# SIDBEC ANNUAL REPORT 1979

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# SIDBEC ANNUAL REPORT 1979

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# Sidbec

**Its purpose**
« The object of the company is to pursue
» the operation of a steel complex, alone
» or with partners, to ensure, as a profitable
» enterprise, the consolidation and expan-
» sion of its operations, so as to promote
» the development of steel consuming in-
» dustrial undertakings in Québec. »

(Bill 73, assented to on December 21, 1979 by the Assemblée nationale du Québec)

**Its wholly owned subsidiaries**
Sidbec-Dosco, Sidbec-Feruni and Sidbec International

**Its joint venture subsidiary**
Sidbec owns 50.1% of the capital stock of Sidbec-Normines, a mining company which produces iron oxide pellets of which Sidbec is committed to purchase its share of annual production up to 3 million tonnes. Sidbec-Normines operates a pelletizing plant at Port-Cartier, near Sept-Iles. This plant has a capacity of 6 million tonnes of which up to 3 million tonnes can be low silica pellets.

Sidbec-Normines also owns the lac Fire iron mine, and the lac Jeannine concentrator, north of Port-Cartier, which supplies it with the ore concentrate needed to manufacture the pellets.

**Its facilities**

Contrecoeur Works

Equipment:

— 2 reduction plant modules
— 4 electric arc furnaces
— 2 continuous casting machines for billets
— 1 continuous casting machine for slabs
— 1 hot mill and 1 cold mill
— 1 rod and bar mill

Capacity:

— 1 200 000 tonnes of reduced pellets
— 1 100 000 tons of primary steel

Montréal Works

Equipment:

— 1 electric arc furnace
— 1 continuous casting machine for billets
— 1 merchant mill
— fasteners, nail shop
— wire mill
— pipe mill

Capacity: 275 000 tons of finished products

Longueuil Works

Equipment:

— 2 electric arc furnaces
— 2 continuous casting machines for billets
— 1 merchant mill

Capacity: 300 000 tons

Truscon Works

Equipment:

Facilities for the manufacturing of steel joists and construction products

Capacity: 50 000 tons

Etobicoke Works

Equipment:

— wire mill
— nail shop
— welded wire mesh machine

Capacity: 80 000 tons

**Its products**

Long Products:

— Bars: flats, rounds, squares
— Shapes: channels, angles and others
— Reinforcing bars
— Wire rods
— Wire

Flat Rolled Products:

— Sheet and strip, hot rolled and cleaned
— Sheet and strip, cold rolled
— Skelp

Other Finished Products:

— Wire: heavy and fine gauge, bright, galvanized or coated, low and high carbon
— Welded wire mesh
— Nails
— Fasteners
— Pipe, couplings and nipples
— Joists
— Metal lath
— Roof and floor deck
— Cold formed angles

Semi-Finished Products:

— Billets
— Slabs

**Its Head Office**

507 Place d'Armes,
Montréal (Québec)
H2Y 2W8

# Message from the President and Chief Executive Officer

Let me begin with an expression of thanks to the Board of Directors and to the Government for the measure of confidence implicit in my appointment to the presidency of this company. At the same time, I would like to assure them that I am taking up my duties with determination, pride and optimism.

This first message is meant, of course, for the Shareholder and the Government, but also for the people of Québec and all our employees who, we think, are the company's most important asset.

At first glance, this year's results may seem to be once again disappointing. Upon analysis, however, these same results reveal many positive aspects which, combined with important decisions taken by the legislators, Government and the management, suggest that a major turnaround, already under way, should continue in the short term and set the company on the road to profitability.

It is true that the consolidated financial results show an overall loss of $45 700 000. But one must realize that almost all of this loss is due to our investment in Sidbec-Normines Inc., and to the contractual obligations of this joint venture.

The manufacturing operations are the focussing point of our activities, and to all intents and purposes achieved a break-even position, despite work stoppages which lasted for four weeks, heavy financing charges, and financial adjustments attributable to the results of previous years. It is important to note that Sidbec managed to reduce its loss, in a single year, by about $24 000 000, from $24 500 000 in 1978 ($28 500 000 in 1977) to $700 000 in 1979.

The total sales of manufactured products (finished and semi-finished) reached a record $391 000 000 or 38% more than in 1978, and 117% more than in 1977.

Our plants operated at a pace exceeding their anticipated capacities, which allowed us to reach new records in this area. Our productivity also improved considerably.

The results of the last quarter of 1979 are particularly encouraging. They seem to indicate trends that should be strengthened by a better working capital position brought about by Bill 73, assented to in December 1979, and that only a very poor overall economic situation could reverse.

The completion of capital improvements to the Longueuil plant, and of certain facilities in the other plants, together with a vigorous sales effort and stricter control of expenses, will also contribute to an improvement in the situation.

This year's final result is therefore, really attributable to our «mining» operations.

