash and cash equivalents	**$ 79.6**	**$ 79.6**	$ 59.4	$ 59.4
Other assets — Interest rate swap agreements	**1.4**	**1.4**	18.7	18.7
Debt:				
Allegheny Technologies $300 million 8.375% Notes due 2011, net (a)	**309.4**	**336.2**	312.3	315.7
Allegheny Ludlum 6.95% debentures, due 2025	**150.0**	**138.0**	150.0	126.0
Foreign credit agreements	**35.0**	**35.0**	26.7	26.7
Industrial revenue bonds, due through 2007	**20.1**	**20.1**	21.5	21.5
Capitalized leases and other	**17.6**	**17.6**	8.6	8.6

(a) Includes fair value adjustments for interest rate swap contracts of $15.2 million and $18.7 million at December 31, 2003 and December 31, 2002, respectively.

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount on the balance sheet approximates fair value.

Interest rate swap agreements: The fair values were obtained from the agreement counterparties.

Short-term and long-term debt: The fair values of the Allegheny Technologies 8.375% Notes and the Allegheny Ludlum 6.95% debentures were based on quoted market prices. The carrying amounts of the other short-term and long-term debt approximate fair value.

Accounts receivable are presented net of a reserve for doubtful accounts of $10.2 million at December 31, 2003 and $10.1 million at December 31, 2002. During 2003, the Company recognized expense of $2.2 million to increase the reserve for doubtful accounts and wrote off $2.1 million of uncollectible accounts, which reduced the reserve. During 2002, the Company recognized expense of $1.8 million to increase the reserve for doubtful accounts and wrote-off $4.0 million of uncollectible accounts, which reduced the reserve. During 2001, the Company recognized expense of $10.1 million to increase the reserve for doubtful accounts and wrote-off $5.2 million of uncollectible accounts receivable, which reduced the reserve.

Property, plant and equipment at December 31, 2003 and 2002 were as follows:

(In millions)	**2003**	2002
Land	**$ 26.3**	$ 29.5
Buildings	**228.2**	228.6
Equipment and leasehold improvements	**1,494.0**	1,521.5
	1,748.5	1,779.6
Accumulated depreciation and amortization	**(1,037.4)**	(1,022.0)
Total property, plant and equipment	**$ 711.1**	$ 757.6

Depreciation and amortization for the years ended December 31, 2003, 2002 and 2001 was as follows:

(In millions)	**2003**	2002	2001
Depreciation of property, plant and equipment	**$69.4**	$85.4	$88.4
Amortization of goodwill	**—**	—	5.8
Software and other amortization	**5.2**	4.6	4.4
Total depreciation and amortization	**$74.6**	$90.0	$98.6

In accordance with SFAS 142, amortization of goodwill was discontinued January 1, 2002.

Accrued liabilities included salaries and wages of $27.1 million and $38.4 million at December 31, 2003 and 2002, respectively.

Note 5. Accumulated Other Comprehensive Income (Loss) —

The components of accumulated other comprehensive income (loss), net of tax, at December 31, 2003, 2002 and 2001 were as follows:

(In millions)	Foreign Currency Translation Adjustments	Net Unrealized Gains (Losses) On Derivative Instruments	Minimum Pension Liability Adjustments	Net Unrealized Gains (Losses) On Investments	Total Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2000	$(23.0)	$ —	$ —	$ 3.4	$ (19.6)
Amounts arising during the year	(0.3)	(2.2)	—	(1.4)	(3.9)
Amounts realized	0.1	—	—	(2.3)	(2.2)
Net change	(0.2)	(2.2)	—	(3.7)	(6.1)
Balance, December 31, 2001	(23.2)	(2.2)	—	(0.3)	(25.7)
Amounts arising during the year	16.6	7.4	(406.4)	0.4	(382.0)
Balance, December 31, 2002	(6.6)	5.2	(406.4)	0.1	(407.7)
Amounts arising during the year	14.4	4.6	47.0	(0.1)	65.9
Balance, December 31, 2003	$ 7.8	$ 9.8	$(359.4)	$ —	$(341.8)

Other comprehensive income (loss) amounts are net of income tax expense (benefit) at the effective tax rate for each year, prior to the recognition of the 2003 deferred tax valuation allowance.

Note 6. Stockholders' Equity —

Preferred Stock

Authorized preferred stock may be issued in one or more series, with designations, powers and preferences as shall be designated by the Board of Directors. At December 31, 2003, there were no shares of preferred stock issued.

Common Stock

During 2000, the Company adopted the Allegheny Technologies Incorporated 2000 Incentive Plan (the "Incentive Plan"). Options granted under the Incentive Plan, and predecessor plans, have been granted at not less than market prices on the dates of grant. Options granted under the Incentive Plan have a maximum term of 10 years. Vesting of stock options granted under the Incentive Plan generally occurs in three annual increments, beginning on the first anniversary of the grant date.

The Company accounts for its stock option plans in accordance with APB Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under APB Opinion 25, for awards which vest without a performance-based contingency, no compensation expense for stock option plans is recognized because the exercise price of the Company's employee stock options equals the market price of the underlying stock at the date of the grant. If compensation cost for these stock option awards had been determined using the fair-value method prescribed by FASB Statement No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123") the net loss would have increased by $3.3 million (or $0.04 per diluted share), $3.8 million (or $0.04 per diluted share) and $5.0 million (or $0.07 per diluted share) for the years ended December 31, 2003, 2002 and 2001, respectively. Under SFAS 123, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2003	2002	2001
Expected dividend yield	**7.4%**	4.4%	4.7%
Expected volatility	**51%**	35%	39%
Risk-free interest rate	**3.5%**	4.0%	4.8%
Expected lives (in years)	**8.0**	8.0	8.0
Weighted average fair value of options granted during year	**$ 1.05**	$ 2.95	$ 4.89

Stock option transactions under the Company's employee plans for the years ended December 31, 2003, 2002 and 2001 are summarized as follows:

(shares in thousands)	**2003**		2002		2001	
	Number of Shares	**Weighted Average Exercise Price**	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	**7,919**	**$20.42**	5,077	$27.88	4,480	$30.26
Granted	**2,155**	**4.29**	3,141	9.04	847	17.08
Exercised	**(72)**	**7.25**	—	—	(28)	14.53
Cancelled	**(2,921)**	**29.80**	(299)	28.07	(222)	30.75
Outstanding at end of year	**7,081**	**$11.80**	7,919	$20.42	5,077	$27.88
Exercisable at end of year	**2,792**	**$18.85**	4,190	$29.38	3,453	$32.10

Options outstanding at December 31, 2003 were as follows:

(shares in thousands)

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
$ 3.63-$7.00	2,120	9.1	$ 4.29	120	$ 6.73
7.01-10.00	2,227	8.8	7.25	695	7.25
10.01-15.00	547	8.0	12.85	294	13.49
15.01-20.00	1,337	7.5	17.38	833	17.77
20.01-30.00	369	5.8	21.92	369	21.92
30.01-40.00	155	4.5	35.95	155	35.95
40.01-50.00	326	3.4	44.05	326	44.05
	7,081	8.1	$11.80	2,792	$18.85

The Company sponsors other stock-based compensation programs, which resulted in compensation expense of $12.6 million in 2003, $0.8 million in 2002 and $1.2 million in 2001. These recognized amounts included reversals of $1.9 million in 2002 and $2.2 million in 2001 for adjustments to prior years incentive compensation expenses based on changes to estimates of compensation made at interim measurement dates.

As described in the Company's 2003 annual meeting proxy statement, until the effective date of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"), the Company maintained a Stock Acquisition and Retention Program ("SARP"). Under the SARP, certain executives could purchase shares of the Company's common stock in exchange for a promissory note payable to the Company, and the Company would match the purchase with a grant of a certain number of shares of non-vested ("restricted") common stock. After the enactment of Sarbanes-Oxley, the Board of Directors effectively terminated the SARP and no further loans or purchases were permitted. In connection with the winding up of the SARP, on September 11, 2003 an aggregate of 691,339 shares, previously purchased under the SARP between 1995 and the effective date of Sarbanes-Oxley, were sold by participants to a financial institution in a market transaction; all net proceeds were used to reduce balances due under SARP promissory notes. In addition, all of the restricted shares granted to the participants under the SARP in prior years, an aggregate of 501,970 shares, as well as options to purchase an aggregate of 836,466 shares of common stock previously granted, were forfeited by SARP participants. In addition, the Company paid the participants a SARP Termination Payment in cash, which was used by each participant, net of individual tax consequences, to repay to the Company all remaining balances owing on the SARP loans. The Board of Directors also determined that no equity compensation would be granted to SARP participants for at least six months from the date of the SARP Termination Payment. As a net result of the termination of the SARP, the Company received approximately $0.5 million in cash and recorded $5.6 million of expenses, which is included in selling and administrative expenses in the statement of operations.

In the 2003 third quarter, the Company initiated a stock option repurchase program whereby stock option plan participants, not including statutory insiders and certain other executives, could elect to sell to the Company, for $0.10 per option share, vested stock options with exercise prices in excess of $20.00 per share. Approximately 1.8 million stock option shares were repurchased by the Company under this program, which expired in October 2003. The Board of Directors has also determined that no equity compensation would be granted to participants for at least six months following the stock option repurchase program.

In 2003, the Company granted 547,290 shares of restricted stock with an aggregate grant date fair value of $2.3 million. The shares vest over service periods ranging from three to five years. For the year ended December 31, 2003, 176,399 shares of restricted stock relating to the 2003 grants and other prior grants had vesting accelerate due to participant retirements, in accordance with retirement provisions in the Incentive Plan. Compensation expense recognized for this vesting acceleration was $0.5 million. There were 422,800 shares of unvested restricted stock outstanding at December 31, 2003.

The Company sponsors a Total Shareholder Return Plan ("TSRP"), which measures the Company's stock price performance compared to a peer group. The TSRP measures stock price performance over cumulative three-year periods. Compensation to participants is payable in the form of stock. Interim measures of stock price performance are recorded quarterly. Based on the Company's 2003 stock price performance, $4.1 million of compensation expense for the TSRP was recognized in the fourth quarter of 2003.

At December 31, 2003, approximately 3.2 million shares of common stock were available for future awards under the Incentive Plan.

Stockholders' Rights Plan

Under the Company's stockholder rights plan, each share of Allegheny Technologies common stock is accompanied by one right to purchase two one-hundredths of a share of preferred stock for $100. Each two hundredths of a share of preferred stock would be entitled to dividends and to vote on an equivalent basis with one share of common stock. The rights are neither exercisable nor separately transferable from shares of common stock unless a party acquires or effects a tender offer for more than 15% of Allegheny Technologies common stock. If a party acquired more than 15% of the Allegheny Technologies common stock or acquired the Company in a business combination, each right (other than those held by the acquiring party) would entitle the holder to purchase common stock or preferred stock at a substantial discount. The rights expire on March 12, 2008, and the Company's Board of Directors can amend certain provisions of the plan or redeem the rights at any time prior to their becoming exercisable.

