



**Harris Steel Group Inc.**

**1985  
ANNUAL  
REPORT**

## DESCRIPTION OF THE BUSINESS

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**H**arris, through its subsidiaries, is engaged in the fabrication and erection of structural steel; the fabrication and placing of concrete reinforcing steel; the production and marketing of epoxy-coated reinforcing steel; the design and installation of concrete post-tensioning systems; the manufacture and distribution of wire and wire products, welded wire mesh and cold finished bar; the manufacture and distribution of heavy industrial steel and aluminum grating; the design and manufacture of overhead cranes and industrial doors; and the manufacture of concrete reinforcing steel and merchant steel.

The company serves all of Canada, the north eastern and central United States and participates in international projects.

Harris became a public company in 1967 and has paid dividends since 1972.

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### Annual meeting

All shareholders are cordially invited to attend the annual meeting on Wednesday, June 11, 1986, 3:00 p.m. in the Essex Room of the Sheraton Centre, 123 Queen Street West, Toronto.



Architect's rendering of the 50 storey 7 World Trade Tower in New York City. Steel Structures Holding Corp. & Frankel Steel Limited are fabricating and erecting 27,000 tons of structural steel for this project.

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# FINANCIAL HIGHLIGHTS



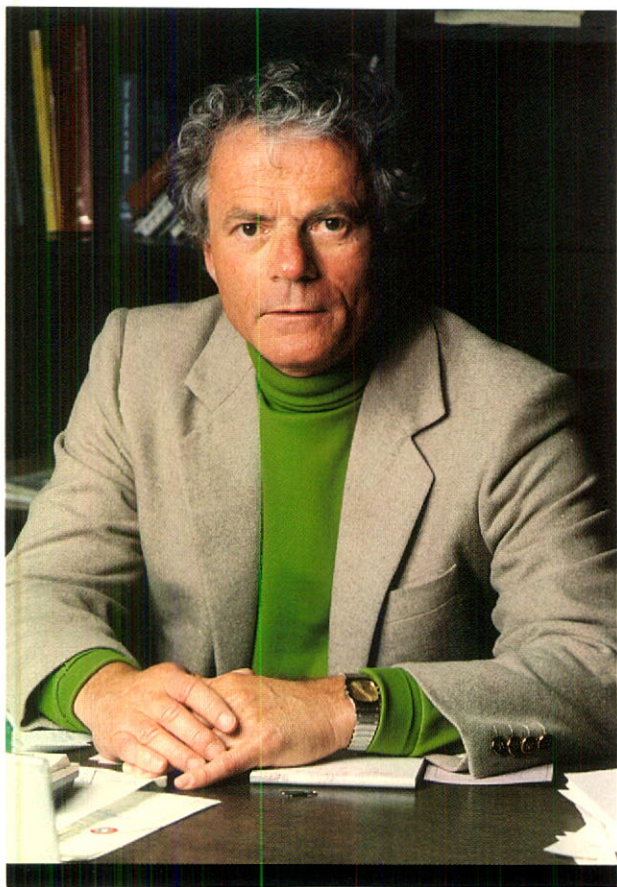
Years ending December 31

(Dollars in thousands except per share amounts)

	1985	1984
<b>Operating results</b>		
Sales from continuing operations	\$ 284,387	\$ 172,351
Earnings from continuing operations	9,380	2,898
Return on sales	3.3%	1.7%
Earnings from discontinued operations	—	84
Net earnings for the year	9,380	2,982
Return on average equity	20.8%	9.5%
<b>Per Share</b> (after 2 for 1 split)		
Earnings from continuing operations	\$ .91	\$ .30
Earnings from discontinued operations	—	.01
Net earnings for the year	.91	.31
Dividends	.185	.14
Shareholders' equity	5.63	3.31
Average shares outstanding	10,310,393	9,740,530
<b>At year end</b>		
Total assets	\$ 141,197	\$ 104,102
Long-term debt	6,345	10,254
Shareholders' equity	58,042	32,224
Long-term debt/Total capital	9.9%	24.1%
Current ratio	1.5:1	1.4:1
Number of employees	1,732	1,506
Number of shareholders — Class A	602	543
— Class B	263	348



## REPORT TO SHAREHOLDERS



I am pleased to be able to report the highest earnings in our company's history, exceeding the previous high by more than 60%. All of Harris' operating divisions performed better than in 1984. There has been a spectacular increase in all the financial measures of our company's profitability and strength.

Pretax earnings increased from 2.3% of sales in 1984, to 5.8% of sales in 1985. This was the result of stronger market conditions and a vigorous effort by management to improve margins. Return on average shareholders' equity improved from 9.5% to 20.8% despite the issue of \$18.4 million equity shares in the third quarter.

Shareholders' equity rose to \$58.0 million from \$32.2 million in 1984. This, together with a reduction in long-term debt from \$10.3 million in 1984 to \$6.3 million in 1985, caused the Long-Term Debt to Total Capital ratio to decline to 9.9% from 24.1%.

The substantial increase in our financial strength will enable us to take the next leap upwards from a much-larger earnings and equity base.

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### Review of 1985

1985 began with a large backlog of structural steel business in the United States booked by newly acquired Steel Structures. To supply the growing demand for structural steel fabrication services in the U.S., a 293,000 sq. ft. fabrication plant was acquired in Bethlehem, Pa. for a total investment of U.S. \$4.4 million.

Significant capital investments were also made to expand the wire and cold finished bar product lines of Laurel (\$2.7 million) and to improve structural steel fabrication productivity at Frankel Steel (\$1.3 million).

Bookings of structural steel orders remained strong throughout 1985, bolstered by major automobile manufacturing projects in Canada and high-rise office developments in the U.S.

Wire and cold finished bar markets started the year strongly but prices softened, and demand weakened, under severe pressure from cheap imports in the second and third quarters. However, demand began to rise sharply in the fourth quarter, and the fall of the U.S. and Canadian dollars in the world currency markets helped to stabilize prices before the end of the year.

The resumption of capital expenditure programs by Canada's major industries had a favourable impact on the operating results of Harris' concrete reinforcing, steel grating and overhead crane and door operations.

Our strategic objective of increasing the U.S. part of our business continued to progress in 1985 as revenues from U.S. customers rose to approximately \$160 million or 56% of our total sales, from approximately \$69 million or 40% of total sales in 1984.

On September 19 we privately placed 2,000,000 Class A Non-Voting Shares which added \$18,365,000 of new shareholders' equity. This will enable us to move forward into another major expansion phase, and we are currently exploring several outstanding opportunities.