Sidbec assumed a share ($20 800 000) of the loss incurred by Sidbec-Normines proportionate to its 50.1% share of its capital-stock. In addition, the company was bound by contract to purchase iron oxide pellets from Sidbec-Normines, and the quantity bought exceeded its needs; it incurred a further loss of $10 800 000 on the resale of the excess pellets. Finally, extra costs due to the under-utilization of the secondary concentrator at Port-Cartier, and interest and amortization were the other contributing factors.

Sidbec-Normines, which operates a mine and 6 000 000 tonne pelletizing plant at Port-Cartier, began operations in November 1978. This year was, therefore its first complete year of operation, and though it served mainly to start up and break in the equipment, the production level reached two thirds of its nominal capacity in only a few months. Operations were more successful than anticipated.

Given the commitment between the partners, Sidbec-Normines should be expected to make attractive profits in 1980, unless unforeseen circumstances arise. Sidbec will continue to sell its excess pellets on the international market; the results of these sales will depend on several factors, such as the condition of the ore and pellet market, and certain other key decisions by management.

During the last quarter of 1979, important events took place which, undoubtedly, will have a lasting effect on the group's orientation,evolution and development.

On October 1, 1979, the Shareholder and the Board of Directors entrusted Sidbec's management to a new President and Chief Executive Officer. The mandate they gave him was precise: to correct problem areas in the company, to restructure and to strengthen it, to make its operations profitable as quickly as possible and to direct it towards a well-ordered longer-term development.

Then, the Government and the legislators each let their intentions be known, the former by a resolution of the Cabinet, the latter through Bill 73.

The company's purpose is clearly stated for the first time. Without ambiguity, the company must become profitable.

At the same time that the Government approved an $84 500 000 capital plan for the years 1979 to 1981, the government authorized a new issue of deferred-dividend shares for $150 000 000. The proceeds were used to reimburse the advances already granted by the Government and to finance the first stage of the investment plan.

Sidbec's management therefore looks to the future with confidence, even though it is also concerned about uncertainties with respect to a deteriorating market and a difficult world wide economic situation.

I would like to take this opportunity to thank the personnel for their loyalty and dedication. I would like to assure the employees that, even though it is not always explicitly stated, there is another goal which underlies all others: the improvement of labour relations. This objective arises from a concern for people and their effectiveness.

On behalf of my colleagues, I would like to express my sincerest thanks to Mr. Alex D. Hamilton, who resigned during the year, and whose contribution to the deliberations of the Board of Directors was greatly appreciated.

My thoughts also go out to Mr. Jean-Paul Gignac, my predecessor, who left Sidbec with the pride and satisfaction of a job well done. The people of Québec can be proud of his work, and what he built will always bear witness to his determination, his dedication and his spirit of enterprise.

Robert De Coster

# Review of the year

## Financial results

### Overall results

The consolidated results show a net loss of $45 703 000 of which $44 988 000 (98.4%) is due to mining operations, and $715 000 (1.6%) is due to manufacturing operations.

Manufacturing operations include the supply of raw materials, the making and processing of steel, and the sale of finished and semi-finished products.

Mining operations, on the other hand, cover all aspects of Sidbec's involvement with Sidbec-Normines, including not only Sidbec's share of the results of Sidbec-Normines' operations but also the sale of excess pellets, the expenses due to under-utilization of the secondary concentrator, as well as the interest expenses connected with Sidbec's investment and various depreciation costs.

### Manufacturing operations

Despite a four week production loss caused by a labor dispute in March, and asset write-offs of $1 900 000, Sidbec's manufacturing operations only suffered a small loss of $715 000, representing an improvement of $23 700 000 over the preceding year.

In fact, manufacturing operations generated a cash flow of $21 200 000, an improvement of $30 000 000 over the preceding year.

These figures arise from sales revenues which exceeded the record set in 1978 by 38%, and totalled $390 600 000. The high demand for steel products not only brought about a recovery of prices, but also enabled us to achieve record-breaking production levels due to start-up of a furnace in Longueuil, and an improved utilization rate of our other facilities.

Furthermore, reduced operating expenses due to the achievement of normal operations in the new facilities at Contrecoeur, the installation of new equipment and a stricter control of expenses all contributed to bring the gross margin up from 8% to 15%. Thus, profits before interest expense, totalled $23 600 000 or $32 200 000 more than in 1978. Higher interest rates, however, and the general business growth resulted once again in very heavy interest costs which increased from $15 800 000 in 1978 to $24 300 000 in 1979.

| | **1979 $(000)** | 1978 $(000) | 1977 $(000) |
|---|---|---|---|
| Sales | **390 632** | 282 696 | 179 787 |
| Profit (loss) before interest | **23 553** | (8 673) | (19 089) |
| Interest | **24 268** | 15 775 | 9 172 |
| Net profit (loss) | **(715)** | (24 448) | (28 261) |
| Production of primary steel (000 tons) | **1 133** | 1 015 | 600 |

## Mining operations

Mining operations showed a net loss for 1979 of $44 988 000. However, comparison with last year's results is not relevant since there were only two months of operation in 1978 whereas 1979 covered a full year's operation although with a continuation of start-up and break-in of equipment.