Note 7. Income Taxes —

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), in the 2003 fourth quarter, the Company recorded a $138.5 million charge as part of its income tax provision to establish a valuation allowance for the majority of its net deferred tax assets in recognition of uncertainty regarding full realization. No valuation allowance was required on $34.3 million of net deferred tax assets based upon the Company's ability to utilize these assets within the carryback, carryforward period, including consideration of tax planning strategies that the Company would undertake to prevent an operating loss or tax credit carryforward from expiring unutilized. The Company intends to maintain a valuation allowance on the net deferred tax assets until a realization event occurs to support reversal of all or a portion of the reserve.

Income tax provision (benefit) was as follows:

(In millions)	**2003**	2002	2001
Current:			
Federal	**$(36.6)**	$(64.1)	$(40.4)
State	**2.8**	0.1	0.5
Foreign	**2.6**	0.4	2.5
Total	**(31.2)**	(63.6)	(37.4)
Deferred:			
Federal	**67.5**	21.0	25.9
State	**(2.6)**	4.6	0.3
Foreign	**(0.6)**	—	—
Total	**64.3**	25.6	26.2
Income tax provision (benefit)	**$ 33.1**	$(38.0)	$(11.2)

In general, the Company is responsible for filing consolidated U.S., foreign and combined, unitary or separate state income tax returns. The Company is responsible for paying the taxes relating to such returns, including any subsequent adjustments resulting from the redetermination of such tax liability by the applicable taxing authorities. Income taxes paid were $3.9 million, $2.0 million and $3.4 million in 2003, 2002 and 2001, respectively. The Company received $65.6 million in federal income tax refunds and $4.4 million in state and foreign income tax refunds in 2003, and has recognized $7.2 million of federal income taxes receivable at December 31, 2003 for refunds to be received in 2004, based upon the carryback character of certain deferred tax assets, to recover income taxes paid in prior years.

No provision has been made for U.S., state or additional foreign taxes related to undistributed earnings of foreign subsidiaries which have been or are intended to be permanently re-invested. It is not practical to estimate the income tax expense or benefit that might be incurred if earnings were remitted to the U.S.

Loss before income taxes included loss from domestic operations of $(279.1) million in 2003, $(99.8) million in 2002 and $(45.3) million in 2001.

The following is a reconciliation of income taxes computed at the statutory federal income tax rate to the actual effective income tax provision (benefit):

	Income Tax Provision (Benefit)		
(In millions)	**2003**	2002	2001
Taxes computed at federal tax rate	**$(98.1)**	$(36.3)	$(12.7)
State and local income taxes, net of federal tax benefit	**(3.4)**	(0.8)	(1.0)
Valuation allowance	**138.5**	—	—
Other	**(3.9)**	(0.9)	2.5
Income tax provision (benefit)	**$ 33.1**	$(38.0)	$(11.2)

The 2003 effective tax rate includes the effect of establishing a valuation allowance for a majority of the Company's net deferred tax assets. The effective tax rate for 2003, absent the deferred tax valuation allowance, would have been 37.6%. The effective tax rates for 2002 and 2001 were 36.6% and 30.8%, respectively. The effective tax rate for 2002 was a larger benefit than 2001 primarily due to a favorable settlement of issues related to prior years estimated taxes.

Deferred income taxes result from temporary differences in the recognition of income and expense for financial and income tax reporting purposes, and differences between the fair value of assets acquired in business combinations accounted for as purchases for financial reporting purposes and their corresponding tax bases. Deferred income taxes represent future tax benefits or costs to be recognized when those temporary differences reverse. The categories of assets and liabilities that have resulted in differences in the timing of the recognition of income and expense at December 31, 2003 and 2002 were as follows:

(In millions)	**2003**	2002
Deferred income tax assets:		
Postretirement benefits other than pensions	**$197.5**	$192.7
Federal net operating loss tax carryforwards	**29.4**	—
State operating loss tax carryforwards	**40.3**	38.0
Deferred compensation and other benefit plans	**18.5**	20.4
Environmental reserves	**16.4**	15.9
Vacation accruals	**9.3**	9.2
Self-insurance reserves	**11.8**	9.8
Pension	**15.2**	6.6
Other items	**45.4**	34.8
Gross deferred income tax assets	**383.8**	327.4
Valuation allowance for deferred tax assets	**(178.8)**	(38.0)
Total deferred income tax assets	**205.0**	289.4
Deferred income tax liabilities:		
Bases of property, plant and equipment	**120.9**	141.0
Inventory valuation	**19.0**	19.7
Other items	**30.8**	22.5
Total deferred income tax liabilities	**170.7**	183.2
Net deferred income tax asset	**$ 34.3**	$106.2

Including the $138.5 million deferred tax asset valuation allowance recorded in the 2003 fourth quarter, and $2.3 million of valuation allowances for certain state deferred tax assets recorded in 2003, the Company had $178.8 million and $38.0 million in deferred tax asset valuation allowances at December 31, 2003 and 2002, respectively. Based on current tax law, the $29.4 million federal net operating loss tax carryforward deferred tax asset will expire in 2023. The Company also had state net operating loss tax carryforwards of $40.3 million and $38.0 million at December 31, 2003 and 2002, respectively. For most of these state net operating loss tax carryforwards, expiration will occur in 20 years and utilization of the tax benefit is limited to $2 million per year. A valuation allowance has been established for the full value of these state net operating loss carryforwards since the Company has concluded that it is more likely than not that these tax benefits would not be realized prior to expiration.

At December 31, 2003 and 2002, the balance sheet composition of the Company's net deferred tax assets and liabilities was as follows:

(In millions)	**2003**	2002
Net current asset	**$ —**	$ 20.8
Net noncurrent asset	**34.3**	85.4
Net deferred income tax asset	**$ 34.3**	$106.2

Note 8. Pension Plans and Other Postretirement Benefits —

The Company has defined benefit pension plans and defined contribution plans covering substantially all employees. Benefits under the defined benefit pension plans are generally based on years of service and/or final average pay. The Company funds the U.S. pension plans in accordance with the requirements of the Employee Retirement Income Security Act of 1974, as amended, and the Internal Revenue Code.

The Company also sponsors several postretirement plans covering certain salaried and hourly employees. The plans provide health care and life insurance benefits for eligible retirees. In certain plans, Company contributions towards premiums are capped based on the cost as of a certain date, thereby creating a defined contribution. For the non-collectively bargained plans, the Company maintains the right to amend or terminate the plans at its discretion.

Components of pension expense (income) for the Company's defined benefit plans and components of postretirement benefit expense included the following:

	Expense (Income)					
	Pension Benefits			Other Postretirement Benefits		
(In millions)	**2003**	2002	2001	**2003**	2002	2001
Service cost — benefits earned during the year	**$ 28.6**	$ 26.6	$ 22.9	**$ 6.3**	$ 7.4	$ 8.4
Interest cost on benefits earned in prior years	**126.4**	123.7	113.5	**44.9**	42.7	43.4
Expected return on plan assets	**(140.1)**	(174.7)	(209.1)	**(9.4)**	(19.3)	(20.6)
Amortization of unrecognized transition asset	**—**	(10.8)	(24.1)	**—**	—	—
Amortization of prior service cost	**26.8**	26.1	19.3	**(4.9)**	(4.3)	(4.5)
Amortization of net actuarial (gain) loss	**50.9**	5.1	(0.6)	**4.9**	(1.5)	(1.7)
Excess pension (income) expense	**92.6**	(4.0)	(78.1)	**41.8**	25.0	25.0
Curtailment and termination benefits (gain) loss	**7.4**	—	9.8	**—**	(1.7)	—
Total retirement benefit (income) expense	**$ 100.0**	$ (4.0)	$ (68.3)	**$41.8**	$ 23.3	$ 25.0

In 2003, the Company recorded termination benefits expense of $7.4 million related to workforce reductions which is included in restructuring costs in the statement of operations.

In 2002, the Company recorded $1.7 million of non-cash income on the curtailment of postretirement benefits for terminated employees related to work force reductions in the Flat-Rolled Products segment. This amount is included in restructuring costs in the statement of operations.

In 2001, the Company recorded curtailment and termination benefits expense of $9.8 million related to employees of the Company's Houston, PA stainless steel melt shop that was permanently idled during the fourth quarter. Of this amount, $8.2 million related to curtailment charges and $1.6 million related to termination benefits recorded in accordance with generally accepted accounting principles. This amount is included in restructuring costs in the statement of operations.

Actuarial assumptions used to develop the components of pension expense (income) and postretirement benefit expense were as follows:

	Pension Benefits			Other Postretirement Benefits		
(In millions)	**2003**	2002	2001	**2003**	2002	2001
Discount rate	**6.75%**	7.0%	7.0%	**6.75%**	7.0%	7.0%
Rate of increase in future compensation levels	**3%-4.5%**	3%-4.5%	3%-4.5%	**—**	—	—
Expected long-term rate of return on assets	**8.75%**	9.0%	9.0%	**9.0%**	9%-15%	9%-15%

Actuarial assumptions used for the valuation of pension and postretirement obligations at the end of the respective periods were as follows:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	**2003**	2002	**2003**	2002
Discount rate	**6.5%**	6.75%	**6.5%**	6.75%
Rate of increase in future compensation levels	**3%-4.5%**	3%-4.5%	**—**	—

For 2004, the expected long-term rate of returns on pension and other postretirement benefits assets will be 8.75% and 9.0%, respectively, and the discount rate used to develop pension and postretirement benefit expense will be 6.5%. In developing the expected long-term rate of return assumptions, the Company evaluated input from its third party pension plan asset managers and actuaries, including reviews of their asset class return expectations and long-term inflation assumptions.

