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Algoma Steel Corporation, Limited

ANNUAL REPORT

For the Year Ended December 31st, 1957

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ALGOMA STEEL CORPORATION, LIMITED

BOARD OF DIRECTORS

George C. Bateman, C.M.G., O.B.E.	Montreal, Quebec
Hon. T. A. Crerar	Winnipeg, Manitoba
*Sir Philip Dunn, Bart.	London, England
Henry S. Hamilton, Q.C.	Sault Ste. Marie, Ontario
*David S. Holbrook	Sault Ste. Marie, Ontario
*Wilbert H. Howard, C.B.E., Q.C.	Montreal, Quebec
George W. MacLeod	Sault Ste. Marie, Ontario
*T. R. McLagan, O.B.E.	Montreal, Quebec
*E. Gordon McMillan, Q.C.	Toronto, Ontario
*James Muir, D.C.L.	Montreal, Quebec
J. S. D. Tory, O.B.E., Q.C., S.J.D.	Toronto, Ontario
Wilhelm Zangen	Dusseldorf, West Germany

*Members of Executive Committee.

OFFICERS

David S. Holbrook	President
R. Armstrong	Vice President - Industrial and Public Relations
John B. Barber	Vice President - Finance
Douglas Joyce	Vice President - Operations
E. Gordon McMillan, Q.C.	Vice President
C. Carson Weeks	Vice President - Sales
Tom Gould	Executive Assistant to the President
H. G. MacAdam	Secretary
C. E. McLurg	Treasurer

DIRECTORS' REPORT

To the Shareholders of Algoma Steel Corporation, Limited:

The Board of Directors submits herewith the Annual Report of the Corporation and its subsidiaries with the consolidated financial statements and report of the auditors for the year ended December 31st, 1957.

FINANCIAL

The year 1957 opened with a period of unprecedented activity of the Corporation and all records were broken in the first half of the year. In the second half, the general slowdown in business in Canada was felt in most lines and production dropped well below the same period in 1956. The results for the year as a whole showed sales volume equal to the previous year, but net profit lower principally due to extraordinary charges attributable to construction, higher depreciation and higher tax rates.

Consolidated net profit for 1957 amounted to \$14,178,296, equal to \$2.49 per share on the 5,703,080 issued shares.

The following is a comparison of some of the significant figures for 1957 and 1956:

	<u>1957</u>	<u>1956</u>
Total income	\$144,006,416	\$143,961,074
Costs other than listed below	109,221,371	110,532,988
Moving and rearranging plant	1,692,476	
Depreciation, depletion and mine development costs written off	7,639,468	6,290,086
Profit before providing for taxes on income	25,453,101	27,138,000
Taxes on income	11,274,805	11,423,607
Net profit	14,178,296	15,714,393
Net profit per share	2.49	2.76
Dividends per share	1.00	
Capital and mine development expenditures	25,790,300	9,245,464
Working capital	44,619,666	52,773,353
Long term debt	11,389,851	11,982,122

In 1957 profits were helped by continuing improvement in operating performance resulting from large capital expenditures in recent years, strong effort by supervision and cooperation by labour at all levels. Profits were affected ad-

versely by three factors: extraordinary expense of \$1,692,476 for moving and re-arranging plant as a result of the large construction program; an increase of \$1,349,382 in provision for depreciation, depletion and mine development costs; and approximately \$500,000 additional taxes on 1957 income due to increased tax rates. Depreciation was provided on capital expenditures as they were incurred, although no major unit of the new plant being constructed came into operation in 1957.

Working capital declined to \$44,619,666 and cash declined to \$4,755,402, due primarily to capital and mine development expenditures which amounted to \$25,790,300. Inventories increased \$4,260,764 mostly due to stocking pig iron to provide for sales during the relining and enlargement of No. 6 Blast Furnace at Sault Ste. Marie and the relining of No. 1 Furnace at Port Colborne.

The first dividends on common shares since incorporation in 1934 were paid in 1957 and amounted to \$1.00 per share on 5,703,080 shares.