## Outlook for 1986

For 1986 we see better steel markets, and slightly softer construction markets. We are, once again, entering the year with a strong backlog of work. We expect that 1986 will be another good profit year.

There is still a large volume of structural steel projects in the U.S. market, and our performance has attracted widespread respect. The marketplace remains strong, but we are periodically meeting cheap imported fabricated steel prices. We expect our structural division to post another satisfactory profit for 1986, but it is unlikely that they will be able to meet 1985's excellent results.

Our Laurel Steel companies have experienced a strong upsurge in demand, and are finally seeing considerable price stiffening in their key cold finished bar markets. As well, we expect a significant increase in sales volume from 1985's capital investments which expanded the range of Laurel's product lines. Some of these additional sales will be in the United States, and we will be servicing the U.S. market from a new facility to be opened in Connecticut early in the second half of the year. Laurel continues to attract new customers by shipping the best quality product, manufactured precisely to the customers' needs, and "just in time" to minimize inventory levels. This has been Laurel's formula for success for many years. We are forecasting a significant increase in Laurel's contribution to the Group's profits in 1986.

We do not foresee a significant change in the 1986 results of our concrete reinforcing, grating, and overhead crane divisions, taken in total. Although western Canadian construction markets are considerably weaker, this has been offset by a strengthening in the eastern Canadian market.

Management are beginning to see tight steel supply conditions in wire rod, and expect to see shortages in reinforcing steel by the beginning of the summer. Prices are firming in a wide range of steel products. We are confident that this trend will continue into the future as steel import prices rise due to the fall in the dollar, thereby allowing North American mills to increase their present inadequate margins.

Effective February 12, 1986 the Harris Steel Group acquired all of the shares of Courtice Steel Limited, a steel producer with a melt shop and continuous billet caster in Cambridge, Ontario, and a micro rolling mill in Bowmanville, Ontario. Although Courtice is a small steel mill producing 90,000 tons of steel yearly, they have an excellent team and possess the skills to enable the Harris Steel Group to take advantage of outstanding market opportunities which we have identified in Canada and the U.S. Courtice has carved out a successful market niche by producing unusual

and smaller sizes of merchant bar which are of lesser interest to the other mills. We intend to continue this policy in our pursuit of further market opportunities. Courtice Steel has had impressive earnings growth in recent years and will make a significant contribution to the Group's earnings in 1986.

We are currently drawing up an extensive strategic plan for Courtice which we believe will develop them into a major contributor of earnings to the Group in the next few years.

Although there are still opportunities in Canada, the future for a dynamic company like Harris is in the huge U.S. market. We see great opportunities in the U.S. for our unique combination of technical, marketing and management skills.

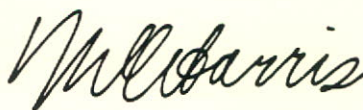
Insurance costs have increased substantially in Canada and the U.S. during the past year. Our company's premiums have escalated and coverage limits have been reduced. The insurance industry does not see this situation changing in the foreseeable future.

Trade relations between Canada and the U.S. will have a major impact on all larger Canadian manufacturing companies. If we are to employ our people, and improve our standard of living we must build a world-competitive manufacturing industry. We can only achieve this objective by assured access to the giant marketplace to the south. All of our experience with competition in the U.S. gives us confidence that Canadian manufacturers have nothing to fear in a combined Canada-U.S. market where all of us are competing on a "level playing field".

We believe that our outstanding success is partly attributable to the organization of our companies whereby total operating responsibility is in the subsidiaries, and the small head office does not carry on any operations directly.

Our Group of Companies is organized to focus entrepreneurial talents towards building an ever-increasing earnings base for our shareholders. Our successful results over the years, and particularly in 1985, are due to the creativity and dedication of our total management team, and all of our employees.

On behalf of the shareholders and the Board of Directors, I would like to thank them all.

A handwritten signature in dark ink, appearing to read 'M. Harris'.

Milton E. Harris  
Chairman of the Board and President

Toronto, Ontario, April 17, 1986

## CORPORATE OVERVIEW

**H**arris Steel Group Inc., through its six independent operating divisions and subsidiaries, is a major manufacturer, fabricator, supplier and subcontractor of construction steel and related products especially suited for heavy industrial and large commercial projects throughout the world. In addition, it is a significant manufacturer of low carbon wire and cold finished bars.

Though each division operates autonomously, the Group's total activities are enhanced by:

1. Improving each company's purchasing ability with major steel suppliers. Steel purchases are made on a Group basis assuring adequate inventories in periods of short supply.
2. Special relationships amongst customers of the various divisions allowing the Group to provide total construction services for large steel construction projects. Harris's subsidiaries provide the material, equipment and technical expertise for the most sophisticated and technologically advanced projects.

The Harris Group intends to continue to expand as internal and acquisition opportunities present themselves, thereby building operations which mutually fortify each other.



42 storey, 1,200 room Resorts International Hotel in Atlantic City, New Jersey. Steel Structures Holding Corp. fabricated and erected the structural steel for this project, which utilized Steel Structures' Staggered Steel Truss Building System.

## STRUCTURAL STEEL

### **Frankel Steel/Central Fabricators/ Steel Structures Holding Corp.**

Frankel Steel, Central Fabricators and Steel Structures Holding Corp. supply, fabricate and erect structural steel for large scale construction projects such as high rise office buildings, bridges and manufacturing facilities throughout North America and in international markets.

The Structural Steel Group was responsible for \$100 million of 1985's overall sales growth of \$112 million and generated more than 50% of the consolidated sales and earnings of the Harris Steel Group taken as a whole.

A large part of this increase stemmed from the acquisition of Steel Structures Holding Corp. in the fall of 1984 and the subsequent decision to relocate to a 293,000 square foot manufacturing facility in Bethlehem, Pennsylvania where a twin of Frankel Steel's main structural steel fabrication plant is being developed. More than two hundred new jobs have been created at Steel Structures' Bethlehem plant.

In addition to the continuing demand in the U.S. for high rise office buildings and hotels, 1985 featured the letting of contracts for major expansions of

Canadian steel making facilities (Stelco) and automobile manufacturing plants (General Motors of Canada). This enabled Frankel's main plant at Milton, Ontario to operate at full capacity, frequently supplemented by overtime, throughout 1985.

Central Fabricators applied its unique skills in the fabrication and erection of bridges to once again earn an excellent profit in the Alberta market.

