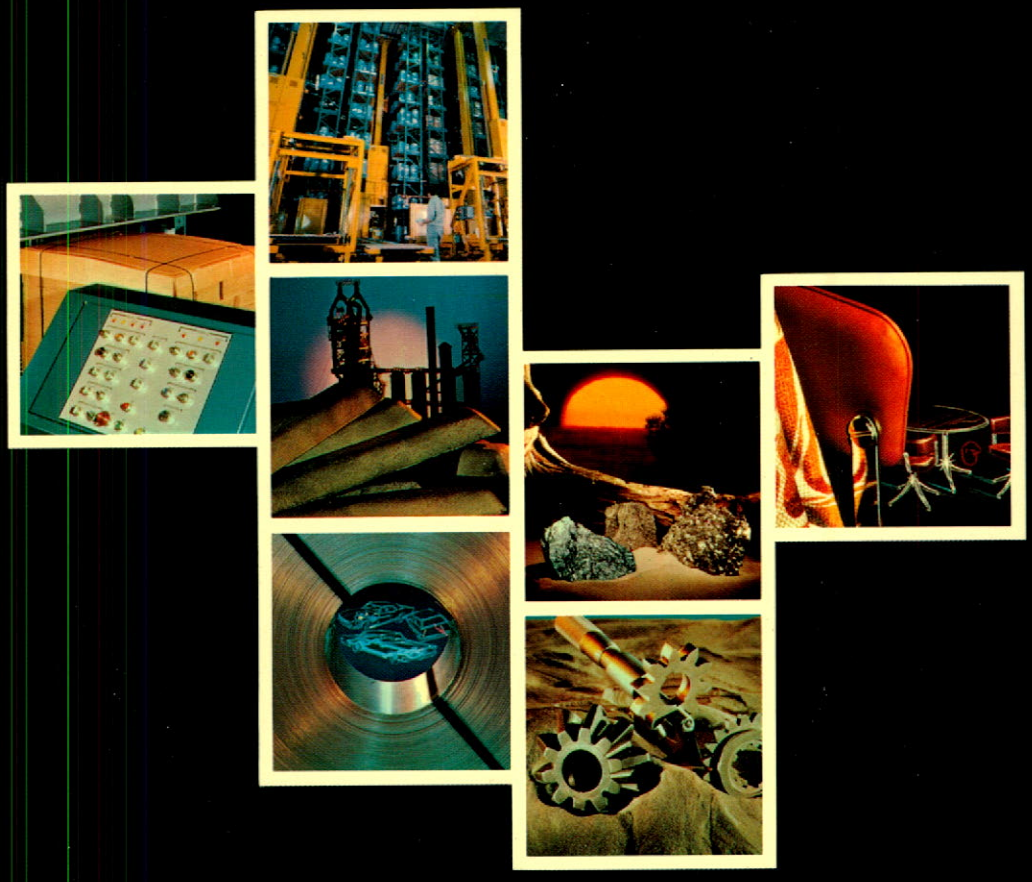


ANNUAL REPORT 1971 interlake, inc.

interlake, inc.

HIGHLIGHTS OF 1971

- Sales reach $352,085,000—a new record for the fourth consecutive year
- Net income rose to $12,524,000, or $3.03 per common share
- 33% of capital expenditures directed to environmental control
- $50,000,000 in sinking fund debentures issued and used to repay bank borrowings
- Acquired 402,877 shares of Interlake common stock from Diamond Shamrock Corporation, which improved our per share earnings $.13

CONTENTS

FOR THE YEAR (In thousands)

	1971	1970	% Change
Net sales	**$352,085**	$329,954	6.7
Net income	**12,524**	10,666	17.4
Cash flow	**25,024**	23,374	7.1
Capital expenditures	**12,146**	15,187	(20.0)
Common stock dividends	**7,400**	7,941	(6.8)

AT YEAR END (In thousands)

Working capital	**$ 83,387**	$ 74,776	11.5
Current ratio	**2.5 to 1**	2.2 to 1	13.6
Property, plant and equipment—net	**$159,304**	$161,305	(1.2)
Long-term debt, less current maturities	**68,115**	49,071	38.8
Shareholders' equity	**206,171**	209,299	(1.5)
Shares outstanding	**4,011**	4,412	(9.1)

PER SHARE STATISTICS

Net income	**$ 3.03**	$ 2.42	25.2
Cash dividends paid	**1.80**	1.80	—
Shareholders' equity at year-end	**51.40**	47.44	8.3

QUARTERLY RESULTS—1971 and 1970 (In millions—except per share statistics)

	SALES		INCOME			
			1971		1970	
	1971	1970	Amount	Per Share	Amount	Per Share
1st Quarter	**$ 93.7**	$ 78.7	**$ 3.8**	**$ .86**	$ 2.6	$ .60
2nd Quarter	**99.2**	83.0	**4.8**	**1.16**	3.3	.75
3rd Quarter	**80.0**	87.0	**1.7**	**.44**	3.0	.67
4th Quarter	**79.2**	81.3	**2.2**	**.57**	1.8	.40
	$352.1	**$330.0**	**$12.5**	**$3.03**	**$10.7**	**$2.42**

SALES AND EARNINGS* IN 1971

	SALES		EARNINGS*	
PACKAGING/ SHIPPING	$ 75,057,000	21%	$ 6,653,000	26%
STORAGE/ HANDLING	36,297,000	10%		
IRON	57,945,000	17%	12,956,000	51%
STEEL	112,536,000	32%		
FERROALLOYS SILICON METAL	24,273,000	7%	4,488,000	18%
METAL POWDERS	13,813,000	4%	1,351,000	5%
FURNISHINGS	32,164,000	9%		

*Before unallocated corporate items and income taxes

TO OUR SHAREHOLDERS:

Reynold C. MacDonald

We're pleased to report that:

. . . Interlake's '71 earnings per common share rose to $3.03—up 25% from 1970.

. . . Sales were up about 7% to $352 million—a new high for the fourth year in a row.

Actually, at mid-year we didn't expect to do this well. Although results through June 30 were good ($2.02 a share), they also were inflated by strike-hedge buying. For this and other reasons we were prepared for a slow second half.

By August, when our steel labor contracts were signed, several indicators gave us little cause for optimism. We faced:

. . . *An erratic economy,* with cautious customers and buying patterns.

. . . *A severe dip in sales* of iron and steel-related products while customers used up inventories.

. . . *The wage/price freeze* which posed many uncertainties and, of course, canceled plans for needed price adjustments.

. . . *Unknown Phase II policies,* which made meaningful forecasting difficult.

. . . *An immediate 15% boost in certain employment* costs . . . tied to several key new labor contracts.

. . . *Potential labor problems in the coal* and other industries having a direct impact on our businesses.

WE HAD TO CONTINUE TO BEAR DOWN

So, we:

. . . Launched several new (and now successful) marketing activities.

. . . Tightened up even more on our spending controls.

. . . Trimmed our own inventories further.

. . . Re-evaluated our salaried and hourly work force and made appropriate reductions.

. . . Extended to many plants a new computer-based cost information and control system developed in 1970 that enables managers, including foremen, to monitor costs and profit performance.

These and other factors—including increased business activity and a higher investment credit—helped boost fourth quarter results to $.57 a share, and second half earnings to $1.01 a share.

EMPLOYEE PERFORMANCE GRATIFYING

Considering the adversities, the final 1971 outcome is gratifying. Our performance is certainly a tribute to Interlake employees. They got the job done when the chips were down and the crunch was on. My thanks to them.

SALES UP 7% TO RECORD HIGH

Sales in 1971 rose to a new record high for the fourth year in a row—up 7% to $352,085,000, from $329,954,000 in 1970. Revenues were helped by several price increases.

DIVERSIFICATION IS HELPING

Our results continue to be helped by prior acquisition and diversification activities. Our broadening product

base is a key reason for our improved outlook. This is an important point to remember about Interlake, which all too often is regarded as a one-industry company.

PROFITS RISE 25% TO $3.03 A SHARE

1971 earnings per share climbed to $3.03, up 25% from the $2.42 a share earned in 1970. Net income rose 17% to $12,524,000 from $10,666,000 in 1970.

CAPITAL EXPENDITURES $12.1 MILLION

Capital expenditures during 1971 were $12.1 million, compared with $15.2 million in 1970. Spending included: $5.9 million for repair/replacement (49%); $4.0 million for environmental control projects (33%) (see p. 32); and $2.2 million for expansion (18%).

CAPITAL STRUCTURE STRENGTHENED IN '71

Interlake's capital structure and long-term financing were strengthened in 1971 when we issued $50 million of 8.80% sinking fund debentures due in 1996. Proceeds were used to repay bank loans outstanding.

We also bought $10.5 million, or about 9%, of outstanding Interlake stock in April, which improved earnings $.13 a share. We retired the 402,877 shares.

$1.80 DIVIDEND MAINTAINED

The $1.80 per share dividend payment, established in 1966, continued when a fourth quarter cash dividend of $.45 a common share was declared by the Board, payable December 15, 1971, to shareholders of record December 1, 1971. Dividends paid in 1971 were $7,400,000, or 59% of net profits.

ACTIVE YEAR FOR EMPLOYEE RELATIONS

We completed a heavy schedule of labor negotiations in 1971. Sixteen labor agreements covering most hourly employees were renegotiated. No strikes or lost time occurred due to labor-related problems. In 1972, no negotiations are scheduled on major contracts.

On-the-job safety improved again, as it has for six years in a row. Frequency of disabling injuries dropped 9%, compared with 1970.

We're devoting continued attention to plant and corporate programs which further minority group employment, particularly in white collar job categories. In 1971, minority group members made up almost 25% of Interlake's total domestic work force.

PUBLIC AFFAIRS FUNCTION ORGANIZED

Every American corporation today faces new and persistent pressures to become involved in social change. These challenges come from government, communities, civic and educational institutions, students, the press and citizens groups—to mention a few. A formal public affairs function was organized early in 1971 to guide company activities in this area, and was combined with our existing public relations function. It's now headed by a corporate vice president.

KEY GOAL: MARKETING EMPHASIS

For more than two years now, we have been placing renewed emphasis on the changing needs of customers by systematically carrying out a deliberate, well-planned program with an uncomplicated strategy.

WITHOUT SATISFIED CUSTOMERS . . . NOTHING!

Our accelerated customer oriented activities showed good results in 1971, and we plan to maintain this fundamental approach. After all, satisfied customers are a company's most important asset, for without sales there could be no jobs, no earnings . . . nothing.

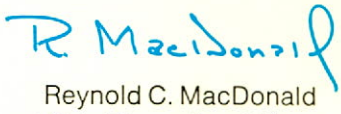
We'd be very pleased, of course, to discuss with any shareholder how our particular talents and products might serve shareholders' needs.

OUTLOOK FOR '72: BETTER TIMES

Times are better now, compared to six months ago. People don't seem as uncertain. But there are still enough problems and worries to keep everyone alert and stretching.

As of this writing, we're receiving more orders from customers than we were in latter '71. January was a good month with orders holding at more normal levels. February so far is keeping pace. The Price Commission has granted us needed price increase approvals for most of our major product lines, and this support should help offset some increased employment and other costs.

All in all, your management is ready for 1972.



Reynold C. MacDonald
President and Chief Executive Officer

February 9, 1972

PACKAGING/SHIPPING

Interlake's packaging and shipping businesses did better in 1971 than in 1970. Both sales and earnings improved . . . helped by continued strength from price increases, work force adjustments and aggressive marketing activities. Cost control programs also had an important impact on stabilizing operations and results, as did international operations.

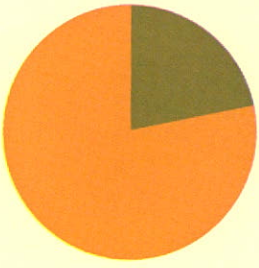
Interlake is the world's second largest producer of packaging/shipping products. Our individual items and systems provide time, labor and material savings to customers around the world. (Please take special note of the map on the back of this year's report.)

Interlake strapping, shrink-film, stitching and stapling machines, dunnage bags and other products and services help companies in nearly every industry move goods more easily at less cost with minimum damage.

Our customers are as widely varied as American

PROFILE '71

PACKAGING/SHIPPING SALES



21% IN 1971
$75,100,000

MARKETING HIGHLIGHTS

- Systems keyed to labor, time, cost savings.
- Broad customer base across commerce and industry. Major markets include primary metals, paper, lumber, textiles, fabricated metals, brick, transportation equipment, food, wholesale trade and transportation industries.
- Dual distribution in U.S. Distributors added in 1970-71 to supplement nationwide company sales force have significantly increased market penetration and coverage and have exceeded expectations.
- Complete range of products/systems for all user needs. We specialize in developing custom-engineered systems to meet new or unique needs for an industry or individual customer.
- International markets served by company sales forces and licensee/distributors.
- Established storage warehouse in Colon Free Zone for customers in Central America, South America and the Caribbean.
- Acme Overseas Engineering, headquartered in Brussels, Belgium, successfully completed its first full year of operation. This company was formed in 1970 to provide technical service in Europe, the Middle East and Africa.

CAPITAL SPENDING

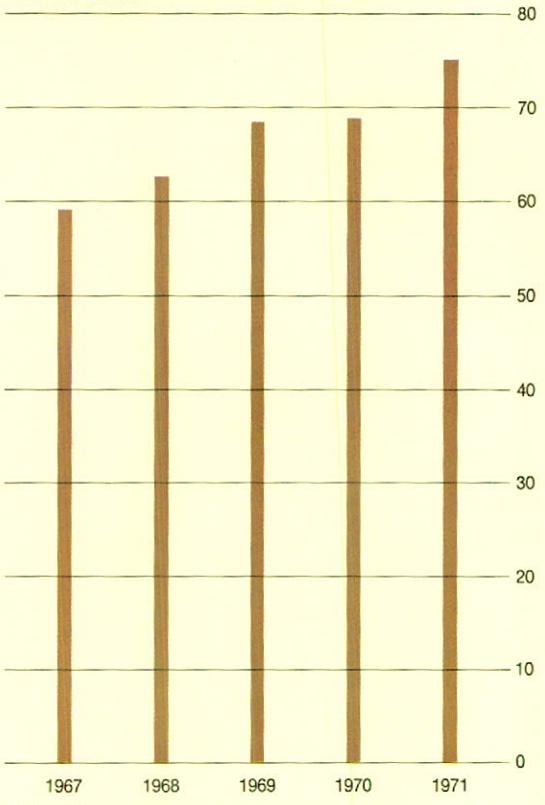
- Total packaging and storage, including international—$1.2 million
- Continued to update strapping production facilities and tool and machine operations
- Expanded office in Brussels for Acme Overseas Engineering
- Began capital project to reduce strapping production costs at Gerrard Industries, Ltd., England
- Facilities at P. W. Lenzen, Letmathe, West Germany, for strapping manufacture began production in 1971

PRODUCTS

- Steel, nylon and polypropylene strapping
- Tools, machines and systems for strapping application
- Stitching wire, staples and machines
- Inflatable dunnage
- Shrink-film packaging systems

Interlake's console programmer automatically controls this Versitizer Strapping System for compression packaging of corrugated boxes.

PACKAGING/SHIPPING
FIVE YEAR SALES SUMMARY



PLANTS

- Riverdale, Illinois
- Pittsburg, California
- Racine, Wisconsin
- Ottawa, Illinois
- Scarborough, Ontario, Canada
- Welwyn and Kilnhurst, England (50% owned)
- Mexico City, Mexico
- Letmathe, West Germany (P. W. Lenzen)

NEW PRODUCTS/INNOVATIONS

- Developed a new Silverstitcher which incorporates a frame fabricated by Interlake. Result: lower cost to customers.
- Introduced a joint stitcher for the automatic stitching of side seams simultaneously on large two piece boxes.
- Produced a new Tire Bead stitcher that lowers the cost of tire manufacturing.
- Developed a narrow stitcher head that will permit high speed automatic stitching.
- Developed a new heat sealing tool and automatic strapping head for applying polypropylene strapping.
- Improved the design of strapping equipment to service specific industry requirements.
- Continued to explore new and improved strength and finishes for steel strapping.
- Produced a super-size dunnage bag which, with proper application, allows substantial savings for customers.
- Introduced the Interlake Varaframe, a low-cost machine that utilizes a shrink-ring instead of a tunnel to shrink package products.
- Completed an economy Closet Model shrink-film tunnel with a door at one end. This fills out the corporation's high quality shrink-wrap product line.

and world industry. Such industries as the automotive, textile, metallic container, glass bottle, graphic arts, paper, construction materials and rail, truck and sea-going shippers—to name a few—are major markets.

