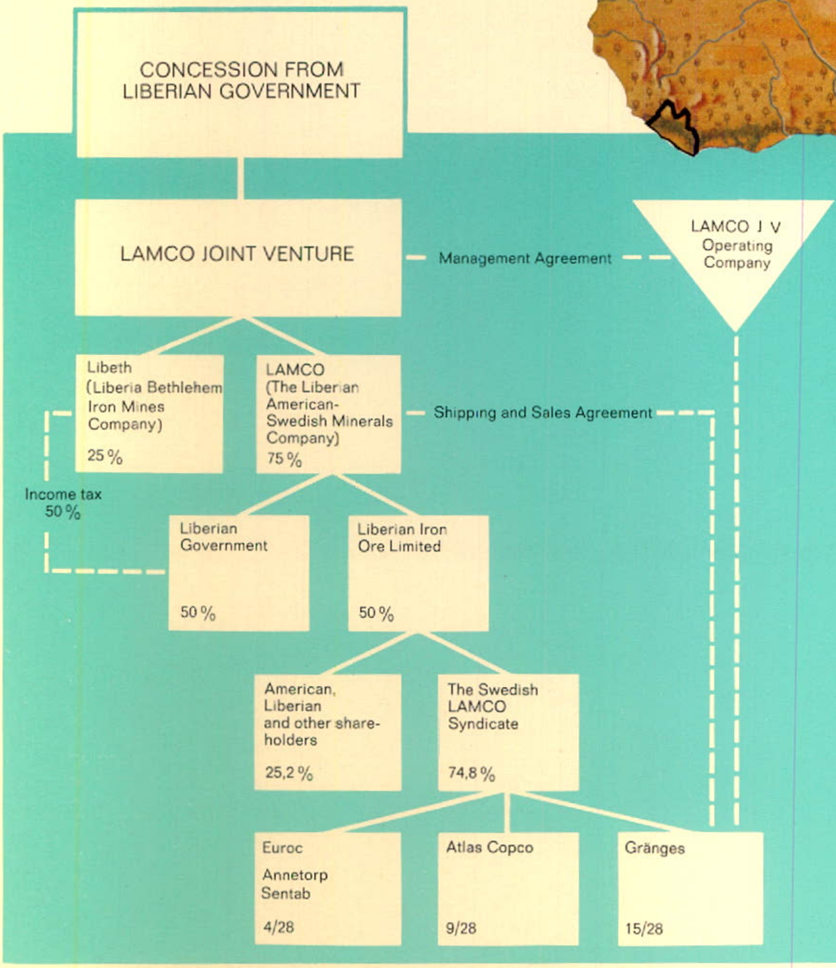
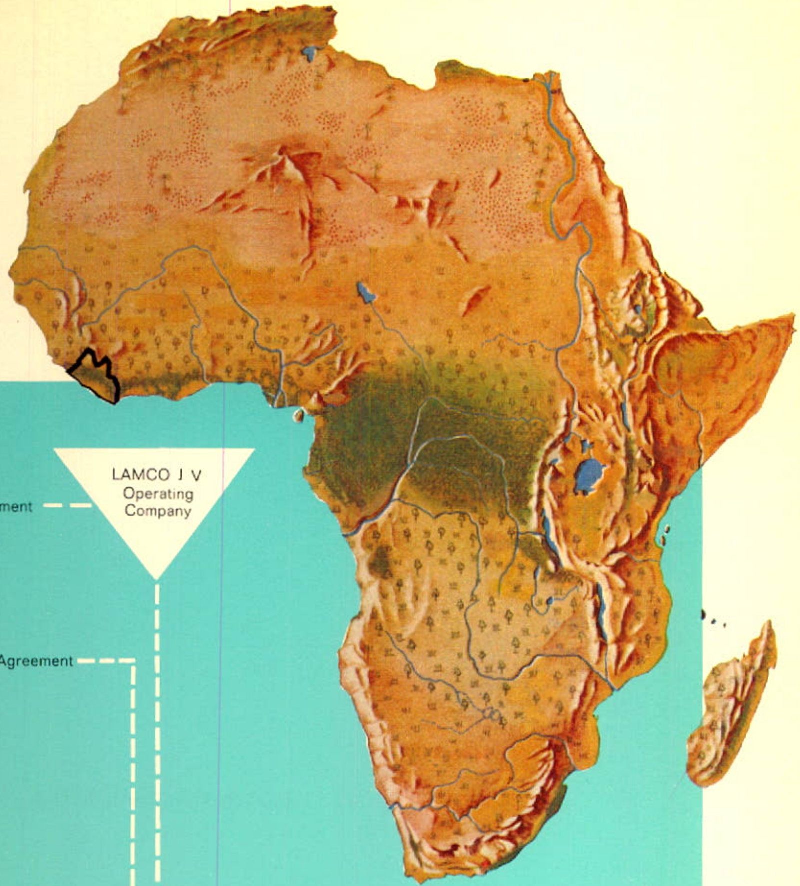
LIBERIAN IRON ORE LIMITED □ ANNUAL REPORT □ 1976





LIBERIAN IRON ORE LIMITED (LIO)

is an equal partner with the Liberian Government in LAMCO, The Liberian American-Swedish Minerals Company. LAMCO, in turn, is a participant (75%) with Bethlehem Steel Corporation through its wholly owned subsidiary Liberia Bethlehem Iron Mines Company (25%) in the LAMCO Joint Venture iron ore project. This mining enterprise represents a basic investment of more than $275,000,000 in the development of high grade iron ore deposits in the Nimba Mountain region of Northern Liberia. The mine and modern mining community are connected by a 165-mile railroad with the Liberian port of Buchanan. Ore loaded here is shipped to steel plants in Europe, North America and Japan.

GRÄNGES INTERNATIONAL MINING

a company in the Gränges AB Group, acting as Managing Agent for and on behalf of the Joint Venturers and as Sales Agent for LAMCO

OFFICERS

Tryggve Angel
President

Arne Dahlström
Executive Vice President

HEAD OFFICE

P.O. Box 16 316
S-103 26 Stockholm
Sweden

LAMCO J.V. OPERATING COMPANY

a subsidiary
of Gränges
International Mining

OFFICERS

Hans Åstrand
General Manager

HEAD OFFICE

P.O. Box 69
Monrovia
Roberts International Airport
Liberia

LIO

LIBERIAN IRON ORE LIMITED

Annual Report 1976

The annual general meeting of LIO shareholders will be held on Friday, July 29, 1977, at 10:00 a.m. at The Ritz-Carlton Hotel, Montreal, Quebec, Canada.

CONTENTS

LIO LIBERIAN IRON ORE LIMITED

BOARD OF DIRECTORS

Erland Waldenström *Chairman—President*	*Chairman of The Swedish LAMCO Syndicate, Gränges AB & Co., Stockholm, Sweden and Chairman of LAMCO*
Tryggve Angel	*President of Gränges International Mining, Stockholm, Sweden*
Kurt-Allan Belfrage	*Vice Chairman of Atlas Copco AB, Stockholm, Sweden*
Joseph C. Bennett	*President of Clifford Minerals Corporation and of Western Coal Sales, Inc., Salt Lake City, Utah, U.S.A.*
Robert I. E. Bright	*Member of the House of Representatives of the Republic of Liberia and President of Robert Bright & Sons, Inc., Monrovia, Liberia*
Brock F. Clarke *Assistant Secretary-Treasurer*	*Partner of the law firm of Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard, Montreal, Quebec, Canada*
Alfred H. Eggleton	*President of Armature Electric Limited, Vancouver, British Columbia, Canada*
Erik Fris	*Retired; Director of certain investment companies*
Sten Lindh	*President of Industri AB Euroc, Chief Executive Officer of the Euroc Group, Malmö, Sweden*
Andrew N. Overby *Vice Chairman*	*Director of First Boston Inc., New York, N.Y., U.S.A.*
Richard G. Powell	*Partner of the law firm of Sullivan & Cromwell, New York, N.Y., U.S.A.*
Alan G. Thompson	*President of J. Henry Schroder & Co. Limited, Calgary, Alberta, Canada*

Secretary-Treasurer
Håkan Castegren

COUNSEL

Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard, The Royal Bank Building, 1 Place Ville Marie, Montreal, Quebec, Canada H3B 1Z7

Sullivan & Cromwell, 48 Wall Street, New York, N. Y., 10005, U.S.A.

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co., 60 Broad Street, New York, N.Y., 10004, U.S.A.

HEAD OFFICE

Douglas Building, University Avenue, Charlottetown, Prince Edward Island, Canada

TRANSFER AGENTS AND REGISTRARS

The Royal Trust Company, Charlottetown, Prince Edward Island, Canada

The Royal Trust Company, Toronto, Ontario, Canada

Citibank, N. A., Monrovia, Liberia

The Trust Company of New Jersey, Jersey City, N. J., U.S.A.

