

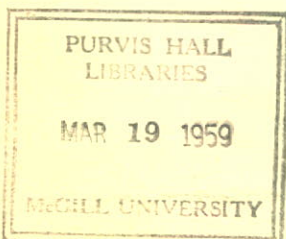
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Algoma Steel Corporation, Limited

ANNUAL REPORT

For the Year Ended December 31st, 1958



ALGOMA STEEL CORPORATION, LIMITED

BOARD OF DIRECTORS

George C. Bateman, C.M.G., O.B.E.	Montreal, Quebec
Hon. T. A. Crerar	Winnipeg, Manitoba
*Sir Philip Dunn, Bart.	London, England
Henry S. Hamilton, Q.C.	Sault Ste. Marie, Ontario
*David S. Holbrook	Sault Ste. Marie, Ontario
*Wilbert H. Howard, C.B.E., Q.C.	Montreal, Quebec
George W. MacLeod	Sault Ste. Marie, Ontario
*T. R. McLagan, O.B.E.	Montreal, Quebec
*E. Gordon McMillan, Q.C.	Toronto, Ontario
*James Muir, D.C.L.	Montreal, Quebec
J. S. D. Tory, O.B.E., Q.C., S.J.D.	Toronto, Ontario
Wilhelm Zangen	Dusseldorf, West Germany

*Members of Executive Committee.

OFFICERS

David S. Holbrook	President
R. Armstrong	Vice President - Industrial and Public Relations
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
E. Gordon McMillan, Q.C.	Vice President
C. Carson Weeks	Vice President - Sales
Tom Gould	Executive Assistant to the President
H. G. MacAdam	Secretary
C. E. McLurg	Treasurer

**SIGNIFICANT FINANCIAL FIGURES FOR 1958
COMPARED WITH 1957**

	<u>1958</u>		<u>1957</u>	
	<u>Amount</u>	<u>Per Cent of Income</u>	<u>Amount</u>	<u>Per Cent of Income</u>
Net Sales	\$122,777,894		\$142,479,951	
Investment Income	1,387,655		1,526,465	
	<u>\$124,165,549</u>	<u>100.0</u>	<u>\$144,006,416</u>	<u>100.0</u>
Operating Costs	\$ 89,552,938	72.1	\$105,699,016	73.4
Extraordinary Expense of Moving and Rearranging Plant	948,125	.8	1,692,476	1.2
Administrative, Selling, General Expense, etc.	2,943,872	2.3	3,057,122	2.1
Interest and Amortization of Debenture Expense	1,232,475	1.0	465,233	.3
Depreciation, Depletion and Amortization	9,306,977	7.5	7,639,468	5.3
Profit Before Income Taxes	20,181,162	16.3	25,453,101	17.7
Income Taxes	8,418,544	6.8	11,274,805	7.8
Net Profit	11,762,618	9.5	14,178,296	9.9
Per Share on 5,745,080 shares	2.05		2.47	
Dividends Paid	5,703,080		5,703,080	
Per Share on 5,703,080 shares	1.00		1.00	
Profit Reinvested in the Corporation	6,059,538		8,475,216	
Capital Additions, Improvements and Mine Development	35,870,845		25,790,300	
Long Term Debt — at year end	35,918,574		11,389,851	
Working Capital — at year end	49,181,013		44,619,666	
Inventories — at year end	35,391,122		36,557,775	
Shares Outstanding — at year end	5,745,080		5,703,080	

DIRECTORS' REPORT

To the Shareholders of Algoma Steel Corporation, Limited:

The Board of Directors submits herewith the Annual Report of the Corporation and its subsidiaries with the consolidated financial statements and report of the auditors for the year ended December 31st, 1958.

FINANCIAL

The general slowdown in business in Canada which started in the second half of 1957 continued through most of 1958 and resulted in the lowest demand since 1954 for many of the Corporation's products, with particular effect on those products associated with heavy construction, the oil and gas industries and export.

Good demand for iron ore and continuing improvement in plant and methods in recent years enabled a satisfactory profit rate to be maintained on a lower volume of business, even with higher charges for interest and depreciation of plant still under construction. Net profit was \$11,762,618 equivalent to \$2.05 per share.

Significant financial figures for 1958 compared with 1957 are shown on page 2.

Net sales of \$122,777,894 were the third highest in the history of the Corporation being about 14% lower than in 1957 which was a record year. Net profit decreased 17% from 1957, however it only declined from 9.9 to 9.5 cents per dollar of income.

