ALGOMA STEEL

ANNUAL REPORT 1988

Executive Offices

503 Queen Street East
Sault Ste. Marie, Ontario
P6A 5P2
(705) 945-2788

Head Sales Office

Mississauga Executive Centre
Suite 900
Four Robert Speck Parkway
Mississauga, Ontario
L4Z 1S1
(416) 276-1400

Incorporation

Under the laws of the Province of Ontario

Share Transfer Agents and Registrars

Montreal Trust Company,
Halifax, Saint John, Montreal, Toronto,
Winnipeg, Regina, Calgary and Vancouver

The Bank of Montreal Trust Company,
New York

Shares Listed

Montreal, Toronto and Vancouver
Stock Exchanges

Trustee for Debentures

Montreal Trust Company,
Toronto, Ontario

Registrar for Debentures

Montreal Trust Company,
Halifax, Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Valuation Day Values (for Canadian Income Tax Purposes)

Series D Debenture	$ 103.50

Auditors

Peat Marwick
Clarkson Gordon *

* appointed as a co-auditor of the Corporation on December 19, 1988

Corporate Profile

Algoma Steel was formed in 1901 as a rail producer supplying the rapidly expanding Canadian and United States railroads. The Corporation was reorganized by Sir James Dunn in 1935 and began to expand its range of products. Today, Algoma is a fully integrated steel producer with five principal steel product lines consisting of sheet and strip, plate, seamless tubulars, structural shapes and rails. It also produces and sells steam and metallurgical coal. Algoma employs directly and through its United States subsidiaries approximately 9,200 employees.

The Corporation's steelworks and head office are located in Sault Ste. Marie, Ontario. It has sales offices in Mississauga, Ontario; Calgary, Alberta; and Houston, Texas. Through direct ownership, Algoma can satisfy all its iron ore and the majority of its coal requirements. Iron ore is obtained from mines in Wawa, Ontario, and Ishpeming, Michigan, and coal from mining locations in West Virginia.

The Corporation holds ownership interests in downstream operations which finish and process steel into higher valued products.

Dofasco Inc. acquired control of the Corporation on August 19, 1988, and now owns all of Algoma Steel's common shares.

Contents

Report to Shareholders

Nineteen-eighty-eight was an eventful year for the Corporation and its employees.

- Earnings and earnings per share before extraordinary items were increased to $72.7 million and $3.59, respectively, from $30.7 million and $0.97, respectively, in the prior year.

- Dofasco Inc. of Hamilton, Ontario, acquired all of the outstanding common and Class B convertible preference shares, ending Algoma's 14-year association with Canadian Pacific Limited. Since August 19, 1988, Dofasco has included Algoma's results in its consolidated financial statements.

The improved results could not have been achieved and the change in ownership could not have been accomplished without the full support of Algoma people. Their efforts are appreciated.

During the difficult period from 1982 to 1986, Canadian Pacific was a constructive and responsible shareholder. Without Canadian Pacific's confidence the 1987/88 turnaround in Algoma's fortunes would have been much more difficult. The advice, friendship and dedicated service of Russell S. Allison, Robert W. Campbell, James F. Hankinson and Robert J. Theis, all of whom resigned from Algoma's Board of Directors in 1988, are acknowledged with thanks.

The previously announced plans to further improve Algoma's profitability remain intact and required actions are proceeding. Capital projects are underway at the Steelworks to improve quality and reduce costs by installing ladle metallurgy facilities at both steelmaking shops and constructing a new continuous round caster. Reconstruction of the rail and structural mills is expected to begin in 1989. Expansion of Cannelton's steam coal business and restructuring of iron ore operations are continuing. Capital expenditures were $72 million in 1988 and are expected to be approximately $180 million in 1989.

The improved 1988 results were achieved despite a 73-day reline of the Corporation's largest blast furnace which required large purchases of semi-finished steel to supplement steel supply and maintain steel-product shipments. Improved margins on steel sales resulted primarily from sales return increases which more than offset inflation in costs.

New two-year labour agreements were concluded with unions representing Canadian employees, well in advance of the July 31, 1988, expiry date of the previous agreements. Joint Union and Management Health and Safety Committees continued to work effectively towards providing a safer workplace for all employees. Their efforts contributed to an improved safety record at manufacturing operations.