A reconciliation of funded status for the Company's pension and postretirement benefit plans at December 31, 2003 and 2002 was as follows:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	**2003**	2002	**2003**	2002
Change in benefit obligation:				
Benefit obligation at beginning of year	**$1,945.5**	$1,816.1	**$ 711.3**	$ 651.3
Service cost	**28.6**	26.6	**6.3**	7.4
Interest cost	**126.4**	123.7	**44.9**	42.7
Benefits paid	**(143.2)**	(137.4)	**(45.2)**	(45.7)
Participant contributions	**0.8**	—	**—**	—
Effect of currency rates	**3.2**	—	**—**	—
Plan amendments	**4.0**	16.3	**—**	(9.4)
Net actuarial (gains) losses — discount rate change	**62.0**	47.2	**21.8**	10.6
— other	**(16.1)**	53.0	**142.5**	56.3
Effect of curtailment and special termination benefits	**7.4**	—	**—**	(1.9)
Benefit obligation at end of year	**$2,018.6**	$1,945.5	(A) **$ 881.6**	$ 711.3
Change in plan assets:				
Fair value of plan assets at beginning of year	**$1,678.7**	$2,012.0	**$ 111.5**	$ 134.9
Actual returns (losses) on plan assets and plan expenses	**219.6**	(199.1)	**9.7**	(10.7)
Participant contributions	**0.8**	—	**—**	—
Effect of currency rates	**2.8**	—	**—**	—
Benefits paid	**(139.8)**	(134.2)	**(14.2)**	(12.7)
Fair value of plan assets at end of year	**$1,762.1**	$1,678.7	**$ 107.0**	$ 111.5
Underfunded status of the plan	**$ (256.5)**	$ (266.8)	**$(774.6)**	(599.8)
Unrecognized net actuarial loss	**624.1**	709.2	**292.0**	132.9
Net minimum pension liability	**(588.2)**	(658.4)	**—**	—
Unrecognized prior service cost	**144.0**	165.1	**(24.6)**	(29.5)
Accrued benefit cost	**$ (76.6)**	$ (50.9)	**$(507.2)**	$(496.4)

Amounts recognized in the balance sheet consist of:

	Pension Benefits		Other Postretirement Benefits	
(In millions)	**2003**	2002	**2003**	2002
Deferred pension asset	**$ 144.0**	$ 165.1	**$ —**	$ —
Pension liabilities	**(220.6)**	(216.0)	**—**	—
Accrued postretirement benefits	**—**	—	**(507.2)**	(496.4)
Net amount recognized	**$ (76.6)**	$ (50.9)	**$(507.2)**	$(496.4)

(A) The Other Postretirement Benefits obligation at end of 2003 does not include the expected favorable impact of the Medicare Prescription Drug, Improvement and Modernization Act, which was signed into law on December 8, 2003. The Act provides for a federal subsidy, with tax-free payments commencing in 2006, to sponsors of retiree

health care benefits plans that provide a benefit that is at least actuarially equivalent to the benefit established by the law. Based upon estimates from the Company's actuaries, the Company expects that the federal subsidy included in the law will result in a reduction in the Other Postretirement Benefits obligation of up to $70 million. This reduction is not reflected in the financial statements, or in the table above, because authoritative accounting guidance regarding how the benefit is to be recognized in the financial statements is pending.

The accumulated benefit obligation for all defined benefit pension plans was $1,972.3 million and $1,879.9 million at December 31, 2003 and 2002, respectively.

In 2002, the Company entered into a new six-year labor agreement covering Wah Chang employees represented by the United Steelworkers of America ("USWA"). In 2001, the Company entered into new six-year labor agreements covering Allegheny Ludlum and Oremet employees represented by the USWA. These labor agreements included enhancements to pension benefits. The increase in the pension liability resulting from these labor agreements, as well as pension enhancements at other operations of the Company are presented as plan amendments in the tables above.

The pension plan asset allocations for the years ended 2003 and 2002, and the target allocation for 2004 are:

Asset Category	2003	2002	Target Allocation 2004
Equity securities	**75%**	69%	65% — 75%
Fixed Income	**25%**	30%	25% — 35%
Other	**0%**	1%	0% — 10%
Total	**100%**	100%	

The postretirement plan obligation asset allocations for the years ended 2003 and 2002, and the target allocation for 2004 are:

Asset Category	2003	2002	Target Allocation 2004
Equity securities	**68%**	69%	65% — 75%
Fixed Income	**25%**	22%	25% — 35%
Other	**7%**	9%	0% — 10%
Total	**100%**	100%	

The Company invests in a diversified portfolio consisting of an array of asset classes that attempts to maximize returns while minimizing volatility. These asset classes include U.S. domestic equities, developed market equities, emerging market equities, private equity, global high quality and high yield fixed income. The Company continually monitors the investment results of these asset classes and its fund managers, and explores other potential asset classes for possible future investment. During 2003, the Company entered into a risk reduction program with respect to the pension fund investments in U.S. domestic equities. The goal of the program was to reduce the potential impact to the plan's funded status of a further decline in the U.S. equity markets.

The plan assets for the defined benefit pension plan at December 31, 2003 and 2002 include 1.3 million shares of Allegheny Technologies common stock with a fair value of $17.2 million and $8.1 million, respectively. Dividends of $0.3 million and $0.9 million were received by the plan in 2003 and 2002, respectively on the Allegheny Technologies common stock held by the plan. Any reversion of pension plan assets to the Company would be subject to federal and state income taxes, substantial excise tax and other possible claims.

The Company is not required to make cash contributions to its U.S. defined pension plan for 2004 and, based upon current actuarial studies, does not expect to be required to make cash contributions to its U.S. defined pension plan for at least the next several years. In accordance with labor contracts, the Company funds certain retiree health care benefits for Allegheny Ludlum using plan assets held in a Voluntary Employee Benefit Association (VEBA) trust. During 2003, 2002 and 2001, the Company was able to fund $14.2 million, $12.7 million, and $3.2 million, respectively, of retiree medical costs using the assets of the VEBA trust. The Company may continue to fund certain retiree medical benefits utilizing the plan assets held in the VEBA if the value of these plan assets exceed $50 million. The value of the assets held in the VEBA was approximately $100 million as of December 31, 2003. Pension costs for defined contribution plans were $10.5 million in 2003, $12.1 million in 2002, and $14.8 million in 2001. Company contributions to the defined contribution plans are funded with cash.

The Company contributes on behalf of its union employees at its Oremet facility to a pension plan which is administered by the USWA and funded pursuant to a collective bargaining agreement. Pension expense and contributions to this plan were $0.6 million in 2003 and in 2002, and $1.1 million in 2001.

The annual assumed rate of increase in the per capita cost of covered benefits (the health care cost trend rate) for health care plans was 10.4% in 2004 and is assumed to gradually decrease to 5.0% in the year 2014 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one percentage point change in assumed health care cost trend rates would have the following effects:

(In millions)	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components for the year		
Ended December 31, 2003	$ 6.8	$ (5.6)
Effect on other postretirement benefit obligation		
at December 31, 2003	$109.1	$ (87.0)

The annual measurement date for the Company's retirement benefits is November 30. At November 30, 2003, the value of the accumulated pension benefit obligation (ABO) exceeded the value of pension assets by approximately $195 million. A minimum pension liability was recognized in 2002 as a result of a severe decline in the equity markets from 2000 through 2002, higher benefit liabilities from long-term labor contracts negotiated in 2001, and a lower assumed discount rate for valuing liabilities. Accounting standards require a minimum pension liability be recorded and the pension asset recorded on the balance sheet be written off if the value of pension assets is less than the ABO at the annual measurement date. Accordingly, in the 2002 fourth quarter, the Company recorded a charge against stockholders' equity of $406 million, net of deferred taxes, to write off the prepaid pension cost representing the overfunded position of the pension plan, and to record a deferred pension asset of $165 million for unamortized prior service cost relating to prior benefit enhancements. In the fourth quarter of 2003, the Company's adjustment of the minimum pension liability resulted in a $47 million increase to stockholders' equity, presented as other comprehensive income (loss). These charges and adjustments did not affect the Company's reported net loss and do not have a cash impact. In addition, they do not affect compliance with debt covenants in the Company's bank credit agreement. In accordance with accounting standards, the full charge against stockholders' equity would be reversed in subsequent years if the value of pension plan investments returns to a level that exceeds the ABO as of a future annual measurement date.

In 2001 and prior years the Company's defined benefit pension plan was fully funded with assets significantly in excess of the projected benefit obligation. Under Internal Revenue Code (Section 420) provisions, certain amounts that the Company paid for retiree health care benefits could be reimbursed annually from the excess pension plan assets. During the 2001 second quarter, the Company recovered $35.0 million under these provisions. While not affecting reported operating profit, cash flow from operations increased by the recovered amount. The Company's ability to be reimbursed for retiree medical costs in future years is dependent upon the level of pension surplus, if any, as computed under regulations of the Internal Revenue Service, as of the beginning of each year. The level of pension surplus (the value of pension assets less pension obligations) changes constantly due to the volatility of pension asset investments. Due to the decline in the U.S. equities market in 2000 through 2002, the pension funded status at the beginning of 2004 is substantially below the threshold required for reimbursement of retiree medical costs in 2004. The ability to resume reimbursement from pension assets for retiree health care costs beyond 2004 will depend upon the performance of the pension investments, and any changes in the Internal Revenue Code and regulations pertaining to reimbursement of retiree health care costs from pension surplus.

Note 9. Acquisitions and Divestitures —

During 2003, the Company announced the formation of Uniti LLC ("Uniti"), a 50% owned joint venture with Russian-based VSMPO AVISMA to produce and market a range of industrial commercially pure titanium products on a worldwide basis. This investment is accounted for under the equity method. Uniti operating results for 2003 were not material.

During the 2001 fourth quarter, the Company divested its North American operations of its titanium distribution company, Titanium Industries Inc. Results of operations for this business for 2001 and proceeds from the disposition of this business were not material to the Company.

Note 10. Business Segments —

The Company operates in three business segments: Flat-Rolled Products, High Performance Metals and Engineered Products. In the 2003 fourth quarter, the Company reorganized certain operations and management reporting. The Industrial Products segment was renamed Engineered Products and Rome Metals was transferred to this segment from Flat-Rolled Products. Prior periods have been restated to conform to the current organization structure.

The Flat-Rolled Products segment produces, converts and distributes stainless steel, nickel-based alloys and superalloys, and titanium and titanium-based alloys in sheet, strip, plate and Precision Rolled Strip® products as well as silicon electrical steels and tool steels. The companies in this segment include Allegheny Ludlum, Allegheny Rodney, Allegheny Ludlum's 60% interest in STAL, and the Company's industrial titanium joint venture known as Uniti LLC.

The High Performance Metals segment produces, converts and distributes nickel- and cobalt-based alloys and superalloys, titanium and titanium-based alloys, zirconium, hafnium, niobium, tantalum, their related alloys, and other specialty alloys and metals, primarily in slab and long products such as ingot, billet, bar, rod, wire, coil and seamless tube. The companies in this segment include Allvac, Allvac Ltd (U.K.) and Wah Chang, which also produces and sells zirconium chemicals.

The Engineered Products segment's principal business produces tungsten powder, tungsten carbide materials and carbide cutting tools. This segment also produces carbon alloy steel impression die forgings and large grey and ductile iron castings, and performs conversion services. The companies in this segment are Metalworking Products, Portland Forge, Casting Service and Rome Metals.

Intersegment sales are generally recorded at full cost or market. Common services are allocated on the basis of estimated utilization.

