# Algoma Steel Corporation, Limited

**ANNUAL REPORT**

**For the Year Ended December 31st, 1956**

# 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 |
| Harry 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 |
| Joseph Simard, O.B.E. | Montreal, Quebec |

*Members of Executive Committee.

## OFFICERS

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

# DIRECTORS' REPORT

### To the Shareholders of Algoma Steel Corporation, Limited:

The Board of Directors submits herewith the Annual Report of your Corporation and its subsidiaries with the consolidated balance sheet, financial statements and report of the auditors for the year ended December 31st, 1956.

## FINANCIAL

During 1956 the Corporation's financial position was improved with strengthening of working capital and further reduction of long term debt. Sales of greater tonnages, increased operating efficiency, the advantages resulting from a high operating rate and capital gain of $620,976 mainly due to sale of investments resulted in higher earnings than in any previous year. Consolidated net profit for the year amounted to $15,714,393 equal to $9.52 per share on 1,650,800 issued shares and $11.02 per share on 1,425,770 shares, excluding 225,030 shares owned by subsidiary companies at December 31st, 1956. The following is a comparison of significant figures for 1956 and 1955:

| | 1956 | 1955 |
|---|---|---|
| Total Income | $143,961,074 | $114,756,710 |
| Net Profit | 15,714,393 | 10,441,834 |
| Per share of stock on 1,650,800 issued shares* | $9.52 | $6.33 |
| Per share of stock on 1,425,770 issued shares excluding shares owned by subsidiaries* | $11.02 | $7.32 |
| Capital Expenditures | 9,245,464 | 5,784,146 |
| Depreciation and Depletion | 5,305,351 | 5,079,761 |
| Development Rock Work Charged to Mining Costs | 984,735 | 731,852 |
| Working Capital | 52,773,353 | 36,299,754 |
| Long Term Debt | 11,982,122 | 12,579,648 |

*In 1956 capital gain on sale of investments accounted for profit per share of 38 cents on 1,650,800 shares and 44 cents per share on 1,425,770 shares.

A continuous program of modernization and additions to plant and development of mining properties is necessary to maintain and improve the Corporation's earning capacity. In view of present day high cost of construction and the tight money market with its resulting high cost of borrowed capital, retained earnings must continue to be one of the important sources of funds required for improvements and additions to plant. Total net profit of $15,714,393 was added to retained earnings during the year, thus improving the value of your investment.

Working capital increased $16,473,599 during the year to $52,773,353. Cash and bank deposit certificates increased from $2,090,011 to $13,091,951, the bank loan of $3,325,000 outstanding at December 31st, 1955 was retired and the ratio of current assets to current liabilities showed marked improvement during the year. Higher volume resulted in a substantial increase in accounts receivable. It also necessitated larger inventories, the aggregate amount of which exceeded $36,500,000 at the year end.

The book value of marketable investments was reduced $647,222 during the year reflecting the sale of securities.

Continuation of the policy of claiming the maximum depreciation allowed under income tax regulations and providing adequate depreciation in the financial statements resulted in deferment of $2,937,300 in income tax.

The long term loan was reduced $597,526 during the year.

Deferred credit to income of $440,127 resulted from shipments in late 1956 of products not due for delivery under contract until 1957. These shipments were made in 1956 to take advantage of lower cost water transportation. Similiar shipments were made in 1955.

## GENERAL OPERATIONS

Business activity was high throughout 1956 and production and shipments of iron and steel products exceeded any previous year. Plant facilities were operated at near capacity throughout the year and in spite of this the Corporation was unable to satisfy the needs of all customers.

Steel ingot production was at a new record high and amounted to 1,104,750 tons. Iron production, also a new record, amounted to 1,489,985 tons, and coke production amounted to 1,288,109 tons.

Demand for coke necessitated continued operation of all batteries of coke ovens and demand for pig iron together with higher tonnage requirements of molten iron for the Open Hearth furnaces resulted in continued operation of all available Blast Furnaces. Only four of the small Open Hearth furnaces in No. 1 Shop were operated and increased productivity was experienced from the larger, more modern furnaces in No. 2 Shop. Record tonnages were rolled on the 44" Blooming Mill and the Hot and Cold Strip Mills and productivity increased on the other rolling mills.