Extraordinary expense of \$948,125 in 1958 for moving and rearranging plant as a result of the construction program is not expected to recur to the same extent in 1959. Depreciation was again provided on all capital expenditures as incurred, although major projects were not brought into production until late in the year and contributed very little to income. The largest single unit of the expansion, the Bloom and Plate Mill, will not start production until early in 1959. Provision for depreciation, depletion and amortization of mine development costs increased \$1,667,509 in 1958 and amounted to 7.5% of income. This has increased steadily in recent years reflecting the many plant improvements.

In May, 1958 the money market was favourable for floating debentures and the Corporation took advantage of this to partially restore working capital used

for expansion and on May 15th sold \$25,000,000 of 5¼% 20 year sinking fund debentures Series A and pledged \$11,136,000 Series B debentures as collateral security for the existing long term loan. Additional information with respect to these debentures is given in Notes to Financial Statements. Interest on the Series A debentures, and amortization of debenture expense amounted to \$845,099 in 1958.

The provisions of this debenture issue were considered favourable by the Corporation and it was well received on the market. Subsequent developments in the long term money market indicate that conditions would not have been as good for such an issue later in the year.

The special credit of \$17,500,000 arranged for in 1957 and available until the middle of 1959 was not used and was cancelled following sale of the debentures.

The Corporation's application to the Deputy Minister (Taxation) of the Department of National Revenue for exemption of earnings from the sale of Algoma Sinter from the new Sir James Mine at Jamestown for three years from November 1st, 1958 has been approved. The effect of this on 1958 income taxes was negligible.

Deferment of income taxes to future years resulting from claiming for tax purposes the maximum allowances for depreciation and charging earnings with depreciation on an expected life basis added a substantial amount to cash flow. This along with reinvestment in continuing plant improvements has provided the high cash flow from operations desirable to a healthy corporate economy. In this connection the following tabulation is of interest.

Cash Generated by Operations

	<u>1958</u>	<u>1957</u>
Net profit	\$11,762,618	\$14,178,296
Depreciation, depletion and amortization . . .	9,306,977	7,639,468
Deferred income taxes	4,891,500	1,868,400
	<u>\$25,961,095</u>	<u>\$23,686,164</u>

Inventories shown in the comparative tabulation on page 2, after a transfer of rolls and similar items to Fixed Assets, were lower as a result of reduced quantities of raw materials on hand at the end of 1958.

GENERAL OPERATIONS

The lag in demand for iron and steel products experienced in the latter part of 1957 extended through the first half of 1958, however from the middle of the year to the end, a gradual improvement was noted. Overall corporate activity in the first half was about 71% of capacity, and in the second half about 83%.

Iron and Steelworks production and shipments in 1958 compared with 1957 were:

		Production	
		1958	1957
		N.T.	N.T.
Coke Ovens	— Coke	888,762	1,173,013
Blast Furnaces	— Iron	1,109,922	1,433,794
Open Hearth and L-D Oxygen Steel Plant	— Steel Ingots	961,535	1,065,793
		Shipments	
		1958	1957
		N.T.	N.T.
Coke		216,640	255,651
Pig Iron		354,331	536,021
Steel Products		726,642	822,680

Lower volume, less favourable product mix and the processing of smaller tonnage orders characterized Steelworks operations during the year. The use of new and improved production units, better operating techniques and effective control of expenses tended to offset cost increases inherent in this type of operation and higher labour costs.

The new L-D Oxygen Steel Plant was brought into production in November. This new plant represents a significant advance in Algoma's steel economy and technology. One of its two 95 ton capacity oxygen steel furnaces can produce more than twice as much high quality steel in a year as all four of the remaining open hearth furnaces in No. 1 Shop, which are due to be scrapped. The L-D Oxygen Steel operation has been successful in all respects and it is expected that continually widening acceptance of steel made by this process will be experienced.

Production of Algoma Sinter at Jamestown, reached a record 1,632,137 gross tons compared with 1,581,688 gross tons in 1957. Particular attention is being paid to increasing the iron content of Algoma Sinter which has proven to be an excellent raw material for use in the production of hot metal for the L-D Oxygen Steel Plant at Sault Ste. Marie.

Exploration of an area of over one million acres in the northern part of the District of Algoma, started in 1956 was continued through 1958. No commercial deposits have been disclosed to date.

The Cannelton and Lake Superior coal mines produced 1,274,621 net tons in 1958 compared with 1,248,912 net tons in 1957.

SALES

The market for most products was weak and very competitive throughout 1958, particularly during the first half of the year as a result of the lower level of business activity in Canada. Customers were liquidating inventories and orders were generally placed on a hand to mouth basis. The only major products for which demand and shipments increased were hot and cold rolled sheet and strip. Continuing the trend of recent years sales of semifinished steel again declined and sales of flat rolled products amounted to over 40% of total steel sales. Cold formed structural angles made from hot rolled strip were produced and sold for the first time in 1958.

