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Slater Steel

Annual Report 1983

Highlights

$000s except per share data	1983	1982	Change
Net sales	$130,622	$177,364	−26%
Net earnings	3,111	12,621	−75%
Capital expenditures	5,019	7,809	−36%
Depreciation	5,287	4,739	+12%
Working capital	36,589	38,962	− 6%
Fixed assets – net	52,546	47,811	+10%
Per common share data:			
Net earnings	$ 1.10	$ 4.77	−77%
Dividends declared	$ 0.80	$ 0.70	+14%
Shareholders' equity	$ 29.50	$ 29.15	+ 1%

Profile

Slater Steel Industries Limited was incorporated in 1962 and now has four operating units; Burlington Steel and SLACAN™ located in Hamilton, Ontario, Joslyn Stainless Steels in Fort Wayne, Indiana and Crucan in Sorel, Quebec. Slater Steel also holds a 20.2% interest in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) of Regina, Saskatchewan which, in addition to its steelmaking operations in Regina, has manufacturing facilities in Edmonton, Alberta and Port Moody, British Columbia.

Burlington Steel is a specialty mill producing several grades of carbon and alloy bar products in various shapes and sizes for the automotive, agricultural, construction and utility markets in Canada and the United States.

SLACAN is the largest pole line hardware manufacturer in Canada, manufacturing more than 3,000 different items for the electrical transmission and communications markets, predominantly in North America.

Joslyn is a stainless steel mill which produces a broad range of stainless and high temperature alloy grades in bar and billet form with end uses in the aircraft, energy, forging and service centre markets in the United States.

Crucan is a specialty forge shop, with its own steelmaking facility, which produces tool and mould die steels and the larger class of carbon, alloy and stainless steel forgings weighing as much as 50,000 lbs. Its markets include capital goods requirements for shipbuilding, plant machinery, aircraft and nuclear and hydro-electric power plants as well as for moulds used in the forming of plastics and metals for automotive and consumer goods.

IPSCO manufactures tubular pipe products which include high pressure line pipe for oil and gas transmission, waterpipe line, oil-well casing and tubing and hot rolled sheet for commercial application.

President's Commentary

During our Fiscal '83 we witnessed the most serious decline that the general economy has experienced in several decades. Our Company sustained the heavy impact of a total business recession resulting in a significant drop in sales which necessitated cost reduction actions, including the unfortunate need for layoffs. In spite of these conditions, Fiscal '83 was another milestone in the development and growth of Slater Steel Industries Limited. It was during this year that our Company acquired another specialty steel operation, the Crucan Forge Operations of Colt Canada Inc., based in Sorel, Quebec.

A year ago we were experiencing a downward drift in business activity with a related impact on our overall sales and profit performance. We anticipated a continuance of this trend during Fiscal '83 with expectation of a bottoming of the decline in the fall and a gradual recovery by our fiscal year end. While this was the general pattern of the economy during this past year, we did not expect that there would be such a dramatic deterioration in almost every segment of business. Our sales volume fell at a rate of almost 15% on a quarter-to-quarter basis during the first nine months of Fiscal '83 with the result that each of our operating divisions was running at less than 50% capacity during our third fiscal quarter with some turnaround occurring in the final quarter.

One of our corporate goals is to broaden our market base to provide a counter-cyclical pattern for our overall business activities as a means of minimizing the effect of major shifts in demand for specific products. In past years we have experienced cyclical trends in most markets with varying degrees of severity but specific pockets of strength have always existed. Never before, in more recent industrial history, have we experienced an almost total collapse in all segments of manufacturing. Unfortunately, the psychological impact of this recession, and the attendant uncertainty for tomorrow, caused even consumer spending to be restricted to savings or to purchases of only necessities and low priced commodities. While we have taken steps in recent years to broaden our product lines and market coverage, the overall absence of order volume that culminated at calendar year end was nothing short of devastating to most manufacturing related businesses and industries. Every manufacturer, Slater Steel included, had to cut costs, conserve cash and eliminate jobs simply to survive in a weak market. While our diversification of products and avoidance of having "all our eggs in one basket" was advantageous to performance in a difficult year, only limited demand for the majority of our manufactured products prevailed, leaving no one market or product with any degree of strength.

The acquisition of Colt Canada Inc. was completed in early March 1983 following approval of the purchase by the Foreign Investment Review Agency (FIRA). This operation is a self-contained specialty steelmaking and press forge plant located at Sorel, Quebec. Its major product lines are alloy steels, tool and mould die steels, stainless and certain high temperature grades. These steels are made by electric furnace practice and can be vacuum degassed and ingot cast for subsequent press forging to various sizes and forms ranging in weights of up to 25 tons per item.

Slater Steel now has three specialty steel producers with minimum duplication or conflict of facilities or product, with considerable opportunity for inter-divisional synergy and with capability for manufacturing almost all grades, forms and sizes of specialty steel products, other than flat-rolled or tubular sections.

