LIBERIAN IRON ORE LIMITED

Annual Report 1979

LAMCO LIO

Operating and Financial Summaries

	1979	1978
LAMCO JOINT VENTURE		
Production of finished ore products (metric tons)	8,900,000	9,000,000
Shipments during the year (metric tons)	10,200,000	10,800,000
Project expenditures—		
Investments in property and equipment	$ 10,300,000	$ 9,053,000
Exploration and development costs deferred	$ 911,000	$ 743,000
LAMCO		
Sales—metric tons	8,100,000	8,500,000
—amount	$104,885,000	$107,037,000
Loss from operations	$ (17,036,000)	$ (9,285,000)
Net loss	$ (32,326,000)	$ (16,796,000)
LIO		
Interest income	$ 452,000	$ 413,000
Profit (loss) before adjustment for equity in LAMCO (per share [$0.13] and $0.01)	$ (531,000)	$ 55,000
Change in equity in the undistributed earnings of LAMCO	$ (14,945,000)	$ (7,137,000)
Net (loss) (per share [$3.91] and [$1.79])	$ (15,476,000)	$ (7,082,000)
Dividends (per share $0.50 in 1978)	nil	$ 1,978,000
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders	4,011	4,160
located in Liberia	2,529	2,531
U.S.A. and Canada	1,267	1,408
Other countries	215	221

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, 1978	$0.20	$8½	$11
June 30, 1978	0.20	8¾	9¾
September 30, 1978	0.10	8½	9⅞
December 31, 1978	nil	6½	9¼
March 31, 1979	nil	7¼	9
June 30, 1979	nil	7⅞	8⅜
September 30, 1979	nil	7¾	8¼
December 31, 1979	nil	6¼	8⅜

LIBERIAN IRON ORE LIMITED

LIO Annual Report 1979

The annual general meeting of LIO shareholders will be held on Thursday, June 5, 1980 at 2:00 p.m. at The Airport Hilton International, Dorval, Quebec, Canada.

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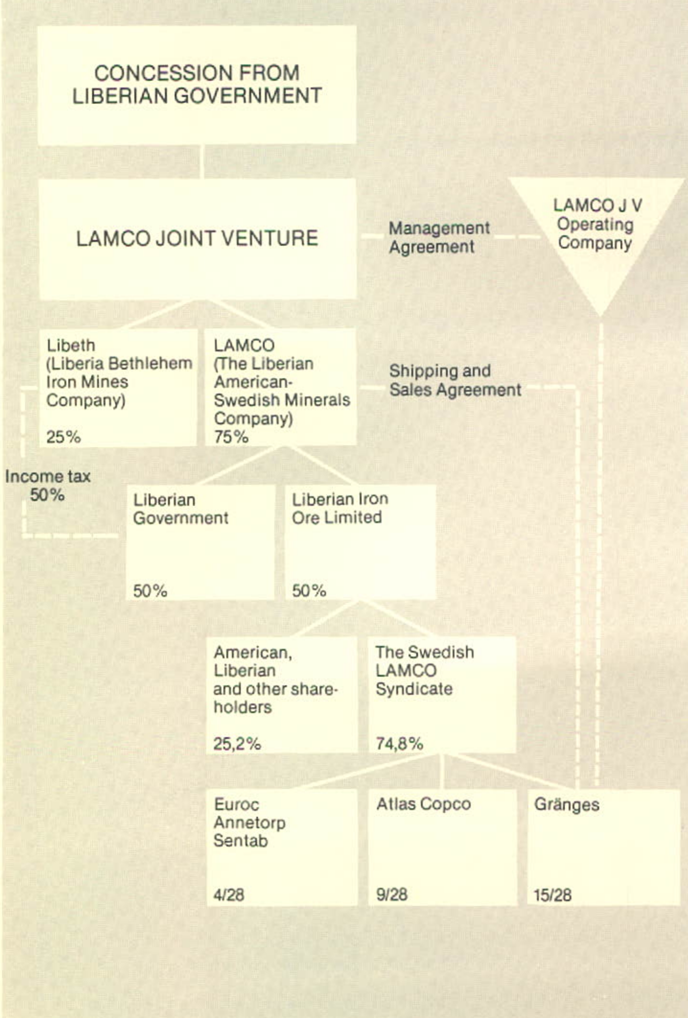

LIBERIAN IRON ORE LIMITED (LIO)

is a 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 $350,000,000 in the development of high grade iron ore deposits in the Nimba Mountain region of Liberia. The mine, and the modern mining community, is 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

is 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 16316
S-103 26 Stockholm, Sweden

LAMCO J.V. OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICERS
John L. Pervola
General Manager

Sten Forsmark
Technical Manager

HEAD OFFICE
P.O. Box 69, Monrovia,
Roberts International Airport,
Liberia

LIO **LIBERIAN IRON ORE LIMITED**

BOARD OF DIRECTORS

Hans Werthén *Chairman and President*	*Chairman of AB Electrolux, and Chairman of Gränges AB, Stockholm, Sweden*
Bo Abrahamsson	*President of Gränges AB, Stockholm, Sweden*
Tryggve Angel	*President of Gränges International Mining, Stockholm, Sweden*
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Secretary-Treasurer
G. E. Jones

COUNSEL

Oglivy, Renault,
The Royal Bank Building, 1 Place Ville Marie,
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Sullivan & Cromwell,
125 Broad Street, New York, N.Y., 10004, U.S.A.

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.,
153 East 53rd Street, New York, N.Y., 10022, 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

666 Third Avenue, New York, N.Y.,
10017, U.S.A.

(As of March 31, 1980)

BOARD OF DIRECTORS

Chairman Emeritus Marcus Wallenberg

Hans Werthén *Chairman*	*Chairman of AB Electrolux, and Chairman of Gränges AB, Stockholm, Sweden*
Bo Abrahamsson	*President of Gränges AB, Stockholm, Sweden*
Tryggve Angel	*President of Gränges International Mining, Stockholm, Sweden*
Kurt-Allan Belfrage	*Vice Chairman of Atlas Copco AB, Stockholm, Sweden*
Robert I. E. Bright	*President of Robert Bright & Sons, Inc., Monrovia, Liberia*
Joseph J. F. Chesson	*Minister of Justice of the Republic of Liberia, Monrovia, Liberia*
Ellen Johnson-Sirleaf	*Minister of Finance of the Republic of Liberia, Monrovia, Liberia*
Sten Lindh	*President of Industri AB Euroc, and Chief Executive Officer of the Euroc Group, Malmö, Sweden*
D. Franklin Neal	*Minister of Planning and Economic Affairs 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*

President
Arne Dahlström

Vice President
Stephen B. Dunbar, Jr.

Assistant Treasurer
Ingemar Uussaar

COUNSEL

Henries Law Firm,
31 Benson Street, Monrovia, Liberia

Morgan, Grimes & Harmon Law Firm,
Lynch Street, Monrovia, Liberia

Sullivan & Cromwell,
125 Broad Street, New York, N.Y., 10004, U.S.A.