Expenditures totalling $45 million to $50 million are underway to protect the environment in Sault Ste. Marie through a further reduction in air and water contaminants. As part of the Corporation's environmental program, property on the St. Mary's River will become available for inclusion in the City's waterfront development plan.

The Corporation exercised its purchase option and became a 50-per-cent owner of Ferrum Inc. early in 1988. Late in the year Ferrum acquired TI Canada Inc. to expand its production and marketing capability for welded tubing and hollow structurals. Ferrum achieved good results in 1988 and is expected to perform well in 1989.

The acquisition in January 1989 of a sole partner's interest in Huron Steel and Mohawk Metal Partnerships resulted in Algoma becoming the 100-per-cent owner of businesses located at Windsor, Ontario, involved in the stamping, forming and assembly of steel parts for automotive and related industries. As with Ferrum Inc., Huron and Mohawk are important customers for Algoma's flat-rolled products.

Raw steel production is expected to be at capacity in 1989 to meet the needs of Algoma's rolling mills and to supplement Dofasco's steel supply. Any reduction in Algoma's domestic North American demand will be offset with offshore sales.

Demand for seamless tubular products was weak entering 1989 and no significant recovery is expected in the first half of the year. North American oil and gas drilling activity remains depressed and efforts are continuing to access offshore markets for tubular products. The ladle metallurgy and tube-round casting facilities now under construction will enhance the long-term outlook for the Corporation's tubular business by substantially reducing production costs and improving product quality.

Robert N. Robertson, Senior Vice President – Commercial, retired during 1988 after 25 years of dedicated service. Gerry B. Hudson was appointed Vice President – Commercial on May 2, 1988.

As Algoma's new owner, Dofasco is dedicated to the steel business and is strongly supportive of Algoma's activities and plans. John T. Mayberry, Paul J. Phoenix, Thomas Van Zuiden and William L. Wallace joined the Corporation's Board of Directors in 1988. Their participation is welcome.

Dofasco and Algoma can each gain from improved utilization of Algoma's raw steel production facilities and a co-operative approach to customer service. Action is already underway to begin implementing beneficial changes and many more projects are in the planning stage. We look forward with confidence to the years ahead.

Dr. John Macnamara
Chairman of the Board

Peter M. Nixon
President and
Chief Executive Officer

Sault Ste. Marie, Ontario
March 15, 1989

Management's Responsibility for Financial Statements

The consolidated financial statements of The Algoma Steel Corporation, Limited have been prepared in accordance with generally accepted accounting principles and necessarily include some amounts based upon management's estimates and judgments. Algoma's management is responsible to ensure that these statements reasonably reflect the Corporation's business transactions and financial position.

The integrity and reliability of Algoma's reporting systems are achieved through the use of formal policies and procedures, the careful selection of employees and an appropriate division of responsibilities. Internal accounting controls are continually monitored by an internal audit staff through ongoing reviews and comprehensive audit programs. Algoma's Code of Business Conduct policy, which is regularly communicated throughout the organization, requires employees to maintain high ethical standards in their conduct of the Corporation's affairs.

The Board of Directors annually appoints an Audit Committee comprised of directors, the majority of whom are neither employees of the Corporation nor of companies related to the Corporation. This Committee meets regularly with management, the internal auditor and the shareholders' auditors to review significant accounting, reporting and internal control matters. Both the internal and shareholders' auditors have unrestricted access to the Audit Committee. Following its review of the financial statements and discussions with the shareholders' auditors, the Audit Committee reports to the Board of Directors prior to its approval of the financial statements.

Peat Marwick, Chartered Accountants and Clarkson Gordon, Chartered Accountants, the shareholders' auditors, have performed an independent examination and have attested to the fairness of presentation of these statements. Their report appears below.

