

# HARRIS STEEL GROUP INC.

**Annual Report 1983**

## DESCRIPTION OF THE BUSINESS

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**T**he Harris Steel Group fabricates and distributes steel to the heavy construction industry and manufactures wire products and cold finished bars for general industrial use. Harris also performs as a contractor and supplier for major steel construction projects providing a full range of materials, equipment and services through its various subsidiaries.

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

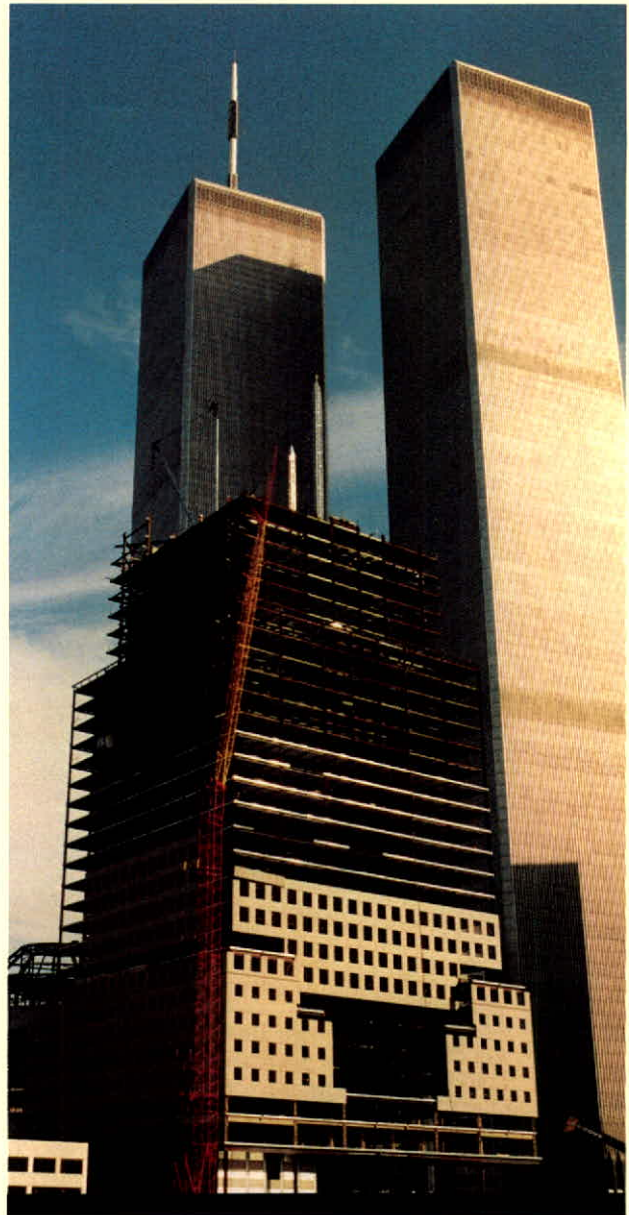
Harris became a public company in 1967 and has paid dividends since 1973.

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### Annual meeting

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All shareholders are cordially invited to attend the annual meeting on Thursday, June 21, 1984, 3:00 p.m. in the Essex Room of the Sheraton Centre, 123 Queen Street West, Toronto.



The World Financial Centre in New York City. Frankel Steel is fabricating and erecting 14,000 tons of steel for this 40-storey tower and 10-storey gatehouse.

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# FINANCIAL HIGHLIGHTS



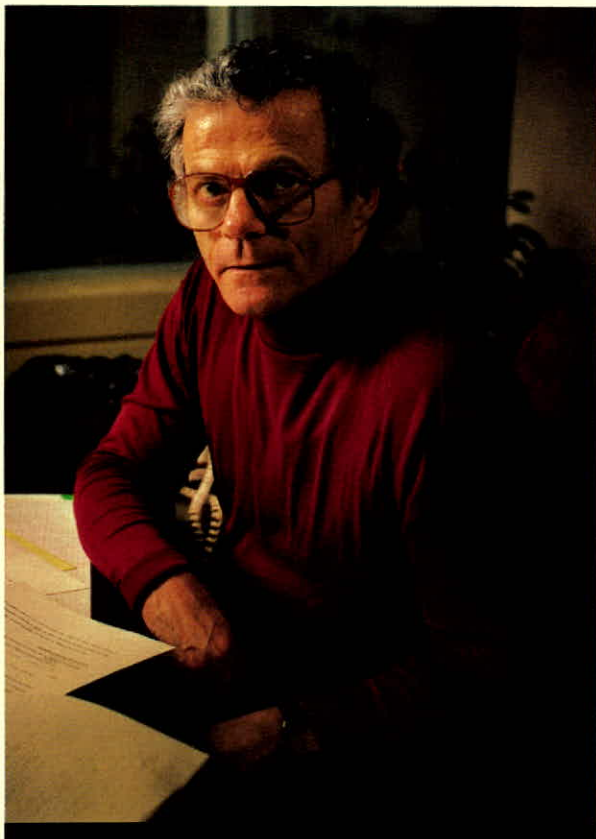
Years ending December 31

(Dollars in thousands except per share amounts)

	1983	1982
<b>Operating results</b>		
Sales from continuing operations	\$ 173,174	\$ 160,721
Earnings from continuing operations	4,705	4,557
Return on sales	2.7%	2.8%
Loss from discontinued operations	(1,204)	(345)
Earnings before extraordinary items	3,501	4,212
Return on average equity	11.5%	14.8%
<b>Per Share</b>		
Earnings from continuing operations	\$ .97	\$ .94
Loss from discontinued operations	(.25)	(.07)
Earnings before extraordinary items	.72	.87
Dividends	.28	.28
Shareholders' equity	6.38	6.15
Average shares outstanding	4,870,265	4,846,440
<b>At year end</b>		
Total assets	\$ 97,545	\$ 97,768
Long-term debt	10,583	8,851
Shareholders' equity	31,086	29,785
Long-term debt/Total capital	25.4%	22.9%
Current ratio	1.3:1	1.3:1
Number of employees	1,160	1,445
Number of shareholders – Class A	577	532
– Class B	380	348



## REPORT TO SHAREHOLDERS



1983 was the second year of the deepest recession in the steel and construction industries since the Great Depression of the 1930's.

