

**steleo**

**Annual Report 1977**



## Contents

Highlights	1
Chairman's Report	2
Social Responsibility	4
President's Report	6-19
Sales and Production	6
Income and Dividends	6
Financial Position	7
Inflation	8
Shareholders	8
Marketing	9
Raw Materials	10
Operations	12
Energy Conservation	13
Associated Companies	14
Employee Relations	14
Technology	16
Environmental Control	17
Lake Erie Development	18
Financial Statements	20
Auditors' Report	22
Notes to Financial Statements	23
Statistical Summary	26
Directors and Officers	27
Corporate Directory	28

## Cover

Cold drawn bars at Canadian Drawn Works, Hamilton.

## Stelco

Stelco's earliest roots go back to an 18th century Montreal nailmaker and blacksmith. However, many of its predecessor companies were also small family-owned partnerships which played a role in the development of Canada into a modern industrial nation during the latter half of the 19th century. The Steel Company of Canada, Limited, Stelco, was created in 1910 when several steel companies in Ontario and Quebec merged their operations so that full advantage could be taken of the strides in 20th century steelmaking technology.

In 1910, the Company accounted for about 10% of the country's steel ingot production. Today, Stelco is Canada's leading steelmaker, producing nearly 40% of the nation's steel. Products made by the Company include a wide range of flat-rolled and coated steels, bars, rods, wire and wire products, pipe and tubing, fasteners and forgings. Stelco's operations are fully integrated and include the mining of coal, iron ore and limestone. Manufacturing facilities comprising nineteen plants are situated across Canada. Stelco products are marketed throughout Canada and around the world with sales offices in major Canadian cities and several sales subsidiaries in Europe and South America.

Stelco intends to play as important a role in Canada's future as it has in its past. At Nanticoke, on the north shore of Lake Erie, an integrated plant is being built on a greenfield site which will ultimately more than double Stelco's steelmaking capacity. This project is the largest expansion ever undertaken in the Canadian steel industry.

## Annual Report 1977

(Year ended December 31, 1977)

### Financial Highlights

Dollars in millions except as indicated\*

		1977	1976	% Change
Sales	\$	1,444.1	1,359.8	+ 6
Net income	\$	90.2	90.6	0
Per cent of sales	%	6.2	6.7	
Per convertible share†	\$	3.36*	3.67*	
Dividends declared — preferred	\$	8.2	—	
— convertible	\$	42.0	42.0	0
Per convertible share	\$	1.70*	1.70*	
Convertible shareholders' equity	\$	888.1	848.7	+ 5
Per convertible share	\$	35.95*	34.36*	
Capital expenditures	\$	144.6	172.5	-16
Depreciation	\$	55.1	54.9	0
Materials and services bought and used	\$	782.6	722.2	+ 8
Total employment costs	\$	495.0	459.0	+ 8
Raw steel produced — thousands of net tons		5,640	5,724	- 1
Steel shipments — thousands of net tons		3,995	4,028	- 1

### Distribution of Total Revenue

Purchases of goods, supplies and services	%	52	50
Wages, salaries and employee benefits	%	33	33
Depreciation	%	4	4
Interest on long-term debt	%	3	3
Federal, provincial and municipal taxes	%	2	3
Dividends	%	3	3
Earnings reinvested in the business	%	3	4
	%	100	100

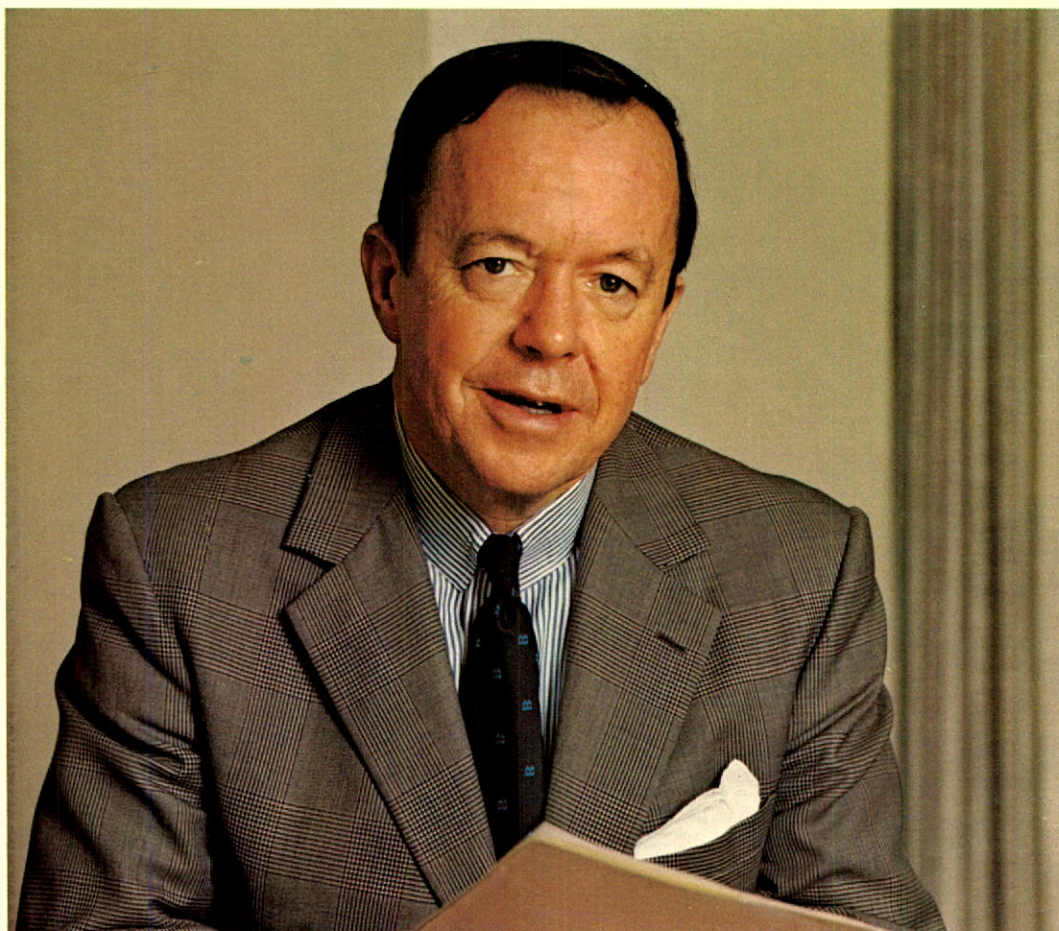
†After preferred dividends in 1977 (See Note 1 on page 23).

# A report from the Chairman of the Board

During the year, world steel capacity continued to exceed demand and steel markets were once again characterized by intense competition. The resulting pressure on steel prices had a staggering effect on many producers. The five largest Japanese steel companies reported combined losses of over \$300 million in the first six months of their fiscal year, ending in September. In the same period, British Steel Corporation recorded a deficit of over \$400 million. In the United States, one major producer shut down, three companies closed older, less-competitive plants, and 30,000 steelworkers were laid off — primarily as a result of a deluge of low-priced imports from Japan and Europe. In response, the United States' government has installed a system of reference prices under which all steel imports will be monitored to determine whether prices are "fair".

In contrast, the Canadian steel industry operated at much more satisfactory levels throughout the year although domestic steel consumption increased only slightly compared with 1976. This resulted from a booming automobile industry, generally efficient, cost-competitive plants that enabled the industry to resist penetration of Canadian markets by offshore producers, and our relatively minor dependence on export markets in terms of overall shipments. The industry, however, is not immune to the vagaries of the world market. One company declared bankruptcy and two others were reporting operating losses during the year. Stelco's profit in 1977 was less than we continue to require and provided an unsatisfactory return on investment.

The outlook for 1978 is for relatively little improvement. Based on strength in the United States' economy, demand in the automotive industry will continue to bolster steel shipments but current forecasts suggest that there will be little recovery in the construction and capital goods sectors. The recent measures by the United States' government to curb steel imports might well place added pressure on offshore producers to sell in Canada. However, the latest projections issued by the International Iron and Steel Institute indicate that world



J. Peter Gordon

steel consumption will increase by about 5.5% in 1978 over 1977, with consumption in western countries growing 4.9% compared with 1977. Such growth, if it materializes, would reduce the pressure on offshore producers to increase their participation in the Canadian market.

Beyond 1978, we continue to expect a resurgence in the construction sector as the country moves to reduce its dependence on foreign energy supplies. Technological breakthroughs may, in time, provide sufficient energy from renewable sources but, in the interim, tremendous efforts will have to be devoted to developing our coal, heavy oil, tar sands and frontier oil and gas resources and nuclear generating stations as well as the infrastructure that supports this kind of development. To support these future energy developments, additional steel capacity will be required in Canada. We intend to be ready to meet this demand as it occurs, and are continuing with

construction at our Lake Erie site for that purpose. Given the realities of the world steel situation, however, we know that we will face fierce competition from offshore producers and that cost control in every area is of paramount importance in maintaining our competitive position. This fact of life is even more compelling when it is recognized that many of our offshore competitors are either owned or highly subsidized by foreign governments.

The proposed doubling of tolls over three years on the St. Lawrence Seaway will significantly increase our costs and we are making representations on this matter to the federal Government. Most of the tonnage transported through the Seaway is in the form of bulk products of Canadian origin with the remainder, classified as general cargo, comprising mainly offshore goods. Some toll increases may be necessary. However, we are contending that such increases

should bear most heavily on the general cargo category because these users have been provided easy access to mid-continent markets without any contribution to the cost of building the Seaway through taxation. Furthermore, we are concerned that the special treatment in the proposed toll structure afforded grain, containers and government-aid cargos versus iron ore and coal is not in keeping with the principles established in the statutes.

We will be negotiating new collective agreements at Hilton Works and at many of the fabricating works to take effect on August 1, 1978. The parties to the agreement must recognize in the settlement the highly competitive market in which our industry will continue to do business. We will face very serious problems if we lose our competitive edge.

Whether or not market projections and forecasts currently being made will materialize will depend, to a very large extent, on the steps that society is prepared to take to restore health to a sick economy and to overcome our constitutional crisis.

### Government spending

Government policies in recent years have been notable for their wholesale diversion of funds into support of social services and away from investment in productive assets that provide employment and create wealth. Such policies are, to a great extent, responsible for the problems currently plaguing us — inflation, unemployment, lagging economic growth, and chronic balance of payment deficits. The concern which many people have expressed about the level and growth of public-sector spending has been brought sharply into focus by an interim report of the Royal Commission on Financial Management and Accountability in Government. The report points out that the enormous rate of growth of government — both in people and costs — is not sustainable, and that the current round of spending will become an intolerable burden if left unchecked. Drastic action is needed. Some governments seem to be taking the view that they need only limit the rate of growth in public spending to keep pace with the rate of growth in the overall economy. Such an approach would maintain public-sector spending at levels which are already too high in relation to our gross national product.

We have to reduce the amount of money now being spent on non-productive social services. Our society has reached the point where we have to give up some of the benefits provided by our modern welfare state in order to ensure the survival of the wealth-creating and job-producing institutions.

### Quebec

We continue to be deeply concerned by the problems posed by the deterioration of the economic climate in the Province of Quebec. There is an opinion that this situation will convince most Quebecers of the desirability of remaining as a part of Canada. This belief totally ignores the deep and passionate commitment which many Francophones have toward the protection and preservation of their cultural identity and integrity — a commitment that could well take precedence over any particular level of economic well-being.

Given this commitment and the disastrous consequences of separation, we must re-assess and re-evaluate our overall approach to confederation, and do everything in our power to achieve a constitutional accord that would keep Canada united. In so doing, however, we must not:

- negotiate with Quebec or any segment of this nation any form of special status;
- reach any accord that is not freely agreed upon and acceptable to every region in this country, or
- by this accord, attempt to create conformity. Diversity and non-conformity, when based on respect, tolerance, and commitment toward common goals, will effectively bind this country.

For its part, the Company has continued to carry on normal operations at our plants in Quebec. We are attempting to comply with the aims and objectives of the province's policy-makers without, at the same time, compromising the economic viability of our operations or our traditional obligations to shareholders and employees.