HEAD OFFICE

P.O. Box 69,
Monrovia, Liberia

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.,
153 East 53rd Street, New York, N.Y.10022,
U.S.A.

FOREIGN OFFICE

c/o Gränges International Mining,
P.O. Box 16316,
S-103 26 Stockholm, Sweden

To the Shareholders

As this report was being prepared, word reached the outside world of a coup in the Republic of Liberia on April 12, 1980 in which President William R. Tolbert was killed and a new government formed under the leadership of Master Sergeant Samuel K. Doe. Subsequently, thirteen officials of the former government, including two directors of LAMCO, were executed. Master Sergeant Doe has formed a body known as the People's Redemption Council, consisting of fourteen persons from the armed forces, to govern the country, and a new cabinet has been named.

Because of the fact that a curfew was imposed from 6 p.m. to 6 a.m., operations were conducted at a reduced level during the first two weeks following the coup. Thereafter operations returned to a normal three-shift basis. The new head of state has declared that his government will seek to maintain and develop friendship with foreign investors. We should be in a position to provide further information at the Annual Meeting on June 5, 1980.

LAMCO reported a net loss of $32,326,000 in 1979 including a provision of $9,700,000 for the write off of the pellet plant, compared with a net loss of $16,796,000 in 1978. Shipments decreased by some 5% in 1979 to approximately 8.1 million tons. Total revenues decreased by about 2% to $104,885,000 primarily due to reduced shipments of pellets. Costs of production continued to escalate due to general inflation, fuel oil price increases and higher labor costs. LAMCO experienced a $23,042,000 reduction in working capital during 1979 compared to a reduction of $17,035,000 in 1978.

The European steel industry, LAMCO's main market, has experienced severe economic problems in recent years which have in turn adversely affected the iron ore industry. Ore price increases in 1979, after two years of declining prices, did not offset increased costs of production and transportation which are continuing to rise. LAMCO's 1979 shipments were affected by ship congestion at receiving ports, unsettled labor conditions in France and production difficulties primarily due to labor disputes in Liberia. Although LAMCO's shipments in the first quarter of 1980 were higher than in the first quarter of 1979, LAMCO's management expects 1980 shipments to improve only slightly over 1979 levels. Despite a price increase of some 15.8% for 1980 sales contracts and the implementation of a personnel reduction program, LAMCO's management does not expect its operations to be profitable in 1980.

The Joint Venture has continued the austerity program begun in 1977 to reduce cash outflow. Major capital expenditures have been postponed to the extent possible. Further steps, including an across-the-board reduction in personnel presently scheduled to be accomplished in 1980, are being taken to reduce operating expenses and maintain inventories at minimum levels.

LAMCO's Board of Directors did not declare any dividends on Preferred Stock or Common Stock in respect of 1979. Furthermore, the holders of LAMCO's Series A, B and C Preferred Stock have agreed to postpone until 1981 scheduled redemptions previously due in 1977-1980 aggregating $12 million. As of December 31, 1979, the unpaid cumulative dividends on LAMCO's Series A, B and C Preferred Stock aggregated $6.7 million. In addition, at December 31, 1979, dividends on the LAMCO Class B Common Stock held by LIO equivalent to the royalty accrued to the Government of Liberia aggregating $9.5 million had not been declared.

As a result of continuing escalation of production costs which have not been fully offset by price increases and of the cash flow demands resulting from the scheduled maturities of LAMCO's long-term indebtedness and capital expenditures in 1980, LAMCO predicts substantial cash deficits during 1980. Arrangements have been made by LAMCO's management to finance these anticipated cash deficits, and management believes that all obligations can be met and all necessary capital expenditures can be made.

As a result of the operations of LAMCO, LIO incurred a net loss in 1979, after the change in equity in the undistributed earnings of LAMCO attributable to Common Stock, of $15,476,000, or $3.91 per share, compared with a net loss of $7,082,000 or $1.79 per share, in 1978. Excluding adjustments for equity in LAMCO, LIO had a loss of $531,000, or $0.13 per share, in 1979, compared with a profit of $55,000, or $0.1 per share, in 1978.

In 1979 LIO received no cash dividends from LAMCO, and the only cash it received in 1979 consisted of interest on cash on deposit with banks. Dividends by LIO have been suspended since 1978 and are not presently expected to be resumed in 1980. At December 31, 1979, LIO's working capital was reduced to $3,791,000.

May, 1980

H Werthén

Hans Werthén
Chairman and President

1979 in Review and Preview of 1980

Iron Ore and Steel Market and LAMCO Sales

In 1978, total worldwide crude steel production exceeded the previous record level of 1974, and the production increase continued into 1979, when it reached 745 million tons. In spite of the recovery within the steel industry during these years, the average rate of increase in steel production for the second half of the seventies amounted to less than 1% per annum.

During this half decade, a marked change has also taken place in steel production in different parts of the world. In 1979, the EEC, the US and Japan, the steel producers so important for the international iron ore trade, represented 50% of world steel production (375 million tons) compared with 57% in 1974 (405 million tons). In comparison with 1978, last year's production in these countries increased by 17 million tons which strongly stimulated the iron ore trade, particularly since this entire increase took place in the EEC and Japan, which to a much greater extent than the US are dependent on imported iron ore—in Japan up to nearly 100% of its requirements and in the EEC up to about 85%, based upon the iron content of the ore. The steel industry in the Soviet Union, on the contrary, which is self-sufficient in iron ore, had a less successful year, with 149.5 million tons of production compared with 151.4 million tons in 1978. Also, production in East European countries was stagnant last year. The new steel producers in the developing countries represented 7.2% of world steel production according to preliminary statistics, against 4.3% in 1974 and 6.6% in 1978. Steel production in China continues to increase and is based on augmented iron ore imports, largely from Australia.

The increased steel production in 1979 had a positive influence on the international iron ore trade. According to preliminary estimates, 395 to 400 million tons of iron ore were sold over national frontiers. The iron ore trade thus reached its second highest volume so far, surpassed only by 1974.

Also, demand for imported ore increased by 10% or more during 1979 compared with 1978. There were no ore shortages during the year in spite of lengthy strikes in the Australian mines during the early summer and delivery problems for the Brazilian mines in the beginning of the year due to persistent rain. However, in 1979 Brazil exported more iron ore than ever before. Also, Canada, South Africa, Sweden and Venezuela increased their exports.

A large amount of restructuring of the steel industry still remains to be accomplished, particularly within the European Community, which is LAMCO's main market. The improved gross tonnage in steel production during 1979 was not sufficient to enable the European steel industry to break even, except in Germany. Many companies in the EEC are continuing to suffer heavy losses and are dependent upon government assistance.

During the latter half of 1979, there was an increasing fear that steel production had reached its peak and was on its way downwards. In the US, the turn became noticeable by the middle of the year with decreasing production, plant shut-downs and employee layoffs. Within the EEC and in Japan, however, production continued on a high level throughout the year.

Reduced demand from the French steel industry due to protracted strikes in the spring and early summer of 1979 caused a reduction in deliveries. LAMCO deliveries were also interrupted by production problems resulting from both labor disputes and the collapse of a conveyor belt in Buchanan in August. Congestion of ships in Rotterdam during the latter part of the autumn caused delays in the shipping schedules and contributed to higher freight costs. Several LAMCO customers found it difficult to procure suitable tonnage for loading in Buchanan at reasonable freight rates.