A combination of world-wide and domestic factors caused widespread unemployment and under-utilization of plant and equipment in Canada and had a negative impact on our company's performance:

- 1) Reduction in demand for energy resulted in a severe slowdown in new projects. Lower prices for oil, in particular, led to the cancellation of massive investment in the tar sands. Alberta, within the space of a few months, changed from the most vigorous construction market in Canada to the weakest.
- 2) World-wide over-capacity in many manufacturing sectors resulted in severe competition and unrealistic price cutting, often subsidized by governments anxious to export their unemployment.

This had an enormous impact on the labour intensive manufacturing industry, particularly in Ontario, and removed a major market for our construction steel products.

With so much industrial capacity idle very few industries felt the need to build new facilities.

- 3) No manufacturing industry suffered more from world over-capacity than the steel industry. Although demand for steel used in the production of automobiles and home appliances rose substantially, cheap imports entering the North American market kept steel prices below the costs of most producers.

Low steel prices and severe financial losses by the primary producers meant that there was very little new construction of steel facilities.

- 4) Although both interest rates and the rate of inflation declined considerably, the "real rate" of interest (interest rate less the rate of inflation) remained at historic highs and discouraged investment.

In spite of these negative factors, we were able to take advantage of several opportunities during 1983 and as a result substantially exceeded our planned earnings for the year.

Early in the year we acquired G & H Steel Industries Limited, our long-time major national competitor in concrete reinforcing steel, and our "rebar" group, including Harris and G & H Steel, had a banner year.

At the commencement of 1983, at the very bottom of the steel market, Laurel Steel had the foresight to launch a program to increase steel cleaning capacity and add new processing equipment. Laurel also significantly expanded its market coverage by acquiring Laurel Steel of New England. When the market for its products began to improve later in the year Laurel was ready.

Because operating responsibility is clearly assigned to the individual company, and profit sharing is at the company level, our management have been able to adapt quickly and successfully to the rapid changes in the economic environment. We have proven in the good years that we can take maximum advantage of favourable opportunities; we have now affirmed that we can outperform everyone in our industries in bad times as well.

The continued excellent performance of our Group of Companies in 1983 in the face of serious losses throughout our industries once again confirms the effectiveness of our operating style.

Adam Clark did not achieve their planned profit levels in 1983 and continued to show significant losses. We came to the conclusion during the year that the operations of Adam Clark did not fit into our Group and we sold the assets back to its employees. We have reported a loss from discontinued operations and extraordinary write-offs of 42¢ per share (including 12.6¢ of goodwill).

### Economic Challenges Facing Canadians in 1984

The rate of economic recovery from the recent recession in the U.S. substantially exceeds that in Canada.

The American economy is now moving ahead so quickly that it appears that the Federal Reserve Board has begun to rein in monetary expansion by allowing interest rates to rise. The rapid increase in consumer expenditures in the U.S. is now being followed by a recovery in capital expenditures, as one would expect at this stage in the recovery cycle.

Canada's recovery, by contrast, had faltered before the end of 1983. In the key areas of employment, consumer spending, and capital expenditures our recovery has fallen far behind the Americans.

It is my hope that this substantial disparity in our economic performance will finally cause Canadians and our Government to re-examine the whole direction of Canadian economic policy.



Canada is the only industrialized country in the world with a market of less than 100 million people. I do not believe that it is possible to build a world-competitive manufacturing industry on a market base of only 25 million people.

The time has come for Canada to negotiate Common Market agreements with the Americans on a sector by sector basis. The rest of the world envies Canada its geographical advantage — 3,000 miles of border with the world's largest consumer market. It is no longer possible for a nation which is trying to build an employment-intensive world class manufacturing industry to isolate itself from world competitive forces.

For too long we Canadians have believed that we cannot compete successfully with our American neighbours. The experience of the Harris companies in the American markets gives us cause to believe that we could compete successfully if markets on both sides of the border were fully open to Canadians and Americans.

I am convinced that Canadian entrepreneurs would eventually build many more Canadian multi-national companies.

Although it would take several years to phase in Common Markets for our manufacturing industries we must recognize now that this is the only way to begin to develop the industrial base to give a larger measure of employment to our work force.

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#### **Bilateral Trade Negotiations with the U.S.**

Bilateral discussions on free trade in steel are currently underway between us and the Americans. These discussions are taking place at the same time as the American steel industry is vigorously petitioning the U.S. Congress and the Administration to limit total carbon steel imports to 15% of domestic consumption.

Steel imports into the U.S. have been running at 22 to 25% of consumption each month and a substantial portion of this is dumped below cost of production by state subsidized producers who are encouraged by their governments to export unemployment.

Unfairly-priced steel imports into North America have had a severe negative impact on both the Canadian and American steel industries and we support efforts to restrict unfairly-priced steel imports into the U.S. and Canada.

However, there have been no significant allegations of dumping and unfair steel pricing against Canadian steel exporters into the U.S. and no case can be made that Canadian steel has injured the American industry.

It is difficult to assess the impact on our Group of possible restrictions of imports by the Americans but our companies are well-positioned to adapt positively to any American action.

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#### **1984 Opportunities**

Our balance sheet strengthened in 1982 and 1983 at a time when most of our competitors in our steel and steel construction sectors experienced a severe erosion in their financial position. We began 1982 with Working Capital of 14.5 million dollars, a Total Equity of 27.1 million dollars and ended 1983 with Working Capital of 17.5 million dollars (3 million higher) and a Total Equity of 31.1 million dollars (4 million higher).