Production of Algoma Sinter amounted to 1,411,427 gross tons and all of this ore was sold. To aid the blast furnace sintering operation at the steelworks shipment of raw siderite ore from Jamestown to Sault Ste. Marie was commenced in 1956 at a rate of 75,000 tons annually.

Production of iron by Canadian Furnace Company amounted to 188,156 tons and production of coal by Lake Superior Coal Company and Cannelton Coal and Coke Company in West Virginia amounted to 1,190,912 tons.

In December 1956 production of tube rounds was started for the new works of the Mannesmann Tube Company, Ltd. in Sault Ste. Marie.

The new grinding ball plant referred to in the Directors' Report last year was brought into successful operation in 1956.

Due to excessively high manufacturing costs, production of merchant bars on the old hand-operated 12" Merchant Mill was discontinued in July 1956. The following obsolete facilities were scrapped in 1956 — No. 1 Blast Furnace, No. 8 Open Hearth Furnace, No's. 3 and 4 Coke Oven Batteries, No. 1 Open Hearth Shop Mixer, Calcining Plant, Round House and the old Grinding Ball Plant.

Your Directors decided not to renew the franchise to operate a bus system in Sault Ste. Marie which expired on October 31st, 1956. Under the franchise agreement the City undertook to purchase the assets of the bus system at appraised value on expiration of the franchise. At the request of the City the Corporation agreed to continue to operate the bus system until June 30th, 1957 at which time the appraised value will be payable to the Corporation and the bus system will be taken over by the City.

Shipments of iron and steel products by the Corporation during the year amounted to 1,476,613 tons which established a new record. Shipments of coke were maintained at the normal rate.

## SALES

During 1956, as a result of the high level of business activity, demand for all products was strong and consolidated sales reached a record of $142,438,979 or 25% over 1955.

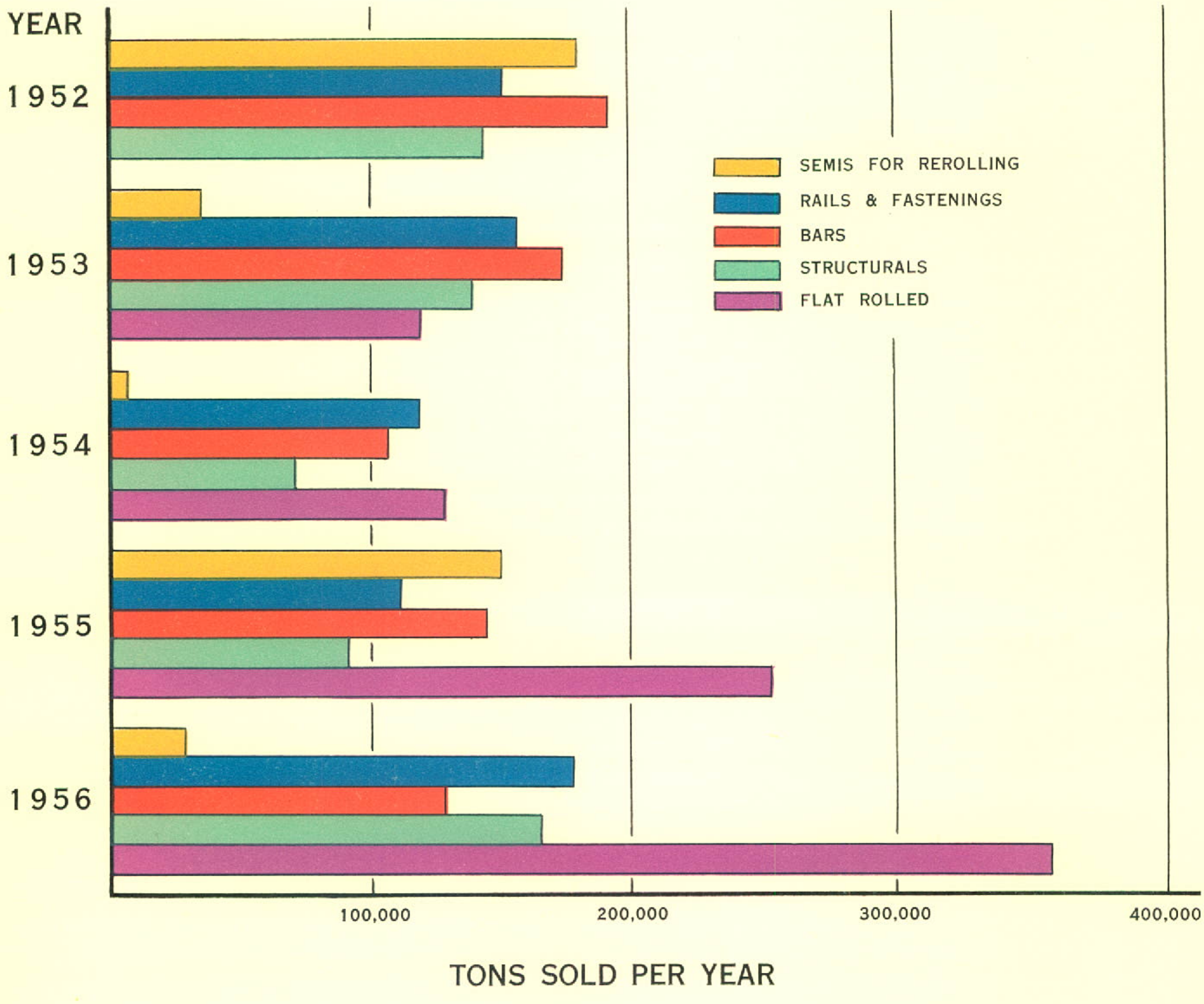
In April prices of some steel products and pig iron were increased slightly as a result of increased costs of raw materials and in August prices of steel products, pig iron and coke were increased to offset increased labour costs. In keeping with the conservative pricing policy of the Canadian Iron and Steel Industry these price increases were modest.