President and Chief
Executive Officer

R.H. Whitmore

Vice President-
Finance and Accounting

January 31, 1989

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited as at December 31, 1988 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick

Peat Marwick
Chartered Accountants

Sault Ste. Marie, Canada
January 31, 1989

Clarkson Gordon

Clarkson Gordon
Chartered Accountants

Hamilton, Canada
January 31, 1989

Summary of Significant Accounting Policies

Principles of Consolidation	The consolidated financial statements include the accounts of all subsidiary companies. Inter-company transactions are eliminated. Investments in associated steel processors and the Tilden mining operations are included in long-term investments and are accounted for by the equity method. The Tilden mining operation, a cost sharing joint venture, produces iron ore pellets for use by the Corporation, and accordingly, costs associated with this operation are included with cost of sales in the statement of Earnings.
Translation of Foreign Currencies	The financial statements of foreign subsidiaries, the Tilden mining operations and foreign currency denominated balances of domestic operations are translated using year-end closing exchange rates for cash and short-term investments, accounts receivable, current liabilities, long-term debt and accrued pension cost. Historic exchange rates are used to translate inventories, prepaid expenses, fixed assets and deferred income taxes. Exchange rates in effect at the date of transaction are used to translate revenues and expenses, other than depreciation and amortization which are translated using the same historic rates applied in the translation of the related assets. Exchange gains and losses on translation of long-term debt are deferred and amortized to earnings over the remaining life of the debt. Exchange gains and losses from the translation of other balances together with gains and losses on transactions are included in the statement of Earnings.
Inventories	Finished products and work in process are valued at the lower of cost and net realizable value. Raw materials and supplies are valued at the lower of cost and replacement cost.
Fixed Assets	Property, plant and equipment are recorded at cost. Expenditures for improvements and renewals which extend economic life and for mine development are capitalized. Maintenance and repairs are charged to earnings as incurred excepting expenditures for periodic relines of blast furnaces which are accrued for in advance on a unit of production basis. The provision for such expenditures is included with net fixed assets. Depreciation of manufacturing plant and equipment, which comprises over 80 per cent of fixed assets, is provided using the straight-line method applied to the cost of the assets based on their estimated useful composite life of approximately 20 years commencing with commercial operation. Plant and equipment at raw material properties and mine development costs are either depreciated using the straight-line method at rates intended to amortize the cost of these assets over their estimated economic lives or amortized on a unit of production basis over the estimated recoverable raw material reserves. Interest incurred on funds borrowed to directly finance the development of new raw material properties and the construction of new manufacturing facilities is capitalized during the period of initial development and construction.
Start-Up, Research and Exploration Costs	Start-up costs of new production facilities, research costs, and costs associated with exploration, investigation and holding raw material properties are charged to earnings as incurred.
Pensions	The employees of the Corporation are covered under several pension plans providing benefits which vary with the respective employee groups. Defined benefit plans cover all Canadian employees and salaried employees in the United States. Hourly-rated mine employees in the United States receive coverage under a multi-employer plan. The costs of pension benefits earned by employees for the defined benefit plans are determined using the projected benefit method pro rated on service and management's assumptions for the factors required in the calculation. The excess of present value of accrued pension benefits over fund assets and any adjustments arising in the plans are amortized over the expected average remaining service life of the respective employee groups. The pension cost for the multi-employer plan is the employer contribution which is determined using factors negotiated with the union representing the employee group. The funding obligation for defined benefit plans is determined by an independent actuary. The actuary's assumptions for funding may differ from those used by management for determining pension costs and consequently, the pension costs included in the statement of Earnings may differ from amounts funded.
Income Taxes	Income taxes are provided for on the deferred tax allocation basis. Since regulations in Canada and the United States permit the deduction of expenses in calculating taxable income which may not coincide with amounts recorded for financial reporting purposes, such differences, principally relating to depreciation, give rise to deferred income taxes in the financial statements. Investment tax credits on qualifying expenditures for production facilities and for research are deducted from such costs provided there is reasonable assurance that the credits will be realized.

