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ANNUAL REPORT for the year ended December 31st, 1971

THE ALGOMA STEEL CORPORATION, LIMITED

1971

INDEX

DIRECTORS

*John B. Barber — Sault Ste. Marie, Ontario
Vice Chairman and Senior Vice President, The Algoma Steel Corporation, Limited

*John D. Barrington — Toronto, Ontario
Mining Consultant and company director

Keith Campbell — Montreal, Quebec
Vice President Administration, Canadian Pacific Limited

*Ross Dunn, Q.C. — Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

*David S. Holbrook — Sault Ste. Marie, Ontario
Chairman and President, The Algoma Steel Corporation, Limited

Douglas Joyce — Sault Ste. Marie, Ontario
Senior Vice President - Operations, The Algoma Steel Corporation, Limited

W. Earle McLaughlin — Montreal, Quebec
Chairman and President, The Royal Bank of Canada

MacKenzie McMurray — Montreal, Quebec
Chairman and President, Dominion Bridge Company, Limited

*M. C. G. Meighen, O.B.E. — Toronto, Ontario
Chairman, Canadian General Investments, Limited

Dr. Egon Overbeck — Dusseldorf, West Germany
President, Board of Management, Mannesmann, A.G.

Dr. Ulrich Petersen — Dusseldorf, West Germany
Member, Board of Management, Mannesmann, A.G.

Charles I. Rathgeb — Toronto, Ontario
President, Comstock International Ltd.

Leonard N. Savoie — Sault Ste. Marie, Ontario
President and Chief Executive Officer, Algoma Central Railway

*Dr. G. Wagner — New York, N.Y., U.S.A.
North American Representative, Mannesmann, A.G.

*Member of Executive Committee

HONORARY DIRECTORS

Hon. T. A. Crerar — Victoria, British Columbia
Retired Senator

Henry S. Hamilton, Q.C. — Sault Ste. Marie, Ontario
Barrister

T. R. McLagan, O.B.E. — Montreal, Quebec
Chairman of Executive Committee, Canada Steamship Lines, Limited

E. Gordon McMillan, Q.C. — Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

SENIOR OFFICERS

David S. Holbrook	Chairman and President
John B. Barber	Vice Chairman and Senior Vice President
Douglas Joyce	Senior Vice President - Operations
Donald A. Machum	Vice President and Assistant to the President
John Macnamara	Vice President and Works Manager - Steelworks Division
Brian W. H. Marsden	Vice President - Administration
C. Carson Weeks	Vice President - Sales
Joseph D. R. Potter	Secretary
C. E. McLurg	Treasurer
Ross H. Cutmore	Comptroller

HIGHLIGHTS OF 1971

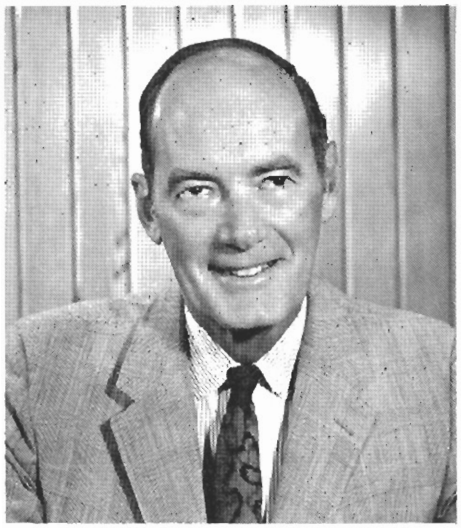
(with comparative figures for 1970)

	1971	1970	Increase or (Decrease)
	(Tons and dollars in thousands except per share data)		
Net sales	$271,796	$257,356	$ 14,440
Earnings before extraordinary credit — total	$ 12,815	$ 23,577	$(10,762)
— per share	$ 1.11	$ 2.03	$ (.92)
Net earnings — total	$ 34,319	$ 23,577	$ 10,742
— per share	$ 2.96	$ 2.03	$ .93
— per cent of income	12.5%	9.1%	3.4%
— per cent of average shareholders' equity	13.3%	10.0%	3.3%
Cost of products sold as per cent of net sales	84.6%	83.4%	1.2%
Dividends paid — total	$ 5,799	$ 5,804	$ (5)
— per share	$ .50	$ .50	
Capital and mine development expenditures	$ 39,060	$ 30,987	$ 8,073
Depreciation and amortization	$ 18,890	$ 18,293	$ 597
Long term debt at year end	$ 77,800	$ 46,000	$ 31,800
Production — iron	N.T. 2,136	2,440	(304)
— raw steel	N.T. 2,360	2,495	(135)
Shipments — steel products	N.T. 1,681	1,745	(64)
Approximate number of shareholders at year end	17,080	17,566	(486)

The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 20th, 1972 at 2:15 p.m. Eastern Standard Time. A formal notice of the Meeting, an information circular and a proxy are included with this Report.

PRESIDENT'S LETTER

TO THE SHAREHOLDERS:



Chairman and President
David S. Holbrook

In 1971 Canadian raw steel production declined marginally to 12 million tons from the record 12.2 million tons in 1970. There was weakness in the European and Japanese economies with lower international price levels for steel products; as a result of this and imposition of the import surcharge by the United States, offshore steel producers increased selling activity in Canada and imports of steel products increased more than 35 per cent. Exports by Canadian producers were slightly lower but they were higher to the United States.

Algoma's production of coke, iron and raw steel declined and although sales reached a record high, earnings before an extraordinary credit were lower for reasons explained in this Report.