CHANGES IN CORPORATE STRUCTURE

During 1957 there were several important changes in the corporate structure:

At a special general meeting of Shareholders on May 27th, 1957, the number of Directors of Algoma Steel Corporation, Limited was increased from eleven to twelve.

As authorized at a special general meeting of Shareholders on April 27th, 1957, Supplementary Letters Patent dated May 9th, 1957 were issued decreasing the capital of Algoma Steel Corporation, Limited from 4,000,000 common shares without par value to 3,774,970 shares without par value by cancellation of 225,030 shares formerly owned by subsidiaries. Ownership of these shares by subsidiaries no longer served any useful purpose and resulted in financial, legal and tax complications.

As authorized at a special general meeting of Shareholders on May 27th, 1957, Supplementary Letters Patent dated June 28th, 1957 were issued subdividing the 2,349,200 unissued and 1,425,770 issued shares without par value of Algoma Steel Corporation, Limited into 9,396,800 unissued and 5,703,080 issued shares without par value on the basis of four shares for each one share. This action was taken in consideration of the growth of the Corporation, and the increasing value of the equity represented by the shares.

On November 5th, 1957 the Directors adopted a Restricted Stock Option Plan for selected key employees of the Corporation and its subsidiaries and reserved 150,000 unissued shares of Algoma Steel Corporation, Limited for

future issue under that Plan. Options terminating in 1967 have been granted under the Plan in respect of 92,000 of such shares at \$17.80 per share. No shares were purchased or issued under the Plan in 1957.

In the Annual Report last year you were advised that the Directors had decided not to renew the franchise which expired in 1956 to operate a Bus System in Sault Ste. Marie and that the appraised value of the Bus System would be paid to the Corporation by the City in 1957. On October 31st, 1957 the appraised value was received by the Corporation.

All the Corporation's shares of Two Cities Transit Co. Limited, a small wholly owned subsidiary, were sold on July 15th, 1957. This subsidiary operated a limousine service from Sault Ste. Marie, Ontario to Kinross Airport near Sault Ste. Marie, Michigan and its operations were closely tied in with those of the Bus System which had been sold.

GENERAL OPERATIONS

Overall activity of the Corporation for the year was about 90% of capacity, somewhat lower than in 1956. Lower volume and increased labour and raw material costs tended to increase production costs. These increases were partially offset by operational improvements and better raw materials available to the Corporation.

Production and shipments were as follows:

	Production	
	1957	1956
	NT	NT
Coke Ovens — Coke	1,173,013	1,288,109
Blast Furnaces — Iron	1,433,794	1,489,985
Open Hearths — Steel Ingots	1,065,793	1,104,750
	Shipments	
	1957	1956
	NT	NT
Coke	255,651	279,753
Pig Iron	536,021	606,003
Steel Products	822,680	870,610

Improvements were effected in the performance of the Rail and Structural Mill and major repairs and renovations made to the 18 inch Merchant Mill should assure satisfactory performance of this Mill for several years.

Production of Algoma Sinter from the Helen and Victoria Mines at Jamestown amounted to 1,581,688 gross tons compared to 1,411,427 gross tons in 1956.

Production at the Cannelton and Lake Superior coal mines amounted to 1,248,912 net tons and with continuing mechanization of mining operations and completion of a Coal Preparation Plant at the Lake Superior mine, operations at both mines are well stabilized and efficient.

SALES

The general decline in business activity in 1957, particularly in the last half of the year, resulted in a gradual softening in the market for steel products. By the fourth quarter most types of steel products were in good supply and the market had become highly competitive. Sales of heavy structural sections, rails and rail fastenings remained strong throughout the year; sales of grinding balls increased, largely as a result of the starting up of milling operations at the uranium mines in the Blind River area; and sales of tube rounds improved through the year. The trend toward sale of more highly finished steel products continued, and the most important class of steel sold was flat rolled. Less than 2% of steel sold was in semi-finished form and the average value per ton of steel produced climbed sharply.