FOREIGN OFFICE

70 Pine Street, Suite 5104, New York, N.Y., 10005, U.S.A.

BOARD OF DIRECTORS

Chairman Emeritus Marcus Wallenberg

Erland Waldenström *Chairman*	*Chairman of The Swedish LAMCO Syndicate, Gränges AB & Co., Stockholm, Sweden, Chairman and President of LIO*
Tryggve Angel	*President of Gränges International Mining, Stockholm, Sweden*
Kurt-Allan Belfrage	*Vice Chairman of Atlas Copco AB, Stockholm, Sweden*
Oliver Bright	*Minister of Justice of the Republic of Liberia, Monrovia, Liberia*
Robert I. E. Bright	*Member of the House of Representatives of the Republic of Liberia and President of Robert Bright & Sons, Inc., Monrovia, Liberia*
Erik (Lionhead) Leijonhufvud	*Advisor, Skandinaviska Enskilda Banken, Stockholm, Sweden*
Sten Lindh	*President of Industri AB Euroc, Chief Executive Officer of the Euroc Group, Malmö, Sweden*
James T. Phillips, Jr.	*Minister of Finance of the Republic of Liberia, Monrovia, Liberia*
George E. Putnam, Jr.	*Chairman, Citicorp International Group, New York, N.Y., U.S.A.*
J. Milton Weeks	*Economic and Financial Consultant, Monrovia, Liberia*
Adolph W. Yancy	*Deputy Governor, National Bank of Liberia, Monrovia, Liberia*

President
John G. Leinmark

Vice President
Stephen B. Dunbar, Jr.

Secretary-Treasurer
Jan Ewetz

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31 Benson Street, Monrovia, Liberia

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Kungsträdgårdsgatan 8,
S-106 40 Stockholm, Sweden

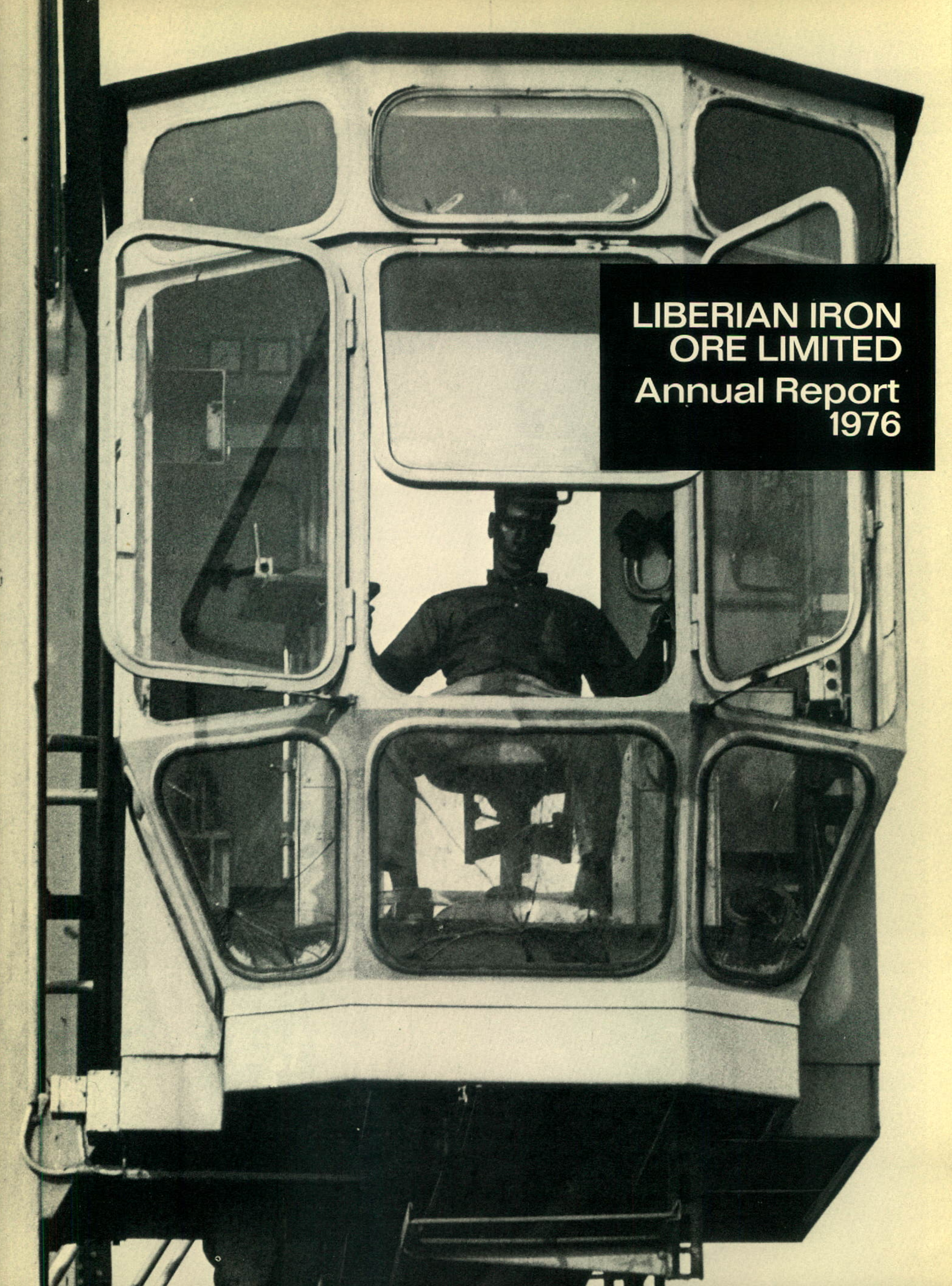
LAMCO LIO

Operating and Financial Summaries

	1976	1975
LAMCO JOINT VENTURE		
Production of finished ore products (metric tons)	9,600,000	11,300,000
Shipments during the year (metric tons)	9,300,000	8,800,000
Project expenditures—		
Investments in property and equipment	$ 18,955,000	$ 13,594,000
Exploration and development costs deferred	$ 418,000	$ 1,102,000
LAMCO		
Sales—metric tons	7,000,000	6,800,000
—amount	$116,915,000	$113,240,000
Profit from operations	$ 39,816,000	$ 48,261,000
Net profit	$ 33,556,000	$ 47,503,000
Dividends on preferred stock	$ 3,122,000	$ 3,252,000
Distributions to common stockholders	$ 9,354,000	$ 15,060,000
Appropriations to reserves	$ 53,000	$ 33,721,000
Balance of 1976 profit subject to Board determination	$ 25,704,000	
LIO		
Dividends and interest income	$ 5,498,000	$ 8,400,000
Profit before equity in undistributed earnings of LAMCO (per share $1.28 and $2.01)	$ 5,078,000	$ 7,965,000
Equity in undistributed earnings of LAMCO	$ 12,879,000	$ 16,860,000
Net profit (per share $4.54 and $6.28)	$ 17,957,000	$ 24,825,000
Dividends (per share $1.60 in both years)	$ 6,328,000	$ 6,328,000
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders	4,567	4,640
located in Liberia	2,746	2,728
U.S.A. and Canada	1,559	1,664
Other countries	262	248

Information with respect to LIO shares

For quarter ending	Dividends	Range of prices per share on Toronto Stock Exchange (expressed in Canadian currency)	
March 31, 1975	$0.40	$10¼	$11⅞
June 30, 1975	0.40	11	14¾
September 30, 1975	0.40	13¾	16½
December 31, 1975	0.40	13	15¾
March 31, 1976	0.40	13	16¾
June 30, 1976	0.40	13¾	16½
September 30, 1976	0.40	14¼	15¾
December 31, 1976	0.40	14¼	15⅞



LIBERIAN IRON ORE LIMITED
Annual Report 1976

To the Shareholders

LIO's net profit in 1976 amounted to $17,957,000, or $4.54 per share, compared with $24,825,000, or $6.28 per share in 1975. Profit, excluding equity in undistributed earnings of LAMCO, was $5,078,000, or $1.28 per share in 1976, as against $7,965,000, or $2.01 per share in the preceding year. Dividends of $1.60 per share were paid for both 1976 and 1975.

Substantially all of LIO's income is derived from LAMCO, in which LIO is an equal partner with the Liberian Government. LAMCO's shipments of ore in 1976 totaled 7.0 million tons, slightly above the 6.8 million tons delivered in 1975. Ore prices, which peaked in 1975, declined for 1976 and 1977 by about 5% in each year. Sales for 1976 totaled $116,915,000, compared with $113,240,000 in 1975. Net profit decreased from $47,503,000 in 1975 to $33,556,000 in 1976 due primarily to higher production costs and provisions for unrealized exchange losses. On July 1, 1977, the LAMCO Board of Directors declared a dividend of $6,000,000 (unchanged from the preceding year) in respect of 1976 net profit. The dividend is payable on or before July 31, 1977 in equal amounts to the Government of Liberia and LIO. As a result, total distributions to common stockholders of LAMCO, in respect of 1976 earnings, including royalty to the Government of Liberia, amount to $15,354,000 compared with $15,060,000 a year earlier.

At the meeting on July 1 the LAMCO Board authorized the payment of 1977 dividends to LIO, equivalent to the royalty to be paid to the Liberian Government during the year. The Board also authorized the payment of 1977 preferred stock dividends and the redemption of the Series C preferred stock of LAMCO held by LIO. Redemptions of the Series A and B preferred stock due in 1977 have been deferred until 1978 with the consent of the holders of the stocks.

In order to finance its operations as scheduled during the current period of cash shortage resulting from declining earnings, and because a large amount of LAMCO's current assets are tied up in ore stockpiles, LAMCO has entered into a three-year credit agreement in the amount of $20,000,000 with an international banking consortium.

The widely shared expectations of a significant and sustained recovery in the steel industry failed to materialize during 1976. These expectations had been based on indications early in the year that the industry was emerging from the deep recession of 1975. Demand began to weaken early in the summer, however, and the upswing that had been anticipated in the fall failed to develop. By year-end the steel industry, notably in Western Europe and Japan, was in a critical position and the situation has further deteriorated during the first half of 1977. By June, 1977 the European steel industry was operating at only 60% of capacity, a significant amount of worldwide iron ore capacity was idle and inventory stockpiles were well in excess of normal. It is presently anticipated that 1977 steel production in Europe will be even lower than in 1976, and shipments by LAMCO in 1977 are presently not expected to be any higher than in 1976.