The result has been to place us in an excellent position to take advantage of any competitive or acquisition opportunities that may present themselves.

Although the Canadian economy is weaker than the U.S. we see several new projects ready to come to market and this should have a positive effect on bookings and margins by the second half of 1984.

The improving steel markets in the U.S. and the uncertainty about imports has strengthened steel prices and we believe that this process will accelerate, especially if unfairly-traded steel imports into the American market are restricted.

Stronger steel prices have made our Canadian steel products more competitive in the U.S.

Frankel has found that they are once again competitive south of the border and as of the date of writing they have been able to book a large high-rise steel building at Lexington Avenue & 53rd Street in New York City with a major New York developer.

We are very encouraged by the reception in the U.S. to Frankel's outstanding skills in the steel fabrication industry.

The considerable reduction in the number of competing companies in steel fabrication in our market areas, but particularly in the Canadian West where a large bridge-building program is about to be launched, bodes well for us and we expect to substantially increase our bookings this year.

Laurel Steel enters 1984 with a strong position in their product lines. Laurel's standard of service and product quality cannot be matched anywhere in our marketing area in Canada or the U.S. and this has continued to attract an ever-increasing list of customers.

Laurel of New England has brought us a very significant improvement in market share in cold finished bar in the New England States. We have decided to relocate its base of operations to further strengthen our marketing thrust in the northeastern States.

Prices for Laurel's products were held down by unfairly-priced imports throughout 1983. We are now seeing a constant improvement in steel pricing in the U.S. A continuation of this strong trend will have a major impact on Laurel's profitability.

Laurel has begun to set up a new manufacturing operation in Detroit, Michigan and we will be producing and shipping bar from this facility in early May. We expect that Detroit will considerably enhance our market penetration in the mid western States and that our unique service and product quality will give us a larger share of the cold finished bar supply to the automotive industry in Ohio, Michigan, Illinois and Indiana.

1984 will be another difficult year in our industries but we are confident that our resourceful management will again rise to the challenge.

On behalf of the shareholders and our Board of Directors I would like to thank all of our management and employees for their stellar effort in 1983.

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

Milton E. Harris  
Chairman of the Board and President

Toronto, Ontario, April 17, 1984



## CORPORATE OVERVIEW

**H**arris Steel Group Inc., through its five independent operating divisions and subsidiaries is a major 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 the 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 provides 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.



Grain Terminal for Prince Rupert Grain, Ridley Island, B.C. G & H completed this 10,000 metric ton contract for more than 80 silos in the Spring of 1984. Harris/VSL also completed work on a nearby coal wharf.



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### Harris/VSL G & H Steel

Harris/VSL supplies, fabricates and erects reinforcing steel bars, post-tensioning systems and epoxy-coated reinforcing steel bars under the trade name "Epoxicote". Harris' 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.

Through its main plant in Stoney Creek, Ontario and branches in London, Windsor, Thunder Bay, Halifax, St. John's, Calgary, Edmonton and Vancouver, Harris/VSL and G & H Steel serve the construction market across Canada.

G & H Steel Industries of Delta, B.C. supplies, fabricates and erects reinforcing steel bars and post-tensioning systems and markets Harris' "Epoxicote" product in British Columbia.

Though 1983 construction activity was sharply lower in many provinces of Canada, the market in B.C. was strong due to the construction of grain and coal handling facilities in Prince Rupert and commercial and public transit projects in Metropolitan Vancouver.

In 1983 the Harris "rebar" group had an outstanding year. The acquisition of the G & H organization and its backlog made a major contribution to 1983's results.

Demand for "Epoxicote" continued strong in 1983. Epoxy coating equipment was installed in Montreal in March of 1983 and plans have been made to establish a facility in Vancouver in the current year. When the Vancouver plant is operational Harris will be producing Epoxicote at three locations — its main plant in Stoney Creek (Hamilton), Montreal and Vancouver.

The Harris "rebar" group is the only enterprise in Canada offering reinforcing steel service from Victoria, B.C. to St. John's, Newfoundland. 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.

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### Fisher & Ludlow

Fisher & Ludlow manufactures and fabricates heavy steel grating for non-residential construction.

Fisher & Ludlow experienced a downturn in demand during the year. Sales volumes, in 1983's highly competitive market, were 19% less than 1982.

It is a tribute to Fisher & Ludlow's excellent management that, by improving their service capability and cutting costs, they were successful in expanding Fisher & Ludlow's market share — enabling 1983 profits to again reach satisfactory levels.

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### Secord Manufacturing

Secord custom designs, manufactures and installs overhead cranes and industrial doors for Canada's major heavy industries and utilities.

In 1983 the effects of idle industrial capacity, financial losses by primary producers, and the curtailing of construction of steel facilities caused Secord's market for heavy cranes and doors to practically disappear.

Although overheads and operating costs were reduced significantly during the year, Secord's revenues fell by more than 50% and as a result the division operated at a loss.

Bookings began to pick up in the first quarter of 1984; however, market conditions will have to improve further for Secord to reach profitability.



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### **Frankel Steel/Central Fabricators**

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Frankel Steel Limited and its subsidiary Central Fabricators Ltd. of Edmonton supply, fabricate and erect structural steel.

Frankel's main fabrication facility is in Milton, Ontario. The company leads the structural steel industry in quality, productivity and technology. Its specialized engineering skills and experience in managing large scale structural steel construction projects have resulted in many successful contracts in Canada, the United States and in the Caribbean islands.

1983's slow-down in major capital projects caused severe hardship to the Canadian structural steel fabrication industry. The contractors who "won" the few Canadian contracts that were let did so at margins below their break-even levels. Frankel, however, was able to maintain sales at 1982's level and remain profitable by marketing its skills in high-rise construction in major American centres.

Frankel recently booked another large high-rise project in New York City.