A weakening was experienced in the export and domestic markets for pig iron. The rate of operations of domestic foundries declined, scrap became readily available at unusually low prices and other iron producers came back into the market after a long absence.

Price increases of pig iron and steel products to offset increased labour and raw material costs were again modest.

Large tonnages of steel products were again imported into Canada. On February 28th, 1957 the Chairman of the Tariff Board submitted the recommendations of the Board to the Minister of Finance in connection with the revision of the Customs Tariff of 1907, relating to primary iron and steel products. These recommendations providing for moderate increases and decreases in some items of the Tariff Schedules have not been implemented yet and the industry is hopeful that revised tariffs will be passed without further delay.

The probable duration of the adjustment period through which the Canadian and American economies are passing is difficult, if not impossible, to forecast but the downward trend in 1957 has not shaken in the least the Corporation's confidence in the future of the iron and steel industry in Canada.

IMPROVEMENTS, ADDITIONS AND ALTERATIONS

Major construction and development programs were carried out during 1957 at the Steelworks at Sault Ste. Marie and the iron ore properties at Jamestown with very little interference to operations. Capital and mine development expenditures amounted to \$25,790,300 and \$1,692,476 was spent on moving and rearranging plant and equipment at the Steelworks. At December 31st, 1957 the remaining expenditure to complete the Expansion Program started in the latter part of 1956 and referred to in the Annual Report last year amounted to approximately \$42,000,000.

The following facilities at the Steelworks were completed during the year:

An Ingot Mould and Iron Foundry, 70,000 square feet in area, was constructed and commenced operation in August 1957. Moulds which were formerly purchased, are an important requisite to steelmaking and this Foundry permits the Corporation to produce its own ingot moulds at a saving. The old Iron Foundry building has been dismantled.

The Pig Cast Plant was relocated and as a result of this relocation and improvements effected in conjunction therewith, the Corporation now has a better plant of higher capacity.

A modern Maintenance Shop over 70,000 square feet in area was constructed with space and equipment for major machine construction and repair, electric repair, pattern making, and for the Fuel and Transportation Departments. The old Shops replaced by this new Shop were dismantled.

A Gas Cleaning Plant was completed in the Blast Furnace Department and brought into operation in February 1957. All blast furnace gas can now be fine cleaned with resultant economies in the use of this gas throughout the Works. Flue dust recovery equipment installed in conjunction with the Gas Cleaning Plant permits recovery of flue dust in such form that it may be used as a charge material in the Steelworks Sinter Plant and a potential dust nuisance has been eliminated.

Work is progressing satisfactorily on the following units at the Steelworks:

A new Coke Oven Battery of 57 ovens which was mostly completed at the end of the year. This Battery replaces No. 1 Battery which was first built in 1910 and was dismantled in 1957 and will increase total coke producing capacity to 1,458,000 net tons per year.

Erection of a new 20 ton capacity Ore Bridge which will replace the 50 year old No. 1 Bridge is well under way. The new bridge is now scheduled for

completion in May 1958 and paves the way for an increase in blast furnace capacity.

In December 1957 No. 6 Blast Furnace was taken out of operation for relining and enlargement to a 27 foot diameter hearth. This Furnace will be the Corporation's largest iron producing unit, with capacity of over 1,400 tons per day. No. 1 Blast Furnace built in 1902 was dismantled.

A Boiler House and Turbo Blower are being installed and these together with the enlarging of No. 6 Blast Furnace will increase iron producing capacity to 1,500,000 tons per year at Sault Ste. Marie and yield operating economies. These are scheduled for completion in 1959.

The site has been cleared for construction of the L-D Oxygen Steel Plant and erection of structural steelwork is now well under way. It is expected that this Plant will start production during the latter part of 1958, raising the Corporation's capacity for producing steel ingots by one-third. Production was discontinued from the small 50 year old furnaces in No. 1 Open Hearth Shop and three of the remaining seven furnaces were dismantled.