### Social responsibility

This year, a section of the report has been devoted to a statement of what we believe are the Company's responsibili-

ties toward society. Subject as we are to a multiplicity of restrictions and regulations, we cannot respond solely to market forces. As a result, we have had to develop over a period of time a set of principles to guide us in conducting the business of the Company. The statement on social responsibility beginning on page 4 outlines these principles.

### Executive changes

During the year, the Company lost through retirement three senior employees who made very valuable contributions to the growth and development of the company: in February, Mr. S. W. McDermott relinquished his position as Vice-President — Manufacturing after 40 years of service with the Company; Mr. L. H. Doering, Vice-President, retired in June after serving 42 years; and, in October, Mr. R. H. Macdonald, Vice-President — Product Sales, retired after 40 years with the Company.

The following appointments were made in 1977: Mr. K. Coles to Vice-President — Manufacturing; Mr. W. C. Ashcroft to Assistant Treasurer and Mr. G. Binnie to Assistant Treasurer.

For their dedication in a difficult and, in many ways, disappointing year, the Directors and Officers wish to express their appreciation to all employees. The Company's future success will reflect, to a great extent, their high level of competence and continued dedication. The support of shareholders, suppliers, and customers is also greatly appreciated.



Chairman of the Board and  
Chief Executive Officer

Toronto, Canada  
February 20, 1978

# At Stelco, we believe . . .

## a commentary on corporate social responsibility

The phrase "corporate social responsibility" seems to have a confusing variety of meanings. At Stelco the term simply represents the relationship that exists between the Company and its employees, shareholders, customers, suppliers, the communities of which it forms a part, and Canadian society at large. In essence, social responsibility is the code of conduct by which the Company interacts with the various groups that are essential to its continuing existence and progress.

### Basic objectives

The code of conduct by which Stelco has consistently sought to function is enunciated in its official corporate objectives which are:

- to earn a rate of profit which will represent an equitable return on the capital invested, having regard for the risks involved;
- to provide employees with good jobs, wages and working conditions, maximum opportunity to develop to the full extent of their capacities and an environment in which they can work together effectively;
- to supply quality products and services at fair prices;
- to deal with those who supply it with materials, supplies and services as it would wish to be dealt with as a supplier to others;
- to participate and encourage the active participation of its employees in community and national undertakings which serve the social, cultural and educational needs of citizens at large and promote the best interests of the nation.

### Profits

**WE BELIEVE - - - that profits form the very core of social responsibility since it is only through an adequate level of profitability that we as a Company are able to discharge our social obligations to all the groups with whom we interact.**

Profits are the motivating force of a market economy. Only a profitable enterprise can attract the capital required to build productive facilities, maintain the job and income security of its employees, create new jobs for younger citizens, acquire the modern technology necessary to supply quality goods and services to customers at competitive prices, help maintain the livelihood of suppliers through the purchase of goods and services and generate the tax revenues that help pay for the many government services provided on the federal, provincial, regional and municipal levels.

### Employees

**WE BELIEVE - - - that Stelco's responsibility toward its employees goes beyond providing competitive wage, salary and benefits payments, and includes many other elements, such as attempting to maintain a consistent pattern of growth in employment opportunities and sustaining a relatively stable employment environment.**

Considerable effort is directed toward industrial hygiene and accident prevention matters at all Company plants. In addition to rigorous programs of prevention and control and regular medical surveillance of employees whose jobs bring them into contact with potentially hazardous substances, the Company has instituted changes in operational procedures when circumstances were judged to warrant such action.

The Company also has a comprehensive educational and treatment program for alcoholism which it carries out through its own extensive and modern medical facilities and in cooperation with appropriate professional organizations.

In order to allow employees to develop to the fullest extent of their capabilities, Stelco operates apprentice and on-the-job training programs. In addition, individuals who seek to enhance their career development through attending approved evening educational courses have a significant proportion of their fees refunded upon satisfactorily completing their studies. A large number of employees who hold formal degrees or professional diplomas obtained them through this particular form of educational endeavor.

### Customers

**WE BELIEVE - - - that Stelco's obligation to its customers to provide quality products and services at fair prices has manifested itself in a number of different ways.**

During periods of limited steel supply the Company has steadfastly refused to boost its earnings by diverting a significant proportion of its production to the export market and elected instead to discharge its commitment to its regular domestic customers. In an environment where every price increase seems to be viewed by certain segments of society as an ominous conspiracy, Stelco's pricing policies have been able to successfully withstand the scrutiny of the former Prices and Incomes Commission. More recently, a federal Royal Commission headed by The Honourable Mr. Justice Willard Z. Estey found that the Canadian steel industry's profits were not excessive. In his final report, Mr. Justice Estey noted that "the overriding impression I am left with is that Canada has a good and efficient steel industry responsive to the country's needs, both the long-term need for increasing capacity and the short-term need for price and export discipline."

### Suppliers

**WE BELIEVE - - - that potential suppliers must be given the opportunity to bid on the substantial quantities of goods and services purchased by the Company.**

In keeping with our commitment to suppliers to deal with them as we would wish to be dealt with as a supplier to others, we have long insisted on fair and equitable policies and procedures.

## Environment

**WE BELIEVE - - - that in seeking to demonstrate a responsible standard of corporate citizenship in the fifteen communities across Canada of which we form a part, our approach toward environmental quality control is testimony to our commitment to leadership in this vital area of concern.**

This is an area in which the Company became involved long before the environment became a matter of wide public interest and government regulation. Since 1960, spending on and commitments to installation of the best practical abatement technology available amount to more than \$200 million.

## Donations

**WE BELIEVE - - - in financial support for undertakings we consider fundamental to the well-being of the various communities in which we have facilities and to the integrity of the nation as a whole.**

In excess of \$5.5 million has been donated by Stelco over the past five years to assist in the development of a wide range of educational, cultural, community development, youth, environmental and conservation and health and social service projects.

## Energy and recycling

**WE BELIEVE - - - that in an era in which energy conservation and recycling have become major concerns within Canadian society, Stelco as an industrial company has a leadership role to play within each of these spheres.**

As a member of the Ferrous Industry Energy Research Association, the Company has committed itself toward achieving a 3½% industry reduction in the energy consumption required to make one ton of raw steel by 1980. As a major producer of tinplate and a member of the Metal Container Manufacturers Advisory Council — an organization formed to promote the recycling of tin cans — Stelco has been recycling cans in its steelmaking operations for some time. In addition, the Company was involved in the establishment of and holds a 50% ownership interest in the only recycling facility in Canada capable of reclaiming all metals from scrap automobiles.

## Steel for the future

**WE BELIEVE - - - that our Lake Erie Development testifies to our firm belief in the opportunities for continuing growth for the Canadian steel industry and the Canadian economy.**

This project also provided an opportunity for the Company to demonstrate its commitment in building solid community relationships and our concern for the environment. Prior to starting work on this project, we established a close working relationship with local government and community groups and also held a series of public

meetings to acquaint local residents with our plans. The Company is particularly active in working with local educational institutions in the development of appropriate training programs that will enable residents of the locality to take full advantage of the hundreds of job opportunities that will open up when the first steel is poured in 1980.

Stelco's environmental approach to its Lake Erie Development is unique in North America and goes far beyond control of plant emissions. Approximately forty-five different environmental studies were undertaken as part of an overall environmental assessment of the impact that the development would have on surrounding communities. Consistent with this approach, the design of the raw materials dock was changed when it was learned that the original structure would interfere with the spawning habits of fish and the movement of fishing vessels close to shore.

The Lake Erie Development environmental program also involved designing plant buildings in such a way that the entire project would be aesthetically integrated with the surrounding topography. The development will be surrounded by a series of greenbelts and earthen berms on which we have planted approximately 80,000 trees and shrubs. These greenbelts will act as both visual and sound buffers between the plant and the surrounding countryside.

## Our nation

**WE BELIEVE - - - that the most urgent priority facing Canadians today is the preservation of national unity and Stelco strongly supports all appropriate initiatives geared towards obtaining this objective.**

As an enterprise with significant operations in Quebec and whose roots in that province go back to the founding of our Company in 1910 and beyond, we consider it is essential to understand what is taking place within Quebec and to adjust to this tide rather than to stand back and be inundated by it. This is why we have elected to operate there in a normal fashion and to seek to comply to the greatest reasonable extent practicable with the aims and objectives of the province's policy makers without at the same time compromising in any way the economic viability of our operations or our traditional obligations to both our shareholders and our employees.

## Putting it all together

**WE BELIEVE - - - that a sense of social responsibility is fundamental rather than peripheral to a sound corporate management philosophy.**

Such being the case, Stelco is committed to building and maintaining a relationship with its various publics based on the highest levels of responsible corporate citizenship and business ethics.

# A report from the President

## Sales and production

Due to continued weakness in the heavy construction sector of the economy, overall steel demand did not improve throughout the year. As in 1976, substantial tonnages of steel ingots were sold so that production at the primary facilities could be maintained at reasonably efficient operating levels. Consequently, the level and mix of shipments were virtually unchanged compared with 1976. The 6% increase in sales to \$1,444.1 million from \$1,359.8 million in 1976 was attributable mainly to price increases introduced to recover increases in costs.

Steel production, at 5.6 million tons, was only marginally lower than the record output achieved in 1976. Production was maintained at this rate to accumulate sufficient steel inventory to support sales in 1978 during the scheduled relines of C and E blast furnaces at Hilton Works. The sluggishness in steel demand forced the shutdown of the smallest operating blast furnace at Hilton Works for much of the year.

## Net income

Consolidated net income for the year declined slightly to \$90.2 million from \$90.6 million in 1976 and was again considerably below the record \$110.9 million earned in 1974. Earnings available to holders of convertible shares, after deducting from net income prescribed dividends of \$7.3 million on the preferred shares issued in May 1977, were \$3.36 per share compared with \$3.67 per share in 1976. The ratios of net income to net sales, to average total investment and to average total shareholders' equity declined to 6.2%, 5.2% and 9.3% from 6.7%, 6.0% and 11.0% a year earlier.

The costs of employment, energy, raw materials other than scrap, and almost all other supplies and services continued to escalate in 1977. The resulting increases in manufacturing costs were offset to some degree by improvements in efficiency and other cost reduction activities. Prices of most products were raised during the year but highly competitive market conditions kept them at levels which precluded full recovery of cost increases. All price increases were within the Anti-Inflation Board guidelines.



J. D. Allan

Income for the year was also adversely affected by:

- the interest charges on borrowings required to finance increased working capital arising largely from inflation and capital expenditures at the Lake Erie site which are not yet contributing to earnings;
- labour disputes in the United States' coal and iron ore mining industries which added to the cost of mining operations (see Raw Materials on page 10);
- the decrease in the exchange rate of the Canadian dollar versus other major currencies. The lower exchange rate stimulated export sales but incremental revenue did not fully compensate for the increased cost of importing raw materials and supplies.