Information on the Company's business segments was as follows:

(In millions)	**2003**	2002	2001
Total sales:			
Flat-Rolled Products	**$1,060.4**	$1,050.9	$1,110.8
High Performance Metals	**685.5**	660.1	831.7
Engineered Products	**259.9**	243.8	285.4
Total sales	**2,005.8**	1,954.8	2,227.9
Intersegment sales:			
Flat-Rolled Products	**16.9**	10.6	30.4
High Performance Metals	**43.8**	30.1	59.9
Engineered Products	**7.7**	6.3	9.6
Total intersegment sales	**68.4**	47.0	99.9
Sales to external customers:			
Flat-Rolled Products	**1,043.5**	1,040.3	1,080.4
High Performance Metals	**641.7**	630.0	771.8
Engineered Products	**252.2**	237.5	275.8
Total sales to external customers	**$1,937.4**	$1,907.8	$2,128.0

Total international sales were $441.9 million in 2003, $440.0 million in 2002 and $499.5 million in 2001. Of these amounts, sales by operations in the United States to customers in other countries were $270.0 million in 2003, $276.9 million in 2002 and $318.9 million in 2001.

(In millions)	2003	2002	2001
Operating profit (loss):			
Flat-Rolled Products	**$ (14.1)**	$ (8.6)	$(40.0)
High Performance Metals	**26.2**	31.2	82.0
Engineered Products	**7.8**	4.7	12.3
Total operating profit	**19.9**	27.3	54.3
Corporate expenses	**(20.5)**	(20.6)	(25.5)
Interest expense, net	**(27.7)**	(34.3)	(29.3)
Management transition and restructuring costs	**(69.8)**	(42.8)	(74.2)
Other expenses, net of gains on asset sales	**(47.7)**	(11.6)	(14.8)
Retirement benefit (expense) income	**(134.4)**	(21.8)	53.1
Loss before income taxes	**$(280.2)**	$(103.8)	$(36.4)

In accordance with accounting standards, in 2002, the Company discontinued the amortization of goodwill. For the year ended December 31, 2001 goodwill amortization was $3.5 million, $1.4 million and $0.9 million for the Flat-Rolled Products, High Performance Metals and Engineered Products segments, respectively.

Management transition costs, which are classified as selling and administrative expenses on the statement of operations, and restructuring costs, which are classified as restructuring costs in the statement of operations, includes impairments for long-lived assets, charges related to severance and other facility closure charges. For the years ended December 31, 2003, 2002, and 2001, restructuring charges excluded from segment operations were $62.4 million, $42.8 million and $74.2 million, respectively. Costs associated with the termination of a stock-based management incentive program and contractual obligations related to the 2003 CEO transition of $7.4 million are classified as selling and administrative expenses in the statement of operations.

Other expenses, net of gains on asset sales includes charges incurred in connection with closed operations, pretax gains and losses on the sale of surplus real estate, non-strategic investments and other assets, operating results from equity-method investees, minority interest and other non-operating income or expense, which are primarily included in selling and administrative expenses, and in other income (expense) in the statement of operations. These items resulted in net charges of $47.7 million, $11.6 million and $14.8 million in 2003, 2002, and 2001, respectively. For 2003, net charges include litigation expense of $22.5 million relating to an unfavorable jury verdict on March 10, 2004, concerning a lease of property in San Diego, CA.

Retirement benefit (expense) income represents pension income or expense and other postretirement benefit expenses. Operating profit with respect to the Company's business segments excludes any retirement benefit expense or income.

(In millions)	2003	2002	2001
Depreciation and amortization:			
Flat-Rolled Products	**$ 39.0**	$ 55.3	$ 63.3
High Performance Metals	**22.8**	20.9	20.3
Engineered Products	**11.7**	13.0	14.0
Corporate	**1.1**	0.8	1.0
Total depreciation and amortization	**$ 74.6**	$ 90.0	$ 98.6
Capital expenditures:			
Flat-Rolled Products	**$ 28.2**	$ 15.4	$ 19.4
High Performance Metals	**44.4**	30.8	75.8
Engineered Products	**1.1**	2.5	8.9
Corporate	**0.7**	—	0.1
Total capital expenditures	**$ 74.4**	$ 48.7	$ 104.2
Identifiable assets:			
Flat-Rolled Products	**$ 787.9**	$ 850.0	$1,010.1
High Performance Metals	**602.0**	594.7	625.0
Engineered Products	**178.1**	186.5	196.9
Corporate:			
Pension Asset	**144.0**	165.1	632.9
Income Taxes	**34.3**	158.1	82.0
Other	**138.6**	138.8	96.3
Total assets	**$1,884.9**	$2,093.2	$2,643.2

Geographic information for external sales, based on country of origin and assets are as follows:

(In millions)	**2003**	**Percent Of Total**	2002	Percent Of Total	2001	Percent Of Total
External Sales:						
United States	**$1,495.5**	**77%**	$1,468.0	77%	$1,628.5	77%
United Kingdom	**97.2**	**5%**	93.2	5%	117.1	5%
Germany	**82.6**	**4%**	86.9	5%	89.9	4%
France	**54.3**	**3%**	61.8	3%	90.7	4%
Canada	**42.4**	**2%**	40.2	2%	55.1	3%
China	**37.1**	**2%**	21.3	1%	18.4	1%
Japan	**25.0**	**1%**	28.7	2%	32.0	1%
Other	**103.3**	**6%**	107.7	5%	96.3	5%
Total External Sales	**$1,937.4**	**100%**	$1,907.8	100%	$2,128.0	100%

(In millions)	**2003**	**Percent Of Total**	2002	Percent Of Total	2001	Percent Of Total
Total Assets:						
United States	**$1,580.1**	**84%**	$1,800.7	86%	$2,357.5	89%
United Kingdom	**169.1**	**9%**	170.8	8%	157.3	6%
China	**50.7**	**3%**	49.2	2%	51.6	2%
Germany	**24.5**	**1%**	18.7	1%	24.2	1%
Japan	**10.3**	**1%**	7.3	—%	10.8	1%
France	**9.9**	**—%**	8.2	—%	6.8	—%
Canada	**3.7**	**—%**	4.9	—%	5.1	—%
Other	**36.6**	**2%**	33.4	3%	29.9	1%
Total Assets	**$1,884.9**	**100%**	$2,093.2	100%	$2,643.2	100%

Note 11. Restructuring and Other Charges —

Restructuring Charges

For the years ended December 31, 2003, 2002 and 2001, the Company recorded restructuring charges of $62.4 million, $42.8 million and $74.2 million, respectively, which are separately classified in the statement of operations and which are not included in segment results.

In 2003, the Company recorded charges of $62.4 million, including $47.5 million for impairment of long-lived assets in the Company's Flat-Rolled Products segment, $11.1 million for workforce reductions across all business segments and the corporate office, and $3.8 million for facility closure charges including present-valued lease termination costs, net of forecasted sublease rental income, at the corporate office. In the 2003 fourth quarter, based on existing and projected operating levels at the Company's remaining operations in Houston, PA and its Washington Flat Roll coil facility located in Washington, PA, it was determined that the net book values of these facilities were in excess of their estimated fair market values based on expected future cash flows. Charges for the Houston facility and the Washington Flat Roll coil facility were recorded to write down the book values of these facilities to their estimated fair market values. These asset impairment charges do not impact current operations at these facilities. The workforce reductions affected approximately 375 employees across all segments and the corporate office. Approximately $5 million of the severance charges will be paid from the Company's pension plan, and at December 31, 2003, approximately $9 million of the workforce reduction and facility closure charges are future cash costs that will be paid over the next ten years. Cash to meet these obligations is expected to be generated from one or more of the following sources: internally generated funds from operations, current cash on hand, or borrowings under existing credit lines.

In 2002, the Company recorded total charges of $42.8 million related to the indefinite idling of the Massillon, OH stainless steel plate facility, due to continuing poor demand for wide continuous mill plate products, and workforce reductions across all of the Company's operations. The Massillon, OH stainless steel plate facility was indefinitely idled in the 2002 fourth quarter and resulted in a pretax non-cash asset impairment charge of $34.4

million, representing the book value of the facility in excess of its estimated fair market value. In addition, during the second half of 2002, and in light of the continuing decline in demand for the Company's products in the markets served, the Company announced workforce reductions of approximately 665 employees. These workforce reductions resulted in a severance charge of $8.4 million, net of a retirement benefits curtailment gain.

In 2001, the Company recorded total restructuring charges of $74.2 million related to the permanent idling of the Houston, PA stainless steel melt shop, workforce reductions and other asset impairments. Of this aggregate charge, $55.6 million related to the Houston, PA stainless steel melt shop, which was permanently idled in the 2001 fourth quarter, and other asset impairments; $9.8 million related to pension and termination benefits; $5.8 million related to severance and personnel costs; and $3.0 million related to contractual obligations and other exit costs. The workforce reductions affected approximately 520 employees across all business segments and corporate office. Of the $74.2 million restructuring charge recorded in 2001, approximately $5 million resulted in expenditures of cash.

At December 31, 2003, substantially all cash expenditures related to the 2002 and 2001 restructuring charges had been paid.

Other Charges

In the 2003 fourth quarter, the Company recorded $34.7 million in other charges, including closed company charges of $22.5 million for litigation, $7.6 million for environmental and insurance matters, and $4.6 million for various non-operating asset impairments. Closed company charges were determined based on the status of legal matters including court proceedings, and on updated estimates of the Company's liability for environmental closure costs and for liabilities under retrospectively-rated insurance programs. In the consolidated statement of operations, litigation and environmental charges are classified in selling and administrative expenses and insurance charges are classified in cost of sales.

In 2002, the Company recorded $6.5 million in charges relating to its approximately 30% equity interest in New Piper Aircraft, Inc. ("New Piper"), including equity in net losses of New Piper and the write-down of the Company's investment to its estimated realizable value. Based on New Piper's fourth quarter 2002 realization of additional losses and adverse trends in its liquidity and financial condition, the Company determined in the 2002 fourth quarter that it was more likely than not that the carrying value of its equity interest in New Piper was not recoverable. These charges are classified in other income (expense) in the consolidated statements of operations.

In 2001, the Company also recorded a non-cash charge of $5.6 million related to the write-off of the Company's minority investment in the e-Business site, MetalSpectrum, which terminated operations during the second quarter of 2001. This amount is included in other income (expense) in the consolidated statement of operations.

Note 12. Financial Information for Subsidiary Guarantors —

The payment obligations under the $150 million 6.95% debentures due 2025 issued by Allegheny Ludlum Corporation (the "Subsidiary") are fully and unconditionally guaranteed by Allegheny Technologies Incorporated (the "Guarantor Parent"). In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separately financial information with respect to the Subsidiary, the non-guarantor subsidiaries and the Guarantor Parent. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions. Investments in subsidiaries, which are eliminated in consolidation, are included in other assets on the balance sheets.

In 1996, the underfunded defined benefit pension plans of the Subsidiary were merged with the overfunded defined benefit pension plans of Teledyne, Inc. and Allegheny Technologies became the plan sponsor. As a result, the balance sheets presented for the Subsidiary and the non-guarantor subsidiaries do not include the Allegheny Technologies deferred pension asset, pension liabilities or the related deferred taxes. The pension asset, liabilities and related deferred taxes and pension income or expense are recognized by the Guarantor Parent. Management and royalty fees charged to the Subsidiary and to the non-guarantor subsidiaries by the Guarantor Parent have been excluded solely for purposes of this presentation.