The 166″ Plate Mill was brought into successful operation in September, 1971 and completion of the second L.D. Oxygen Steel Plant, which has been delayed by a province-wide strike of ironworkers and a local strike of crane operators, is expected about the end of the first quarter of 1973.

The death on November 25, 1971 of Dr. Wilhelm Zangen, Honorary Chairman, Supervisory Board, Mannesmann A.G. is recorded with regret. The late Dr. Zangen was a member of the Corporation's Board of Directors from 1957 to 1965 and since then had been an honorary director.

Changes in the senior management organization early in 1971, which were outlined in the 1970 Annual Report, have resulted in a better alignment of responsibilities and the achievement of a better understanding of management philosophies and objectives by employees is regarded as an important accomplishment in 1971.

Regular meetings of the Board of Directors were held with four in Toronto, three in Montreal and two in Sault Ste. Marie.

Management sincerely appreciates the understanding and loyal support of the shareholders, employees and customers of the Corporation.

D. S. Holbrook

D. S. Holbrook
Chairman and President

Sault Ste. Marie, Ontario
February 2nd, 1972.

REVIEW OF 1971 OPERATIONS

Financial

Record sales of $272 million were 5.6 per cent higher than in 1970 with higher returns realized on steel products and sales of tubes responsible for the increase.

Earnings before an extraordinary credit were $12.8 million, equal to $1.11 per share, compared to $2.03 per share in 1970. A gain on the sale of the Corporation's holding of 599,912 common shares of Canada Steamship Lines, Limited added $21.5 million ($1.85 per share) to earnings, and net earnings, including this credit, were $34.3 million, equal to $2.96 per share. Cash flow, including the extraordinary credit in 1971, was $4.47 compared to $3.15 per share in 1970.

The shares of Canada Steamship Lines, Limited were acquired many years ago to assure water transportation of raw materials at reasonable rates and this protection had become unnecessary. A favourable offer for these shares at $40 per share was accepted, since the funds can be used to better advantage in financing the expansion program.

Income from investments at $2.5 million was slightly lower than in 1970 and was predominantly dividends on holdings of Dominion Bridge Company, Limited and Canada Steamship Lines, Limited shares.

The cost of products sold was 84.6 per cent of sales compared to 83.4 per cent in 1970. Increased costs of labour, and of materials and fuels which were uncontrollable to a large extent, more than offset gains in income from higher sales returns.

The $1.9 million in trade accounts owed by Toronto Iron Works, Limited since 1967 was paid in 1971 and $1.3 million of this amount was credited to earnings, since this amount had been written off against earnings in 1967.

Interest on long term debt was $2 million higher in 1971 as a result of the sale of $34 million series D debentures in March. Heavy carrying charges on almost $110 million invested under the expansion program in assets which did not produce any income, again depressed earnings. At the end of 1971 outstanding long term debt amounted to $77.8 million and sufficient debentures had been redeemed to meet sinking fund requirements in 1972.

Depreciation and amortization policy was not changed and depreciation on plant and equipment, other than for mining, was accrued on a straight-line basis at rates intended to write off the costs of the assets over their expected useful lives; costs of mine equipment and development were amortized at rates calculated to write them off over estimated recoverable reserves. The increase of $600,000 in depreciation and amortization over 1970 resulted from new facilities, principally the 166″ Plate Mill, having been completed and brought into operation.

The substantial additions to earnings from tax exemption on income from the leased mine at Steep Rock Lake ended in 1970 and the less favourable tax position in 1971 accounted for about 30 per cent of the decline in net earnings before the extraordinary credit. Depletion allowances on income attributable to pellets from the Steep Rock operation, Algoma Sinter and coal from the Corporation's mines, and nontaxable dividends were largely responsible for the provision for income taxes in 1971 only being $200,000. It has still not been determined whether three-year tax exemption will be obtained on income from the Ruth and Lucy Mine which came into production in 1968 but was not operated in 1971.

Elimination by the Federal Government of the 3 per cent income tax surcharge effective July 1, 1971, reduction of 7 per cent in income tax payable, effective from the same date until 1973, and the planned reduction in corporate tax rates starting in 1973 are considered to be constructive steps as is the 5 per cent Investment Tax Credit instituted by the Province of Ontario in April, 1971 which expires in March, 1973. It is hoped that the latter will be renewed and that the Federal Government will institute some form of tax incentive to encourage capital investment by industry.

Dividends were paid at a quarterly rate of 12.5 cents per share in 1971 and the Department of National Revenue has advised that Canadian shareholders of the Corporation qualify to deduct 20 per cent depletion allowance for income tax purposes on dividends paid in 1971.

Working capital increased $38.5 million and the ratio of current assets to current liabilities was 3.1 to 1 at the end of the year. Higher sales, higher unit prices and costs and the purchase of steel in process at the leased seamless tube plant resulted in increases in accounts receivable and inventories during 1971.

Total issued and outstanding shares were reduced by cancellation of 13,056 shares under an Amendment of Articles by the Ontario Government. These were the balance of shares held since 1935 by a trust company for delivery, on surrender for cancellation, of bonds and other securities of the predecessor corporation. It is unlikely that any more of these securities will be presented but, if any should be, and claims are properly substantiated, shares will be issued in exchange for them.

Lease of the seamless tube plant for a term of 15 years provides for minimum annual rentals and there are annual options to purchase the plant from the sixth year of the lease. Certain current assets of Mannesmann Tube Company, Ltd. were purchased by Algoma for $5.2 million and $1.3 million liabilities were assumed. Although the Mannesmann interests own a substantial number of Algoma's shares, negotiations for this lease were strictly on an "arms length" basis and all values and estimates were confirmed by a highly regarded, independent firm of engineers and evaluators.