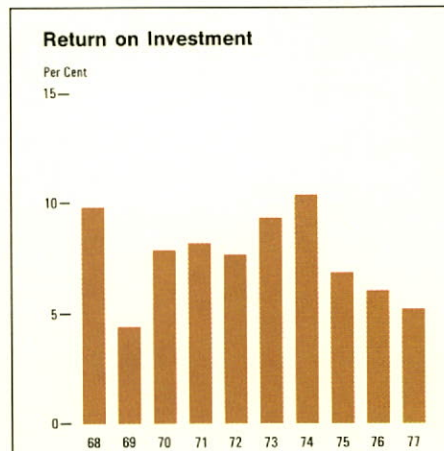
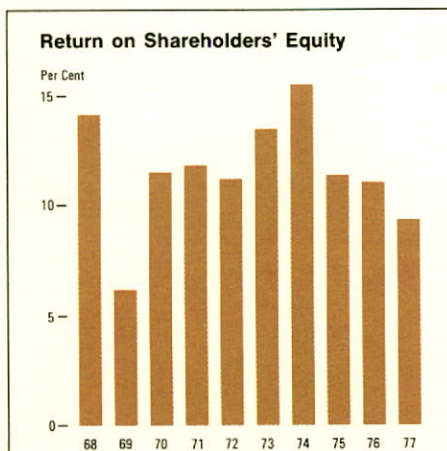
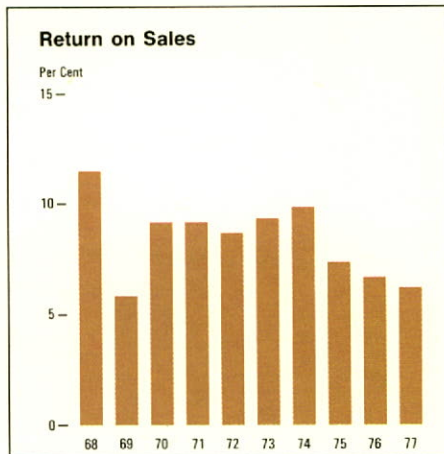
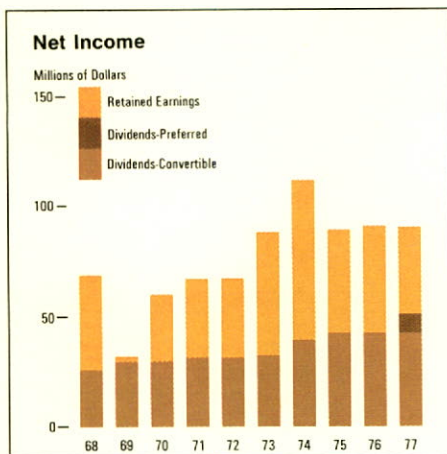
Although pre-tax income declined \$10.9 million compared with 1976, net income decreased by only \$0.4 million as a result of a reduction in income taxes. The main factors contributing to the reduction in in-

come taxes were the lower pre-tax income, increased Canadian mining incentives resulting from increased consumption of ore from Canadian sources and the 3% inventory tax allowance provided in the March 31, 1977 federal budget, all of which were offset in part by a reduction in the investment tax credit.

## Dividends

Dividends declared for the year on the preferred shares, which were issued on May 4, 1977 amounted to \$8.2 million. On convertible shares, the quarterly dividend rate of 40 cents a share was maintained throughout 1977 and, as in 1976, an extra dividend of 10 cents a share was declared in December. Thus, total dividends declared on convertible shares in 1977 remained at the 1976 level of \$1.70 per share and amounted to \$42.0 million. (See Notes 11 and 13 to the Financial Statements on pages 24 and 25.)





## Financial position

### Capital structure

At the Annual and Special General Meeting of Shareholders, held in April 1977, Special By-law "M" was sanctioned providing for the creation of a new class of shares consisting of 16,000,000 Preferred Shares of the par value of \$25 each which will rank in priority to the existing convertible shares of the Company as to dividends and on liquidation. Supplementary Letters Patent, dated April 25, 1977, were issued to the Company confirming the creation of the preferred shares.

Subsequently, on May 4, 1977, the Company sold for \$200 million, by way of private placement, 8,000,000 Preferred Shares Series A, being the first series of the preferred shares. This has provided needed funds at a relatively low

effective cost, and has increased the proportion of equity in the capital structure of the Company. The proceeds will be used to finance capital expenditures and to increase working capital.

### Capital investment

Capital expenditures on manufacturing plant and mining properties were \$141.4 million in 1977 compared with \$166.9 million in 1976. Spending on the Lake Erie Development project was \$115.0 million. The remaining \$26.4 million was spent at the Company's other plants and properties on environmental control, cost reduction and market retention projects.

Capital appropriations approved during the year amounted to \$51.7 million, including \$14.0 million for certain installations previously approved in principle for Lake Erie Development. At year end, the total amount still to be spent

on approved capital projects was estimated to be \$520 million (See Note 7 to the Financial Statements on page 24).

### Intercorporate investments

Total investments in corporate joint ventures and partnerships increased by \$4.9 million in 1977 to \$56.9 million. Participation in the Tilden Expansion Project and Eveleth Expansion Project accounted for most of the increase.

### Working capital

Outflow of funds for capital expenditures, dividends and other uses amounted to \$197.9 million, exceeding cash inflow from operations by \$57.9 million. However, funds from the preferred share issue in May strengthened the Company's working capital position to \$605.6 million from \$461.8 million a year earlier.

Cash and short-term investments amounted to \$198.1 million compared with \$104.4 million when the year began. Accounts receivable increased to \$193.3 million from \$164.0 million at December 31, 1976 as a result of the higher sales level and a slight slowing of payments by customers. Inventory value also rose to \$448.7 million from \$408.1 million due to escalation in manufacturing costs and a planned increase in semi-finished steel inventory. Because of the generally higher prices being paid for materials and services, accounts payable also increased to \$198.3 million from \$179.4 million in 1976.

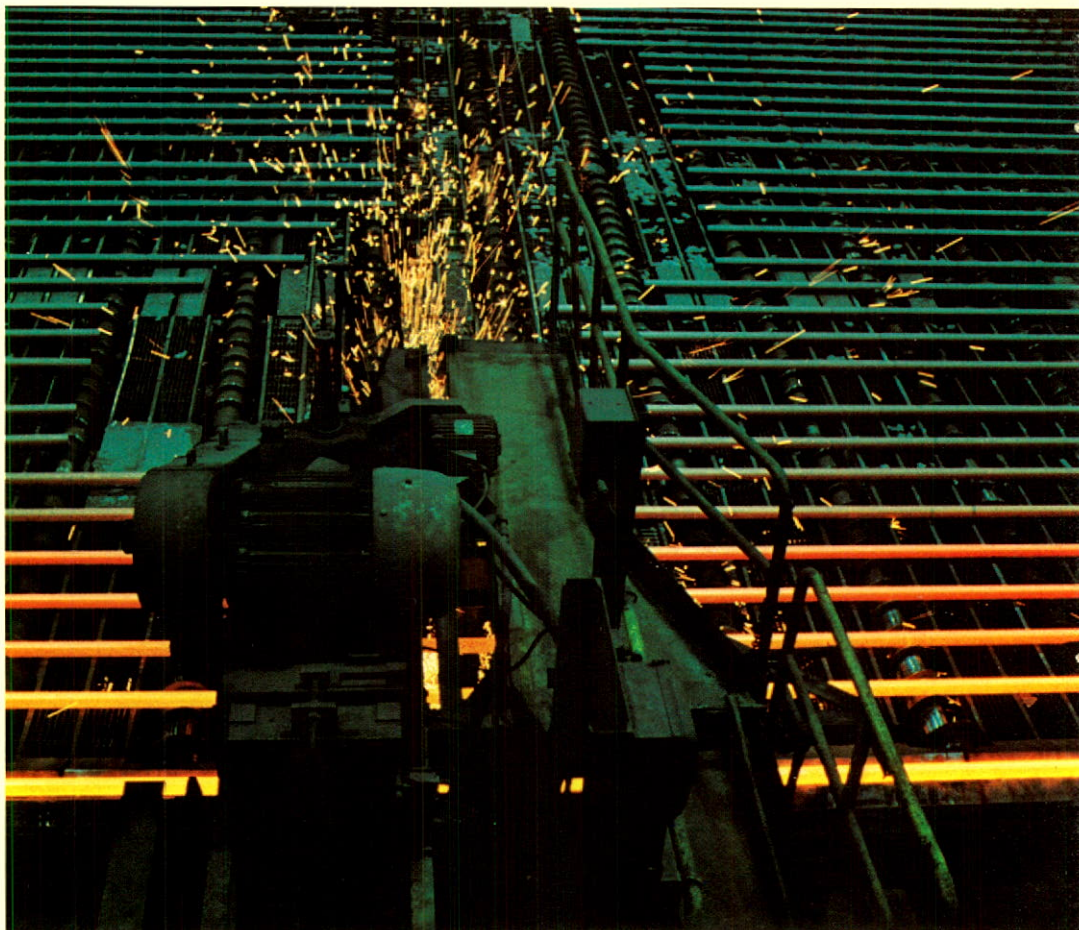
The ratio of current assets to current liabilities at 3.5 to 1 was up from 3.1 to 1 at the end of 1976.

## Inflation

In a period of rapid inflation, the conventional accounting practice of using historic values presents a distorted view of a company's financial position. The accounting profession, governments and business have been studying the problem of accounting for inflation for some time. Indeed, this preoccupation with the development of techniques for measuring and reporting the effects of inflation may have diverted attention from the basic problem — the curing of inflation itself.

Despite considerable effort, no consensus has yet emerged as to the best method of recording the impact of inflation in financial statements. However, it has been suggested, as an interim step, that some inflation data be reported as supplementary information to enable those interested to make their own assessment of the impact of inflation on the reported results.

Accounting for inventories and fixed assets are two areas where conventional accounting practices can lead to substantial overstatement of profit and the consequent impairment of capital through taxation. In the case of Stelco, for example, it is estimated that, as a result of inflation during the year 1977, investment in inventories increased by \$20 million. It is also estimated that depreciation charges based on the reproduction cost of the Company's fixed assets, calculated using Statistics Canada's



## Shareholders

Implicit Price Indices for Non-Residential Construction and Machinery and Equipment, would exceed reported 1977 depreciation by \$37 million.

Only partial relief against the taxation of illusory profits has been provided by the 3% inventory tax allowance included in the March 31, 1977 federal budget. Further tax relief is also required to recognize the higher cost of reproducing fixed assets.

The number of holders of convertible shares at year-end was 36,408 compared with 36,501 at the end of 1976. Canadian residents held approximately 97% of the convertible shares outstanding.

Continuousweld pipe being cut to length at McMaster Works, Contrecoeur, Que.. Other Stelco operations in the Montreal area produce bars, wire and wire products and fasteners. Sales offices in Montreal and Quebec City serve customers in the manufacturing, construction, transportation, shipbuilding and mining industries (left).

Stelco poured its first steel in Quebec in 1974, when a 250,000 tons-per-year electric-arc furnace steelmaking facility began operating at McMaster Works to supply steel for the Company's rolling and finishing operations in the Montreal area (below).



## Marketing

The buoyant automotive industry resulted in expanded sales of a wide range of products including fasteners, forgings, sheet, wire and bars. A dearth of major construction and pipeline projects, however, severely limited sales of plate, tubular products and reinforcing steel.

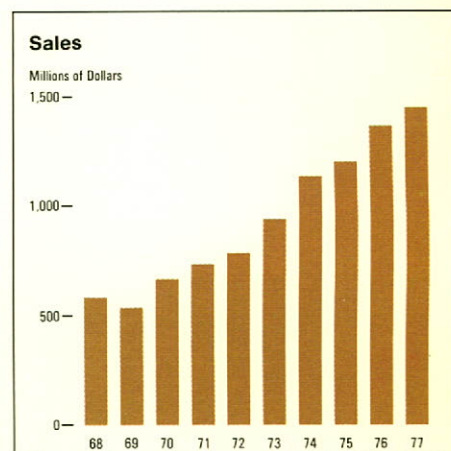
The near-term outlook in the construction industry is still not encouraging, although the James Bay project in Quebec and the start of the Bruce B generating station in Ontario are helpful. A start on the Alaska Highway Gas Pipeline project would, of course, provide a very positive impetus.

Contrasts in steel demand occurred in the agricultural industry. Increased construction of storage structures strengthened demand for sheet products for cladding and grain bins but sales of agricultural implements were generally sluggish.

Steel usage in the appliance industry, a major consumer of sheet products, remained static throughout 1977 with only a few appliance products showing moderately increased sales.

Service centres, a major customer group which further processes and distributes a wide range of plate, sheet and bar products, experienced only a slight increase in business during the year.

In transportation, the federal Government's grain car program created substantial demand for high-strength low-alloy steel. The railway companies have curtailed rail car purchases but a number of track maintenance programs are continuing. A five-year concrete rail tie project, begun in 1976, generated steady sales of both prestressing wire for the ties and hot-rolled bars used in making the special fastening devices.



Although international markets were characterized by intense competition and low prices, the Company maintained its overseas market position in tinplate and wire rod and continued to take advantage of spot opportunities to export sheet products.

#### Marketing strength

The recent period of below average economic growth has underlined the value of the Company's marketing strengths — strong national representation and a wide range of customer support services.

District sales offices in most major Canadian centres from coast to coast are able to quickly identify regional problems and needs and so help to maximize participation in all domestic steel markets.