Iron and steel in good supply and of high quality, conservatively priced, represent the great underlying support for Canadian secondary industry. Your Corporation's products provide some of the best values available to the metal working industries of Canada. The approximate average price received in 1956 for pig iron at the Works was $59.00 per gross ton and for steel $107.00 per net ton.

During 1956 the most important class of steel sold consisted of skelp, strip, narrow sheets and plates. The change in the composition of steel product sales from 1952 to 1956 is shown in the following chart.

## STEEL PRODUCT RELATIONSHIPS

### By Years from 1952 to 1956 Inclusive




In 1952, the year before the Corporation commenced production of flat rolled products in furtherance of its diversification program, 27% of total steel sales was made up of semi-finished steel for rerolling. The progressive increase in production of flat rolled products since that time has resulted in a greater percentage of steel being finished in the Works and in 1956 less than 4% of steel rolled was sold in semi-finished form.

Sales offices were opened in Hamilton, Ontario in February 1956 and Winnipeg, Manitoba in January 1957 to provide better service to customers.

## IMPROVEMENTS AND ADDITIONS

Capital expenditures on plant and development expenditures on mining properties during the year amounted to $9,245,464. The following major improvements and additions were made at Sault Ste. Marie: completion of construction of a plant for making grinding balls in a wide size range, substantial completion of improvements to blast furnace gas cleaning facilities, relining No. 3 Blast Furnace, construction of additional welfare facilities for employees, commencement of construction on a battery of 57 Coke Ovens, and commencement of construction of a foundry to produce ingot moulds.

The new battery of coke ovens will permit continuous operation of five Blast Furnaces not now possible due to the limitations of present coke capacity. The ingot mould foundry will permit production at lower cost of moulds which have been purchased in the past.

The 20 gross ton capacity ore bridge referred to in the Directors' Report last year is expected to be in operation early in 1958.

The program of mechanizing mining operations at the Lake Superior and Cannelton Coal mines in West Virginia continued and the coal preparation plant at Lake Superior is nearing completion.