A removable Statistical Supplement giving a comparison of financial and operating results for the past 10 years is included with this Report.

Sales

During the first half of 1971, the Canadian market for steel products was not strong with warehouses and fabricators liquidating high inventories and activity slow in the construction industry. Fortunately, during this period demand was strong in the United States with inventories being accumulated in anticipation of labour problems in the steel industry, and shipments to that country practically offset lower shipments into the Canadian market. From August until the end of the year the surcharge imposed on imports by the United States caused a reduction in sales and the domestic market for structurals was weak with the construction industry in the doldrums.

Competition from offshore producers increased in the Canadian market in 1971 and imports of steel products rose sharply with shipments from Japan and Europe responsible for the entire increase.

Shipments of 1.7 million tons of steel products were slightly lower than in 1970. Offshore shipments were again negligible, exports to the United

States were about 21 per cent of total shipments and because of impaired primary mill rolling capacity, 18 per cent of the latter were in unfinished form.

Pig iron shipments were approximately 42 per cent higher than in 1970, there were no sales of Algoma Sinter and coke shipments declined sharply because of lower activity at the plants of major customers.

Price increases in 1971 which averaged about 5 per cent were within the guidelines set by the Federal Prices and Incomes Commission and were essential to at least partially offset cost increases. Replacement of sales of tube rounds by sales of higher priced seamless tubes in the last quarter of the year contributed strongly to an increase in the average net return realized on steel product sales from $135.15 per ton in 1970 to $146.14 per ton in 1971.

Leasing of the seamless tube plant added oil well casing, transmission line pipe, standard pipe and mechanical tubing to Algoma's range of steel products. The outstanding technical knowledge of Mannesmann in this field, which is recognized world-wide, is available to Algoma and tubes are being marketed by Algoma through companies affiliated with Mannesmann Tube Company, Ltd.

The computer-based program to improve order scheduling and processing was further advanced and it is producing unified plans for sales, operations and inventory control and improving service to customers.

A large group of customers, trade organization and government personnel was brought to Sault Ste. Marie late in 1971 to familiarize them with the new 166″ Plate Mill and further groups will be invited in 1972.

Removal of the surcharge on imports by the United States in December, 1971 has made prices of the Corporation's products more attractive to customers in the United States, but shipments will not benefit from this to any extent before the second quarter of 1972.

Operations

Production in 1971 compared to 1970 was as follows:

		1971	1970
		(thousands of tons)	
Algoma Sinter	GT	1,639	1,511
Coal	NT	2,202	2,701
Coke	NT	1,375	1,619
Iron	NT	2,136	2,440
Raw Steel	NT	2,360	2,495

Production of Algoma Sinter was restricted in 1971 to control the level of sinter and pellet inventories but was higher than in 1970. All ore used to produce sinter was from the George W. MacLeod underground mine and the product was all super-fluxed by the addition of limestone into the sintering operation at Wawa. Further steps were taken to modernize underground operations in the MacLeod Mine and convert them to trackless mining. Algoma Sinter and pellets from the leased mine at Steep Rock Lake represented about 80 per cent of the iron-bearing materials used in the Corporation's blast furnaces.

Production of coal was considerably lower than in 1970 because of several work stoppages and a prolonged strike which resulted in complete loss of production at the Corporation's coal mines for approximately two months.

Lower production of coke reflects the shut down of No. 5 Blast Furnace for about 11 weeks for relining. Major repairs are being undertaken on an old coke oven battery to extend its useful life to 1977 in order to defer the large expenditure which will be required to replace the battery.

Lower production of iron resulted from the relining of blast furnaces and lack of orders; in 1970 the furnace at Port Colborne produced a large tonnage of iron for shipment offshore but similar business was not available in 1971 and this furnace only operated about 5 months.

Slightly lower production of raw steel in 1971 is attributable to the relining of the large blast furnace, repairs to cracked posts on the 44″ Blooming Mill roll stand and replacement of the tables on this production line which removed it from operation for a month; the stand will be replaced by a modern 45″ stand during 1972 and this will improve operations. Over 60 per cent of the raw steel produced was made in the L.D. oxygen steel plant and the balance in the open hearth furnaces and it is expected that production from the open hearth furnaces will be discontinued about the end of the first quarter of 1973 when the second oxygen steel plant is commissioned.

The continuous casting plant produced a record tonnage of blooms and shaped sections in 1971 and performance of the machines improved. Further progress was made on the trial casting of blooms for production of rails and seamless tubes and the results continue to be encouraging.

Minimum problems were encountered starting up the 166″ Plate Mill which is producing plate with improved surface qualities, primarily because of the superior heating characteristics of the walking-beam reheating furnace. This mill which cost over $70 million, covers more than 14 acres, is the widest plate mill in Canada, is capable of producing plate up to 153″ wide, 4″ thick and up to 120′ in length and is one of the most modern and most highly computerized plate mills in the world. Plate is being produced which meets the physical specifications required in large diameter pipe for applications in extreme Arctic conditions.

The tonnage of ingots continuously rolled through the Bloom and 106″ Strip Mill without reheating was more than double the tonnage processed in this manner in 1970 with resultant additional economies realized.

Operations of the leased seamless tube mill are being satisfactorily integrated with those of the Steelworks.

Negotiations are underway for participation in a joint venture with The Cleveland-Cliffs Iron Company and several steel producers to develop and mine an iron ore property near Marquette, Michigan, U.S.A. and to produce pellets by mid-1974. Advances during 1971 with respect to this development amounted to $1.1 million and are shown on the balance sheet under "Investments - other". Pellets from this mine will be required to support expanded steelmaking operations.