Thus, LAMCO's shipments decreased from 8.5 million tons in 1978 to 8.1 million tons in 1979. LAMCO's sales revenues declined from $107,037,000 in 1978 to $104,885,000 in 1979 in spite of a price increase of 8% on most 1979 shipments.

For 1980 LAMCO has negotiated sales prices which are up some 15.8% compared to 1979. Shipments are presently expected to improve somewhat over 1979 levels.

LAMCO Joint Venture Production and Shipments

Combined Joint Venture production of finished products in 1979 was 8.9 million tons compared with 9.0 million tons in 1978. Except for the production of a limited quantity of ore for test purposes, the Tokadeh mine was closed throughout the year, as was the pellet plant in Buchanan.

Joint Venture production consisted of 8.6 million tons of washed fines, about 0.1 million tons of run-of-mine ore and 0.2 million tons of pellet feed. No washed lumpy ore was produced during the year.

Production was on schedule until August 1979, when it dropped significantly due to a wildcat strike and the collapse of the main conveyor belt which feeds raw ore into the washing plant, resulting in a loss of 800,000 tons of ore production. Most operations at Buchanan were suspended for about a month.

The market for pellets started to weaken substantially in the 1970's, and since November 1977 the pellet plant has been shut down. The pellet feed which results from the normal processing of the raw ore has subsequently been stockpiled. Some of this material has been mixed in with fines and shipped to customers, and the remaining material is expected to be sold to a steel manufacturer in Nigeria with whom price and volume negotiations are under way. Because pellet production is not economical at current cost and price levels and forecasts for pellet sales in the future remain poor, the Joint Venture decided to shut down the pellet plant indefinitely in 1979. LAMCO therefore wrote off the remaining net book value of the pellet plant in that year.

LAMCO's shipments in 1979 included 6,673,000 tons of washed fines, 1,385,000 tons of washed lumpy and 48,000 tons of pellets. At the end of the year LAMCO had no further lumpy ore or pellets on stockpile at Buchanan.

The demand for lumpy ore for 1980 for LAMCO's account is about 1 million tons which will have to be produced. The remaining part of lumpy ore production will be crushed to fines.

Joint Venture production for 1980 is forecast at 11.1 million tons of which 8.5 million tons is for the account of LAMCO.

Operating Costs

The Joint Venture had net costs of production of about $103.1 million in 1979 compared with $84.1 million in 1978. The increase was due primarily to increased costs for fuel and lubricants as a consequence of world-wide oil price increases, increased salaries, wages and other personnel expenses and general inflation. Total fuel costs for the Joint Venture in 1979 were $15.0 million, as compared with $9.3 million in 1978, and the 1980 budget estimates these costs at $25.4 million, due largely to increasing prices.

The lengthy labor dispute between the Joint Venture and the LAMCO Mine Workers' Union of Liberia regarding wages, benefits and employment and community programs which began in 1978 intensified in 1979. In December 1978 an agreement was reached, retroactive to January 1, 1978, which provided for wage increases in 1978 and 1979, housing subsidies, shift allowances and other worker benefits. As a result of the agreement, additional costs to the Joint Venture for 1978 and 1979 were estimated to be $6.4 million, of which approximately $4.4 million related to 1979. Additionally, the agreement provided for the Joint Venture to renovate 547 worker houses, estimated to cost $2.5 million. Following the wildcat strike by the Union in August 1979 which resulted in a temporary shutdown of mining and ore handling operations, which was settled after Government mediation, the Joint Venture was required to make further retroactive increases in wage payments to employees, aggregating $700,000 in respect of 1979, and the Joint Venture was required to make further housing renovations, to construct new worker houses and to make certain improvements in work site conditions estimated to cost an additional $2.5 million. At the end of 1979, the collective bargaining agreement expired, and negotiations with respect to a new two-year contract are currently ongoing.

Exploration and Iron Ore Reserves

On the basis of a rock stability and pit optimization study of the Nimba Main Orebody carried out in 1974 and reevaluated in 1979 in light of current ore prices and costs of waste stripping, the Manager has estimated the total remaining proven and mineable ore reserves in the Nimba range as of December 31, 1979 at 83 million tons having an average grade of 62% (dry) Fe. These reserves are estimated to be sufficient for the continuation of production of crude ore at the rate of 12 million tons per year through the mid-1980's, at which point production would decline until terminated.

As part of a long range development program the Joint Venture has continued exploration and mine planning work of deposits within the western part of the Nimba Concession Areas. The geological reserves of proven soft and medium hard ore in this area (Mts. Tokadeh, Gangra, Yuelliton and Beeton) as of December 31, 1979, are estimated by the Manager at 535 million tons having an average grade of 52.0% (dry) Fe. Preliminary estimates indicate that out of these geological reserves 438 million tons can be classified as mineable reserves.

A total of $911,000 was spent on exploration in 1979, as compared with $743,000 in 1978. Expenditures in 1980 are expected to be at a lower level than in 1979.

Capital Expenditures

Joint Venture capital expenditures are being maintained at a minimum in view of the austerity program introduced in the earlier part of 1977. A total of $10.3 million was spent on property and equipment in 1979, compared to $9.1 million in 1978. The largest investment project completed in 1979 was the lumpy ore crushing project at Buchanan which provided the facility to crush all lumpy ore to fines. The total cost for this project was $6 million.

Capital expenditures for the Joint Venture in 1980 are currently estimated at $16.2 million, which includes $7.8 million for the start up of the Tokadeh mine at a capacity of 3 million tons of crude ore per annum.

Commercial Traffic

Commercial traffic on the Joint Venture's railroad amounted to 3,271 carloads, a substantial drop from 4,768 carloads moved in 1978.

Traffic in the commercial harbor at Buchanan totalled 244,000 tons in 1979 compared with 241,000 tons in 1978.

Employees and Labor Relations

At the end of 1979 the total number of employees of the Joint Venture was 4,415 compared with 4,546 at the end of the preceding year. Workers paid on an hourly basis totalled 3,425 at the end of 1979 compared with 3,650 at the end of 1978. The remaining employees were paid on a monthly basis, and 613 of these were citizens of Liberia, compared with 560 at the end of 1978. The number of foreign staff employees was 377 at the end of 1979 compared with 477 at the end of 1978.

In January 1980, the Joint Venture commenced a personnel reduction program designed to reduce staff and workers on all levels by 18% during 1980. This program was undertaken in light of the Joint Venture's anticipated cash deficits and continuing inadequate price increases for ore sales. While the program will reduce employee costs in the long run, it is expected to result in some $2.8 million of severance payments by the Joint Venture in 1980. The personnel reduction program is also expected to result in a reduction of certain infrastructure costs, such as housing, medical care and schools, and employee productivity is expected to be restored to 1974 levels.