Algoma Ore Properties is continuing a development program commenced in 1953 to bring three new mining levels below the Helen Underground second level into production. These levels are scheduled to be in production by the end of 1959. During the year a 2,000 foot shaft was completed and a friction drive hoist installed, the first of its kind in Canada.

A Blending Plant completed in 1956 has resulted in more uniform and better quality Sinter and an increase in production. Construction of a sixth sintering machine, and a new sink-float plant commenced in 1956, will be completed during 1957. Production from the Sir James Mine and from these new facilities scheduled for 1957 will increase capacity to 2,000,000 gross tons of Sinter annually.

An exploration program was commenced during 1956 involving a complete aerial geophysical survey of an area of over one million acres in the northern part of the District of Algoma. The aerial survey will be followed by the usual geological and geophysical ground survey of favourable areas. This program will take several years to complete but the indicated results so far are such that the expenditure involved in the program is well justified.

## FUTURE PROSPECTS

Iron and steel demand continues strong for almost all the Corporation's products and capacity operation through the first half of 1957 is indicated. It is expected that Algoma Ore Properties will operate at full capacity throughout 1957.

## EXPANSION PLANS

A program for steelworks expansion was formulated in 1956. This program places continuing emphasis on the development of new finished products, and embraces capacity for making and finishing 1,600,000 tons of ingots per year by the end of 1958. This represents an increase of approximately 500,000 tons of ingots per year over present capacity. It is expected that upon completion of this program the Corporation will have modern capacity for finished steel products at least equal to ingot steel production capacity, which is important.

The major units in the program are a new battery of 57 coke ovens, improvements to blast furnace plant, conversion of the Bessemer steel making plant to an L-D oxygen steel making plant, and installation of a new dual purpose blooming and sheared plate mill which will roll the additional steel produced. New plate capacity is considered especially desirable to meet the steel needs of the booming oil and gas developments in the Canadian West.

To keep apace with the expansion of finished steel products this program also involves expenditure of important sums of money on the Corporation's coal and ore properties.

Total estimated expenditures at present price levels required to implement this program from December 31st, 1956 to its substantial completion in the spring of 1959 amount to approximately $67,000,000. These expenditures will provide for a potential increase in sales volume of over 25% by 1959 and will result in further economies in operations, thus improving the earning capacity of the Corporation.

## FINANCIAL PLANS

It is expected that the expansion program can be financed mostly by funds generated from operations. It is the opinion of the Board of Directors, however, that provision should be made for additional funds. In view of this, arrangements have been made for a special loan of up to \$17,500,000 to be available if and as required until mid-1959 at which time the capital needs of the Corporation will be clearer.

## TARIFFS

During 1956 the Canadian basic iron and steel industry continued representations to the Tariff Board on the provisions of the Customs Tariff of 1906 relating to primary iron and steel products. The importance to the industry and the Canadian economy of reappraising and rewriting the steel tariff to bring it in line with conditions existing today was stressed and the industry is hopeful that revised tariffs may be passed which will recognize present conditions and permit sounder planning for the future.

## EMPLOYEE RELATIONS

Relations between the Corporation and its employees in 1956 were good and an average of 9087 employees received \$43,302,655 in compensation.

Labour agreements with the Union bargaining units have been renegotiated. The principal agreements covering employees of Algoma Steel, Algoma Ore Properties and Canadian Furnace Company are for two years expiring August 1st, 1958. These agreements provide for increases in the base rate of 10 cents per hour from \$1.53½ to \$1.63½ effective August 1st, 1956 and an additional 8 cents per hour to \$1.71½ effective August 1st, 1957. There were also increases each year of one half cent in the increment between job classes and adjustments in shift differentials and premiums for work on Sundays and the work week was reduced from 44 to 40 hours for Union employees of Algoma Ore Properties.

The Coal companies wage agreements are for one year from October 1st, 1956 and provide for an increase of \$1.20 per day on October 1st, 1956 and 80 cents per day on April 1st, 1957 with adjustments in fringe benefits.

At Sault Ste. Marie new incentive plans were instituted in 1956 in a number of operating departments. Approximately 30% of production workers and a number of supervisors are now covered by production and cost reduction incentives. These plans have stimulated production.