Four factors contributed to this loss.

The first factor is the absorption of Sidbec's share (50.1%) of the loss in Sidbec-Normines. Since the joint venture had a loss of $41 600 000, Sidbec's participation in this loss is $20 800 000.

The second most important factor is the resale of excess iron oxide pellets bought from Sidbec-Normines. The agreement drawn up between Sidbec and its partners, The Québec Cartier Mining Company and British Steel Corporation (International) Ltd. requires each participant to purchase a percentage of the production of Sidbec-Normines in proportion to its share. The price to be paid is based on the Lake Erie iron ore price. Sidbec's allocation exceeded its requirements by 1 200 000 tonnes and this excess was therefore resold on the international market where demand was limited. Because of competition from Sweden and Brazil, Sidbec was forced to grant discounts which led to a loss of $10 800 000.

The next factor is fixed expenses due to the secondary concentrator. By virtue of agreements with its partners and with its lenders, Sidbec assumed costs of $2 700 000. These additional fixed costs resulted from only partial utilization of the secondary concentrator. The latter is used exclusively to produce low silica pellets for Sidbec.

Finally, interest costs related to the financing of Sidbec's investment in Sidbec-Normines totalled $7 600 000 and the amortization of deferred expenses entailed further costs of $3 100 000.

| | $(000) |
|---|---|
| 50.1% absorption of the loss incurred by Sidbec-Normines | 20 800 |
| Loss on sale of excess pellets | 10 800 |
| Under-utilization of secondary concentrator | 2 700 |
| Interest and amortizations | 10 700 |
| | 45 000 |

## Production and technological developments

The growing demand for steel products which started in 1978 continued through 1979. This demand was so strong that all forecasts for the utilization of production facilities were exceeded. Module I of the reduction plant, for instance, which was planned to start up again in May for a period of only six months, was operated until the end of the year. The hot mill was used for nine months until December 31, instead of six months as had been predicted. The Longueuil steel plant was started up in June even though its use had not even been planned for 1979; one furnace and one continuous casting machine operated, and in less than three months, the maximum rate of operation had been reached; it was maintained for the rest of the year.

### Record production

As a result, several production records were broken in the reduction plant, the steel plant and the hot mills at Contrecoeur Works, as well as in the Montréal Works' pipe mill.

Primary steel production from the three steel mills was 1 134 000 tons of billets and slabs, or 12% more than 1978. During the last quarter, when all three mills were operating beyond their estimated capacity, the production reached 369 000 tons. These particularly good results suggest that an annual output in the order of 1 400 000 tons may be possible, without even taking into account the second furnace at the Longueuil steel plant.

During 1979, 189 000 tons of finished product were rolled at Longueuil and the last quarter's productivity would indicate a possible annual rolling capacity of more than 300 000 tons by the summer of 1981, when improvements to the finishing equipment will have been made.

## Major capital projects

1979 saw several major capital projects get underway, which will be completed during the next two years. We will mention a few of them:

— the expansion and modernization of Module I of the reduction plant, undertaken in order to bring the annual production from 400 000 to 500 000 tonnes and to reduce energy consumption

— the installation of a flying shear which will permit the production of heavier coils; this addition will improve both the capacity and the metallic yield of the hot mill

— the installation of equipment designed to inspect the bars at the Longueuil merchant mill; this equipment will make it possible for us to break into the lucrative market for special bar quality

— the building of a cleaning line, alterations to our annealing facilities, and the addition of a drawing machine. All of these measures will form the basis of a program designed to boost the growth of the Montréal wire-mill.

Finally, Sidbec stopped ingot teeming once and for all in February, and the hot mill was subsequently fed only by continuous-cast slabs. As a result, manufacturing costs were greatly diminished due to an improved metallic yield, reduced scarfing, higher quality in the cold mill, and decreased fuel use in the hot mill's reheating furnaces.

# Commercialization

## Favorable conditions

In 1979, particularly favorable market conditions allowed the Canadian steel industry to surpass the records set in 1974. The devaluation of the Canadian dollar, and the institution of measures to control import prices by the United States government greatly favoured Canadian steel mills, which produced well beyond the needs of the domestic market.

Sidbec was one of the companies to benefit from these conditions. Shipments for the year reached a new record of 975 220 tons of finished and semi-finished products, or 14% more than last year. The sale of long products went up by 12%, and flat-rolled products gained 17%. In addition, the sale of reduced iron totalled 195 000 tons as a result of the initiation of a program of overseas exports.