We intensified our successful program of pulp unitizing systems to take advantage of the market potential. This was particularly successful in Canada where our total sales and tons shipped reached record highs.

Our growth will come primarily in three major areas:

First, our future lies in our ability to maintain high standards of product innovation and customer service. Take our newly implemented distributor program for strapping sales as an example. Our activities in this area demonstrate our aggressive approach to the marketplace. Our new distributors now provide us with a much broader geographical supply network, and their increased manpower enables us to cover more bases and keep much more closely attuned to changes in the marketplace.

The program also enables us to make our product readily available to thousands and thousands of smaller customers without the relatively larger costs that would be necessary if we had to expand our internal sales force to produce the same result.

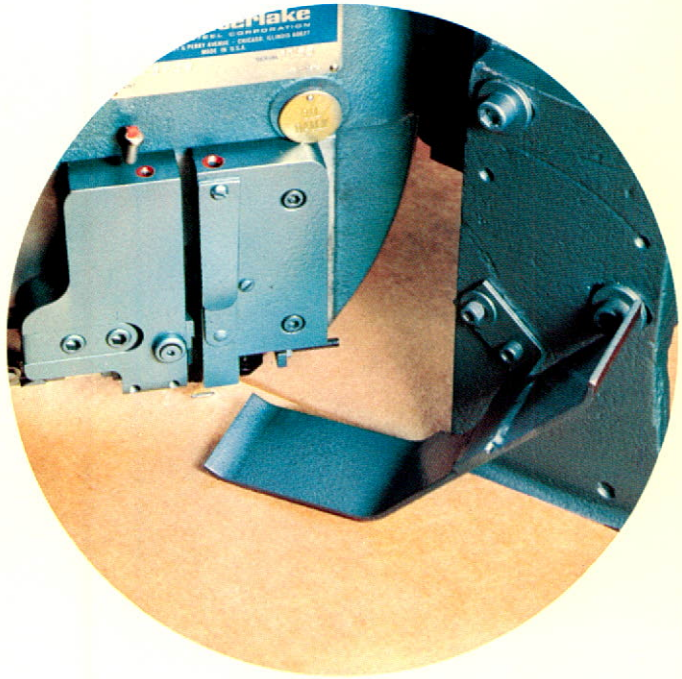
Second, our success depends in part on participating in the growth generated by those industries we serve. Thus, as we maintain and increase our market share in an industry—graphic arts for example—our own businesses will expand as that industry grows. This factor is particularly important in relation to those industries with Interlake's key customers.

Third, we'll continue to grow because of our ability to relate to total materials management service. This concept of business operation looks at the total material flow of a company from the time material is received in the plant until it winds up safely as a good, acceptable product in the customer's hands. Perhaps the most vital marathon in companies these days is the search for excess costs. They must be found, and minimized . . . but not at the expense of customer service. Interlake people now urge customers to consider the whole system of materials management rather than just isolated products and how they are used. To say this another way, any assignment to provide a packaging system for a customer must be made in concert with all the activities in the plant, including how materials are: bought, received, packaged, handled, produced, controlled in inventory, warehoused, processed as orders, shipped and transported.

By providing products and know-how to these operating areas in many industries, Interlake buffers itself against economic variations in any one industry.

Our stability also is strengthened by internal raw material supply. Steel strapping products utilize tremendous tonnages of steel—Interlake's steel. As an integrated producer we monitor our steel products from the mine to the customer. Thus the strapping operations become a consistent market for our own steel and our steel operations can become a most reliable supplier—a healthy situation for our corporation.

As always, new products play an important role in the Company's success. In 1971, new and improved strapping equipment, for both steel and non-metallic strapping, received strong market acceptance. Several new stitching machines have produced highly favorable reactions from customers in test markets. Beyond this, expansion of the shrink-film packaging product line places Interlake in the stronger competitive position. We now have the ability to serve a broader range of customer requirements.



This new side seam automatic stitcher binds large, two-piece boxes simultaneously.

. . . The most vital marathon in companies these days is the search for excess costs . . .

We urge customers to consider the whole system of materials management.

STORAGE/HANDLING

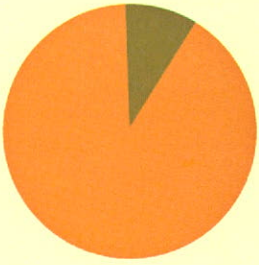
The storage, handling and distribution of materials is regarded as one of the last broad frontiers for improved cost control by industry. If a company can modernize its storage and handling operations, it can reduce costs for buildings, inventories, overhead, labor and time. And it is in these problem areas that Interlake storage/handling specialists work.

During 1971, Interlake's storage business achieved many of its objectives. Now, with long-planned activities successfully implemented, Interlake offers one of the most complete, versatile systems approaches to storage and materials handling anywhere in the world.

Particularly important, too, is that our storage racks provide an important market for our steel business. As sales of storage products improve, the demand for more Interlake steel grows, and this, of course, provides a multiple benefit for the company.

PROFILE '71

STORAGE/HANDLING SALES



10% IN 1971
$36,300,000

MARKETING HIGHLIGHTS

- Broad user base across commerce and industry. Major markets include lumber, furniture, textiles, automotive parts and food industries.
- Storage industry leader with broadest product line.
- Improved service to rack customers. California and Illinois plants have been tooled to make complete product line at each location.
- Continued to strengthen position in markets for storage and retrieval systems.
- Continued strong growth trend in European market served by S. A. Redirack, headquartered in Belgium.
- Investigating potential for manufacturing operations in other markets.
- Developed agreement with licensee/manufacturer in Columbia for storage rack.

CAPITAL SPENDING AND MAJOR VENTURES

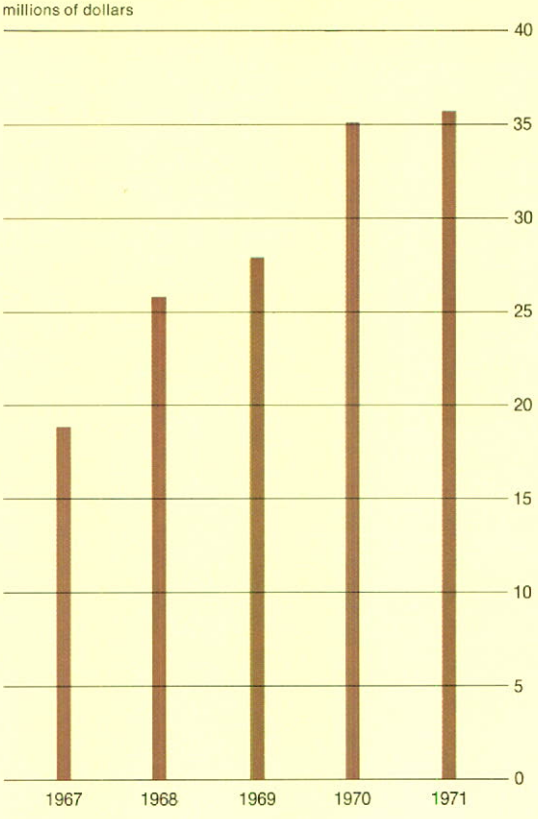
- Completed installation of Courier and Lodi Cantilever Storage Rack system at Pontiac, Ill. plant and revised conventional pallet rack production line to finalize second plant expansion program.
- Enclosed shipping dock and purchased new machinery for Redirack Industries, Ltd., Canada.

PRODUCTS

- Steel storage rack and systems
- Gravity flow rack
- Slotted angle
- Automated and manual storage and retrieval systems
- Shelving, hoppers, safety decking
- Flexible conduit, rims, ties, other specialties
- New in '71 . . . low cost Distributor Courier

This new automated Courier storage system is being used as a low-cost, high-rise order picking system.

STORAGE/HANDLING
FIVE YEAR SALES SUMMARY



PLANTS

- Pontiac, Illinois
- Los Angeles, California
- Lodi, California
- Ottawa, Illinois
- Riverdale, Illinois
- Weston, Ontario, Canada
- Brussels, Belgium

NEW PRODUCTS/INNOVATIONS

- Introduced the low-cost Distributor Courier which saves up to 60% floor space and speeds order picking by 70%.
- Perfected a new cantilever storage rack, now manufactured at both Pontiac, Ill. and Lodi, Calif., for better customer service.
- Developed a drive-in rack with improved pallet guidance.
- Redesigned the basic pallet rack so components are interchangeable.
- Improved the gravity conveyor rack, and added a new type of pallet braking device.
- Standardized our stacker rack for use with the Distributor Courier.

In 1971, one significant, although seemingly minor, development was the redesign in the assembly and connecting method for storage rack. (See photo.) Called Load-Lock, the new device makes each of our major rack types—conventional pallet rack, cantilever rack and gravity flow rack—compatible in assembly.

The new locking device, relocated to the front or facing surface of the column and beam, provides a safer, tighter finished structure. In addition, when combined with the new square holes in column segments, the new design makes each structure more compatible because specially-designed partitioning and accessories can be added for individual customer needs.

An important benefit for our marketing and distribution activities was completion of new production tooling that now permits each rack component to be manufactured at either our Pontiac, Ill. or Lodi, California plants. This flexibility provides much improved service to our East and West coast customers, and it also makes Interlake more highly competitive nationwide.

Having production and warehousing facilities in the Midwest and Far West minimizes problems and reduces shipping costs. Our customers can now also expect faster service and delivery.

World markets also received major attention. The establishment of a sales subsidiary in Germany and the introduction of high rack storage units at important installations in Belgium will enable us to maintain our leadership abroad.

On the automated front, sales and installation activity increased for Courier systems. The Courier, Interlake's automatic storage/retrieval system, is no longer a novelty in the market place. Rather it's a system proven by time and operation in several different industries for many different products. Successful installations now serve customers in parts storage, pharmaceuticals, clothing and general warehousing for both private business and the government.

The latest addition to the Courier family is the new Distributor Courier. Introduced at mid-year, this manually controlled system serves a purpose similar to the conventional lift truck. Operating freely, without tracks or rails, the new Courier provides access to stock while requiring a much narrower aisle between racks than is necessary for conventional vehicles. This permits storage of more materials, saves up to 60% floor space for improved utilization of the available cubic area and speeds order picking by 70%. All this is at a cost far below more sophisticated automated systems. Thus, another Interlake product becomes suited to the materials handling needs and budget limitations of the smaller but vitally important customer.

Interlake offers customers "one-stop shopping" in storage/materials handling racks and equipment plus problem solving . . . certainly a good combination for long-term growth.

Interlake's exclusive safety Load-Lock was developed in 1971.

. . . We offer "one-stop shopping" for storage/materials handling racks and equipment plus problem solving . . . certainly a good combination.

IRON

Interlake's iron business maintained steady production and sales last year, which enabled us to continue as the nation's largest merchant iron producer.

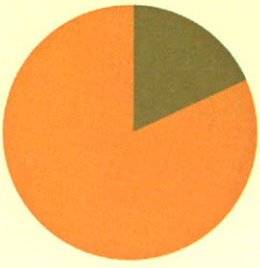
Iron production reached 1.3 million tons, about 52% of this was translated into sales of $46 million to outside customers—5% higher than a year ago.

The other 48% of output was used by our steel operations at Riverdale which last year reported record high volume.

We offer many grades of pig iron, which are marketed primarily to foundries and steel companies. Coke, coke oven gas and other by-products are also sold. Our iron is used for a vast range of castings, including engine blocks, automotive and locomotive parts plus light and heavy machinery components. Our coal chemicals are sold to processors who convert these by-products into road tar, paint, solvents and thinners, plastics, chemicals, aviation gas, artificial leather and many other materials.

PROFILE '71

IRON SALES



17% IN 1971
$57,900,000

MARKETING HIGHLIGHTS

- Maintained position in 1971 as largest domestic merchant iron producer.
- Major market: foundry industry.
- Almost 50% of iron production is used internally.
- Erie, Pa. coke ovens reactivated and foundry coke now being delivered on schedule to customer.
- Sold through sales agent.

CAPITAL SPENDING AND MAJOR VENTURES

- Relined "A" blast furnace at Chicago.
- Expanded production and service facilities for major molten iron customer in Chicago.
- Improved safety operations of hot metal crane at Chicago.

ENVIRONMENTAL CONTROL

- Closed water recirculating system completed on blast furnace and sinter plant in Chicago.
- Plans underway for major revisions to the dedusting system at Chicago's sinter plant.
- Construction begun on spare clarifier at Chicago.
- Additional improvements underway at the Chicago plant's sanitary sewer treatment system.
- Installed new oil skimmers.
- Construction started on Toledo's pig casting dust collection system.

PRODUCTS

- Pig iron
- Molten Iron
- Coke
- Coal Chemicals

PLANTS

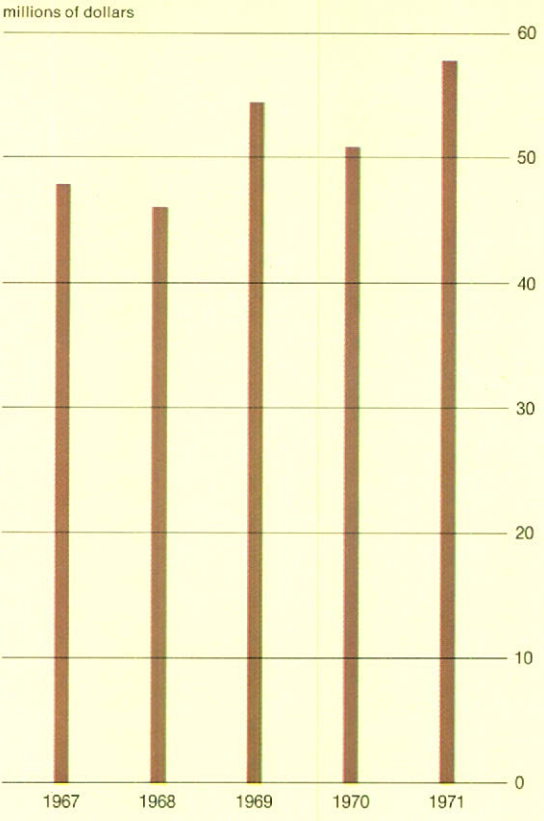
- Chicago, Illinois
- Toledo, Ohio
- Erie, Pennsylvania

NEW PRODUCTS/INNOVATIONS

- Produced a high basicity sinter with a ratio of 2.5 which diversifies Interlake's basic markets.

Merchant pig iron continues to be an important product throughout the United States.

IRON
FIVE YEAR SALES SUMMARY



RECYCLING OUR SOLID WASTES

One of man's key hopes for extending his limited natural resources is to find ways of recovering, reclaiming, recycling and reusing wastes which still have value. Interlake has made important progress in this area, particularly with by-products created in the process of making iron and steel.

We've had a program under way for some time now to recover pellet fines, mill scale, flue dust and iron oxide filter cakes. These materials are being sintered first and then they are recycled as raw materials back into our blast furnaces . . . without ill-effects to the quality of our products . . . or the environment around our plants.

Last year, over 410,000 tons of waste metallics were recycled. The reason for our success: the practical application of the principles of recycling. For years now we have been installing closed systems for the cleaning of air and water. We are thereby able to trap and collect these wastes or what now could be called "converted raw materials," sinter them, and feed them into the blast furnace. We reduced substantially the amount of waste materials gathering at our plants and consequently eliminated several sources of pollution.

This is another example of our Company's ability to adapt to needed changes, and another concrete example of our desire to hold costs down on the one hand, while improving the environment on the other.