Environment

Further major steps were taken to improve the environment in and around operations and the following facilities were installed and brought into operation:

Equipment to clean gas from the Steelworks' Sinter Plant;

Conversion of equipment to permit heating boilers with oil and natural gas rather than coal;

Equipment to improve the quality of air discharged to the atmosphere from the 46″ Bloom and Plate Mill, 44″ Blooming Mill and Lime Burning Plant.

Studies to find an acceptable method of cleaning air discharged from the Sinter Plant stacks at Wawa are continuing.

A brochure captioned "Algoma and the Environment", describing action being taken and expenditures being made to improve the environment, was widely distributed to employees, shareholders, citizens and news media; copies are available from the Secretary's office on request. Over $12 million has been spent on air and water quality control equipment in the seventeen years ending in 1971 and, unfortunately, these expenditures are not revenue-producing since the value of the by-products recovered does not offset added operating costs.

Improvements, Additions and Alterations

Capital and mine development expenditures were approximately $39 million and the following major projects were completed at the Steelworks Division:

Replacement of equipment to remove tar and gums from coke oven gas to purify it for use as fuel;

Relining of a large blast furnace (No. 5), replacement of equipment to permit operating it at higher temperatures, reinforcement of the highline and replacement of raw material bins;

Installation on the 46″ Bloom and Plate Mill of a flame-scarfing machine to remove surface imperfections from slabs and of a higher pressure spray system to remove surface scale;

Replacement of tables on the 44″ Blooming Mill;

Installation of cooling equipment on the 106″ Wide Hot Strip Mill to improve the quality of the product;

Installation of the 166″ Plate Mill;

Installation of equipment to level plate in the Plate Finishing Department;

Erection of a Shipping Arrangements Office Building to meet the needs of the expanding Steelworks;

Installation of the equipment listed on page 8 under "Environment" to improve the quality of air and gas discharged into the atmosphere.

Projects underway at the year-end or to be started at the Steelworks in 1972 include:

Installation of new coal storage and handling facilities;

Installation of screening equipment at a central location to improve the sizing of raw materials for use in the blast furnaces;

Installation of foundations and auxiliary equipment for a new large blast furnace (No. 7);

Relining of a small blast furnace (No. 4);

Construction of a second L.D. oxygen steel plant which will increase annual raw steel production capacity to approximately four million tons when other major facilities in the expansion program are installed;

Installation of a second kiln to produce burnt lime for the new L.D. oxygen steel plant;

Expansion of the track system to service the second L.D. oxygen steel plant and the second lime burning plant;

Replacement of the 44″ Blooming Mill roll stand with a 45″ stand;

Installation of centralized equipment to compress air for use throughout the Steelworks.

At the Algoma Ore Division additional expenditures were made on mine development and mining equipment and construction of a plant for cooling, crushing and cold screening sinter was started. This plant, which will be completed in 1972, will produce sinter of a more uniform size for use in the Corporation's blast furnaces.

The name of Cannelton Coal Company was changed to Cannelton Industries, Inc. on October 22, 1971 since the activities of this company are being diversified. Work was started on the development of a new low volatile metallurgical coal mine near Beckley, West Virginia, U.S.A. on property purchased in 1965 which contains recoverable coal reserves estimated at 42 million tons. It is planned to bring the new mine into production by mid-1974 at an annual rate of 1.25 million tons and mining will eventually be discontinued at a low volatile coal property where the reserves are being depleted. Further expenditures were made to replace, upgrade and add to mining and preparation plant equipment.

In 1972 Cannelton Industries will construct a plant near Sault Ste. Marie, Michigan, U.S.A. for threading, attaching couplings to and testing seamless tubes.

Employee, Community and Public Relations

Better relations with employees, noted in 1970, were maintained and improved in 1971. The morale and attitude of employees at the Canadian divisions was better, the number of grievances remained low with only one requiring arbitration, and there were again no work stoppages.

Continuing efforts to increase mutual understanding with employees and with union leaders are believed to have contributed to this improved situation. Meetings were held with Union leaders to review performance of the Corporation and discuss matters of common interest, and many such leaders and other employees worked hard to promote better understanding. The abolition of time-off penalties in favour of a demerit point system worked well. The induction program for new employees was strengthened in the areas of policy, objectives and safe working practices and a new preretirement counselling program was instituted for employees over fifty-five years of age. The program of departmental meetings to improve communications with employees at all levels was expanded and given increased emphasis.

A major undertaking in the continuing effort to upgrade and improve the skills and knowledge of management personnel brought together over 1,100 employees in seminars and classroom training sessions. Subjects dealt with included management techniques, work methods, employee relations, motivation, and communications. Coupled with this was a complete new inventory of the educational background, skills and potential for advancement of all salaried employees at Steelworks Division which will form the basis for future training programs and manpower planning.

A substantial decline in the number of days of work lost as a result of industrial accidents at the Steelworks Division was achieved in 1971. This was due in large measure to greater participation of employees in promoting safety-consciousness and safe working habits, and to the assistance and co-operation of Union safety committeemen.

The Voluntary Stock Purchase Plan, implemented during 1971 in response to employee requests, was participated in by approximately 5 per cent of Canadian employees.

Employees were again encouraged to take part in service, cultural, educational and religious organizations and the Corporation supported worthy Canadian fund-raising activities.

A number of former employees of the Mannesmann Tube Company, Ltd. were absorbed into bargaining units representing Steelworks' employees and this will facilitate the integration of operations of the leased seamless tube mill with those of the Steelworks.