While we have seen a business upturn in the last quarter of Fiscal '83, this is really only a modest improvement as measured against the previous weak quarter; probably one of the softest periods we have experienced in many years. Order backlogs are now showing some strengthening, inventory refurbishing is taking place, consumers are spending a little more and a few construction projects and capital investments are planned, committed or under way. The majority of manufacturing industries expect to operate at around 60% of capacity by the end of calendar 1983; hardly robust conditions. We expect the market to improve gradually but with considerable caution and with subdued pricing for most commodities. We look for little change in the first half of Fiscal '84 and a general strengthening in the second half. Our Corporate Business Plan for Fiscal '84 projects a modest upturn against Fiscal '83; however, we cannot anticipate achieving, or approaching, our stated goal for our return on consolidated capital employed until Fiscal '85.

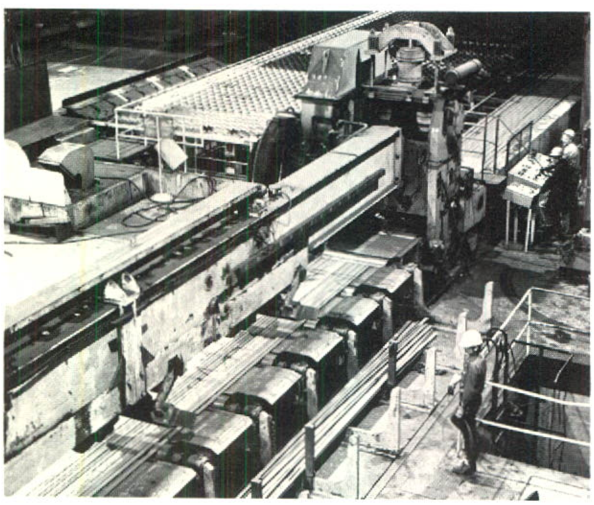
During our Fiscal '83, earnings of Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) fell by some 70% from the previous year. The drop in demand of pipe products for the North American oil and gas industries caused a significant deterioration of the company's sales volume. However, IPSCO remained profitable in a most difficult, limiting market and should remain so for our Fiscal '84 period, with a gradual return to sales and earnings that compliment its expanded production facilities which have been installed over the past three years.

On February 24, 1983, Mr. Elias M. Doumet resigned as a director of the Company. Mr. Doumet was elected to our Board on July 25, 1980 and during his term in office provided valuable input and counsel to the planning element of our Company's business.

Our suppliers, customers and directors have been especially supportive of the efforts of our Company in a year having many major concerns and uncertainties. We are especially grateful for this support and encouragement, which has been an important factor in our remaining profitable. At the same time, we express our appreciation and recognition to all our employees who have maintained their strong spirit of confidence in a most difficult and demanding work environment. Many thanks to all of our people for their splendid contribution.

Burlington Steel

Fiscal '83 saw a dramatic decline in the demand for and output of steel in North America and in most parts of the world. Canadian steel mills were operating at less than 50% of capacity and Burlington Steel was no exception to this limited level of activity.



Burlington Steel Division: Cooling Bed and 400-ton Shear at Bar Rolling Mill.

Our sales deteriorated throughout the year, reaching the low point in the third fiscal quarter during which production fell to just under 40% of capacity. Improvement in sales volume during the fourth quarter brought plant utilization back to around 60%.

Total shipped tonnage for the fiscal year reached 133,500 tons, a reduction of 35% from last year. However, the mix of SBQ (Special Bar Quality) and Alloy grades in the total shipments improved to 73%, and 21.3% of our shipped tonnage was exported. Little, if any, strengthening was achieved in selling prices due to the prevalence in the market place of discounting allowances on most bar products, resulting in no change in our average selling prices for the year against the previous year, despite the stronger product mix.

It became obvious, with the reduced volume of orders, that our priority was to lower our breakeven point through stringent cost controls and profit improvement programs. At the same time, we focused on quality of manufacturing as a basis of increasing our share of the SBQ/Alloy steel markets — our principal class of product line. Significant success was achieved in all of these areas, including major progress in melt shop productivity, reduction in rejection of finished bar stock in spite of a more quality demanding product, and real improvements in yields, manpower utilization and controllable assets. Establishing cash management as a priority resulted in a highly favourable cash flow for the division. Fortunately scrap prices remained soft during the year which resulted in lower costs for this raw material than was estimated for Fiscal '83 and was one of the key factors in enabling the division to remain profitable.

We have developed a solid basis for sound profitable performance in our future production of specialty steel bar products. We anticipate a slow but gradual improving trend in Fiscal '84 and expect to see steady growth and improvement in both sales and earnings from this division.

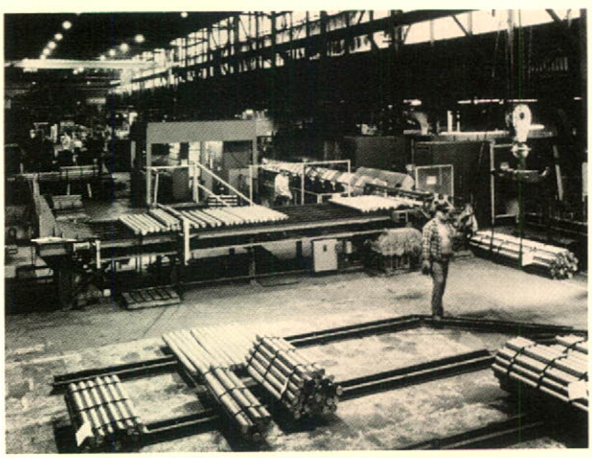
Joslyn Stainless Steels

During the past year, the U.S. steel industry experienced the worst recession since the thirties. The significant loss of volume caused the majority of mills to run at less than 40% of capacity and to experience significant losses of revenue. Our Joslyn operations also encountered this economic malaise in the stainless bar market — sales were off 33% from last year; the market itself deteriorated correspondingly and imports of stainless bar products rose to a level in excess of 30% of U.S. consumption. Needless to say this had a devastating impact on pricing, requiring discounts of up to 30 to 40% off book to be competitive. Despite these conditions, our sales participation held and our operations remained marginally profitable.