Production rates in the mines were adjusted twice during 1976 as LAMCO sought to adapt output to demand. Thus, production which had been as low as

60% of capacity early in the year was increased to 100% but then again cut back in 1977. Employment was maintained at the mines throughout the year by a continuing heavy program of maintenance work and waste rock removal.

A tax treaty between Liberia and Canada was signed in Ottawa on November 30, 1976 and will, upon ratification, become effective as of January 1, 1976. The treaty contains provisions under the terms of which dividends received by LIO from LAMCO will continue to be exempt from Canadian tax.

The following changes in the boards of directors and officers of LIO, LAMCO and the LAMCO Joint Venture have occurred since the publication of the 1975 Annual Report.

LIO

Mr. Sten Lindh, President of Industri AB Euroc, Sweden, was elected a director, replacing Mr. Lars Sjöwall, of Gränges AB, who retired.

Mr. Erik Fris, who continues as a director, resigned his position as Secretary-Treasurer of the Company, a post which he has filled with devoted service and conspicuous diligence for 18 years. Mr. Håkan Castegren was elected to succeed Mr. Fris as Secretary-Treasurer.

LAMCO

Mr. Oliver Bright, the new Minister of Justice in Liberia, replaced the retiring Minister, Lawrence A. Morgan, on LAMCO's Board. Mr. Morgan, who has served as a member of the Board since 1956, contributed substantially to LAMCO's development over two decades.

LAMCO JOINT VENTURE

Mr. Olle Wijkström, President and General Manager of LAMCO J. V. Operating Company since 1967, ended his 12-year tour of duty in Liberia in December, 1976. Mr. Hans Åstrand, formerly Deputy General Manager, was named as his successor.

During his nine years as General Manager — a period of many challenges and substantial growth — Mr. Wijkström originated and personally promoted many of the constructive projects that have contributed to the progress of the LAMCO Joint Venture and its harmonious integration into the structure of the Liberian economy and society. Olle Wijkström built firmly on the foundation entrusted to him in 1967. He and his wife have earned the gratitude and good wishes of all who have been associated with them in the LAMCO Joint Venture.

As a partner in LAMCO with the Government of Liberia, LIO again expresses its gratitude to President Tolbert and his administration for their understanding, assistance and cooperation in a difficult period.

July, 1977

Erland Waldenström
Chairman and President

This report is submitted on behalf of the Board of Directors.

1976 in Review and Preview of 1977

Iron Ore and Steel Market and LAMCO Sales

The steel industry failed to recover from the recession during 1976. By the end of 1976 the European steel industry was in a state of crisis and if the recession continues several European steel plants will probably have to be closed down in spite of attempts by governments to help the industry.

The crisis in the steel industry is due not only to the recession but also to structural adjustments caused by stagnant steel consumption, reduced exports, increased competition and the establishment of new steel mills in developing countries. Present estimates indicate that steel production in Europe in 1977 will be even lower than in 1976. Production in Japan will probably continue at about the same low level as last year. Output in the United States is expected to be somewhat higher.

The outlook for 1977 is thus very discouraging for the steel industry worldwide and even more so for the iron ore industry. It is estimated that some 80 million tons of mine capacity are now idle, with a surplus of more than 30 million tons of ore on stockpiles. This means that it will take a considerable time before the mining industry will benefit from a recovery in the steel sector and return to full capacity utilization. Pressure on ore prices continues. Many mines are now operating at a loss and return on equity is inadequate to sustain orderly growth. As a consequence a number of large mining projects, in the development stage, have been postponed indefinitely.

LAMCO shipments increased slightly, from 6.8 million tons of ore in 1975 to 7.0 million tons in 1976. LAMCO sales, expressed in dollar terms, increased 3%, from $113,240,000 in 1975 to $116,915,000 in 1976. The latter was a record figure which concealed the decline in demand and the generally weak market conditions at year-end.

LAMCO shipments during 1977 are presently expected to be on the same low level as last year. Additional tonnage of ore will have to be stockpiled before rising demand in the steel industry reverses the trend.

LAMCO Joint Venture Production and Shipments

Combined Joint Venture production of finished products from the Nimba and Tokadeh mines in 1976 amounted to 9.6 million tons, a decrease of 15% from the 11.3 million tons produced in 1975. Production consisted of 7.6 million tons of washed lumpy ores and fines, 1.9 million tons of pellets and 100,000 tons of run-of-mine ore. Fines production was maximized by screening out fines generated during ore handling. Output of the pellet plant was restricted by extending the annual shutdown to nine weeks to adjust production to weak market demand.

Shipments continued to be low during 1976 and stockpiles were at the record level of 4.5 million tons at year-end. To minimize additional stockpiling, Joint Venture production was kept at 60% of capacity from November, 1975 through April, 1976, when it was raised to 80%. With the market apparently improving, full capacity was resumed in August. The market deteriorated again, however, and the cutbacks and planned work stoppages now scheduled for 1977 will result in an estimated 80% utilization of capacity during the current year. Approximately 10.0 million tons of finished products are scheduled to be produced in 1977.

Employment was maintained at the mines throughout the year by a continuing heavy program of maintenance work and waste rock removal. During 1976, a total of 16.1 million tons of waste rock were removed in the Nimba Mine, compared with 17.6 million tons a year earlier.

Total Joint Venture ore shipments from the port of Buchanan were 9.3 million tons, an increase of 6% over 1975 shipments but substantially below the record shipments of 13.0 million tons in 1974.

The number of ore carriers leaving Buchanan during 1976 was 162, with an average load of 58,000 tons, compared with 159 carriers with an average cargo of 55,000 tons in 1975.

Operating Costs

Operating costs per ton increased sharply during 1976 as a result of the low rate of production combined with higher labor costs and higher prices of materials and supplies. Total production costs in 1976 amounted to $87.1 million, compared with $79.6 million in the preceding year. The impact of inflation on costs stabilized somewhat, relative to the severe effect experienced in 1975.

It is anticipated that operating costs will increase during 1977 as a result of continued inflation. Since LAMCO's costs are, to a great extent of a fixed nature, only moderate reductions can be effected when capacity is not fully utilized.

Exploration and Iron Ore Reserves

Total mineable reserves of high grade iron ore in the Nimba Range at December 31, 1976 were estimated at 113 million tons with an average grade of 63% (dry) Fe.

During the year the Joint Venture completed a large exploration program covering deposits in the Western Area near the Nimba Range, including Mounts Tokadeh, Gangra, Yuelliton and Beeton. The bulk of the work in the program, which began on Mount Tokadeh in 1966, has been carried out during the present decade. Approximately 170,000 feet of core drilling and 11,300 feet of tunneling have been undertaken during this period. About 6,200 tons of bulk samples have been removed from tunnels for testing.

The geological reserves of soft and medium-hard ore proven in the area at year-end 1976 were estimated at 449 million tons, with an average grade of 51.7% (dry) Fe. On the basis of ore testing work and preliminary mine plans, it is estimated that 419 million tons of these reserves can be classified as mineable. Exploration work is continuing in peripheral sectors of the Western Area deposits.

Exploration work during 1976 included some 9,500 feet of core drilling in Mount Tokadeh, 11,300 feet in the Nimba Range, and about 900 feet in other areas.

Mine Development Plans

During the year engineering studies and financial analyses were pursued regarding various possibilities of increasing the production capacity of the LAMCO Joint Venture at Mounts Nimba and Tokadeh.

Because of the continuing worldwide recession and the structural problems facing the steel industry, particularly in Europe, plans to extend capacity have been postponed.

Product Development

The first stage of the pellet feed improvement program, described in last year's Annual Report, was completed in November, 1976. The objective of the total program is primarily to make the quality of the pellets more attractive to the market. The first stage includes installation of high-intensity magnetic separators for treatment of the classifier overflow from the Tokadeh line. This makes it possible to extract additional pellet feed and improves the iron recovery of the Tokadeh line.

The second part of the program, involving installation of high-intensity magnetic separators and auxiliary equipment on the Nimba/Gbahm washing lines, is on schedule. The installation was started up in mid-May and is now in full operation.

A second product development project involves conversion of washed lumpy ore into fines, a move necessitated by the declining market for lumpy ores. New equipment will crush the present washed lumpy, including some 2.0 million tons on stockpile, to a maximum particle size of 10 mm. The crushing will be performed in an extension of the present crushing plant for washed lumpy and the product will be mixed into the washed fines already being produced. The project is expected to cost $6 million and be completed in early 1978.

Capital Expenditures

Total capital expenditures by the Joint Venture in 1976 amounted to $19.0 million. Capital expenditures in 1975 were $13.6 million.

The principal investments in 1976 were for the pellet feed improvement program, heavy-duty mining equipment and the construction of residential houses within the Concession Area.

Capital expenditures budgeted for 1977 total some $30 million. The major projects include completion of the pellet feed improvement program, replacement of mining equipment and the radio link and centralized traffic control system on the rail line between Buchanan and Nimba.

Commercial Traffic

Commercial transport — involving logs, rubber, palm kernels, sawn timber, fertilizers and other cargo — on the Joint Venture's railway, linking Nimba and Buchanan, amounted to 4,650 carloads during 1976, compared with 3,400 a year earlier. The increase was due primarily to a higher volume of logs transported as the timber industry experienced some recovery from the recession of 1975.

Labor Relations

Relations with workers employed in the Joint Venture were excellent during 1976. The two-year collective bargaining agreement with the LAMCO Mine Workers' Union, which went into effect January 1, 1976, provided for increases in wages and fringe benefits of 11% during the year and an additional 4% in 1977.