The specialized selling concept is also a major contributor to the Company's ability to develop business opportunities. Industry teams, which serve such key industries as automotive and agricultural equipment manufacturers, steel construction fabricators, service centres and distributors have become deeply involved in pinpointing the requirements of leading industries and by satisfying these needs, the Company fosters mutual growth and success.

Support services offered to customers include metallurgical advice, market promotion and sales engineering. By determining precise product requirements and translating these needs into appropriate manufacturing practices, the metallurgical service groups make sure that customers get the product they need at the lowest possible price. In the Company's market promotion and sales engineering activities, an effort is made to generate sales for customers by demonstrating to designers, architects and consumers the advantages of steel products. Recent examples include country-wide promotion of Vinytop, a new prefinished cladding material, and a campaign in Western Canada in support of customers in the business of supplying cladding for farm buildings.

**A Great Lakes freighter, named after Stelco's Chairman of the Executive Committee, is shown unloading coal at the dock at Hilton Works, Hamilton, Ont.. Each year, about 3 million tons of coal, mainly from the United States, and about 5 million tons of iron ore from Canada and the United States are received at Hilton Works for conversion into steel. Almost all the Company's iron ore requirements and approxi-**

**mately half its coal needs are provided from sources in which it has interests (below).**

**Teeming steel at Hilton Works: the workers at this integrated, 5.8 million ton capacity steelworks produce a variety of steel products including plate, hot-rolled and cold-rolled sheet, tinplate, galvanized sheets, rods and bars (right).**



#### New products

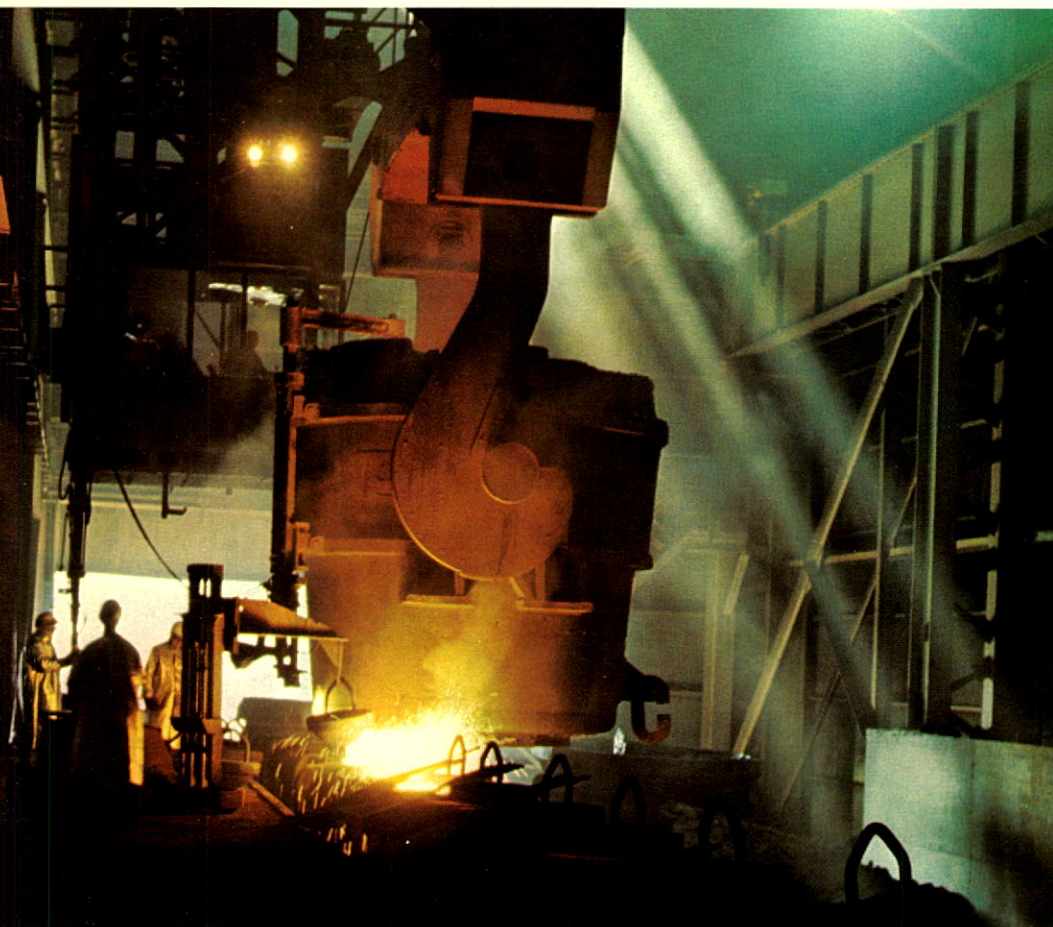
New product development continued to receive high priority and during the year several new products were introduced. Steltex, an embossed cold-rolled sheet for use in automobiles and appliances, is being particularly well received in the marketplace.

## Raw materials

#### Coal

Unauthorized work stoppages continued to plague the United States coal industry in 1977. Prolonged wildcat strikes during the summer seriously disrupted production at mines in West Virginia and Kentucky including those in which the Company has interests. Failure of the industry and coal workers to reach agreement on a new contract also resulted in a strike commencing December 6 and still underway as of the date of this report. Coal was purchased to offset the losses resulting from these disruptions.

Chisholm Mine: Productivity improved steadily during the year. A stable work force and a program of equipment replacement and rebuilding overcame a decline in the recovery of clean coal caused by local geological conditions.



Madison Mine and Beckley Mine: Productivity also improved at these mines as a result of further progress in overcoming difficult mining conditions.

Olga Coal Company: Output declined due to plant breakdowns and heavy rains which flooded the plant area. It is anticipated that following completion of modifications to the coal preparation plant, both yield and quality will be improved.

Operations at the above mines were affected by the unauthorized work stoppages.

Mathies Coal Company: Although not affected by the wildcat strikes, output was limited by adverse mining conditions and by equipment maintenance problems which are being remedied.

The feasibility study covering development of the Elk River Coal Project in

British Columbia will be available in early 1978. The results of the study will have to be considered carefully in conjunction with economic and business conditions to determine whether continuation of activities on this project is warranted.

#### Iron ore

Iron ore supply from mines in the United States was restricted during the year by a strike which lasted from August to December. However, sufficient ore to maintain primary operations at Hilton Works was obtained from other mines in which the Company has interests and from long-term contracts.

The Hilton Mines: Operations were terminated as planned in April 1977 with depletion of the ore body. All property, plant and equipment have been sold.

The Griffith Mine: Operations were maintained at capacity throughout the year.

Wabush Mines: Continued stability of the work force contributed to the achievement of planned output levels.

Erie Mining Company: Softness in steel demand prompted owners to schedule output at well below capacity.

Tilden Mine: Cold weather impaired production early in the year but for several months prior to the strike the plant was operating at capacity. The program to expand mine capacity from 4 million to 8 million tons per year proceeded on schedule and completion is expected by mid-1979.

Hibbing Taconite Project: Early in the year, output was restricted by start-up problems but prior to the strike output rates were nearing capacity.

Eveleth Expansion Project: Start-up problems were encountered and, although operating rates improved during the year, planned levels were not achieved. Work is continuing on the resolution of these difficulties.

### Limestone

All the Company's limestone requirements in 1977 were supplied by Chemical Lime Works. Lime kilns at this works continued to operate at capacity with production in excess of internal demands being sold.

### Sponge iron

At the direct reduction kiln at the Griffith Mine, alterations designed to enable output to be maintained on a consistent basis were completed. Due to the ready availability and the low price of ferrous scrap supplies, production of sponge iron for the steelmaking operations at McMaster Works and Edmonton Steel Works was not necessary in 1977.

## Operations

### Steelmaking

The highlight of Hilton Works primary operations in 1977 was outstanding blast furnace performance where significant gains in operating efficiency were achieved.

The McMaster Works electric furnace steelmaking operation is one of the most efficient in the world and holds a North American 24-hour production record for its size and type. Operations continued to exhibit this efficiency throughout 1977.

At Edmonton Steel Works, changes in operating practice produced sizeable cost reductions. Alternating the operation of the two electric-arc furnaces reduced power consumption and labour costs while meeting output requirements.

New highs in annual raw steel output were established at both McMaster Works and Edmonton Steel Works.

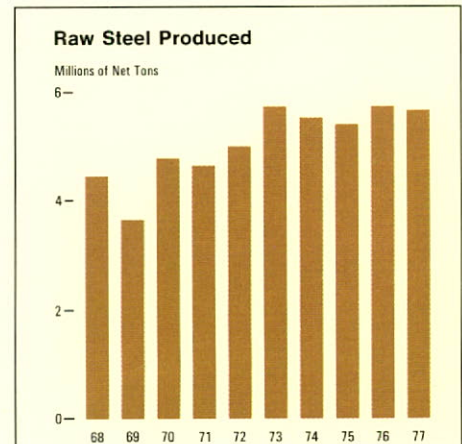
### Rolling mills

The flat-rolled mills at Hilton Works operated virtually at capacity in response to strong customer demand especially in the automotive industry. The plate mill was one exception as continued slackness in heavy construction and pipeline building limited plate demand.



In flat-rolled operations, the use of computer technology is being extended to reduce costs and improve customer service. The existing computerized production and order status systems at Hilton Works are being improved and expanded. The generation of more accurate and timely information will greatly enhance service to customers. The first phase of the upgraded system is expected to be fully operational in 1978. Installation of process control computers at the slab rolling and plate mills was approved in 1977. These computers are expected to increase operating efficiency, reduce energy consumption and improve quality control of steel produced for critical applications.

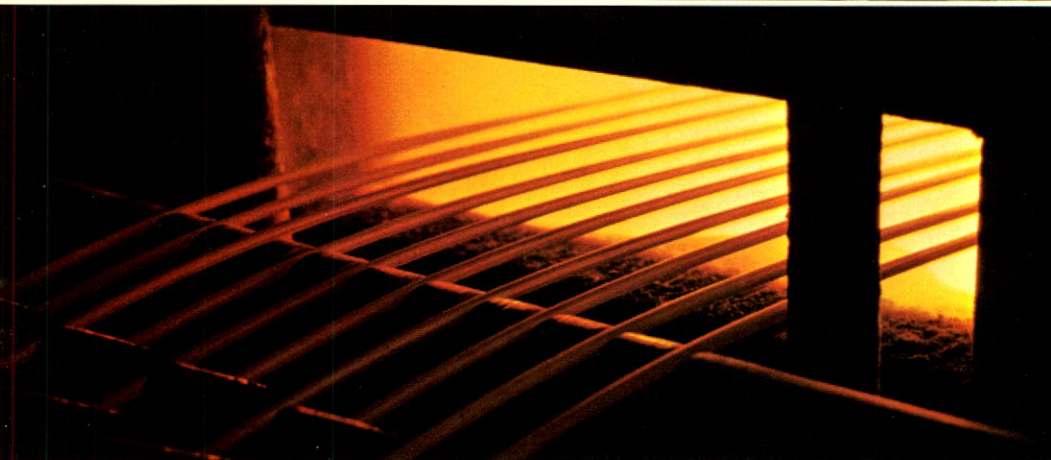
Rod and bar mills at Hilton Works operated efficiently during the year. Productivity has continued to climb at



The rod storage area at Swansea Works, Toronto, Ont.: this works is one of a number of the Company's plants for producing fasteners and forgings. Stelco is a leading supplier of fastener products to the North American automotive industry (left).

Checking a cold drawn bar at Canadian Drawn Works, Hamilton, Ont.: this facility is highly regarded in the industry for the quality of products manufactured and the efficiency of the operations (right).

A rod annealing furnace at Parkdale Works, Hamilton, Ont.: products made at this plant include wire and strand for concrete reinforcement, and dozens of types of nails, including the famous Ardox spiral nail (below).



No. 2 rod mill since major modifications were made in 1975 and at No. 1 bar mill since it was modernized in 1973. However, low demand in the construction sector resulted in operation of some of the mills at less than capacity, including the bar mills at McMaster Works and Edmonton Steel Works.

### Fabricating works

High output was sustained at plants supplying the automotive industry such as Brantford, Gananoque and Swansea Works while most other fabricating plants operated below capacity.