A program of enlarging the Combination Bar and Strip Mill to permit production of flat rolled products up to 30 inches wide progressed favourably and is scheduled for completion early in 1958.

The site formerly occupied by old shop buildings and railway tracks has been cleared for construction of a Blooming and Plate Mill, 250,000 square feet in area. Installation of foundations has commenced and completion of the Mill is now scheduled for early in 1959. Construction of 9 new Soaking Pit Furnaces for this Mill is underway and a new Ingot Stripper Building is nearing completion.

Rearrangement of railway tracks and transfer yards in the Steelworks is being carried out to eliminate "bottle necks" in rail movement wherever possible.

At Canadian Furnace Co. at Port Colborne the small, inefficient No. 2 Blast Furnace was dismantled and the larger No. 1 Furnace shut down for relining shortly after the close of the year.

A new Coal Preparation Plant at the Lake Superior coal mine was brought into production in July 1957. This Plant together with mechanization of mining operations has resulted in increased output of improved quality coal.

In August 1957 a sixth sintering machine was brought into operation at Jamestown, increasing capacity by 500,000 gross tons to 2,000,000 gross tons of Algoma Sinter per year. A new Ore Concentration Plant adjacent to the Sinter Plant will be completed in 1958, together with railway unloading and stockpile and ore conveying facilities for handling ore from the Sir James Mine.

About 1,400,000 gross tons of bank waste were removed at the Sir James Mine in 1957 and it is expected that this new mine will be brought into production in 1958 provided demand for ore continues.

The exploration of an area of over one million acres in the northern part of the District of Algoma started in 1956 was continued through 1957. This program will take several more years to complete.

FINANCIAL PLANS

Expenditures to December 31st, 1957 under the Expansion Program have been financed with funds generated through operations, but it is the Corporation's intention to borrow to the extent required during 1958 under the special credit of \$17,500,000 arranged for in 1957 and available until the middle of 1959. The extent of this borrowing, or of other financing which may be considered advisable, will depend largely on business conditions.

EMPLOYEE RELATIONS

Continued good relations existed between the Corporation and its employees during 1957.

The use of more modern facilities and the lower business activity in the last half of the year resulted in reduced personnel requirements to support operations at the Steelworks at Sault Ste. Marie.

Under labour agreements with Union bargaining units covering employees of Algoma Steel, Algoma Ore Properties and Canadian Furnace Co. which expire August 1st, 1958, an increase of 8 cents per hour in the base rate to \$1.71½ became effective August 1st, 1957 with proportionate increases to higher skilled employees.

The Coal Companies' wage agreements remain in force from October 1st, 1956 until terminated by either the Company or the Union. Under these agreements an increase of 80 cents per day became effective April 1st, 1957.

Further progress was made in installing the performance incentive plans at the Steelworks at Sault Ste. Marie referred to in the Annual Report last year. These plans have replaced obsolete tonnage incentives in many departments with satisfactory results.

Revised pension plans for supervisory and staff personnel were put into effect during the year.

PERSONNEL

With regret the Board of Directors accepted the resignation of Mr. Joseph Simard of Montreal on April 27th, 1957. Mr. Simard was a valued member of the Board for eighteen years but considered that his own enterprises demanded his available time.

Mr. J. S. D. Tory, Q.C., of Toronto and Mr. Wilhelm Zangen of Dusseldorf, West Germany were elected to the Board of Directors on June 5th, 1957. Mr. Tory is a prominent barrister and solicitor, Chairman of the Board of McIntyre Porcupine Mines, Ltd., a Vice President of A. V. Roe Canada Ltd., and a director of a number of prominent Canadian companies. Mr. Zangen is Chairman of Mannesmann, A. G. of Dusseldorf and of Mannesmann Tube Company, Ltd. of Sault Ste. Marie. He is one of West Germany's most respected and admired industrialists, being a director of many well-known companies.

Douglas Joyce was appointed Vice President - Operations and C. Carson Weeks, Vice President - Sales of Algoma Steel Corporation, Limited on July 2nd, 1957.