Personnel and Liberianization

At year-end 1976, the Joint Venture had a total of 4,842 employees, compared with 4,669 at the same date a year earlier. There were 991 staff employees compared with 914 at the end of the preceding year.

Liberians accounted for 4,301 of the total num-

Washing and pelletizing plants at Buchanan.

ber of employees. In the preceding year there had been 4,149 Liberians.

There was a sharp increase of Liberian personnel in staff job classifications where expatriates are employed. During the year 67 Liberians moved into this category, with a large number of the placements occurring at the senior technician level, where graduates of the Wallenberg Training Center's advanced training program for technicians are now finding employment.

Liberians now hold 46% of all staff jobs, compared with 43% in 1975 and 40% at the close of 1974.

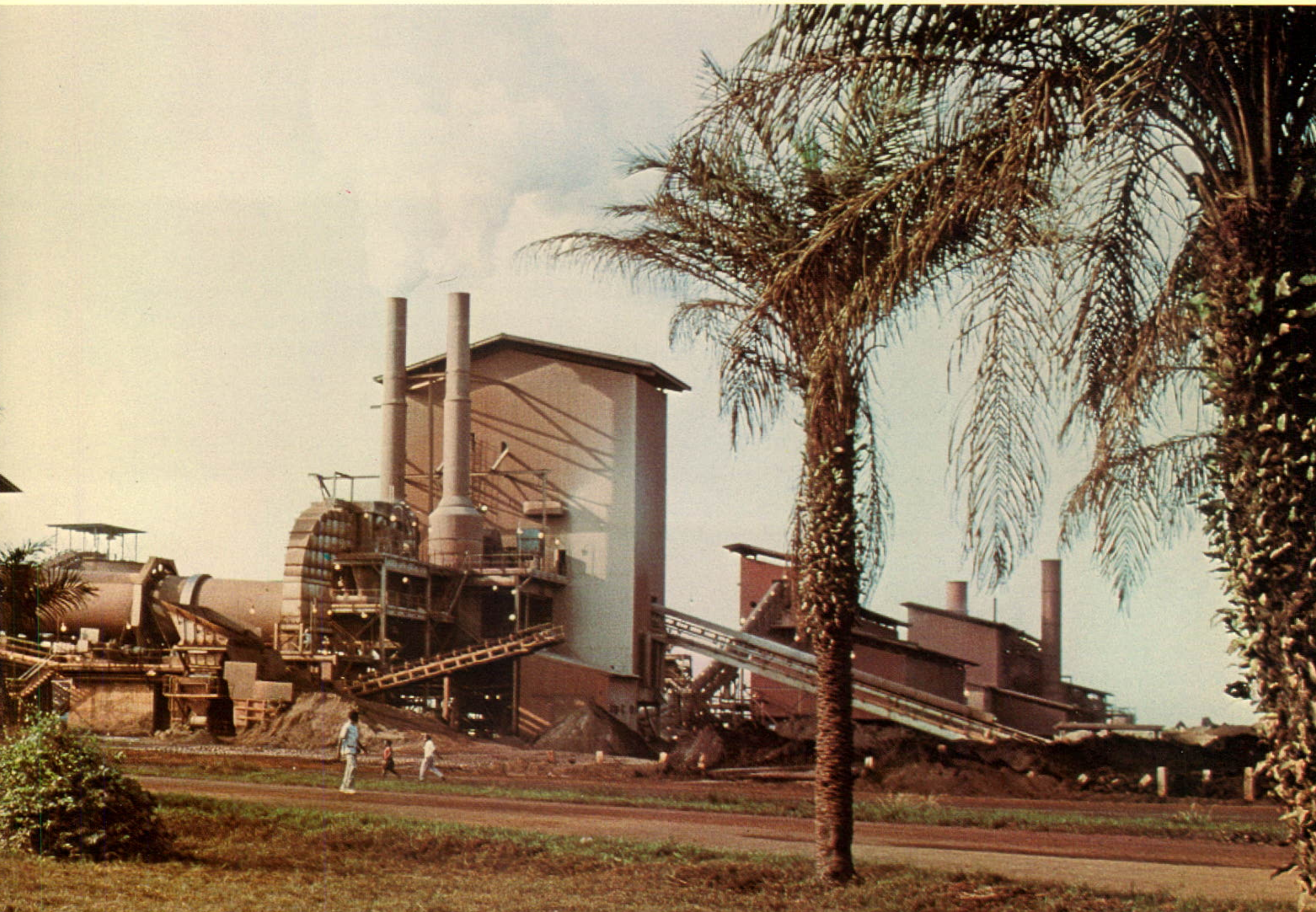
During the past year there was also a significant increase in the number of Liberians occupying positions as senior foremen. The latter included several engineers hired from outside the Company and 5 who have returned from studies abroad under the Professional Engineering Scholarship Scheme. Seven more are expected to return during 1977.

Training Program

There was a marked upward trend in the level of training administered during the year. Development courses involving high-level skills were in increasing demand.

Enrollment in the advanced courses offered at the Wallenberg Training Center rose from 72 to 98 during the year, while 465 employees participated in programs below the advanced level. In all, 1,221 persons benefited from some form of training.

Of the 38 successful trainees who had completed advanced courses and returned to line departments,



Facing page.
Top: Laboratory tests require a variety of skills.
Bottom: Two of the more than 4,000 children in the LAMCO Area School System.

24 had been promoted to senior technicians by the end of the year. A total of 136 trade certificates were awarded during the year. A team of railroad personnel received special instructor training, organized in Sweden by the Swedish State Railways, to prepare for the intensive railroad training program that will be developed by the Joint Venture this year.

There was substantial activity in the field of supervisory studies; 154 employees and trainees attended one or more "modules" of a four-module course.

Labor Safety Program

The Joint Venture's low accident statistics for the year reflected the continuing emphasis on safety in all operations.

Safety training courses were introduced for plant operators, mechanics, electricians and general workers during the year. Safe driving courses for drivers of both heavy and light vehicles were also organized, as were special seminars for safety delegates. Safety committee meetings were held throughout the Joint Venture.

Housing and Community Development

The Joint Venture continued to implement its program of providing housing for senior and junior staff employees. At Nimba, 42 homes were completed, 28 for senior staff and 14 for junior. Late in the year work began on an additional 27 senior staff dwellings and plans were approved for 10 junior staff units to be built during the first half of 1977.

At Buchanan, construction got under way on 10 units for junior staff personnel and the same number of units for senior personnel was approved for construction during the current year. A community recreation center, which also contains facilities for visiting employees from Nimba, was completed at Buchanan.

The "Own Your Own Home" project, designed to assist junior staff personnel and general workers, was officially approved by the Liberian Government, and construction is now under way. The first stage of the project calls for the Joint Venture to provide financing and other substantial assistance for constructing 150 houses on land donated by the Government.

The new Stephen A. Tolbert Memorial Hospital in Buchanan proved to be a valuable community resource during its first full year of operation. It handled a total of 3,512 admissions, a majority of the patients being non-LAMCO residents of Buchanan and the surrounding area. The hospital operated by the Joint Venture at Nimba handled 3,832 admissions, also including a majority not associated with LAMCO.

Partnership for Productivity

"Partnership for Productivity" is a foundation-sponsored program, supported in part by the Joint Venture, that promotes the development of small and medium-sized Liberian-managed enterprises in the Nimba area. Most of the PFP companies formed to date are "spin-offs" of service units formerly operated by the Joint Venture.

A significant development during the year, linking PFP to national economic planning, was the decision of the Liberian Government to contribute a substantial amount of farm supplies as a revolving credit for use in the agricultural extension program administered by the partnership. PFP's assistance to small farmers increased markedly during the year.

Construction of a small-scale "industrial park" of four workshops was virtually completed during the year and several proposals for occupancy are being evaluated.

Educational Program

The number of pupils enrolled in the LAMCO Area School System increased nearly 18%, with 4,022 children registered at the close of 1976, compared with 3,408 a year earlier. There were 132 teachers in the system, providing a pupil/teacher ratio of slightly more than 30 to 1. A new elementary school will be opened at the beginning of the 1977 school year.

Plans were made for converting the Liberian/Swedish Vocational Training Center to a technical high school within the school system. The Joint Venture has committed itself to an initial contribution of $100,000 for the conversion and an annual contribution of $100,000 towards the operating costs of the school as soon as it is opened. This latter contribution will be in lieu of the $60,000 which the Joint Venture is presently giving annually for the operation of the Vocational Training Center.

Transportation of Guinean Ore

On November 8, 1976, the Joint Venture and Mifergui-Nimba Co., a Guinean mixed company, entered into a basic agreement setting forth the general principles under which the Joint Venture will agree to transport, handle and load ore from a new mine to be constructed in a part of the Nimba range of mountains located in the Republic of Guinea, some 20 kilometers from the Joint Venture's mine in Liberia. In addition to the Government of the Republic of Guinea, the shareholders of Mifergui-Nimba Co. include the governments of Liberia, Nigeria and Libya, Sonarem of Algeria, Nichimen of Japan, INI, Sierra Minera and Cofei of Spain, Mineralimportexport of Rumania, and Solmer and Usinor of France. The Joint Venture understands that these shareholders intend to consume all of the ore produced by Mifergui-Nimba Co. in steel plants they already own or plan to construct. Negotiations on a definitive transportation contract with Mifergui-Nimba Co. started in 1977.

Powerful equipment, skilled workers and spectacular scenery are all part of the mining operation at Mount Tokadeh, about 10 miles west of the Nimba Range.