Several important capital expenditure projects completed recently will provide significant advantages in the years ahead. At Toledo, the "A" furnace was "blown-in" replacing "B" furnace, which completed its campaign. The Chicago "A" blast furnace was relined and upgraded in 1971. And an important segment of our materials handling system, the #4 ore bridge trolley, was completely replaced. These projects cost $3 million.

Of particular note is Interlake's participation with one of our major customers in Chicago, the Valley Mould and Iron Company, a Microdot Company, in a project which should ultimately increase our shipment of hot metal to them by 100%. The project includes new buildings and facilities which will expand Valley Mould's total capacity to produce giant-size ingot molds. The project is on schedule and will be completed by mid-1972.

Our Erie coke plant (two batteries of 58 ovens) is now being operated at full capacity to produce foundry coke for a customer. The unique and excellent start-up of these ovens, which were dormant for three years, is a significant achievement because no one has ever cooled down and then started up a battery of ovens this way before.

Over $100,000 was spent for additional air and water pollution control at the Chicago and Toledo plants, which are essentially well controlled except for coke ovens. (See page 32 for a special report on environmental control.) The new $1 million closed recirculating water system installed on the Chicago blast furnaces late in 1970 is operating quite successfully. This, as you may remember, is an industry first.

Strikes by workers in two other industries created a problem for us during the year. A 45-day coal strike together with an 11-day railroad walkout created an upsetting situation by curtailing some coke production at Chicago, Toledo and Erie. But our operations returned to normal without serious effect.

Interlake places a high priority on the availability of raw materials and has, over the years, built an outstanding base. We participate as co-owner of two important iron ore mining and pelletizing facilities: one in Minnesota and another in Labrador, which produce iron-rich pellets for our blast furnaces. In addition, Interlake has holdings in coal mining operations in West Virginia.

On another front, in the past several years we have reported on our exploration activities as a partner in a joint venture exploring for a variety of minerals in Western Australia. In 1971, a discovery of nickel sulphides was reported near Ravensthorpe. The discovery was promising enough to warrant further investigation, which is now continuing in various locations over a 40-mile area.

Interlake's iron business plans to capture a greater portion of the 1972 market by maintaining a hard-hitting marketing program. We're expanding our competitive efforts to newly-developed markets and techniques through joint efforts of our sales agents and our Research Department.

On the research front, we expect the use of ductile iron to increase substantially in 1972. We also plan to concentrate on marketing our special low phosphorus pig iron with its high carbon and low level of residual elements.

All in all, 1972 portends to be a good year for steel, and, therefore, our iron business should have a good year, too.

Interlake sells and uses its own molten iron.

. . . Interlake's iron business continues as the nation's largest merchant iron producer.

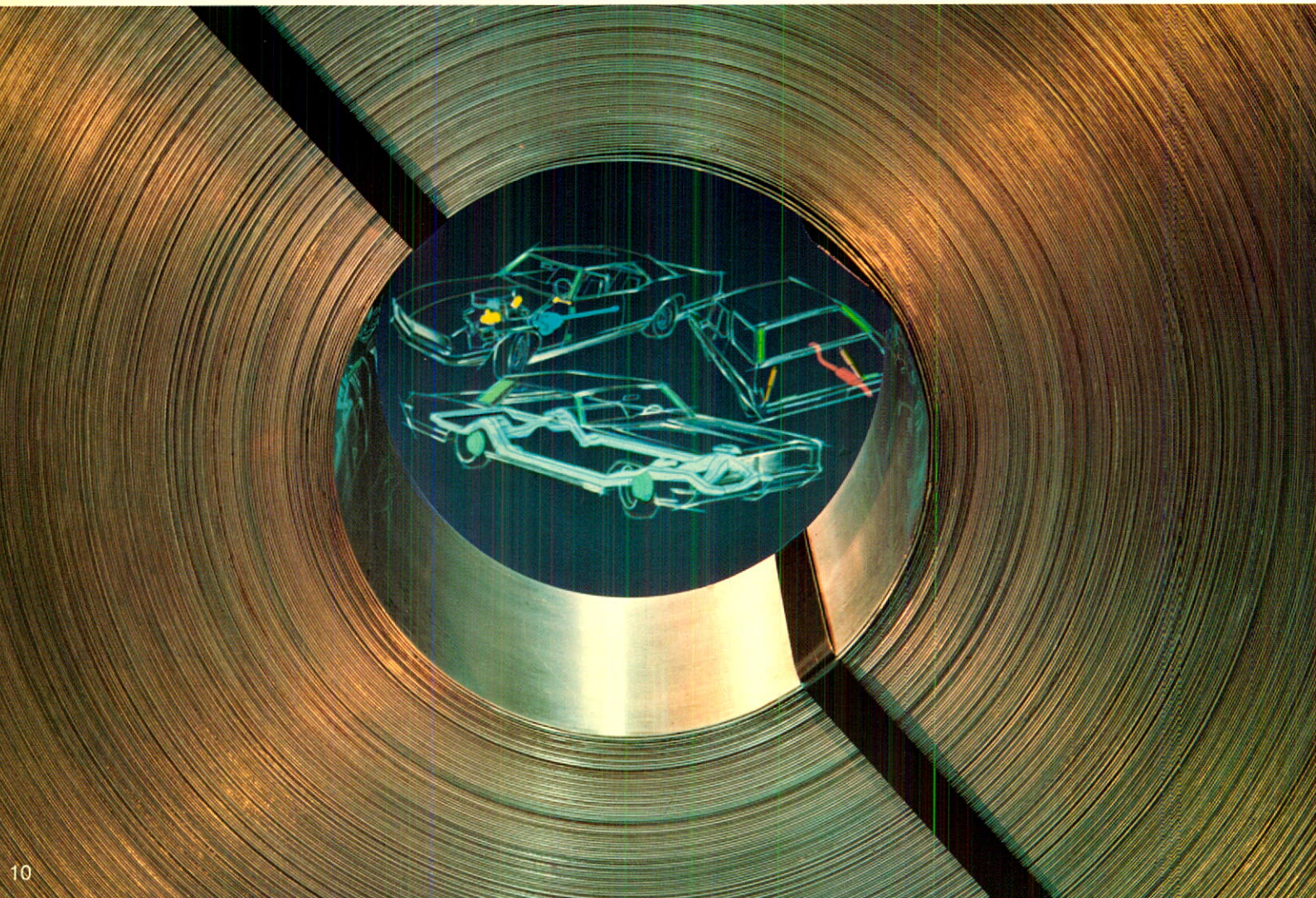
STEEL

Significant improvements in steel operations and marketing techniques enabled our steel operation to maintain its favorable position in a highly competitive industry.

Steel sales of $112.5 million in 1971 reached a new high for the fourth consecutive year when 710,000 tons were shipped from Riverdale and Newport. This represents 32% of Interlake's total sales dollar which is significant when placed in the perspective of a depressed economy and a price freeze.

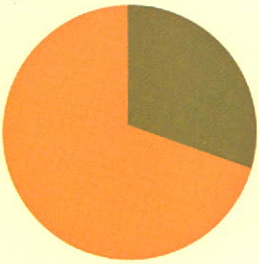
The first half of 1971 generated an abnormally strong demand for steel and steel-related products which was tempered in the third quarter as customers worked off high inventories. Improvements in the fourth quarter provided the edge needed to give the business its best year.

Our prime focus was to improve operations and in-



PROFILE '71

STEEL SALES



32% IN 1971
$112,500,000

MARKETING HIGHLIGHTS

- Market specialty steel products to nation's metalworking industries, with key percentage going to automotive, farm implement and appliance industries.
- Our specialties: narrow width capabilities, relatively small orders and short delivery lead times.
- About 20% of production used internally and further fabricated into other product lines.
- Marketed by company sales force.
- Shipments of commercial steel products down less than 1% in 1971 from 1970—in contrast to industry drop of about 4%.

CAPITAL SPENDING AND MAJOR VENTURES

- Purchased and installed new shells for Riverdale basic oxygen furnaces.
- Installed a new X-Ray control system on #4 Hot Strip Mill at Riverdale.
- Put in a new hot-rolled shear line at Gary.
- Updated Newport's Three-Hi Hot Finishing Mill and associated facilities.
- Constructed a new track scale and a fabricating and maintenance shop at Newport.
- Improved operations of the Primary Rolling Mill table at Riverdale.

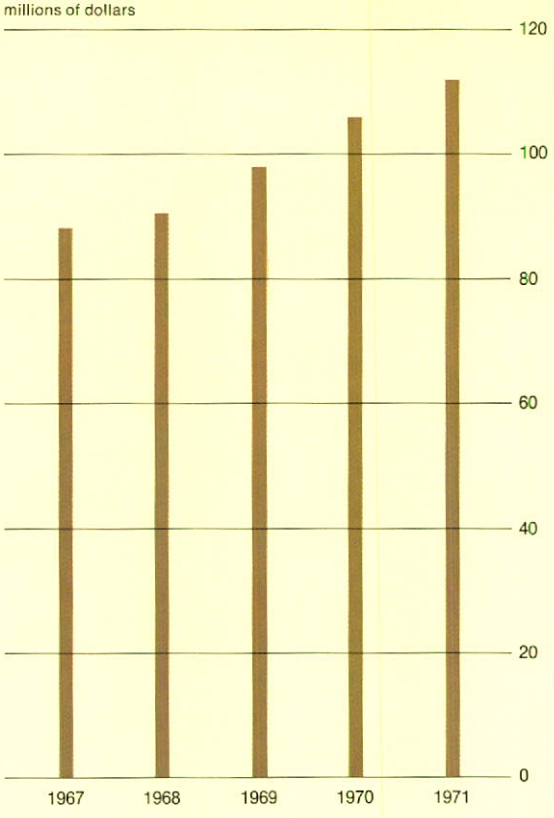
ENVIRONMENTAL CONTROL

- Completed recirculating water system on #4 hot strip mill at Riverdale.
- Began expansion of $1 million sand filtration system to control wastes from #4 hot mill at Riverdale.
- Substantially completed $2.2 million bag house for Newport electric furnace shop.
- Completed construction of recirculating water system at Newport.
- Up-graded Riverdale's Pickle Liquor Treatment plant.

The automotive industry is a major market for Interlake's specialty steel.

STEEL

FIVE YEAR SALES SUMMARY



PRODUCTS

- Hot and cold rolled sheet and strip
- Hot rolled plates and bars
- Alloy sheet
- Electric weld line pipe
- Spiral welded pipe

PLANTS

- Riverdale, Illinois
- Newport, Kentucky
- Wilder, Kentucky
- Blue Island, Illinois

NEW PRODUCTS/INNOVATIONS

- Developed a machine which enables beam welding to be done automatically for a wide-range of steel widths and thicknesses on roll forming operations.
- Developed synthetic slag conditioners for the BOF by mixing less costly elements and briquetting them.
- Examining the possibility of producing wire directly from molten metal.
- Putting together final tests which could result in giving high yield strength to low alloy steel.

crease customer service.

Interlake implemented its unique operations cost control system, which is designed to improve yields and productivity and reduce expenses.

The year's capital expenditures were geared to increase efficiency and quality. At Riverdale, both BOF's were fitted with new shells and a new X-ray gauge control system was placed on the #4 Hot Strip Mill; at Gary Steel a new hot-rolled shear line was installed; and at Newport, the Three-Hi Hot Finishing Mill and its associated facilities were updated to permit the processing of alloy sheets and plates at a lower cost. In addition, a new track scale and a fabricating and maintenance shop were constructed at Newport.

To maintain Interlake's technological capabilities, our research and development program continues to direct its efforts at solving current problems and searching out avenues to reduce costs and improve quality. The company's development efforts are carefully oriented toward areas which have the best chance of early, profitable solutions and are concentrated in areas where our skills are strongest.

Cor-lube was given "on-line" tests with highly encouraging results. Cor-lube, an Interlake development, is a special coating applied to hot rolled steel. Our customers can expect reduced corrosion in storage, improved performance in their deep-drawing practice and enhanced safety and housekeeping practice. The market potential for Cor-lube is promising.

The year was marked by continued progress in the company's successful efforts to eliminate air and water pollution at steel-producing facilities. Expenditures in 1971 amounted to $2.2 million which included a bag house at Newport to capture and treat the smoke from the melt shop.

Our steel operations are the largest segment of our business. Our principal markets are the automotive, farm equipment and steel fabricator industries. We will remain aggressively competitive in hot and cold-rolled sheet and strip, plates, electric weld line pipe and spiral welded pipe.

Further improvements in product quality, specialty items and customer service will enable us to penetrate new markets such as farm equipment manufacturers who have supplemented their lines with products for mobile homes and recreational vehicles. Other encouraging areas are manufacturers of energy absorbing shock bumpers, automotive seat belts and circular saw blades.

Our steel operations should have a good year in '72.

Interlake's specialty: narrow-width, mill edge quality.

. . . Our principal markets for steel are the automotive, farm equipment and steel fabricator industries. We'll remain aggressively competitive.

FERROALLOYS SILICON METAL

Interlake's Globe Metallurgical Division was, again during 1971, one of Interlake's most successful operations. Although sales dipped approximately 1%, income improved about 38% over the previous year. This was primarily due to a favorable cost-price relationship during most of the year.

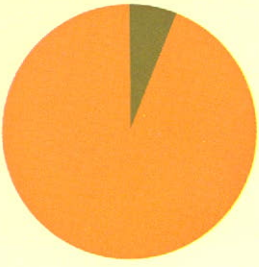
Ferrochromium sales declined from the previous year because of reduced demand and production rates by alloy and stainless steel makers.

Ferrochromium imports—largely from Europe, Japan and South Africa—accounted for over 30% of the U. S. market. This increasing import level eroded the price structure of some of our ferrochromium products, and we had to curtail production of these products during the last half of the year. For the full year, though, the division operated at 83% capacity.

Silicon metal markets, however, remained strong, and our sales increased 40% over the previous year.

PROFILE '71

FERROALLOYS SALES



7% IN 1971
$24,300,000

MARKETING HIGHLIGHTS
- Marketed to steel, aluminum, iron foundry and chemical industries
- Will expand product line in 1972 with addition of magnesium ferrosilicon
- Vital to production of alloy and stainless steel castings
- Silicon metal vital ingredient in aluminum, silicones for chemical industry products
- Growing rapidly as important industry supplier because of quality reputation
- Known for research and analytical capabilities unique to industry
- Sold through sales agent

CAPITAL SPENDING/MAJOR VENTURES
- Re-roofing project completed for #2 furnace plant

ENVIRONMENTAL CONTROL
- $2.6 million spent for fume control system to reduce air pollution

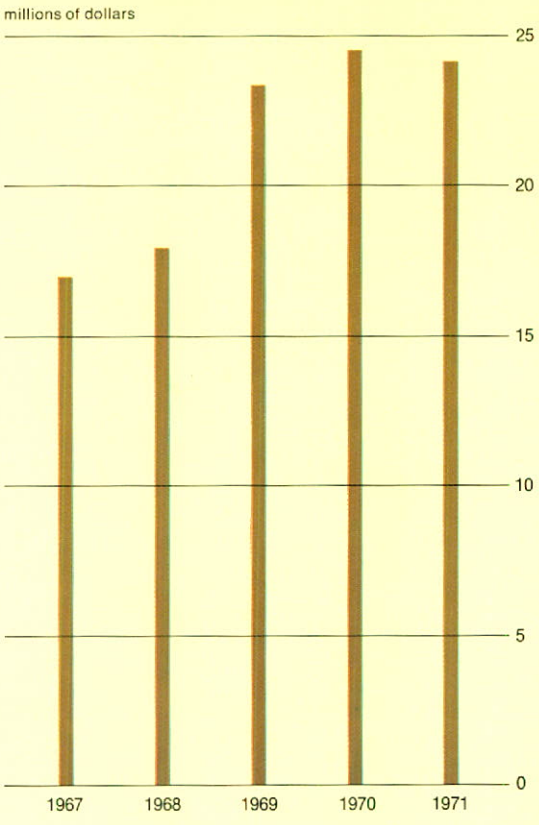
PRODUCTS
- Silicon metal
- Ferrosilicon
- High and low carbon ferrochrome
- Manganese
- Low carbon chrome silicon
- New in '71 . . . field testing in magnesium ferrosilicon additive for nodular iron production

PLANTS
- Beverly, Ohio

NEW PRODUCTS/INNOVATIONS
- Developed an improved method for producing magnesium ferrosilicon.
- Developed a way of making briquettes solely of ferrosilicon fines and scrap magnesium to produce nodular iron.
- Successfully briquetted magnesium and selected iron scrap which contained little rare earth additions.
- Adopted magnesium-iron briquettes as an ideal desulfurizer for blast and BOF furnaces which will give steel a better quality at minimal cost.