In 1979, the Joint Venture continued its program to "Liberianize" positions held by expatriates. A revised Liberianization program, involving the replacement of 70% of the expatriates in the Joint Venture's work force over the five-year period 1979-1983, was filed with the Ministry of Labour, Youth and Sports. A previous program filed by the Joint Venture, which was not accepted by the Ministry, envisaged replacement of 70% of the expatriates over the seven-year period 1979-1985. The Joint Venture is awaiting approval by the Government but has proceeded with the implementation of the revised plan as filed. Costs associated with this more rapid Liberianization program are substantially in excess of the costs associated with the prior plan.

In job classifications where expatriates have been employed, the percentage of Liberians filling such positions increased during 1979. At the end of 1979, 62% of the positions in the job classifications where expatriates are employed were held by Liberians as compared with 54% at the end of 1978. To support the realization of its Liberianization program, the Joint Venture established a Strategic Liberianization Planning Group reporting to the Administrative Manager. The Group will coordinate the Liberianization activities of the line departments and the Training and Personnel Departments.

Training and Scholarship Programs

In 1979 the training activities of the Joint Venture were geared entirely to meet the Liberianization objectives. An extended and improved on-the-job training program was implemented, and some 275 Liberian employees at present have been nominated and programmed for promotion into positions held by expatriates. A total of 450 employees participated in training programs and development courses during 1979. Two new apprentice training workshops were completed by the end of 1979.

A total of 94 overseas scholarships for Liberian employees were administered under the Joint Venture scholarship program during 1979. Altogether 48 Liberians commenced overseas scholarship training in 1979, and another 56 completed their programs and returned to Liberia. In addition, 254 local scholarships were awarded to students in Liberian educational institutions, including 39 at the University of Liberia and 34 at Cuttington College.

The railroad training program, organized in collaboration with the Swedish State Railways, continued in 1979. The Railroad Training Center in Nimba became fully operational and was dedicated in February 1979. It is mainly used for the training of yard personnel and yardman and engineman trainees, but the training of personnel from railroad maintenance has also been arranged. During the year 47 Joint Venture employees participated in the railroad training program.

To reinforce the instructor capacity of the Railroad Training Center, a new instructor course for six trainees was organized in Sweden by the Swedish State Railways, which also carried out a training program in the form of basic courses in measuring techniques, electronics, logic, operation amplifier and soldering for seven Liberian trainees.

Housing and Medical Care

The renovation of worker houses in accordance with the union agreement was started. The first stage of this program involved the construction of additional standard houses. Stage two, which involved the construction of transit houses to which tenants could be moved during the renovation of their own houses, was in process at the end of the year.

The number of admissions to the Joint Venture's two hospitals was 4,470 at Buchanan and 3,995 in Nimba. In 1978, the corresponding figures were 4,371 and 3,328 respectively. In addition, there were approximately 77,000 visits to each of the two dispensaries.

At the end of 1979 there were 4,663 students and 145 teachers and other staff in the LAMCO Area School System as compared with 4,000 students and 168 teachers and other staff at the end of the previous year. The Joint Venture increased its contribution to the School System to $330,000 in 1979 from $275,000 in 1978.

Transportation of Guinean Ore

In 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. Negotiations on a transportation contract with Mifergui-Nimba Co. began in 1977 and continued in 1979, focusing primarily on the price the Joint Venture will charge for its services.

A feasibility study by Mifergui-Nimba Co. was completed in 1978. A new feasibility study based on revised concepts for the development of the Mifergui-Nimba Co. ore deposits is expected to be completed in 1980. It is not possible for the Joint Venture to predict at this time whether Mifergui-Nimba Co. will decide to proceed with its project.

Proposed Steel Plant

During 1979 the Joint Venture commenced negotiations with a newly-formed corporation that is studying a proposal to erect a steel plant near the Joint Venture's facilities at Buchanan, Liberia. LAMCO has expressed willingness to negotiate an ore sales contract covering a period of several years, but many details remain to be worked out. The proposal is still in the formative stage, and the Joint Venture cannot predict at this time whether any plant will be built.

Balance Sheet

(Expressed in United States dollars)

	December 31, 1979	December 31, 1978*
ASSETS		
Current Assets		
Cash, including time deposits of $4,071,000 ($4,030,000—1978)	$ 4,122,000	$ 4,059,000
Accrued interest receivable	17,000	47,000
Total current assets	4,139,000	4,106,000
Investment in LAMCO (Notes 1, 2, 3, 4 and 12)		
6¼% Series C preferred stock, at cost plus undeclared and unpaid cumulative dividends	11,292,000	10,673,000
Class B common stock, at cost adjusted for changes in equity in undistributed earnings of LAMCO attributable to common stock, at equity	19,743,000	35,307,000
Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation	12,856,000	12,856,000
	43,891,000	58,836,000
Organization and Preoperating Expenses less accumulated amortization of $402,000 ($377,000—1978) (Note 1)	212,000	237,000
	$48,242,000	$63,179,000
LIABILITIES and CAPITAL		
Current Liabilities		
Accounts payable	$ 259,000	$ 68,000
Total current liabilities	259,000	68,000
Deferred Liberian taxes (Note 10)	348,000	
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	21,898,000	37,374,000
	47,635,000	63,111,000
	$48,242,000	$63,179,000

* Reclassified for comparative purposes.

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

Hans Werthén
Bo Abrahamsson

LIO

Statement of Loss

(Expressed in United States dollars)

	Year ended December 31, 1979	Year ended December 31, 1978*
Interest income	$ 452,000	$ 413,000
Expenses (Notes 10, 14 and 17)	983,000	358,000
(Loss) profit before adjustment for undeclared and unpaid current dividends on Series C preferred stock and for change in equity in the undistributed earnings of LAMCO attributable to common stock	(531,000)	55,000
Undeclared and unpaid current dividends on Series C preferred stock	619,000	619,000
Change in equity in the undistributed earnings of LAMCO attributable to common stock (Note 12)	(15,564,000)	(7,756,000)
Net loss	($15,476,000)	($ 7,082,000)
Net loss per share	($ 3.91)	($ 1.79)

* Reclassified for comparative purposes

Statement of Retained Earnings

(Expressed in United States dollars)

	Year ended December 31, 1979	Year ended December 31, 1978*
Net loss per accompanying statement of loss	($15,476,000)	($ 7,082,000)
Retained earnings at beginning of year	37,374,000	46,434,000
	21,898,000	39,352,000
Deduct—Cash dividends declared of $0.50 in 1978		1,978,000
Retained earnings at end of year	$ 21,898,000	$ 37,374,000
Represented by:		
Accumulated profits before equity in undistributed earnings of LAMCO	$ 4,013,000	$ 4,544,000
Undeclared and unpaid dividends on Series C preferred stock	1,392,000	773,000
Equity in undistributed earnings of LAMCO attributable to common stock	16,493,000	32,057,000
	$ 21,898,000	$ 37,374,000

* Reclassified for comparative purposes

Statement of Changes in Financial Position

(Expressed in United States dollars)

	Year ended December 31, 1979	1978*
Working Capital applied:		
Net loss	$15,476,000	$ 7,082,000
Charges not requiring use of current working capital:		
Amortization of organization and preoperating expenses	(25,000)	(25,000)
Change in equity in the undistributed earnings of LAMCO attributable to common stock	(15,564,000)	(7,756,000)
Deferred taxes	(348,000)	
Increase in unpaid cumulative dividends on Series C preferred stock	619,000	619,000
Dividends to shareholders		1,978,000
Decrease in working capital	$ 158,000	$ 1,898,000
Composition of decrease (increase) in Working Capital:		
Cash	($ 63,000)	$2,663,000
Accrued interest receivable	30,000	69,000
Accounts payable	191,000	(43,000)
Dividends declared and unpaid		(791,000)
Decrease in working capital	$ 158,000	$ 1,898,000

* Reclassified for comparative purposes.