A very real contribution has again been made by the officers and employees to the progress of the Corporation and their services are sincerely appreciated.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK,
President

Sault Ste. Marie, Ontario,
February 4th, 1958.

ALGOMA STEEL CORPORATION,

CONSOLIDATED

as at December

ASSETS

CURRENT

Cash	\$ 4,755,402	
Bills and accounts receivable	17,028,201	
Inventories valued at the lower of cost or market	40,811,612	
Prepaid expenses	1,035,947	\$ 63,631,162

ACCOUNTS RECEIVABLE FROM EMPLOYEES UNDER AGREEMENTS OF SALE		423,368
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INVESTMENTS AT COST

Marketable securities (Market value \$20,621,897)	6,058,515	
Other securities	157,398	6,215,913

FIXED ASSETS

Properties, plant and equipment at cost (Note 1)	148,100,183	
Less allowances:		
Depreciation and depletion . . . \$80,925,468		
Rebuilding and relining furnaces, etc. 2,223,751	83,149,219	
	64,950,964	
Mine development at cost 10,280,726		
Less amount written off 4,562,675	5,718,051	70,669,015
	\$140,939,458	

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Signed on behalf of the Board

D. S. Holbrook	Director
Gordon McMillan	Director

L I M I T E D A N D S U B S I D I A R I E S

BALANCE SHEET

31, 1957

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 13,473,611	
Taxes on income and other taxes	<u>5,537,885</u>	\$ 19,011,496

LONG TERM LOAN (Note 2) 11,389,851

DEFERRED TAXES ON INCOME (Note 3) 12,097,700

DEFERRED CREDIT TO INCOME (Note 4) 383,946

SHAREHOLDERS' EQUITY

Shares - no par value (Notes 5 and 6)		
Authorized —15,099,880 shares		
Issued — 5,703,080 shares	8,873,924	
Contributed surplus	2,211,485	
Retained earnings	<u>86,971,056</u>	98,056,465

\$140,939,458

A L G O M A S T E E L C O R P O R A T I O N ,

STATEMENT OF CONSOLIDATED EARNINGS

for the year ended December 31, 1957

INCOME		
Net sales		\$142,479,951
Investment income including \$272,940 capital gain		1,526,465
		144,006,416
COSTS AND EXPENSES		
Cost of sales other than listed below	\$105,699,016	
Expense of moving and rearranging plant	1,692,476	
Administrative, selling and general expense	2,850,052	
Remuneration of directors including their salaries as executive officers	207,070	
Interest on long term loan	376,888	
Other interest	88,345	
Mine development cost written off	1,152,588	
Depreciation and depletion	6,486,880	118,553,315
		25,453,101
PROFIT BEFORE PROVIDING FOR TAXES ON INCOME		
		25,453,101
TAXES ON INCOME		
Current	9,406,405	
Deferred (Note 3)	1,868,400	11,274,805
		11,274,805
NET PROFIT		\$14,178,296

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Amount at December 31, 1956		\$78,495,840
Net profit for the year ended December 31, 1957		14,178,296
		92,674,136
Less dividends		5,703,080
		\$86,971,056

STATEMENT OF CONSOLIDATED CONTRIBUTED SURPLUS

Amount at December 31, 1956		\$ 3,071,745
Less excess of cost over issue value of shares of the Corporation cancelled (Note 5)		860,260
		\$ 2,211,485

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

LIMITED AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

December 31, 1957

Note (1)

A program of Steelworks expansion and development of mining properties commenced in 1956 is to be completed in 1959. Estimated expenditures after December 31, 1957 amount to approximately \$42,000,000 including commitments of approximately \$20,000,000.

Note (2)

Long term loan is repayable in monthly instalments contingent on sales to the lender; to be completely repaid by December 31, 1967.

Note (3)

The amount of \$1,868,400 in the statement of consolidated earnings for deferred taxes on income results from claiming for tax purposes an amount greater than the depreciation recorded in the accounts. In the balance sheet this amount is included in "Deferred Taxes on Income." Such deferred taxes are applicable to those future periods in which the amounts claimed for depreciation for tax purposes will be less than the amounts recorded in the accounts.