## Customer services

In a context where most deliveries were limited by quotas, Sidbec elected to concentrate its sales efforts in servicing its regular customers. Sidbec therefore chose firstly to meet the needs of these customers within its natural market, rather than follow the general trend in Canada which was to increase considerably exports to the United States. Secondly, substantial investments were made in the Longueuil plant to improve shipping facilities.

## Raw materials

A total of 1 600 000 tonnes of iron ore was purchased in 1979 of which the pellets from Sidbec-Normines account for 46%. Scrap purchases reached 376 000 tons, half of which were processed at Sidbec-Feruni's facilities. In addition, 20 000 tons of various alloys were used in steelmaking.

## General supplies

The cost of Sidbec's other supplies amounted to $110 000 000. Among these items, $33 500 000 went to purchase of natural gas. This figure makes Sidbec the largest consumer of natural gas in Québec. The cost of electric power consumption totalled $15 000 000.

The cost of electrodes required in the operation of our electric furnaces amounted to approximately $16 000 000.

## Sidbec-Normines

1979 was the first complete year of operation for Sidbec-Normines. The company used all of its production equipment for several months at lac Fire as well as at the lac Jeannine concentrator, the pelletizing plant, and the secondary concentrator of Port-Cartier. Considering that the operations had only begun in late 1978, and that much of the equipment had to be broken in, the results are very satisfactory.

### Production target

The planned pellet production was limited to 4 285 000 tonnes, or about two thirds of the nominal capacity. Not only was this objective reached, but the $41 600 000 loss was lower than predicted due to lower operating costs and better sales prices for pellets.

### Sales to partners

During the year, Sidbec-Normines shipped 4 000 000 tonnes of pellets of which Sidbec received 1 800 000 tonnes, including 717 000 tonnes of low silica pellets. British Steel Corporation (International) Inc. and The Québec Cartier Mining Company received 1 900 000 tonnes and 332 000 tonnes of blast furnace pellets respectively.

Sales revenue totalled $176 700 000, while total costs amounted to $218 300 000, of which $74 800 000 went towards interest and depreciation.

In 1980 Sidbec-Normines plans to produce and ship more than 90% of its 6 000 000 tonne nominal capacity to the three partners. At this production level, Sidbec-Normines should become profitable after only two years of operation.

## Human resources

### Number of employees

From December 31, 1978 to December 31, 1979, the number of employees at Sidbec, including Sidbec-Normines, increased by 424 to 4731 or an increase of 9,8%. The number of blue collar workers increased more rapidly than the number of white collar workers, 11.9% compared to 5.3%.

If all the people involved in the various phases of iron oxide pellet production, including lac Fire and lac Jeannine as well as those at Port-Cartier, are taken into account, the total number of jobs provided by Sidbec was 5748 as of December 31, 1979.

### Collective agreements

On April 11, 1979 nine contracts covering nearly all of the unionized employees were renewed for a period of three years, expiring on January 31, 1982. Walk-outs of almost four weeks occured in the five plants.

### Health plan

A health plan for our employees, covering industrial hygiene and medical services available at the plants, was launched in 1979, after having been extensively discussed by the health and security committees of each plant. An analysis of the work environment in the plants continued during the year resulting in the adoption of special protection measures for workers who are exposed to particular risks. In addition, periodical medical examinations called for by the health plan began in the autumn of 1979.

### Training program

About 400 people from the managerial staffs of the Sidbec-Dosco and Sidbec-Feruni plants participated in personnel management courses during 1979. These courses began in the autumn of 1978, and are part of a management training program designed to further their knowledge in the field of management and human relations.

## Report of Sidbec's Board of Directors to the Shareholder

In the discharge of their duties, the Board of Directors of the companies in the Sidbec Group delegated the preparation of the financial statements and, if necessary, of consolidated statements, to their respective officers.

After examination by audit firms, the statements were submitted to the boards concerned, who approved them, in most cases, upon the recommendation of audit committees duly formed and commissioned by them.

In the opinion of the undersigned, the financial statements have been drawn up conscientiously, using generally accepted accounting principles, particularly those explained in the accompanying footnotes which were applied consistently and prudently throughout their preparation; the statements reflect the latest information available at the time of the last audit.

Jean-Pierre Howison, Treasurer

Robert De Coster, President

# Consolidated financial statements

December 31, 1979

## Auditors' report

To the Shareholders of Sidbec,

We have examined the consolidated balance sheet as at December 31, 1979 and the consolidated statements of income, deficit, contributed surplus and changes in financial position for the year then ended, and have obtained all the information and explanations we have required. Our examination of the financial statements of the Company and the subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of certain other subsidiaries.

In our opinion, and to the best of the information and explanations given to us and as shown by the books of the Company, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The figures for the year ended December 31, 1978 shown for comparative purposes, arise from financial statements which were examined by other auditors.