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets

December 31, 2003

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 0.3	$ 42.3	$ 37.0	$ —	$ 79.6
Accounts receivable, net	0.1	89.4	159.3	—	248.8
Inventories, net	—	147.3	212.4	—	359.7
Income tax refunds	7.2	—	—	—	7.2
Prepaid expenses and other current assets	—	11.5	36.5	—	48.0
Total Current Assets	7.6	290.5	445.2	—	743.3
Property, plant, and equipment, net	—	326.3	384.8	—	711.1
Deferred pension asset	144.0	—	—	—	144.0
Deferred income taxes	34.3	—	—	—	34.3
Cost in excess of net assets acquired	—	112.1	86.3	—	198.4
Investments in subsidiaries and other assets	994.4	546.0	326.9	(1,813.5)	53.8
Total Assets	$1,180.3	$1,274.9	$1,243.2	$(1,813.5)	$1,884.9
Liabilities and Stockholders' Equity					
Accounts payable	$ 2.5	$ 92.4	$ 77.4	$ —	$ 172.3
Accrued liabilities	465.6	70.2	181.2	(522.4)	194.6
Short-term debt and current portion of long-term debt	—	9.6	18.2	—	27.8
Total Current Liabilities	468.1	172.2	276.8	(522.4)	394.7
Long-term debt	309.4	349.9	45.1	(200.1)	504.3
Accrued postretirement benefits	—	316.8	190.4	—	507.2
Pension liabilities	220.6	—	—	—	220.6
Other long-term liabilities	7.5	22.8	53.1	—	83.4
Total Liabilities	1,005.6	861.7	565.4	(722.5)	1,710.2
Total Stockholders' Equity	174.7	413.2	677.8	(1,091.0)	174.7
Total Liabilities and Stockholders' Equity	$1,180.3	$1,274.9	$1,243.2	$(1,813.5)	$1,884.9

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations

For the year ended December 31, 2003

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ —	$ 962.1	$ 975.3	$ —	$1,937.4
Cost of sales	94.5	963.9	815.2	—	1,873.6
Selling and administrative expenses	87.4	19.2	142.2	—	248.8
Restructuring costs	7.6	49.1	5.7	—	62.4
Income (loss) before interest, other income and income taxes and cumulative effect of change in accounting principle	(189.5)	(70.1)	12.2	—	(247.4)
Interest expense (income), net	20.2	10.0	(2.5)	—	27.7
Other income (expense) including equity in income (loss) of unconsolidated subsidiaries	(71.8)	(7.3)	9.1	64.9	(5.1)
Income (loss) before income tax provision (benefit) and cumulative effect of change in accounting principle	(281.5)	(87.4)	23.8	64.9	(280.2)
Income tax provision (benefit)	31.8	(29.1)	140.7	(110.3)	33.1
Net income (loss) before cumulative effect of change in accounting principle	(313.3)	(58.3)	(116.9)	175.2	(313.3)
Cumulative effect of change in accounting principle, net of tax	(1.3)	—	—	—	(1.3)
Net income (loss)	$ (314.6)	$ (58.3)	$ (116.9)	$ 175.2	$ (314.6)

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Condensed Statements of Cash Flows

For the year ended December 31, 2003

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ (57.5)	$ 136.7	$ 24.5	$ (21.7)	$ 82.0
Cash flows provided by (used in) investing activities	—	(28.2)	(46.3)	4.2	(70.3)
Cash flows provided by (used in) financing activities	57.6	(109.2)	42.6	17.5	8.5
Increase (decrease) in cash and cash equivalents	$ 0.1	$ (0.7)	$ 20.8	$ —	$ 20.2

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Balance Sheets

December 31, 2002

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Cash and cash equivalents	$ 0.2	$ 43.0	$ 16.2	$ —	$ 59.4
Accounts receivable, net	—	82.3	157.0	—	239.3
Inventories, net	—	164.9	227.4	—	392.3
Income tax refunds	51.9	—	—	—	51.9
Deferred income taxes	20.8	—	—	—	20.8
Prepaid expenses and other current assets	0.3	8.8	22.9	—	32.0
Total Current Assets	73.2	299.0	423.5	—	795.7
Property, plant, and equipment, net	—	383.2	374.4	—	757.6
Deferred pension asset	165.1	—	—	—	165.1
Deferred income taxes	85.4	—	—	—	85.4
Cost in excess of net assets acquired	—	112.1	82.3	—	194.4
Investments in subsidiaries and other assets	1,169.8	625.5	347.1	(2,047.4)	95.0
Total Assets	$1,493.5	$1,419.8	$1,227.3	$(2,047.4)	$2,093.2
Liabilities and Stockholders' Equity					
Accounts payable	$ 1.9	$ 96.3	$ 73.1	$ —	$ 171.3
Accrued liabilities	510.8	52.1	97.9	(499.8)	161.0
Short-term debt and current portion of long-term debt	—	0.6	9.1	—	9.7
Total Current Liabilities	512.7	149.0	180.1	(499.8)	342.0
Long-term debt	312.4	441.3	37.2	(281.5)	509.4
Accrued postretirement benefits	—	308.1	188.3	—	496.4
Pension liabilities	216.0	—	—	—	216.0
Other long-term liabilities	3.6	23.1	53.9	—	80.6
Total Liabilities	1,044.7	921.5	459.5	(781.3)	1,644.4
Total Stockholders' Equity	448.8	498.3	767.8	(1,266.1)	448.8
Total Liabilities and Stockholders' Equity	$1,493.5	$1,419.8	$1,227.3	$(2,047.4)	$2,093.2

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations

For the year ended December 31, 2002

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ —	$ 984.3	$ 923.5	$ —	$1,907.8
Cost of sales	17.6	959.3	767.6	—	1,744.5
Selling and administrative expenses	40.8	27.5	120.0	—	188.3
Restructuring costs	—	38.5	4.3	—	42.8
Income (loss) before interest, other income and income taxes	(58.4)	(41.0)	31.6	—	(67.8)
Interest expense, net	22.0	10.2	2.1	—	34.3
Other income (expense) including equity in income (loss) of unconsolidated subsidiaries	(22.1)	0.1	9.1	11.2	(1.7)
Income (loss) before income taxes (benefit)	(102.5)	(51.1)	38.6	11.2	(103.8)
Income tax provision (benefit)	(36.7)	(16.6)	11.2	4.1	(38.0)
Net income (loss)	$ (65.8)	$ (34.5)	$ 27.4	$ 7.1	$ (65.8)

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Condensed Statements of Cash Flows

For the year December 31, 2002

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ 13.2	$ 81.3	$ (72.0)	$ 181.7	$ 204.2
Cash flows provided by (used in) investing activities	—	(11.5)	(40.7)	12.4	(39.8)
Cash flows provided by (used in) financing activities	(13.4)	(41.1)	109.9	(194.1)	(138.7)
Increase (decrease) in cash and cash equivalents	$ (0.2)	$ 28.7	$ (2.8)	$ —	$ 25.7

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Statements of Operations

For the year ended December 31, 2001

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Sales	$ —	$ 1,062.9	$ 1,065.1	$ —	$ 2,128.0
Costs and expenses:					
Cost of sales	(55.4)	1,058.4	859.3	—	1,862.3
Selling and administrative expenses	(3.4)	42.1	160.1	—	198.8
Restructuring costs	9.8	61.5	2.9	—	74.2
Income (loss) before interest, other income and income taxes	49.0	(99.1)	42.8	—	(7.3)
Interest expense, net	16.9	10.9	1.5	—	29.3
Other income (expense) including equity in income (loss) of unconsolidated subsidiaries	(71.2)	8.9	7.6	54.9	0.2
Income (loss) before income taxes	(39.1)	(101.1)	48.9	54.9	(36.4)
Income tax provision (benefit)	(13.9)	(43.9)	29.8	16.8	(11.2)
Net Income (loss)	$ (25.2)	$ (57.2)	$ 19.1	$ 38.1	$ (25.2)

Allegheny Technologies Incorporated
Financial Information for Subsidiary and Guarantor Parent
Condensed Statements of Cash Flows

For the year December 31, 2001

(In millions)	Guarantor Parent	Subsidiary	Non-guarantor Subsidiaries	Eliminations	Consolidated
Cash flows provided by (used in) operating activities	$ 45.1	$ 131.5	$ 42.7	$ (96.5)	$ 122.8
Cash flows provided by (used in) investing activities	—	(17.3)	(71.4)	3.7	(85.0)
Cash flows provided by (used in) financing activities	(44.8)	(100.4)	22.1	92.8	(30.3)
Increase (decrease) in cash and cash equivalents	$ 0.3	$ 13.8	$ (6.6)	$ —	$ 7.5

Note 13. Per Share Information —

The following table sets forth the computation of basic and diluted net loss per common share:

(In millions except per share amounts)

Years ended December 31,	**2003**	2002	2001
Numerator:			
Basic and diluted net loss per common share before cumulative effect of change in accounting principle	**$(313.3)**	$(65.8)	$(25.2)
Cumulative effect of change in accounting principle, net of tax	**(1.3)**	—	—
Numerator for and diluted loss per common share	**$(314.6)**	$(65.8)	$(25.2)
Denominator:			
Weighted average shares	**80.8**	80.6	80.2
Contingent issuable stock	**—**	—	0.1
Denominator for basic and diluted loss per common share	**80.8**	80.6	80.3
Basic and diluted net loss per common share before cumulative effect of change in accounting principle	**$ (3.87)**	$(0.82)	$(0.31)
Cumulative effect of change in accounting principle	**(0.02)**	—	—
Basic and diluted net loss per common share	**$ (3.89)**	$(0.82)	$(0.31)

Weighted average shares issuable upon the exercise of stock options which were antidilutive, and thus not included in the calculation, were 7.5 million in 2003, 5.9 million in 2002 and 4.5 million in 2001.

Note 14. Commitments and Contingencies —

Rental expense under operating leases was $17.5 million in 2003, $15.9 million in 2002 and $22.2 million in 2001. Future minimum rental commitments under operating leases with non-cancelable terms of more than one year at December 31, 2003, were as follows: $11.9 million in 2004, $11.1 million in 2005, $9.5 million in 2006, $4.8 million in 2007, $3.7 million in 2008 and $6.1 million thereafter.

When it is probable that a liability has been incurred or an asset of the Company has been impaired, a loss is recognized if the amount of the loss can be reasonably estimated.

The Company is subject to various domestic and international environmental laws and regulations that govern the discharge of pollutants into the air or water, and disposal of hazardous substances, and which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which the Company has been identified as a PRP under the Federal Superfund laws and comparable state laws. The Company could incur substantial cleanup costs, fines, and civil or criminal sanctions, third party property damage or personal injury claims as a result of violations or liabilities under these laws or noncompliance with environmental permits required at its facilities. The Company is currently involved in the investigation and remediation of a number of the Company's current and former sites as well as third party sites under these laws.