In the latter part of the year, the pipe market became more active and improvement in sales of skelp, tube rounds and steel for 1959 automobiles, continued through the end of the year. The market for structurals, bars and other heavy products has not yet strengthened.

The domestic market for pig iron was very weak due to use by foundries of a high percentage of cast iron scrap at low prices and a low rate of automobile manufacture; the export market for pig iron was also weak and as a result pig iron sales in 1958 were disappointing. Sales improved toward the end of the year with increased activity among automotive customers, and prospects for 1959 are better.

The steel price structure in Canada permitted very modest increases in few products, and freight absorption continued to restrict returns at Sault Ste. Marie. Average realization for both iron and steel products was less than 2% higher than in 1957.

Revisions were made in the Tariff Schedules relating to primary iron and steel products in June which improved duty protection on some products such as rails, structurals and wide flange beams and reduced protection on some flat rolled steels. Late in the year as a result of weakening in World steel markets, competition developed from offerings of overseas steel at cut prices in Canada. The effect of these offerings could be serious in depressing certain steel products.

Orders are being received for sheared plate up to 96 inches wide to be produced on the Bloom and Plate Mill. This new product line represents further diversification.

Indications are that flat rolled steel will be in strong demand for several months to come and that in the first half of 1959 overall volume of business will be better than in 1958.

IMPROVEMENTS, ADDITIONS AND ALTERATIONS

Good progress was made on improvement and development at the Steelworks at Sault Ste. Marie and the iron ore properties at Jamestown. The Expansion Program started late in 1956 is on schedule and the remaining expenditure at December 31st, 1958 to complete it was \$8,600,000.

The major projects completed at the Steelworks during the year were: No. 7 Coke Oven Battery of 57 ovens; No. 6 Blast Furnace relined and enlarged to a 27 foot diameter hearth with average production since realized of over 1,500 tons per day; the L-D Oxygen Steel Plant with a resulting increase in steel-making capacity to 1,600,000 tons per year; nine Soaking Pit furnaces for the Bloom and Plate Mill; equipment to produce cold formed structural angles from hot rolled strip; a high pressure Boiler permitting retirement of three old and obsolete boiler houses, and an Ingot Stripper Building to handle heavy ingots needed for the Corporation's new mill. New railway transfer yards and major improvement in track layout were completed, along with improved plant roads, lighting, entrance, parking lots and other service facilities.

Projects remaining to be completed at the Steelworks are: a large blast furnace turbo-blower which, with the boiler recently completed, will allow retirement of all blast furnace blowing equipment more than 16 years old; a new and more powerful drive for the reversing roughing stand of the Rail and Structural Mill, and a new continuous reheating furnace for the same mill, replacing old furnaces. The major uncompleted project is the Bloom and Plate Mill, which will undergo test rolling in the first quarter of 1959. This mill will meet

all needs of the Corporation for rolling ingots to semifinished form for many years to come, and further extend the Corporation's flat rolled markets.

Investigations are being made into the advisability of installing a Universal Beam Mill at the Steelworks to produce wide flange beams in sizes most used in Canada.

The new Sir James Mine was brought into production in November, 1958 and the new Ore Concentration Plant and railway unloading, stockpile and ore conveying facilities at Jamestown were also completed and brought into operation.

The relining of No. 1 Blast Furnace at Port Colborne was completed early in the year.

Continual mechanization of mining at the coal mines which has been practically completed, has brought their equipment and methods completely up-to-date.

EMPLOYEE RELATIONS

Emphasis was again placed on programs to train employees in better work methods, improved job performance and cost consciousness. Additional cost reduction incentives were installed. The economies resulting from use of more modern facilities and from these training programs are evident in the operating performance during 1958, a year of relatively low volume.

Labour agreements with the main Union bargaining units for employees of Algoma Steel and Algoma Ore Properties were renegotiated for a three year period from August 1st, 1958. These involved rate increases of 7 cents per hour effective August 1st, 1958, 7 cents per hour effective August 1st, 1959 and 10 cents per hour effective August 1st, 1960. Welfare agreements were also renegotiated for a three year period to August 1st, 1961 with the companies and the employees each contributing to the cost. There were no escalation factors nor supplemental unemployment benefits in these agreements and increases were therefore limited to an average of 3.5% annually.

In the coal companies, labour agreements were signed effective until terminated by either the Company or the Union on or after November 30th, 1959. Rate increases of \$1.20 per day effective January 1st, 1959 and 80 cents per day effective April 1st, 1959 with an increase in vacation allowance are provided for in these agreements.