It was, of course, necessary to pare our operations to match reduced order bookings and to tailor our total manpower levels and inventories accordingly. Significant strides were made in both cost reduction measures and operating practices; of particular note was the Melt Shop Improvement Program which achieved productivity gains in the order of 40%. While modifications to our Primary Rolling Mill practices were implemented, these could not be fully utilized due to the job-lot order pattern in our mill runs brought about by the major reduction in sales of forging billets and large bar products.

Significant damage occurred in December 1982 from a fire in our acid pickling and passivation area. Fortunately, this did not cause any serious interruption or interference with our production of orders and substitute facilities were made available within a period of a few weeks.

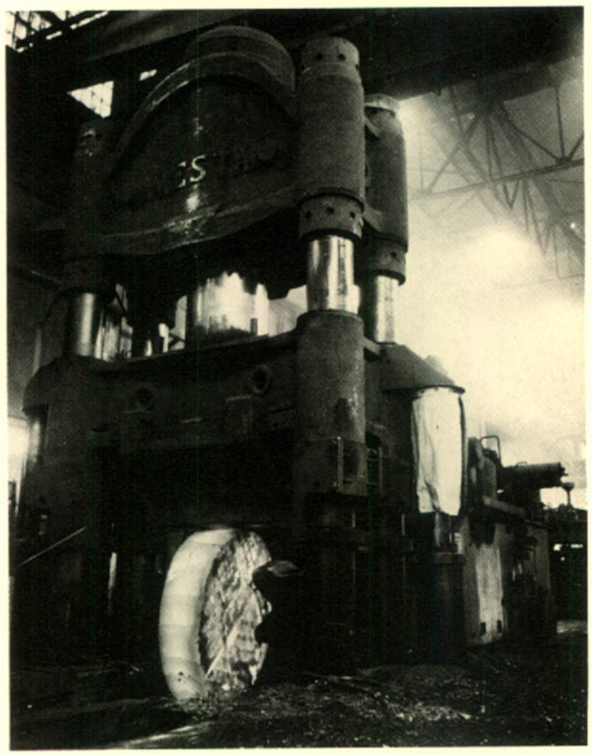
The U.S. economy has shown some signs of recovery as we enter our new fiscal year. We do not anticipate any immediate strengthening of the stainless bar market although, with some degree of improvement in the general economy, we expect to see an overall increase in demand for our regular product line in the latter half of Fiscal '84. At the same time, we will be emphasizing sales growth through new markets and products, especially those that are compatible with our manufacturing facilities.



Joslyn Stainless Steels Division: Billet heating through Induction Furnace at Bar Rolling Mill.

Crucan

As this division was acquired effective November 1, 1982, the results included cover the final five months of our Fiscal '83. While the division's earnings provided a positive contribution to consolidated earnings, after allowance for financing costs, it represented its weakest performance in several years. The recession that affected the North American steel industry during 1982 did not impact this division until the summer of that year. This delay was primarily due to the nature of the broad range of markets that Crucan supplies with specialty forgings. These markets, associated with such industries as mining, pulp and paper, energy and shipbuilding, gradually fell off throughout the calendar year as a result of deferments or cancellations of orders. The reduced business demand from these industries caused a drop of more than 50% in order bookings of our class of forgings and with attendant deterioration



Crucan Division: The 5000-ton Press

in pricing.

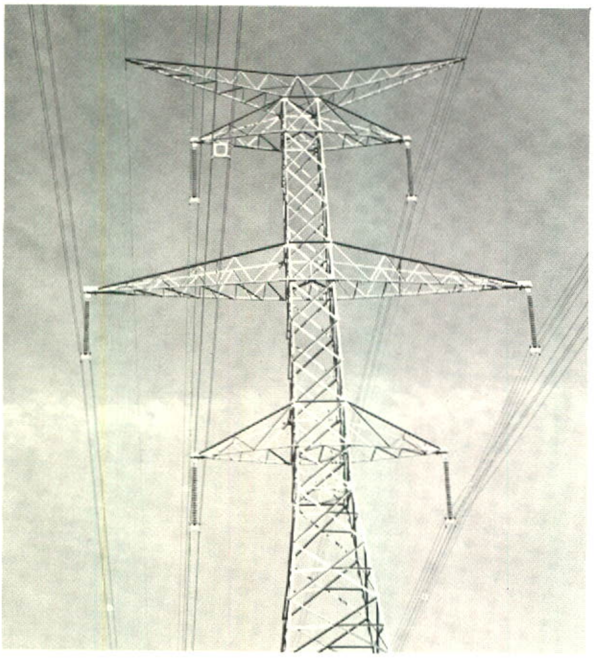
Tool and die steel forgings held up reasonably well throughout our Fiscal '83 period. A major portion of this type of forging is for large tool steel moulds which are unique to Crucan and supplied in equal quantities to both the Canadian and the U.S. markets. This product line represents almost half of current production volume and is used for dies and moulds, not only in the automotive industry but for the forming of plastics with innumerable consumer and industrial applications.