Raymond, Chabot, Martin, Paré & Associés

Chartered Accountants

Montréal
March 7, 1980

# Consolidated balance sheet

December 31, 1979

| Assets | 1979 $(000) | 1978 $(000) |
|---|---|---|
| Current Assets | | |
| Trade accounts receivable | **76 466** | 54 905 |
| Inventories (Note 4) | **157 523** | 118 615 |
| Prepaid expenses | **781** | 1 299 |
| Grants receivable | **—** | 2 519 |
| Subscriptions receivable | **42 840** | 58 501 |
| | **277 610** | 235 839 |
| Subscriptions Receivable (Note 5) | **54 689** | 43 029 |
| Property, Plant and Equipment | | |
| Land, buildings and machinery | **763 480** | 744 890 |
| Accumulated depreciation | **139 423** | 107 416 |
| | **624 057** | 637 474 |
| Other Assets | | |
| Discount and issue expenses, at amortized cost | **2 792** | 2 965 |
| Development costs, at amortized cost | **12 268** | 13 350 |
| Other deferred expenses and miscellaneous, at cost | **—** | 1 170 |
| Mortgages receivable | **609** | 557 |
| | **15 669** | 18 042 |
| | **972 025** | 934 384 |

On behalf of the Board,

Director

Director

| Liabilities | 1979 $(000) | 1978 $(000) |
|---|---|---|
| **Current Liabilities** | | |
| Bank overdraft and bank loans (Note 6) | **90 239** | 38 077 |
| Accounts payable and accrued charges | **61 578** | 56 880 |
| Instalments on long-term debt | **35 406** | 119 899 |
| | **187 223** | 214 856 |
| Due to a Shareholder | **—** | 1 816 |
| Long-Term Debt (Note 7) | **348 887** | 385 978 |
| Provision for Pension Plans (Note 8) | **1 353** | 1 469 |
| **Shareholders' equity** | | |
| Capital Stock (Notes 5 and 9) | | |
| Authorized: | | |
| 56 500 000 deferred dividend shares redeemable at par value of $10 each | | |
| 56 500 000 common shares with a par value of $10 each | | |
| Issued and fully paid: | | |
| 46 680 535 deferred dividend shares (31 280 435 in 1978) | **466 805** | 312 804 |
| Issued and subscribed: | | |
| 9 752 900 deferred dividend shares (10 153 000 in 1978) | **97 529** | 101 530 |
| | **564 334** | 414 334 |
| Contributed Surplus | **51 797** | 51 797 |
| Deficit | **(181 569)** | (135 866) |
| | **434 562** | 330 265 |
| | **972 025** | 934 384 |

The accompanying notes form an integral part of the financial statements.

| 1979 $(000) | | | 1978 $(000) | | |
|---|---|---|---|---|---|
| **Manufacturing Operations** | **Mining Operations** | **Total** | Manufacturing Operations | Mining Operations | Total |
| **390 632** | **89 921** | **480 553** | 282 696 | 12 222 | 294 918 |
| **332 557** | **84 285** | **416 842** | 260 062 | 14 286 | 274 348 |
| **14 465** | **2 423** | **16 888** | 14 679 | 482 | 15 161 |
| **24 268** | **32 368** | **56 636** | 26 790 | 22 202 | 48 992 |
| **20 057** | **12 209** | **32 266** | 16 628 | 2 189 | 18 817 |
| **—** | **3 624** | **3 624** | — | — | — |
| **391 347** | **134 909** | **526 256** | 318 159 | 39 159 | 357 318 |
| **—** | **—** | **—** | 11 015 | 18 245 | 29 260 |
| **391 347** | **134 909** | **526 256** | 307 144 | 20 914 | 328 058 |
| **715** | **44 988** | **45 703** | 24 448 | 8 692 | 33 140 |

SIDBEC

# Consolidated income

## Year ended december 31, 1979

| |
|---|
| Sales |
| Expenses |
| Cost of goods sold excluding related depreciation |
| Administrative and selling expenses |
| Interest and amortization of discount on long-term debt (Note 10) |
| Depreciation of property, plant and equipment |
| Amortization of deferred expenses and development costs |
| |
| Less: Interest charged on construction work |
| |
| NET LOSS |

The accompanying notes form an integral part of the financial statements.

# Consolidated deficit and contributed surplus

## Year ended december 31, 1979

| Deficit | 1979 $(000) | 1978 $(000) |
|---|---|---|
| Balance, beginning of year | **135 866** | 102 726 |
| Net loss | **45 703** | 33 140 |
| Balance, end of year | **181 569** | 135 866 |

| Contributed surplus | | |
|---|---|---|
| Balance, beginning of year | **51 797** | 51 033 |
| Grants | **—** | 764 |
| Balance, end of year | **51 797** | 51 797 |

The accompanying notes form an integral part of the financial statements.