The performance of our Structural Steel Group has attracted widespread respect from industrial companies and the developers of major real estate projects in the United States and Canada. Of particular interest is our experience in managing large scale structural steel projects and our ability to provide both fabrication and erection services, thereby controlling construction jobs from the initial stages of fabrication through to the completion of site installation.

Looking ahead we see a levelling off of construction activity in Canada while markets in the U.S. will continue strong though periodically subject to price pressure from imports.

Although our Structural Steel Group will again report a substantial profit in 1986, we are not expecting to achieve another earnings record.



Reinforcing steel bars "rebar" and massive structural steel columns being installed by Harris Rebar Inc. and Frankel Steel Limited at the site of Stelco's new slab caster in Hamilton, Ontario.

## STEEL MANUFACTURING

### Courtice Steel Limited

Courtice Steel Limited was acquired effective February 12, 1986.

Courtice operates a mini steel mill. Billets are produced from scrap steel in Cambridge, Ontario using an electric arc furnace and automated continuous casting of molten steel directly into billets. The billets are shipped to the company's rolling mill in Bowmanville, Ontario to be processed into reinforcing steel bars and merchant bars.

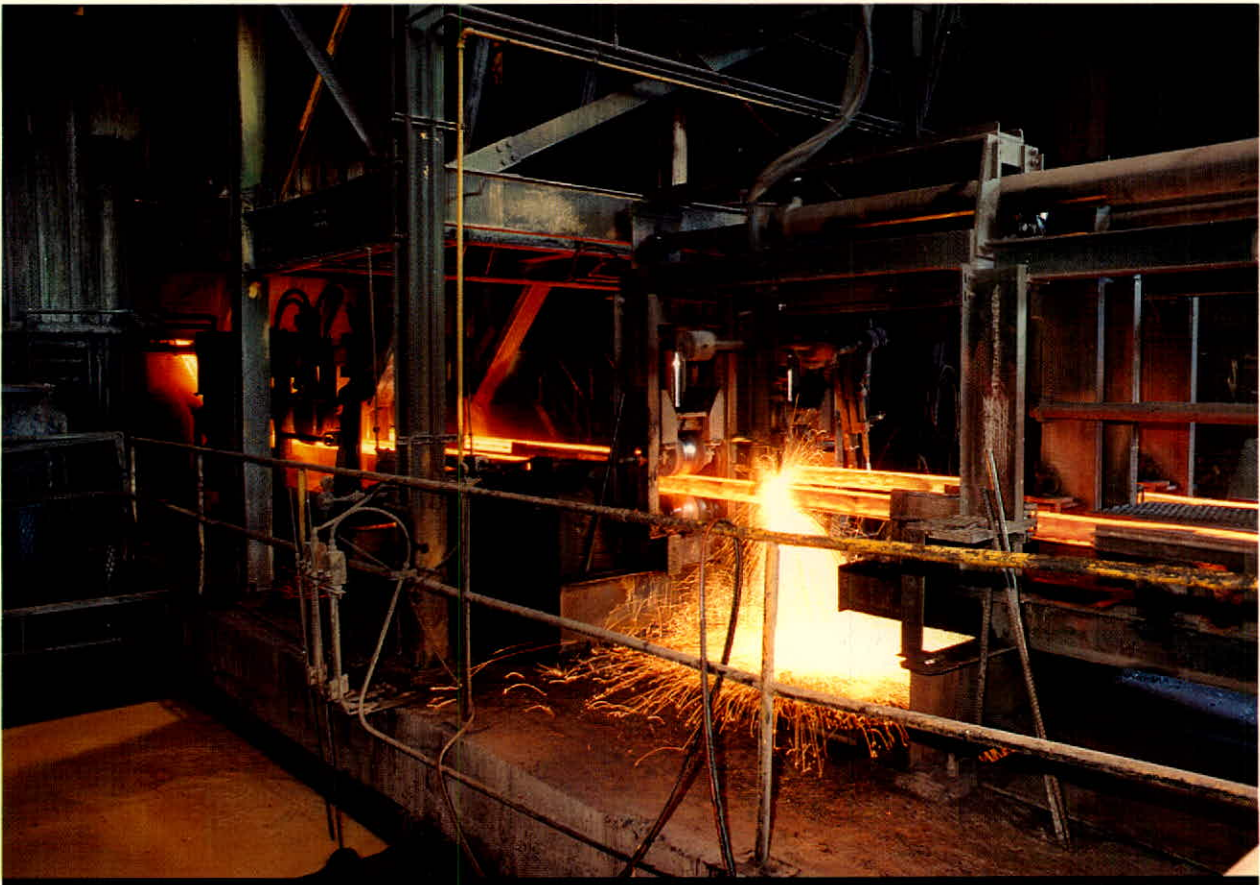
The Cambridge melt shop commenced production in 1981 at a site strategically located near abundant sources of scrap steel and hydro electric power. Prior to 1981 Courtice operated strictly as a re-rolling mill at its Bowmanville location purchasing raw material from other steel producers.

Courtice has successfully followed a strategy of developing a market in Eastern Canada and the United States for small merchant bars and shapes which other mills find uneconomical to produce.

The rolling mill at Bowmanville is currently running at full capacity producing between 80,000 and 90,000 tons of finished product annually.

Courtice has an experienced team with proven abilities. The Harris Group intends to utilize these outstanding skills in the pursuit of further market opportunities.

Profitability has risen substantially in recent years as Courtice's management has raised mill utilization. With the firming of steel prices in recent months, a continuation of Courtice's earnings growth in 1986 is assured.



Four inch square steel billet is automatically cut to length as it exits from Courtice Steel Limited's continuous billet caster at Cambridge, Ontario.

## CONCRETE REINFORCING



### Harris Rebar/VSL/G & H Steel

Harris Rebar Inc., VSL Canada Ltd. and VSL Ltée fabricate and erect reinforcing steel bars, post-tensioning systems and epoxy-coated reinforcing steel bars under the trade name "Epoxicote". Harris's epoxy-coating process, which has gained wide acceptance, prevents deterioration caused by salt and extends the life of concrete bridge decks and parking slabs from an average of 3-18 years to 50 years or more.

G & H Steel Industries, operating as a division of Harris Rebar Inc., supplies, fabricates and erects reinforcing steel bars and post-tensioning systems and manufactures "Epoxicote" in British Columbia.

