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Algoma Steel Corporation, Limited

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ANNUAL REPORT

For the Year Ended December 31st, 1959

ALGOMA STEEL CORPORATION, LIMITED

BOARD OF DIRECTORS

John B. Barber	Sault Ste. Marie, Ontario
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
*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

**SIGNIFICANT FINANCIAL FIGURES FOR 1959
COMPARED WITH 1958**

	<u>1959</u>		<u>1958</u>	
	<u>Amount</u>	Per Cent of Income	<u>Amount</u>	Per Cent of Income
	Dollars in Thousands			
Net Sales	\$162,696		\$122,778	
Investment Income	1,837		1,388	
	<u>\$164,533</u>	<u>100.0</u>	<u>\$124,166</u>	<u>100.0</u>
Operating Costs	\$116,503	70.8	\$ 89,553	72.1
Expense for Moving and Rearranging Plant	536	.3	948	.8
Administrative, Selling, General Expense, etc.	3,207	2.0	2,944	2.3
Interest, etc.	1,695	1.0	1,232	1.0
Depreciation, Depletion and Amortization	10,811	6.6	9,307	7.5
Income Taxes	14,175	8.6	8,419	6.8
Net Profit	17,606	10.7	11,763	9.5
Per Share on 5,766,180 shares	3.05		2.04	
Dividends Paid — Total	5,755		5,703	
— Per Share	1.00		1.00	
Capital Additions, Improvements and Mine Development	13,762		35,871	
Long Term Debt — at year end	33,802		35,919	
Working Capital — at year end	44,499		49,181	
Inventories — at year end	34,204		35,391	
Shares Outstanding — at year end	5,766,180		5,745,080	
Number of Shareholders — at year end	6,394		4,678	

DIRECTORS' REPORT

To the Shareholders:

The Board of Directors submits 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, 1959.

With improving general business conditions in 1959, demand strengthened steadily for the Corporation's products and steel production was brought up to newly rated capacity by the last quarter of the year. Heavy investment in plant and equipment in recent years made substantial contributions to higher output and increased efficiency.

FINANCIAL

Significant financial figures for 1959 compared with 1958 are shown on page 2.

Net sales of \$162,696,199 were a third higher than in 1958 and 14% higher than in 1957 which was the previous record year. Net profit increased from \$2.04 per share in 1958 to \$3.05 per share on 5,766,180 shares outstanding at the end of 1959 and amounted to 10.7 cents per dollar of income compared to 9.5 cents in 1958. The higher earnings were attributable mainly to increased volume, economies resulting from plant expansion and improvements, and better operating methods.

Capital gain of \$398,800 from the sale of an investment which had been held for a number of years and on which no dividend income had been received was credited to Consolidated Retained Earnings.

Expense for moving and rearranging plant of \$536,080 was lower than in 1958. Installation of the Universal Beam Mill and Reheating Furnaces described under Improvements, Additions and Alterations, involving expenditures on demolition of buildings and relocating equipment will result in some increase in this expense in 1960.

Accounts receivable increased \$10,083,078 during the year. This resulted from increased vessel shipments of pig iron for winter consumption and the higher volume of business.

During the year the market was favourable for the purchase of the Corporation's Series A debentures and \$1,000,000 of debentures were purchased at a discount and cancelled. These debentures may be applied in satisfaction of sinking fund requirements of \$1,000,000 annually starting in 1963. As a result of this and repayment of \$1,116,570 on the long term loan which is secured by Series B debentures, long term debt was reduced \$2,116,570. The discount on purchase of debentures was used to reduce Unamortized Debenture Expense.

Working Capital amounted to \$44,498,599 at the end of the year after capital and mine development expenditures of \$13,761,906, dividends of \$5,754,855 and after reserving \$14,000,000 of short term marketable investments which will be used to finance expenditures for the Universal Beam Mill.

In 1958 Algoma Ore Properties, Limited paid a dividend to Algoma Steel Corporation, Limited. As a result of this dividend, which will not recur each year, Canadian shareholders are entitled to deduct 15% depletion for Canadian income tax purposes from dividends which amounted to \$1.00 per share paid by Algoma Steel Corporation, Limited in 1959.

CHANGES IN CORPORATE STRUCTURE

Two wholly owned subsidiaries in the United States, formerly known as Cannelton Coal and Coke Company and Lake Superior Coal Company, were merged effective January 1st, 1960. The name of the surviving corporation is Cannelton Coal Company, and the two former companies are now known as the Kanawha Division and the Pocahontas Division. This merger simplified the corporate structure.

GENERAL OPERATIONS

During most of 1959 efforts were concentrated on coordinating the higher tonnages from new production facilities and bringing new steelmaking plant and rolling mills up to expected production levels. This was substantially achieved by the last quarter of the year.