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

(Expressed in United States dollars)

ASSETS	December 31, 1979	December 31, 1978
Current Assets		
Cash (including interest-bearing deposits) (1979-$6,400,000; 1978-$9,050,000)	$ 7,689,000	$ 10,648,000
Accounts receivable:		
Trade	15,109,000	18,148,000
Other	2,795,000	2,954,000
Inventories (Note 1)		
Processed ore	7,461,000	19,970,000
Mined ore and ore in process	6,935,000	6,036,000
Materials and supplies	12,971,000	10,500,000
Prepaid expenses	17,000	100,000
Total current assets	52,977,000	68,356,000
Property and Equipment, in concession areas, at cost (Notes 1 and 6):		
Railroad	46,886,000	46,887,000
Harbor	26,129,000	26,129,000
Roads and airstrips	6,447,000	6,435,000
Buildings	33,902,000	33,679,000
Rolling stock	12,559,000	11,853,000
Special purpose structures, machinery and equipment	80,795,000	106,554,000
Motor vehicles, boats and heavy-duty equipment	32,126,000	28,670,000
	238,844,000	260,207,000
Less—Accumulated depreciation	143,412,000	142,773,000
	95,432,000	117,434,000
Construction in progress	3,482,000	2,270,000
	98,914,000	119,704,000
Exploration and Development Costs, Interest during Preoperating Period and Mining Concession, less accumulated amortization in 1979-$22,323,000; 1978-$20,363,000 (Notes 1 and 7)	14,128,000	15,404,000
Total assets	$166,019,000	$203,464,000

LAMCO

the LAMCO Joint Venture)

	December 31, 1979	December 31, 1978
LIABILITIES and CAPITAL		
Current Liabilities		
Current maturities of long-term debt (Note 8)	$ 18,374,000	$ 16,805,000
Short-term debt (Note 8)	19,750,000	19,750,000
Trade accounts payable and accrued liabilities	11,329,000	6,162,000
Accrued salaries and wages	2,600,000	1,584,000
Accrued vacation pay and other	3,055,000	2,808,000
Accrued royalty (Note 2)	1,043,000	1,003,000
Accrued interest	939,000	1,315,000
Total current liabilities	57,090,000	49,427,000
Long-term Pension Obligations (Notes 1 and 9)	7,182,000	5,464,000
Long-term debt (Note 8)	4,432,000	18,932,000
Redeemable preferred stock $6.25, $100 par value—authorized and issued (Notes 2, 4 and 12):		
Series A— 23,770 shares	2,377,000	2,377,000
Series B—356,640 shares	35,664,000	35,664,000
Series C— 99,000 shares	9,900,000	9,900,000
	47,941,000	47,941,000
Common stock $1 par value—authorized and issued:		
Class A and Class B—1,000,000 shares of each issue (Note 3)	2,000,000	2,000,000
Capital in excess of par value	4,500,000	4,500,000
Capital obligation, noninterest-bearing, payable only in the event of liquidation	12,856,000	12,856,000
Reserves appropriated out of profits in accordance with the Concession Agreement as required by the lenders	3,522,000	3,522,000
Reserve for concession development and other corporate purposes	52,513,000	52,513,000
Balance of accumulated (loss) net profit subject to Board determination (Note 11)	(26,017,000)	6,309,000
Contractual Commitments and Contingent Liabilities (Note 13)		
	49,374,000	81,700,000
Total liabilities and capital	$166,019,000	$203,464,000

LAMCO

Statement of Loss

(Including LAMCO's share of the costs of production of the LAMCO Joint Venture) (Notes 2 and 5)	Year ended December 31, 1979	1978
(Expressed in United States dollars)		
Sales	$104,885,000	$107,037,000
Cost of sales:		
Inventory of processed ore at beginning of year	19,970,000	44,014,000
Production costs	80,895,000	65,001,000
Depreciation and amortization (Notes 1, 6 and 7)	20,613,000	19,793,000
Inventory of processed ore at end of year	(7,461,000)	(19,970,000)
	114,017,000	108,838,000
	(9,132,000)	(1,801,000)
Selling expenses	1,696,000	1,703,000
General and administrative expenses	2,013,000	1,500,000
Accrued royalty to Government of Liberia (Note 2)	4,195,000	4,281,000
Loss from operations	(17,036,000)	(9,285,000)
Provision for loss on pellet plant (Note 6)	9,700,000	
Financing charges (net):		
Interest expense (Note 8)	5,159,000	5,612,000
Exchange losses, including provision for unrealized losses of $425,000 in 1979 ($1,680,000 in 1978) (Notes 1 and 8)	431,000	1,899,000
Net loss	($ 32,326,000)	($ 16,796,000)

Statement of Changes in Financial Position

(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, 1979	1978
Working Capital used for (provided by):		
Net loss	$32,326,000	$16,796,000
Depreciation and amortization	(20,613,000)	(19,793,000)
Increase in long-term pension obligations	(1,718,000)	(1,769,000)
Net book value of pellet plant written off	(9,700,000)	
Unrealized exchange losses on long-term loans		(862,000)
Working capital used for (provided by) operations	295,000	(5,628,000)
Reduction of long-term loans (net of current year's exchange adjustments)	18,262,000	15,987,000
Additions to property and equipment	7,564,000	6,701,000
Exploration cost capitalized	684,000	557,000
Working capital used	26,805,000	17,617,000
Working Capital provided by:		
Proceeds from equipment credits	(3,763,000)	(582,000)
Decrease in working capital	$23,042,000	$17,035,000
Composition of decrease (increase) in Working Capital:		
Cash	$ 2,959,000	($ 6,923,000)
Accounts receivable	3,198,000	5,646,000
Inventories	9,139,000	22,873,000
Prepaid expenses	83,000	233,000
Long-term debt (current maturities)	1,569,000	3,576,000
Short-term debt		(6,000,000)
Accounts payable and accrued liabilities	6,430,000	(2,391,000)
Accrued royalty	40,000	(2,000)
Accrued interest	(376,000)	23,000
Decrease in working capital	$23,042,000	$17,035,000

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 9 through 22 of this Annual Report present fairly the financial position of these companies at December 31, 1979 and 1978, 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, 1980

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 accounts for its investment under the equity method (Notes 2 and 12).

Organization and preoperating expenses: These expenses are being amortized on a unit-of-production basis over proven ore 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 shared in proportion to the production taken (Notes 2 and 5).