Our fundamental metals for America's growth: ferroalloys and silicon metal.

FERROALLOYS
FIVE YEAR SALES SUMMARY



SILICON METALS AND SILICONES

As we point out on the opposite page, silicon metal produced by Globe is the source material for the manufacture of silicone chemicals . . . one of the most promising growth areas for Interlake.

Those products using silicones are generally classified as fluids, elastomers and resins, and for the purpose of indicating the potential of this part of Interlake's business, shareholders might be interested in a brief list of applications.

In the fluid category are included: cosmetics, toiletries, floor waxes, furniture polishes, lubricants, release agents for rubber, plastics and bakery products, aerosol laundry starches, rust preventatives and window washing sprays.

Elastomers include molded rubber parts for aerospace users, adhesives, fabric coatings, electrical insulation for wire and cable, caulking and sealing materials, roofing, waterproofing agents, medical products, to mention just a few.

The resins using silicones include paint vehicles and additives, water repellents for masonry and varnishes for electrical insulation.

Current marketing research estimates say the use of silicon metal will double in the next five years . . . certainly a good indicator of the importance this product plays in Globe's product mix.

The two major uses of silicon metal are in the chemical and aluminum industries.

Silicon metal as produced by Globe, is the source material for the manufacture of silicone chemicals. This is one of the most promising growth areas in the Globe Metallurgical Division's product mix.

Silicon metal is also a vital ingredient in the aluminum casting industry. Particularly in the automotive industry, aluminum castings are becoming more and more popular because of their light weight and high strength. As an additive ingredient, silicon improves casting properties and greatly enhances consistent quality in the finished product. Demand for our silicon metal should continue to increase as the need grows for light weight, high strength automotive and other parts.

Availability of chromium ore to our operations improved during 1971, but along with the improvement came steadily increasing prices for this imported commodity. Recent legislation to lift the import embargo against Rhodesia should hopefully result in a more stable market for chromium ore.

One of the division's fundamental needs is electric energy used to power our electric smelting furnaces. Power interruptions have been a constant problem and expense in recent years for us. Although power availability did improve in '71, curtailments still caused us problems and unnecessary costs.

On the research and development front, two new products for the metals industry were produced on a semi-commercial scale and were introduced into the marketplace during 1971. Both have promising growth potential.

The first is a new process for producing magnesium ferrosilicon called Glo-Mag. Glo-Mag is an essential ingredient in the production of nodular iron, a relatively new metals product combining many attributes of cast iron and steel. Nodular iron is also the fastest growing major metals product with industry production reaching two million tons last year—an obviously important new market for the division.

Another new development is the production of low nitrogen ferrochrome, a grade of low carbon ferrochromium which is used for special grades of steel and non-ferrous alloys. This premium grade permits the adding of chromium without nitrogen to metal products to insure good quality.

On the environment control front, a $2.6 million fume collection system for our largest silicon metal furnace was brought on stream late in the year. A photo of this air pollution control device is shown next to the inside back cover.

The equipment is called a bag house, and it works like a giant vacuum cleaner to filter smoke and recover particulate matter so it doesn't escape into the atmosphere. The new device is part of a $6 million pollution control program for our ferroalloy operations.

The future of our ferroalloy business is certainly bright because it is a key supplier to two of America's most dynamic industries — metals and chemicals. Hundreds of products with our ferroalloys in them are used throughout industry, commerce and the home—an indication that we are tied to growing markets.

Products don't normally grow from rocks, but hundreds of products are made with our Globe metals.

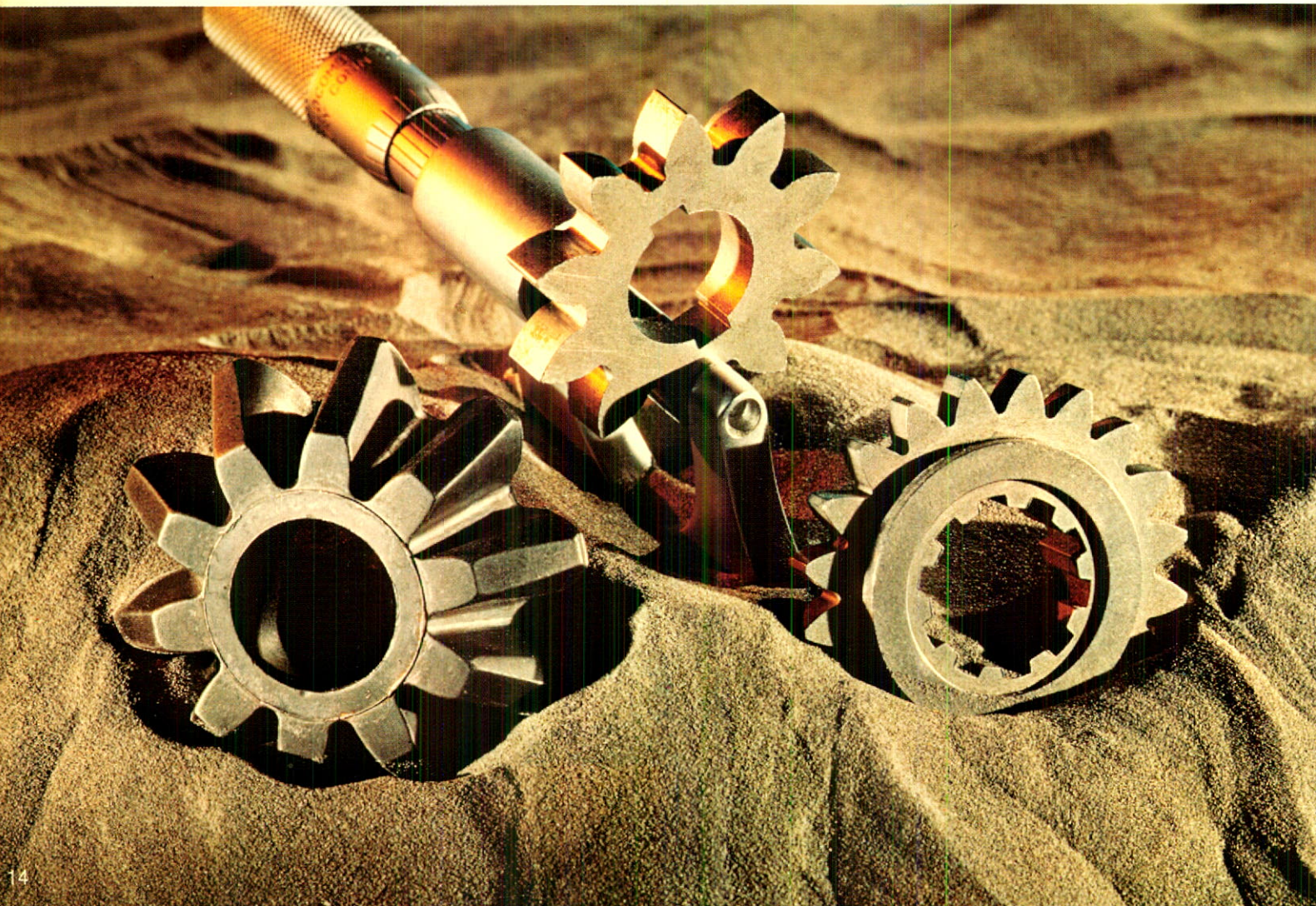
. . . The future of our ferroalloy business is bright because it supplies two dynamic industries: metals and chemicals.

METAL POWDERS

Powder metallurgy represents an exciting and rapidly expanding technology. Key markets include the production of gears, cams, levers and similar intricate structural parts used in the automotive, agricultural, household appliance and business machine industries, to name just a few.

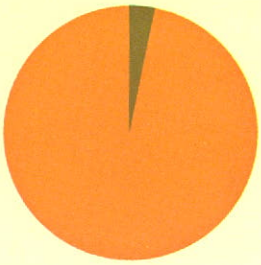
P/M technology has created substantial cost savings. A measured amount of specially blended powder is poured into a die; pressure is applied top and bottom; out comes a "green" gear, which needs only to be sintered or heat treated in a continuous furnace before it emerges as a finished part. No further machining is normally necessary, and substantial raw materials yield losses are minimized.

Metal powders are also used to coat welding rods, in cutting and metallizing operations, in chemicals, and to detect cracks in forgings and castings. But the greatest potential lies in the simple way complex parts can be uniformly produced in large numbers, compared to more conventional methods.



PROFILE '71

METAL POWDERS SALES



4% IN 1971
$13,800,000

MARKETING HIGHLIGHTS

- Marketed to contract fabricators and mass production P/M parts manufacturers.
- Key users are automotive, appliance and office equipment producers.
- Metal parts made with powder metals technology require relatively little and sometimes no machining.
- Production lead times and scrap are typically reduced significantly in relation to lead times and scrap associated with other parts manufacturing processes.
- Extensive technical and metallurgical customer services were expanded in 1971 with the establishment of a welding powder research laboratory.
- Long a technological leader in conventional metal powder metallurgy, the company has assumed a similar leadership position in the hot P/M forging field.
- Marketed by company sales force and agents.

CAPITAL SPENDING AND MAJOR VENTURES

- New atomizing furnace and processing plant became commercially operational in 1971.

PRODUCTS

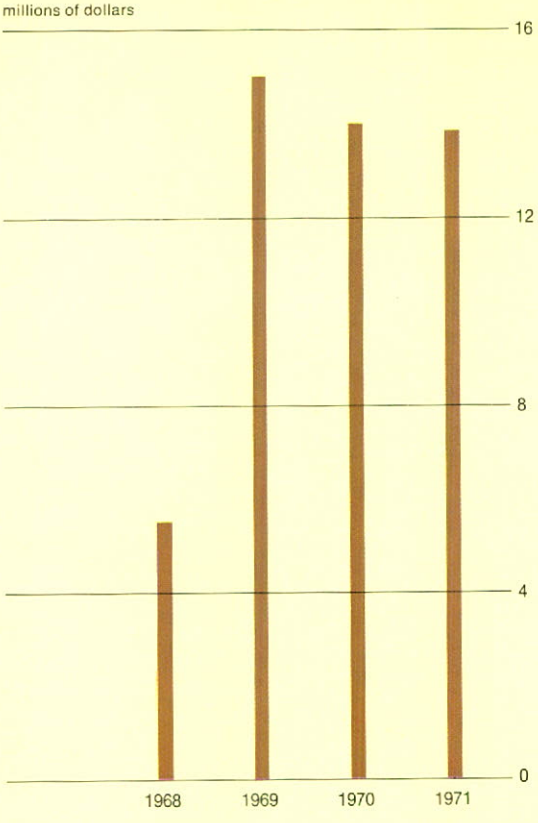
- Iron, low alloy, stainless steel and other high alloy powders for powder metallurgy.
- Iron, stainless steel and other high alloy powders for welding electrodes.
- Magnetic particle inspection powders.
- Flame cutting powders.
- Hardfacing alloys.
- Atomized powders.

PLANTS

- Riverton, New Jersey

The exactness of Interlake's newly-developed powder metal forging process is expected to add new market dimensions for powder metallurgy production.

METAL POWDERS*
FOUR YEAR SALES SUMMARY



*acquired in 1968.

NEW PRODUCTS/INNOVATIONS

- Started production this year of Ancorsteel 1000 —a steel powder made by the atomizing process. This is the first of a series of materials developed specifically for the new P/M forging process.
- Introduced Weldgrit—a filler metal for one-pass welding of thick plates.
- Developed the technique of producing chromium manganese alloy powders for heat treatable parts.
- Introduced an improved new powder used in flame cutting for preparing billets and plates of high alloy materials.
- Developed the use of X-Ray fluorescent analysis for determining the components of low and high alloy powders produced by atomizing.

HOEGANAES HELPS ASTRONAUTS

Hoeganaes was there when each Astronaut walked in space or on the moon. The astronauts' atmosphere was created in an intricate system contained in his backpack . . . a portable life support system which is used for several hours at a time, and is rechargeable.

A key component in the system is a porous nickel plate which serves as the heart of a sublimator. The nickel plate is made by the powder metallurgy process because no other process could produce pores of the right size. The nickel plate is fabricated by a Hoeganaes customer, who used our product because it demonstrated greater uniformity from lot to lot than any other powder tested.

Sublimators with Hoeganaes powder are also used in the Saturn booster instrument package and in the life support system aboard the LEM.

Powder metallurgy is entering a new era. P/M forging should become a production reality during 1972. And it's through the new forging processes that the industry's most significant growth will develop.

Hoeganaes' new plant for producing atomized steel and low alloy powders began commercial production early in 1971. These expanded facilities enabled the Interlake subsidiary to increase atomized powder sales by more than 60% during 1971. We look for more gains in the future as P/M forgings gain increased market acceptance, particularly by the automotive industry.

Atomized steel and low alloy powders will be used for forgings because they are best suited for economically producing fully dense parts without porosity. These forgings will duplicate or improve the mechanical properties of parts made by conventional forging processes.

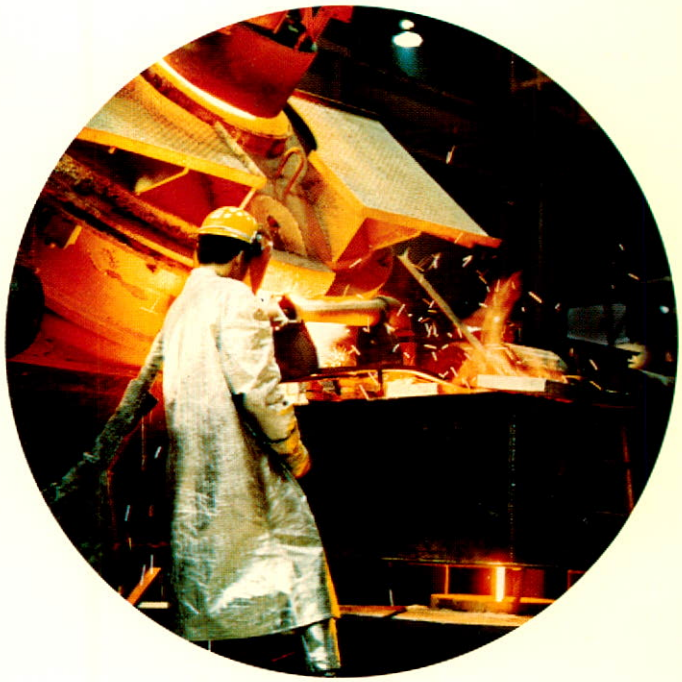
Atomized powders are produced by passing a stream of molten metal through high pressure water jet sprays. This instantly explodes the metal stream and forms particles with shapes and properties suitable for forging.

The powder is then dried, screened, magnetically separated and annealed.

Each of these production steps has an important effect on finished powder properties. The finished powders have the cleanliness and other properties required in powders used for both conventional sintered parts and pre-forms for forging.

As reported to shareholders in 1971, Hoeganaes has been conducting technical seminars to promote increased awareness of the potentials inherent in P/M forging. Our unique research facilities have generated vital new data as a service to customers and users who are developing designs and procedures for successful parts production. Key personnel from a number of important companies have visited Hoeganaes and participated in these informative sessions with our engineers and researchers.

Research will continue to be a major contributor to Hoeganaes' success in the field of powder metallurgy. Our laboratory facilities are the most sophisticated of their type in the Western Hemisphere with an established program for distributing technical information throughout industry. Hoeganaes also continues its activities at several technical universities across the country. All these programs serve to strengthen our technical leadership in powder metallurgy. Certainly Hoeganaes should be the first stop in America for anyone interested in the bright promise of metal powders.