Collective agreements with local Unions representing employees at the Canadian divisions expire July 31, 1972. Negotiations for new agreements commence in the spring, and every effort will be made to carry them through to a reasonable conclusion without disruption of operations.

Collective agreements at the Corporation's coal mines expired October 1, 1971. Unrest throughout the coal mining industry which preceded and accompanied negotiations for new agreements was reflected in a number of work stoppages before the expiry date, and in an official strike from October 1 to November 12. The new agreement which ended the strike expires November 12, 1974.

Changes in Board and Senior Management

Leonard N. Savoie, President, Algoma Central Railway, was appointed a Director March 2, 1971, replacing Sir Philip Dunn whose resignation was accepted on February 3.

At the Annual Meeting of Shareholders April 15, 1971, the resignations of D. M. Farrell and Gilbert W. Humphrey as Directors were accepted with regret and Keith Campbell, Vice President Administration, Canadian Pacific Limited and Charles I. Rathgeb, President, Comstock International Ltd. were elected Directors.

Dr. Wilhelm Zangen, Honorary Director, died November 25, 1971.

Joseph D. R. Potter was appointed Secretary October 31, 1971, replacing D. M. Farrell who resigned.

Outlook

Although markets for rolled steel products, with the exception of structural shapes, should be reasonably strong until mid-year, it is difficult to predict beyond then with any certainty. The construction industry is still depressed, competition from low-priced imports is continuing and there will probably be a softening in the Canadian market in the latter part of the year if customers build inventories prior to expiration of collective agreements in the steel industry.

While a number of indicators point to improvement in the Canadian economy during 1972, there are still several uncertainties. Chief among these are the results which will be achieved by the United States from economic measures recently taken to improve its economy, restoration of business confidence in Canada, and the degree to which inflation can be controlled.

Business confidence has been seriously affected by a number of developments during 1971. The appreciated value of the dollar, unsettled international economic affairs, and further damaging legislative proposals have compounded the uncertainties of recent years. Since the Report of the Royal Commission on taxation in 1966, senior personnel have been forced to devote a great deal of time to studying and responding to sweeping legislative proposals which would affect industry's ability to carry out plans with any degree of assurance. This time could have better been spent on constructive planning to increase productivity and earnings.

One of the uncertainties overhanging business was partially removed by enactment of the new Federal Income Tax Act but many of its provisions are not clear, Regulations have not been published and the Provinces have not clarified their positions. Thus, after about 6 years, there is still not a stable tax climate within which to plan. The changes in the new Act of major concern are discontinuance of percentage depletion at the end of 1976 and of three-year new mine tax exemption at the end of 1973. These will not seriously affect Algoma for several years, but eventually they will as they were not replaced by incentives of equal value.

New uncertainties have developed as a result of Bill C-253 amending the Canada Labour Code and Bill C-256, the proposed new Competition Act. The former, if adopted in its present form, would seriously impair efforts to improve productivity through improvements in technology and methods. If unions are able to delay and even prevent such changes, the cost will be great and many improvements may never be made. The latter contains many highly restrictive provisions which conflict with proven, reasonable business practices, and would vest practically unlimited discretion in a tribunal to dictate the course of business development in Canada.

In spite of some temporary decline in Canada's rate of inflation as compared to other western nations, this is still a major problem for Canada and for Canadian industry. Unless some real progress can be made in bringing inflation under control, the outlook for reducing unemployment and restoring business confidence will be discouraging.

It appears likely that the Canada-United States automotive agreement will be renegotiated and major changes in this Pact could have serious detrimental effects on the Canadian steel industry.

It is strongly recommended that, rather than undertaking wholesale revisions to existing legislation based, in many cases, on theoretical considerations, the Federal Government should concentrate on measures which will permit industry to carry out plans with assurance that the "ground rules" under which it operates will not be constantly changing. Since it has removed most incentives to the development of Canadian raw material resources, the Government should also take steps to assure that the competitive position of industry is not further impaired by recent legislation in the United States restoring the 7 per cent Investment Tax Credit and providing preferred tax treatment to Domestic International Sales Corporations. It should be noted that legislation in effect several years ago which permitted Canadian industry to claim depreciation on an accelerated basis for tax purposes proved to be one of the most effective means of stimulating expansion at a low cost to the Government.

D. S. HOLBROOK,
CHAIRMAN and PRESIDENT

THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

CONSOLIDATED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

		1971	1970
INCOME	Net sales	$271,795,770	$257,356,269
	Investments	2,549,857	2,737,576
		274,345,627	260,093,845
EXPENSES	Cost of products sold	229,891,926	214,518,283
	Rearranging plant	316,330	156,794
	Administrative and selling (after deducting $1,273,868 recovery in 1971 and $500,000 in 1970 on doubtful receivables)	5,978,300	5,927,576
	Interest and expense on long term debt	5,283,968	3,095,710
	Interest on short term loans	998,877	894,674
	Depreciation and amortization	18,890,261	18,293,020
		261,359,662	242,886,057
EARNINGS	Before income taxes	12,985,965	17,207,788
INCOME TAXES	Current	171,064	255,365
(Note 2)	Deferred	—	(6,625,000)
		171,064	(6,369,635)
EARNINGS	Before extraordinary credit	12,814,901	23,577,423
EXTRAORDINARY CREDIT	Gain on sale of long term investment	21,504,174	—
NET EARNINGS		$ 34,319,075	$ 23,577,423
PER SHARE	Earnings before extraordinary credit	$ 1.11	$ 2.03
	Net earnings	$ 2.96	$ 2.03

CONSOLIDATED RETAINED EARNINGS

FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

	1971	1970
Balance at beginning of year	$233,729,427	$215,956,221
Net earnings	34,319,075	23,577,423
	268,048,502	239,533,644
Dividends paid	5,799,321	5,804,217
Balance at end of year	$262,249,181	$233,729,427

See Notes to Consolidated Financial Statements on Page 16.

THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 1971 AND 1970

		1971	1970
FUNDS WERE PROVIDED BY	Cash flow from earnings		
	Net earnings	$34,319,075	$23,577,423
	Transactions not resulting in an outlay of funds:		
	Depreciation and amortization	18,890,261	18,293,020
	Income tax applicable to future years	—	(6,625,000)
	Excess of accruals over expenditures for replacement of furnace linings, etc.	(1,407,088)	1,341,140
		51,802,248	36,586,583
	Recovery on non-current accounts receivable	627,319	—
	Cost of long term investment sold	2,492,346	—
	Net proceeds from sale of series D debentures	33,257,426	—
	Other – net	392,253	256,043
		88,571,592	36,842,626
FUNDS WERE APPLIED TO	Plant and equipment additions	37,998,968	30,161,403
	Mine development	1,061,051	825,724
		39,060,019	30,987,127
	Advances for development of an iron ore property (Note 4)	1,125,829	—
	Reduction of debenture debt (Note 7)	2,200,000	970,000
	Reduction of accrued past service pension cost	1,853,120	1,927,351
	Payment of dividends	5,799,321	5,804,217
		50,038,289	39,688,695
WORKING CAPITAL	Increase (decrease) during year	38,533,303	(2,846,069)
	At beginning of year	45,702,983	48,549,052
	At end of year	$84,236,286	$45,702,983

See Notes to Consolidated Financial Statements on Page 16.

THE ALGOMA STEEL CORPORATION, LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1971 AND 1970

ASSETS	1971	1970
CURRENT		
Cash	$ 2,705,474	$ —
Marketable investments at cost which approximates market	2,717,915	1,215,929
Accounts receivable	44,391,426	42,237,146
Income taxes recoverable	—	381,022
Inventories (Note 3)	72,307,581	66,643,646
Prepaid expenses	2,626,825	2,260,044
Total current assets	124,749,221	112,737,787
NON-CURRENT ACCOUNTS RECEIVABLE	—	627,319
INVESTMENTS AT COST		
Marketable	27,804,778	30,297,124
(market value 1971 $26,159,470 – 1970 $38,646,651)		
Other (Note 4)	1,125,829	—
	28,930,607	30,297,124
FIXED ASSETS		
Property, plant and equipment at cost (Note 5)	533,298,816	496,083,925
Mine development at cost	15,560,492	15,188,196
	548,859,308	511,272,121
Accumulated depreciation, depletion and amortization	255,139,475	238,752,428
	293,719,833	272,519,693
UNAMORTIZED DEBENTURE EXPENSE	714,727	—
	$448,114,388	$416,181,923

See Notes to Consolidated Financial Statements on Page 16.

On behalf of the Board

D. S. HOLBROOK Director

G. WAGNER Director

LIABILITIES	1971	1970
CURRENT		
Cheques outstanding less cash on deposit	$ —	$ 6,009,475
Notes payable – secured by assignment of accounts receivable and inventories		
– Bank loan	—	1,229,000
– Bankers acceptances	—	19,000,000
Accounts payable and accrued liabilities	37,586,460	37,993,744
Income and other taxes payable	2,926,475	2,802,585
Total current liabilities	40,512,935	67,034,804
LONG TERM DEBT – SECURED (Note 7)		
5¼ % series A debentures maturing 1978	15,000,000	16,000,000
7⅜ % series C debentures maturing 1987	28,800,000	30,000,000
8¾ % series D debentures maturing 1991	34,000,000	—
	77,800,000	46,000,000
ACCRUED PAST SERVICE PENSION COST (Note 8)	17,140,827	18,993,947
DEFERRED INCOME TAXES	39,488,000	39,488,000
SHAREHOLDERS' EQUITY (Note 9)		
Capital stock		
Shares of no par value		
Authorized – 30,186,704 (1970 - 30,199,760)		
Issued – 11,595,378 (1970 - 11,608,434)	10,923,445	10,935,745
Retained earnings	262,249,181	233,729,427
	273,172,626	244,665,172
	$448,114,388	$416,181,923

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of The Algoma Steel Corporation, Limited and subsidiaries as of December 31, 1971, and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. 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, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971, and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
January 17, 1972

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 1971

(1) PRINCIPLES OF CONSOLIDATION

The statements consolidate the accounts of all subsidiary companies. The assets and liabilities and results of operations of Cannelton Industries, Inc., a United States subsidiary, are included assuming $1 Canadian equal to $1 United States; if these were converted to the actual Canadian dollar equivalent, there would not be any material effect on the financial statements of the Corporation.

(2) INCOME TAXES

Provision for income taxes for 1971 is reduced by $6 million since dividend income from Canadian corporations is excluded and depletion allowances are claimed in determining income for tax purposes.

(3) INVENTORIES

Finished products and work in process are valued at the lower of cost or net realizable value, and raw materials and supplies are valued at the lower of cost or replacement cost. Inventories at December 31, 1971 and 1970 are:

	1971	1970
	(millions of dollars)	
Finished products	$15.4	$14.6
Work in process	17.7	13.8
Raw materials and supplies	39.2	38.2
	$72.3	$66.6

(4) LONG TERM INVESTMENTS — OTHER

It is planned to participate in a joint venture to develop and mine a large iron ore property in Michigan, U.S.A. and produce iron pellets commencing in mid-1974. A commitment has not yet been made but $1.1 million has been advanced for preproduction development work. Annual pellet capacity is expected to be 4 million tons and the Corporation's share is expected to be 30 per cent.