Inventories: Processed ore, mined ore, and ore in process are stated at the lower of average production cost or market. 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 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. Deferred costs are amortized principally on a unit-of-production basis over the proven reserves of the applicable ore body. Costs incurred in connection with development of an operating mine are charged to production currently.

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 results of operations for the year in which the rate changes.

Pension plans: Obligations under the current plan for Liberian employees are provided for by accruals and include amounts for current and prior service and interest on amounts accrued to date. No amounts pertaining to the Liberian plan are funded. Other employees 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 5).

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 Liberian Iron Ore Limited (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 stockholder if a debt equity ratio of 3½ 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 12). Additional dividend restrictions are included in a loan agreement entered into in 1977.

Note 3—Common Stock

LAMCO is incorporated under the laws of the Republic of Liberia and its accounts are maintained in U.S. dollars. The Class A common stock of LAMCO is held by the Government and the Class B common stock is held by LIO. The Class A common stockholder elects five and the Class B common stockholder elects six of LAMCO's eleven directors. In addition, whenever one year's dividends on any series of preferred stock is in arrears, the holders of such series are entitled to elect one additional director. The holders of the preferred stock have waived this right until the 1981 LAMCO annual stockholders' meeting. 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.

Note 4—Redeemable Preferred Stock

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

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

2) 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 of the years 1977 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.

3) 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:

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

2) 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.

3) 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.

The Series A and B preferred stock is held by The Swedish LAMCO Syndicate (Syndicate) and its members and the Series C preferred stock is held by LIO.

See Note 12 concerning suspended preferred stock dividends.

The required redemptions of Series A and B preferred stock for years 1977—1980 have been waived by the holders until 1981. The required redemptions of Series C preferred stock for years 1978—1980 have been waived by the holder, LIO, until 1981. $12,000,000 of amounts included for 1981 would normally have been payable in 1977 (Series A and B) and 1978—1980 (Series A, B and C). 5,500 shares of Series C preferred stock were redeemed in 1977 for $550,000, as scheduled. The table below sets forth the repayment schedule under present terms of the waivers:

	Amount
1981	$14,600,000
1982	2,600,000
1983	2,600,000
1984	2,600,000
After	25,541,000
	$47,941,000

Note 5—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, if LAMCO so requires under stated circumstances, 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 6—Property and Equipment

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 remaining service lives at December 31, 1979 was as follows:

	Years
Railroad and harbor	7
Roads and airstrips	7
Buildings and rolling stock	5–7
Special purpose structures, machinery and equipment	3–7
Motor vehicles, boats and heavy-duty equipment	3–7

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. If a decision is made to develop these properties in the future, the depreciable lives of the railroad, harbor and certain other assets would be lengthened to coincide with the new mining plans.

No interest costs were deferred during 1979 or 1978. Amortization of previously deferred interest costs amounted to $104,000 in 1979 and 1978.

The pellet plant, closed in 1977 due to reduced demand and depressed selling prices for pellets, was indefinitely shut down in 1979. The company has therefore written off the remaining net book value in 1979.

Note 7—Organization Expenses, Exploration and Development Costs

LAMCO's additions to exploration and development costs in 1979 amounted to $684,000 ($557,000-1978). Annual amortization for LIO amounted to $25,000 ($25,000-1978); and for LAMCO $1,959,000 ($1,869,000-1978), including $443,000 of interest deferred during the preoperating period ($445,000-1978).

Note 8—Long-term Debt and Short-term Debt

The details of long-term debt are as follows:

	December 31, 1979	December 31, 1978
Senior indebtedness:		
Series A Notes 5¾%, due 1965—1980	$1,350,000	$2,650,000
Series B Bonds 6¾%, due 1965—1980 payable in Deutsche marks	5,541,000	10,107,000
Series D Notes 5¾%, due 1968—1980	324,000	672,000
Series E Bonds 6¾%, due 1968—1980 payable in Deutsche marks	1,440,000	2,667,000
	8,655,000	16,096,000
Special term loan	8,000,000	16,000,000
Equipment credits	6,151,000	3,641,000
	22,806,000	35,737,000
Less—Current maturities:		
Senior indebtedness	8,655,000	7,866,000
Special term loan	8,000,000	8,000,000
Equipment credits	1,719,000	939,000
	18,374,000	16,805,000
Net long-term portion:		
Senior indebtedness		8,230,000
Special term loan		8,000,000
Equipment credits	4,432,000	2,702,000
	$4,432,000	$18,932,000

Senior indebtedness is secured by a first lien on the Class B common stock of LAMCO and on LAMCO's 75% interest in the LAMCO Joint Venture; no dividends may be declared or paid nor any other distribution be made on common stock unless a Swedish LAMCO Syndicate guarantee for the amount outstanding is in effect or has expired in accordance with the terms of the senior indebtedness indenture. The senior indebtedness will be fully repaid in 1980 by installments of $4,145,000 on June 1 and $4,510,000 on December 1.

The special term loan arises from a $20,000,000 borrowing in July 1977 from a consortium of international banks. Interest is payable at the average of the London interbank offered rate plus 2%. The special term loan will be fully repaid in 1980 by installments of $4,000,000 each on January 9 and July 8. The special term loan Credit Agreement contains various covenants which, among other things, limit LAMCO from creating any additional encumbrances without providing equal security to the banks; limit dividends and payments on capital stock; place conditions on incurring additional debt and reductions of capital; and require LAMCO to maintain a positive working capital (as defined) at the end of each fiscal quarter.

The long-term debt remaining at December 31, 1979 consisting of equipment credits, will mature in amounts of $1,800,000, $1,400,000, $800,000 and $432,000 in the years 1981, 1982, 1983 and 1984, respectively.

The short-term loans outstanding at December 31, 1979 and 1978 incur interest at annual rates varying from 15.250% to 16.375% (12.375% to 12.500% 1978) and are denominated in U.S. dollars.

Short-term loans in the amount of $19,750,000 are guaranteed by the Syndicate.

Short-term loans at December 31, 1979 will be due during April 1980. The maximum amount of short-term loans outstanding at any month-end during 1979 and 1978 was $25,750,000. The average amount of loans outstanding during 1979 was $20,673,000 ($21,981,000-1978) with average annual interest rates of 12.81% and 8.68% in 1979 and 1978 respectively.

Note 9—Pensions

Under the current pension plans, as described in Note 1, LAMCO's pension obligations charged to cost of production in 1979 and 1978 amounted to $2,550,000 and $2,925,000, respectively. In 1979 the actuarial cost method used to estimate pension costs was modified; this change did not materially affect the annual pension costs.

The legislature of Liberia has enacted a new social security law which provides certain welfare and pension benefits for all employees, including expatriates, in Liberia. The injury compensation portion became effective February 1, 1980. The implementation date for the pension scheme has not yet been established.

The new pension scheme provides for equal funding by both employer and employee based upon established contribution rates applied to employee remuneration. While the effect of the new plan has not been fully determined, it is not expected to have a material impact on the total costs of production.