In accordance with the Company's accounting policy disclosed in Note 1, environmental liabilities are recorded when the Company's liability is probable and the costs are reasonably estimable. In many cases, however, investigations are not at a stage where the Company has been able to determine whether it is liable or, if liability is probable, to reasonably estimate the loss or range of loss, or certain components thereof. Estimates of the Company's liability remain subject to additional uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required, and the number, participation, and financial condition of other PRPs, as well as the extent of their responsibility for the remediation. Accordingly, the Company periodically reviews accruals as investigation and remediation of these sites proceed. As the Company receives new information, the Company expects that it will adjust its accruals to reflect the new information. Future adjustments could have a material adverse effect on the Company's results of operations in a given period, but the Company cannot reliably predict the amounts of such future adjustments.

Based on currently available information, the Company does not believe that there is a reasonable possibility that a loss exceeding the amount already accrued for any of the sites with which the Company is currently associated (either individually or in the aggregate) will be an amount that would be material to a decision to buy or sell the Company's securities.

Additional future developments, administrative actions or liabilities relating to environmental matters however could have a material adverse effect on the Company's financial condition or results of operations.

At December 31, 2003, the Company's reserves for environmental remediation obligations totaled approximately $40.9 million, of which approximately $20.1 million were included in other current liabilities. The reserve includes estimated probable future costs of $13.7 million for federal Superfund and comparable state-managed sites; $8.8 million for formerly owned or operated sites for which the Company has remediation or indemnification obligations; $6.5 million for owned or controlled sites at which Company operations have been discontinued; and $11.9 million for sites utilized by the Company in its ongoing operations. The Company continues to evaluate whether it may be able to recover a portion of future costs for environmental liabilities from third parties other than participating potentially responsible parties.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of participating PRPs, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation of all sites with which it has been identified in up to thirty years.

Various claims (whether based on U.S. Government or Company audits and investigations or otherwise) have been or may be asserted against the Company related to its U.S. Government contract work, principally related to the former operations of Teledyne, Inc., including claims based on business practices and cost classifications and actions under the False Claims Act. Depending on the circumstances and the outcome, such proceedings could result in fines, penalties, compensatory and treble damages or the cancellation or suspension of payments under one or more U.S. Government contracts. Under government regulations, a company, or one or more of its operating divisions or units, can also be suspended or debarred from government contracts based on the results of investigations. Given the limited extent of the Company's business with the U.S. Government, the Company believes that a suspension or debarment of the Company would not have a material adverse effect on the future operating results and consolidated financial condition of the Company. Although the outcome of these matters cannot be predicted with certainty, management does not believe there is any audit, review or investigation currently pending against the Company of which management is aware that is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

In June 1995, the U.S. Government commenced an action against Allegheny Ludlum in the United States District Court for the Western District of Pennsylvania alleging multiple violations of the Federal Clean Water Act. The trial of this matter concluded in February 2001. In February 2002, the Court issued a decision imposing a penalty of $8.2 million for incidents at five facilities that occurred over a period of approximately six years which Allegheny Ludlum had reported to the appropriate environmental agencies. The Company asked the Court to reconsider its decision, which the Court denied in October 2002. The Company has appealed the Court decision. At December 31, 2003, the Company had adequate reserves, including accrued interest, for this matter.

In March 1995, Kaiser Aerospace & Electronics Corporation ("Kaiser") filed a civil complaint against Teledyne Industries, Inc. (now TDY Industries, Inc. ("TDY"), a wholly-owned subsidiary of the Company, and Dimeling Schreiber & Park ("DS&P"), DS&P's general partners, and New Piper Aircraft, Inc. in the state court for Miami-Dade County, Florida. The complaint alleged that TDY breached a Cooperation and Shareholder's Agreement with Kaiser under which the parties agreed to cooperate in the filing and promotion of a proposed plan for acquiring out of bankruptcy the assets of Piper Aircraft, a manufacturer of general aviation aircraft. TDY and Kaiser are engaged in discovery and have agreed to participate in a mediation. Kaiser requested that the court impose a constructive trust on TDY's equity interest in privately held New Piper Aircraft, Inc., which represented approximately 30% of the equity of New Piper Aircraft, Inc., which interest was terminated in 2003 in a merger transaction involving New Piper. In the alternative, Kaiser also seeks unspecified damages in an amount "to be determined at trial." The trial for this matter is not set. While the outcome of the litigation cannot be predicted, and the Company believes that the claims are not meritorious, an adverse resolution of this matter could have a material adverse effect on the Company's results of operations and financial condition.

TDY Industries, Inc. and the San Diego Unified Port District ("Port District") are involved in litigation in State Court in San Diego, California concerning a lease of property located in San Diego, California ("San Diego facility"). TDY operated its Teledyne Ryan Aeronautical division ("Ryan") at the San Diego facility until May 1999, when substantially all the assets and business of Ryan were sold to Northrop Grumman Corporation ("Northrop").

Northrop subleased a portion of the property with the approval of the Port District until early 2001. TDY also entered into three separate sublease arrangements for portions of the property subject to the approval of the Port District, which the Port District refused. After its administrative appeal to the Port District was denied, TDY commenced a lawsuit against the Port District. TDY alleged breach of contract, inverse condemnation, tortious interference with a prospective economic advantage and other causes of action relating to the Port District's failure to consent to subleases of the space. The Port District filed a cross-complaint against TDY in March 2003. The Complaint alleged breach of contract for failure to pay rent and breach relating to removal of structures from the property.

Trial on the state court matter commenced on February 25, 2004 and concluded on March 10, 2004. The jury rendered a verdict in favor of the Port on its claim and awarded damages to the Port District. As a result, ATI's results for 2003 reflect a charge of $22.5 million, which includes the jury award and related costs. The company plans to appeal the verdict. This charge is included in accrued liabilities on the consolidated balance sheet at December 31, 2003.

In June 2003, the Port District also commenced a separate action in United States District Court in San Diego against the Company ("Federal Court Complaint") alleging federal, state and common law claims related to alleged environmental contamination on the property. The Federal Court Complaint seeks an unspecified amount of damages and a declaratory judgment as to TDY's liability for contamination on the property. Oral argument on the Company's Motion to Dismiss portions of the Federal Court Complaint is scheduled for March 15, 2004. The Company has denied the remaining allegations in the Federal Court Complaint.

In another matter related to the San Diego facility, the Port District requested that the California Department of Toxic Substances Control ("DTSC") evaluate whether the property is regulated as a hazardous waste transportation, storage, or disposal facility under the Resource Conservation and Recovery Act ("RCRA") and similar state laws. In response to the Port District's request, on October 30, 2003 DTSC informed the Company that the closure of the four solid waste management units ("unit") at the San Diego facility is subject to DTSC oversight and that since facility-wide corrective action is proceeding under the oversight of the San Diego Regional Water Quality Control Board ("Regional Board"), DTSC's involvement would be limited, to the extent applicable, to unit closure and post-closure. The Company is evaluating data from the Site to respond to DTSC's positions.

The Company conducted an environmental assessment of portions of the San Diego facility at the request of the Regional Board. A report of the assessment was submitted to the Regional Board and at this stage of the assessment, the Company cannot predict if any remediation will be necessary. The Company remediated in 1998 and continues to monitor a lagoon near the San Diego facility. Also, prior to vacating the San Diego facility, the Company was seeking approval from the San Diego Department of Public Health for the 1996 closure of four underground storage tanks at the San Diego facility. The Port District has removed underground storage tanks from the facility, and the Company is no longer awaiting approval of the closure. The Company is evaluating potential claims it has against neighboring property owners and other PRPs related to the environmental condition of the San Diego facility. The Port District has informed the Company that it has commenced a site-wide environmental investigation of the Property.

While the outcome of these environmental matters cannot be predicted with certainty, and the Company believes that the claims against it are not meritorious, an adverse resolution of the matters relating to the San Diego facility could have a material adverse affect on the Company's results of operations and financial condition.

TDY and another wholly-owned subsidiary of the Company, among others, have been identified by the U.S. Environmental Protection Agency (EPA) as PRPs at the Li Tungsten Superfund Site in Glen Cove, New York. The Company believes that most of the contamination at the Site resulted from work done while the U.S. Government either owned or controlled operations at the Site, or from processes done for various agencies of the United States, and that the United States is liable for a substantial portion of the remediation costs at the Site. In November 2000, TDY filed a cost recovery and contribution action against the U.S. Government. No trial date has been scheduled. In March 2003, the Court ordered the parties, including the U.S. Government, to fund a portion of the remediation costs at the Site. TDY and EPA continue discussions to settle this matter. The U.S. Government and two other PRPs have reached a proposed settlement with EPA in 2003 ("the Settlement"), the terms of which may preclude TDY's complaint from proceeding against the U.S. Government. The Settlement is subject to public comment and approval by the Court. The Company submitted comments on the Settlement on the grounds that it is not supported by the facts, and is unfair and unreasonable. The Company expects to oppose entry of the Settlement by the Court. The Company is also seeking contribution from other PRPs at the Site. Based on information presently available, the Company believes its reserves on this matter are adequate. An adverse resolution of this matter could have a material adverse effect on the Company's results of operations and financial condition.

Since 1990, TDY has been operating under a Corrective Action Order from the EPA for a facility that TDY owns and formerly operated in Hartville, Ohio. TDY operates an interim remediation system at the facility and is preparing a plan for EPA approval to carry out additional remediation activities. At December 31, 2003, the Company had adequate reserves for the continued operation of the interim system and for additional remediation costs it expects to incur for the additional remediation activities.

A number of other lawsuits, claims and proceedings have been or may be asserted against the Company relating to the conduct of its business, including those pertaining to product liability, patent infringement, commercial, employment, employee benefits, environmental and stockholder matters. While the outcome of litigation cannot be predicted with certainty, and some of these lawsuits, claims or proceedings may be determined adversely to the Company, management does not believe that the disposition of any such pending matters is likely to have a material adverse effect on the Company's financial condition or liquidity, although the resolution in any reporting period of one or more of these matters could have a material adverse effect on the Company's results of operations for that period.