# Consolidated changes in financial position

## Year ended december 31, 1979

| | 1979 $(000) | 1978 $(000) |
|---|---|---|
| **Source of Funds** | | |
| Subscriptions receivable | **—** | 59 351 |
| Proceeds from sale of property, plant and equipment | **213** | 1 206 |
| Long-term debt | **—** | 77 809 |
| Issue of deferred dividend shares | **150 000** | — |
| Grants | **—** | 764 |
| | **150 213** | 139 130 |
| **Application of Funds** | | |
| Net loss | **45 703** | 33 140 |
| Items which do not use or provide funds: | | |
| Depreciation of property, plant and equipment | **(32 266)** | (18 817) |
| Amortization of deferred expenses and development costs | **(3 624)** | — |
| Profit (loss) on sale of property, plant and equipment and write off of deferred expenses | **(2 152)** | 787 |
| Other | **248** | 32 |
| Funds used by operations | **7 909** | 15 142 |
| Subscriptions receivable | **11 660** | — |
| Mortgages receivable | **52** | 557 |
| Additions to property, plant and equipment | **19 558** | 27 253 |
| Other assets | **2 906** | 5 953 |
| Due to a shareholder | **1 816** | 459 |
| Instalments on long-term debt | **36 792** | 120 753 |
| Net decrease in the provision for pension plans | **116** | 111 |
| | **80 809** | 170 228 |
| **Increase (decrease) in working capital** | **69 404** | (31 098) |
| Working capital, beginning of year | **20 983** | 52 081 |
| **Working capital, end of year** | **90 387** | 20 983 |

The accompanying notes form an integral part of the financial statements.

# Notes to the consolidated financial statements

December 31, 1979

**1 Legal Status and Nature of Operations**
The Company, incorporated under the Québec Companies Act and regulated in certain respects by a special law of the Province of Québec, operates mines and steel factories.

**2 Statement of Accounting Policies**
Consolidation
The consolidated financial statements include the accounts of the Company and of all its subsidiaries, as well as the share of the Company in the assets, liabilities, revenues and expenses of the corporate joint venture, Sidbec-Normines Inc. (Note 3).

Inventories
Inventories of finished goods, goods in process and raw materials are valued at the lower of cost and net realizable value; the cost is determined by the first in, first out method.

Supplies inventories are valued at the lower of cost and replacement cost; the cost is determined by the average cost method.

Property, Plant and Equipment
Property, plant and equipment are recorded at historical cost and depreciated over their estimated useful life under the straight-line method at the following rates:

| | |
|---|---|
| Buildings | 2½% to 5% |
| Machinery and equipment | 5% to 20% |
| Automobiles and trucks | 20% to 25% |
| Locomotives | 4% |
| Furniture and fixtures | 10% |

The cost includes interest incurred during construction calculated according to the average monthly cost of construction work in progress and the average rate of interest paid by the Company.

Discount and Issue Expenses
Discount and issue expenses on the long-term debt are amortized under the straight-line method according to the term of each debt.

Development Expenses
Development expenses are amortized according to the production of pellets over a period not to exceed ten years.

Pension Plans
The pension cost charged to expenses provides fully for annual contributions to the Company and government pension plans in respect of current services, for interest on the past services liability and for the amortization of the unfunded past services liability.

Contributed Surplus
The contributed surplus arises from grants and financial assistance from the federal and provincial governments.

Conversion of Foreign Currency
Current assets and liabilities which will be realized in foreign currencies are translated into Canadian dollars according to the rate in effect at the end of the year. The long-term debt in United States dollars was translated at the rate prevailing when issued.

Revenues and expenses in foreign currencies are translated at the rate prevailing when transactions occurred.

Revenues and Expenses
Mining operations include the Company's share in the operating results of Sidbec-Normines Inc. and the results of the resale of pellets. Raw material used in manufacturing operations and supplied by Sidbec-Normines Inc. is recorded at the North-American market price.

### 3 Corporate Joint Venture — Sidbec-Normines Inc.

During 1976, Sidbec and other participating companies concluded an agreement to constitute a company to operate the Fire Lake mine and to produce concentrates and iron oxide pellets.

The relationship between participants is governed by means of an agreement which prevents control by any of the parties over all matters essential to the realization of the project. The share in this company was recorded according to the proportional consolidation method.

