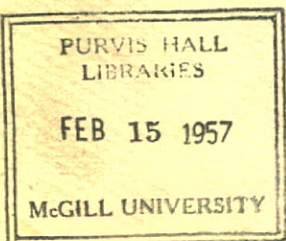


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Algoma Steel Corporation, Limited

ANNUAL REPORT
For the Year Ended December 31st, 1955



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 |

*Member of Executive Committee

OFFICERS

| | |
|----------------------------------|---|
| David S. Holbrook | President |
| E. Gordon McMillan, Q.C. | Vice President |
| Louis H. Derrer | Vice President & General Manager - Steel Works |
| Tom Gould | Executive Assistant to the President |
| H. G. MacAdam | Secretary |
| C. E. McLurg | Treasurer |
| John B. Barber | Comptroller |
| C. C. Weeks | Manager of Sales |



Sir James Dunn, Bart., Q.C.

1874 - 1956

Memorial To Sir James Dunn, Bart., Q.C.

The Board of Directors of Algoma Steel Corporation, Limited records with deep regret the death on the first day of January, one thousand nine hundred and fifty-six, at St. Andrews, New Brunswick, of Sir James Dunn, Bart., Q.C., President and Chairman of the Board of Directors of the Company.

Fifty years ago when he visited the area for the first time Sir James became interested in the enterprises founded by F. H. Clergue at Sault Ste. Marie. Following this visit Sir James arranged for Clergue to obtain financial backing in London for his enterprises, and during the next twenty-five years Sir James acquired a large financial interest in Algoma Steel. His active association with the Company came in the grave and uncertain days of the Great Depression. He brought with him a rich background of experience in the world of finance and industry, and unwavering faith in the future of this country. He became President and Chairman of the Board in May, nineteen hundred and thirty-five, and served in that capacity until his death.

His outstanding abilities and untiring efforts were devoted unstintingly to the development of the iron and steel industry in Canada. The great Canadian iron mining industry owes its beginning to his vision and resolution in founding and nurturing Algoma Ore Properties, Limited.

Under his creative leadership this Company and its subsidiary and related companies have grown and prospered immeasurably, and the flourishing communities in which they are located have shared abundantly the fruits of his genius.

To those who served with Sir James, his gifts and qualities were such that, when lost to them, left a void of sorrow. His immense ability, his integrity, and his warm generosity won the love and respect of all who knew him.

He rendered great services during his strenuous life. With his death the Company has lost an inspired leader, the nation has lost a distinguished citizen, and the world has lost a great man.

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 financial statements and the auditors' report for the year ended December 31st, 1955.

Your Corporation suffered a great loss in the death of its Chairman and President, Sir James Dunn, Bart., Q.C., on January 1st, 1956. This loss is best expressed by the Memorial on the preceding page adopted by the Board on February 7th, 1956.

The death of Mr. John A. McPhail, Q.C., on March 26th, 1956, was also a severe loss as he had been Vice Chairman of the Board of Directors and a Vice President of the Corporation since its incorporation in 1934. His wide knowledge, wise counsel, and long experience in the Corporation's affairs and his friendliness and optimism will be sadly missed.

OPERATIONS

Improvement in demand for iron and steel products resulted in increased production after the first quarter of 1955, so that shipments of steel products established a new record for the year, and pig iron shipments were among the highest levels in the Corporation's history. Steel rolling capacity was reached about the middle of the year and it became necessary to allocate products to our customers.

The comprehensive modernization and expansion program consisting of improvements in the Steel Works, the Ore Properties, the Coal Companies and Canadian Furnace Co. Limited which involved expenditures of approximately \$83,000,000 from 1950 through 1954 has proven highly successful. Obsolete equipment has been discarded in favour of units best suited to the needs of the Canadian steel market, and improved economy has resulted.