Full commercial operation of our new atomizing furnace helped contribute to record '71 sales of atomized powder.

. . . We are certainly the first logical stop for anyone interested in the bright promise of metal powders.

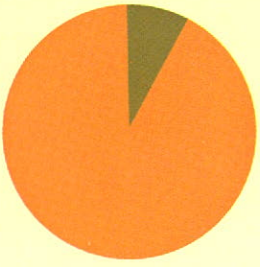
FURNISHINGS

The Howell furnishings businesses improved their performance during 1971 and made a greater contribution to Interlake's overall profits. The Division's product lines continued to diversify. In addition, previously announced internal adjustments in management, production, design and cost controls took hold during the year. These factors combined to prepare Howell for the challenges of an industry that is now and will continue to experience significant changes in the next few years.

During 1971, dinette sales improved at all Howell production locations. The improvements are particularly important based on expected changes in the furnishings industry.

PROFILE '71

FURNISHINGS SALES



9% IN 1971
$32,200,000

MARKETING HIGHLIGHTS

- Broad customer base sold to diversified markets including home, educational, mobile home, hospital, restaurant, industrial and office.
- Wide range of products for all user needs.
- Furniture lines were expanded by addition of new styles and designs.
- Multi-channel distribution system. Products are marketed through company sales force, representatives, distributors and dealers.
- Total division marketing team strengthened through various techniques.
- Dynamic presentations made to introduce new lines at various markets during year.

PRODUCTS

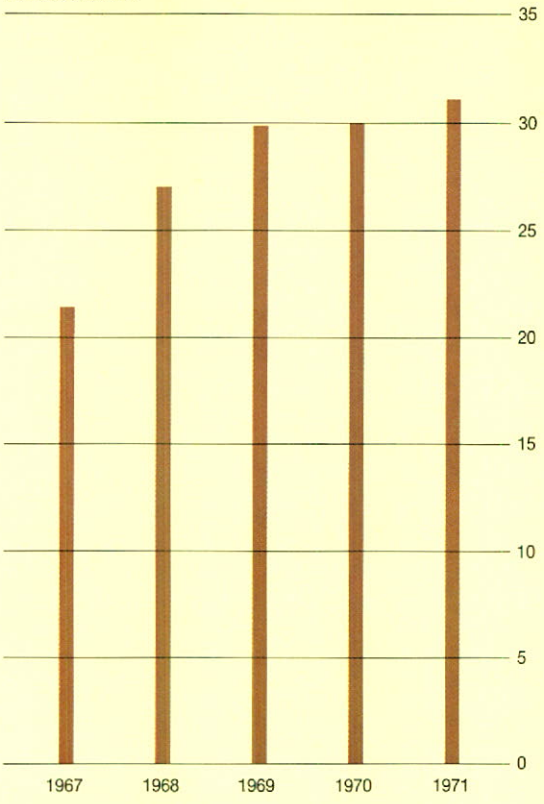
- Metal, plastic and wood dinette groupings
- Mobile home furnishings
- Institutional seating
- Educational, library/resource furnishings
- Bed frames, bunk and roll-away beds
- Gas grills and gas lamps
- New in '71 . . . high quality educational line now being manufactured in Stanley, Wisconsin
- New in '71 . . . new gas lamp designs, grill improvements
- New in '71 . . . exciting new dinette line (see back of this flap).
- Major showrooms redesigned and modernized.

PLANTS

- St. Charles, Illinois
- Lynwood, California
- Azusa, California
- Dallas, Texas (3 separate facilities)
- Stanley, Wisconsin

Howell's reputation is based on fine quality, design and style.

FURNISHINGS
FIVE YEAR SALES SUMMARY



NEW DINETTES FOR '72

Howell's new dinette lines for '72 received particularly good dealer reaction at January and February furniture markets held in Chicago, New York, Dallas, Los Angeles, San Francisco and Minneapolis. Included among the division's new groupings are:

CAESAR . . .
smoked glass and imported Belgian velvet together with a striking mirror finish in nickel-plated chrome, an ideal blend of high style, comfort and durability.

ENSIGN . . .
a pleasing combination of marbled finish and sparkling chrome—tempered with soft tan saddle vinyl, and set firmly on Howell's exclusive "quadri-pedestal" cast aluminum base.

NOUVEAU . . .
combines time-honored styling in a unique blend of new and old with traditional cane back chair inserts, in high strength plastic, coordinated with cane-print upholstery.

SYMMETRIC . . .
sparkling chrome seen through clear smoked plastic offers a special elegance for the budget-minded.

TIARA . . .
a unique-"quadri-pedestal" of cast aluminum adds strength and durability to an unusual creation of metallic luster, smoked glass and velvet.

SOPHISTICATE . . .
a dinette set for the fashion-conscious urbanite that combines easy comfort, bright modern styling, durability and easy mobility.

Howell is prepared to participate in this new dimension of furniture sales. Promotional approaches are being augmented, distribution channels strengthened and new furniture lines designed to serve this market.

This attention to service was a major factor in the 1971 improvements and will continue to be so in the future. Superior design and faster, more reliable service are prime ingredients of the retailer's success. And these areas will continue to receive our attention.

In contract furnishings, the coming year will see the division introduce a record number of new designs serving the institutional and mass seating markets. Howell's reputation for fine quality will be augmented by a new emphasis on design, style and coordinated groupings for complete room installations in hospitals, offices and classrooms.

With continued strong activity in commercial building construction and school enrollments demanding expanded and improved classroom facilities, the division anticipates many new opportunities in coming years.

Similar factors in the personal sector of the economy will enable Howell's bedding operations to continue their growth patterns. An increasing activity in housing starts plus growing disposable personal income will increase the potential for these products.

Already a major producer of steel frame bunk, roll-away and tuck-away beds and frames, the West Coast Howell-Metalcraft operation benefited by introducing improved styles and designs. This action, adding fashion to utility, significantly strengthened performance for bedding operations.

Leisure products of our Dallas-based Falcon operation continued their growth during 1971 with outdoor gas grills leading the gain. This improvement, following 1970 projections, can be traced to the increasing emphasis on leisure activities throughout the country. In addition, the backyard/patio is becoming more of a total entertainment center in which gourmet cooking and barbecuing play major roles.

As this trend continues, Falcon approaches the market through improved distribution to its major markets and several new products that will leave the drawing board for the production line during the coming year. The success enjoyed by Falcon's gas products is an excellent example of the strength diversification has brought to the Howell Division.

New for '72: the Tiara.

. . . Howell is prepared for the challenges of an industry that will continue to change significantly.

FURNISHINGS
EDUCATIONAL-INSTITUTIONAL

Education, with its many changing needs, will always play an important role in America and its economy. Elementary and primary schools, colleges and universities, business and vocational training centers—all should continue to experience large enrollments and new construction to serve both the influx of students and changing educational techniques.

Thus, an important market exists for the Howell Division's education furnishings group. McNeff Industries, Dallas, and our operations in St. Charles, Illinois and Stanley, Wisconsin, manufacture many products that serve schools and libraries.

The Howell educational line includes individualized learning centers, audio/visual support systems, tables, chairs, desks, shelving, storage racks, technical furniture and special cabinets and desks. All are designed with utility, comfort and appealing appearance.

In 1971, Howell began producing a newly-designed

. . . These days, new
teaching philosophies
are aimed more towards
individualized education.

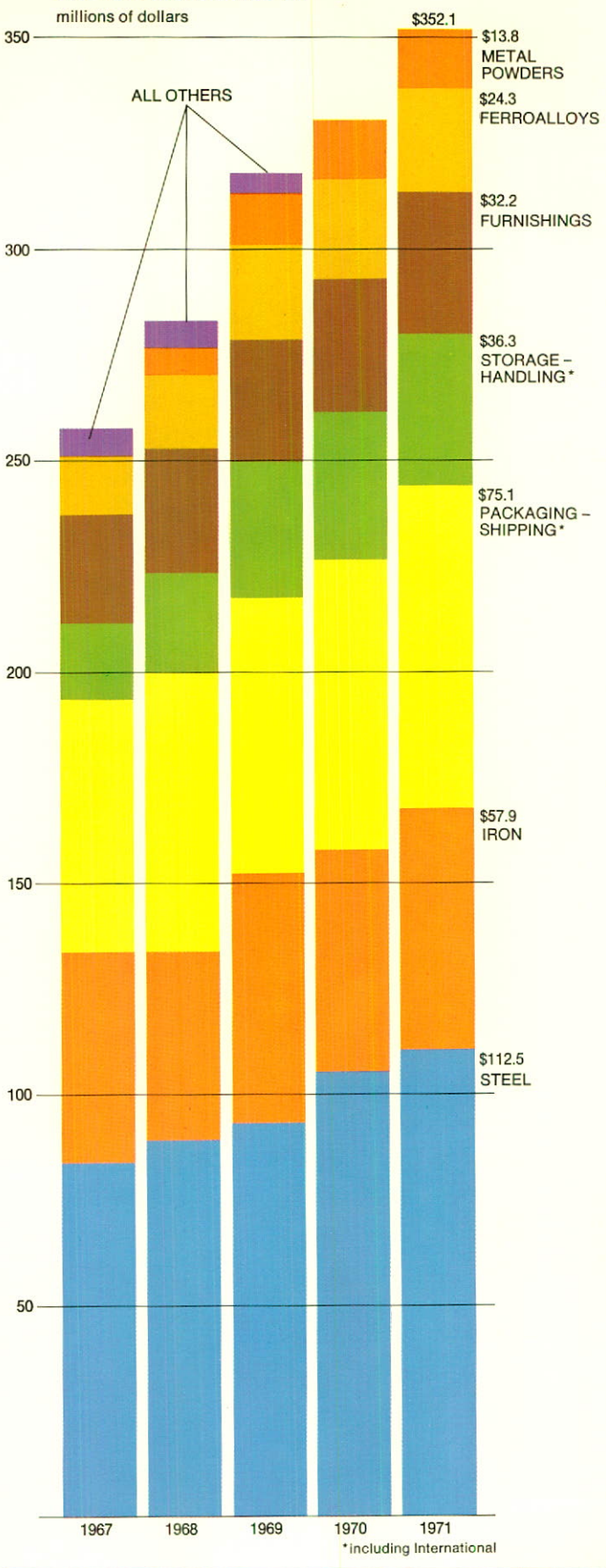
high quality study carrel at Stanley, Wisconsin. This plant had previously produced primarily wood furniture components and table top cores for our dinette operations at St. Charles. Now production of the new carrels up North gives division customers improved geographical distribution advantages. It also gives them the special quality that for years has been synonymous with the Howell name on dinettes, seating and tables now in use at educational and other institutions throughout the U.S.

These days, new teaching philosophies are being aimed more and more towards individualized education, visual aids and private study centers. McNeff has been an innovator in the industry for special products to solve some of the new needs presented by colleges and schools. Several new ideas are now being developed that hold promise for even further diversification and growth in the years ahead.

Colleges, universities, hospitals, etc. use thousands of chairs and tables from Howell.

This student gets individual attention in our learning center.

FINANCIAL REVIEW



FINANCIAL REVIEW

As we pointed out in our letter to shareholders, 1971 was a trying year beset with problems, surprises and an unexpected but welcome recovery. However, despite four very slow months, both sales and income improved over '70 levels, and we ended the year on an optimistic note earning $3.03 a share.

A capsule summary of the financial highlights for 1971 shows:

- Net sales in 1971 of $352,085,000 exceeded sales of $329,954,000 in 1970 by $22,131,000, or 7% . . . the fourth consecutive year Interlake has achieved a new sales record.
- Net income in 1971 of $12,524,000, or $3.03 per common share, was $1,858,000 better than the $10,666,000, or $2.42 a share earned in 1970.
- In 1971 the company purchased and retired 402,877 shares of its common stock. Net income per common share increased $.13 for the year because of the lower average number of shares outstanding, after recognizing the interest cost applicable to the transaction.
- Capital expenditures in 1971 of $12,146,000 were down from the $15,187,000 spent a year ago. Pollution control expenditures in 1971 represented 33% of the total spending.
- During 1971 the company sold $50,000,000 of sinking fund debentures. The proceeds were used to repay bank loans and provide additional working capital. Also, during the year the company entered into two long-term lease financing arrangements totaling $5,200,000 for building air pollution control facilities.

OPERATING RESULTS

Here's how net sales in 1971 by our major businesses compared with those reported in 1970:

	1971	1970
Iron and steel products	$170,481,000	$157,226,000
Packaging and storage products	111,354,000	104,088,000
Ferroalloys and silicon metal	24,273,000	24,598,000
Metal powders	13,813,000	14,001,000
Home and institutional furnishings	32,164,000	30,041,000
	$352,085,000	$329,954,000

Interlake's largest operation is the iron and steel business which, in recent years, has accounted for almost half the company's sales. The iron and steel business includes the manufacture of pig iron and molten iron, hot and cold rolled sheet and strip steel and tubular steel products.

In 1971 total sales of *iron and steel products* were $170,481,000, up 8% from 1970. Iron and steel sales by major product groups in 1971 compare with 1970 as follows:

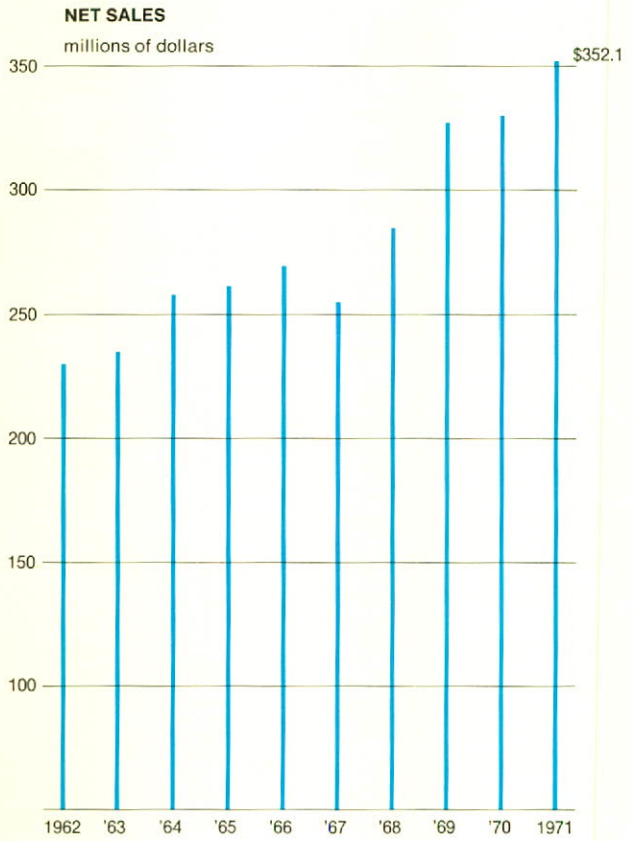
	1971	1970
Flat rolled products	$ 96,676,000	$ 94,972,000
Tubular	15,861,000	11,321,000
Pig iron, molten iron, coke and coal chemicals	57,944,000	50,933,000
	$170,481,000	$157,226,000

Sales of flat rolled steel products increased slightly in 1971, compared with 1970. The slight gain was the result of higher selling prices in 1971 compared with the previous year. Steel shipments of flat rolled products were ahead of last year on a tonnage basis by over 15% prior to the expiration of the steelworkers' labor agreement. However, steel industry shipments during the last five months were at an unprecedented low for recent years, which nullified earlier gains as customers worked off inventories prior to reordering.

Sales of tubular steel products used in the building and natural gas transmission industries did show an important improvement in 1971. This is a highly competitive business and the company was able to increase its sales in 1971 by 40% due to an aggressive sales program. Shipments of merchant grade pig iron decreased approximately 8% because of a general slowdown in the foundry industry. Also, molten iron shipments were down to our customer who makes ingot molds, reflecting the lower level of steel production during the last half of '71.

The *packaging and storage products* business had sales of $111,354,000 in 1971, up $7,266,000 or 7% from the $104,088,000 sales reported in 1970. Sales of packaging products increased approximately 9%.