In consideration of our undertaking to FIRA, and recognition of the capabilities at Crucan, particular emphasis will be given to increasing product lines and market growth through productivity improvement and the optimizing of synergistic opportunities with our other divisions. At the same time, we will work toward achieving improved relationships with all personnel by upgrading communications, recognition, safety and housekeeping.

We anticipate a slow but gradual improvement in order activity during Fiscal '84. The trend will probably have little effect until the second half of the year when we should have new programs in place that will represent real potential for growth to this promising division.

SLACAN™

The hardware division of our business experienced a somewhat similar trend to that of the steel group, although total sales were only off some 4% from last year's level. Variations in performance of our different product classes were quite pronounced, reflecting the particular elements influencing each category. For example, sales of standard pole line hardware items were 24% below last year, primarily as a result of the drastic cut in construction projects by the communications industries and the overall drop in demand for this standard commodity by the electrical utilities. On the other hand, our high voltage specialized transmission hardware was up by 47% as a result of orders for major provincial transmission line contracts. The OEM (Original Equipment Manufacture) segment of our business was off by nearly a half from last year, reflecting the serious deterioration of most manufacturing businesses and the shortfall in consumer related product demand. Needless to say these market conditions created substantial price discounting for most of our products with too many manufacturers chasing too few orders. This reduced volume of business and poor pricing levels placed a significant squeeze on profit margins.



SLACAN Division: Spacer-Dampers on a 500 K.V. Transmission Line

The overall impact of these market conditions required particular emphasis on cost reductions to avoid losses at our reduced level of operations. Various method changes were implemented to enhance production efficiencies. An intensive training program to introduce a Material Requirement Planning System (MRP) was implemented as a basis of achieving closer control on elements of scheduling, planning and inventory levels. Major reductions in manpower and staff were made to adjust to specific changes in practices and to optimize the activity and utilization of all personnel.

The forecast domestic energy market in Fiscal '84 is uncertain and achievement of any reasonable improvement over the past year will require an aggressive stance in export markets, particularly in opportunities with utilities in the United States. We have a superior hardware product to offer, especially in EHV (Extra High Voltage) transmission, and it is our intention to expand our promotion of these unique commodities through technical/sales combined efforts with the export utilities.

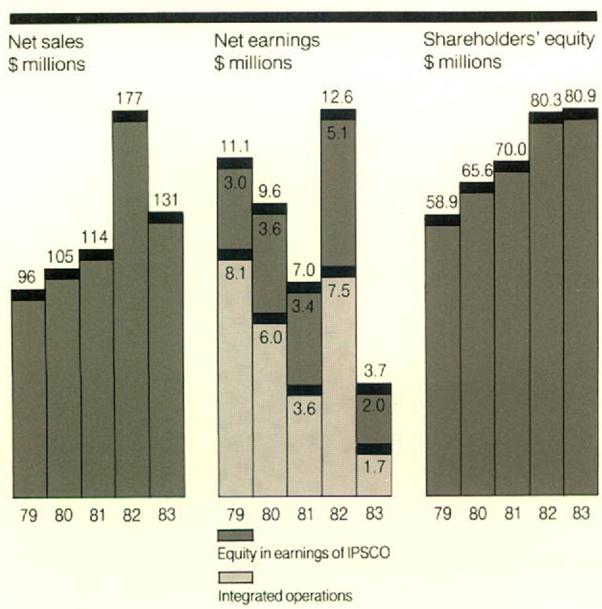
Bruce M Hamilton.

Bruce M. Hamilton, President

Sales and Earnings. Consolidated net sales for the year ended April 2, 1983 were $130,622,000, and while this was the second highest level in our history, it was a decrease of 26% from sales of $177,364,000 in the comparable prior period. Earnings for the year after allowance for tax recoveries, were $3,723,000, or $1.33 per common share, a decrease of 70% from $12,621,000, or $4.77 earned last year. Included in earnings is an amount of $925,000 representing a gain resulting from the proceeds of fire insurance received by the Joslyn Stainless Steels Division. An extraordinary item of $612,000, or 23¢ per common share, reflecting the Company's equity in a write-off of idle machinery and equipment at Interprovincial Steel and Pipe Corporation Ltd. (IPSCO), reduced net earnings for the year to $3,111,000, or $1.10 per common share. Earnings from integrated operations before equity in earnings of IPSCO amounted to $1,669,000 in Fiscal '83 representing a 1.3% return on sales compared to $7,553,000, or 4.2% in the previous year.

Acquisition of Colt Canada Inc. Effective November 1, 1982, the Company acquired all of the outstanding shares of Colt Canada Inc., based in Sorel, Quebec. The total purchase cost was $23.1 million made up of fixed assets of $4.9 million, net working capital of $19.6 million and deferred taxes of $1.4 million. Included in working capital were term deposits of $12.3 million. The purchase was financed by means of an increase in demand loan facilities and a $7.0 million, 7 year unsecured term bank loan with capital repayments of $1.0 million per year commencing in 1986 with a final payment of $3.0 million in 1990.