1985 operations were highlighted by the significant contribution of "Epoxicote" to overall results. Epoxy-coating equipment was installed in our G & H

Vancouver plant in November of 1984 and for the full 1985 year Harris serviced the Epoxicote market from three locations — Stoney Creek (Hamilton), Montreal and Vancouver.

The Harris Concrete Reinforcing Group offers steel reinforcing service from 11 manufacturing plants located across Canada. Harris may be the only company in the world with the full range of proprietary reinforcing steel products — fabricated supply, erection, post-tension, mesh, splices and epoxy-coating.

While construction activity in B.C. will be considerably lower than the levels reached in recent years, eastern Canadian markets have strengthened. Therefore, we do not expect to see a significant change in the 1986 results of our Concrete Reinforcing Group.



Profile of the new Petro-Canada office building in North Toronto. Harris Rebar Inc. has a contract to supply, fabricate and place 2,600 metric tons of reinforcing steel for this 26 storey project.

## WIRE PRODUCTS AND COLD FINISHED BARS

### Laurel Steel Products Limited

Laurel Steel manufactures wire, wire products and cold finished bars which are sold to a wide range of customers including automotive and appliance manufacturers, defence contractors and steel distributors. Laurel also makes welded mesh and other wire products used by the construction industry for the reinforcing of concrete.

Despite aggressive pricing by importers of cold finished bars, which affected margins throughout 1985, Laurel's sales and operating earnings rose by 12% and 6% respectively.

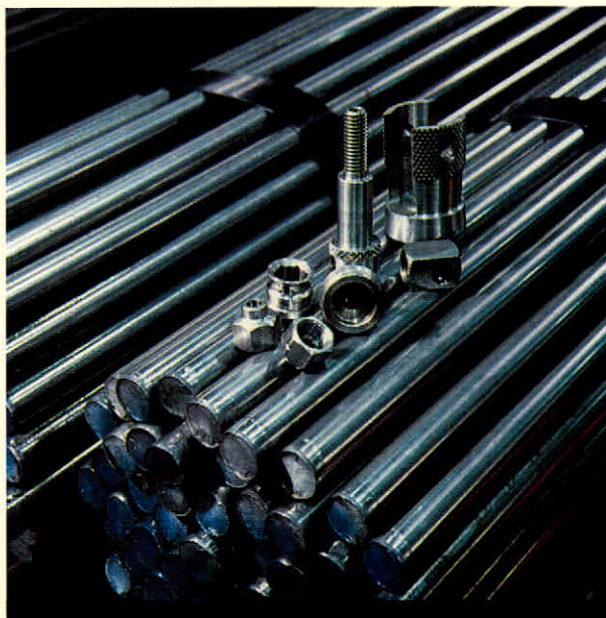
In 1985 Laurel embarked upon a major program to widen product lines, expand size ranges and develop even higher quality standards. Welding capacity was upgraded to provide heavier welded mesh for the construction, pre-cast and concrete pipe industries. Drawing equipment was installed to produce cold finished bars in various shapes up to three inches in diameter and modifications were made to steel cleaning facilities to enable increased quantities of raw material to be processed.

The timing of the completion of these projects proved to be critical. Laurel has experienced a strong upsurge in demand in the first quarter. Further investment has been committed in 1986 to expand Laurel's presence in the U.S. cold finished bar market by the purchase of equipment, already on order, which will be in operation at a site in Connecticut in the second half of the year.

Laurel continues to enlarge its market because of its ability to shorten delivery times – and thereby allow its customers to reduce their inventory investment. Record tonnages of wire and cold finished bars were shipped in the first quarter. It is anticipated that, by the third quarter of 1986, the additional U.S. tonnage will be supplied from our new Connecticut facility.

Prices in Laurel's product line are firming after a two year period of severe price competition aggravated by unfairly priced imports into the U.S. and Canada.

We are forecasting that in 1986 Laurel will reach another milestone in sales and earnings.



Products manufactured from cold finished bar produced by Laurel Steel include gas line, fuel pump and hose fittings, thumb screws and hose adapters.



Recently installed draw bench at Laurel Steel Products' Burlington, Ontario manufacturing facility. This machine produces cold finished bars in various shapes up to 3" in diameter.



Laurel sales people Lynda Garbas and Jim Robertson point out the benefits of Laurel's consistent quality, absolute size accuracy and immediate delivery to a potential customer at a technical conference.

## STEEL AND ALUMINUM GRATING

### Fisher & Ludlow Inc.

Fisher & Ludlow manufactures and fabricates heavy steel and aluminum grating for various industrial applications such as walkways, landings, working platforms and stairways. In the second half of 1985 Fisher & Ludlow began producing a complementary product "Deck Span", a lighter plank grating or "safety grating" for similar applications.

Fisher & Ludlow experienced an upturn in demand for its heavy steel grating during 1985. Sales volumes rose 14% and margins improved as a result of firming prices. 1985's operating profits were more than double those of 1984.

Although major western Canadian construction projects are now uncertain because of international oil developments, activity has increased in the company's remaining market areas.

Sales of "Deck Span" have shown steady improvement since its introduction and in 1986 this product will make a significant contribution to Fisher & Ludlow's operating results.

1986 should be another successful year for Fisher & Ludlow.

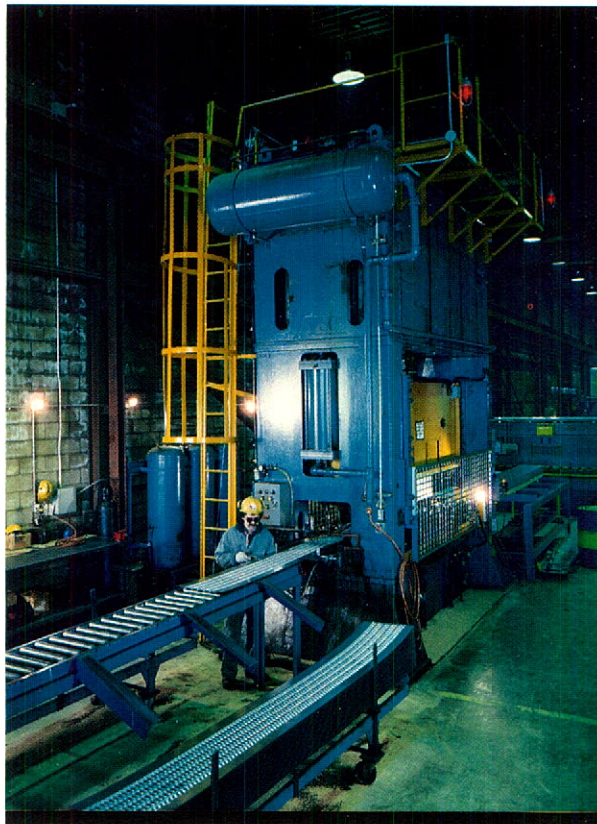
## OVERHEAD CRANES AND DOORS

### Secord Manufacturing Limited

Secord custom designs, manufactures, installs and services heavy industrial doors and overhead cranes with lifting capacities of up to 500 tons for Canada's major heavy industries and utilities. It also refits and sells used cranes.