Central Fabricators Ltd. faced a drastically altered market when the Alberta tar sands projects were cancelled. 1983 was a year when two of Central's prime competitors closed their Alberta operations because of poor demand — yet, through close control of job costs and overheads, Central was able to earn a profit on 40% less volume than 1982.

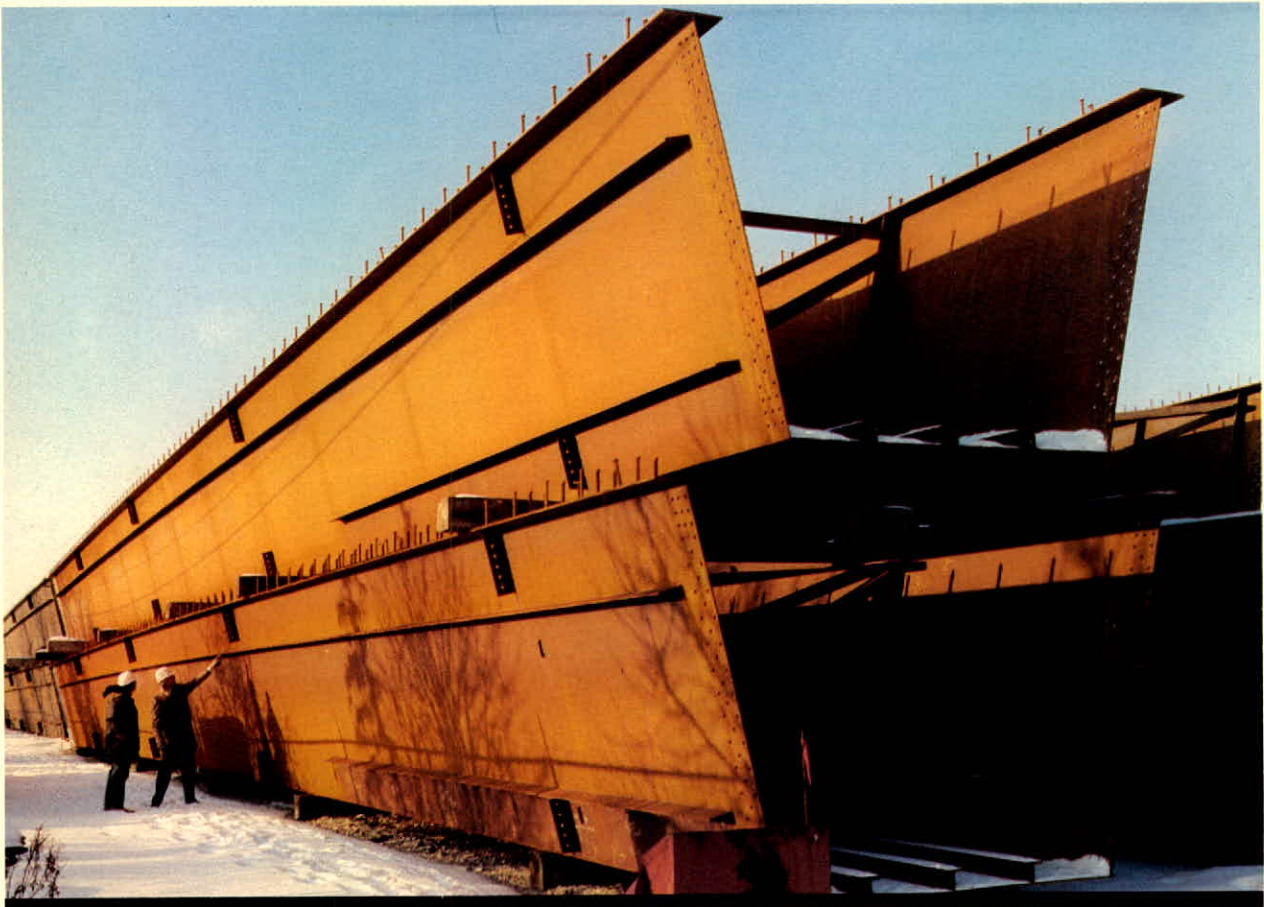
Central Fabricators' basic strength, achieved over the past 12 years, is in the fabrication and erection of major bridges — particularly in remote areas. The recently announced twinning of Western rail lines will provide major future opportunities for the company.

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### **Thomsson Steel Company, Incorporated**

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Thomsson primarily markets Frankel Steel's structural steel fabrication expertise in the United States. Current projects include two high-rise developments in New York.

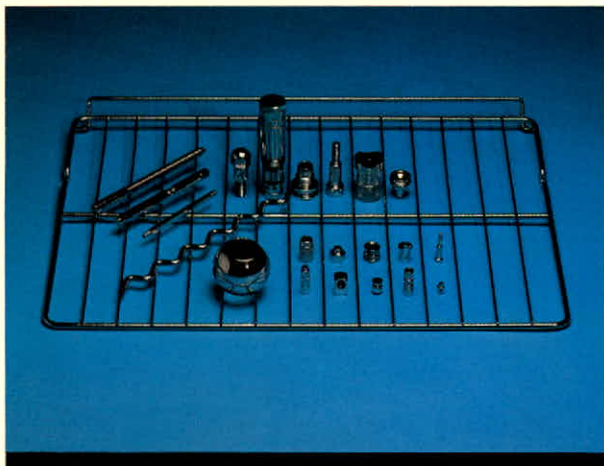


Frankel Steel will fabricate 168 of these bathtub girders to be erected onto piers for the 1.6 mile Burlington Bay Skyway Bridge near Hamilton.

The girders weigh up to 65 tons and range in length to 165 feet. Epoxycote Rebar Inc. is also supplying 2,700 metric tons of epoxy-coated steel to the project.

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Precision fasteners, couplings and shafts for automotive, appliance and computer industries manufactured from cold finished freemachining carbon steel bars produced by Laurel Steel Products.