LAMCO

LIO **LIBERIAN IRON ORE LIMITED**

Balance Sheet

(Expressed in United States dollars)

	December 31, 1976	December 31, 1975
ASSETS		
Current Assets		
Cash including time deposit of 1976 $3,855,000; 1975 $1,790,000	$ 3,918,000	$ 1,818,000
Accounts receivable	21,000	15,000
Receivable from LAMCO (Notes 2 and 3):		
Dividends	1,303,000	4,111,000
Redemption of preferred stock	550,000	550,000
Total current assets	5,792,000	6,494,000
Investment in LAMCO (Notes 1, 2 and 3)		
6-1/4% Series C preferred stock	9,900,000	10,450,000
Class B common stock, at equity	44,103,000	31,224,000
Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation	12,856,000	12,856,000
	66,859,000	54,530,000
Organization and Preoperating Expenses less accumulated amortization of 1976 $330,000; 1975 $309.000 (Notes 1 and 6)	284,000	305,000
	$72,935,000	$61,329,000
LIABILITIES and CAPITAL		
Current Liabilities		
Accounts payable	$ 74,000	$ 96,000
Accrued Liberian tax on preferred stock dividends (Note 9)	21,000	22,000
Dividends declared and unpaid	1,582,000	1,582,000
Total current liabilities	1,677,000	1,700,000
Capital		
Capital stock—without par value:		
Authorized—5,000,000 shares		
Issued—3,955,025 shares	23,487,000	23,487,000
Equity in capital in excess of par value of LAMCO	2,250,000	2,250,000
Retained earnings, per accompanying statement	45,521,000	33,892,000
	71,258,000	59,629,000
	$72,935,000	$61,329,000

The accompanying financial statements of Liberian Iron Ore Limited have been approved by its Board of Directors.

Erland Waldenström
Erik Fris

LIO

Statement of Profit and Loss

(Expressed in United States dollars)

	Year ended December 31, 1976	Year ended December 31, 1975
Dividends and interest income:		
Dividends from LAMCO:		
Series C preferred stock	$ 668,000	$ 688,000
Class B common stock	4,677,000	7,530,000
	5,345,000	8,218,000
Interest income	153,000	182,000
	5,498,000	8,400,000
Expenses:		
Liberian tax on preferred stock dividends (Note 9)	167,000	172,000
Other expenses (Notes 6 and 12)	253,000	263,000
	420,000	435,000
Profit before equity in undistributed earnings of LAMCO	5,078,000	7,965,000
Equity in undistributed earnings of LAMCO	12,879,000	16,860,000
Net profit	$17,957,000	$24,825,000
Net profit per share (including $1.28 in 1976; $2.01 in 1975 in dividends and interest income less expenses)	$ 4.54	$ 6.28

Statement of Retained Earnings

(Expressed in United States dollars)

	Year ended December 31, 1976	Year ended December 31, 1975
Net profit per accompanying statement of profit and loss	$17,957,000	$24,825,000
Retained earnings at beginning of year	33,892,000	15,395,000
	51,849,000	40,220,000
Deduct: — Cash dividends declared of $1.60 per share in 1976 and 1975	6,328,000	6,328,000
Retained earnings at end of year	$45,521,000	$33,892,000
Represented by:		
Accumulated profits before equity in undistributed earnings of LAMCO	$ 4,668,000	$ 5,918,000
Equity in undistributed earnings of LAMCO	40,853,000	27,974,000
	$45,521,000	$33,892,000

LAMCO THE LIBERIAN AMERICAN-SWEDISH MINERALS COMPANY

Balance Sheet (Including LAMCO's undivided 75% share of the assets and liabilities of

(Expressed in United States dollars)	December 31, 1976	1975
ASSETS		
Current Assets		
Cash (including interest bearing deposits 1976 $8,850,000; 1975 $1,750,000)	$ 12,192,000	$ 3,866,000
Accounts receivable:		
Trade	17,268,000	18,628,000
Other	1,828,000	1,642,000
Inventories (Note 1):		
Mined ore and processed products	37,894,000	25,246,000
Materials and supplies	14,306,000	14,572,000
Prepaid expenses	177,000	162,000
Total current assets	83,665,000	64,116,000
Property and Equipment, in concession areas, at cost (Notes 1 and 5):		
Railroad	46,887,000	46,887,000
Harbor	26,129,000	26,131,000
Roads and airstrips	6,395,000	6,392,000
Buildings	30,503,000	27,813,000
Rolling stock	11,814,000	11,492,000
Special purpose structures, machinery and equipment	80,690,000	78,700,000
Motor vehicles, boats and heavy duty equipment	22,542,000	19,995,000
	224,960,000	217,410,000
Less—Accumulated depreciation	112,447,000	99,616,000
	112,513,000	117,794,000
Construction in progress	9,861,000	4,675,000
	122,374,000	122,469,000
Exploration and Development Costs, Interest during Preoperating Period and Mining Concession, less accumulated amortization in 1976 $16,772,000; 1975 $15,329,000 (Notes 1 and 6)	16,601,000	17,730,000
	$222,640,000	$204,315,000

the LAMCO Joint Venture)

	December 31, 1976	1975
LIABILITIES and CAPITAL		
Current Liabilities		
Current maturities:		
Senior indebtedness	$ 12,181,000	$ 7,428,000
Preferred stock	3,146,000	3,146,000
Short-term loans (Note 7)	19,515,000	20,162,000
Accounts payable and accrued liabilities	12,338,000	7,715,000
Accrued royalty (Note 2)	1,217,000	1,023,000
Accrued interest	261,000	256,000
Accrued dividends on preferred stock	373,000	396,000
Profit declared as a dividend on common stock and unpaid	1,217,000	7,023,000
Total current liabilities	50,248,000	47,149,000
Reserve for pension obligations (Notes 1 and 8)	3,115,000	2,283,000
Senior Indebtedness (Notes 2, 3 and 7)	22,871,000	31,088,000
Capital		
Capital obligation, noninterest-bearing, payable only in the event of liquidation	12,856,000	12,856,000
Preferred stock $6.25, $100 par value—authorized and issued (excluding shares included in current maturities) (Notes 2 and 3):		
Series A— 17,810 shares (23,770—1975)	1,781,000	2,377,000
Series B—336,640 shares (356,640—1975)	33,664,000	35,664,000
Series C— 99,000 shares (104,500—1975)	9,900,000	10,450,000
Common stock $1 par value—authorized and issued (Note 3):		
Class A and Class B—1,000,000 shares of each issue	2,000,000	2,000,000
Capital in excess of par value (no change since 1960)	4,500,000	4,500,000
Reserves appropriated out of profits in accordance with the Concession Agreement:		
As required by the lenders	3,488,000	3,435,000
Reserve for concession development and other corporate purposes	52,513,000	52,513,000
Balance of 1976 profit subject to Board determination (Note 14)	25,704,000	
	146,406,000	123,795,000
Contractual Commitments and Contingent Liabilities (Notes 10 and 11)		
	$222,640,000	$204,315,000

Statement of Profit and Loss

(Including LAMCO's share of the costs of production of the LAMCO Joint Venture) (Notes 2 and 4)	Year ended December 31, 1976	1975
(Expressed in United States dollars)		
Sales	$116,915,000	$113,240,000
Cost of sales:		
Inventory of processed ore at beginning of year	24,132,000	7,911,000
Production costs	65,593,000	58,198,000
Depreciation and amortization (Notes 1, 5 and 6)	15,736,000	15,265,000
Inventory of processed ore at end of year	(36,526,000)	(24,132,000)
	68,935,000	57,242,000
Gross profit	47,980,000	55,998,000
Selling expenses	1,999,000	1,981,000
General and administrative expenses	1,488,000	1,226,000
Accrued royalty to Government of Liberia (Note 2)	4,677,000	4,530,000
Profit from operations	39,816,000	48,261,000
Financing charges (net):		
Interest expense (Note 7)	2,776,000	3,662,000
Exchange losses (gains) including provision for unrealized losses (gains) of $3,272,000, 1976 and ($2,710,000), 1975 (Notes 1 and 7)	3,484,000	(2,904,000)
Net profit	$ 33,556,000	$ 47,503,000

Statement of Appropriation and Disposition of Net Profit
In accordance with the Concession Agreement (Note 2)

(Expressed in United States dollars)	Year ended December 31, 1976	1975
Net profit as shown by statement of profit and loss	$33,556,000	$47,503,000
Dividends on preferred stock:		
Series A	(173,000)	(210,000)
Series B	(2,281,000)	(2,354,000)
Series C	(668,000)	(688,000)
	(3,122,000)	(3,252,000)
Dividends to Class B common stockholder equivalent to accrued royalty to Government of Liberia	(4,677,000)	(4,530,000)
Appropriations by Board of Directors to reserves:		
As required by the indenture relating to the Series A and D Notes calculated at February 15, 1977 and 1976	(53,000)	(91,000)
Appropriation to reserve for concession development and other corporate purposes		(33,630,000)
	(53,000)	(33,721,000)
Dividends distributed equally to Class A and Class B common stockholders		$ 6,000,000
Balance of 1976 profit subject to Board determination	$25,704,000	
Distributions to common stockholders:		
To Government of Liberia:		
Accrued royalty	$ 4,677,000	$ 4,530,000
Dividends on Class A common stock		3,000,000
	4,677,000	7,530,000
To LIO:		
Dividends on Class B common stock equivalent to accrued royalty	4,677,000	4,530,000
Dividends on Class B common stock		3,000,000
	4,677,000	7,530,000
Total to Government of Liberia and LIO	$ 9,354,000	$15,060,000

LAMCO

Statements of Changes in Financial Position

LAMCO
(Including LAMCO's undivided 75 % share of the assets and liabilities of the LAMCO Joint Venture)