At the rod processing plant at Burlington Works, which began operating in 1976, operating efficiency and output both exceeded expectations until November when a fire caused extensive damage to the cleaning line. Reconstruction is underway and this unit is expected to be back in operation by the end of the first quarter of 1978. Losses arising from

this fire are covered by insurance. The fastener shipping centre at Burlington Works which came on stream in 1975 is now operating efficiently following resolution of initial difficulties encountered with this highly-automated computer-controlled facility.

The large diameter pipe mills operated at low output levels during the year due to poor demand. At the Stelform spiral-weld mill at Welland Tube Works, additional equipment is being installed to ensure efficient production of pipe to the demanding specifications and in the large tonnages involved in future northern pipelines.

At Edmonton, equipment for producing high quality 5-inch grinding balls is being installed. This facility will enable the Company to keep up with the changing quality and size requirements demanded by the mining industry and maintain market participation.

## Energy conservation

As a result of the Company's continuing commitment to energy conservation, the amount of energy consumed per ton of steel produced declined in 1977 compared with 1976. Coordinated by Stelco's Corporate Energy Task Group, 145 conservation measures were implemented in 1977 and 130 are scheduled for completion in 1978.

Activities being pursued indicate the high priority being placed on the efficient use of energy and on ensuring adequate supplies:

- More sophisticated systems are being developed for monitoring and reporting corporate energy consumption trends and for forecasting energy demands.

□ Projects related to recovery of additional waste heat from existing and future facilities and recycling of energy-containing by-products and wastes are being scrutinized.

□ About 50 studies are being conducted to evaluate various energy conservation technologies and practices related to iron and steelmaking.

□ Liaison with appropriate government departments was stepped up to ensure that the Company is kept informed of their energy policies and plans.

□ A program has been initiated to inform Stelco employees of the importance of wise energy use both at work and in the home.

## Associated companies

### Baycoat Limited

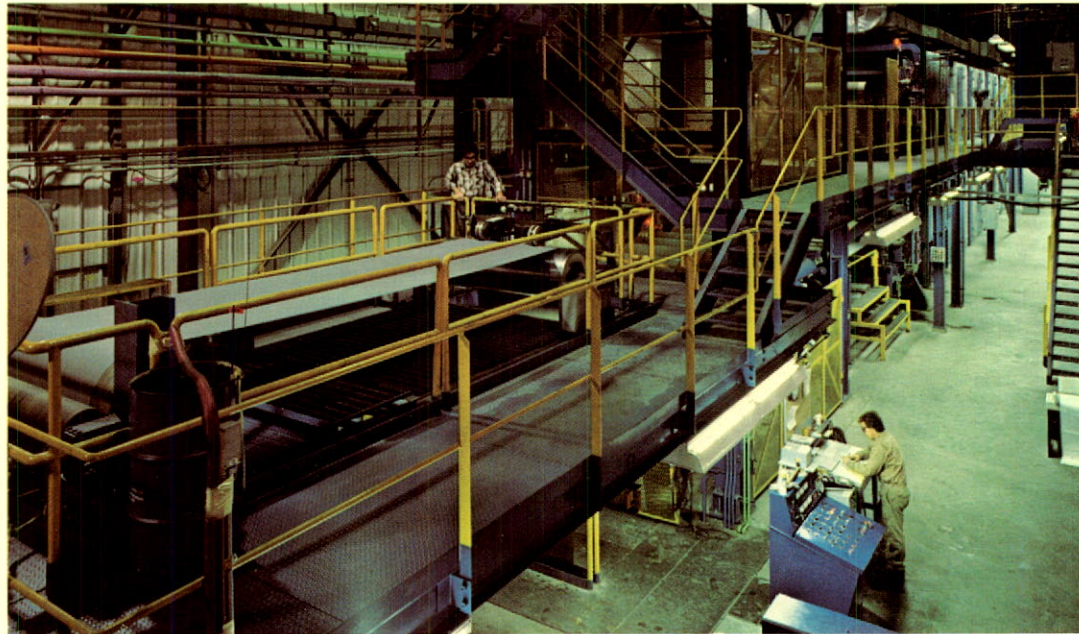
In 1977, Baycoat, which is 50% owned by Stelco, continued its record of successful operations in the coating of steel. With the start-up of a third coating line in July 1977, the plant in Hamilton became the largest single-site coil-coating operation in the world. The company continued to expand its technical expertise, and in 1977 began producing a weldable, corrosion resistant product that is finding increasing application in the automotive industry. Baycoat is also moving to take advantage of its know-how by setting up a consulting operation to sell coil-coating technology internationally.

### The Canada Systems Group (EST) Limited

This computer services company, in which Stelco has a one-third interest, had an excellent year with further growth in revenues and earnings. Computing capacity was increased significantly, new services were added and revenue from customers other than the owners was up more than 50% compared with 1976. The company is now the second largest data services company in Canada.

**Steadily rising demand for coated steel led to the construction of a third coil-coating line at Baycoat Limited, an associated company located in Hamilton, Ont.. Baycoat coats flat-rolled steel products with a wide range of finishes as a service to its parent companies (below).**

**Employing over 1,100 people, Stelco's facilities at Welland, Ont., turn out a wide range of tubular products including large diameter pipe to the specifications being considered for the Alaska Highway Gas Pipeline (right).**



### Fers et Métaux Recyclés Ltée.

Stelco has a 50% interest in this company which was formed in 1974 to collect and prepare ferrous scrap, primarily for use in the McMaster Works steelmaking operations. During the year, a facility was installed that makes possible the reclamation of all metals from scrap automobiles — the first of its kind in Canada. In addition to ferrous scrap, the plant can now extract such metals as aluminum, copper, zinc and stainless steel for reuse by secondary processors.

## Employee relations

### Collective bargaining

In 1977, one-year collective agreements were negotiated at Chemical Lime Works and at the Toronto plant of Frost Steel and Wire Company.

On August 1, 1977 the last general adjustments were made under the existing three-year collective agreements with the United Steelworkers of America at Hilton Works and most of the Company's fabricating works. These agreements will expire on July 31, 1978 and every effort will be made to renegotiate satisfactory agreements bearing in mind the necessity for control of costs in order to maintain our competitive position in the marketplace.





### Employment Costs

Dollars in thousands

1977

<b>Wages and Salaries</b>	For time worked	<b>\$379,693</b>
	For vacations and statutory holidays	<b>31,708</b>
		<b>\$411,401</b>
<b>Supplementary Employment Costs</b>	Pensions	<b>\$ 43,904</b>
	Group insurance plans and other benefits	<b>25,669</b>
	Unemployment insurance and workmen's compensation	<b>14,063</b>
		<b>\$ 83,636</b>
<b>Total Employment Costs</b>		<b>\$495,037</b>
<b>Average Number of Employees</b>		<b>22,942</b>
<b>Employee Benefits</b>	Number of pensioners at year end	<b>4,277</b>
	Pensions paid during the year	<b>\$ 16,402</b>
	Life insurance in force at year end	<b>\$506,114</b>
	Death benefits paid during the year	<b>\$ 2,084</b>



### Health and safety

Considerable attention and effort was directed toward health and safety matters during the year. It is a source of satisfaction to be able to report that both accident frequency and severity declined significantly at most plant locations during the year.

Health and safety workshops involving representatives of the Union, Company and the Ontario Government were initiated for the purpose of discussing proposals for improving on-the-job safety and health conditions. This forum of cooperative action has spawned a more positive attitude in the parties and appears to have been a prime contributing factor to the improvement in the incidence of accidents.

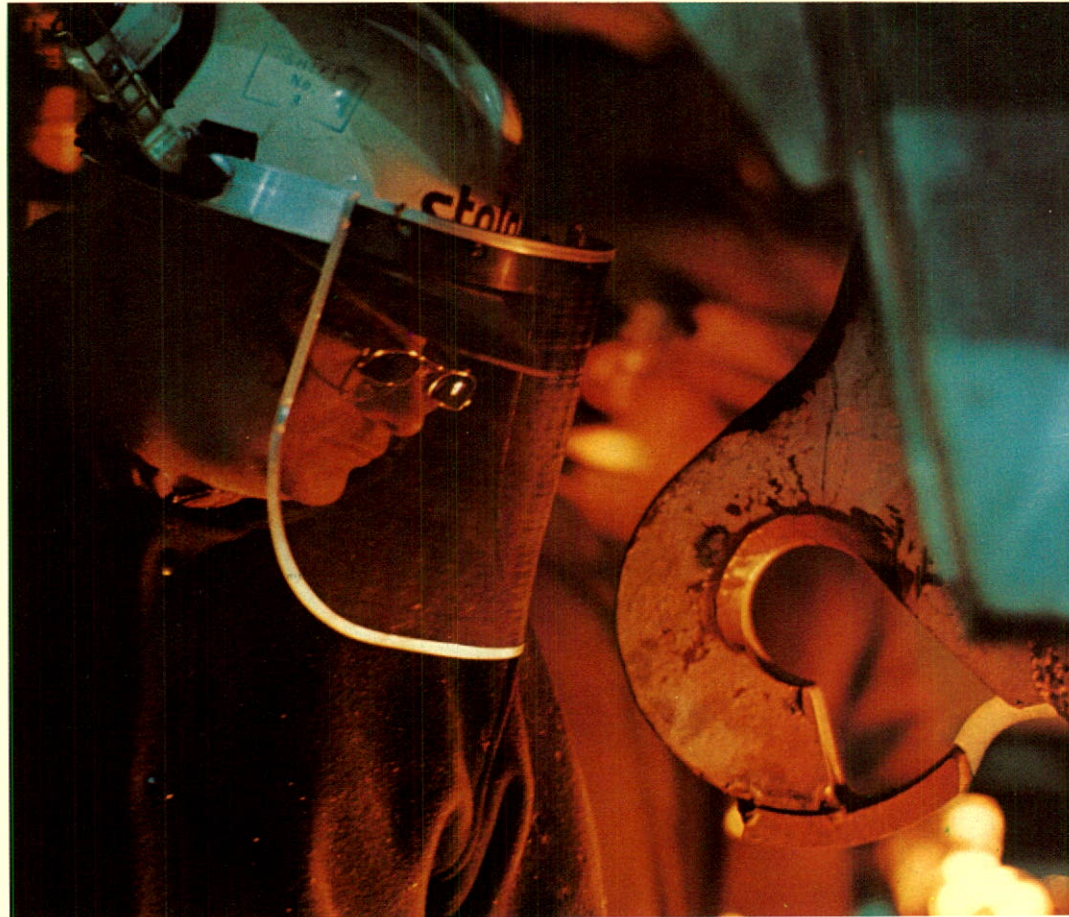
### Francization

In Quebec, the Company's Francization Committee continues to work toward the goal of ensuring that Stelco meets the requirements for use of the French language. Employees have been encouraged to attend language courses and all Company-Union dealings are now conducted in French. The Translation Department has been expanded to handle the increasing needs, including the translation of forms, specifications and general communications.

### Communications

To improve communications with employees, the Company's employee publication, Stelco Flashes, was given a new editorial direction and format. The publication's scope has been broadened to deal with more corporate issues and problems affecting employees. In addition, a program to ensure that each of the fabricating works has a plant newspaper resulted in the introduction of a number of new ones during the year.

Television is also proving to be an effective medium for communicating within the Company. Ninety videotape programs were produced in 1977 covering job training, safety and news of interest, including features on the Company's regional operations and ways in which customers use Stelco steel.



### Public affairs

A concerted attempt to acquaint media representatives with the major aspects of our business as well as our productive capabilities has resulted in improved visibility and projection of the Company's position on industry, local and national issues.

### Technology

Competition in the steel business, especially from offshore producers, requires a continuing commitment to the improvement of operations through both the adoption of the latest technological developments and the creation of new technology. In 1977, over 400 research projects were being conducted throughout the Company by Research Department personnel and specialists working in the various service and production departments. A few examples demonstrate the success of these joint efforts.

□ At Hilton Works, redesign of the lances used to inject oxygen into the basic oxygen furnaces resulted in increased steel yield, reduced oxygen usage and prolonged refractory life.

□ At Welland Tube Works, welding wires and wire-flux combinations were developed to produce pipe seam welds that meet the most stringent quality standards now being required for northern pipeline applications.

□ At McMaster Works, special procedures were developed which have resulted in improvement in the mechanical properties and surface finish of hot-formed continuous weld pipe and hollow structural sections.