Note 15. Selected Quarterly Financial Data (Unaudited) —

	Quarter Ended			
(In millions except share and per share amounts)	March 31	June 30	September 30	December 31
2003 -				
Sales	$ 480.5	$ 489.9	$ 482.6	$ 484.4
Gross profit	14.6	20.8	18.2	10.2
Net loss before cumulative effect of change in accounting principle	(25.8)	(26.0)	(28.8)	(232.7)
Net loss	(27.1)	(26.0)	(28.8)	(232.7)
Basic and diluted net loss per common share before cumulative effect of change in accounting principle	$ (0.32)	$ (0.32)	$ (0.36)	$ (2.89)
Basic and diluted net loss per common share	$ (0.34)	$ (0.32)	$ (0.36)	$ (2.89)
Average shares outstanding	80,708,060	80,961,069	81,077,966	80,642,124
2002 -				
Sales	$ 493.1	$ 491.2	$ 469.3	$ 454.2
Gross profit	40.4	47.1	49.6	26.2
Net loss	(11.1)	(7.5)	(7.5)	(39.7)
Basic and diluted net loss per common share	$ (0.14)	$ (0.09)	$ (0.09)	$ (0.49)
Average shares outstanding	80,445,647	80,575,657	80,623,077	80,634,920

The 2003 fourth quarter includes the effect of a $138.5 million non-cash special charge to establish a valuation allowance for a majority of the Company's net deferred tax assets, as prescribed by Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

The 2003 fourth quarter also includes charges of $47.5 million for impairment of long-lived assets in the Company's Flat-Rolled Products segment; $9.9 million for workforce reductions across all business segments and the corporate office; $3.8 million for facility closure charges including present-valued lease termination costs at the corporate office; and $34.7 million for closed company charges and other charges, including $22.5 million for litigation expense.

The 2003 third quarter includes a charge of $8.6 million, including $7.4 million for management transition and $1.2 million for workforce reductions. Also included is $4.0 million in interest income related to a Federal income tax settlement associated with prior years.

The 2002 fourth quarter includes a charge of $34.4 million, primarily non-cash, related to asset impairments and cost reduction actions, including the indefinite idling of the Massillon, Ohio stainless steel plate facility, charges for settlement of a labor issue, write-off of the Company's investment in New Piper Aircraft, Inc., and other workforce reductions.

The 2002 third quarter includes a charge of $7.2 million, including $5.5 million for workforce reductions and $1.7 million related to the Company's approximately 30% equity in net losses of New Piper Aircraft, Inc.

Note 16. Subsequent Event — J&L Specialty Steel Transaction

On February 17, 2004, the Company announced that an Asset Purchase Agreement was signed with Arcelor and J&L Specialty Steel, LLC under which a wholly owned ATI subsidiary will acquire substantially all of the assets of J&L Specialty Steel. The transaction, which is targeted for closing on May 3, 2004, is conditioned upon completion of due diligence, the successful negotiation of new collective bargaining agreements with the USWA at both Allegheny Ludlum and J&L Specialty Steel, approval by ATI's secured lenders, and customary regulatory approvals. J&L Specialty Steel is a leading manufacturer of flat-rolled stainless steel products, and is a wholly owned subsidiary of Arcelor.

Management's Report

The accompanying consolidated financial statements of Allegheny Technologies Incorporated and subsidiaries have been prepared in accordance with generally accepted accounting principles and include some amounts that are based upon Management's best estimates and judgments. Management has the primary responsibility for the information contained in the financial statements and in other sections of this Annual Report and for their integrity and objectivity.

The Company has a system of internal controls designed to provide reasonable assurance that assets are safeguarded and transactions are properly executed and recorded for the preparation of financial information. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the cost of such systems should not exceed the benefits to be derived.

The Company maintains a staff of professional internal auditors, who assist in audit coverage with the independent auditors and conduct operational and special audits. The independent auditors express their opinion on the Company's financial statements based on procedures, including an evaluation of internal controls, which they consider to be sufficient to form their opinion.

The Audit Committee of the Board of Directors is composed of five independent non-employee members. Among its principal duties, the Committee is responsible for recommending the independent auditors to conduct the annual audit of the Company's financial statements and for reviewing the financial reporting and accounting practices.

L. Patrick Hassey
President
and Chief Executive Officer

Richard J. Harshman
Executive Vice President,
Finance and
Chief Financial Officer

Dale G. Reid
Vice President – Controller,
Chief Accounting Officer and
Treasurer

Common Stock Prices

The Company's common stock is traded on the New York Stock Exchange (symbol ATI). At December 31, 2003, there were approximately 7,555 record holders of Allegheny Technologies Incorporated common stock. The Company paid a quarterly cash dividend of $0.06 per share on its common stock for the four quarters of 2003 and the 2002 fourth quarter. The Company paid a quarterly cash dividend of $0.20 per share for the first three quarters of 2002. The Company's stock price ranges were as follows:

	Quarter Ended			
2003	March 31	June 30	September 30	December 31
High	$ 6.72	$ 7.28	$ 8.14	$13.90
Low	$ 2.45	$ 3.00	$ 6.30	$ 6.80

2002	March 31	June 30	September 30	December 31
High	$16.95	$18.11	$15.35	$ 7.52
Low	$14.72	$15.54	$ 6.20	$ 5.30

Selected Financial Data

For the Years Ended December 31,	**2003**	2002	2001	2000	1999
Volume:					
Flat-Rolled Products (finished tons)	**478,353**	487,335	498,066	608,601	592,619
Commodity (finished tons)	**342,689**	350,301	367,894	460,940	475,557
High value (finished tons)	**135,664**	137,034	130,172	147,661	117,062
High Performance Metals — nickel-based and specialty steel alloys (000's lbs.)	**35,168**	35,832	51,899	46,612	43,905
High Performance Metals — titanium mill products (000's lbs.)	**18,436**	19,044	23,070	24,798	22,792
High Performance Metals — exotic alloys (000's lbs.)	**4,245**	3,712	3,457	3,691	3,756
Average Prices:					
Flat-Rolled Products (per finished ton)	**$ 2,178**	$ 2,134	$ 2,162	$ 2,354	$ 2,081
Commodity (per finished ton)	**1,581**	1,529	1,527	1,819	1,562
High value (per finished ton)	**3,687**	3,677	3,956	4,025	4,189
High Performance Metals — nickel-based and specialty steel alloys (per lb.)	**6.57**	6.39	6.31	5.86	5.98
High Performance Metals — titanium mill products (per lb.)	**11.50**	11.83	11.70	10.87	11.70
High Performance Metals — exotic alloys (per lb.)	**37.64**	36.29	33.52	35.56	34.77

(In millions except per share amounts)

For the Years Ended December 31,	**2003**	2002	2001	2000	1999
Sales:					
Flat-Rolled Products	**$1,043.5**	$1,040.3	$1,080.4	$1,436.8	$1,288.8
High Performance Metals	**641.7**	630.0	771.8	735.4	722.7
Engineered Products	**252.2**	237.5	275.8	288.2	284.6
Total sales	**$1,937.4**	$1,907.8	$2,128.0	$2,460.4	$2,296.1
Operating profit (loss):					
Flat-Rolled Products	**$ (14.1)**	$ (8.6)	$ (40.0)	$ 117.9	$ 80.4
High Performance Metals	**26.2**	31.2	82.0	66.5	87.0
Engineered Products	**7.8**	4.7	12.3	23.4	17.0
Total operating profit	**$ 19.9**	$ 27.3	$ 54.3	$ 207.8	$ 184.4

For the Years Ended December 31,	**2003**	2002	2001	2000	1999
Income (loss) from continuing operations Before income tax provision (benefit), extraordinary items and cumulative effect of change in accounting principle	**$ (280.2)**	$ (103.8)	$ (36.4)	$ 208.8	$ 174.2
Income (loss) from continuing operations before extraordinary items and cumulative effect of change in accounting principle	**$ (313.3)**	$ (65.8)	$ (25.2)	$ 132.5	$ 111.0
Income from discontinued operations	**—**	—	—	—	59.6
Extraordinary gains on sales of operations	**—**	—	—	—	129.6
Cumulative effect of change in accounting principle	**(1.3)**	—	—	—	—
Net income (loss)	**$ (314.6)**	$ (65.8)	$ (25.2)	$ 132.5	$ 300.2
Basic net income (loss) per common share:					
Income (loss) from continuing operations before extraordinary items and cumulative effect of change in accounting principle	**$ (3.87)**	$ (0.82)	$ (0.31)	$ 1.60	$ 1.17
Income from discontinued operations	**—**	—	—	—	0.62
Extraordinary gains on sales of operations	**—**	—	—	—	1.36
Cumulative effect of change in accounting principle	**(0.02)**	—	—	—	—
Basic net income (loss) per common share	**$ (3.89)**	$ (0.82)	$ (0.31)	$ 1.60	$ 3.15
Diluted net income (loss) per common share:					
Income (loss) from continuing operations before extraordinary items	**$ (3.87)**	$ (0.82)	$ (0.31)	$ 1.60	$ 1.16
Income from discontinued operations	**—**	—	—	—	0.62
Extraordinary gains on sales of operations	**—**	—	—	—	1.35
Cumulative effect of change in accounting principle	**(0.02)**	—	—	—	—
Diluted net income (loss) per common share	**$ (3.89)**	$ (0.82)	$ (0.31)	$ 1.60	$ 3.13

As of and for the Years Ended December 31,	**2003**	2002	2001	2000	1999
Dividends declared per common share	**$ 0.24**	$ 0.66	$ 0.80	$ 0.80	$ 1.28
Working capital	**348.6**	453.7	574.0	590.6	475.3
Total assets	**1,884.9**	2,093.2	2,643.2	2,776.2	2,750.6
Long-term debt	**504.3**	509.4	573.0	490.6	200.3
Total debt	**532.1**	519.1	582.2	543.8	353.0
Cash and cash equivalents	**79.6**	59.4	33.7	26.2	50.7
Stockholders' equity	**174.7**	448.8	944.7	1,039.2	1,200.2

Net income (loss) was adversely affected by restructuring and litigation charges of $84.9 million and a $138.5 million charge to record a valuation allowance for the majority of the Company's net deferred tax assets in 2003, and restructuring charges of $42.8 million in 2002 and $74.2 million in 2001.

Stockholders' equity for 2003 includes the effect of recognizing the $138.5 million valuation allowance on net deferred tax assets and a $47 million adjustment to the minimum pension liability, net of related tax effects. Stockholders' equity for 2002 includes the effect of recognizing a minimum pension liability of $406 million, net of related tax effects.

In 1999, the Company completed a strategic transformation in which it spun-off Teledyne Technologies Incorporated and Water Pik, Inc. and sold certain businesses. The results of the companies spun-off and companies sold are reflected as discontinued operations for all periods presented. The Company recognized extraordinary gains of $130 million, net of $80 million in taxes, in connection with the sales of businesses in 1999.

At a stockholders' meeting held in November 1999, the Company's stockholders approved a one-for-two reverse stock split of the Company's stock. The reverse stock split was effective immediately following the spin-offs of Teledyne and Water Pik on November 29, 1999. All references to number of shares and per share amounts have been restated to reflect the reverse stock split.