(Expressed in United States dollars)

	Year ended December 31, 1976	1975
Working capital provided:		
Net profit	$33,556,000	$47,503,000
Depreciation and amortization	15,736,000	15,265,000
Increase in reserve for pension obligations	832,000	679,000
Unrealized exchange losses (gains) on long-term indebtedness	1,469,000	(1,563,000)
Working capital provided by operations	51,593,000	61,884,000
Proceeds from equipment loans	2,045,000	
	53,638,000	61,884,000
Working capital applied:		
Reduction of:		
Senior indebtedness (net of current year's exchange adjustments)	11,730,000	7,781,000
Preferred stock	3,146,000	3,146,000
Exploration costs capitalized	314,000	827,000
Additions to property and equipment	14,199,000	10,184,000
Dividends on preferred stock	3,122,000	3,252,000
Dividends to Class B common stockholder equivalent to accrued royalty	4,677,000	4,530,000
Dividends distributed equally to Class A and Class B common stockholders		6,000,000
	37,188,000	35,720,000
Increase in working capital	$16,450,000	$26,164,000
Composition of increase in working capital:		
Inventories	$12,382,000	$20,697,000
Cash	8,326,000	(2,699,000)
Profit declared as a dividend on common stock and unpaid	5,806,000	(3,429,000)
Short-term loans	647,000	872,000
Accrued dividends on preferred stock	23,000	3,000
Prepaid expenses	15,000	(96,000)
	27,199,000	15,348,000
Current maturities:		
Senior indebtedness	(4,753,000)	7,755,000
Preferred stock		(2,550,000)
Accounts payable and accrued liabilities	(4,623,000)	319,000
Accounts receivable	(1,174,000)	5,002,000
Accrued royalty	(194,000)	175,000
Accrued interest	(5,000)	115,000
	(10,749,000)	10,816,000
Increase in working capital	$16,450,000	$26,164,000

LIO

(Expressed in United States dollars)

	Year ended December 31, 1976	Year ended December 31, 1975
Working capital provided:		
Net profit	$17,957,000	$24,825,000
Amortization of organization and preoperating expenses	21,000	30,000
Equity in undistributed earnings of LAMCO	(12,879,000)	(16,860,000)
Working capital provided by operations	5,099,000	7,995,000
Preferred stock redemption due in following year	550,000	550,000
	5,649,000	8,545,000
Working capital applied:		
Dividends to shareholders	6,328,000	6,328,000
(Decrease) increase in working capital	($ 679,000)	$ 2,217,000
Composition of (decrease) increase in working capital:		
Cash	$ 2,100,000	($ 19,000)
Accounts receivable and payable	28,000	30,000
Liberian taxes payable	1,000	28,000
	2,129,000	39,000
Receivable from LAMCO:		
Dividends	(2,808,000)	1,628,000
Preferred stock		550,000
	(2,808,000)	2,178,000
(Decrease) increase in working capital	($ 679,000)	$ 2,217,000

Report of Independent Accountants to the Shareholders of Liberian Iron Ore Limited and the Stockholders of The Liberian American-Swedish Minerals Company

In our opinion, the accompanying financial statements of Liberian Iron Ore Limited and The Liberian American-Swedish Minerals Company appearing on pages 16 through 29 of this Annual Report present fairly the financial position of these companies at December 31, 1976 and 1975, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.
New York, March 25, 1977

LIO LAMCO

Notes to the Financial Statements of LIO and LAMCO

Note 1—Statement of Accounting Policies

LIO: Investment in LAMCO: Liberian Iron Ore Limited (LIO) owns 50% of the common stock of The Liberian American-Swedish Minerals Company (LAMCO) and records its investment at an amount assigned by Board of Directors of LAMCO adjusted for equity in capital in excess of par value of LAMCO and for equity in undistributed profits of LAMCO. (Note 2).

Organization and preoperating expenses: These expenses are being amortized on a unit-of-production basis over proven reserves of the LAMCO Joint Venture.

LAMCO: Investment in the LAMCO Joint Venture: LAMCO includes in its financial statements its undivided 75% share of the assets and liabilities of the LAMCO Joint Venture. Current operating costs of the joint venture are recorded in proportion to the production taken. (Notes 2 and 4).

Inventories: Mined ore and processed product inventories are stated at average production cost which is not in excess of market. Inventories of materials and supplies are stated at average cost less provision for obsolescence.

Property and equipment and related depreciation: Depreciation is provided on a straight-line basis over the estimated service or economic lives of the properties. Interest costs applicable to major projects are deferred during the construction period and are amortized over the estimated service or economic lives of the related properties. Maintenance and repairs are charged to cost of production; renewals or betterments increasing the capacity or the value of the assets are charged to property and equipment accounts. The cost of assets sold or scrapped and the related accumulated depreciation are eliminated from property and equipment accounts, and gains or losses on disposals, net of proceeds, are taken into income.

Exploration and development: These costs are deferred when they relate to ore reserves where commercial mining appears possible but has not yet begun. Costs incurred in connection with development of an operating mine are charged to production currently. Deferred costs are amortized on a unit of production basis over the proven reserves of the applicable ore body.

Translation of foreign currency liabilities: Exchange gains and losses attributable to repayments and translation adjustments arising from obligations payable in currencies other than U.S. dollars are included in the determination of net profit for the year in which the rate changes.

Pension plans: In 1975, the legislature of Liberia enacted a new social security law which provides for certain welfare and pension benefits to be funded by employers covering employees in Liberia. However, such law has not been implemented as yet. It is anticipated that future pension cost under this new law will not be materially different from the pension cost presently provided by the company. Obligations under the current plans for Liberian employees are provided for by accruals and include amounts for current service, amortization of prior service and interest on amounts accrued to date and on unamortized prior service. Prior service costs are amortized over ten years. Other employees at the joint venture are covered by plans for which annual payments are made to insurance institutions. All pension costs are charged to production.

Note 2—Concession Agreement

LAMCO participates with Liberia Bethlehem Iron Mines Company (LIBETH), a wholly owned subsidiary of Bethlehem Steel Corporation, in a joint venture to develop and mine iron ore deposits in Liberia under a concession granted by the Government of the Republic of Liberia (Government) which expires on November 18, 2023. (Note 4).

Under the Concession Agreement as amended, in 1974, LAMCO is required to pay a royalty to the Government in the amount of 4% of its net sales of iron ore and iron ore products during each quarter. The payment of such royalty is subordinated to the senior debt of LAMCO. The profit of LAMCO, after appropriation to reserves required by lenders (dependent upon the amount of Series A and Series D notes outstanding and other factors), is distributed first to the preferred stockholders for the required dividends and then to LIO—as holder of the Class B common stock—as a dividend in an amount equivalent to the royalty accrued to the Government. Subject to any payments required to be made to the Class A common stockholders if a debt equity ratio of 3-½ to 1 (as defined) is exceeded and after adjustment of the reserve for concession development and other corporate purposes pursuant to a resolution by LAMCO's Board of Directors, any remaining amount will be distributed equally to the Government as holder of the Class A common stock and to LIO. (Note 14).

Note 3—Capital

LAMCO is incorporated under the laws of the Republic of Liberia and its accounts are maintained in U.S. dollars. The Class A common stockholder elects five and the Class B common stockholder elects six of LAMCO's eleven directors. The Class B common stock has been pledged by LIO as collateral under terms of a bond indenture dated October 1, 1961, as amended, relating to LAMCO's long-term debt.

Among the provisions of LAMCO's Certificate of Incorporation governing the Series A preferred stock are:

(a) Holders of Series A preferred stock are entitled to cumulative annual cash dividends of $6.25 per share.

(b) The Series A preferred stock is to be redeemed pursuant to a schedule which provides for the redemption, at $100 per share plus accrued dividends, of 5,960 shares annually in each year through 1979 and of the remaining 5,890 shares in 1980. LAMCO also has the option to redeem shares of Series A preferred stock at any time at $100 per share plus accrued dividends.

(c) The Series A preferred stock has priority over the Series B and Series C preferred stock and the Class A and Class B common stock with respect to the payment of dividends and the distribution of assets in the event of liquidation.

Among the provisions of LAMCO's Certificate of Incorporation governing the Series B and Series C preferred stock are:

(a) Holders of Series B and Series C preferred stock are entitled to cumulative annual cash dividends of $6.25 per share.

(b) The Series B and Series C preferred stock is to be redeemed pursuant to a schedule which provides for the redemption, at $100 per share plus accrued dividends, of 20,000 shares of Series B preferred stock and 5,500 shares of Series C preferred stock annually in each of the years 1977 through 1984 and of the remaining 196,640 shares of Series B preferred stock and 60,500 shares of Series C preferred stock in 1985. In addition, LAMCO has the option to redeem shares of Series B and Series C preferred stock at any time after all the bonds have been retired at $100 per share plus accrued dividends.

(c) The Series B preferred stock has priority over the Series C preferred stock and the Class A and Class B common stock, and the Series C preferred stock has priority over the Class A and Class B common stock with respect to dividends and the distribution of assets in the event of liquidation.

Note 4—Joint Venture Agreement

The LAMCO Joint Venture Agreement between LAMCO and LIBETH provides that LAMCO has a 75% and LIBETH a 25% undivided interest in the concession and in the facilities established to develop the concession. The two parties share production of the joint venture generally in a 75—25 ratio with the proviso that LIBETH's portion must be a minimum of 2,500,000 tons annually. The parties may agree in any year to share in different proportions, but over the long term it is intended that the 75—25 ratio be observed.