Steel production was at 79% of newly rated annual capacity of 1,600,000 net tons of ingots in the first half of the year, and 93% in the last half.

Production and shipments in 1959 and 1958 are shown below:

		<u>1959</u>	<u>1958</u>
		N.T.	N.T.
<u>Production</u>			
Coke Ovens	— Coke	1,218,978	888,762
Blast Furnaces	— Iron	1,552,428	1,109,922
Open Hearth and L-D			
Oxygen Steel Plant	— Steel Ingots	1,371,768	961,535
<u>Shipments</u>			
Coke	236,935	216,640
Pig Iron	443,316	354,331
Steel Products	1,045,189	726,642

Production of iron and steel reached record levels and shipments of steel products exceeded one million tons for the first time.

The new Bloom and Plate Mill was brought into initial production in March, and its performance steadily improved through the year. Sheared plate from this mill has received excellent customer acceptance, and is an important new product for the Corporation.

Algoma Ore Properties, Limited achieved record production of Algoma Sinter which amounted to 1,838,486 gross tons compared to the previous high of 1,632,137 gross tons in 1958. Approximately 55% of the ore from which this tonnage was produced was mined from the first two levels in the Helen Mine and 45% from the open pit in the Sir James Mine. All production was shipped at the same market price as in 1958 and 45% of the total was used in the Steelworks at Sault Ste. Marie.

Exploration of the area in the northern part of the District of Algoma started in 1956 was virtually completed in 1959 with no commercial deposits disclosed.

Operations at the blast furnace plant at Port Colborne were intermittent throughout the year due to the low demand for pig iron in the Canadian market.

The Cannelton and Lake Superior coal mines produced 1,456,863 tons in 1959 compared to 1,274,621 tons in 1958.

SALES

The market for bars, structurals and other heavy steel products which had been weak in 1958 improved toward the end of the first quarter of 1959 and continued to strengthen during the rest of the year. The demand for tube rounds and wide sheared plate was strong during the second half of the year and for hot and cold rolled sheet, strip and skelp throughout the year. Sales of flat rolled products represented almost 50% of total steel sales and the increase in this percentage from 40% in 1958 was attributable to sales of wide sheared plate. The strength of the late 1959 markets for hot and cold rolled sheet, strip, skelp, plate and light and heavy structurals was based on a high rate of operations of secondary industry rather than inventory building.

Some steel, mostly in semi-finished form, was exported to the United States at regular prices during the last half of the year, but these exports did not unduly affect the Corporation financially, nor was steel shipped to the detriment of Canadian industry.

The domestic market for pig iron continued weak but the export market was stronger than in 1958.

There were no price increases in products in 1959 to offset higher labour and material costs, and freight absorption again restricted returns at Sault Ste. Marie.

It is likely that the overall volume of sales will remain at a fairly high level during the first few months of 1960 and will be higher than in the early months of 1959.

IMPROVEMENTS, ADDITIONS AND ALTERATIONS

The Expansion Program started late in 1956 was completed in 1959 and the major projects completed at the Steelworks during the year were: the Bloom and Plate Mill, a large Blast Furnace turbo-blower which permitted retirement of all blowing equipment more than sixteen years old, a more powerful drive for the reversing roughing stand of the Rail and Structural Mill replacing a forty-six year old motor, the rebuild and enlargement of one Open Hearth furnace in No. 2 Shop to increase its capacity from 160 to 180 ton heats, and the demolition of a forty-eight year old Coke Oven battery and the last four furnaces in No. 1 Open Hearth Shop which were fifty-one years old.

Higher production from the L-D Oxygen Steel Plant than originally expected has compensated for the scrapping of the four old Open Hearth furnaces. Annual steelmaking capacity thus remains at 1,600,000 tons made up of 1,000,000 tons from six Open Hearth furnaces and 600,000 tons from two vessels in the L-D Oxygen Steel Plant.

During the latter part of the year, contracts were placed and work started on installation of a Universal Beam Mill to be made in Canada which will cost approximately \$15,000,000, new continuous reheating furnaces for the Rail and Structural Mill and Merchant Mill and a new building for finishing Tube Rounds. Some interruptions in production will occur in 1960 due to this construction but it is anticipated that these will not be of a serious nature.

Start-up operation of the Universal Beam Mill is expected in the Spring of 1961, and it will produce wide flange beams up to a maximum size of 24 inches. This product is not made in Canada, and imports of wide flange beams have averaged over 200,000 tons annually during the last four years. Increased capacity resulting from recent improvements and those underway will provide the necessary steel and semi-finished rolling capacity for this new product. This is one more step in the Corporation's efforts to secure wider markets and develop a greater range of products to allow for market swings.