Earnings and Retained Earnings

For the years ended December 31

	Thousands of Dollars	1988	1987
Revenue	Sales	$ 1,384,273	$ 1,227,952
	Share of earnings of associated steel processing operations	7,227	—
		1,391,500	1,227,952
Operating Expenses	Cost of sales	1,159,469	1,071,039
	Depreciation and amortization	72,634	56,635
		1,232,103	1,127,674
	Earnings from operations	159,397	100,278
Financial Expense (Income)	Interest expense (note 1)	61,846	51,281
	Interest and other income	(1,296)	(4,622)
	Exchange (gain) loss on foreign currencies	(4,011)	4,811
		56,539	51,470
Earnings	Before income taxes	102,858	48,808
	Income taxes - deferred (note 2)	30,152	18,151
	Before extraordinary gains	72,706	30,657
	Extraordinary gains (note 3)	7,330	9,594
Net Earnings		$ 80,036	$ 40,251
Earnings per Common Share	Provision for dividends on preference shares	$ 10,641	$ 13,849
	Net earnings applicable to common shares	$ 69,395	$ 26,402
	Per common share		
	Earnings before extraordinary gains	$ 3.59	$ 0.97
	Net earnings	$ 4.02	$ 1.53
Retained Earnings	Balance at beginning of year	$ 346,963	$ 326,113
	Net earnings	80,036	40,251
	Dividends declared (note 12)	(10,596)	(19,401)
	Balance at end of year	$ 416,403	$ 346,963

See summary of significant accounting policies and notes to consolidated financial statements.

Financial Position

As at December 31

	Thousands of Dollars	1988	1987
Current Assets	Cash and short-term investments	**$ 3,383**	$ 260
	Accounts receivable	**202,128**	214,720
	Inventories (note 4)	**405,756**	321,126
	Prepaid expenses	**18,492**	5,443
		629,759	541,549
Current Liabilities	Bank overdraft	**—**	16,862
	Accounts payable and accrued liabilities	**189,885**	195,662
	Taxes payable	**6,367**	12,990
	Long-term debt due within one year	**48,689**	15,514
		244,941	241,028
Working Capital	Current assets less current liabilities	**384,818**	300,521
Other Assets	Long-term investments (note 5)	**179,610**	163,877
	Net fixed assets (note 6)	**882,158**	858,793
	Unamortized exchange loss on foreign currencies	**—**	5,362
	Unamortized debenture expense	**1,595**	1,929
		1,063,363	1,029,961
Total Investment	Working capital plus other assets	**1,448,181**	1,330,482
Other Liabilities	Long-term debt (note 7)	**608,298**	561,674
	Accrued pension cost (note 8)	**17,256**	30,350
	Deferred income taxes	**133,442**	124,238
	Unamortized exchange gains on foreign currencies	**8,395**	—
		767,391	716,262
	Excess of total investment over other liabilities	**$ 680,790**	$ 614,220
	Commitments (notes 9 and 10)		
Shareholders' Equity	Capital stock (note 11) Preference shares	**$ 129,685**	$ 132,570
	Common shares	**134,702**	134,687
	Retained Earnings	**416,403**	346,963
		$ 680,790	$ 614,220

See summary of significant accounting policies and notes to consolidated financial statements.

On behalf of the Board:

P. M. Nixon
Director

C. H. Hantho
Director

Consolidated Financial Statements

Changes in Financial Position

For the years ended December 31

	Thousands of Dollars	1988	1987
Cash Provided From (Used For)			
Operations	Earnings (note 13)	$ 189,483	$ 167,662
	Decrease (increase) in operating working capital	(97,487)	(34,376)
		91,996	133,286
Investment Activities	Fixed assets - manufacturing plants	(63,020)	(38,454)
	- raw material properties	(9,303)	(6,904)
		(72,323)	(45,358)
	Long-term investments	(12,774)	(101,226)
	Proceeds from sales of fixed assets	2,432	14,816
	Interest and other income	1,296	4,622
		(81,369)	(127,146)
Financing Activities	Interest on debt	(61,512)	(50,947)
	Dividends	(10,596)	(14,192)
	Repayment of long-term debt	(24,540)	(26,301)
	Capital stock purchased for cancellation	(2,893)	(82,870)
	Pension funding in excess of current expense	(12,901)	(14,293)
	Other	166	385
	Additional financing		
	Proceeds from long-term loans - net	121,634	115,591
	Funds received for seamless tube mill construction	—	35,811
		9,358	(36,816)
Cash (Loan) Position	Increase (decrease) during year	19,985	(30,676)
	Balance at beginning of year	(16,602)	14,074
	Balance at end of year	$ 3,383	$ (16,602)

Changes in Operating Working Capital			
	Decrease (increase) in accounts receivable	$ 12,592	$ (12,033)
	Decrease (increase) in inventories	(84,630)	(23,231)
	Decrease (increase) in prepaid expenses	(13,049)	(787)
	Increase (decrease) in accounts payable and accrued liabilities	(5,777)	2,257
	Increase (decrease) in taxes payable	(6,623)	(582)
	Decrease (increase) in operating working capital	$ (97,487)	$ (34,376)

See summary of significant accounting policies and notes to consolidated financial statements.