SALES

Sales of your Corporation's products have been further diversified. A majority of all steel manufactured in North America is in flat rolled form. Your Corporation has successfully entered this field and in 1955 the most important

class of steel sold consisted of strip, and narrow sheets and plates. Continued emphasis on the production of Algoma Sinter and pig iron and increased sales of these products have contributed substantially to diversification. The following tabulation illustrates the change in the composition of the dollar volume of sales during the five year period prior to the modernization and expansion program, and during the calendar years 1954 and 1955 after completion of the program:

| | <u>Prior to Modernization</u> | <u>Since Modernization</u> | |
|--|-----------------------------------|--------------------------------|-------|
| | % | % | |
| Coal | 4.5 | .6 | |
| Algoma Sinter | 3.8 | 8.0 | |
| Coke and By Products | 13.1 | 7.1 | |
| Pig Iron | 13.5 | 22.5 | |
| Steel | | | |
| For Rerolling by other steel producers | 18.8 | 9.6 | |
| Rails and Fastenings | 21.1 | 12.5 | |
| Bars | 16.8 | 12.5 | |
| Structurals | 7.3 | 6.0 | |
| Flat Rolled | — | 64.0 | 20.1 |
| | <hr/> | <hr/> | <hr/> |
| Sundry | 1.1 | 1.1 | |
| | <hr/> | <hr/> | <hr/> |
| | 100.0 | 100.0 | |
| | <hr/> | <hr/> | |

The proportion of sales represented by Algoma Sinter, pig iron and flat rolled steel products is now much greater while the proportion represented by coal, coke and by-products, steel for rerolling, rails and fastenings and bars is considerably less. For the first quarter of 1956 the percentage of flat rolled products in total sales has further increased. These trends are in accord with sound marketing practice, having regard to the geographical and economic factors involved.

FINANCIAL

As reported by letter dated March 15th, 1956 the financial position of your Corporation was considerably strengthened during 1955.

Consolidated sales of \$114,035,360 and net profit of \$10,441,834 were higher than in any previous year. Consolidated net profit equalled \$6.33 per

share on 1,650,800 issued shares and \$7.32 per share excluding 225,030 shares owned by subsidiary companies. Comparative figures for 1954 were \$2.70 and \$3.13 per share on the same number of shares.

Working capital increased by \$16,172,154 during the year to \$36,299,754 largely because of increased earnings, lower capital expenditures and deferment of \$5,517,000 income taxes.

Your Directors continued the policy of providing an adequate amount for depreciation on a straight line basis in the financial statements and claiming the maximum allowed for income tax purposes. Depreciation claimed for income tax purposes in excess of the amount shown in the financial statements resulted in the above mentioned deferment of \$5,517,000 in income tax. This amount will become payable in the future and has been added to the deferred liability for income tax.

Deferred credit to income shown on the Balance Sheet as \$458,698 resulted from shipments being made late in 1955 of products not due for delivery under contract until 1956. These shipments were made in 1955 to take advantage of lower cost water transportation.

Long term debt was reduced \$764,929 during the year.

During the year a plan for deferred additional compensation for senior executives was inaugurated and became effective in 1955. This plan is designed to reward senior officials in proportion to their contribution to the Corporation's prosperity. A provision of \$95,000 was made for this purpose and is included with Accounts Payable and Accrued Liabilities in the Balance Sheet. Benefits under this plan will be paid on retirement or death of the employee whichever occurs first.

IMPROVEMENTS AND ADDITIONS

Net capital expenditures during the year totalled \$4,403,560. The principal improvements and additions were: Expansion of the combination bar and strip mill and cold strip mill at Sault Ste. Marie to increase their capacities to 400,000 tons and 80,000 tons per year respectively, commencement of construction of a plant at Sault Ste. Marie for making grinding balls in a wide size range; underground mining equipment and development work at the iron ore mines at James-

town to bring three additional mining levels into production and mechanical mining equipment at the coal mines in West Virginia.

Improvements to gas cleaning facilities referred to in our report last year are progressing satisfactorily and are expected to be completed this year.

As of the date of this report, important additional sums have been authorized for expenditure on plant and equipment.

At Lake Superior Coal Company's mine in West Virginia a new modern coal preparation plant is being constructed with a capacity of 300 to 350 tons per hour.

At the Michipicoten iron range, Algoma Ore Properties is proceeding with the development of the Sir James Mine at the Siderite Hill location and is installing a sixth sintering machine at Jamestown, increasing the capacity of Algoma Ore Properties for Algoma Sinter by 350,000 tons per year.

At the Steel Works at Sault Ste. Marie a new 20-ton capacity ore bridge will be installed at the ore dock to handle increased quantities of iron ore.

It is expected that all of these projects will be completed and in operation in 1957 and will increase production at lower manufacturing costs. The cost of these projects is estimated to be about \$8,000,000.

EMPLOYEE RELATIONS

The programs of Job Evaluation for hourly rated employees at Sault Ste. Marie and Port Colborne were completed in 1955 and are operating successfully.