Controlling its own trucking fleet in conjunction with owner/operators allows Laurel Steel Products to give that extra measure of customer service and assure on time deliveries.

### Laurel Steel Products Limited

Laurel Steel manufactures low carbon wire, shaped wire, welded wire mesh, reinforcing steel bar supports and cold finished bars for general industrial use.

Unfairly-priced imports caused selling prices of steel products to remain soft throughout 1983. Despite price competition from offshore, Laurel built market share during the year by continuing to demonstrate its commitment to customer service and product quality.

The acquisition in January 1983 of Laurel Steel of New England, Inc. located in Mansfield, Massachusetts, brought significant additional sales volumes of cold finished bar in the year.

1983 saw Laurel's sales increase by 40% and its operating earnings increase by 35%.

Laurel was only able to supply these higher volumes because, early in 1983 just before the upturn in business demand, its management had the foresight to invest in new processing equipment and steel cleaning capacity. As the market began to improve, Laurel's facilities were ready and the company was able to process increased volumes while maintaining its standards of service and quality.

A new manufacturing operation is being set up in Detroit which will commence production in May 1984. This will add to Laurel's share of cold finished bar sales to the automotive industry in the American Mid West.

# CONSOLIDATED BALANCE SHEET

As at December 31, 1983

Assets	1983	1982
<b>Current Assets</b>		
Accounts receivable . . . . .	\$ 34,707,014	\$ 39,476,647
Inventories (note 5) . . . . .	19,443,031	20,761,587
Unbilled contract costs . . . . .	14,149,127	9,839,073
Prepaid expenses and deposits . . . . .	426,122	278,744
	68,725,294	70,356,051
<b>Fixed Assets</b> (note 6) . . . . .	27,288,068	25,840,226
<b>Goodwill</b> — at amortized cost . . . . .	1,532,136	1,571,609
	\$ 97,545,498	\$ 97,767,886

## Liabilities


### Current Liabilities

Bank indebtedness (inventories and accounts receivable pledged as security) . . . . .	\$ 20,583,163	\$ 25,376,372
Accounts payable and accrued liabilities . . . . .	20,098,535	20,672,048
Income and other taxes payable . . . . .	1,183,579	1,990,678
Deferred income taxes . . . . .	7,900,000	6,017,207
Current portion of long-term debt (note 7) . . . . .	467,355	414,506
Unearned revenue and contract advances . . . . .	963,807	1,233,296
	51,196,439	55,704,107
<b>Long-Term Debt</b> — less current portion (note 7) . . . . .	10,582,902	8,851,227
<b>Deferred Income Taxes</b> . . . . .	4,680,000	3,428,000
	66,459,341	67,983,334

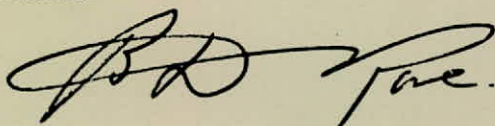
### Shareholders' Equity

<b>Capital Stock</b> (note 8) . . . . .	3,520,374	3,520,374
<b>Retained Earnings</b> . . . . .	27,565,783	26,264,178
	31,086,157	29,784,552
	\$ 97,545,498	\$ 97,767,886

SIGNED ON BEHALF OF THE BOARD



Director



Director



# CONSOLIDATED STATEMENT OF EARNINGS

For the Year Ended December 31, 1983



	1983	1982
<b>Continuing operations</b>		
Sales and Construction Revenue .....	\$173,173,849	\$160,721,249
Cost of Sales and Contract Costs .....	147,422,084	134,623,760
<b>Gross Operating Profit</b> .....	<b>25,751,765</b>	<b>26,097,489</b>
<b>Expenses</b>		
Selling and administrative (note 2(b)) .....	11,644,812	11,375,046
Interest (note 7) .....	2,975,395	4,764,893
Depreciation .....	2,342,058	1,972,423
Amortization of goodwill .....	69,504	69,155
	<b>17,031,769</b>	<b>18,181,517</b>
<b>Earnings From Continuing Operations Before Income Taxes</b> .....	<b>8,719,996</b>	<b>7,915,972</b>
<b>Provision For Income Taxes</b> (note 9) .....	<b>4,015,102</b>	<b>3,359,406</b>
<b>Earnings From Continuing Operations</b> .....	<b>4,704,894</b>	<b>4,556,566</b>
<b>Loss From Discontinued Operations</b> (note 1) .....	<b>(1,203,571)</b>	<b>(344,916)</b>
<b>Earnings Before Extraordinary Items</b> .....	<b>3,501,323</b>	<b>4,211,650</b>
<b>Extraordinary Loss on Discontinuance of Operations</b> (note 1) .....	<b>836,064</b>	<b>1,000,370</b>
<b>Net Earnings For The Year</b> .....	<b>\$ 2,665,259</b>	<b>\$ 3,211,280</b>
<b>Earnings Per Share</b>		
Continuing operations .....	.97	.94
Discontinued operations .....	(.25)	(.07)
Before extraordinary items .....	.72	.87
After extraordinary items .....	.55	.66

# CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Year Ended December 31, 1983

	1983	1982
<b>Balance — Beginning of Year</b> .....	<b>\$ 26,264,178</b>	<b>\$ 24,458,664</b>
Excess of the purchase price over the paid-up value of the company's shares purchased .....	—	41,203
<b>Net earnings for the year</b> .....	<b>26,264,178</b> <b>2,665,259</b>	<b>24,417,461</b> <b>3,211,280</b>
<b>Dividends</b> (note 8) .....	<b>28,929,437</b> <b>1,363,654</b>	<b>27,628,741</b> <b>1,364,563</b>
<b>Balance — End of Year</b> .....	<b>\$ 27,565,783</b>	<b>\$ 26,264,178</b>

# CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1983

	1983	1982
<b>Source of Working Capital</b>		
Provided from continuing operations		
Earnings from continuing operations . . . . .	\$ 4,704,894	\$ 4,556,566
Items not affecting working capital —		
Depreciation and amortization . . . . .	2,411,562	2,041,578
Deferred income taxes . . . . .	824,500	1,636,466
Loss on sale of fixed assets . . . . .	42,051	19,315
Imputed interest on acquisition of subsidiary company. . .	75,763	—
	8,058,770	8,253,925
Proceeds from long-term debt . . . . .	2,200,000	1,109,514
Proceeds from sale of fixed assets . . . . .	248,482	295,353
	10,507,252	9,658,792
<b>Use of Working Capital</b>		
Used in discontinued operations		
Loss from discontinued operations . . . . .	1,203,571	344,916
Items not affecting working capital —		
Depreciation and amortization . . . . .	(115,855)	(133,371)
Deferred income taxes . . . . .	—	7,443
	1,087,716	218,988
Acquisition of subsidiary companies less working capital of \$6,896,737 (1982 — \$855,495) assumed at the date of acquisition . . . . .	2,045,733	958,349
Less: Value of Class A non-voting shares issued as partial consideration . . . . .	—	920,000
	2,045,733	38,349
Additions to fixed assets . . . . .	2,806,871	4,837,082
Dividends . . . . .	1,363,654	1,364,563
Reduction of long-term debt . . . . .	468,325	2,003,359
Purchase of shares of the company . . . . .	—	46,109
(Increase) reduction in working capital arising from discontinuance of operations (note 1) . . . . .	(141,958)	1,043,638
	6,542,625	9,333,100
	7,630,341	9,552,088
<b>Increase in Working Capital . . . . .</b>	<b>2,876,911</b>	<b>106,704</b>
<b>Working Capital — Beginning of Year . . . . .</b>	<b>14,651,944</b>	<b>14,545,240</b>
<b>Working Capital — End of Year . . . . .</b>	<b>\$ 17,528,855</b>	<b>\$ 14,651,944</b>

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Harris Steel Group Inc. as at December 31, 1983 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, 1983 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 on a basis consistent with that of the preceding year.

Coopers & Lybrand  
Chartered Accountants

Toronto, Ontario, April 6, 1984



# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended December 31, 1983



## 1. Discontinued Operations

The operations of Adam Clark Division were discontinued effective from October 1, 1983 when the majority of its assets were sold. In 1982, the operations of Quecor Steel Division were discontinued. The remaining assets of these divisions have been written down at December 31, 1983 to estimated realizable value. The disposal of substantially all of these assets is expected to occur in an orderly manner during 1984. Net assets of the discontinued operations included in the balance sheet consist of the following:

	1983 \$	1982 \$
Current assets	4,964,003	8,355,132
Fixed assets	120,276	598,655
Current liabilities	(3,615,073)	(5,191,635)
	<u>1,469,206</u>	<u>3,762,152</u>

The company incurred and/or provided for costs on the discontinuances of \$1,066,553 (1982 - \$1,565,394). These amounts, less tax recoveries, are reported as extraordinary items as follows:

	1983 \$	1982 \$
Asset disposals	103,321	246,361
Other costs	347,734	1,063,933
Write-off of goodwill	615,498	255,100
	<u>1,066,553</u>	<u>1,565,394</u>
Income tax recovery	(230,489)	(565,024)
Extraordinary item	<u>836,064</u>	<u>1,000,370</u>

The results of the discontinued operations were as follows:

	1983 \$	1982 \$
Sales	22,247,185	27,640,443
Cost of sales	22,911,600	26,420,756
Gross (profit) loss	664,415	(1,219,687)
Expenses	1,563,113	1,832,960
	<u>2,227,528</u>	<u>613,273</u>
Income tax recovery	(1,023,957)	(268,357)
Loss from discontinued operations	<u>1,203,571</u>	<u>344,916</u>

The 1982 comparative figures in the consolidated statement of earnings have been reclassified to reflect the results of the discontinued operations referred to above.

## 2. Accounting Policies

### (a) Basis of consolidation

The consolidated financial statements include the accounts of the company and all its subsidiaries.

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

Assets, liabilities, revenues and expenses stated in other currencies together with the accounts of the company's U.S. subsidiaries are translated as follows:

monetary assets and liabilities - at the year-end rate of \$1 U.S. = \$1.2444 Cdn.;  
non-monetary assets and depreciation expense - at historic rates;  
revenues and expenses, other than depreciation - at average exchange rates 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 income. Included in 1982 "selling and administrative expenses" is a loss on foreign exchange futures contracts of \$717,550.

### (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 and steel warehouse 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 is being amortized on a straight-line basis primarily over forty years determined on an acquisition-by-acquisition basis.

(g) Income taxes

The company follows the income tax allocation method of accounting for income taxes. Deferred income taxes included in current liabilities relate to contracts in progress, investment in joint ventures and holdbacks receivable. The non-current portion of deferred income taxes relating to fixed assets has been reduced by future income tax recoveries relating to losses carried forward for tax purposes.

Investment tax credits relating to fixed asset purchases are accounted for as a reduction in the current year's tax provision net of the deferred income taxes. This treatment is commonly referred to as the "flow-through" method.

(h) Earnings per share

Earnings per share are calculated on the weighted average number of shares outstanding during the year.

### 3. Accounting for Joint Ventures

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

	1983	1982
	\$	\$
Assets	46,713	2,928,503
Liabilities	75,540	149,106
Revenues	1,365,725	2,047,928
Expenses	296,709	1,926,584

### 4. Acquisition of Subsidiaries

Effective January 19, 1983 and February 24, 1983, respectively, the company acquired for cash all of the outstanding shares of Laurel Steel of New England, Inc. (formerly Nedsco Inc.), a cold finished bar processor, and G & H Steel Industries Limited, a fabricator and installer of reinforcing steel bars. Each acquisition was accounted for as a purchase with the acquired company's operating results being included in the consolidated results of the company from the effective acquisition date.