□ At Edmonton Steel Works, a 25% increase in billet casting rates was achieved after a new type of mold was installed on the strand casting machine.



Capacity of Edmonton Steel Works, Edmonton, Alta., is 250,000 tons per year. Products from the bar mill at this works are shipped to customers in the construction, agricultural and light manufacturing industries, as well as being further processed at the nearby Edmonton Finishing Works, where a variety of products including rock bolts, sucker rods, grader blades and cultivator shanks are manufactured (far left).

A branch of Saskatchewan Steel Fabricators Ltd., Regina, Sask., a Stelco subsidiary, has been established at Camrose Works, Camrose, Alta., the location of two Stelco pipe mills. One of the foremost heavy plate fabricators in Western Canada, Saskatchewan Steel custom-builds tanks, stacks and air pollution equipment for refineries, mines and other major industrial facilities. Stelco employs close to 1,000 people in its Alberta and Saskatchewan plants (left).

## Environmental control

Over the years, the amount of pollutants emanating from the Company's plants has been dramatically curtailed. This achievement has been costly. Since 1960, spending and commitments on environmental control amount to \$207 million. In 1977, total expenses associated with these facilities, including depreciation, were in excess of \$15 million. Control of the relatively low remaining levels of emissions involves difficult technical problems that, in some cases, require for their solution large capital expenditures that appear to be excessive in comparison to the benefits to be gained. Close scrutiny of these additional controls is thus required by the Company and governments to ensure that the heavy capital commitments are justified.

The Company's commitment to continuing improvement in environmental control is reflected in the following review of some of the projects underway in 1977.

### Hilton Works

The sinter plant converts about 600,000 tons per year of waste materials, much of it recovered by environmental control facilities, into a useful blast furnace feed stock. The process generates fumes which, because of the nature of the waste materials, are difficult to clean. After a thorough search for the best available technology, construction of a new scrubber on the sinter plant's main stack was approved. The largest remaining source of air pollution at Hilton Works will thus be brought under tighter control.

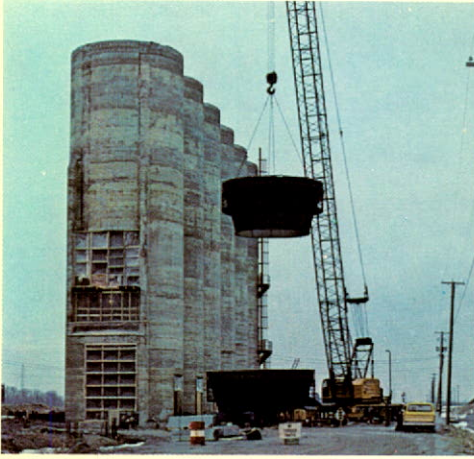
To improve personal health protection and emission control at the coke ovens, installation of another of the new-style charging cars, fitted with the latest devices for reducing emissions, was approved. This installation will complete replacement of the older-style cars.

On B, C and D blast furnaces, equipment is being installed to recirculate water used to clean waste gases. Patterned after the system developed for E furnace, the equipment is designed to minimize the volume of water requiring treatment before discharge.

Capacity of the East Side Filtration Plant is being doubled to 120 million gallons per day to ensure that process water from the rolling mills conforms to standards for suspended solids.

### Edmonton

New ventilation and slag handling systems are under construction at Edmonton Steel Works. These will result in improved working conditions by reducing the quantity of airborne dust.



## Lake Erie Development

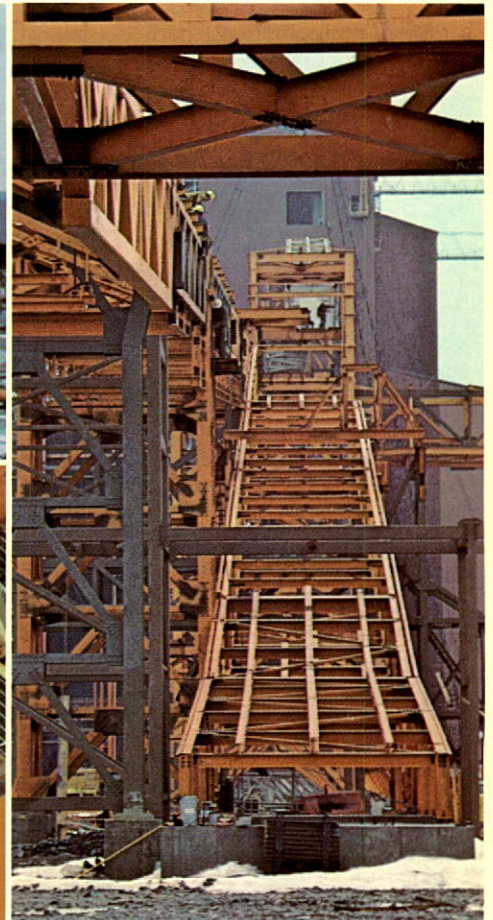
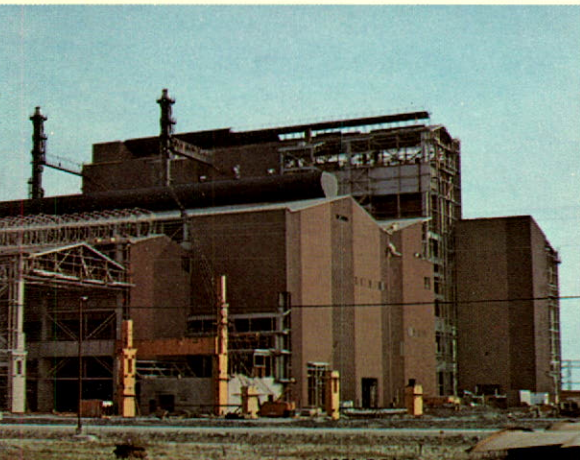
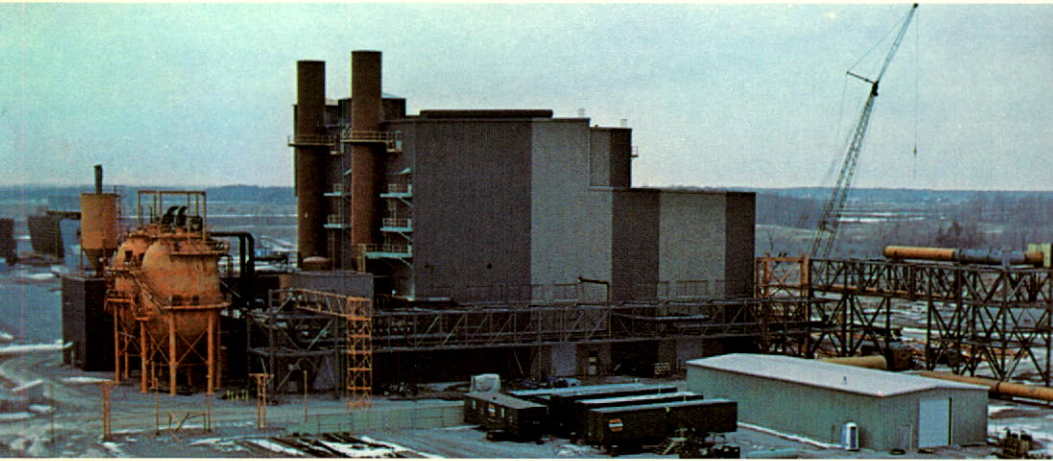
Construction of this facility, the largest expansion undertaken by the Canadian steel industry, proceeded as planned during the year. Production of steel for shipment to the rolling mills at Hilton Works is scheduled to take place in 1980.

Through direct employment of an average of 900 construction workers in 1977 and indirectly through the purchase of machinery and equipment from suppliers, this project provides a major stimulus to employment in the currently depressed construction sector of the economy.

### Project Status at Year-End

□ **Raw Materials Handling:** Construction of the raw materials handling system was well advanced. The dock hopper, into which the lake freighters unload, and the yard conveyor were complete. Some work remained on installation of the dock conveyor. The stacker crane, which piles up the raw materials, was commissioned and the concrete poured for the shells of the six coal blending silos.

□ **Ironmaking:** Most of the steelwork for the furnace shell, the associated tower and the gas systems was completed. The cast-house building was enclosed and the crane installed. The special water cooling system for the furnace shell was in place and installation of connecting pipework was in progress. Structural steel for the stock house had been erected and installation of the conveyor system for moving raw materials from the stock house to the top of the furnace was underway. The installation of brickwork within the three blast furnace stoves was complete. Installation of equipment and services was continuing in the central power station and water treatment plant.



□ **Steelmaking:** Structural steel for the basic oxygen furnace and slab caster building complex had been erected and the buildings were almost sheeted in. The two steelmaking vessels and the hood systems for controlling furnace emissions were in place. Structural steel had been installed for both the track hopper, which will handle the materials used in the steelmaking process, and the pumphouse. Work was proceeding on construction of the scale and scrap pits, filter plant and cooling towers.

□ **Services:** The incoming high-voltage electrical system and all substations within the plant were complete. Roadway shaping, ditches, culvert installations and roadway lighting were finished and railway track laid in the marshalling and scrap storage yards and the basic oxygen furnace shop area. The main water reservoir for the plant was finished and the underground water and sanitary systems were virtually complete. Structural steel racks for overhead piping were in place and welding of service piping was well advanced. In the central maintenance shop, installation of floors, plumbing and electrical services was underway.

□ **Industrial park:** The first plan of subdivision for the Lake Erie Industrial Park was registered in August 1977. Marketing of the properties, in what will become a prime development suited to many types of industry, was underway and some properties had been sold. Construction of buildings was expected to begin in the spring of 1978.

*J. Gallan*  
President

## Consolidated Statement of Income and Retained Earnings

Years ended December 31

(Thousands of Dollars)

	1977	1976
<b>Revenue</b>		
Sales	<b>\$1,444,057</b>	\$1,359,755
Equity in net income of corporate joint ventures and partnerships	<b>5,155</b>	8,109
Income from short-term investments	<b>13,404</b>	9,565
	<u><b>1,462,616</b></u>	<u>1,377,429</u>
<b>Expense</b>		
Cost of sales, exclusive of the following items	<b>1,190,466</b>	1,105,118
Administrative and selling	<b>81,817</b>	75,188
Depreciation	<b>55,126</b>	54,868
Interest on long-term debt	<b>51,415</b>	46,786
Other interest	<b>332</b>	1,129
Income taxes (Note 2) — current	<b>(3,058)</b>	(6,992)
— deferred	<b>(3,687)</b>	10,727
	<u><b>1,372,411</b></u>	<u>1,286,824</u>
<b>Net Income for the Year</b>	<b>90,205</b>	90,605
(per convertible share: 1977 — \$3.36, 1976 — \$3.67) (Note 1)		
<b>Retained Earnings at beginning of year</b>	<u><b>708,383</b></u>	<u>659,769</u>
	<b>798,588</b>	750,374
<b>Dividends</b> (Notes 11 and 13)	<b>50,205</b>	41,991
<b>Expenses relating to issue of preferred shares</b>	<b>636</b>	—
(after deducting income taxes of \$218)		
<b>Retained Earnings at end of year</b>	<u><u><b>\$ 747,747</b></u></u>	<u><u>\$ 708,383</u></u>

## Consolidated Statement of Financial Position

At December 31  
(Thousands of Dollars)

	1977	1976
<b>Current Assets</b>		
Cash	\$ 26,437	\$ 14,964
Short-term investments, at cost (approximates market value)	171,620	89,386
Accounts receivable	193,286	163,992
Inventories (Note 3)	448,684	408,145
Prepaid expenses	4,444	3,505
	<u>844,471</u>	<u>679,992</u>
<b>Current Liabilities</b>		
Accounts payable and accrued	198,320	179,425
Income and other taxes	23,094	24,476
Dividends payable	15,350	12,241
Long-term debt due within one year	2,081	2,080
	<u>238,845</u>	<u>218,222</u>
<b>Working Capital</b>	<u>605,626</u>	<u>461,770</u>
<b>Other Assets</b>		
Long-term intercorporate investments (Note 4)	56,855	51,990
Fixed assets, less accumulated depreciation (Note 5)	1,186,085	1,102,040
Unamortized long-term debt issue expense	6,436	6,821
	<u>1,249,376</u>	<u>1,160,851</u>
<b>Total Investment</b>	<u>1,855,002</u>	<u>1,622,621</u>
<b>Other Liabilities</b>		
Long-term debt (Note 6)	501,274	504,357
Deferred income taxes	265,645	269,550
	<u>766,919</u>	<u>773,907</u>
<b>Shareholders' Equity</b>	<u>\$1,088,083</u>	<u>\$ 848,714</u>
Derived from:		
<b>Capital Stock</b> (Notes 10 and 13)		
8,000,000 Preferred Shares Series A	\$ 200,000	\$ —
24,702,805 Convertible Shares (1976 — 24,702,555)	140,336	140,331
<b>Retained Earnings</b>	747,747	708,383
	<u>\$1,088,083</u>	<u>\$ 848,714</u>