Corporate Officers

ROBERT P. BOZZONE
Chairman

L. PATRICK HASSEY
President and Chief Executive Officer

RICHARD J. HARSHMAN
Executive Vice President, Finance and Chief Financial Officer

DOUGLAS A. KITTENBRINK
Executive Vice President, ATI Business Systems and
Group President, Engineered Products Segment

JACK W. SHILLING
Executive Vice President, Corporate Development and
Chief Technical Officer

JON D. WALTON
Executive Vice President, Human Resources, Chief Legal and
Compliance Officer, General Counsel, and Corporate Secretary

DALE G. REID
Vice President, Controller, Chief Accounting Officer
and Treasurer

Operating Company Presidents

TERRY L. DUNLAP
Allegheny Ludlum

THOMAS E. WILLIAMS
Allvac

LYNN D. DAVIS
Wah Chang

DAVID M. HOGAN
Metalworking Products

PATRICK W. BENNETT
Portland Forge

DAVID R. NEIL
Casting Service

Board of Directors

ROBERT P. BOZZONE
Chairman of Allegheny Technologies Incorporated 6

PAUL S. BRENTLINGER*
Partner in Morgenthaler, a venture capital group headquartered in
Cleveland, Ohio 1, 2, 7

FRANK V. CAHOUET
Retired Chairman, President and Chief Executive Officer of Mellon Financial
Corporation, a bank holding company, and Mellon Bank, N.A. 1, 2, 3, 7

DIANE C. CREEL
Chairman, Chief Executive Officer and President of Ecovation, a waste
stream technology company using patented technologies 1, 2, 3, 4, 5

JAMES C. DIGGS
Senior Vice President and General Counsel of PPG Industries, Inc. 1, 2, 3, 7

C. FRED FETTEROLF*
Retired President and Chief Operating Officer of Alcoa, Inc. 4, 5, 7

L. PATRICK HASSEY
President and Chief Executive Officer of Allegheny Technologies
Incorporated 6

W. CRAIG MCCLELLAND
Retired Chairman and Chief Executive Officer of Union Camp
Corporation, a fine paper, packaging, chemicals manufacturer and land
resources company 3, 4, 5, 7

WILLIAM G. OUCHI*
Sanford and Betty Sigoloff Professor in Corporate Renewal, Anderson
Graduate School of Management at the University of California at
Los Angeles 1, 2, 4, 5

CHARLES J. QUEENAN, JR.
Senior Counsel to Kirkpatrick & Lockhart LLP, attorneys-at-law 4, 6

JAMES E. ROHR
Chairman and Chief Executive Officer of The PNC Financial Services
Group, Inc., a bank holding company 2, 6

Standing Committees of the Board:

1 Audit Committee
2 Finance Committee
3 Nominating and Governance Committee
4 Personnel and Compensation Committee
5 Stock Incentive Award Subcommittee
6 Executive Committee
7 Technology Committee

*Retiring as a Board member in May 2004. We thank each of the retiring directors, as well as Brian Simmons and George Kourpias who served on the Board of Directors in 2003, for their contributions to the Board.

Glossary of Terms

For further information and additional definitions, please see Glossary of Terms by visiting us at www.alleghenytechnologies.com.

ATI BUSINESS SYSTEM
A systemic and integrated business system adopted throughout ATI modeled after the Toyota Production System and built on 3 fundamental principles: Make to Use, Elimination of Waste and People Connect the System.

BAR
A long product that is 1/4 inch (6.35 mm) or more in diameter, having round, square, octagonal or hexagonal cross-sections.

BILLET
A long product with a diameter range of 8 to 14 inches (203 to 356 mm). Can either be sold in billet form or processed further to make other long products.

COMMODITY FLAT-ROLLED PRODUCTS
A classification that includes the Flat-Rolled Products segment's stainless steel hot and cold rolled sheet and plate products along with silicon electrical steel and tool steel products.

EXOTIC ALLOYS
The Company's classification for its zirconium, niobium, hafnium and tantalum products.

FLAT-ROLLED PRODUCTS
A product form classification that includes plate, sheet, strip and Precision Rolled Strip® products.

HAFNIUM
An exotic alloy usually obtained as a by-product of zirconium production with outstanding corrosion resistance and good mechanical properties. It is added to specialty alloys for use in jet engine parts and as control rod material in nuclear reactors.

HIGH PERFORMANCE METALS
A classification that includes the Company's nickel-based and cobalt-based alloys and superalloys, titanium and titanium alloys, specialty steel and exotic alloy products, primarily in the form of long products. These products typically exhibit any of the properties of high temperature resistance, high strength and high temperature oxidation resistance.

HIGH VALUE FLAT-ROLLED PRODUCTS
A classification that includes the Flat-Rolled Products segment's Precision Rolled Strip®, standard strip, super stainless steel, nickel-based alloy and superalloy and titanium and titanium-based products. These products typically are at the higher end of the segment's product price range and are characterized by direct technical and service relationships with customers.

INGOT
A product form resulting when molten metal is cast into molds, which can be round, square, or rectangular. Can either be sold in ingot form or processed further to make other products.

LONG PRODUCTS
A product form classification that includes ingot, billet, bar, rod and wire.

NICKEL-BASED SUPERALLOYS
Nickel-based alloys developed for very high temperature service where relatively high stresses are encountered and where high surface stability is frequently required. Typical applications are aircraft turbine and land-based turbine components.

NIOBIUM
An exotic alloy valued for its strength at extremely high temperatures and its ability to superconduct, or pass electricity with minimal resistance, at very low temperatures. It is used in aerospace applications, in superconducting magnets in MRI (magnetic resonance imaging) equipment, when alloyed with titanium, and in particle accelerators.

PLATE
A flat-rolled product that is 3/16 inch (4.76 mm) thick, or greater, and over 10 inches (254 mm) wide.

PRECISION ROLLED STRIP® PRODUCTS
Flat-rolled products including stainless steel, nickel-based alloys, titanium and titanium alloys, and carbon steel under 0.015 inch (0.38 mm) thick and up to 48 inches (1,219 mm) wide, as well as certain strip products with special tempers and thicknesses.

RAW MATERIALS
Used in the production of the Company's specialty materials are scrap (containing iron, nickel, chromium, titanium and molybdenum), nickel, titanium sponge, zirconium sand and sponge, ferrochromium, ferrosilicon, molybdenum and its alloys, ammonium paratungstate and its alloys, manganese and its alloys, cobalt, niobium, and other alloying materials

ROD
A long product that is from 0.118 inch (3 mm) to 3/4 inch (19 mm) in diameter.

SHEET
A flat-rolled product that is 24 inches (610 mm) and over in width and less than 3/16 inch (4.76 mm) thick.

SILICON ELECTRICAL STEEL
Iron-based alloys containing silicon (typically 3.5%) as the major alloying addition. These steels are used generally in applications such as power transformers where electrical conductivity and magnetic properties are important.

STAINLESS STEEL
A broad classification of iron-based alloys containing at least 10% chromium, known for excellent corrosion and heat resistance. Austenitic (Chrome-Nickel) grades contain 18% to 30% chromium and 4% to 20% nickel for enhanced surface quality and formability and increased corrosion and wear resistance. These grades are used in appliances, kitchen utensils, processing equipment and a variety of industrial applications. Ferritic (Chrome) grades are non-nickel-bearing and contain 11% to 17% chromium content for greater inherent strength and corrosion resistance than carbon steel. These grades are often used in automotive exhaust systems.

STRIP
A flat-rolled product 3/8 inch (9.5 mm) to under 24 inches (610 mm) wide and less than 3/16 inch (4.76 mm) thick. See also Precision Rolled Strip® Products.

SUPERALLOY
An alloy, usually based on nickel, cobalt or iron, developed for high temperature service where relatively severe mechanical stressing is encountered and where high surface stability is frequently required.

SUPER STAINLESS STEEL
Stainless steel alloys with significant additions of chromium, nickel, molybdenum or copper. Super stainless steel is used in chemical processing, petroleum refining, marine, heat treating, pollution and waste control industries where there are requirements for extra corrosion protection, strength or heat resistance.

TANTALUM
An exotic alloy having high corrosion resistance; used for medical implants, chemical process equipment and aerospace engine components.

TITANIUM
Titanium and its alloys have very high strength-to-weight ratios. At normal temperatures, they have high resistance to corrosion. Used primarily in aerospace and chemical processing applications.

TUNGSTEN MATERIALS
Include tungsten and tungsten carbide powders, sintered tungsten carbide products and cutting tools for the metalworking, mining, oil and gas, and other industries requiring tools with extra hardness.

WIRE
A long product that is from 0.030 inch (0.76 mm) to 1/4 inch (6.35 mm) in diameter, in round, square, octagonal or hexagonal cross-sections.

ZIRCONIUM
An exotic alloy valued for its strength, high corrosion resistance, and low thermal neutron absorption. Applications include nuclear reactors, marine vessels, commercial power generation, and those requiring contact with strong acids and basic environments.

Investor Information

Corporate Headquarters

1000 Six PPG Place
Pittsburgh, PA 15222-5479
412-394-2800

Annual Meeting

The Annual Meeting of Stockholders will be held on May 6, 2004 at 11:00 a.m.
Grand Ballroom, 17th Floor
Omni William Penn Hotel
530 William Penn Place, Pittsburgh, PA

Transfer Agent and Registrar

Mellon Investor Services LLC
Overpeck Centre
85 Challenger Road
Ridgefield Park, NJ 07660
1-800-406-4850
www.melloninvestor.com

(Information about dividend checks, dividend tax information, and stock certificates, including lost or unexchanged certificates)

Investor Services Program

Mellon Investor Services LLC offers an Investor Services Program for current stockholders and interested investors which includes:

- Dividend reinvestment
- Direct deposit of dividends into your personal checking, savings or other account
- Voluntary purchases of Allegheny Technologies common stock for new investors and current stockholders
- Safekeeping of stock certificates at no charge.

To request a Program brochure and enrollment forms, call: 1-800-842-7629

To ask about the Program or your Program account, contact:

Mellon Investor Services LLC
P.O. Box 3338
South Hackensack
NJ 07606-1938
1-800-406-4850

Stockholder Publications

Annual reports and proxy statements are mailed to all stockholders of record. These publications and Reports on Form 10-K and Form 10-Q and other information may also be obtained through the Company's website www.alleghenytechnologies.com.

For additional information contact:
Investor Relations and Corporate Communications at corporate headquarters, or by calling 412-394-3004.

Independent Auditors

Ernst & Young LLP
Pittsburgh, PA

Form 10-K

A copy of the Annual Report on Form 10-K for fiscal year 2003 (without exhibits) is also available upon written request to the Corporate Secretary at the corporate headquarters.

Stock Exchange Listing

The common stock of Allegheny Technologies Incorporated is traded on the New York Stock Exchange (symbol ATI). Options on the Company's stock are traded on the American Stock Exchange, the Chicago Board of Options Exchange, and on the Pacific Exchange.

Internet Home Page

Allegheny Technologies' Internet home page can be found at **www.alleghenytechnologies.com.**

Please visit www.alleghenytechnologies.com for more information on the Company, its products and operations. On this site you can find our news releases and SEC filings, and get instructions on how to transfer ownership of your stock, sign-up for the Dividend Reinvestment Program (DRIP), directly deposit your dividend check, change your dividend payment information and locate tax reporting information. In addition, a link to Buy Stock Direct is located on the website.

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