	Laurel Steel of New England Inc.	G & H Steel Industries Limited
	\$	\$
Net assets acquired:		
Working capital	342,884	6,553,853
Fixed assets	575,041	825,143
Goodwill	—	645,529
Purchase price	917,925	8,024,525

### 5. Inventories

	1983	1982
	\$	\$
Raw materials and work-in-process	15,115,767	17,389,773
Finished goods	4,327,264	3,371,814
	<u>19,443,031</u>	<u>20,761,587</u>

### 6. Fixed Assets – at cost

	1983	1982
	\$	\$
Land	2,464,675	1,868,111
Buildings	10,377,335	9,732,933
Machinery and equipment	25,049,219	22,737,343
Mobile equipment	4,295,017	3,906,423
	<u>42,186,246</u>	<u>38,244,810</u>
Less: Accumulated depreciation	14,898,178	12,404,584
	<u>27,288,068</u>	<u>25,840,226</u>

### 7. Long-Term Debt

	1983	1982
	\$	\$
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	2,918,130	3,317,041
Term bank loans	8,000,000	5,800,000
Other	132,127	148,692
	<u>11,050,257</u>	<u>9,265,733</u>
Less: Current portion	467,355	414,506
	<u>10,582,902</u>	<u>8,851,227</u>

The revolving term bank loans of \$8,000,000 are subject to call on demand and bear interest at the bank prime lending rate. The company has opted to have the loans remain a revolving credit facility at least until the next annual reviews in 1984.

Should the company opt to convert the loans to a term facility, principal repayments of \$1,500,000 in annual instalments would commence on July 1, 1985 and of \$41,667 in monthly instalments would commence on April 30, 1985, and the interest rate would rise to prime plus ¾% on \$2,000,000 and prime plus ½% on \$6,000,000.

Specific fixed assets are pledged against each of the above loans.

Interest incurred on long-term debt for the year amounted to \$1,088,041 (1982 – \$1,509,146).



Principal repayments during the next five fiscal years (not including the possible term loan repayments) are as follows:

1984 – \$467,355; 1985 – \$532,805;  
1986 – \$606,868; 1987 – \$685,191;  
1988 – \$694,385.

## 8. Capital Stock and Dividends

	1983 \$	1982 \$
Capital stock (without par value) –		
Authorized –		
24,985,800 Class A non-voting shares		
9,982,550 Class B shares		
100 common shares		
Issued and fully paid –		
3,317,499 Class A non-voting shares	2,728,631	2,728,631
1,552,766 Class B shares	791,743	791,743
	<u>3,520,374</u>	<u>3,520,374</u>

### Voting rights

Class A non-voting shares are not entitled to vote unless the company has failed to pay dividends totalling 5¢ 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 5¢ 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.

### Dividends

Class A non-voting shares are eligible to receive a preferential, non-cumulative, quarterly dividend of 5¢ per share.

Class B shares are not eligible to receive a dividend in any quarter until a dividend of 5¢ per share has been paid on the Class A non-voting shares. Thereafter, Class B shares are eligible for a dividend of up to 5¢ per share in any quarter.

Dividends in excess of 5¢ per share in any quarter will be paid equally on the Class A non-voting shares and Class B shares.

During 1983, the company paid dividends of 28¢ per issued Class A non-voting and Class B share.

## 9. Income Taxes

The provision for income taxes has been reduced by the 3% inventory allowance and the investment tax credits utilized during the year.

## 10. Lease Commitments

The company is required to make aggregate future minimum lease payments of \$8,487,149 under operating leases that have non-cancellable lease terms in excess of one year at December 31, 1983. Annual lease payments during the next five fiscal years are as follows:

1984 – \$1,256,000; 1985 – \$1,159,000;  
1986 – \$1,099,000; 1987 – \$1,007,000;  
1988 – \$903,000.

## 11. Contingent Liabilities

- During 1978, a judgment for \$532,000 plus costs was awarded against a subsidiary of the company and another defendant relating to allegedly defective structural work completed in 1967. The judgment, as well as the allocation of the award among the defendants, is under appeal. Any ultimate liability, when settled, will be reflected in the financial statements for that year as a prior period adjustment.
- The company and its subsidiaries have operations throughout the United States and Canada and in the normal course, 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.

## 12. Segmented Information and Export Sales

The Harris Steel Group Inc. operates predominantly within the steel industry in Canada. In 1983 revenue from customers in foreign countries, primarily the United States, accounted for 28 percent (1982 – 15 percent) of the company's sales and construction revenue.

# FINANCIAL SUMMARY

	(Dollars in thousands except per share amounts)				
	1983	1982	1981	1980	1979
<b>Operating results</b>					
Sales from continuing operations	\$ 173,174	\$ 160,721	\$ 153,491	\$ 120,326	\$ 97,862
Earnings from continuing operations	4,705	4,557	5,014	5,212	2,611
Return on sales	2.7%	2.8%	3.3%	4.3%	2.7%
Profit (loss) from discontinued operations	(1,204)	(345)	(76)	(665)	438
Earnings before extraordinary items	3,501	4,212	4,938	4,547	3,049
Return on average equity	11.5%	14.8%	19.7%	21.3%	16.5%
<b>Per Share</b>					
Earnings from continuing operations	\$ .97	\$ .94	\$ 1.06	\$ 1.11	\$ .56
Profit (loss) from discontinued operations	(.25)	(.07)	(.01)	(.14)	.09
Earnings before extraordinary items	.72	.87	1.05	.97	.65
Dividends	.28	.28	.27	.23	.17
Shareholders' equity	6.38	6.15	5.74	4.92	4.18
Average shares outstanding	4,870,265	4,846,440	4,714,163	4,703,048	4,701,648
<b>At year-end</b>					
Total assets	\$ 97,545	\$ 97,768	\$ 103,121	\$ 64,555	\$ 75,824
Working capital	17,529	14,652	14,545	14,621	11,309
Current ratio	1.3:1	1.3:1	1.2:1	1.4:1	1.2:1
Fixed assets, less depreciation	\$ 27,288	\$ 25,840	\$ 23,361	\$ 16,873	\$ 16,621
Investments and goodwill	1,532	1,572	1,267	505	565
Deferred income taxes	4,680	3,428	2,364	1,200	270
Long-term debt	10,583	8,851	9,745	7,682	8,573
Shareholders' equity	31,086	29,785	27,064	23,116	19,652
Long-term debt/Total capital	25.4%	22.9%	26.5%	24.9%	30.4%