A leading factor contributing to improved sales was the expansion of the network of distributors started in 1970. These distributors have numerous stocking locations which are geographically situated to improve our customer service requirements. In addition, during 1971 the marketing functions were realigned to provide better service and technical assistance to major industries. Sales of storage products also increased in 1971. The improvement in the storage products sales is related principally to the increased activity in the company's Courier program which offers completely engineered storage systems utilizing the company's storage rack products, couriers for moving materials in and out of the storage areas and other related products. During 1971 several of these large engineered systems were completed and accepted by our customers. Sales of conventional rack products were about on a par with last year, a result of lower activity in the construction of new factory and warehouse facilities.



The *ferroalloy and silicon metal* business of the Globe Metallurgical Division reported sales in 1971 of $24,273,000 which were about 1% behind the $24,598,000 of sales last year. The largest product line of this business is high and low carbon ferrochrome. Ferrochrome is an essential raw material used in manufacturing high alloy and chrome-bearing steels. Deterioration of business in the steel industry led to significantly lower ferrochrome sales during the last five months of 1971. This offset sales gains made in other product lines, such as silicon metal, which shipments increased 25% during the year.

Home and institutional furnishings' sales increased because of improved sales of dinette products in all major market areas served by Howell Division. Also, sales of gas products and plywood improved. In contrast, the sales of institutional and commercial furniture and educational furniture showed little change from last year because of a general slowdown in the rate of construction of new schools and similar facilities.

Sales of finished grades of *metal powders* by the Hoeganaes Corporation were about the same as last year. Sales of atomized steel, the product of the new steel powder manufacturing facility which went into operation in 1971, showed an improvement of 66% during 1971. This indicates the increasing acceptance this product has attained among the users of powder metals. Sales of sponge iron and premixes (which contain specific chemical or alloy ingredients) also posted sales gains in 1971, as well as sales of welding grade powders.

The increased volume discussed above, combined with implementation of strict cost reduction programs throughout the manufacturing, selling and administrative areas of the company, resulted in increasing 1971 operating income 25%, compared with the previous year and is highlighted by operation as follows:

	1971		1970	
(In thousands $)	Amount	%	Amount	%
Iron and steel products	$12,956	51	$ 9,981	49
Packaging and storage products	6,653	26	4,920	24
Ferroalloys and silicon metal	4,488	18	3,245	16
Others	1,351	5	2,268	11
Operating income	$25,448	100	$20,414	100

The operating income of the iron and steel business in 1971 represents an increase in earnings of 30% over the previous year. The improved results, despite rising costs and severe price competition, is a direct reflection of numerous steps taken during the year. These include reducing costs in all operating areas, and personnel reductions in all but the most critical areas. Earnings during 1971 were also aided by carefully scheduling the rebuilding of a major blast furnace and the operations of our steel facilities during the projected slack period so we could maximize profit opportunities.

A significant factor which limited further improvement in the operating income of the iron and steel business was the erratic operating conditions during the year. Production during the first seven months of the year was at record levels as customers stockpiled material in anticipation of a possible strike. When the strike failed to materialize, production rates were drastically curtailed reflecting the almost universal lack of demand for steel products.

The operating income of the packaging and storage products business amounted to $6,653,000 in 1971 and represents an increase of 35% when compared with the $4,920,000 earned in 1970. This increase is attributable mainly to the additional sales volume in 1971 and the implementation of strict cost controls in all areas, particularly in the marketing, engineering and administrative areas of the business.

The significant improvement in earnings of the ferroalloys and silicon metal business was the result of improved selling prices and fewer electric power interruptions than in 1970.

The operating income of the company's other businesses in 1971 amounted to $1,351,000, down $917,000 or 40% from the $2,268,000 earned a year earlier. The furnishings business showed an increase in income of approximately 13% as a result of higher sales, better control of pricing policies and cost reductions. The Hoeganaes Corporation, however, reported a decline in earnings in 1971. This downturn from the previous year results from the additional costs incurred during 1971 in the start-up of the new steel atomizing facility. This plant, however, is now performing close to expectations and late in 1971 the production schedule for this facility was increased to meet projected sales requirements.

NET INCOME

Net income for the year amounted to $12,524,000, or $3.03 per common share. This is an increase of 25% from the $2.42 per common share earned in 1970. The other elements of expense affecting net income not already discussed in the operating results include unallocated corporate expense items which were not significantly different from last year, and interest expense. Interest expense of $4,721,000, up $1,110,000 from 1970, results from additional borrowings in 1971 and higher interest rates applicable to the longer term financing.

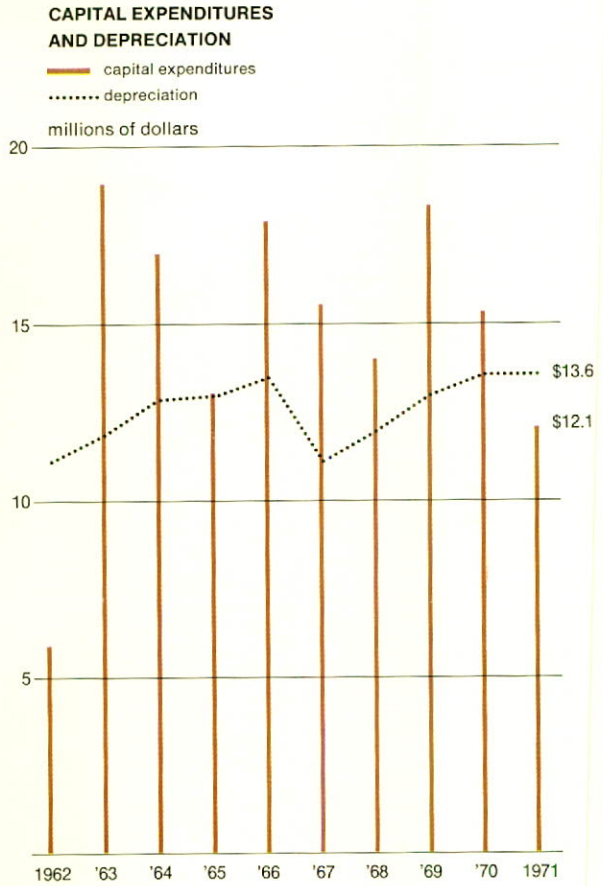
The effective rate of U. S. and foreign income taxes in 1971 was 40% compared with 39% in 1970. In 1971 the investment tax credit amounted to $767,000 versus $123,000 in 1970. The additional credit added $.16 to

net income per common share in 1971. However, in 1970 there was a federal income tax reduction equal to approximately $.14 per common share resulting from the contribution of certain appreciated property to the Interlake Steel Foundation.

CAPITAL EXPENDITURES

In 1971 capital expenditures amounted to $12,146,000, which represented a decrease of $3,041,000 from the $15,187,000 spent in 1970. The amount spent in 1971 is classified as follows:

	Amount	%
Expansion	$2,175,000	18
Environmental control	4,045,000	33
Replacement of existing facilities	5,926,000	49



Capital expenditures for the iron and steel business accounted for 59% of the total capital spending in 1971. Some of the major iron and steel projects undertaken in 1971 were:

. . . Reline of the "A" blast furnace at the Chicago iron plant.

. . . Electric furnace air pollution control system at the Newport steel plant.

. . . Improvements of facilities at Chicago for the movement of molten iron to our customer's plant.

. . . A new X-ray gauge control system on the #4 Hot Strip Mill at Riverdale.

At the Beverly, Ohio plant of the Globe Metallurgical Division, a new fume collection system was installed on their largest furnace to comply with the pollution control laws. This new facility cost over $2 million. This expenditure, added to the cost of the air pollution control system being installed at the Newport plant of approximately $1.6 million, accounts for most of the environmental control spending in 1971. In the last three years Interlake has spent approximately $9 million on environmental control equipment to meet its obligation in this important area.

FINANCIAL CONDITION AND CAPITAL STRUCTURE

The company's sources of funds from operations in 1971 were adequate to meet the recurring corporate cash requirements. In the aggregate, cash flow of $25,024,000 exceeded normal requirements for capital expenditures, dividends and repayment of long-term debt.

The capital structure of Interlake changed significantly in 1971 with the issuance of the company's 8.80% sinking fund debentures due in 1996. The proceeds from the sale of these debentures were used to repay bank loans outstanding and to provide additional working capital. The new debentures require sinking fund installments of $2,500,000 annually beginning in 1978.

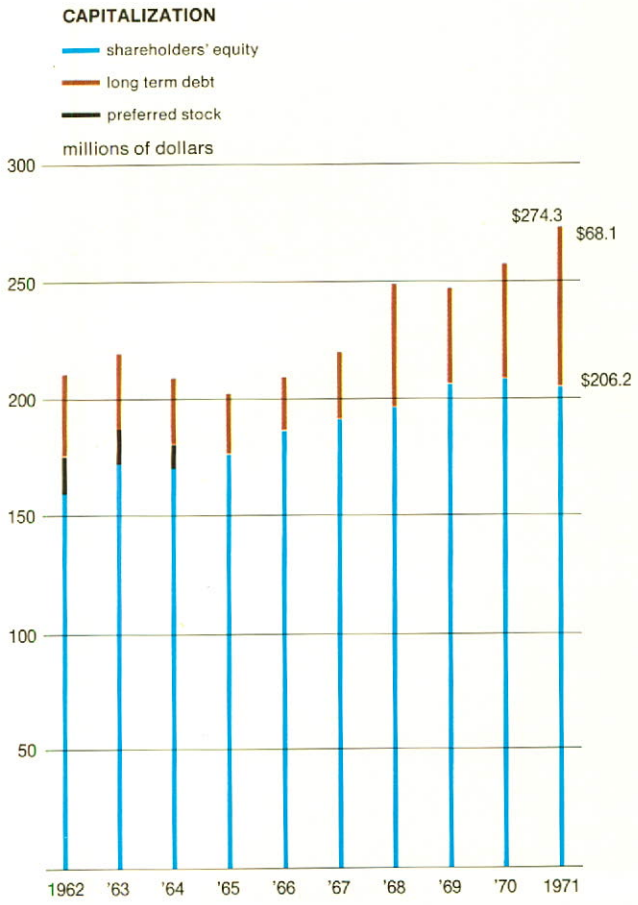
Also, the company entered into long-term lease arrangements with the County of Campbell, Kentucky and the County of Washington, Ohio to finance the construction of air pollution control facilities at the

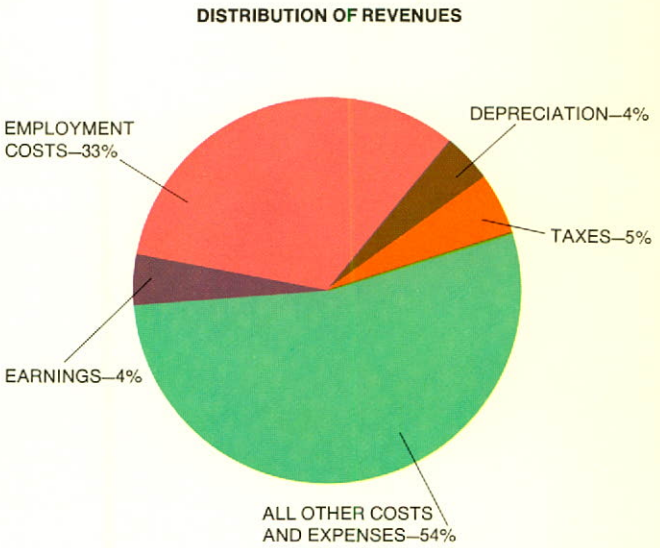
Newport, Kentucky steel plant and the Beverly, Ohio ferroalloys and silicon metal plant. These counties financed the construction of the pollution control facilities and leased them to Interlake for extended periods.

During 1971 the company changed from the cost to the equity method of accounting for its 20% or more owned companies, not previously being consolidated, and its corporate joint ventures. The change to the equity method of accounting required that the company record as a part of its investment in these companies and in its retained earnings $2,164,000 of undistributed income of these companies earned since Interlake acquired them. The principal companies involved in this change were: Gerrard Industries, Limited of the United Kingdom (50% owned), Olga Coal Company (37% owned), and Wabush Iron Co., Limited (17% owned).

In 1971 the company continued the annual dividend payment of $1.80 per share. This pay-out in 1971 amounted to 59% of the company's net income for the year. In 1970 dividends paid represented 74% of net income.

The debt/equity ratio of the company at the end of 1971 was 25/75 compared with a ratio of 21/79 at the end of 1970. The increase in the ratio in 1971 arises from the additional borrowings during the year and the purchase and retirement of 402,877 shares of common stock.





INTERLAKE, INC. STATEMENT OF

CHANGES IN CONSOLIDATED FINANCIAL POSITION

For the years ended December 31, 1971 and 1970

(See notes to consolidated financial statements)

	1971	1970
SOURCE OF FUNDS:		
Net income	$12,524,121	$10,666,497
Depreciation, depletion and amortization	13,592,782	13,614,723
Future income taxes	(1,093,150)	(907,050)
	25,023,753	23,374,170
Long-term borrowings	54,589,500	19,844,294
Reduction of subsidiary investment cost	1,614,165	—
	81,227,418	43,218,464
APPLICATION OF FUNDS:		
Capital expenditures less net book value of retirements and sales of $557,717 in 1971 and $567,318 in 1970	11,588,711	14,619,256
Reduction of long-term debt	36,155,931	11,760,882
Cash dividends	7,399,860	7,940,815
Purchase of Company common stock	10,474,802	—
Investments and advances	4,608,183	4,954,949
Unexpended construction funds of long-term lease obligations	1,399,844	—
All other—net	989,352	1,012,562
	72,616,683	40,288,464
Working capital increase during year	$ 8,610,735	$ 2,930,000
INCREASE (DECREASE) IN WORKING CAPITAL COMPRISES:		
Cash and marketable securities	$ 1,049,874	$(4,295,502)
Receivables	(734,446)	1,257,288
Inventories	1,865,381	10,706,026
Other current assets	1,076,074	262,322
Notes payable	3,799,947	(2,617,284)
Accounts payable and salaries and wages	(3,748,316)	2,343,104
Taxes payable	(3,160,307)	3,690,395
Current maturities of long-term debt	8,462,528	(8,416,349)
	8,610,735	2,930,000
Working capital at beginning of year	74,776,307	71,846,307
Working capital at end of year	$83,387,042	$74,776,307

INTERLAKE, INC. STATEMENTS OF

CONSOLIDATED INCOME AND RETAINED EARNINGS

For the years ended December 31, 1971 and 1970

(See notes to consolidated financial statements)

INCOME	1971	1970
SALES AND REVENUES:		
Net sales	$352,084,935	$329,954,295
Other revenues (Note 1)	1,303,738	2,737,035
	353,388,673	332,691,330
COSTS AND EXPENSES:		
Cost of products sold (Note 1)	268,379,358	254,646,301
Depreciation, depletion and amortization (Note 2)	13,592,782	13,614,723
Selling and administrative expenses	35,678,862	34,490,762
State, local and miscellaneous taxes	10,173,558	8,744,872
Interest expense	4,720,992	3,611,175
	332,545,552	315,107,833
INCOME BEFORE TAXES ON INCOME	20,843,121	17,583,497
PROVISION FOR U. S. AND FOREIGN INCOME TAXES, less investment credit of $767,000 in 1971 and $123,000 in 1970 (Note 9):		
Current	9,641,000	7,598,000
Deferred—net	(1,322,000)	(681,000)
	8,319,000	6,917,000
NET INCOME FOR THE YEAR	$ 12,524,121	$ 10,666,497
NET INCOME PER SHARE OF COMMON STOCK	$3.03	$2.42
RETAINED EARNINGS		
RETAINED EARNINGS at beginning of the year	$108,236,898	$105,511,216
ADD—		
Net income for the year	12,524,121	10,666,497
Adjustment applicable to prior years to reflect the change in accounting for investments (Note 1)	2,164,009	—
	122,925,028	116,177,713
DEDUCT—		
Cash dividends paid, $1.80 per share	7,399,860	7,940,815
Common stock retired (Note 6)	1,159,480	—
RETAINED EARNINGS at end of the year	$114,365,688	$108,236,898

INTERLAKE, INC.