(5) COMMITMENTS

Commitments of approximately $29 million are outstanding at December 31, 1971 for capital expenditures to be made in 1972 and subsequent years.

(6) LEASES

Effective October 1, 1971, the Corporation leased and commenced operating a seamless tube plant; this lease expires in 1986 and contains annual options to purchase from the sixth year. Total minimum annual rentals under this and other long term leases, principally of raw material properties, approximate $2.5 million.

(7) LONG TERM DEBT

Sinking fund requirements in each of the next four years are $2.2 million and in the fifth year $2.85 million; at December 31, 1971 $2.2 million of debentures are redeemed and will be applied to meet future sinking fund requirements. All or any part of each of the debenture issues may be redeemed at any time and they are secured and rank pari pasu with each other.

(8) PENSIONS

The estimated unfunded amount for pensions earned by past service is $40.9 million, of which $20.7 million is accrued at December 31, 1971. Pension costs charged against earnings include those arising from current service and the amount paid annually in respect of the $20.2 million not accrued for past service. It is planned that future payments will discharge all past service liabilities by 1989.

(9) SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding, the Corporation must meet certain financial requirements before paying dividends or reducing share capital and these are exceeded by a substantial amount.

No options were granted during 1971 under the stock option plan. There are unexercised options at December 31, 1971 on 69,750 shares terminating in 1974 and 26,000 in 1979 at $15.19 per share.

An Amendment of Articles was issued by the Ontario Government on April 30, 1971 under which authorized and issued capital was decreased by 13,056 shares and as a result, capital stock account has been reduced $12,300. The shares cancelled thereby were the balance of the shares held since 1935 by a trust company for delivery against the surrender for cancellation of bonds and other securities of the predecessor corporation.

(10) REMUNERATION

Total remuneration of directors and senior officers amounted to $677,831.

(11) LAWSUITS

The Corporation is defendant in two lawsuits of substantial amounts commenced in September, 1968 and in August, 1969 respectively. In the opinion of the Corporation's General Legal Counsel, there is no basis for any of the claims made against it in the earlier suit and the result of the later suit will not materially affect the financial position of the Corporation.

EXECUTIVE OFFICES	Sault Ste. Marie, Ontario
WORKS AND OPERATIONS	The Algoma Steel Corporation, Limited Steelworks Division, Sault Ste. Marie, Ontario Tube Division, Sault Ste. Marie, Ontario Canadian Furnace Division, Port Colborne, Ontario Algoma Ore Division, Michipicoten District, Ontario Cannelton Industries, Inc. (formerly Cannelton Coal Company) Kanawha Division, Cannelton, West Virginia Pocahontas Division, Superior, West Virginia

THE ALGOMA STEEL CORPORATION, LIMITED

INCORPORATION	Under the laws of the Province of Ontario
SHARE TRANSFER AGENTS AND REGISTRARS	Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver The Royal Bank of Canada Trust Company, New York
TRUSTEE FOR DEBENTURES	Montreal Trust Company, Toronto, Ontario
REGISTRAR FOR DEBENTURES	Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

COMPARISON OF FINANCIAL AND OPERATING RESULTS 1971 - 1961

SUMMARY OF OPERATIONS AND NET EARNINGS (thousands of tons and millions of dollars)

Year	Production: Coal *net tons*	Production: Algoma Sinter *gross tons*	Production: Iron *net tons*	Production: Raw steel *net tons*	Shipments of steel products *net tons*	Income $	Cost of products sold $	Rear-ranging plant $	Adminis-trative and selling $	Interest & expense on debt(1) $	Depreciation and amortization $	Income taxes $	Net earnings $
1971	2202	1639	2136	2360	1681	274.4	229.9	.3	6.0	6.3	18.9	.2	34.3(2)
1970	2701	1511	2440	2495	1745	260.1	214.5	.2	5.9	4.0	18.3	(6.4)	23.6
1969	2301	1142	1705	1725	1243	186.2	160.5	.1	5.6	3.1	17.5	(9.8)	9.2
1968	2253	1723	2189	2261	1549	220.0	174.3	.7	5.1	3.0	18.6	(1.5)	19.8
1967	1841	1562	1957	2073	1451	203.6	159.0	.2	5.6	1.5	17.6	4.5	14.2(3)
1966	1685	1805	2241	2347	1715	239.0	174.5	.8	5.7	1.2	16.5	15.5	24.8
1965	1674	1822	2289	2486	1768	244.4	169.4	.1	4.8	1.3	15.1	22.9	30.8
1964	1591	1781	2261	2301	1670	226.8	157.5	.7	4.6	1.4	14.5	20.5	27.6
1963	1672	1618	2077	2092	1520	205.8	141.7	.5	4.3	1.5	13.1	18.8	25.9
1962	1443	1460	1772	1759	1297	180.2	127.4	.7	3.7	1.5	11.6	14.2	21.1
1961	1443	1631	1732	1650	1228	169.7	123.4	.8	3.4	1.6	10.5	10.5	19.5

STATISTICS RELATING TO EARNINGS (millions of dollars excepting per share data (4))