## QUARTERLY FINANCIAL DATA (unaudited)

	(Dollars in thousands except per share amounts)				
	First quarter	Second quarter	Third quarter	Fourth quarter	Year
<b>1983</b>					
Sales from continuing operations	\$33,020	\$47,711	\$47,840	\$44,603	\$173,174
Earnings from continuing operations	437	1,870	1,241	1,157	4,705
Profit (loss) from discontinued operations	(151)	(444)	(325)	(284)	(1,204)
Earnings before extraordinary items	286	1,426	916	873	3,501
Earnings per share:					
Continuing operations	.09	.38	.26	.24	.97
Discontinued operations	(.03)	(.09)	(.07)	(.06)	(.25)
Before extraordinary items	.06	.29	.19	.18	.72
<b>1982</b>					
Sales from continuing operations	\$34,934	\$43,843	\$39,482	\$42,462	\$160,721
Earnings from continuing operations	385	1,159	1,493	1,520	4,557
Profit (loss) from discontinued operations	(90)	(56)	114	(313)	(345)
Earnings before extraordinary items	295	1,103	1,607	1,207	4,212
Earnings per share:					
Continuing operations	.08	.23	.31	.32	.94
Discontinued operations	(.02)	(.01)	.03	(.07)	(.07)
Before extraordinary items	.06	.22	.34	.25	.87





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**G & H Steel Industries Limited**  
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British Columbia V4G 1A7  
Telephone: (604) 946-1231

**Frankel Steel Limited**  
220 Attwell Drive, Unit No. 1, Rexdale,  
Ontario M9W 5B2  
Telephone: (416) 675-1722

**Central Fabricators Ltd.**  
21st Street and 105th Avenue,  
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Edmonton, Alberta T6C 4G5  
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**Laurel Steel Products Ltd.**  
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**Laurel Steel of New England Inc.**  
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Mansfield, Massachusetts 02048  
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**Laurel Steel Inc.**  
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**Fisher & Ludlow**  
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**Secord Manufacturing**  
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Telephone: (416) 560-3611

**Thomsson Steel Company Inc.**  
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## Investor information

**Registrar and transfer agent**  
National Trust Company Ltd.,  
21 King Street East,  
Toronto, Ontario M5C 1B3

**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

**Geoffrey J. Jackson**  
Vice President

**James Wilson**  
Vice President - Marketing

**Glenn Riddell**  
Vice President - Manufacturing

**Bruce Timmerman, C.A.**  
Vice President - Finance

**Albert Baradziej**  
Vice President - Reinforcing  
Marketing

**John Prosser, P. Eng.**  
Vice President - Reinforcing  
Engineering

**John Harris, M.B.A.**  
General Manager - Western Rebar  
Operations

**Lorie Waisberg, Q.C.**  
Secretary

## Board of directors

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

**The Honourable  
J. Judd Buchanan**  
Chairman and Chief Executive  
Officer  
CNG Fuel Systems  
Director since 1981

**Cecil H. Franklin**  
Chairman and Chief Executive  
Officer  
Algonquin Mercantile Corporation;  
Chairman of the Board  
Hardee Farms International  
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, C.A.**  
Chairman and Chief Executive  
Officer  
Androck Inc.  
Director since 1973

## Audit Committee

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

## 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 1983

	High	Low	Close	Shares traded	Dividend
First quarter	7 $\frac{1}{4}$	4.30	7 $\frac{1}{8}$	68,036	\$.07
Second quarter	9 $\frac{3}{4}$	7	8 $\frac{3}{4}$	99,111	.07
Third quarter	9 $\frac{1}{2}$	8	8 $\frac{1}{2}$	57,143	.07
Fourth quarter	8 $\frac{3}{8}$	7 $\frac{1}{4}$	8	70,604	.07
Year	9 $\frac{3}{4}$	4.30	8	294,894	.28
Year 1982	6	3.05	4.50	114,313	.28

### Class B shares 1983

	High	Low	Close	Shares traded	Dividend
First quarter	7 $\frac{1}{2}$	4.80	7 $\frac{1}{8}$	36,325	\$.07
Second quarter	9 $\frac{1}{2}$	7	8 $\frac{1}{4}$	9,825	.07
Third quarter	9	8 $\frac{1}{8}$	8 $\frac{1}{2}$	8,987	.07
Fourth quarter	8	7 $\frac{1}{4}$	7 $\frac{3}{8}$	19,699	.07
Year	9 $\frac{1}{2}$	4.80	7 $\frac{3}{8}$	74,836	.28
Year 1982	6	3.00	4.60	61,199	.28





The Harris Steel Group continues its participation in building highrise office towers in downtown Toronto. Under construction is the 37-storey Toronto-Dominion Centre, Tower 4, where Harris/VSL has a contract to supply and place 2,200 metric tons of reinforcing steel (foreground)

and the 26-storey Standard Life Tower (background) where Frankel Steel has a contract to fabricate and erect 3,500 tons of structural steel. Between the 2 buildings is the Commercial Union Tower which was completed by Frankel Steel in 1967.