CONSOLIDATED BALANCE SHEET

December 31, 1971 and 1970

(See notes to consolidated financial statements)

ASSETS	1971	1970
CURRENT ASSETS:		
Cash and certificates of deposit	$ 1,588,325	$ 5,737,907
Marketable securities, at cost	5,199,456	—
Receivables, less allowance for doubtful accounts of $664,000 in 1971 and $631,000 in 1970	42,247,078	42,981,524
Inventories, at lower of cost (principally LIFO) or market:		
Raw materials	30,082,257	26,636,586
Semi-finished and finished products	46,143,169	46,580,049
Supplies	8,564,844	9,708,254
	84,790,270	82,924,889
Other current assets	6,762,671	5,686,597
Total current assets	140,587,800	137,330,917
INVESTMENTS AND OTHER ASSETS:		
Affiliated and associated companies (Note 1)	8,554,231	6,017,711
Iron ore interests (Notes 1 and 10)	21,371,887	20,758,069
Other investments and deferred charges	6,440,430	1,455,475
	36,366,548	28,231,255
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and mineral properties, less depletion	11,863,318	11,632,147
Plant and equipment	364,250,696	356,499,306
	376,114,014	368,131,453
Less—Depreciation and amortization (Note 2)	216,810,085	206,826,336
	159,303,929	161,305,117
INTANGIBLE ASSETS, principally goodwill (Note 3)	12,726,790	13,131,601
	$348,985,067	$339,998,890

Interlake, inc.

310 SOUTH MICHIGAN AVENUE • CHICAGO, ILLINOIS 60604

LET'S PUT OUR HEADS TOGETHER

Management Library
McGill University
1020 Pine Ave. West
Montreal 112, Que., Canada

Preliminary Report
1971

FIRST CLASS MAIL

OUTLOOK FOR '72: BETTER TIMES

Times are better now, compared to six months ago. People don't seem as uncertain. The economy has stabilized somewhat, and the business recovery which struggled slowly upward through the last 18 months has brightened. Certainly our businesses are gathering momentum. But there will still be enough problems and worries this year to keep everyone alert and stretching.

As far as Interlake is concerned, we look for a more stable, improved year. We're receiving more orders from customers than in latter '71. January was a good month with orders holding at more normal levels. All in all, your management is ready for 1972.

Reynold C. MacDonald
President and
Chief Executive Officer

INTERLAKE, INC. and Consolidated Subsidiaries

RESULTS FOR THE FOURTH QUARTER AND YEAR

(000 omitted)

	Quarter Ended December 31			Year Ended December 31		
	1971	1970	Increase (Decrease) in 1971	1971	1970	Increase (Decrease) in 1971
Net sales	$ 79,129	$ 81,330	(2.7%)	$352,085	$329,954	6.7%
Income before U.S. and foreign income taxes	$ 2,791	$ 2,711		$ 20,843	$ 17,583	
Less taxes on income	557	940		8,319	6,917	
Net income	$ 2,234	$ 1,771	26.1%	$ 12,524	$ 10,666	17.4%
Net income per share	$ .57	$ .40	42.5%	$ 3.03	$ 2.42	25.2%

NOTES: Results shown for 1971 are subject to audit. Income per share based on average of shares outstanding: 4,134,206 shares in 1971 and 4,411,830 shares in 1970.

CAPITAL EXPENDITURES $12.1 MILLION

Capital expenditures during 1971 were $12.1 million, somewhat lower than the $15.2 million spent in 1970. Spending included: $5.9 million spent for repair/replacement; $4.0 million for environmental control projects; and $2.2 million for expansion.

CAPITAL STRUCTURE STRENGTHENED

Interlake's capital structure and long-term financing was strengthened in 1971 when we issued $50 million of 8.80% sinking fund debentures due in 1996. We used the proceeds to repay bank loans outstanding.

We also purchased $10.5 million, or about 9%, of outstanding Interlake stock during the year. This stock purchase improved earnings per share by 13¢. The 402,877 shares were retired.

$1.80 DIVIDEND MAINTAINED

The $1.80 per share dividend payment, established in 1966, continued when a fourth quarter cash dividend of $0.45 a common share was declared by the Board, payable December 15, 1971, to shareholders of record on December 1, 1971. Dividends paid in 1971 amounted to $7,400,000, and represented 59% of income for the year.

ACTIVE YEAR FOR EMPLOYEE RELATIONS

We completed a heavy schedule of labor negotiations in 1971. Sixteen labor agreements covering most hourly employees were renegotiated, and no strikes or lost time were experienced due to labor-related problems. No negotiations are scheduled in 1972 of contracts covering major facilities.

On-the-job safety improved again, as it has for six years in a row. Frequency of disabling injuries was reduced by 9%, compared to 1970.

PUBLIC AFFAIRS FUNCTION ORGANIZED

Every American corporation today faces new and persistent pressures to become involved in social change and community activities. These challenges come from government, plant communities, civic and educational institutions, students, the press and citizens groups—to mention a few. A formal public affairs function was organized early in 1971 to guide these activities for our company.

TECHNICAL SUBSIDIARY FORMED

Late in 1971 we formed ITC (Interlake Technical Center, Inc.), a wholly-owned subsidiary which sells to outside companies certain Interlake technical services and engineering talents. We developed this subsidiary initially to help customers and other companies who don't have our experience, technicians, and scientific facilities to solve environmental problems.

MARKETING EMPHASIS IN FULL SWING

For more than two years now, we have been placing renewed emphasis on the changing needs of customers by systematically carrying out a deliberate, well-planned program with an uncomplicated strategy. By putting our heads together with customers, we've been able to involve ourselves in their businesses and apply our particular capabilities to solving important single and/or multi-faceted problems.

Our accelerated customer oriented activities showed good results in 1971, and we plan to maintain this fundamental approach.

Interlake Shareholders' Preliminary Report—1971

INTERLAKE, INC. • 310 SOUTH MICHIGAN AVENUE • CHICAGO, ILLINOIS 60604

February 1, 1972

TO OUR SHAREHOLDERS:

Preliminary, unaudited, results show that:

—Interlake's '71 earnings per common share rose to $3.03—up 25% from 1970

—Sales were up about 7% to $352 million—a new high for the fourth year in a row.

Actually, at mid-year we didn't expect to do this well. Although results through June 30 were good ($2.02 a share), they also were inflated by strike-hedge buying. For this and other reasons we were prepared for a slow second half.

But several factors helped boost fourth quarter results to $0.57 a share, and second half earnings to $1.01 a share. More complete details will, of course, be published in the Annual Report to be mailed in March.

SALES UP 6.7% TO RECORD HIGH

Sales in 1971 rose to a new record high for the fourth year in a row—up 6.7% to $352,085,000, from $329,954,000 in 1970. Revenues were helped last year by several price increases.

Abnormally strong demand for iron and steel-related products generated high sales through July. Then, after steel labor contracts were signed in early August, heavy inventory liquidations set in, and steel producers suffered through four gloomy months. A pronounced turnaround didn't begin until early November, when more normal steel buying patterns took hold and general business conditions began improving.

All Interlake divisions except two posted increased sales. Iron and steel, Howell furnishings, plus our packaging and storage businesses reported the largest percentage gains, in that order. Pipe sales to the building and natural gas transmission industries also improved, and our Courier storage product line continued to capture interest in many industries.

DIVERSIFICATION CONTINUES TO HELP

Our results continue to be helped by prior acquisition and diversification activities. Not only did newer units add sales, they also continued to broaden our product mix.

PROFITS RISE 25% TO $3.03 A SHARE

1971 earnings per share climbed to $3.03, up 25% from the $2.42 a share earned in '70. Net income rose 17.4% to $12,524,000 from $10,666,000 earned in 1970.

Despite slightly lower sales, our ferroalloy and silicon metal businesses reported the highest percentage earnings gain, followed in order by packaging and storage, iron and steel, and home and institutional furnishings. Hoeganaes, Interlake's metal powder subsidiary, reported lower profits, mostly due to slightly lower sales, pricing pressures and new facility start-up costs.

LIABILITIES AND SHAREHOLDERS' EQUITY	1971	1970
CURRENT LIABILITIES:		
Notes payable	$ —	$ 3,799,947
Accounts payable	30,838,250	28,622,768
Salaries and wages	13,080,646	11,547,812
Taxes other than income taxes	4,987,909	4,175,001
U. S. and foreign income taxes	6,827,821	4,480,422
Current maturities of long-term debt (Note 4)	1,466,132	9,928,660
Total current liabilities	57,200,758	62,554,610
LONG-TERM DEBT (Note 4)	68,114,702	49,070,633
FUTURE INCOME TAXES (Note 2)	16,882,900	17,765,315
MINORITY INTEREST IN SUBSIDIARY	615,786	1,309,029
SHAREHOLDERS' EQUITY:		
Serial preferred stock, par value $1 a share; authorized 1,000,000 shares; none issued		
Common stock, par value $1 a share; authorized 10,000,000 shares; issued 4,257,128 shares in 1971 and 4,660,005 shares in 1970 (Note 6)	98,433,931	107,749,253
Retained earnings (Notes 1, 5 and 6)	114,365,688	108,236,898
	212,799,619	215,986,151
Less—Cost of common stock held in treasury (245,979 shares in 1971 and 247,580 shares in 1970) (Note 7)	6,628,698	6,686,848
	206,170,921	209,299,303
	$348,985,067	$339,998,890

INTERLAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 1971 and 1970

NOTE 1—PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the Company, all wholly owned subsidiaries, and the Hoeganaes Corporation which was eighty percent owned at December 31, 1971 and two-thirds owned at December 31, 1970. Foreign subsidiaries, located principally in Canada, represent approximately 5% of consolidated net assets at December 31, 1971 and 4% at December 31, 1970.

Effective January 1, 1971, the Company adopted the equity method of accounting for its investments in corporate joint ventures and companies owned twenty percent or more. Accordingly, the carrying value of the applicable investments, intangible assets and consolidated retained earnings have been adjusted in 1971 to record the Company's equity in the undistributed net income of such companies from their respective dates of acquisition through December 31, 1970. This change does not have a material effect on net income for 1971 or prior years; accordingly, prior years' financial statements have not been restated.

Joint venture income relating to iron ore and coal mining operations is treated as a reduction of cost of products sold in 1971; 1970 dividend income of $1,110,000 from such ventures is included in Other Revenues. All other income relating to interests in joint ventures or companies owned twenty percent or more is not significant and is included in Other Revenues in both years.

NOTE 2—DEPRECIATION, DEPLETION AND AMORTIZATION:

It is the policy of the Company to depreciate plant and equipment principally on a straight-line method over the estimated useful lives of the assets. Provision for depletion of mineral properties is based upon tonnage rates which are expected to amortize the cost of these properties over the estimated amount of mineral deposits to be removed.

Depreciation claimed for income tax purposes is computed by use of accelerated methods. Income taxes applicable to the additional depreciation claimed for tax purposes have been credited to future income taxes.

NOTE 3—INTANGIBLE ASSETS:

Intangible assets include goodwill of $12,507,840 in 1971 and $12,884,439 in 1970. The goodwill, which is not being amortized, represents the difference between purchase price and the Company's equity in the underlying net assets of companies acquired as at the date of acquisition.

NOTE 4—LONG-TERM DEBT:

Long-term debt of the Company consists of the following:

	December 31, 1971	1970
8.80% debentures, due annually $2,500,000 1978 to 1995, and $5,000,000 in 1996	$50,000,000	$
4⅞% debentures, due annually $1,250,000 in 1972, $1,500,000 1973 to 1976, and $2,500,000 in 1977	8,470,000	9,608,000
Obligations under long-term lease agreements	5,200,000	
5⅛% insurance company loan, due annually $700,000 1972 and 1973, and $900,000 in 1974	2,300,000	3,000,000
5% debentures, due annually $375,000 1972 to 1977	2,250,000	2,625,000
Notes payable to banks		40,000,000
Other	1,360,834	3,766,293
	69,580,834	58,999,293
Less—Current maturities	1,466,132	9,928,660
	$68,114,702	$49,070,633

In 1971 the Company entered into long-term lease agreements for certain air pollution control facilities. Under the agreements, the lessors financed the construction and installation of pollution control facilities for lease to the Company. The leases provide for semi-annual rentals to repay the principal amount of the indebtedness and the interest (6.00% to 6.75%) thereon. Principal payments begin in 1981 ($500,000) and continue in varying amounts through 1996. The cost of the facilities has been included in property, plant and equipment and will be depreciated over the estimated useful lives of the facilities.

At December 31, 1971, 4⅞% debentures with a face value of $1,280,000 were held in the treasury by the Company. Of these, $1,250,000 may be used to meet the 1972 sinking fund requirement and have been applied as a reduction of current maturities of long-term debt. The balance may be used to meet future sinking fund requirements and has been applied as a reduction of long-term debt.

NOTE 5—RETAINED EARNINGS:

Under the most restrictive terms of the various loan agreements, the Company may not as of December 31, 1971 pay cash dividends and repurchase the Com-

pany's capital stock in amounts aggregating more than $19,649,459.

NOTE 6—PURCHASE AND RETIREMENT OF COMMON STOCK:

On April 23, 1971, the Company purchased 402,877 shares of its common stock from Diamond Shamrock Corporation for $26 per share. Such shares were retired as of that date. The common stock account of the Company was reduced $9,315,322, which represented the proportionate part of said account allocable to the shares purchased. The remaining portion of the purchase price, $1,159,480, was charged to retained earnings.

NOTE 7—STOCK OPTIONS AND TREASURY STOCK:

In 1965 the shareholders approved a Qualified Stock Option Plan for the Company's officers and key employees. Under the plan, options may be granted to purchase common stock until December 31, 1974 for periods not longer than five years. Options are exercisable 33⅓% annually, on a cumulative basis, beginning one year from date of grant. The options outstanding expire at varying dates until 1976. No options were exercised in 1971 and 1970.

Changes in the number of shares of common stock under option during the two years ended December 31, 1971 were as follows:

	1971	1970
Options outstanding at beginning of the year	73,450	79,750
Options granted:		
Per share—$27.16 in 1971 and $23.13 in 1970	33,900	35,450
Options canceled	(7,550)	(41,750)
Options outstanding at end of year	99,800	73,450
Per share	($23.13—$31.38)	($23.13—$41.94)
Options exercisable at end of the year	36,342	22,670

At December 31, 1971, 150,000 treasury shares of common stock were reserved for stock options, 2,755 for distribution under a deferred compensation plan, and 93,224 were unreserved. During 1971 and 1970, respectively, 1,601 and 1,684 treasury shares were distributed under the deferred compensation plan.

NOTE 8—PENSION PLANS:

The Company has several pension plans which cover substantially all employees. These plans generally follow the basic pension pattern of the steel industry. Pension cost was $7,486,776 in 1971 and $7,632,736 in 1970, which includes current costs plus interest on and forty-year amortization of unfunded prior service cost. The Company's policy is to fund pension cost accrued.

The actuarially computed value of vested benefits per the latest actuarial reports exceeded the market value of the pension fund assets by approximately $9,000,000 and $21,000,000 as of December 31, 1971 and 1970, respectively.

NOTE 9—U. S. AND FOREIGN INCOME TAXES:

The consolidated tax provision has an effective tax rate lower than prevailing rates due principally to percentage depletion allowances, lower tax rates applicable to capital gains, investment tax credits and, in 1970, the charitable contribution of certain properties having a fair market value in excess of the amount recorded for financial reporting purposes. It is the policy of the Company to take the full amount of the investment tax credit into income in the year the related property is placed in service.

As of December 31, 1971, federal income tax returns for the years 1961 through 1969 were being examined by the Internal Revenue Service. The Company believes that adequate provision has been made for possible assessments of additional taxes.