Year	Cash dividends $	Net earnings retained in business $	Cash flow from earnings $	Per share: Net earnings $	Per share: Cash dividends $	Per share: Cash flow $	Cost of products sold as % of net sales %	Income taxes as % of income %	Net earnings as % of: Income %	Net earnings as % of: Average shareholders' equity %	Net earnings as % of: Average invested capital(5) %
1971	5.8	28.5	51.8	2.96(2)	.50	4.47(2)	84.6		12.5	13.3	11.5
1970	5.8	17.8	36.6	2.03	.50	3.15	83.4	(2.5)	9.1	10.0	8.9
1969	10.2	(1.0)	19.4	.79	.875	1.67	87.7	(5.2)	4.9	4.0	3.9
1968	11.6	8.2	35.9	1.70	1.00	3.09	80.6	(.7)	9.0	8.8	8.0
1967	11.6	2.6	35.1	1.22	1.00	3.03	79.3	2.2	7.0	6.5	6.0
1966	11.6	13.2	48.0	2.14	1.00	4.13	74.1	6.5	10.4	11.7	10.9
1965	10.4	20.4	55.6	2.66	.90	4.80	70.0	9.4	12.6	15.3	13.9
1964	9.3	18.3	55.0	2.38	.80	4.74	70.0	9.0	12.2	14.7	13.1
1963	8.7	17.2	45.1	2.24	.75	3.89	69.5	9.1	12.6	15.8	13.8
1962	8.1	13.0	38.6	1.82	.70	3.33	71.5	7.9	11.7	14.7	12.6
1961	7.0	12.5	35.3	1.68	.60	3.05	73.6	6.2	11.5	14.9	12.5

SOURCE AND APPLICATION OF FUNDS (millions of dollars)

Year	Source: Net earnings $	Source: Depreciation and amortization $	Source: Deferred taxes on income $	Source: Sale of invest-ments $	Source: Long term debt $	Source: Other — net(6) $	Application: Fixed assets $	Application: Investments reserved for expansion $	Application: Reduction of debt $	Application: Divi-dends $	Application: Invest-ments $	Application: Refund-able 5% tax $	Increase in working capital $
1971	34.3	18.9		2.5	34.0	(3.0)	39.1		2.2	5.8	1.1		38.5
1970	23.6	18.3	(6.6)			(.4)	31.0		1.0	5.8			(2.9)
1969	9.2	17.5	(7.6)			9.8	40.4		.1	10.2			(21.8)
1968	19.8	18.6	(3.7)		9.3	10.9	23.2	10.0	1.9	11.6		(.8)	9.0
1967	14.2	17.6	5.3		20.7	6.7	39.0	10.0		11.6		(.8)	4.7
1966	24.8	16.5	6.5			15.2	33.5	10.0	4.8	11.6	1.5	1.6	
1965	30.8	15.1	9.1			.6	25.2	15.0	3.1	10.4			1.9
1964	27.6	14.5	11.6			16.3	37.5		1.7	9.3	27.5		(6.0)
1963	25.9	13.1	5.7	16.1		9.4	31.5	15.0	1.8	8.7			13.2
1962	21.1	11.6	4.6			11.3	33.2	9.0	1.3	8.1			(3.0)
1961	19.5	10.5	3.4			2.0	18.0	10.0	.7	7.0			(.3)

(1) Includes interest on short term loans of $1.0 million in 1971 and $.9 million in 1970.
(2) Includes an extraordinary credit of $21.5 million ($1.85 per share).
(3) After an extraordinary charge of $1.0 million.

BALANCE SHEET SUMMARY (millions of dollars excepting per share data (4))

Dec. 31	Working capital $	Non-current receivables $	Invest-ments $	Investments reserved for expansion $	Net fixed assets $	Deferred charge $	Long term debt $	Accrued past service pension cost $	Deferred income taxes $	Deferred earnings on advance sales $	Share-holders' equity $	Share-holders' equity per share $	Number of shares issued (000)	Number of share-holders
1971	84.2		29.0		293.7	.7	77.8	17.1	39.5		273.2	23.56	11595	17080
1970	45.7	.6	30.3		272.6		46.0	19.0	39.5		244.7	21.08	11608	17566
1969	48.6	.7	30.5		261.4		47.0	20.9	46.4		226.9	19.55	11608	16362
1968	70.4	.7	30.4	10.0	239.0	9.9	47.1	20.7	64.7		227.9	19.63	11608	14796
1967	61.4	1.6	30.4	10.0	235.7	6.5	39.7	17.8	68.4		219.7	18.93	11608	13936
1966	56.7	1.6	31.8	10.0	212.8	6.8	19.0	18.4	63.2		219.1	18.88	11606	13284
1965	56.7		30.3	15.0	196.0		23.9	11.8	56.7		205.6	17.73	11596	13912
1964	54.8		30.3		186.7		26.9		47.6		197.3	17.02	11594	8744
1963	60.8		2.9	15.0	164.0		28.6		34.9	.4	178.8	15.45	11574	7863
1962	47.6		6.5	9.0	146.2	.5	30.4		29.4	.5	149.5	12.92	11572	7815
1961	50.6		6.5	10.0	125.8	.5	31.7		24.7	.3	136.7	11.81	11572	7537

(4) Statistics on shares adjusted for share subdivision in May 1966.
(5) Average of shareholders' equity plus long term debt less unamortized debenture expense at beginning and end of year.
(6) Includes investments reserved for expansion at end of each previous year.

THE ALGOMA STEEL CORPORATION, LIMITED

SALES OFFICES

Sault Ste. Marie, Ontario
Saint John, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Vancouver, British Columbia

PRODUCTS

Algoma Sinter
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Beams and Columns
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees and Special Car Building Sections
Bevelled Edge Grader Blade Bars
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet and Strip
Cold Rolled Sheet and Strip
Skelp
Plates
- Sheared and Gas Cut
- Line Pipe
- Shipbuilding
- Universal Mill
- Floor

Seamless Pipe and Tubes
- Oil Well Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Couplings