In conjunction with the Colt acquisition, certain proprietary rights and technical know-how were acquired on December 30, 1982 at a cost of $4.0 million. This amount, which is being amortized to earnings over a 20 year period, was financed by means of a 5 year unsecured note repayable in 17 quarterly installments of $235,294 beginning December 30, 1983 and ending December 30, 1987.



Financial Position. Cash generated from operations decreased to $6.3 million from $14.5 million last year, reflecting the lower level of earnings for Fiscal '83. After providing for preferred dividends, cash income per share amounted to $2.32 compared to $5.52 last year. Funds generated, including those derived from a reduction in working capital, were used to purchase plant and equipment for $5.0 million, provide dividends of $2.3 million and retire long-term debt of $4.0 million. Working capital decreased by $2.4 million during the year despite the $19.6 million contributed by the Colt Canada Inc. purchase. The ratio of current assets to current liabilities declined to 2.4:1 from 2.6:1 a year ago. This decrease was largely due to the fact that reductions in inventories and receivables arising from the lower levels of activity during Fiscal '83, were applied to reduce long-term debt and assist in the purchase of Colt.

Long-term debt as a percent of total capital employed increased to 33.7% from 30.4% a year ago as a result of the term loans obtained to finance the Colt acquisition.

Interprovincial Steel & Pipe Corporation Ltd. (IPSCO). Sales, as reported by IPSCO to its shareholders, for the 12 month period ended February 28, 1983, were $229.1 million, a decrease of 28% from the previous year. Earnings for the same 12 month period ended February 28, 1983, net of an extraordindary item, were $8.2 million compared to $26.1 million for the previous comparable period.

Slater Steel's equity in these earnings, which is shown in the consolidated statement of earnings, amounted to $1,442,000 for Fiscal '83 net of the extraordinary item, compared to $5,068,000 last year. Dividends received during the year were $995,000 compared to $1,070,000 in the previous year.

Shareholders. Common shareholders' equity increased to $29.50 per share at year end, an increase of 1.2% from $29.15 at the end of the previous year. As a result of the lower Fiscal '83 earnings, the return on common shareholders' equity declined to 3.7% from 16.4% in the previous year.

Despite lower earnings during the year, your Directors elected to maintain the quarterly dividend on common shares at the 20¢ rate which was established in January 1982. Dividends declared on common shares amounted to 80¢ per share in Fiscal '83 compared to 70¢ in the previous year.

Consolidated Statement of Earnings

Thousands of dollars	Year ended April 2, 1983	April 3, 1982
Net sales	**130,622**	177,364
Cost of sales, excluding the following items	**120,721**	154,296
Depreciation and amortization	**5,287**	4,739
Interest on long-term debt	**5,911**	6,873
Other interest	**822**	1,695
	132,741	167,603
	(2,119)	9,761
Income taxes	**(3,788)**	2,208
Earnings before equity in earnings of IPSCO	**1,669**	7,553
Equity in earnings of IPSCO (Note 4)	**2,054**	5,068
Earnings before extraordinary item	**3,723**	12,621
Extraordinary item — equity in the write-off of idle machinery and equipment of IPSCO	**(612)**	—
Net earnings for the year	**3,111**	12,621
Earnings per common share:		
Before extraordinary item	**$1.33**	$4.77
Net earnings	**$1.10**	$4.77

Consolidated Statement of Retained Earnings

Thousands of dollars	Year ended April 2, 1983	April 3, 1982
Balance — beginning of year	**62,849**	52,172
Net earnings for the year	**3,111**	12,621
Surplus realized on retirement of preference shares	**146**	161
	66,106	64,954
Dividends:		
Preference shares	**278**	298
Common shares	**2,066**	1,807
	2,344	2,105
Balance — end of year	**63,762**	62,849

Consolidated Balance Sheet

Thousands of dollars	As at **April 2, 1983**	April 3, 1982
Assets		
Current Assets:		
Accounts receivable	**16,156**	17,373
Inventories (Note 3)	**41,498**	42,796
Short-term investments	**910**	1,587
Income taxes recoverable	**2,888**	—
Other current assets	**637**	885
	62,089	62,641
Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) (Note 4)	**40,597**	40,150
Fixed assets (Note 5)	**52,546**	47,811
Proprietary rights and technical know-how	**3,950**	—
Other assets	**267**	147
	159,449	150,749
Liabilities		
Current Liabilities:		
Bank advances	**3,604**	2,554
Accounts payable and accrued charges	**20,787**	19,566
Income taxes payable	**—**	969
Dividends payable	**638**	590
Current portion of long-term debt	**471**	—
	25,500	23,679
Long-term debt (Note 6)	**45,152**	38,623
Deferred income taxes	**7,871**	8,105
Shareholders' Equity		
Preference shares (Note 7)	**4,736**	5,065
Common shares (Note 7)	**12,428**	12,428
Retained earnings	**63,762**	62,849
	80,926	80,342
	159,449	150,749