Labour agreements were renegotiated in 1955. The principal agreement, with the United Steelworkers of America at Sault Ste. Marie, is for two years expiring on August 1st, 1957 with a reopener on wages and pensions in 1956. Under this agreement the base rate was increased 5 cents to \$1.53½ per hour effective May 1st, 1955, and the increment between job classes was increased 1 cent per hour with additional adjustments in shift differentials and fringe benefits.

Group welfare plans for hourly rated employees at Sault Ste. Marie were renegotiated in 1955 for a period of three years to February 1st, 1958. The plans provide comprehensive coverage for employees and their dependents and the cost is shared equally by the employees and the Company.

NEW DEVELOPMENTS

The Mannesmann Tube Company, Ltd. is now constructing a works with an annual capacity of 225,000 tons of seamless tubular products on lands under long term lease from your Corporation at Sault Ste. Marie, Ontario. Late this fall it is planned to start producing steel for this important new customer as its total requirements of tube rounds will be purchased from your Corporation. Manufacture of this new product will be a further step toward achievement of the objectives of diversification and of selling products nearer to Sault Ste. Marie.

FUTURE PROSPECTS

Demand for iron and steel continues strong and capacity for many products is committed into the third quarter of 1956. Demand for iron ore is such that capacity is expected to be fully occupied throughout the year.

Aggressive studies are being made of future developments taking particular account of your Corporation's position as a most efficient iron ore and pig iron producer. The oxygen process of steel making is under active consideration as is the part your Corporation should take in the rapidly expanding Canadian market for flat rolled steel products.

During the next 20 years a substantial increase in the population in Canada is expected with consequent increase in steel requirements. Your Corporation is in an advantageous position, in view of its large ore and coal reserves and space for expansion of its steel works, to benefit from this anticipated increased demand.

Continued modernization and expansion of facilities is essential however if your Corporation is to maintain and improve its position and take full advantage of the anticipated increased demand for its products.

PERSONNEL

Mr. James Muir, Chairman and President of the Royal Bank of Canada, was elected a Director and appointed a member of the Executive Committee of the Board of Directors of Algoma Steel Corporation, Limited on February 7th, 1956, and Mr. W. H. Howard, Q.C., of Montreal, of the legal firm of McMichael, Common, Howard, Cate, Ogilvy and Bishop, was also elected a Director and member of the Executive Committee on April 30th, 1956.

Both of these new Directors bring to your Company unusual abilities and a wide knowledge of Canadian business. Both are eminent in their respective professions and their services will be of great value in guiding the affairs of your Corporation.

Mr. David S. Holbrook was elected President of Algoma Steel Corporation, Limited on May 28th, 1956. He has held a number of positions connected with management since he joined the Corporation in 1944, and has been its Executive Vice President since 1949.

Mr. George W. MacLeod was elected a Director of Algoma Steel Corporation, Limited and President of Algoma Ore Properties, Limited on May 28th, 1956. Mr. MacLeod has been Vice President and General Manager of this subsidiary since 1945 and has made a notable contribution to its success.

Mr. Horace J. Allen was elected President of Canadian Furnace Co. Limited on May 28th, 1956. Mr. Allen has been Vice President and General Manager of this subsidiary since its acquisition by Algoma Steel Corporation, Limited in 1950, and has rendered most effective service in that capacity.

Mr. Frank O. Harris was elected President of Cannelton Coal and Coke Company and Lake Superior Coal Company on March 14th, 1956 in recognition of his ability and many years of service.

Your Directors express their appreciation and thanks to officers and employees for their loyal and efficient service during the past year.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK,
President

Sault Ste. Marie, Ontario
May 28th, 1956.

ALGOMA STEEL CORPORATION,

CONSOLIDATED

As at December

ASSETS

CURRENT

| | | | |
|--|--------------|---------------|--|
| Cash | \$ 2,090,011 | | |
| Bills and Accounts Receivable | 15,770,517 | | |
| Inventories of raw materials, supplies and saleable products valued at the lower of cost or market | 32,132,345 | | |
| Prepaid Expenses | 756,001 | \$ 50,748,874 | |

| | | | |
|---|--|--|---------|
| ACCOUNTS RECEIVABLE FROM EMPLOYEES UNDER AGREEMENTS OF SALE | | | 462,093 |
|---|--|--|---------|

INVESTMENTS

| | | | |
|---|-----------|-----------|--|
| Marketable shares at cost (Market Value \$23,195,018) | 6,696,684 | | |
| Other Securities at cost | 235,878 | 6,932,562 | |