Note 5—Property and Equipment

In 1975 the economic service lives of certain property and equipment, principally the railroad and harbor, were shortened so that all such assets will be fully depreciated by the time the commercially proven ore reserves which are presently being mined will be depleted. However, substantial additional iron deposits are geologically proven in the western areas of the concession and, based upon studies by the manager of the LAMCO Joint Venture, all or part of such reserves might be mined on a profitable basis. Further study and exploration of these deposits is continuing as well as plans for financing the additional mining and processing facilities that would be required. If the expansion program is undertaken, the depreciable lives of the railroad, harbor and certain other assets would be lengthened to fit the new mining plans.

Property and equipment are being depreciated over the shorter of the useful lives of the assets or the depletion date of the ore reserves presently being mined, which is estimated to occur in 1986. Accordingly, the range of estimated service lives in use at December 31, 1976 was principally as follows:

	Years
Railroad and harbor	10
Roads and airstrips	10
Buildings and rolling stock	5—10
Special purpose structures, machinery and equipment	3—10
Motor vehicles, boats and heavy duty equipment	3—10

No interest costs were deferred during 1976 or 1975. Amortization of previously deferred interest costs amounted to $104,000 in 1976 and 1975.

Note 6—Organization Expenses, Exploration and Development Costs

LAMCO additions to exploration and development costs in 1976 amounted to $314,000 ($827,000, 1975). Annual amortization of LIO amounted to $21,000 ($30,000, 1975) and $1,443,000 for LAMCO ($1,657,000, 1975), including $414,000 of interest deferred during the preoperating period ($491,000, 1975).

Note 7—Short-term Loans and Senior Indebtedness

The short-term loans of LAMCO outstanding at December 31, 1976 and 1975 incur interest at annual rates varying from 2% to 3.625% (3.75% to 7.1%, 1975) and are denominated as follows:

	December 31, 1976	December 31, 1975
Swiss francs	$19,515,000	$18,162,000
U.S. dollars		2,000,000
Total short-term loans	$19,515,000	$20,162,000

The Swiss franc loans are guaranteed by the Swedish LAMCO Syndicate (Syndicate).

All loans outstanding at December 31, 1976 matured on or before January 27, 1977 and were renewed except for one loan denominated in Swiss francs with a dollar equivalent of $5,761,000 which matures on April 7, 1977. The maximum amount of short-term loans outstanding at any month-end during 1976 was $22,747,000 ($23,299,000, 1975) and the average amount of loans outstanding during the year was $19,910,000 ($19,066,000, 1975) with average annual interest rates of 2.8% and 5% in 1976 and 1975, respectively.

	December 31, 1976	December 31, 1975
Senior indebtedness:		
Series A Notes 5-¾%, due 1965—1980	$ 5,050,000	$ 6,150,000
Series B Bonds 6-¾%, due 1965—1980 payable in Deutsche marks	14,889,000	16,320,000
Series D Notes 5-¾%, due 1968—1980	1,368,000	1,716,000

Series E Bonds 6-3/4%, due 1968—1980 payable in Deutsche marks	4,101,000	4,602,000
Series G Notes 5-1/2%, due 1968—1980	7,432,000	9,290,000
Bank loans maturing within six years	2,212,000	438,000
	35,052,000	38,516,000
Less—		
Current maturities	12,181,000	7,428,000
Total senior indebtedness	$22,871,000	$31,088,000

Maturities and redemptions of long-term debt and preferred stock are scheduled as follows:

1977	$15,300,000
1978	11,400,000
1979	10,000,000
1980	10,300,000
1981	3,000,000
After	33,500,000

Among the terms governing the issue of the Series A notes, the Series B bonds, the Series D notes, the Series E bonds and the Series G notes (referred to below collectively as the "bonds") contained in the indenture relating thereto are:

(a) The bonds are secured by a first lien on the Class B common stock of LAMCO and on LAMCO's 75% interest in the project.

(b) No dividends may be declared or paid nor may any distribution be made on common stock unless the guarantee of the Syndicate is in effect in the amount of $15,000,000 or the principal amount of the bonds outstanding, whichever is lower, or the guarantee shall have terminated in accordance with its terms.

(c) The bonds are repayable semi-annually on June 1 and December 1 during the years set forth above and the Series B and E bonds benefit from the operation of a sinking fund. The total annual repayments and sinking fund requirements of the bonds vary from $11,800,000 in 1977, $7,800,000 to $6,500,000 in 1978 and 1979 and the remaining amount of $6,700,000 payable in 1980. LAMCO is obligated in certain circumstances to make annual prepayments of the Series G notes, in addition to the annual repayments, under a formula based on annual net profits. At April 1, 1977 a prepayment of $4,000,000 which is included in current maturities is required.

Exchange gains and losses attributable to repayments and translation adjustments arising from obligations payable in currencies other than U.S. dollars are summarized below.

	December 31, 1976	1975
Realized losses (gains) as a result of repayments	$ 212,000	($ 194,000)
Translation losses (gains)	3,272,000	(2,710,000)
Total amount charged (credited) to income	$3,484,000	($2,904,000)

Note 8—Pensions

LAMCO's share of the unamortized amount of prior service pension costs at December 31, 1976 was estimated to be $227,000. Pension obligations charged to LAMCO's share of production costs amounted to $1,425,000 in 1976 ($840,000, 1975).

Note 9—Taxation

LIO is incorporated under the Companies Act of Canada and qualifies as a "foreign business corporation". Under the general tax laws of Canada, LIO's dividend income was exempt from Canadian corporate income tax until 1976. In 1976 and subsequent years, dividends received by LIO from LAMCO will be exempt from Canadian tax only if the dividends are paid out of exempt surplus, i.e. active business income earned by LAMCO in 1972 to 1975 and that part of its active business income earned after 1975 in countries with which Canada has a tax treaty, including Liberia. The tax treaty between Canada and Liberia was signed in November 1976 and upon ratification will become effective as of January 1, 1976. This treaty in effect will provide that all dividends received by LIO from LAMCO out of its active business income will be exempt from Canadian tax, and further will provide that LIO's cost basis for the Series C preferred stock (purchased in 1974 with proceeds from redemption of junior subordinated debentures) will be approximately Canadian $11,900,000—the Canadian equivalent of the principal amount of US$11,000,000 paid for the debentures in 1966, thereby eliminating any taxable gain on that transaction.

LIO is subject to the full Canadian corporate tax rate (48%) on its taxable income derived from interest income less normal business expenses.

Dividends received on the Series C preferred stock are subject to a 25% tax by the Government of Liberia.

Note 10—Contractual Commitments and Contingent Liabilities

LAMCO has contracts for the sale of ore products which in 1977, 1978 and 1979 will aggregate approximately 4.1, 5.4 and 4.3 million tons, respectively. LAMCO also has uncompleted contracts in respect of 1976 which aggregate 3.5 million tons. One contract (the so called Ruhr contract) aggregating approximately 1.2 million tons annually extends to 1979 with an option of renewal by the buyers to 1999. Three contracts for total annual quantities approximating 1.3 million tons expire in 1980. Three other contracts for total annual quantities approximating 1.6 million tons expire in 1979. Another contract for quantities approximating 0.8 million tons annually expires in 1978.

Effective from 1975 onward, LAMCO accepted the request of certain purchasers under the Ruhr contract to be released from their obligations to purchase 0.8 million tons of iron ore annually, and effective from 1976 onward LAMCO released another purchaser from its obligation to purchase 0.6 million tons annually. Thus, from 1976 onward the number of tons being shipped under the Ruhr contract has been reduced to 1.2 million tons per year through 1979. The Ruhr contract is pledged under LAMCO's indenture dated October 1, 1961 to secure performance of LAMCO's obligations to the holders of its bonds issued in connection with the financing of the project, and accordingly amendments to the Ruhr contract, except under certain conditions, are subject to the consent of the bondholders. The bondholders have consented to the release of the foregoing purchasers under the Ruhr contract on the conditions that LAMCO pledge to the trustee under the indenture, for 1976 through 1980, additional contracts providing for the sale of approximately 1.3 million tons of iron ore per year and that, with respect to 1976 through 1979, LAMCO offer in good faith to sell to German steel producers at least 1.1 million tons of iron ore at prices not exceeding the prices agreed upon by LAMCO with its other principal European customers (other than the purchasers under the Ruhr contract). LAMCO has satisfied these conditions for 1976.

Other contractual commitments are:

	Service	*Contracting party*	*Fee*
(i)	Management of the project for indefinite period, cancellable on two years' notice after 1978	Gränges AB	10 cents per ton of ore delivered plus expenses
(ii)	Sales agent for indefinite period cancellable on one year's notice after 1977	Gränges AB	2% of net invoice prices, f.o.b. Liberian port, on sales of first 5,000,000 tons; 1% on sales in excess of 5,000,000 tons
(iii)	Financial advisor for indefinite term, cancellable on 90 days' notice	Skandinaviska Enskilda Banken	On reasonable and customary basis. Annual fees for services to June 30, 1977 have been agreed at $200,000

Note 11—Pledge of Assets

Under the terms of the bond indenture and with the consent of LIBETH, LAMCO has pledged all its right, title and interest in the Concession Agreement, Joint Venture Agreement, Management Agreement and certain ore sales contracts with German and Austrian ore buyers covering 2.7 million tons of iron ore in 1976, 2.0 million tons in 1977, 2.1 million tons in 1978 and 1979 and 0.7 million tons in 1980 (see Note 10) and has entered into a chattel mortgage, as supplemented, covering its interest in tangible personal property in Liberia used in connection with the project.