The share of the Company in the assets, liabilities and operating results of Sidbec-Normines Inc. for the year is as follows:

| Balance sheet | **1979 $(000)** | 1978 $(000) |
|---|---|---|
| Assets | | |
| Current assets | **39 604** | 40 437 |
| Mortgages receivable | **610** | 558 |
| Property, plant and equipment | **268 660** | 274 431 |
| Other | **11 698** | 10 703 |
| | **320 572** | 326 129 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities | **31 239** | 15 957 |
| Long-term debt | **205 173** | 205 173 |
| Capital stock | **110 478** | 110 478 |
| Deficit | **(26 318)** | (5 479) |
| | **320 572** | 326 129 |

| Operating results | **(12 months)** | (2 months) |
|---|---|---|
| Sales | **88 538** | 10 015 |
| Expenses | | |
| Production costs | **69 645** | 9 066 |
| Administrative and selling expenses | **2 224** | 333 |
| Interest on bank loans and on long-term debt | **24 777** | 3 957 |
| Depreciation of property, plant and equipment and amortization of deferred costs | **12 731** | 2 138 |
| | **109 377** | 15 494 |
| NET LOSS | **20 839** | 5 479 |

**3 Corporate Joint Venture — Sidbec-Normines Inc. (continued)**
The excess of the cost of the Company's investment over the capital stock issued by Sidbec-Normines Inc. amounts to $29 308 000 and results from the following items:

| | $(000) |
|---|---|
| Interest incurred for the financing of the investment during the development period of Sidbec-Normines Inc. | 25 858 |
| Loss on sale of pellets prior to the commencement of operations of Sidbec-Normines Inc. | 3 450 |
| | 29 308 |

Interest was charged to the cost of property, plant and equipment and is amortized over 30 years. The loss on the sale of pellets was presented in the development costs and is amortized over a period not to exceed ten years.

The losses on the sale of pellets in the amount of $3 450 000 which were charged in 1978 to the cost of property, plant and equipment, have been reclassified as development costs to conform with the presentation adopted in the current year.

**4 Inventories**
Inventories consist of the following:

| | **1979 $(000)** | 1978 $(000) |
|---|---|---|
| Raw material and supplies | **90 790** | 63 962 |
| Goods in process and finished goods | **66 733** | 54 653 |
| | **157 523** | 118 615 |

**5 Subscriptions Receivable**
By virtue of Bill number 73, assented to on December 21, 1979, to amend the Act respecting the establishment of an integrated steel complex by Sidbec, the authorized capital stock was increased to $1 130 000 000 divided into 56 500 000 common shares with a par value of $10 each and 56 500 000 deferred dividend shares with a par value of $10 each.

A total of 56 433 435 deferred dividend shares were allotted to the Government of Québec of which 15 000 000 were attributed during the year. Of these subscriptions, a sum of $97 529 000 ($101 530 000 in 1978) had not been received by the Company as at December 31, 1979.

Subscriptions receivable amounting to $54 689 000, not shown as part of the working capital, includes an amount of $48 000 000 that the government has consented to pay the Company to finance specific investment projects. These subscriptions will be received in progressive installments according to disbursements made by the Company for the realization of such projects and which should probably total $28 000 000 in 1980 and $20 000 000 in 1981.

## 6 Bank Overdraft and Bank Loans

The bank overdraft and the bank loans are secured by the assignment of trade accounts receivable and inventories.

## 7 Long-Term Debt

| | 1979 $(000) | 1978 $(000) |
|---|---|---|
| Parent company — | | |
| Bank loans, repayable by monthly instalments totalling $31 900 000 in 1980 and by a lump sum of $6 580 000 on January 20, 1981, secured by the assignment of the shares of the subsidiary Sidbec-Dosco Limitée and by the assignment of the subscription receivable from the Government of Québec in the amount of $38 480 000 | **38 480** | 96 530 |
| Notes payable, paid in 1979: | | |
| Shareholder | **—** | 52 100 |
| Others | **—** | 7 540 |
| Sinking fund debentures: | | |
| Series «A», 9¼%, maturing December 15, 1990 | **9 400** | 9 550 |
| Series «B», 8¾%, maturing June 15, 1991 | **9 550** | 9 700 |
| Series «C», 9%, maturing September 1, 1991 | **9 550** | 9 700 |
| Series «D», 10¾%, maturing October 1, 1989 | **30 000** | 30 000 |
| Series «E», 10¼%, maturing May 15, 1995 | **30 000** | 30 000 |
| Series «F», 10¾%, maturing February 16, 1996 | **30 000** | 30 000 |
| | **156 980** | 275 120 |
| Subsidiary — Sidbec-Dosco Limitée — | | |
| Sinking fund debentures: | | |
| Series «A», 5¾%, maturing June 1, 1984 | **5 863** | 6 950 |
| Series «B», 6%, maturing July 15, 1985 | **6 749** | 7 762 |
| Series «C», 5¾%, maturing July 15, 1985 | **4 300** | 4 734 |
| Other | **122** | 184 |
| | **17 034** | 19 630 |