PERSONNEL

On April 19th, 1958 F. O. Harris resigned as President of the Cannelton and Lake Superior coal companies and Paul Morton was elected President of these companies. Mr. Harris had given valuable service to the coal companies for 49 years and will act in a consulting capacity in future. Mr. Morton has had wide experience in the coal mining industry and has been with the Cannelton and Lake Superior companies since 1953.

The efforts and cooperation of the officers and employees which have been in large measure responsible for the results achieved this year by the Corporation, are gratefully acknowledged.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK
President

Sault Ste. Marie, Ontario,
February 10th, 1959.

ALGOMA STEEL CORPORATION

CONSOLIDATED

as at December

ASSETS

CURRENT

Cash	\$ 1,949,064	
Short term marketable investments at cost (Market value \$11,612,000)	11,625,072	
Bills and accounts receivable	15,688,400	
Inventories valued at the lower of cost or market	35,391,122	
Prepaid expenses	1,088,328	\$ 65,741,986

ACCOUNTS RECEIVABLE FROM EMPLOYEES UNDER AGREEMENTS OF SALE

384,135

INVESTMENTS AT COST

Marketable securities (Market value \$26,115,748)	6,058,488	
Other securities	155,948	6,214,436

FIXED ASSETS

Properties, plant and equipment at cost (Note 1)	183,500,462	
Less allowances:		
Depreciation and depletion	\$87,907,684	
Rebuilding and relining furnaces, etc.	1,720,781	89,628,465
		93,871,997
Mine development at cost	13,352,298	
Less amount amortized	5,749,483	7,602,815
		101,474,812

UNAMORTIZED DEBENTURE EXPENSE 726,562

\$174,541,931

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Signed on behalf of the Board

D. S. Holbrook	Director
Gordon McMillan	Director

LIMITED AND SUBSIDIARIES

BALANCE SHEET

31, 1958

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 14,383,671	
Taxes on income and other taxes	2,177,302	\$ 16,560,973

LONG TERM DEBT - SECURED

5¼% sinking fund debentures, series A (Note 2)	25,000,000	
Term loan (series B debentures pledged as collateral security) (Note 3)	10,918,574	35,918,574

DEFERRED TAXES ON INCOME (Note 4) 16,989,200

DEFERRED CREDIT TO INCOME (Note 5) 209,581

SHAREHOLDERS' EQUITY (Note 6)

Shares - no par value (Note 7)

Authorized —15,099,880 shares		
Issued — 5,745,080 shares	9,621,524	

Contributed surplus 2,211,485

Retained earnings 93,030,594 104,863,603

\$174,541,931

ALGOMA STEEL CORPORATION,

STATEMENT OF CONSOLIDATED EARNINGS

for the year ended December 31, 1958

INCOME

Net sales		\$122,777,894
Investment income including \$98,933 capital gain		1,387,655

124,165,549

COSTS AND EXPENSES

Cost of sales other than listed below	\$89,552,938	
Expense of moving and rearranging plant	948,125	
Administrative, selling and general expense	2,757,402	
Remuneration of directors including their salaries as executive officers	186,470	
Interest on debentures and amortization of debenture expense	845,099	
Interest on long term loan	387,376	
Amortization of mine development	1,170,406	
Depreciation and depletion	8,136,571	103,984,387

PROFIT BEFORE PROVIDING FOR TAXES ON INCOME		20,181,162
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TAXES ON INCOME

Current (Note 8)	3,527,044	
Deferred (Note 4)	4,891,500	8,418,544

NET PROFIT		<u>\$11,762,618</u>
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STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Amount at December 31, 1957		\$86,971,056
Net profit for the year ended December 31, 1958		11,762,618
		<u>98,733,674</u>
Less dividends		5,703,080
		<u>\$93,030,594</u>

STATEMENT OF CONSOLIDATED CONTRIBUTED SURPLUS

Amount at December 31, 1957 and December 31, 1958		<u>\$ 2,211,485</u>
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SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

L I M I T E D A N D S U B S I D I A R I E S

NOTES TO FINANCIAL STATEMENTS

December 31, 1958

Note (1)

The program of Steelworks expansion and development of mining properties, commenced in 1956, will be substantially completed in 1959 by the expenditure after December 31, 1958 of approximately \$8,600,000.

Note (2)

Under date of May 15, 1958 the Corporation issued \$25,000,000 of 5¼% sinking fund debentures series A subject to:

Sinking fund requirements: Provision of an amount sufficient to redeem in each of the years 1963 to 1977 inclusive \$1,000,000 principal amount.