Note 10—Taxation

LIO is incorporated under the Companies Act of Canada. In accordance with Canadian tax regulations, all business income of LAMCO paid as a dividend to LIO is exempt from Canadian tax.

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 will be subject to a 25% withholding tax by the Government of Liberia. A provision of $348,000 for such taxes is included in expenses in 1979.

Note 11—Balance of Accumulated Net Profit (Loss) subject to Board Determination

The balance of accumulated net profit (loss) subject to Board determination is composed of the following:

	December 31, 1979	December 31, 1978
Balance of 1976 profit subject to Board determination	$19,704,000	$19,704,000
Balance of 1977 profit subject to Board determination	3,401,000	3,401,000
1978 loss	(16,796,000)	(16,796,000)
1979 loss	(32,326,000)	
	($26,017,000)	$ 6,309,000

Note 12—LAMCO Dividends and LIO's Equity in LAMCO's Earnings

LAMCO's Board of Directors has not declared any dividends on the Series B or C preferred stock or the Class B common stock for amounts equivalent to the accrued royalty to the Government of Liberia or on the Class A and B common stock equally since the third quarter of 1977. No dividends on the Series A preferred stock have been declared during 1978 or 1979.

As of December 31, 1979, the unpaid cumulative dividends on LAMCO's Series A, B and C preferred stock aggregated $6,674,000 of which $1,392,000 pertained to Series C ($773,000 in 1978). Under the Concession Agreement, these dividends and scheduled redemptions of preferred stock must be satisfied before common stock distributions may be declared. Such unpaid cumulative dividends represent a priority distribution of LAMCO retained earnings and as such are considered income to LIO when due irrespective of when such dividends might be paid by LAMCO.

The investment in Series C preferred stock consists of the following:

	1979	1978
Investment at cost	$ 9,900,000	$ 9,900,000
Undeclared and unpaid cumulative dividends	1,392,000	773,000
	$11,292,000	$10,673,000

In addition an amount equivalent to the royalty accrued to the Government of Liberia and which has not yet been declared as a dividend to LIO aggregating $9,481,000 at December 31, 1979, must be declared and paid before other dividends to the Class A and B common stockholders in equal amounts can be resumed.

LIO's equity in the changes in the undistributed earnings of LAMCO attributable to common stock has been computed in accordance with the provisions of the Concession Agreement and consists of the following elements:

	1979	1978
LAMCO's net loss	($32,326,000)	($16,796,000)
Dividends on Series A, B and C preferred stock, undeclared and unpaid	(2,996,000)	(2,996,000)
Amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock	(4,195,000)	(4,281,000)
Basis for calculating of LIO's equity in LAMCO's earnings attributable to common stock	($39,517,000)	($24,073,000)
LIO's 50% share thereof	($19,759,000)	($12,037,000)
Add Amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock	4,195,000	4,281,000
Change in LIO's equity in undistributed earnings of LAMCO attributable to Class B common stock	($15,564,000)	($ 7,756,000)

Thus, LIO's investment in LAMCO Class B common stock of $19,743,000 at December 31, 1979 and $35,307,000 at December 31, 1978 includes LIO's cost adjusted for LIO's 50% share of earnings, losses and dividends received plus LIO's right to a priority distribution from LAMCO's retained earnings of the unpaid equalizing dividend equivalent to the royalty paid by LAMCO to the Government of Liberia, as follows:

	December 31,	
	1979	1978
Investment in Class B common stock of LAMCO, adjusted for LIO's 50% share of earnings, losses and dividends received	$10,262,000	$30,021,000
Cumulative undeclared equalizing dividends, equivalent to royalty paid by LAMCO to the Government of Liberia	9,481,000	5,286,000
	$19,743,000	$35,307,000

The disproportionate sharing in LAMCO's retained earnings by LIO arises from the Concession Agreement under which the royalty payment to the Government of Liberia must be paid annually and accounted for by LAMCO as an expense, whereas the equalizing payment to LIO is accounted for as a dividend by LAMCO when declared and paid. The equalizing dividend is treated as income to LIO when the royalty is paid to the Government of Liberia, irrespective of when such dividends might be declared and paid by LAMCO.

Note 13—Contractual Commitments and Contingent Liabilities

LAMCO has agreements with customers for substantially all its 1980 ore sales. Certain of these contracts have been pledged to bondholders under the terms of the senior indebtedness indenture and additional contracts will be pledged to bring the annual total to 2.5 million tons.

Under the terms of the senior indebtedness 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 has entered into a chattel mortgage, as supplemented, covering its interest in tangible personal property in Liberia used in connection with the project.

Other contractual commitments, all with Gränges AB, a member of the Swedish LAMCO Syndicate, are as follows:

Service	*Fees*
1. Management of the project for indefinite period, cancellable on two years' notice after 1978.	10 cents per ton of finished ore produced plus expenses.
2. Sales agent for indefinite period cancellable on one year's notice.	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.
3. Management and administrative services for LAMCO for indefinite period cancellable on one year's notice.	Actual expenses as incurred.

Skandinaviska Enskilda Banken, which participates to the extent of 25% in the special term loan (Note 8) and has supplied short-term financing and equipment credits from time to time, acted as financial advisor to LAMCO through June 30, 1979. Fees for such advisory services were $100,000 in 1979 ($200,000 for 1978). The bank will continue to provide commercial banking services as and when needed.

Note 14—Directors, Officers and their Remuneration

There are twelve directors and six officers of LIO. Three of the officers are also directors. Aggregate remuneration of directors, included in other expenses, was $56,000 in 1979 ($56,000-1978).

Note 15—LAMCO Customers

LAMCO sells its iron ore products to customers principally located in Europe. In 1979 LAMCO recorded sales to three customers, each of which is in excess of 10% of LAMCO's total sales for the year. Sales to these customers were $16.7 million, $16.6 million and $11.4 million.

Note 16—Market Conditions and Operations

LAMCO continues to experience the unfavorable impact of a depressed iron ore market and escalating production and shipping costs. The manager and participants of the LAMCO Joint Venture have been able to sustain operations through a program of cost reduction measures and deferral of capital and maintenance expenditures which was begun in 1977. Inventories have been depleted and maintained at minimum levels. Virtually all mining in 1979 has been carried out only at the main ore body. Management has decided to resume production in the Tokadeh mine in 1981. Management plans to implement further cost reduction moves including the uses of alternative sources of supply for operating materials and supplies, and as discussed in Note 18, considerable employment cutbacks.

Furthermore, LAMCO has undertaken other cash preservation measures, including waivers as to the redemptions of its preferred stock scheduled for 1977—1980 and has suspended the payment of all dividends on both common and preferred stock since late 1977. To provide additional cash flow LAMCO intends to utilize capital equipment financing and factoring of accounts receivable. LIO in return reduced the payment of dividends in 1978 and announced that no further dividends will be declared until LAMCO's situation improves.

The continuation of LAMCO as a going concern, and its ability to continue support of the LAMCO Joint Venture is dependent upon the success in carrying out the above measures. LAMCO has obtained commitments necessary to ensure the availability of short-term financing for 1980 operations and is confident that short-term working capital requirements and necessary capital expenditures can be met.