PROPERTY AND EQUIPMENT

| | | | |
|---|--------------|------------|------------|
| Land, Buildings, Plant and Equipment, Mining Properties and Leases — at cost (Note 1) | 125,266,262 | | |
| Less: Allowances for Depreciation and Depletion | \$72,844,263 | | |
| Rebuilding and Relining Furnaces etc. | 2,064,823 | 74,909,086 | 50,357,176 |

| | | | |
|------------------|--|--|---------|
| DEFERRED CHARGES | | | 219,225 |
|------------------|--|--|---------|

\$108,719,930

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Signed on behalf of the Board

| | |
|-----------------|----------|
| D. S. Holbrook | Director |
| Gordon McMillan | Director |

LIMITED AND SUBSIDIARIES

BALANCE SHEET

31st, 1955

LIABILITIES

CURRENT

| | | |
|--|--------------|---------------|
| Bank Loan—secured | \$ 3,325,000 | |
| Accounts Payable and Accrued Liabilities | 8,596,236 | |
| Taxes on Income and other Taxes | 2,527,884 | \$ 14,449,120 |

| | | |
|--|--|------------|
| LONG TERM LOAN (Note 2) | | 12,579,648 |
| DEFERRED TAXES ON INCOME (Note 3) | | 7,292,000 |
| DEFERRED CREDIT TO INCOME (Note 4) | | 458,698 |

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 | 62,781,447 | |
| | <u>76,127,692</u> | |

| | | |
|--|------------------|----------------------|
| Deduct: Cost of 225,030 shares the property of wholly owned Subsidiary Companies | 2,187,228 | 73,940,464 |
| | <u>2,187,228</u> | <u>73,940,464</u> |
| | | <u>\$108,719,930</u> |

A L G O M A S T E E L C O R P O R A T I O N ,

STATEMENT OF CONSOLIDATED EARNINGS

For the Year Ended December 31, 1955

| | | |
|--|---------------|---------------|
| Net Sales | | \$114,035,360 |
| Investment Income | | 721,350 |
| | | 114,756,710 |
| Cost of Sales Exclusive of Items Listed Below | \$ 90,781,055 | |
| Remuneration of Directors including their salaries as executive officers | 129,541 | |
| Interest on Long Term Loan | 419,675 | |
| Other Interest—net | 226,231 | |
| Depreciation and Depletion | 5,079,761 | 96,636,263 |
| | | 18,120,447 |
| PROFIT BEFORE PROVIDING FOR TAXES ON INCOME | | 18,120,447 |
| Taxes on Income—Current | 2,161,613 | |
| —Deferred (Note 3) | 5,517,000 | 7,678,613 |
| | | \$ 10,441,834 |

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

| | | |
|---|--|---------------|
| Amount at December 31, 1954 | | \$ 52,339,613 |
| Net Profit for the year ended December 31, 1955 | | 10,441,834 |
| | | \$ 62,781,447 |

STATEMENT OF CONSOLIDATED CONTRIBUTED SURPLUS

| | | |
|--|--|--------------|
| Amount at December 31, 1954 and December 31, 1955 (no change in the period) | | \$ 3,071,745 |
| | | |

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, 1955

Note (1)

A program to bring three new mining levels below the Helen Mine first and second levels into production which was commenced in 1953 is planned to be completed by the end of 1959. In addition a program to develop the Sir James Mine at the Siderite Hill location has been commenced in 1956.

The total estimated expenditure on these programs after deducting net amounts realized from the sale of development ore is \$16,900,000. Actual net expenditures to December 31, 1955 amounted to \$3,747,200 with an estimated net expenditure of \$4,030,000 in 1956.

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 \$5,517,000 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 a balance from the previous year 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, 1955, to the company's customers, in excess of their normal requirements to that date. The profit on the excess amount has been deferred to the company's 1956 financial year after providing for the income taxes payable thereon and is shown in the balance sheet under the caption "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, 1955 the United States dollar was approximately at par.

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 1955 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, 1955 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, 1955 and the results of their operations for the year ended on that date.

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

Toronto, Ontario, May 15th, 1956.

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 Structural

Carbon Merchant Bars & Light Structural

Alloy Merchant Bars

Sheet Piling

Grinding Balls

Universal Plate

Hot Rolled Sheet and Strip

Cold Rolled 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 & 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