Signed on behalf of the Board

G. P. Osler, Director

B. M. Hamilton, Director

Consolidated Statement of Changes in Financial Position

Thousands of dollars	Year ended April 2, 1983	April 3, 1982
Source of Working Capital		
Operations:		
Earnings before equity in earnings of IPSCO and extraordinary item	**1,669**	7,553
Depreciation and amortization	**5,287**	4,739
Deferred income taxes	**(1,678)**	1,195
	5,278	13,487
Dividends received	**995**	1,070
Issue of long-term debt	**11,000**	—
(Increase) decrease in other assets	**(120)**	33
	17,153	14,590
Use of Working Capital		
Net additions to fixed assets	**5,019**	7,809
Acquisition of shares of Colt Canada Inc. (net of working capital of $19,581)	**3,509**	—
Purchase of proprietary rights and technical know-how	**4,000**	—
Reduction of long-term debt	**4,471**	1,500
Retirement of preference shares	**183**	201
Dividends	**2,344**	2,105
	19,526	11,615
Increase (decrease) in working capital	**(2,373)**	2,975
Working capital — beginning of year	**38,962**	35,987
Working capital — end of year	**36,589**	38,962

1. Summary of Accounting Policies

(a) Principles of Consolidation
The consolidated financial statements include the accounts of Slater Steel Industries Limited and its subsidiaries, all of which are wholly-owned. The investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO) is accounted for by the equity method and includes equity in undistributed earnings to February 28, 1983, based on the latest information available to shareholders.

(b) Translation of Foreign Currencies
Foreign currencies have been converted to Canadian dollars on the following basis:

(i) Current assets and current liabilities, at the rate of exchange in effect as at the balance sheet date.
(ii) Property, plant and equipment, at the rate of exchange in effect at the date on which the respective assets were acquired.
(iii) Long-term debt, at the rate of exchange in effect at the date on which the funds were borrowed.
(iv) Revenue and expenses (excluding depreciation and amortization which are translated at the same rate as the related assets), at the average rate of exchange for the year.
(v) Exchange gains and losses on translation of foreign currencies have been taken into income as realized. Unrealized exchange gains and losses have been deferred.

(c) Inventories
Inventories are valued at the lower of cost and net realizable value. Inventories of Colt Canada Inc. and the SLACAN Division are recorded at standard cost and inventories of the Burlington Steel Division are recorded at average cost, all systems based on current material, labour and overhead costs. Inventories of the Joslyn Stainless Steels Division are recorded at last-in, first-out (LIFO) cost.

(d) Income Taxes
Income taxes are provided on the tax allocation method. The resultant deferred income taxes have arisen primarily due to claiming capital cost allowance for income tax purposes in excess of depreciation and amortization provided in the accounting records. In Canada the statutory 3% inventory allowance is recognized as a reduction in the current income tax provision. Investment tax credits in both Canada and the United States are recognized in the year in which they are claimed for tax purposes by a reduction of income tax expense. At the year end the company had available unused investment tax credits of approximately $1,238,000 which if not utilized will expire over the period 1987 to 1998.

(e) Fixed Assets
Fixed assets including expenditures which significantly improve the usefulness or prolong the useful lives of assets, are recorded at cost. Fixed assets obtained through acquisitions are recorded at purchase cost or assigned value as of the date of acquisition.

In all divisions depreciation is charged into the accounting records at annual rates which are intended to write fixed assets off over their estimated useful lives. Depreciation on the acquired assets of Joslyn Stainless Steels and Colt Canada Inc. is being provided on a straight line basis at rates varying from 5% to 20%.

Depreciation rates for other fixed asset additions are:

Colt Canada Inc., Burlington Steel and Joslyn Stainless Steels Division:
Buildings — 5% to 6⅔% straight line
Machinery and equipment — 5% to 6⅔% straight line

SLACAN Division:
Buildings — 3¾% to 7½% declining balance
Machinery and equipment — 15% declining balance

Automotive and other mobile equipment is depreciated at 30% on a declining balance basis for all divisions.

In accordance with latest published information issued by IPSCO, fixed assets are stated at cost and depreciation is provided at the following rates:
Buildings — 2½% to 4% straight line
Machinery and equipment — 4% to 10% straight line

(f) Proprietary Rights and Technical Know-How
Proprietary rights and technical know-how, which include trade secrets, processes, patents and other technical know-how, were acquired on December 30, 1982, in conjunction with the acquisition of Colt Canada Inc., at a cost of $4,000,000. This amount is being amortized on a straight line basis over a period not to exceed twenty years.

2. Acquisition of Colt Canada Inc.

Effective November 1, 1982, the company acquired all of the outstanding shares of Colt Canada Inc., based in Sorel, Quebec, for a total cash consideration of $23,090,000 as follows:

Thousands of dollars	
Current assets	22,138
Fixed assets	4,953
	27,091
Less:	
Current liabilities	2,557
Deferred income taxes	1,444
Total cash consideration	23,090

The acquisition has been accounted for by the purchase method and the results of operations are included from the effective date of acquisition. Subsequent to the year end, Colt Canada Inc. was wound-up at book value and the business renamed the Crucan Division of Slater Steel Industries Limited.

3. Inventories

Thousands of dollars	1983	1982
Raw material and supplies	9,463	10,656
Work in progress	17,143	17,004
Finished goods	14,892	15,136
	41,498	42,796

4. Investment in Interprovincial Steel and Pipe Corporation Ltd. (IPSCO)

This investment in 1,080,992 common shares of IPSCO represents 20.2% of its issued and outstanding shares. The total excess cost of shares over the underlying net book value of the investment at the dates of acquisition was $8,559,000. The equity in earnings of IPSCO is being reduced by $214,000 per annum, an amount sufficient to amortize the total excess cost over a period not to exceed forty years. The investment is stated at cost as reduced for amortization of excess cost, plus equity in the undistributed earnings since dates of acquisition.