1985 saw a resumption of industrial capital expenditure programs in Canada. Secord was awarded several large contracts for heavy-duty mill cranes during the year. As a result sales were considerably higher than in 1984 and Secord's operations fell just short of profitability after two years of losses.

Secord has entered 1986 with a very healthy order backlog and has good prospects of reaching a satisfactory earnings level. The relationship of Secord to the overall strategic plan of the Harris Group is currently being assessed.



Fisher & Ludlow employee Bob Merckel inspects "Deck Span" safety grating as it exits from multi-ton press at the company's main plant in Burlington, Ontario.



Frankel Steel Limited's skilled ironworkers erecting some of the 8,000 tons of structural steel that Frankel will fabricate and supply for Stelco Inc.'s new slab caster in Hamilton, Ont.

# CONSOLIDATED BALANCE SHEET

As at December 31, 1985

Assets	1985	1984
<b>Current Assets</b>		
Accounts receivable . . . . .	\$ 53,424,146 <sup>3880</sup>	\$ 40,654,666
Inventories (note 4) . . . . .	30,167,007	28,634,106
Unbilled contract costs . . . . .	18,111,017	4,588,596
Prepaid expenses and deposits . . . . .	954,933	495,598
	102,657,103	74,372,966
Fixed Assets (note 5) . . . . .	36,861,512	28,002,040
Goodwill — at amortized cost . . . . .	1,678,449	1,726,663
	\$ 141,197,064	\$ 104,101,669
	<i>36804</i>	
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Bank indebtedness (note 6) . . . . .	\$ 21,120,804 <sup>1570</sup>	\$ 14,446,640
Accounts payable and accrued liabilities . . . . .	32,679,285 <sup>20</sup>	29,190,666
Income and other taxes payable . . . . .	5,710,932	4,245,267
Deferred income taxes . . . . .	6,990,000	6,240,000
Current portion of long-term debt (note 6) . . . . .	878,134	620,988
Unearned revenue and contract advances . . . . .	—	190,119
	67,379,155	54,933,680
Long-Term Debt — less current portion (note 6) . . . . .	6,345,464	10,253,741
Deferred Income Taxes . . . . .	9,430,000	6,690,000
	83,154,619	71,877,421
<b>Shareholders' Equity</b>		
Capital Stock (note 7) . . . . .	21,885,374	3,520,374
Retained Earnings . . . . .	36,157,071	28,703,874
	58,042,445	32,224,248
	\$ 141,197,064	\$ 104,101,669

SIGNED ON BEHALF OF THE BOARD

*W. Harris*

Director

*B. D. Roe*

Director

# CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended December 31, 1985



	1985	1984
<b>Continuing operations</b>		
Sales and Construction Revenue . . . . .	\$284,387,276	\$172,350,865
Cost of Sales and Contract Costs . . . . .	243,633,771	151,014,807
<b>Gross Operating Profit . . . . .</b>	<b>40,753,505</b>	<b>21,336,058</b>
<b>Expenses</b>		
Selling and administrative . . . . .	18,768,293	12,106,957
Interest (note 6) . . . . .	2,342,495	2,837,863
Depreciation . . . . .	3,088,716	2,443,163
Amortization of goodwill . . . . .	48,214	73,870
	24,247,718	17,461,853
<b>Earnings From Continuing Operations Before Income Taxes . . . . .</b>	<b>16,505,787</b>	<b>3,874,205</b>
<b>Provision For Income Taxes (note 8) . . . . .</b>	<b>7,125,556</b>	<b>976,048</b>
<b>Earnings From Continuing Operations . . . . .</b>	<b>9,380,231</b>	<b>2,898,157</b>
<b>Earnings From Discontinued Operations . . . . .</b>	<b>—</b>	<b>83,623</b>
<b>Net Earnings For The Year . . . . .</b>	<b>\$ 9,380,231</b>	<b>\$ 2,981,780</b>
<b>Earnings Per Share (note 1(h))</b>		
Continuing operations . . . . .	.91	.30
Discontinued operations . . . . .	—	.01
	.91	.31

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 1985

	1985	1984
<b>Balance — Beginning of Year . . . . .</b>	<b>\$ 28,703,874</b>	<b>\$ 27,085,783</b>
Cost of issuance of Class A non-voting shares (note 7) . . . . .	25,068	—
	28,678,806	27,085,783
<b>Net earnings for the year . . . . .</b>	<b>9,380,231</b>	<b>2,981,780</b>
	38,059,037	30,067,563
<b>Dividends (note 7) . . . . .</b>	<b>1,901,966</b>	<b>1,363,689</b>
<b>Balance — End of Year . . . . .</b>	<b>\$ 36,157,071</b>	<b>\$ 28,703,874</b>

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1985

	1985	1984
<b>Source of Working Capital</b>		
Provided from continuing operations		
Earnings from continuing operations . . . . .	\$ 9,380,231	\$ 2,898,157
Items not affecting working capital —		
Depreciation and amortization . . . . .	3,136,930	2,517,033
Deferred income taxes . . . . .	2,740,000	1,291,060
Gain on sale of fixed assets . . . . .	(59,175)	(14,792)
	15,197,986	6,691,458
Provided from discontinued operations		
Earnings from discontinued operations . . . . .	—	83,623
Item not affecting working capital —		
Depreciation and amortization . . . . .	—	25,821
	—	109,444
Proceeds from long-term debt . . . . .	5,015,009	—
Proceeds from issuance of Class A non-voting shares (note 7) . . . . .	18,365,000	—
Proceeds from sale of fixed assets . . . . .	162,886	849,883
	38,740,881	7,650,785
<b>Use of Working Capital</b>		
Acquisition of subsidiary companies less working capital of		
\$4,919,022 assumed at the date of acquisition . . . . .	—	26,587
Additions to fixed assets . . . . .	12,039,451	3,001,441
Dividends . . . . .	1,901,966	1,363,689
Reduction of long-term debt . . . . .	8,935,734	868,637
Cost of issuance of Class A non-voting shares (note 7) . . . . .	25,068	—
	22,902,219	5,260,354
<b>Increase in Working Capital . . . . .</b>	<b>15,838,662</b>	<b>2,390,431</b>
<b>Working Capital — Beginning of Year . . . . .</b>	<b>19,439,286</b>	<b>17,048,855</b>
<b>Working Capital — End of Year . . . . .</b>	<b>\$ 35,277,948</b>	<b>\$ 19,439,286</b>