A revised pension plan was negotiated with United Steelworkers of America at Sault Ste. Marie effective for five years until July 31st, 1961 incorporating an increase in the pension formula from $2 to $3 per month for each year of service, total disability pension starting at age 55, increase in the minimum service requirement from 15 to 20 years, increase in maximum service from 30 to 40 years and reduction in normal retirement age from 70 to 68 years. This plan is non-contributory. Similar plans have been negotiated for Union employees of Algoma Ore Properties and Canadian Furnace Company.

## PERSONNEL

Colonel Louis H. Derrer, Vice President and General Manager - Steel Works, died on November 25th, 1956. His outstanding abilities and humane qualities will be greatly missed.

John B. Barber was appointed Vice President - Finance, Reginald Armstrong, Vice President - Industrial and Public Relations and Douglas Joyce, Manager of Operations of Algoma Steel Corporation, Limited on December 10th, 1956.

Paul Morton was appointed Vice President and General Superintendent of Cannelton Coal and Coke Company and Lake Superior Coal Company on March 14th, 1956.

The loyalty and efficient services of the officers and employees of the Corporation are sincerely appreciated.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK,
President

Sault Ste. Marie, Ontario,
March 15th, 1957.

# ALGOMA STEEL CORPORATION,

**CONSOLIDATED**

**as at December**

## ASSETS

| | | | |
|---|---|---|---|
| CURRENT | | | |
| Cash and bank deposit certificates . . . . . | | $ 13,091,951 | |
| Bills and accounts receivable . . . . . . . . | | 19,606,907 | |
| Inventories of raw materials, supplies and saleable products valued at the lower of cost or market | | 36,550,848 | |
| Prepaid expenses . . . . . . . . . . . . | | 871,437 | $ 70,121,143 |
| ACCOUNTS RECEIVABLE FROM EMPLOYEES UNDER AGREEMENTS OF SALE | | | 467,529 |
| INVESTMENTS | | | |
| Marketable shares at cost (Market value $20,143,930) . . . . . . . | | 6,049,462 | |
| Other securities at cost . . . . . . . . . . | | 158,498 | 6,207,960 |
| PROPERTY AND EQUIPMENT | | | |
| Land, buildings, plant and equipment, mining properties and leases — at cost (Note 1) . . . | | 125,392,830 | |
| Less: Allowances for depreciation and depletion . . . . . . . | $76,374,928 | | |
| Rebuilding and relining furnaces, etc. . . . . . . . | 2,068,252 | 78,443,180 | |
| | | 46,949,650 | |
| Development rock work — at cost . | 9,316,038 | | |
| Less: Amount charged to costs . | 3,408,124 | 5,907,914 | 52,857,564 |
| | | | $129,654,196 |

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, 1956

## LIABILITIES

| | | |
|---|---|---|
| CURRENT | | |
| Accounts payable and accrued liabilities . . . | $11,826,600 | |
| Taxes on income and other taxes . . . . . . | 5,521,190 | $ 17,347,790 |
| LONG TERM LOAN (Note 2) . . . . . . . . . | | 11,982,122 |
| DEFERRED TAXES ON INCOME (Note 3) . . . | | 10,229,300 |
| DEFERRED CREDIT TO INCOME (Note 4) . . . | | 440,127 |
| SHAREHOLDERS' EQUITY | | |
| Common stock—no par value | | |
| Authorized —4,000,000 shares | | |
| Issued —1,650,800 shares . . . . . | 10,274,500 | |
| Contributed surplus . . . . . . . . . . . | 3,071,745 | |
| Retained earnings—in use in the business . . . | 78,495,840 | |
| | 91,842,085 | |
| Deduct: Cost of 225,030 shares the property of wholly owned Subsidiary Companies . . | 2,187,228 | 89,654,857 |
| | | $129,654,196 |