Redemption privileges: In addition to redemptions by sinking fund, the Corporation may redeem at any time all or any part of the series A debentures outstanding at prices prescribed by the Trust Deed or by purchase on the open market at prices not exceeding such prescribed redemption prices.

Due date: Debentures not redeemed as above become due May 15, 1978.

Note (3)

Coincident with the issue of series A debentures the Corporation pledged \$11,136,000 of series B debentures as collateral security for the existing term loan. This loan bears interest at 3½% to December 31, 1962 and at 4% thereafter and is repayable in monthly instalments contingent on sales to the lender, to be completely repaid by December 31, 1967. The Corporation is entitled to prepay at any time all or any part of this loan. The principal amounts repaid as above discharge simultaneously equal amounts of series B debentures.

Note (4)

The amount of \$4,891,500 in the statement of consolidated earnings for deferred taxes on income results from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. In the balance sheet this amount is included in "Deferred Taxes on Income". Such deferred taxes are applicable to future periods in which amounts claimed for depreciation for tax purposes will be less than amounts recorded in the accounts.

Note (5)

To take advantage of shipment by water, products had been shipped prior to December 31, 1958 to customers in excess of their normal requirements to that date. Profit on the excess amount has been deferred to the 1959 financial year after providing for income taxes thereon and is shown in the balance sheet as "Deferred Credit to Income".

Note (6)

Under the Trust Deed securing the series A debentures the Corporation is restricted as to payment of dividends (other than stock dividends) and reduction of share capital (other than out of the proceeds of an issue of shares specifically made for such purpose). At December 31, 1958 the restriction limited dividends plus capital stock reduction to \$12,700,000.

Note (7)

In 1957 the Corporation set aside 150,000 unissued shares under a Stock Option Plan for certain employees. In December 1957 options to purchase 92,000 of these shares were granted at a price of \$17.80 per share. In December 1958 options were exercised on 42,000 shares and these shares were issued for a total cash consideration of \$747,600. The options on the remaining 50,000 shares terminate ten years from the date they were granted.

Note (8)

Profits of a subsidiary company's mine are exempt from income tax for three years commencing November 1, 1958, as provided for under the Income Tax Act. If there had been no exemption, income taxes for 1958 would have increased by approximately \$90,000.

Note (9)

The assets and liabilities of the United States subsidiaries are included in the financial statements at par of exchange. At December 31, 1958 the United States dollar was at a discount of approximately 3½% in terms of the Canadian dollar. If the assets and liabilities had been converted at existing exchange rates, the adjustment would not have had any substantial effect on the Corporation's consolidated financial position.

Note (10)

Minority interests in subsidiaries, which are not significant, are included in "Accounts payable and accrued liabilities" in the balance sheet. The minority interests in earnings for the year 1958 are provided for in "Cost of Sales" in the earnings statement.

AUDITORS' REPORT

To the Shareholders,
Algoma Steel Corporation, Limited,
Sault Ste. Marie, Ontario, Canada.

We have examined the consolidated balance sheet of Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1958 and the statements of consolidated earnings, retained earnings and contributed surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings, retained earnings and contributed surplus present fairly the consolidated position of the Companies at December 31, 1958 and the results of their operations for the year ended on that date.

“PEAT, MARWICK, MITCHELL & CO.”
Chartered Accountants.

Toronto, Ontario.
January 28, 1959.

ALGOMA STEEL CORPORATION, LIMITED

PRODUCTS

Coke	Tube Rounds
Coal Chemicals	Sheet Piling
Pig Iron	Grinding Balls and Rods
Blooms, Billets and Slabs	Sheared Plate
Heavy and Light Rails	Universal Plate
Rail Fastenings	Hot Rolled Sheet and Strip
Heavy Structural	Cold Rolled Sheet and Strip
Carbon Merchant Bars and Light Structural	Electrical Sheet and Strip
	Skelp

WORKS AND OPERATIONS

Algoma Steel Corporation, Limited	Sault Ste. Marie, Ontario
Canadian Furnace Co. Limited	Port Colborne, Ontario
Algoma Ore Properties, Limited	Michipicoten District, Ontario
Cannelton Coal and Coke Company	Cannelton, West Virginia
Lake Superior Coal Company	Welch, West Virginia

EXECUTIVE OFFICES Sault Ste. Marie, Ontario

SALES OFFICES Sault Ste. Marie, Ontario
Bank of Montreal Building, Toronto, Ontario
Canada Building, Windsor, Ontario
Royal Bank Building, Hamilton, Ontario
Sun Life Building, Montreal, Quebec
Paris Building, Winnipeg, Manitoba