NOTE 10—COMMITMENTS:

With respect to the Company's interest in two mining joint ventures, the Company is required to take its ownership proportion of production for which it is committed to pay its proportionate share of the operating costs of these projects, either directly or as a part of the product price. Such costs include, as a minimum and regardless of the quantity of ore received, annual interest and sinking fund requirements of the funded debt of these projects of approximately $3,500,000 through 1983, and lesser amounts thereafter through 1991.

To the Board of Directors and Shareholders of Interlake, Inc.

In our opinion, the accompanying consolidated balance sheets, the related statements of consolidated income and retained earnings and the statements of changes in consolidated financial position present fairly the financial position of Interlake, Inc. and its subsidiaries at December 31, 1971 and 1970, the results of their operations and changes in 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.

Chicago, Illinois
January 31, 1972

INTERLAKE, INC.

TEN YEAR FINANCIAL SUMMARY OF OPERATIONS

(In thousands—except per share statistics)

FOR THE YEAR

				NET INCOME			INCOME PER COMMON SHARE	
	NET SALES	INCOME BEFORE EXTRAORDINARY ITEMS	EXTRAORDINARY ITEMS	AMOUNT	% OF NET SALES	% OF SHAREHOLDERS' EQUITY	BEFORE EXTRAORDINARY ITEMS	EXTRAORDINARY ITEMS
1971	$352,085	$12,524	$ —	$12,524	3.6%	6.1%	$3.03	$ —
1970	329,954	10,666	—	10,666	3.2	5.1	2.42	—
1969	324,848	15,337	5,052	20,389	6.3	9.9	3.43	1.13
1968	285,571	12,556	—	12,556	4.4	6.4	2.80	—
1967	256,411	14,133	—	14,133	5.5	7.4	3.15	—
1966	268,804	16,481	—	16,481	6.1	8.9	3.68	—
1965	262,363	13,861	—	13,861	5.3	7.9	3.02	—
1964	259,580	13,147	(3,714)	9,433	3.6	5.3	2.78	(.83)
1963	234,413	12,079	—	12,079	5.2	6.4	2.52	—
1962	227,875	8,762	(2,978)	5,784	2.5	3.3	1.82	(.70)

FOR THE YEAR

AT YEAR END

				TAXES ON INCOME BEFORE EXTRAORDINARY ITEMS		WORKING CAPITAL			
	CAPITAL EXPENDITURES	DEPRECIATION	INTEREST EXPENSE	AMOUNT	% OF PRE-TAX INCOME	AMOUNT	CURRENT RATIO	PROPERTY (NET)	LONG-TERM DEBT
1971	$12,146	$13,593	$4,721	$ 8,319	39.9%	$83,387	2.5 to 1	$159,304	$68,115
1970	15,187	13,615	3,611	6,917	39.3	74,776	2.2	161,305	49,071
1969	18,423	13,042	3,593	13,530	46.9	71,846	2.2	159,593	40,987
1968	13,752	12,273	2,465	10,013	44.4	74,365	2.7	153,965	53,047
1967	15,739	11,269	1,559	9,221	39.5	69,170	2.8	142,039	28,268
1966	17,905	13,232	1,296	12,126	42.4	63,621	2.6	137,590	23,431
1965	12,988	12,871	1,547	8,176	37.1	64,756	2.9	131,603	25,925
1964	16,955	12,730	1,898	5,772	30.5	58,009	2.5	146,880	29,375
1963	18,898	11,886	1,770	9,592	44.3	71,506	2.8	149,557	31,450
1962	5,866	11,050	2,204	9,478	52.0	79,057	3.5	131,916	33,838

NET INCOME	CASH FLOW	DIVIDENDS PAID COMMON	DIVIDENDS PAID PREFERRED	% OF INCOME BEFORE EXTRAORDINARY ITEMS
$3.03	$25,024	$7,400	$ —	59.1%
2.42	23,374	7,941	—	74.4
4.56	29,144	8,046	—	52.5
2.80	24,199	8,078	—	64.3
3.15	25,355	8,072	—	57.1
3.68	29,448	7,842	—	47.6
3.02	28,778	7,160	436	54.8
1.95	24,846	6,295	730	53.4
2.52	24,712	5,613	1,031	55.0
1.12	22,126	3,885	1,065	56.5

FUTURE INCOME TAXES	PREFERRED STOCK	COMMON SHAREHOLDERS' EQUITY AMOUNT	COMMON SHAREHOLDERS' EQUITY OUTSTANDING SHARES	COMMON SHAREHOLDERS' EQUITY PER SHARE
$ 16,883	$ —	$206,171	4,011	$51.40
17,765	—	209,299	4,412	47.44
18,633	—	206,514	4,411	46.82
18,618	—	196,122	4,489	43.69
19,407	—	191,546	4,487	42.69
19,454	—	185,358	4,483	41.35
19,719	—	176,552	4,477	39.43
17,303	8,650	170,353	4,466	38.15
20,649	15,430	173,125	4,613	37.53
18,871	16,888	158,743	4,235	37.47

NOTE TO TEN YEAR SUMMARY

Interlake, Inc. is the surviving corporation of the merger of Acme Steel Company into Interlake Iron Corporation on December 22, 1964. This Ten Year Financial Summary of Operations reflects the combined operations of these two companies on a "pooling of interests" basis for the year 1964 and prior years.

Income per common share is based on the average number of common shares outstanding during each year, after recognition of the dividend requirements on the preferred stock. For the years 1962-1964, the Acme shares (adjusted to reflect a 2% stock dividend in 1962) were converted at the rate of .7 of an Interlake share for each Acme share, this being the exchange basis of the merger.

Cash flow is defined as income before extraordinary items, depreciation and future income taxes, less preferred stock dividends.

Capital expenditures exclude the assets of acquired businesses.

ENVIRONMENTAL CONTROL

At Riverton, N.J.—the new modern system for air and water pollution control.

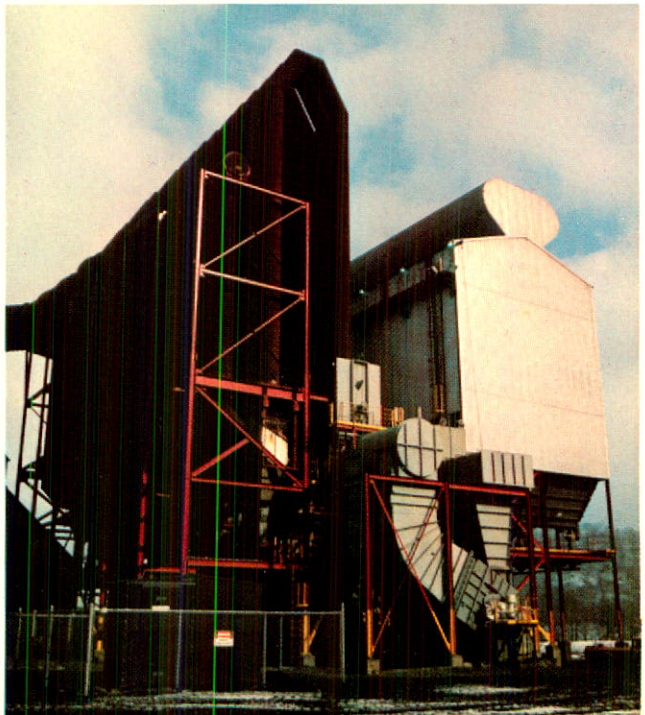
At Wilder, Ky.—the dust you see coming from our melt shop will soon be controlled by our new bag house shown in the foreground.

Interlake spent and allocated more for environmental control in 1971 than in any other single year. We spent $4 million and allocated an additional $1.6 million for 18 projects either completed or started during the year.

Our largest remaining air pollution control problem is the coke oven. Although coke ovens are already 99% controlled, the remaining 1% is still a problem. Technology to capture this remaining small percentage has yet to be proven, but accelerated experimentation is going on around the world. To help solve part of the problem, Interlake recently signed a contract for the world's first system to control emissions from the pushing and quenching operations at existing coke ovens. The first prototype unit will be installed on our Chicago plant and tested this Fall.

The corporation's deep interest in the environment extends beyond its pocketbook and new control facilities. Three officers are active leaders in environmental programs, both local and national. Reynold C. MacDonald, our president, is chairman—Special Committee on the Environment, for the American Iron and Steel Institute. Last year he represented the steel industry by testifying before both House and Senate committees who were considering proposals on new pollution control legislation. Mr. MacDonald is also chairman, Steel Sub-Council, of the President's National Industrial Pollution Control Council, U. S. Department of Commerce. Frank K. Armour, Vice President—Engineering, heads the Environmental Control Committee of the Chicago Association of Commerce and Industry, and H. Harry Henderson, Vice President —Public Relations/Public Affairs, is chairman, National Task Force on the Environment, for the Public Relations Society of America.

At Beverly, Ohio—
a $2.6 million environmental control installation.



OFFICERS AND DIRECTORS

OFFICERS

REYNOLD C. MacDONALD
President and Chief Executive Officer

FRANK K. ARMOUR
Vice President—Engineering

DAVID G. BOWSER
Vice President—Globe Metallurgical Division

FRANK J. BURGERT
Vice President—Operations

R. RUSSELL FAYLES
Vice President—Research and Corporate Planning

RALPH K. FREW
Vice President—Employee Relations

ROBERT M. GILASON
Vice President—Marketing

*H. HARRY HENDERSON
Vice President—Public Relations and Public Affairs

ROBERT JACOBS
Vice President—Finance and Administration

ALBERT K. ZEITELL
Vice President—Packaging and Storage Products Division, International and Domestic

RAYMOND T. ANDERSON
Controller

GEORGE L. FAULSTICH, JR.
Treasurer

*GRANT L. JOHNSON
Corporate Counsel

**WILLIAM R. STEAD
Secretary

*Additions since last year's report
**Change in title since last year's report

DIRECTORS

*KEITH S. BENSON
Partner in the law firm of Arter & Hadden

EUGENE P. BERG
Chairman, President, Director, Bucyrus-Erie Company

*MARVIN CHANDLER
Chairman of the Executive Committee, Director, Northern Illinois Gas Company

*JAMES W. COULTRAP
Director, North American Rockwell Corporation

*GEORGE E. ENOS
Chairman of Executive Committee

**G. FINDLEY GRIFFITHS

ROBERT JACOBS
Vice President—Finance and Administration

CARTER KISSELL
Partner in the law firm of Jones, Day, Cockley & Reavis

*REYNOLD C. MacDONALD
President and Chief Executive Officer

GEORGE S. PATTERSON
Chairman, Director, Buckeye Pipe Line Company

LOUIS PUTZE
President, Chief Executive Officer, Director, Rockwell Manufacturing Company

LEE C. SHAW
Partner in the law firm of Seyfarth, Shaw, Fairweather & Geraldson

JOHN SHERWIN
Director, Diamond Shamrock Corporation

EDWARD J. WILLIAMS
Executive Vice President, Director, GAF Corporation

*MORRIS H. WRIGHT
General Partner, Kuhn, Loeb & Co.

*Member of Executive Committee
**Retired as Chairman of the Board effective 2/28/71

KEY EXECUTIVE CHANGES

Two key executive changes occurred during the year:

H. HARRY HENDERSON, who became Director of Public Relations in 1962, was elected Vice President—Public Relations and Public Affairs

GRANT L. JOHNSON was elected Corporate Counsel. Mr. Johnson formerly was General Counsel for Pickands Mather & Co. of Cleveland and the firm's Secretary since 1969.

ANNUAL MEETING

Shareholders are invited to attend the Company's 1972 Annual Meeting at 10:00 a.m., (San Francisco, California time) on April 27, 1972, at the A. P. Giannini Auditorium, Concourse Level, Bank of America World Headquarters Building, San Francisco, California. Proxy statements for the meeting will be mailed in the latter part of March.

TRANSFER AGENTS

The First National Bank of Chicago, Chicago, Illinois
Bankers Trust Company, New York, New York

REGISTRARS

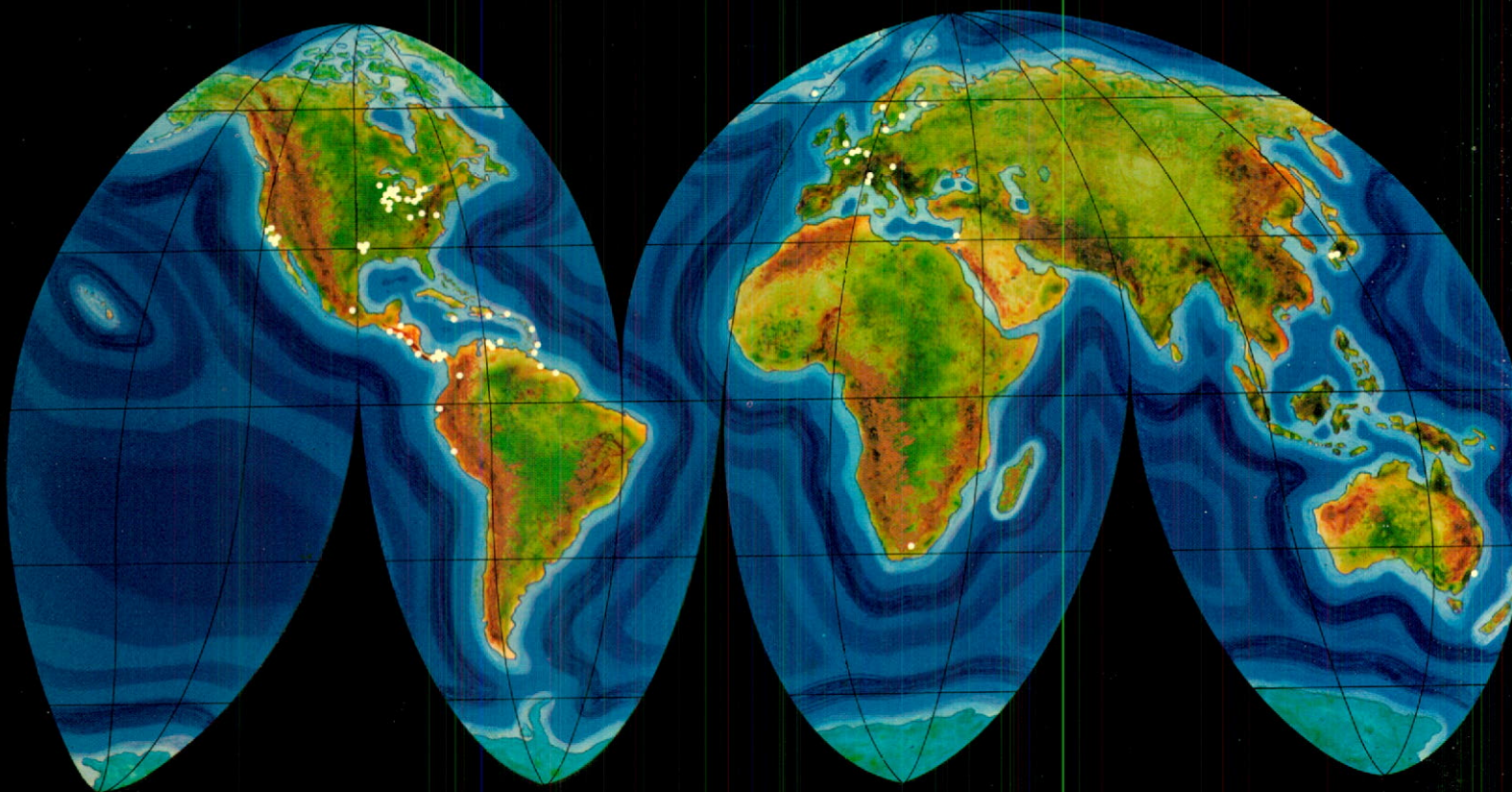
The Continental Illinois National Bank and Trust Company of Chicago, Chicago, Illinois
Irving Trust Company, New York, New York

GENERAL COUNSEL

Jones, Day, Cockley & Reavis, Cleveland, Ohio

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co., Chicago, Illinois



INTERLAKE PLANTS, SUBSIDIARIES, AFFILIATES, MANUFACTURING LICENSEES, DISTRIBUTORS, WAREHOUSES AND OVERSEAS OFFICES. (NOT INCLUDING U.S. DISTRIBUTORS.)

interlake, inc.

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