On behalf of the Board:

  
Director

  
Director

## Consolidated Statement of Changes in Financial Position

Years ended December 31

(Thousands of Dollars)

	1977	1976
<b>Source of Working Capital</b>		
Current operations	\$139,998	\$154,433
Net proceeds from issue of long-term debt	—	144,170
Net proceeds from issue of preferred shares (Note 13)	199,146	—
Issue of convertible shares (Note 10)	5	54
Other (net)	2,603	855
	<u>341,752</u>	<u>299,512</u>
<b>Disposition of Working Capital</b>		
Expenditures for fixed assets	141,389	166,878
Long-term intercorporate investments (net)	3,219	5,622
Reduction of long-term debt	3,083	3,332
Dividends (Notes 11 and 13)	50,205	41,991
	<u>197,896</u>	<u>217,823</u>
<b>Increase in Working Capital</b>	<b>143,856</b>	<b>81,689</b>
Working capital at beginning of year	461,770	380,081
<b>Working Capital at end of year</b>	<b><u>\$605,626</u></b>	<b><u>\$461,770</u></b>

### Auditors' Report

Thorne  
Riddell  
& Co.

CHARTERED ACCOUNTANTS

To The Shareholders  
The Steel Company of Canada, Limited

We have examined the consolidated statement of financial position of The Steel Company of Canada, Limited at December 31, 1977 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada  
January 24, 1978

*Thorne Riddell & Co.*



## Notes to Consolidated Financial Statements

December 31, 1977

### 1. Summary of Significant Accounting Policies

**Principles of Consolidation** The consolidated financial statements include the accounts of The Steel Company of Canada, Limited and its subsidiaries, all of which are wholly owned. The Company's interests in four unincorporated joint ventures are also included in the consolidation. Corporate joint ventures and partnerships, in all of which the Company has an interest of 50% or less, are accounted for by the equity method.

**Foreign Currencies** Current assets and liabilities originating in foreign currencies are translated at year-end exchange rates. All other assets and liabilities originating in foreign currencies are translated at rates prevailing when the assets were acquired or the liabilities incurred. Income and expense items are translated at average rates prevailing during the year. The gains or losses resulting from these translations are reflected in the statement of income.

**Inventories** Inventories are valued at the lowest of cost, replacement cost and net realizable value.

**Fixed Assets** Fixed assets are carried at cost. Depreciation is provided using the straight-line method at rates based on the estimated useful lives of depreciable assets.

**Interest** The interest cost of financing both working capital and capital expenditures, including the steel plant under construction at Lake Erie, is being expensed as incurred.

**Income Taxes** Income taxes are provided on the tax allocation basis and the resultant deferred income taxes are due principally to claiming depreciation for tax purposes in excess of straight-line depreciation. Investment tax credits are recorded in the year of the related capital expenditures by a reduction of income taxes expense.

**Net Income Per Convertible Share** Net income per convertible share has been computed on the basis of net income for the year (after deducting the prescribed cumulative dividends on the Preferred Shares Series A since their issue in May, 1977), divided by the weighted average of both Class A and Class B Convertible Shares outstanding during the year.

### 2. Income Taxes

Income taxes expense has been reduced by investment tax credits of \$8.3 million (\$13.3 million in 1976).

In 1977 Revenue Canada issued a reassessment related to non-resident sales subsidiaries which would increase the Company's 1972 income taxes and could have similar application to subsequent years. A Notice of Objection has been filed and representations are being made on the matter. The Company and its legal advisers are of the opinion that, although at this time the ultimate disposition is indeterminate, Revenue Canada's position as set out in the Notice of Reassessment is not justified. The reassessment has not been provided for in the 1977 financial statements. The Company is of the opinion that any resulting taxes will not have a material effect on its financial position.

### 3. Inventories

	1977 (in thousands)	1976 (in thousands)
Raw materials and supplies . . . . .	\$ 181,083	\$ 183,961
Finished and semi-finished products . . . . .	267,601	224,184
	<u>\$ 448,684</u>	<u>\$ 408,145</u>

### 4. Long-term Intercorporate Investments

Corporate joint ventures and partnerships, at equity . . . . .	\$ 47,064	\$ 42,160
Portfolio investments, at cost . . . . . (quoted market value: 1977 \$7.6 million, 1976 \$4.6 million)	9,791	9,830
	<u>\$ 56,855</u>	<u>\$ 51,990</u>

### 5. Fixed Assets

Raw material plants and properties, at cost . . . . .	\$ 248,324	\$ 251,828
Manufacturing plants and properties, at cost . . . . .	1,736,864	1,609,105
	<u>1,985,188</u>	<u>1,860,933</u>
Less accumulated depreciation . . . . .	799,103	758,893
	<u>\$1,186,085</u>	<u>\$1,102,040</u>

Notes to Consolidated Financial Statements (continued)

December 31, 1977

	1977 (in thousands)	1976 (in thousands)
<b>6. Long-term Debt</b>		
5½% sinking fund debentures due May 1, 1990 . . . . . (Annual sinking fund requirement \$1.3 million)	<b>\$ 38,994</b>	\$ 39,976
9¼% sinking fund debentures due November 1, 1990 . . . . . (Annual sinking fund requirement \$1.5 million — 1978 through 1983; \$2.0 million — 1984 through 1989)	<b>55,646</b>	56,401
10½% sinking fund debentures due September 15, 1994 . . . . . (Annual sinking fund requirement \$2.6 million — 1980 through 1993)	<b>65,000</b>	65,000
9¾% sinking fund debentures due April 1, 1995 . . . . . (Annual sinking fund requirement \$4.0 million — 1981 through 1994)	<b>100,000</b>	100,000
10% notes due October 15, 1987 . . . . . (Annual repayment US \$1.3 million — 1978 through 1983; US \$2.3 million — 1984 through 1987)	<b>17,543</b>	18,888
10¾% sinking fund notes due November 20, 1995 . . . . . (Annual sinking fund requirement US \$8.3 million — 1981 through 1994)	<b>126,172</b>	126,172
10¼% sinking fund debentures due April 30, 1996 . . . . . (Annual sinking fund requirement \$4.0 million — 1982 through 1995)	<b>100,000</b>	100,000
	<b>503,355</b>	506,437
Less amount due within one year . . . . .	<b>2,081</b>	2,080
	<b>\$501,274</b>	\$504,357

**7. Capital Programs**

The estimated cost to complete approved capital programs, including the first stage of the new plant at Lake Erie, is \$520 million, which will be spent over a period of approximately 5 years. This includes an estimated amount of \$125 million to cover inflation in construction costs and other contingencies. Because of changing market conditions, the Company's plans for expansion of rolling mill facilities, including the 80" hot strip mill, are under review. The Company has accordingly excluded completion of the 80" hot strip mill from the scope of the first stage of the Lake Erie Development and therefore the aforementioned amounts do not include any costs related to this facility.

**8. Commitments**

The Company, as a participant in certain mining joint ventures and partnerships, is entitled to receive its proportionate share of coal and iron ore produced and is committed to pay its share of their costs including minimum charges for principal and interest to cover the servicing of their long-term debt. The Company's share of such minimum charges averages \$13 million annually to 1996.

**9. Retirement Plans**

Pension costs charged against income in the year under the Company's pension plans include payments made to trust funds for current and past service requirements as determined by an independent actuary. Unfunded past service costs in respect of pensions ultimately payable to the present employees are estimated to be \$209 million at December 31, 1977. This amount is being funded over periods not exceeding fifteen years.

**10. Stock Options**

In accordance with a Stock Option Policy adopted in 1965, 125,094 convertible shares are reserved for stock options. At December 31, 1977, options were outstanding to officers in respect of 10,294 shares at a price of \$18.75 per share, the options expiring in February 1978. As a result of the exercise of options during the year, 250 Class A shares were issued for cash aggregating \$4,688.

**11. Anti-Inflation Act**

The Company understands that it is in compliance with the requirements of the federal Government's anti-inflation legislation applying to its Canadian operations. Prices and profits are subject to controls until December 31, 1978. Controls on dividends will expire on October 13, 1978, while wages and salaries are scheduled for decontrol at varying dates during 1978.

**12. Remuneration of Directors and Officers** (Section 122.2 of the Canada Corporations Act)

The aggregate remuneration for 1977 of the Company's fifteen directors as directors was \$83,400. The aggregate remuneration of the Company's thirty-four officers and past officers as such was \$2,308,442. Two officers and one past officer are directors of the Company.

### 13. Capital Stock and Dividends

#### (a) Preferred Shares — \$25 par value

Authorized — 16,000,000 Preferred Shares

	<b>December 31, 1977</b>	December 31, 1976
Issued — Preferred Shares Series A . . . . .	<b>8,000,000 shares</b>	—

By Supplementary Letters Patent, dated April 25, 1977, the authorized capital of the Company was increased by the creation of 16,000,000 Preferred Shares of a par value of \$25 each, issuable in series. On May 4, 1977 the Company issued to a limited number of Canadian institutional investors, for \$200 million in cash, 8,000,000 Preferred Shares Series A. These shares are entitled to a cumulative floating rate dividend, calculated on a quarterly basis. The rate equals the sum of 1¼% and one-half the average Canadian bank prime rate.

The shares are redeemable at the Company's option on or after May 1, 1980 at a premium of \$0.75 per share, reducing by \$0.1875 annually thereafter.

The shares are retractable at par, at the holder's option, on May 1 in each of the years 1987, 1992 and 1997.

#### (b) Convertible Shares — no par value

Authorized — 35,000,000 Class A Convertible Shares  
 — 35,000,000 Class B Convertible Shares

	<b>December 31, 1977</b>	December 31, 1976
Issued — Class A . . . . .	<b>23,133,489 shares</b>	23,238,543 shares
— Class B . . . . .	<b>1,569,316 shares</b>	1,464,012 shares
	<b>24,702,805 shares</b>	24,702,555 shares

The Convertible Shares of each class are voting, convertible into one another on a share-for-share basis and rank equally in all respects; the maximum total number of shares outstanding at any time is limited to 35,000,000. The only distinction between the two classes of shares is that dividends on the Class A Convertible Shares are ordinary taxable dividends for purposes of the Income Tax Act while dividends on the Class B Convertible Shares may be paid out of the Company's tax-paid undistributed surplus on hand or 1971 capital surplus on hand as defined in the Income Tax Act.

#### (c) Dividends

Dividends declared, including extra distributions on convertible shares and related tax consisted of the following:

	Year Ended December 31, 1977 (in thousands)	Year Ended December 31, 1976 (in thousands)
Preferred Shares Series A . . . . . (per share: 1977 — \$1.02627)	<b>\$ 8,210</b>	\$ —
Convertible Shares (per share: 1977 — \$1.70, 1976 — \$1.70)		
Class A Convertible . . . . .	<b>39,285</b>	39,624
Class B Convertible . . . . .	<b>2,710</b>	2,012
Related tax . . . . .	—	355
	<b>41,995</b>	41,991
	<b>\$50,205</b>	\$41,991

In 1976, dividends per share declared on Class B Convertible Shares were equivalent to those declared on Class A Convertible Shares, after adjustment for the special 15% tax payable by the Company to create tax-paid undistributed surplus on hand out of which dividends on the Class B Convertible Shares were paid.