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Harris Steel Group Inc. as at December 31, 1985 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1985 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for investment tax credits as explained in note 2 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Coopers & Lybrand  
Chartered Accountants

Toronto, Ontario, March 24, 1986

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



For the Year Ended December 31, 1985

## 1. Accounting Policies

### (a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries at their respective year-ends.

Joint ventures, both incorporated and unincorporated, are accounted for under the proportionate consolidation method. This method reflects the company's share of the joint ventures' assets, liabilities, revenues and expenses in the financial statements as indicated in note 3.

### (b) Foreign exchange

The company applies the temporal method of accounting for the translation into Canadian dollars of foreign currency amounts and the accounts of its U.S. subsidiaries, all of which are integrated operations. Monetary assets and liabilities are translated at the exchange rate in effect at the balance sheet date and non-monetary assets and related depreciation expense are translated at historic exchange rates. Revenues and expenses, other than depreciation, are translated at the average exchange rate for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts are reflected in earnings.

### (c) Inventories

The company values its inventory at the lower of cost and market. Cost is determined on a weighted average basis for structural steel inventories and on a first-in, first-out basis for all other inventories. Market is defined as replacement cost for raw materials and net realizable value for work-in-process and finished goods.

### (d) Unbilled contract costs

Unbilled contract costs represent contracts in progress valued on the percentage-of-completion basis. Under the percentage-of-completion method, profit is accrued as the work is performed, and provision is made for anticipated losses to the completion of the contract. Although the company uses its best engineering estimates, the final results of jobs in progress will necessarily be dependent upon future costs and revenues. Claims for additional compensation are included in income only when approved by the owner.

### (e) Fixed assets and depreciation

Fixed assets are recorded at historical cost. The company depreciates its buildings, machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	— 2½%
Machinery and equipment	— 7½%
Mobile equipment	— 30%

Gain or loss on disposal of individual assets is recognized in income in the year of disposal.

### (f) Goodwill

Goodwill represents the excess of the cost of investments in shares of subsidiaries over the fair values of their underlying net assets at the date of acquisition. Goodwill has been determined on an acquisition-by-acquisition basis and is being amortized on a straight-line basis over forty years.

### (g) Income taxes

The company follows the income tax allocation method of accounting for income taxes. Under this method, income taxes in the consolidated statement of earnings are based upon the revenues and expenses recorded in the accounts, which may differ from income taxes actually paid or payable. The cumulative effect of these differences is shown in the consolidated balance sheet as "deferred income taxes".

### (h) Earnings per share

Earnings per share are calculated on 10,310,393 shares (1984 — 9,740,530 shares), being the weighted average number of shares outstanding during the year. (See also note 7.)

## 2. Change in Accounting Policy

Effective January 1, 1985, the company adopted prospectively the cost reduction method of accounting for investment tax credits in accordance with the accounting recommendation of the Canadian Institute of Chartered Accountants. Under the cost reduction method, investment tax credits are accounted for as deductions from the related qualifying expenditures. In prior years, the company followed the flow-through method which accounts for investment tax credits as a reduction in the current year's tax provision net of deferred income taxes. Unrecognized investment tax credits available at January 1, 1985 were substantially accounted for in 1985 following the flow-through method.

As a result of this change in policy, depreciation expense is \$2,968 lower, income tax expense is \$311,117 higher and net income for 1985 is \$308,149 lower than the corresponding amounts would have been under the previous policy.

## 3. Accounting for Joint Ventures

A summary of the company's pro-rata share of joint venture operations is set out below:

	1985	1984
	\$	\$
Assets	384,861	446,987
Liabilities	76,408	366,820
Revenues	17,448	1,825,980
Expenses	13,116	1,755,295

#### 4. Inventories

	1985 \$	1984 \$
Raw materials and work-in-process	25,147,660	23,392,484
Finished goods	5,019,347	5,241,622
	<u>30,167,007</u>	<u>28,634,106</u>

#### 5. Fixed Assets – at cost

	1985 \$	1984 \$
Land	3,129,121	2,751,918
Buildings	13,363,768	10,539,882
Machinery and equipment	35,939,740	28,083,003
Mobile equipment	4,974,498	4,769,479
	<u>57,407,127</u>	<u>46,144,282</u>
Less: Accumulated depreciation	20,545,615	18,142,242
	<u>36,861,512</u>	<u>28,002,040</u>

#### 6. Long-Term Debt and Bank Indebtedness

	1985 \$	1984 \$
Term bank loan at 70% of United States bank prime lending rate, due June 1, 2000, with principal repayments amortized over 15 years, callable at the lender's option in 1992, net of unamortized deferred finance charges of \$151,223	4,954,373	—
Loan payable to Manufacturers Hanover Leasing Canada Limited at 13.25%, repayable in blended monthly instalments of principal and interest of \$67,112 with the balance due November 1, 1988	1,948,256	2,464,381
Term bank loans	—	8,000,000
Other	320,969	410,348
	<u>7,223,598</u>	<u>10,874,729</u>
Less: Current portion	878,134	620,988
	<u>6,345,464</u>	<u>10,253,741</u>

Specific fixed assets, with a carrying value of approximately \$9,300,000, are pledged against the above loans. In addition, inventories and accounts receivable are pledged as security for the company's bank indebtedness.

Interest incurred on long-term debt for the year amounted to \$826,621 (1984 – \$1,211,584).

Principal repayments during the next five fiscal years are as follows:

1986 – \$878,134; 1987 – \$950,057;  
1988 – \$956,382; 1989 – \$237,908;  
1990 – \$246,637.