## 7 Long-Term Debt (continued)

| | **1979 $(000)** | 1978 $(000) |
|---|---|---|
| Subsidiary — Sidbec-Feruni Inc. — | | |
| Capital leases bearing interest at rates varying between 9.1% and 10% and maturing between 1980 and 1990 | **3 320** | 3 812 |
| Bank loan, secured by certain property, plant and equipment bearing interest at 1½%, above prime rate and repayable by monthly instalments of $29 767 | **1 786** | 2 142 |
| | **5 106** | 5 954 |
| Corporate Joint Venture — Sidbec-Normines Inc. — | | |
| First mortgage bonds: | | |
| Series «A», 10⅛%, maturing December 31, 1999 — $330 303 000 US as at December 31, 1979 ($341 472 000 x 50.1%) | **171 077** | 171 077 |
| Series «B», 11⅛%, maturing December 31, 1999 ($68 055 000 x 50.1%) | **34 096** | 34 096 |
| | **205 173** | 205 173 |
| | **384 293** | 505 877 |
| Instalments due within one year less debentures redeemed in advance | **35 406** | 119 899 |
| | **348 887** | 385 978 |

The maximum amount of first mortgage bonds authorized for Sidbec-Normines Inc. is $330 303 000 US for Series «A» and $68 055 000 CAN for Series «B». Sidbec's share is $165 481 803 US and $34 095 555 CAN respectively. These bonds will be redeemed at the annual rate of 5.556% of the principal from three years after the date of the completion of the project, on December 31, 1982 at the latest. All Sidbec-Normines Inc.'s assets (except the Gagnon townsite) are subject to a floating charge given as a guarantee on its long-term debt.

Sidbec-Dosco Limitée's assets, other than its property, plant and equipment are subject to a floating charge given as a guarantee for its long-term debt. These assets amount to $177 000 000 as at December 31, 1979.

Sidbec-Feruni Inc. issued a mortgage bond indenture for a maximum amount of $5 500 000 to secure its bank loan. This indenture subjects certain property, plant and equipment to a fixed charge and establishes a floating charge on the Company's trade accounts receivable and inventories.

If the long-term debt, payable in United States dollars, had been translated at the exchange rate prevailing at December 31, 1979, an additionnal amount of approximately $24 000 000 would have been included in the Company's long-term debt.

**7 Long-Term Debt (continued)**
The annual instalments on the long-term debt, according to the requirements of the sinking fund debentures and the maturities of the long-term debt over the next five years are as follows:

| | Sidbec and its wholly owned subsidiaries $(000) | Sidbec-Normines Inc. (50.1%) $(000) | Total $(000) |
|---|---|---|---|
| 1980 | 35 406 | — | 35 406 |
| 1981 | 11 776 | — | 11 776 |
| 1982 | 5 203 | 11 400 | 16 603 |
| 1983 | 5 177 | 11 400 | 16 577 |
| 1984 | 6 258 | 11 400 | 17 658 |

**8 Pension Plans**
Certain subsidiaries provide different pension plans for their employees. Consulting actuaries' studies indicate that the liability of the Company for employees' benefits for past services exceeds the provisions for pension plans as shown on the balance sheet by approximately $7 747 000 as at December 31, 1979. The excess will be amortized over a period of eleven years.

As a result of certain modifications made in pension plans, the commitments of the Company related to employees' benefits for past services have been increased by approximately $13 000 000. These additionnal commitments effective January 1, 1980 will be amortized over a period of fifteen years.

**9 Capital Stock**
No dividends can be paid on deferred dividend shares. However, each deferred dividend share can be converted into one common share when the average of net earnings, of two consecutive years will be equal to at least $1 per outstanding share at the end of the first of these two years.

**10 Interest on Long-Term Debt**
Interest expense on long-term loans was reduced during the year by an amount of $6 290 000 ($7 373 000 in 1978) arising from payments made by the Government of Québec to compensate for the interest expense for loans contracted before the receipt of the subscription of shares as mentioned in Note 5.

**11 Income Taxes**
Since the Company is wholly owned by the Government of Québec, it is exempt from income taxes, except for Sidbec-Normines Inc.

**12 Commitments**
Commitments of the Company and its subsidiaries concerning projects relating to construction and acquisition of machinery and equipment amount to approximately $12 000 000.

As additional consideration for the acquisition of the mining concession and under various operating agreements, Sidbec-Normines Inc. is committed to pay annual minimum costs over the useful life of the mine which has been estimated to be 30 years. The minimum costs were valued at approximately $8 250 000 for 1980.

## The Board of Directors of Sidbec and Sidbec-Dosco Ltée

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**Pierre Sauvé**

■ Members of the Executive Committee

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**Jean Laberge**
General Manager,
Sales
**Jean Poirier**
Controller

## Sidbec-Normines Inc.

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**Norman B. Preece**
Vice-Chairman of the Board, President of Stanton Pipes Ltd
**Cyrille Dufresne**
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**Pierre Dozois**
Secretary

## Sidbec-Feruni Inc.

**J. Edmond Pontbriand**
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**Pierre Sauvé**
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## Sidbec International Inc.

**J. Edmond Pontbriand**
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