As a result of changes in federal income tax legislation, dividends declared in 1977 on Class B Convertible Shares were payable out of 1971 capital surplus on hand. Accordingly, it was not necessary to create tax-paid undistributed income on hand by the payment of the special 15% tax and dividends per share declared on Class B Convertible Shares were equal to those declared on Class A Convertible Shares.

# Ten Year Statistical Summary

Dollars in millions except as indicated\*

	1977	1976	1975	1974	1973	1972	1971	1970	1969 <sup>(1)</sup>	1968
<b>Operations (thousands of net tons)</b>										
Raw steel produced	5,640	5,724	5,396	5,542	5,723	5,031	4,673	4,801	3,670	4,485
Total raw steel processed (including purchases)	5,490	5,669	5,263	5,837	6,035	5,362	5,214	4,955	4,076	4,591
Steel shipments	3,995	4,028	3,706	4,078	4,204	3,797	3,689	3,517	2,906	3,278
<b>Income and Related Data</b>										
Sales	\$ 1,444.1	1,359.8	1,201.8	1,133.2	937.7	775.9	730.2	663.2	528.0	589.6
Depreciation	\$ 55.1	54.9	51.4	52.1	46.7	39.7	37.1	37.5	33.4	37.1
Income taxes	\$ (6.7)	3.7	30.2	57.8	56.6	22.9	43.8	40.8	24.9	37.5
Net income	\$ 90.2	90.6	88.8	110.9	87.7	67.1	66.6	60.2	31.1	68.0
Per convertible share <sup>(2)</sup>	*\$ 3.36	3.67	3.60	4.50	3.56	2.73	2.74	2.47	1.28	2.79
Return on sales	% 6.2	6.7	7.4	9.8	9.4	8.6	9.1	9.1	5.9	11.5
Return on average investment	% 5.2	6.0	6.9	10.3	9.3	7.7	8.1	7.9	4.4	9.9
Return on average shareholders' equity	% 9.3	11.0	11.4	15.5	13.5	11.2	11.9	11.5	6.1	14.1
Dividends declared — preferred	\$ 8.2	—	—	—	—	—	—	—	—	—
— convertible	\$ 42.0	42.0	42.0	38.2	32.0	30.8	30.4	29.2	29.2	24.3
Per convertible share	*\$ 1.70	1.70	1.70	1.55	1.30	1.25	1.25	1.20	1.20	1.00
Earnings reinvested in the business	\$ 40.0	48.6	46.8	72.7	55.7	36.3	36.2	31.0	1.9	43.6
<b>Capital Expenditures</b>	\$ 144.6	172.5	232.8	135.5	116.5	95.0	95.1	89.5	33.3	33.5
<b>Financial Position, year end</b>										
Working capital	\$ 605.6	461.8	380.1	301.1	218.5	199.5	203.7	218.0	176.5	175.8
Fixed assets — net	\$ 1,186.1	1,102.0	990.5	812.1	734.1	671.8	621.3	564.5	514.5	515.3
Long-term debt	\$ 501.3	504.4	361.1	165.5	103.8	105.0	107.8	110.2	54.2	57.5
Preferred shareholders' equity	\$ 200.0	—	—	—	—	—	—	—	—	—
Convertible shareholders' equity	\$ 888.1	848.7	800.0	752.1	679.0	622.9	579.9	543.5	507.8	505.8
Per convertible share	*\$ 35.95	34.36	32.39	30.50	27.56	25.30	23.82	22.33	20.87	20.79
<b>Employment</b>										
Average number of employees	22,942	22,691	23,192	23,251	22,580	21,582	21,351	21,497	21,792	21,584
Total employment costs	\$ 495.0	459.0	401.9	350.6	308.2	264.5	234.5	221.2	176.2	186.9
Employees' average weekly earnings	*\$ 343.67	320.90	280.85	249.15	224.63	204.46	186.35	173.46	156.38	146.52
<b>Number of Shareholders, year end</b>	36,408	36,501	37,864	39,086	39,331	40,036	45,829	49,985	51,730	52,520

<sup>(1)</sup> 1969 operations interrupted by strike — 80 days.

<sup>(2)</sup> After preferred dividends in 1977 (See Note 1 on page 23).

## Directors

- \* J.D. Allan, Toronto  
President of the Company
- \* Alistair M. Campbell, Montreal  
Chairman,  
Sun Life Assurance Company of Canada
- A. Jean de Grandpré, Q.C., Montreal  
Chairman of the Board and  
Chief Executive Officer, Bell Canada
- \* J. Douglas Gibson, O.B.E., Toronto  
Chairman of the Board,  
The Consumers' Gas Company
- \* J. Peter Gordon, Toronto  
Chairman of the Board and  
Chief Executive Officer of the Company
- \* H.M. Griffith, Toronto  
Chairman of the Executive Committee of the  
Board of the Company
- \* A.J. MacIntosh, Q.C., Toronto  
Partner, Messrs. Blake, Cassels & Graydon,  
Barristers & Solicitors
- † Senator The Hon. Ernest C. Manning,  
P.C., C.C., Edmonton  
Chairman, M & M Systems Research Ltd.
- Frederick C. Mannix, Calgary  
Corporate Director
- † William F. McLean, Toronto  
President, Canada Packers Limited
- \* † D.R. McMaster, Q.C., Montreal  
Partner, Messrs. McMaster Meighen,  
Barristers & Solicitors
- Lucien G. Rolland, Montreal  
President and General Manager,  
Rolland Paper Company, Limited
- Henry G. Thode, C.C., Ph.D., F.R.S.,  
Hamilton  
Professor of Chemistry, McMaster University
- † Kenneth A. White, C.D., Montreal  
President and Chief Executive Officer,  
The Royal Trust Company
- William H. Young, Hamilton  
President, The Hamilton Group Limited

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

## Executive Officers

- J.P. Gordon  
Chairman of the Board and  
Chief Executive Officer
- J.D. Allan  
President
- W.C. Chick  
Vice-President, Finance
- A.D. Fisher  
Vice-President, Corporate Planning  
and Research
- A.J. Harris  
Vice-President, Engineering and Procurement
- R.E. Heneault  
Vice-President, Administration
- G.H.G. Layt  
Vice-President, Operations
- A.R. McMurrich  
Vice-President, Marketing
- J.W. Younger, Q.C.  
Vice-President, Secretary and General Counsel

## Vice-Presidents and Other Officers

- W.C. Ashcroft  
Assistant Treasurer
- G. Binnie  
Assistant Treasurer
- G.W.R. Bowlby  
Vice-President — Market Development
- K. Coles  
Vice-President — Manufacturing
- W.A. Darby  
Assistant Comptroller — Corporate Accounting
- J.E. Hood  
Vice-President — Manufacturing
- L.M. Killaly  
Assistant Secretary
- B.M. Kinnear  
Treasurer
- A.R. Oliver  
Vice-President — Procurement
- V.O. Phillips  
Assistant Comptroller — Works Accounting
- H.J.M. Watson  
Comptroller — Accounting
- F.H. Weir  
Comptroller — Financial Planning

# Corporate Directory

## Head Office

P.O. Box 205, Toronto-Dominion Centre,  
Toronto, Ontario, M5K 1J4.

## General Offices

Hamilton, Ontario  
Montreal, Quebec — Eastern Region  
Edmonton, Alberta — Western Region

## Sales Offices

Hamilton, Ontario  
Montreal, Quebec  
Calgary, Alberta  
Edmonton, Alberta  
Quebec, Quebec  
Regina, Saskatchewan  
Saint John, New Brunswick  
St. John's, Newfoundland  
Toronto, Ontario  
Vancouver, British Columbia  
Windsor, Ontario  
Winnipeg, Manitoba

## Plants

Hamilton, Ontario  
Hilton Works  
Canada Works  
Canadian Drawn Works  
Frost Works  
Parkdale Works  
Beachville, Ontario  
Chemical Lime Works  
Brantford, Ontario  
Brantford Works  
Burlington, Ontario  
Burlington Works  
Gananoque, Ontario  
Gananoque Works  
Nanticoke, Ontario  
Lake Erie Development (under construction)  
Red Lake, Ontario  
The Griffith Mine  
Toronto, Ontario  
Swansea Works  
Welland, Ontario  
Page-Hersey Works  
Welland Tube Works  
Contrecoeur, Quebec  
McMaster Works  
Lachine, Quebec  
Dominion Works  
Montreal, Quebec  
Notre Dame Works  
St. Henry Works  
Camrose, Alberta  
Camrose Works  
Edmonton, Alberta  
Stelco Edmonton, Steel Works  
Stelco Edmonton, Finishing Works  
Regina, Saskatchewan  
Saskatchewan Steel Fabricators Ltd.

## Research Centre

Burlington, Ontario

## Subsidiary Companies, wholly owned

Saskatchewan Steel Fabricators Ltd.,  
Regina, Sask.  
Frost Steel and Wire Company, Limited,  
Hamilton, Ont.  
Frost Steel and Wire Company, Quebec, Limited,  
Montreal, Que.  
Durastal Installations Limited,  
Montreal, Que.  
Stelco Limited,  
Toronto, Ont.  
Stelco Technical Services Limited,  
Hamilton, Ont.  
Stelco Coal Company, Pittsburgh, Pa.  
Pikeville Coal Co., Louisville, Ky.  
(Chisholm Mine)  
Kanawha Coal Company, Ashford, W. Va.  
(Madison Mine)  
Ontario Eveleth Company, Minneapolis, Minn.  
Ontario Hibbing Company, Minneapolis, Minn.  
Stelco Nederland B.V., Amsterdam,  
The Netherlands  
Stelco S.A., Geneva, Switzerland  
The Steel Company of Canada (U.K.), Limited,  
London, England  
Ubbelohde-Stelco S.A.C.I. y de R.,  
Buenos Aires, Argentina  
Stelco do Brasil Ltda., São Paulo, Brazil  
Stelco de Venezuela, S.R.L.,  
Caracas, Venezuela

## Unincorporated Joint Ventures

	% Owned
The Hilton Mines, Que. . . . .	50.0
Wabush Mines, Nfld. & Que. . . . .	25.6
Hibbing Taconite Company, Minn. . . . .	10.0
Elk River Coal Project, B.C. . . . .	25.0

## Corporate Joint Ventures and Partnerships

	% Owned
<b>Iron Ore</b>	
Tilden Iron Ore Company, Mich. . . . .	15.6
Tilden Iron Ore Partnership, Mich. . . . .	15.6
Erie Mining Company, Minn. . . . .	10.0
Eveleth Expansion Company, Minn. . . . .	23.5
Ontario Iron Company, Minn. . . . .	10.0
<b>Coal</b>	
Mathies Coal Company, Pa. . . . .	13.3
Beckley Coal Mining Company, W. Va. . . . .	12.5
Olga Coal Company, W. Va. . . . .	10.0
<b>Other</b>	
Baycoat Limited, Ont. . . . .	50.0
The Canada Systems Group (EST) Limited, Ont. . . . .	33.3
Torcad Limited, Ont. . . . .	50.0
Fers et Métaux Recyclés Ltée. . . . .	50.0
Arnaud Railway Company, Que. . . . .	25.6
Wabush Lake Railway Company, Limited, Nfld. . . . .	25.6
Knoll Lake Minerals Limited, Nfld. . . . .	14.8
Northern Land Company Limited, Nfld. . . . .	12.8
Twin Falls Power Corporation, Limited, Nfld. . . . .	4.4

## Registrar

THE ROYAL TRUST COMPANY  
Toronto, Montreal, Halifax, Hamilton,  
Winnipeg, Regina, Edmonton, Vancouver

## Transfer Agent

MONTREAL TRUST COMPANY  
Toronto, Montreal, Halifax, Hamilton,  
Winnipeg, Regina, Edmonton, Vancouver

## Annual Meeting

The Annual Meeting of the Shareholders of the Company will be held at the Cinema Theatre in the Concourse of the Toronto-Dominion Centre, Bay Street Entrance, in Toronto, at 10.30 a.m., Toronto Time, on Monday, April 24, 1978



# stelco

The Steel Company  
of Canada, Limited  
Toronto, Ontario

Pour obtenir un exemplaire de la  
version française de ce rapport,  
veuillez écrire au secrétaire,  
The Steel Company of Canada, Limited,  
P.O. Box 205, Toronto-Dominion Centre,  
Toronto, Ontario, M5K 1J4.