#### 7. Capital Stock and Dividends

	1985 \$	1984 \$
Capital stock (without par value) –		
Authorized –		
An unlimited number of Class A non-voting shares		
An unlimited number of Class B shares		
100 common shares		
Issued and fully paid –		
8,634,998 Class A non-voting shares	21,093,631	2,728,631
3,105,532 Class B shares	791,743	791,743
	<u>21,885,374</u>	<u>3,520,374</u>

##### Share issue

On September 19, 1985, the company issued 2,000,000 Class A non-voting shares for cash consideration of \$18,500,000, less underwriting commissions of \$135,000 (net of income tax recovery of \$115,000). Other costs associated with the issue, amounting to \$25,068 (net of income tax recovery of \$22,000), have been charged to retained earnings.

##### Stock split

On March 28, 1985, the shareholders of the company passed a special resolution authorizing the company to file Articles of Amendment to split all of the issued and unissued Class A non-voting shares and Class B shares on a two-for-one basis, to vary the dividend rates accordingly and to remove the limitation on the maximum authorized number of Class A non-voting and Class B shares. The stock split was effected on April 11, 1985. Accordingly, the earnings per share figures for 1985 and 1984 shown in the company's consolidated statement of earnings have been calculated after giving retroactive effect to this two-for-one stock split.

##### Voting rights

Class A non-voting shares are not entitled to vote unless the company has failed to pay dividends totalling 2½¢ per Class A non-voting share for eight consecutive fiscal quarters. Thereafter, each Class A non-voting share is entitled to one vote until, in any fiscal quarter, a dividend of 2½¢ per Class A non-voting share has been paid or declared and set aside for payment.

Each Class B share is entitled to one vote at all meetings of the shareholders.

#### Take-over provision

The Class A non-voting shares become convertible into Class B voting shares on a share-for-share basis after a bona fide offer, which must, by reason of applicable securities laws or stock exchange by-laws, regulations or policies, be made to each holder of Class B voting shares whose last recorded address is in the jurisdiction to which the relevant requirement applies, is accepted by the holders of a majority of the outstanding Class B voting shares.

#### Dividends

Class A non-voting shares are eligible to receive a preferential, non-cumulative, quarterly dividend of 2½¢ per share.

Class B shares are not eligible to receive a dividend in any quarter until a dividend of 2½¢ per share has been paid on the Class A non-voting shares. Thereafter, Class B shares are eligible for a dividend of up to 2½¢ per share in any quarter.

Dividends in excess of 2½¢ per share in any quarter will be paid equally on the Class A non-voting shares and Class B shares.

During 1985, the company paid dividends of 18½¢ per issued Class A non-voting and Class B share.

## 8. Income Taxes

The provision for income taxes reflects an effective tax rate which differs from the statutory tax rate. A reconciliation of the two rates is as follows:

	1985	1984
	%	%
Federal tax rate	46.0	46.0
Provincial abatement	(10.0)	(10.0)
Provincial tax rate	13.9	12.5
Statutory tax rate	49.9	48.5
Add (deduct) the tax effect of –		
Investment and other tax credits	(0.5)	(8.5)
Inventory allowance	(2.4)	(4.6)
Manufacturing and processing profits deduction	(4.9)	(4.0)
Non-taxable foreign exchange gains	(0.3)	(5.6)
Lower effective tax rate resulting from deferred tax drawdowns	–	(4.1)
Federal surtax	0.7	–
Other	0.7	(1.4)
Effective tax rate	43.2	20.3

## 9. Lease Commitments

The company is required to make aggregate future minimum lease payments of \$7,016,000 under operating leases that have non-cancellable lease terms in excess of one year at December 31, 1985. Annual lease payments during the next five

fiscal years are as follows:

1986 – \$1,541,000; 1987 – \$1,387,000;  
1988 – \$1,185,000; 1989 – \$1,012,000;  
1990 – \$ 814,000.

## 10. Contingent Liabilities

The company's subsidiaries have operations throughout the United States and Canada and in the normal course, the company and its subsidiaries are named as defendants in various legal actions. Based on the advice of its counsel, the company is of the opinion that the actions outstanding at the year-end, in the aggregate, will not result in material detriment to the company.

## 11. Segmented Information and Export Sales

In 1984 and prior years, the company operated predominantly within the steel industry in Canada. As a result of the acquisition of Steel Structures Holding Corp. in October, 1984, the company's United States operations became a reportable geographic segment in 1985.

	Canada	United States	Total
	\$	\$	\$
(Dollars in thousands)			
<b>Revenues</b>			
Sales and construction revenue	233,367	99,037	332,404
Intersegment revenues	(34,628)	(13,389)	(48,017)
	<u>198,739</u>	<u>85,648</u>	<u>284,387</u>
<b>Net Earnings</b>			
Operating profit	<u>32,090</u>	<u>8,663</u>	40,753
General corporate expenses			(18,768)
Depreciation			(3,089)
Interest expense			(2,342)
Amortization of goodwill			(48)
Income taxes			(7,126)
			<u>9,380</u>
<b>Identifiable Assets</b>	<u>105,171</u>	<u>36,026</u>	<u>141,197</u>

In 1985, the company's Canadian segment had direct sales to customers in foreign countries, primarily the United States, of approximately Cdn. \$75 million. Aggregate direct sales to U.S. customers amounted to approximately Cdn. \$160 million in 1985. In 1984, revenues from customers in foreign countries, primarily the United States, were approximately Cdn. \$69 million.

Intersegment revenues above have been determined on the same basis as similar transactions with unrelated parties.

## 12. Subsequent Event

Effective February 12, 1986, the company acquired all the outstanding shares of Courtice Steel Limited for cash of \$2,539,150 and 600,000 Class A non-voting shares valued at \$11.75 per share.

## STOCK MARKET TRADING INFORMATION

The company's shares are listed on The Toronto Stock Exchange as Harris A (HSG.A) and Harris B (HSG.B).

### Class A shares 1985

	High	Low	Close	Shares traded	Dividend
First quarter	6.75	4.37	6.44	927,392	\$.035
Second quarter	8.75	6.00	8.75	939,102	.05
Third quarter	11.00	7.50	8.75	1,443,819	.05
Fourth quarter	10.75	8.50	10.25	938,152	.05
Year	11.00	4.37	10.25	4,248,465	.185
Year 1984	4.44	2.81	4.25	943,052	.14

### Class B shares 1985

	High	Low	Close	Shares traded	Dividend
First quarter	6.50	4.50	6.50	214,486	\$.035
Second quarter	8.87	6.00	8.75	31,211	.05
Third quarter	10.37	8.25	8.25	70,700	.05
Fourth quarter	10.25	7.75	10.00	85,970	.05
Year	10.37	4.50	10.00	402,367	.185
Year 1984	4.37	2.94	4.25	242,050	.14

NOTE: Adjusted to reflect 2 for 1 stock split, April 11, 1985



19 storey Parker Office Building in Fort Lee, New Jersey: another project which incorporated Steel Structures' Staggered Steel Truss Building System.