Note (4)

To take advantage of shipment by water, products had been shipped prior to December 31, 1957 to customers in excess of their normal requirements to that date. Profit on the excess amount has been deferred to the 1958 financial year after providing for income taxes thereon and is shown in the balance sheet as "Deferred Credit to Income."

Note (5)

By Supplementary Letters Patent dated May 9, 1957 the authorized capital of Algoma Steel Corporation, Limited, was reduced from 4,000,000 common shares without par value to 3,774,970 shares without par value by cancellation of 225,030 shares formerly owned by subsidiaries of the Corporation. The issued shares were accordingly reduced from 1,650,800 common shares to 1,425,770 shares and the stated value was reduced by \$1,400,576, computed by valuing the cancelled shares at the average price of shares issued. This decreased the amount of the outstanding shares to \$8,873,924. By additional Supplementary Letters Patent dated June 28, 1957 the unissued and issued shares of the Corporation were subdivided into 9,396,800 unissued and 5,703,080 issued shares without par value on the basis of 4 shares for each 1 share unissued and issued.

Note (6)

In 1957 the Corporation set aside 150,000 of its unissued shares under a Stock Option Plan for certain employees. In December 1957 options to purchase 92,000 of these shares were granted at a price of \$17.80 per share. The options cannot be exercised until the expiration of one year and terminate ten years from the date they were granted.

Note (7)

The assets and liabilities of the United States subsidiaries are included in the financial statements at par of exchange. At December 31, 1957 the United States dollar was at a discount of approximately 1½% in terms of the Canadian dollar. If the assets and liabilities had been converted at existing exchange rates, the adjustment would not have had any substantial effect on the Corporation's consolidated financial position.

Note (8)

Minority interests in subsidiaries, which are not significant, are included in "Accounts payable and accrued liabilities" in the balance sheet. The minority interests in earnings for the year 1957 are provided for in "Cost of sales" in the earnings statement.

AUDITORS' REPORT

To the Shareholders,
Algoma Steel Corporation, Limited,
Sault Ste. Marie, Ontario, Canada.

We have examined the consolidated balance sheet of Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1957 and the statements of consolidated earnings, retained earnings and contributed surplus for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings, retained earnings and contributed surplus present fairly the consolidated position of the Companies at December 31, 1957 and the results of their operations for the year ended on that date.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants.

Toronto, Ontario.
February 3, 1958.

ALGOMA STEEL CORPORATION, LIMITED

PRODUCTS

Coke

Industrial

Coal Chemicals

Benzol, Light Oil,
Sulphate of Ammonia,
Tar, Naphthalene, Pyridine

Pig Iron

Foundry
Malleable
Basic

Blooms, Billets & Slabs

Heavy and Light Rails

Rail Fastenings

Heavy Structural

Carbon Merchant Bars & Light Structural

Tube Rounds

Sheet Piling

Grinding Balls and Rods

Universal Plate

Hot Rolled Sheet and Strip

Cold Rolled Sheet and Strip

Electrical Sheet and Strip

Skelp

Alloy Steels

WORKS AND OPERATIONS

Algoma Steel Corporation, Limited . . . Sault Ste. Marie, Ontario
Canadian Furnace Co. Limited . . . Port Colborne, Ontario
Algoma Ore Properties, Limited . . . Michipicoten District, Ontario
Cannelton Coal & Coke Company . . . Cannelton, West Virginia
Lake Superior Coal Company . . . Welch, West Virginia

EXECUTIVE OFFICES . . . Sault Ste. Marie, Ontario

SALES OFFICES . . . Sault Ste. Marie, Ontario
Bank of Montreal Building, Toronto, Ontario
Canada Building, Windsor, Ontario
Royal Bank Building, Hamilton, Ontario
Sun Life Building, Montreal, Quebec
Paris Building, Winnipeg, Manitoba