Note 12—Directors, Officers and their Remuneration

There are twelve directors and five officers of LIO. Three of the officers are also directors. Aggregate remuneration of directors as such included in other expenses was $34,000 in 1976 ($25,750, 1975).

Note 13—Transportation of Guinean Ore

On November 8, 1976, the LAMCO Joint Venture and Mifergui-Nimba Co., a Guinean mixed company entered into a basic agreement setting forth the general principles under which the Joint Venture will agree to transport, handle and load ore from a new mine to be constructed in a part of the Nimba Range of Mountains located in the Republic of Guinea, some 20 kilometers from the LAMCO Joint Venture's mine in Liberia. Negotiations on a definitive transportation contract with Mifergui are expected to begin in 1977.

Note 14—LAMCO Dividends

At a meeting on March 25, 1977 the Board of Directors of LAMCO deferred until June, 1977 consideration of the disposition of the balance of 1976 profit of which 50% or $12,852,000 is included in LIO's statement of profit and loss as equity in undistributed earnings of LAMCO.

LAMCO

Five-year Summary Statements of Profit and Loss and Appropriation and Disposition of Net Profit in accordance with the Concession Agreement

	Year ended December 31,				
(Expressed in thousand United States dollars)	1972	1973	1974	1975	1976
Sales	$69,640	$73,008	$105,375	$113,240	$116,915
Gross profit	$28,833	$29,829	$ 46,148	$ 55,998	$ 47,980
Selling, general and administrative expenses	2,039	2,266	3,035	3,207	3,487
Accrued royalty to Government of Liberia			4,216	4,530	4,677
Profit from operations	26,794	27,563	38,897	48,261	39,816
Financing charges:					
Interest expense (net)	9,255	8,721	6,334	3,662	2,776
Exchange losses (gains)	699*		8,652*	(2,904)	3,484
Profit before extraordinary item	16,840*	18,842	23,911*	47,503	33,556
Extraordinary expense resulting from currency revaluations		9,955*			
Net profit	16,840*	8,887*	23,911*	47,503	33,556
Dividends on preferred stock			(2,522)	(3,252)	(3,122)
Dividends to Class B common stockholder equivalent to accrued royalty to Government of Liberia			(4,216)	(4,530)	(4,677)
(Appropriations) dispositions by Board of Directors to reserves:					
As required by lenders	(240)	(191)	(141)	(91)	(53)
Annual appropriation (to) or from reserve for concession development and other corporate purposes	(4,548)*	2,316*	(11,796)*	(33,630)	
	(4,788)	2,125	(18,675)	(41,503)	(7,852)
Dividends distributed equally to Class A and Class B common stockholders	$12,052	$11,012	$ 5,236	$ 6,000	
Balance of Net profit subject to Board determination					$ 25,704
Distributions to common stockholders:					
To Government of Liberia:					
Accrued royalty			$ 4,216	$ 4,530	$ 4,677
Dividends on Class A common stock	$ 6,026	$ 5,506	2,618	3,000	
	6,026	5,506	6,834	7,530	4,677
To LIO:					
Dividends on Class B common stock equivalent to royalty			4,216	4,530	4,677
Dividends on Class B common stock	6,026	5,506	2,618	3,000	
	6,026	5,506	6,834	7,530	4,677
Total to Government of Liberia and LIO	$12,052	$11,012	$ 13,668	$ 15,060	$ 9,354

* Restated for change in accounting for foreign currency translation.

Management's Discussion and Analysis of the Summary of Operations

LAMCO

1976 versus 1975

The general worldwide recession in the steel industry which was experienced in 1975 continued to have an adverse effect on the iron ore industry in 1976. LAMCO's shipments of ore in 1976 increased slightly from the 1975 level of 6.8 million tons to 7.0 million tons, but such amount of shipments was still below LAMCO's share of 9.3 million tons of the Joint Venture's rated annual capacity. Ore production for LAMCO's account during 1976 was 7.2 million tons, compared with production of 8.5 million tons in 1975.

Sales revenues increased by 3% in 1976 as a result of somewhat lower ore prices in 1976 being offset by the increase in ore shipments and the shipments of

LIO
Five-year Summary Statements of Profit and Loss and Retained Earnings

(Expressed in thousand United States dollars)	1972	1973	1974	1975	1976
	Year ended December 31,				
Statement of Profit and Loss					
Dividends and interest income:					
Dividends from LAMCO:					
Series C preferred stock			$ 527	$ 688	$ 668
Class B common stock	$6,026	$5,506	6,834	7,530	4,677
	6,026	5,506	7,361	8,218	5,345
Interest income	741	835	403	182	153
	6,767	6,341	7,764	8,400	5,498
Expenses:					
Interest expense	80	52	22		
Other expenses	506	443	460	435	420
	6,181	5,846	7,282	7,965	5,078
Remaining equity in profit of LAMCO before extraordinary expense	2,394*	3,916*	5,968*	16,860	12,879
Equity in extraordinary expense of LAMCO resulting from currency revaluations		(4,977)*			
Net profit	$8,575*	$4,785*	$13,250*	$24,825	$17,957
Earnings per share based on 3,955,025 average shares outstanding:					
Profit before equity in extraordinary expense of LAMCO (including $1.56 in 1972; $1.48 in 1973; $1.84 in 1974; $2.01 in 1975; $1.28 in 1976 in dividends and interest income less expenses)	$ 2.17	$ 2.47	$ 3.35	$ 6.28	$ 4.54
Equity in extraordinary expense of LAMCO		(1.26)			
Net profit per share	$ 2.17*	$ 1.21*	$ 3.35*	$ 6.28	$ 4.54
Cash dividends per share	$ 1.40	$ 1.40	$ 1.50	$ 1.60	$ 1.60
Statement of Retained Earnings					
Net profit	$8,575*	$4,785*	$13,250*	$24,825	$17,957
Retained earnings at beginning of year	5,791*	8,829*	8,077*	15,395	33,892
	14,366	13,614	21,327	40,220	51,849
Deduct—Cash dividends declared	5,537	5,537	5,932	6,328	6,328
Retained earnings at end of year	$8,829*	$8,077*	$15,395*	$33,892	$45,521
Represented by:					
Accumulated profits before equity in undistributed earnings of LAMCO	$2,622	$2,931	$ 4,281	$ 5,918	$ 4,668
Equity in undistributed earnings of LAMCO	6,207*	5,146*	11,114*	27,974	40,853
	$8,829	$8,077	$15,395	$33,892	$45,521

* Restated for equity in LAMCO's change in accounting for foreign currency translation.

arrears under 1975 contracts at higher prices.

LAMCO's profit from operations in 1976 decreased by $8.4 million as compared with 1975. This decrease is principally the result of increased production costs from inflation and higher labor and personnel costs, offset slightly by the 3% increase in sales revenues.

Interest expense in 1976 decreased by $0.9 million as a result of the normal retirements of long-term debt and interest rate reductions on short-term borrowings. As a result of fluctuation in exchange rates between the U.S. dollar and the Deutsche mark and the Swiss franc, exchange losses amounted to $3.5 million in 1976 ($3.3 million unrealized losses), compared with exchange gains in 1975 of $2.9 million ($2.7 million unrealized gains).

LIO LAMCO

1975 versus 1974

Shipments during 1975 aggregated 6.8 million tons compared with 9.8 million tons in the preceding year. The 7% sales increase is due almost entirely to higher negotiated iron ore prices for 1975 which more than compensated for the reduced shipments.

Production costs increased as a result of higher labor and maintenance costs coupled with general inflation. Depreciation and amortization charges were higher in 1975 as a result of increased investment expenditures in the concession areas as well as the shortening of depreciable lives for the railroad, harbor and certain other assets more fully discussed in Note 5 to the financial statements. Despite these increased costs, gross profit for 1975 increased 21%, the principal factors being the increased sales on a lower volume of tonnage shipped and a substantially higher stockpile of iron ore products at the end of 1975 which has absorbed a significant portion of 1975 production costs.

Interest expense decreased by 42%, primarily due to normal retirements of long-term debt and rate reductions on short-term borrowings. Furthermore, interest expense for 1974 included approximately three months' interest on debentures which were exchanged for preferred stock in connection with the amendments to the Concession Agreement.

The accounting for foreign currency translation was changed in 1975 pursuant to a pronouncement by the Financial Accounting Standards Board in the United States. Accordingly, exchange gains and losses reported for all years included in the Summary Statements of Profit and Loss are on a comparable basis.

The exchange gain in 1975 and loss in 1974 principally relate to unrealized translation adjustments; the strengthening of the U.S. dollar in relation to the Deutsche mark and the Swiss franc is the cause of the gain recorded in 1975.

LIO

LIO, which holds 50% of LAMCO's common stock derives substantially all its income from LAMCO. Accordingly, the results of LIO are almost entirely dependent upon the results of operations of LAMCO which are discussed above. LIO's equity in the undistributed earnings of LAMCO and its equity in the extraordinary expense of LAMCO (1973) have been restated to give effect to LAMCO's change in accounting for foreign currency translation in 1975.

Interest income in 1975 and 1976 was derived entirely from time deposit earnings whereas in 1974 interest income included approximately three months' interest income on the junior subordinated debentures of LAMCO, which were redeemed at their principal amount and the proceeds used to purchase the Series C preferred stock of LAMCO, dividends on which are subject to a 25% tax by the Government of Liberia. Interest income prior to 1974 was derived principally from the junior subordinated debentures. Interest expense in 1974 and prior years was attributable to the 6% promissory note held by the Swedish LAMCO Syndicate, the final principal instalment being paid on September 30, 1974.

Facing page:
Balling discs in the pellet plant at Buchanan.
Back cover:
Grinding mill in the washing plant at Buchanan.

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