# ALGOMA STEEL CORPORATION,

53

## STATEMENT OF CONSOLIDATED EARNINGS

**for the year ended December 31, 1956**

| | | |
|---|---|---|
| Net Sales . . . . . . . . . . . . . . . . . | | $142,438,979 |
| Investment income including $620,976 net capital gain . . . . . . . . . . . | | 1,522,095 |
| | | 143,961,074 |
| Cost of sales exclusive of items listed below . . . | $107,343,798 | |
| Administrative, selling and general expense . . . | 2,617,818 | |
| Remuneration of directors including their salaries as executive officers . . . . . . . . . | 159,784 | |
| Interest on long term loan . . . . . . . . . . | 396,745 | |
| Other interest . . . . . . . . . . . . . . . | 14,843 | |
| Development rock work charged to mining costs . | 984,735 | |
| Depreciation and depletion . . . . . . . . . | 5,305,351 | 116,823,074 |
| PROFIT BEFORE PROVIDING FOR TAXES ON INCOME . . . . . . . . . . | | 27,138,000 |
| Taxes on income—current . . . . . . . . . . | 8,486,307 | |
| —deferred (Note 3) . . . . . . | 2,937,300 | 11,423,607 |
| NET PROFIT . . . . . . . . . . . . . | | $15,714,393 |

## STATEMENT OF CONSOLIDATED RETAINED EARNINGS

| | |
|---|---|
| Amount at December 31, 1955 . . . . . . . . | $62,781,447 |
| Net profit for the year ended December 31, 1956 . | 15,714,393 |
| AMOUNT AT DECEMBER 31, 1956 . . . . | $78,495,840 |

## STATEMENT OF CONSOLIDATED CONTRIBUTED SURPLUS

| | |
|---|---|
| Amount at December 31, 1955 and December 31, 1956 (no change in the period) . . . . . . | $3,071,745 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

## NOTES TO FINANCIAL STATEMENTS

**December 31, 1956**

Note (1)

A major program of capital expenditures has been entered into for which commitments of approximately $19,000,000 were outstanding at December 31, 1956. This program includes development of the Corporation's mining properties as well as expansion of steel facilities. Total estimated expenditures on this program after December 31, 1956 to be completed by the early part of 1959 amount to approximately $67,000,000.

Note (2)

Long term loan is repayable in monthly instalments contingent on sales to the lender; to be completely repaid by December 31, 1967.

Note (3)

The amount of $2,937,300 shown 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. The above amount is included in the balance sheet with balances from previous years under the heading Deferred Taxes on Income. Such deferred taxes are applicable to those future periods in which the amounts claimed for depreciation for tax purposes will be less than the amounts recorded in the accounts.

Note (4)

In order to take advantage of shipment by water, products had been shipped prior to December 31, 1956, to the Corporation's customers, in excess of their normal requirements to that date. The profit on the excess amount has been deferred to the Corporation's 1957 financial year after providing for the income taxes payable thereon and is shown in the balance sheet under the heading Deferred Credit to Income.

Note (5)

The assets and liabilities of the United States subsidiaries are included in the financial statements at par of exchange. At December 31, 1956 the United States dollar was at a discount of approximately 4% in terms of the Canadian dollar. If the assets and liabilities had been converted at existing exchange rates, the exchange adjustment would not have had any substantial effect on the consolidated financial position of the Corporation.

Note (6)

Minority interests in subsidiary Companies, which are not significant, are included in Accounts payable and accrued liabilities in the balance sheet. The minority interests in earnings for the year 1956 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, 1956 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, 1956 and the results of their operations for the year ended on that date.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants.

Toronto, Ontario,
February 8th, 1957

# ALGOMA STEEL CORPORATION, LIMITED

## PRODUCTS

**Coke**
Industrial

**Coal Chemicals**
Benzol, Light Oil,
Sulphate of Ammonia,
Tar, Naphthalene, Pyridine

**Pig Iron**
Foundry
Malleable
Basic

**Blooms, Billets & Slabs**

**Heavy and Light Rails**

**Rail Fastenings**

**Heavy Structurals**

**Carbon Merchant Bars & Light Structurals**

**Sheet Piling**

**Grinding Balls**

**Universal Plate**

**Hot Rolled Sheet and Strip**

**Cold Rolled Sheet and Strip**

**Electrical Steel**

**Skelp**

**Alloy Steels**

---

## 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 & 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