No. 5 Blast Furnace was shut down in December 1959 for relining and enlargement to a 27 foot diameter hearth. This furnace enlargement increases the Corporation's iron producing capacity by approximately 100,000 tons annually and the new capacity including the furnace at Port Colborne thus stands at 1,800,000 tons per year.

Work is progressing on development for mining three lower levels in the Helen Mine and it is expected that these levels will be brought into production about the end of this year when mining of the first two levels will be completed. Estimates indicate that these three levels and the open pit at the Sir James Mine will provide ore for approximately seventeen years at the current rate of extraction. A plant to treat fine ore is being installed which will improve the uniformity and average grade of Algoma Sinter and investigations into methods of further improving the grade of this product are continuing.

There were no major expenditures during the year at the Port Colborne blast furnace plant nor at the coal mines in West Virginia.

EMPLOYEE RELATIONS

Under three year labour agreements with the United Steelworkers Union bargaining units for production and maintenance employees of Algoma Steel and Algoma Ore Properties which expire in 1961 increases of 7 cents per hour became effective August 1st, 1959.

With completion of the St. Lawrence Seaway and the emergence of the threat of serious overseas competition which is largely the result of much lower employment costs of overseas producers, it is necessary that everything possible be done to improve efficiency. Large sums have been invested in the Corporation to improve output and reduce labour requirements, but to meet this competition successfully, every potential economy in labour, materials and technology must be realized, and the cooperation of organized labour in promoting efficient work practices is essential.

PERSONNEL

The death of Horace J. Allen, President of Canadian Furnace Co. Limited on August 15th, 1959 is reported with great regret. His outstanding abilities and fine personal qualities commanded the respect of all who knew him.

Having passed retirement age, George W. MacLeod resigned as President of Algoma Ore Properties, and as Director of Algoma Steel Corporation on

April 11th, 1959. He has given long, valued service to the Corporation and will continue to act as a consultant.

David S. Holbrook was elected President of the above subsidiaries.

John B. Barber, Vice President - Finance, was elected to the Board of Directors of Algoma Steel Corporation, succeeding Mr. MacLeod.

It is a pleasure to express appreciation to the officers and employees who contributed to the Corporation's growth and progress in 1959.

Submitted on behalf of the Board of Directors

D. S. HOLBROOK
President

Sault Ste. Marie, Ontario,
February 2nd, 1960.

ALGOMA STEEL CORPORATION,

CONSOLIDATED

as at December

ASSETS

CURRENT

Cash	\$	4,810,025	
Short term marketable investments at cost (Market value \$5,904,867)		5,886,321	
Accounts receivable		25,771,478	
Inventories valued at the lower of cost or market		34,204,464	
Prepaid expenses		1,005,689	\$ 71,677,977
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ACCOUNTS RECEIVABLE FROM EMPLOYEES UNDER AGREEMENTS			370,620
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INVESTMENTS AT COST			
Marketable (Market value \$27,667,596)		5,983,488	
Other		155,398	6,138,886
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SHORT TERM MARKETABLE INVESTMENTS RESERVED FOR CONSTRUCTION OF NEW PLANT			
(Market value \$14,000,000) (Note 1)			14,000,000
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FIXED ASSETS			
Properties, plant and equipment at cost (Note 1)		193,050,379	
Less allowances:			
Depreciation and depletion \$95,337,421			
Rebuilding and relining furnaces, etc. 1,825,079		97,162,500	
		<hr/>	
		95,887,879	
Mine development at cost 15,884,298			
Less amount amortized 7,532,062		8,352,236	104,240,115
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UNAMORTIZED DEBENTURE EXPENSE			638,150
			<hr/> <hr/>
			\$197,065,748

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

Signed on behalf of the Board

D. S. Holbrook	Director
Gordon McMillan	Director

LIMITED AND SUBSIDIARIES

BALANCE SHEET

31, 1959

LIABILITIES

CURRENT

Accounts payable and accrued liabilities	\$ 15,326,126	
Taxes on income and other taxes	11,853,252	\$27,179,378

LONG TERM DEBT - SECURED (Note 2)

5¼% sinking fund debentures, series A	24,000,000	
Long term loan (series B debentures pledged as collateral security)	9,802,004	33,802,004

DEFERRED TAXES ON INCOME (Note 3)		18,307,200
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DEFERRED CREDIT TO INCOME (Note 4)		288,383
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SHAREHOLDERS' EQUITY (Note 5)

Shares - no par value

Authorized	—15,099,880 shares	
Issued	— 5,766,180 shares	9,997,104

Contributed surplus	2,211,485	
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Retained earnings	105,280,194	117,488,783