Note 17—LIO Expenses

Included in 1979 expenses of LIO is $253,000 for consulting, legal, accounting and other fees and expenses relating to LIO's proposed participation in the acquisition of an operating coal mine. Negotiations with the sellers as to an appropriate purchase price are being continued; however, unfavorable results of LIO investigations to date have indicated that consummation of the transaction is unlikely. Therefore all related costs have been recognized in the 1979 financial statements.

Note 18—Event Subsequent to December 31, 1979

On January 18, 1980 at a meeting of the LAMCO Joint Venture participants, a resolution was adopted to implement a redundancy program with the ultimate goal of reducing personnel by some 800 staff and workers; such a program is expected to be fully implemented in 1980. The program is anticipated to reduce longer term production costs and improve mining productivity. Estimated severance payments associated with this action will result in a charge against operations in the first quarter of 1980 amounting to $2,100,000.

Management's Discussion and Analysis of the Summary of Operations

LAMCO

1979 versus 1978

Although contract prices for 1979 deliveries increased somewhat above 1978 prices, reductions in volume resulted in an overall sales decline to $104.9 million in 1979 from $107.0 million in 1978.

LAMCO continues to experience the unfavorable impact of a depressed iron ore market and escalating production and shipping costs. As a result, the loss from operations widened from $9.3 million in 1978 to $17.0 million in 1979.

In 1979, LAMCO wrote off the remaining net book value of the pellet plant ($9.7 million) which had been shut down since 1977.

Interest expense for 1979 was reduced by $500,000 due to lower outstanding balances of long and short term debt during the year.

1978 versus 1977

Contract prices for deliveries in 1978 were lower than in 1977 because of the continued worldwide recession in the steel industry and an excess supply of iron ore on the world market. However, during 1978 some improvement in sales volume was noted. Sales were up from 6.9 million tons to 8.5 million (or 23%) while revenues increased from $105.6 million to $107.0 million (or 1%) due to the lower per ton selling prices in 1978.

Lower sales prices in 1978, continued cost escalation, somewhat lower capacity utilization and depreciation on recently acquired assets resulted in a gross loss of $1.8 million compared to a gross profit of $22.6 million in 1977.

Interest expense increased approximately $2 million, principally because of higher interest costs on short and medium term loans and larger discounting charges.

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. In October 1978 the Board of Directors of LIO announced the suspension of further dividends until substantial improvements were noted in the results of LAMCO. The suspension remains necessary because LIO recieved no cash dividends from LAMCO during 1978 or 1979 and does not expect to receive any during 1980.

LIO LAMCO

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

(Expressed in thousand United States dollars)	Year ended December 31,				
	1975	1976	1977	1978	1979
Statement of Profit and Loss					
Sales	$113,240	$116,915	$105,639	$107,037	$104,885
Gross profit (loss)	55,998	47,980	22,584	(1,801)	(9,132)
Selling, general and administrative expenses	3,207	3,487	3,273	3,203	3,709
Accrued royalty to Government of Liberia	4,530	4,677	4,226	4,281	4,195
Profit (loss) from operations	48,261	39,816	15,085	(9,285)	(17,036)
Provision for loss on pellet plant					9,700
Financing charges (net):					
Interest expense	3,662	2,776	3,675	5,612	5,159
Exchange losses (gains)	(2,904)	3,484	2,111	1,899	431
Net profit (loss)	$ 47,503	$ 33,556	$ 9,299	($ 16,796)	($ 32,326)
Statement of Appropriation and Disposition of Net Profit					
Dividends on preferred stock	$ 3,252	$ 3,122	$ 2,643		
Dividends on Class B common stock equivalent to accrued royalty to Government of Liberia	4,530	4,677	3,221		
Appropriations by Board of Directors to reserves:					
As required by lenders	91	53	34		
Reserve for concession development and other corporate purposes	33,630				
Transfer from balance of 1976 profit			(6,000)		
Dividends distributed equally on Class A and Class B common stock	6,000		6,000		
Balance of current year's net profit subject to Board determination		25,704	3,401		
Balance of current year's loss				($ 16,796)	($ 32,326)
Net profit (loss)	$ 47,503	$ 33,556	$ 9,299	($ 16,796)	($ 32,326)
Distributions to common stockholders:					
To Government of Liberia:					
Accrued royalty	$ 4,530	$ 4,677	$ 4,226	$ 4,281	$ 4,195
Dividends on Class A common stock	3,000		3,000		
	7,530	4,677	7,226	4,281	4,195
To LIO:					
Dividends on Class B common stock equivalent to accrued royalty to Government of Liberia	4,530	4,677	3,221		
Dividends on Class B common stock	3,000		3,000		
	7,530	4,677	6,221		
Total to Government of Liberia and LIO	$ 15,060	$ 9,354	$ 13,447	$ 4,281	$ 4,195

LIO

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

(Expressed in thousand United States dollars)	Year ended December 31,				
	1975	1976	1977	1978	1979
Statement of Profit and Loss					
Dividends and interest income:					
Dividends from LAMCO:					
Series C preferred stock	$ 688	$ 668	$ 556		
Class B common stock	7,530	4,677	6,221*		
	8,218	5,345	6,777		
Interest income	182	153	280	$ 413	$ 452
	8,400	5,498	7,057	413	452
Expenses	435	420	512	358	983
	7,965	5,078	6,545	55	(531)
Change in equity in the undistributed earnings of LAMCO attributable to common stock	16,860	12,879	(1,040)	(7,756)	(15,564)
Undeclared and unpaid current dividends on Series C preferred stock			154	619	619
Net profit (loss)	$24,825	$17,957	$ 5,659	($ 7,082)	($15,476)
Earnings per share based on 3,955,025 average shares outstanding:					
Net profit (loss) per share (including $2.01 in 1975; $1.28 in 1976; $1.65 in 1977; $0.01 in 1978 and ($0.13) in 1979 in dividends and interest income less expenses)	$ 6.28	$ 4.54	$ 1.43	($ 1.79)	($ 3.91)
Cash dividends per share	$ 1.60	$ 1.60	$ 1.20	$ 0.50	$ —
Statement of Retained Earnings					
Net profit (loss)	$24,825	$17,957	$ 5,659	($ 7,082)	($15,476)
Retained earnings at beginning of year	15,395	33,892	45,521	46,434	37,374
	40,220	51,849	51,180	39,352	21,898
Deduct—Cash dividends declared	6,328	6,328	4,746	1,978	
Retained earnings at end of year	$33,892	$45,521	$46,434	$37,374	$21,898
Represented by:					
Accumulated profits before equity in undistributed earnings of LAMCO	$ 5,918	$ 4,668	$ 6,467	$ 4,544	$ 4,013
Equity in undistributed earnings of LAMCO attributable to common stock	27,974	40,853	39,813	32,057	16,493
Undeclared and unpaid current dividends on Series C preferred stock			154	773	1,392
	$33,892	$45,521	$46,434	$37,374	$21,898

* Includes $3 million distribution in 1977 of 1976 equity in earnings.

LIBERIAN IRON ORE LIMITED

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