# FINANCIAL SUMMARY



	1985	1984	(Dollars in thousands except per share amounts)		
			1983	1982	1981
<b>Operating results</b>					
Sales from continuing operations	\$ 284,387	\$ 172,351	\$ 173,174	\$ 160,721	\$ 153,491
Earnings from continuing operations	9,380	2,898	4,705	4,557	5,014
Return on sales	3.3%	1.7%	2.7%	2.8%	3.3%
Earnings (loss) from discontinued operations	—	\$ 84	\$ (1,204)	\$ (345)	\$ (76)
Earnings before extraordinary items	9,380	2,982	3,501	4,212	4,938
Return on average equity	20.8%	9.5%	11.7%	15.1%	20.1%

## Per Share (after 2 for 1 split)

Earnings from continuing operations	\$ .91	\$ .30	\$ .48	\$ .47	\$ .53
Earnings (loss) from discontinued operations	—	.01	(.12)	(.03)	(.01)
Earnings before extraordinary items	.91	.31	.36	.44	.52
Dividends	.185	.14	.14	.14	.13
Shareholders' equity	5.63	3.31	3.14	3.02	2.82
Average shares outstanding	10,310,393	9,740,530	9,740,530	9,692,880	9,428,326

## At year-end

Total assets	\$ 141,197	\$ 104,102	\$ 97,545	\$ 97,768	\$ 103,121
Working capital	35,278	19,439	17,049	14,172	14,065
Current ratio	1.5:1	1.4:1	1.3:1	1.3:1	1.2:1
Fixed assets, less depreciation	\$ 36,862	\$ 28,002	\$ 27,288	\$ 25,840	\$ 23,361
Goodwill	1,678	1,727	1,532	1,572	1,267
Deferred income taxes	9,430	6,690	4,680	3,428	2,364
Long-term debt	6,345	10,254	10,583	8,851	9,745
Shareholders' equity	58,042	32,224	30,606	29,305	26,584
Long-term debt/Total capital	9.9%	24.1%	25.7%	23.2%	26.8%

## QUARTERLY FINANCIAL DATA (unaudited)

(Dollars in thousands except per share amounts)

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
<b>1985</b>					
Sales from continuing operations	\$55,538	\$72,010	\$78,487	\$78,352	\$284,387
Earnings from continuing operations	1,078	2,192	2,017	4,093	9,380
Earnings (loss) from discontinued operations	—	—	—	—	—
Earnings before extraordinary items	1,078	2,192	2,017	4,093	9,380
Earnings per share: (after 2 for 1 split)					
Continuing operations	.11	.23	.20	.37	.91
Discontinued operations	—	—	—	—	—
Before extraordinary items	.11	.23	.20	.37	.91
<b>1984</b>					
Sales from continuing operations	\$35,016	\$42,631	\$42,405	\$52,299	\$172,351
Earnings from continuing operations	32	759	845	1,262	2,898
Earnings (loss) from discontinued operations	2	(2)	—	84	84
Earnings before extraordinary items	34	757	845	1,346	2,982
Earnings per share: (after 2 for 1 split)					
Continuing operations	—	.08	.09	.13	.30
Discontinued operations	—	—	—	.01	.01
Before extraordinary items	—	.08	.09	.14	.31



Steel Structures' president John Mark in a lighter moment at one of the informal "Coffee with the Boss" sessions regularly held with Bethlehem, Pennsylvania employees.

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## Steel Structures Holding Corp.

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Telephone: (416) 632-5141

## Laurel Steel of New England Inc.

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Telephone: (617) 588-2118

## Laurel Steel Inc.

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Novi, Michigan, 48050  
Telephone: (313) 348-5255

## Fisher & Ludlow Inc.

750 Appleby Line, P.O. Box 5025,  
Burlington, Ontario L7R 3Y8  
Telephone: (416) 632-2121

## Secord Manufacturing Limited

P.O. Box 3185 Station C, Hamilton,  
Ontario L8H 7K6  
Telephone: (416) 560-3611

## Courtice Steel Limited

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Bowmanville, Ontario  
L1C 3L4  
Telephone: (416) 623-6101  
Telex: 06-981390

## Investor information

### Registrar and transfer agent

National Trust Company,  
4 King Street West,  
Toronto, Ontario M5H 3W7

### Counsel

Goodman & Goodman

### Auditors

Coopers & Lybrand

### Bankers

Royal Bank of Canada  
Toronto Dominion Bank

## Corporate officers

### Milton E. Harris

Chairman of the Board and President

### Bruce Timmerman, C.A.

Vice President - Finance

### Lorie Waisberg, Q.C.

Secretary

## Operating executives

### Geoffrey J. Jackson

President  
Frankel Steel Limited

### John Harris

President  
Harris Rebar Inc.

### Asher Lepkin

President  
Secord Manufacturing Limited

### James B. Kelly

President  
Courtice Steel Limited

### Derek Price

General Manager  
Fisher & Ludlow Inc.

### Glenn Riddell

President  
Laurel Steel Products Limited

## Board of directors

### Milton E. Harris

Chairman of the Board and  
President  
Harris Steel Group Inc.  
Director since 1953

### Cecil H. Franklin

Chairman and Chief Executive  
Officer  
Algonquin Mercantile Corporation;  
Chairman and Chief Executive Officer  
Hardee Farms International Ltd.  
Director since 1973

### Neil B. Ivory

President of Pembroke  
Management Ltd.  
President and Chief Executive  
Officer of GBC Capital Ltd.  
Director since 1977

### Geoffrey J. Jackson

President  
Frankel Steel Limited  
Director since 1976

### James W. Leech

President  
Unicorp Canada Corporation  
Director since 1982

### Barrie D. Rose, F.C.A.

Chairman and Chief Executive  
Officer  
Androcan Inc.  
Director since 1973

### Daniel S. Shapiro

Partner  
Schulte Roth & Zabel  
New York, N.Y.  
Appointed Director in 1985

### Alexander Kerney

Chairman of the Board  
Courtice Steel Limited  
Management Nominee  
June 11, 1986

## Audit Committee

Milton E. Harris  
Cecil H. Franklin  
Neil B. Ivory  
Barrie D. Rose, F.C.A.