\$197,065,748

ALGOMA STEEL CORPORATION,

STATEMENT OF CONSOLIDATED EARNINGS

for the year ended December 31, 1959

INCOME		
Net sales		\$162,696,199
Investment income		1,837,411
		164,533,610
COSTS AND EXPENSES		
Cost of sales other than listed below	\$116,502,965	
Expense of moving and rearranging plant	536,080	
Administrative, selling and general expense	2,985,751	
Remuneration of directors including their salaries as executive officers	220,850	
Interest on debentures and amortization of debenture expense	1,332,848	
Interest on long term loan	362,590	
Amortization of mine development	1,794,479	
Depreciation and depletion	9,016,895	132,752,458
		31,781,152
PROFIT BEFORE PROVIDING FOR TAXES ON INCOME		
		31,781,152
TAXES ON INCOME (Note 3)		
Current	12,454,248	
Deferred	1,721,249	14,175,497
		14,175,497
NET PROFIT		
		\$17,605,655

STATEMENT OF CONSOLIDATED RETAINED EARNINGS

Amount at December 31, 1958		\$93,030,594
Net profit for the year ended December 31, 1959		17,605,655
Capital gain from sale of investment		398,800
		111,035,049
Less dividends		5,754,855
		\$105,280,194
AMOUNT AT DECEMBER 31, 1959		

STATEMENT OF CONSOLIDATED CONTRIBUTED SURPLUS

Amount at December 31, 1958 and December 31, 1959		\$ 2,211,485
		\$ 2,211,485

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

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

NOTES TO FINANCIAL STATEMENTS

December 31, 1959

Note (1)

Commitments to complete the installation of a Universal Beam Mill were approximately \$14,000,000 at December 31, 1959, for which investments have been reserved.

Note (2)

Under the Trust Deed securing Series A debentures, a sinking fund must be provided to redeem \$1,000,000 principal amount in each of the years 1963 to 1977 inclusive. Debentures become due May 15, 1978 and all or any part of Series A debentures outstanding may be redeemed at any time. Debentures redeemed during 1959 amounted to \$1,000,000.

The long term loan is repayable in monthly instalments contingent on sales to the lender, to be completely repaid by December 31, 1967. Repayments discharge equal amounts of Series B debentures.

Note (3)

Deferred taxes on income - \$1,721,249 in the Statement of Consolidated Earnings result from claiming for tax purposes an amount greater than the depreciation and provisions for rebuilding and relining furnaces, etc., recorded in the accounts. This amount is included in "Deferred Taxes on Income" in the balance sheet, and is applicable to future periods in which amounts claimed for depreciation and for rebuilding and relining furnaces, etc., for tax purposes may be less than amounts recorded in the accounts.

Profits from the Sir James Mine, one of the mines of a subsidiary, Algoma Ore Properties, Limited are exempt from income tax for three years from November 1, 1958. Without such exemption, taxes on income would have increased by approximately \$980,000.

Note (4)

To take advantage of shipment by water, products were shipped to customers in excess of their normal requirements to December 31, 1959. Profit on the excess after providing for income tax thereon was deferred to the 1960 financial year and is shown in the balance sheet as "Deferred Credit to Income".

Note (5)

Under the Trust Deed securing the Series A debentures the Corporation is restricted as to payment of dividends (other than stock dividends) and reduction of share capital (other than out of the proceeds of an issue of shares specifically made for such purpose). At December 31, 1959 the restriction limited dividends plus capital stock reduction to \$25,200,000.

Under a Stock Option Plan for certain employees, options were exercised during 1959 on 21,100 shares for \$375,580. Unexercised options on the remaining 28,900 shares terminate in December, 1967. An additional 58,000 shares are set aside for the granting of stock options.

Note (6)

The assets and liabilities of United States subsidiaries are included in the financial statements at par of exchange. At December 31, 1959 the United States dollar was at a discount of approximately 4¾% in terms of the Canadian dollar. If the assets and liabilities had been converted to Canadian dollar equivalent, there would not have been any substantial effect on the consolidated financial position.

Note (7)

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 1959 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, 1959 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 financial position of the Companies at December 31, 1959 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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

Toronto, Ontario.
January 25, 1960.

ALGOMA STEEL CORPORATION, LIMITED

PRODUCTS

Coke	Tube Rounds
Coal Chemicals	Sheet Piling
Pig Iron	Grinding Balls and Rods
Blooms, Billets and Slabs	Sheared Plate
Heavy and Light Rails	Universal Plate
Rail Fastenings	Hot Rolled Sheet and Strip
Heavy Structural	Cold Rolled Sheet and Strip
Carbon Merchant Bars and Light Structural	Electrical Sheet and Strip
	Skelp

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 Company	
Kanawha Division	Cannelton, West Virginia
Pocahontas Division	Superior, 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
Great-West Life Building, Winnipeg, Manitoba