Certain claims have been asserted against IPSCO resulting from the supply of allegedly defective pipe. The uninsured portion of these claims is estimated by IPSCO not to exceed $10,100,000. IPSCO denies all liability and IPSCO Management is of the opinion that no loss will result from these claims.

5. Fixed Assets

Thousands of dollars	1983	1982
Land	2,926	2,628
Buildings, machinery and equipment	96,632	77,229
	99,558	79,857
Less: Accumulated depreciation	47,012	32,046
	52,546	47,811

In December 1982, a fire at Joslyn Stainless Steels resulted in the destruction of certain fixed assets which were fully insured. The gain after income taxes on the involuntary conversion of these assets amounting to $925,000 is included as a component of earnings before extraordinary item. The assets that were destroyed are all being replaced and will be recorded in the accounting records at their actual cost of replacement.

6. Long-Term Debt

Thousands of dollars	1983	1982
Secured term bank loans (U.S. $29,000)	34,623	34,623
Unsecured term bank loan	7,000	4,000
Unsecured note payable	4,000	—
	45,623	38,623
Less: Current portion	471	—
	45,152	38,623

The secured term bank loan bears interest at the London Interbank Offered Rate (LIBOR) plus ½% with rates fixed for the ensuing year in respect of U.S. $15.0 million varying between 11.1% and 16.8%. The remaining $14.0 million is at a floating rate which, at April 2, 1983 amounted to 10.8%. The loan is repayable from 1986 to 1996 in equal annual instalments.

The unsecured term bank loan bears interest at Canadian prime rate and is repayable in instalments of $1.0 million per annum commencing in 1986 with a final payment of $3.0 million in 1990.

The unsecured note payable bears interest at the lower of Citibank prime or 13½% and is payable in seventeen equal quarterly instalments beginning December 30, 1983 and ending December 30, 1987.

The amount of long-term debt required to be repaid in each of the next five years ending March 31 is:

Thousands of dollars	
1984	471
1985	942
1986	5,090
1987	5,090
1988	4,851

7. Capital Stock

Thousands of dollars	1983	1982
(a) Preference Shares		
Authorized and outstanding:		
$1.10 Series, 5½% cumulative redeemable, par value $20 43,555 shares (1982 — 45,573)	871	912
$1.10 Second series, 5½% cumulative redeemable, par value $20 95,302 shares (1982 — 101,112)	1,906	2,022
$1.20 Series, 6% cumulative redeemable, par value $20 97,952 shares (1982 — 106,570)	1,959	2,131
236,809 Shares (1982 — 253,255)	4,736	5,065

During the year the company purchased for $183,124 the following shares for cancellation:

$1.10 Series	2,018
$1.10 Second Series	5,810
$1.20 Series	8,618
	16,446

The company has met its obligations with respect to preference share purchase fund requirements.

(b) Common Shares

Authorized — 4,000,000 shares without par value

Issued — 2,582,332 shares

8. Segmented Financial Information

Thousands of dollars	Steel Production 1983 Canada	Steel Production 1983 U.S.	Steel Production 1982 Canada	Steel Production 1982 U.S.	Other Manufacturing Canada 1983	Other Manufacturing Canada 1982	Consolidated 1983	Consolidated 1982
Total sales	68,729	45,664	94,523	66,106	16,816	17,539	131,209	178,168
Inter-segment sales	580	—	796	—	7	8	587	804
Net sales to customers	68,149	45,664	93,727	66,106	16,809	17,531	130,622	177,364
Operating profit	2,650	2,183	9,012	9,472	414	307	5,247	18,791
General corporate expense							(633)	(462)
Interest expense							(6,733)	(8,568)
Equity in earnings of IPSCO							1,442	5,068
Income taxes							3,788	(2,208)
Net earnings	—	—	—	—	—	—	3,111	12,621
Identifiable assets	56,974	44,199	47,057	50,048	9,493	11,642	110,666	108,747
Corporate assets	—	—	—	—	—	—	48,783	42,002
Total assets	56,974	44,199	47,057	50,048	9,493	11,642	159,449	150,749
Capital expenditures	3,217	1,576	4,858	2,599	226	352	5,019	7,809
Depreciation and amortization	2,867	2,127	2,434	1,970	293	335	5,287	4,739
Export sales	18,711	—	24,429	—	1,747	1,624	20,458	26,053

The "steel" segment consists of the manufacture and sale of stainless, carbon and low alloy steels, special bar quality steel shapes, tool and die steels and custom steel forgings.

The "other manufacturing" segment consists of the manufacture and sale of standard pole line and communications hardware and extra high voltage electrical transmission hardware.

Operating results of Colt Canada Inc. have been included from the date of acquisition (November 1, 1982) and are reflected under the heading "Steel Production — Canada" in the above analysis.

9. Pension Plan Liability

The liability for unfunded past service pension costs at April 2, 1983, which is not reflected in the financial statements, amounted to $13,683,000 (1982 — $15,466,000). This liability is being funded by special monthly payments to trustees of the plans, and is being charged to operations over periods of fifteen to twenty years on the basis of reports of independent actuaries.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Slater Steel Industries Limited as at April 2, 1983 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of accounting records and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at April 2, 1983 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.

Coopers & Lybrand, Chartered Accountants
April 26, 1983, Hamilton, Ontario

Five Year Review

	1983	1982	1981	1980	1979
Sales and Earnings ($000s)					
Net sales	**$130,622**	$177,364	$113,728	$105,320	$ 95,924
Income taxes	**(3,788)**	2,208	2,924	3,620	5,849
Earnings before equity in earnings of associated company	**1,669**	7,553	3,586	5,987	8,128
Equity in earnings of IPSCO (Note A)	**2,054**	5,068	3,435	3,646	2,957
Net earnings (Note A)	**3,723**	12,621	7,021	9,633	11,085
Other Financial Data ($000s)					
Capital expenditures	**5,019**	7,809	4,252	3,440	1,624
Depreciation	**5,287**	4,739	2,981	2,466	2,328
Cash generated from operations (Note B)	**6,273**	14,557	7,650	9,038	10,585
Year End Position ($000s)					
Working capital	**36,589**	38,962	35,987	20,224	17,165
Fixed assets — net	**52,546**	47,811	44,741	23,139	23,201
Total assets	**159,449**	150,749	145,861	97,899	85,897
Long-term debt	**45,152**	38,623	40,123	5,407	5,407
Common shareholders' equity	**76,190**	75,277	64,600	59,859	52,947
Per Common Share Data					
Earnings (Note A)	**$ 1.33**	$ 4.77	$ 2.60	$ 3.60	$ 4.16
Dividends declared	**.80**	.70	.80	.95	.70
Shareholders' equity	**29.50**	29.15	25.02	23.18	20.50
Other Statistics					
Number of employees	**1,350**	1,484	1,527	1,121	1,126
Number of shareholders	**3,193**	3,387	3,778	4,237	4,850

Note A. Equity in the earnings of IPSCO and net earnings shown above are before an extraordinary loss of $612,000, or 23¢ per common share, recorded in 1983 related to the write-off of idle machinery and equipment at IPSCO.

Note B. Cash generated from operations consists of earnings before equity in earnings of IPSCO and extraordinary gains or losses, including dividends received, plus depreciation and deferred income taxes.

Slater Steel Industries Limited

Directors

Michael D. Bayne
Manager
Overseas Investments
British Steel Corporation

E. Peter Gush
Executive Director
Anglo American
Corporation of South Africa,
Chairman, Gold and
Uranium Division

Bruce M. Hamilton*
President
Slater Steel Industries
Limited

Douglas C. Marrs*†
Chairman
Westinghouse Canada Inc.

Richard C. Meech, Q.C.*†
Partner
Borden & Elliot

Gordon P. Osler*
Chairman
Stanton Pipes Limited;
Chairman
Slater Steel Industries
Limited

W. Cedric R. Penry
Executive Director
British Steel Corporation
(Overseas Services) Limited

Norman B. Preece*†
President
Stanton Pipes Limited

**Member of Executive Committee of the Corporation*
†Member of Audit Committee of the Corporation

Officers

Gordon P. Osler
Chairman of the Board

Bruce M. Hamilton
President

Wallace H. Rayner
Vice President — Finance and Secretary

James R. Powers
Vice President — Operations and Marketing

Wayne D. McCraney
Vice President — Personnel, Industrial and Public Relations

Graham L. Desson
Treasurer

Darrold A. Toner
Comptroller

Garry J. Condon
Assistant-Comptroller

Burlington Steel Division

James R. Powers
President

John F. Miles
Vice President — Manufacturing

David W. Albright
Comptroller-Treasurer

Joslyn Stainless Steels Division

Edwin E. Hodgess, Jr.
President

George J. Coupe
Director of Finance

James A. Fuhrman
Controller

Crucan Division

N. F. Carpentier
President

J. L. Gendron
Vice President — Sales

N. R. Plante
Vice President — Finance

SLACAN Division

Gordon W. Meldrum
President

George E. Thompson
Comptroller-Treasurer

Corporate Information

Corporate offices
Slater Steel Industries Limited
681 King Street West, P.O. Box 271
Hamilton, Ontario L8N 3E7

Divisional Offices

Burlington Steel
319 Sherman Avenue North, P.O. Box 943
Hamilton, Ontario L8N 3P9

Joslyn Stainless Steels
2400 Taylor Street West, P.O. Box 630
Fort Wayne, Indiana 46801

Crucan
Case Postal 520, Sorel, Quebec J3P 5P2

SLACAN
681 King Street West, P.O. Box 271
Hamilton, Ontario L8N 3E7

Associate Company
Interprovincial Steel and Pipe Corporation Ltd.
P.O. Box 1670, Regina, Saskatchewan S4P 3C7

Registrar & Transfer Agents
Montreal Trust Company
Toronto, Montreal, Vancouver, Winnipeg

Listed
Toronto Stock Exchange

Auditors
Coopers & Lybrand, Chartered Accountants

Annual Meeting

The Annual Meeting of Shareholders will be held at 11:00 a.m. on Friday, July 29, 1983 in Meeting Room #1, Hamilton Place (McNab Street Entrance), Hamilton, Ontario.

Slater Steel Industries Limited
681 King Street West, P.O. Box 271, Hamilton, Ontario L8N 3E7

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