1. Interest Expense

Thousands of Dollars	1988	1987
Interest and expense on long-term debt	$ 61,491	$ 54,540
Other interest	355	625
Interest capitalized on loans for seamless tube mill construction	—	(3,884)
	$ 61,846	$ 51,281

2. Income Taxes

The effective income tax rate for the Corporation differs from the composite income tax rate of the various taxing jurisdictions in which it operates. A reconciliation between these rates follows:

	1988	1987
Composite income tax rate	42.9 %	49.3 %
Increase (decrease) resulting from		
Certain exchange (gains) losses on foreign currency not tax effected	(1.8)	(0.9)
Interest expense on income debentures	2.9	6.4
Manufacturing and processing allowance	(3.1)	(6.1)
Federal and provincial resource allowances	(10.9)	(17.5)
Other	(0.7)	6.0
Effective income tax rate	29.3 %	37.2 %

At December 31, 1988 the Corporation's United States subsidiary has accumulated operating losses of approximately $5.9 million on which tax benefits of $2.0 million have not been recorded in the financial statements.

3. Extraordinary Gains (Losses)

Thousands of Dollars	1988	1987
Reduction in income taxes from application of prior years' losses	$ 7,330	$ 5,086
Gains on sales of property (net of income taxes of $3,511)	—	4,613
Loss on early retirement of Tilden joint venture mortgage notes	—	(105)
	$ 7,330	$ 9,594

4. Inventories

Thousands of Dollars	1988	1987
Finished products	$ 119,377	$ 64,078
Work in process	103,666	84,117
Raw materials and supplies	182,713	172,931
	$ 405,756	$ 321,126

5. Long-Term Investments

Thousands of Dollars	1988	1987
Tilden mining operations	$ 140,585	$ 140,066
Associated steel processors and other investments	39,025	23,811
	$ 179,610	$ 163,877

6. Net Fixed Assets

Thousands of Dollars	1988	1987
Property, plant and equipment		
Manufacturing plants	$ 1,645,733	$ 1,600,264
Raw material properties	239,083	232,687
	1,884,816	1,832,951
Accumulated depreciation and amortization, and provision for blast furnace relines	1,002,658	974,158
	$ 882,158	$ 858,793

7. Long-Term Debt

Thousands of Dollars	1988	1987
Debentures (a)		
8 3/4% series D maturing 1991	$ 15,600	$ 17,800
10 3/8% series E maturing 1994	25,000	31,000
11 % series F maturing 1995	36,040	40,119
17 3/8% series L maturing 1997	39,800	43,200
Floating rate series G maturing 1999 (b)	60,000	60,000
Floating rate series I maturing 1994 (b) (d)	41,738	51,972
11.71 % series M due 1990 (d)	119,250	129,930
Bank lines of credit		
Revolving loans (a) (c)	260,000	110,000
Short-term loans - secured (c)	17,821	19,385
- other (c) (d)	13,118	—
Short-term promissory notes (c)	—	40,000
9.65% note maturing 2000 (d)	28,620	33,782
Total amount outstanding	656,987	577,188
Less due within one year	48,689	15,514
	$ 608,298	$ 561,674

Sinking fund and other repayment requirements for each of the next five years, commencing in 1989, are (in millions of dollars) $48.7, $172.8, $72.7, $68.7 and $68.7.

(a) The debentures rank pari passu and are secured by a Trust Indenture containing a first floating charge on all assets of the Corporation in Ontario.

(b) Series G income debentures bear non-taxable interest at 1 1/8% over one-half of the prime lending rate of a Canadian chartered bank. The Corporation is permitted to convert this obligation into series H debentures bearing taxable interest which varies from 3/8% to 3/4% over the prime lending rate of the bank.

Series I income debentures bear non-taxable interest which varies from 1 3/8% to 1 1/2% over one-half of the London Interbank Offering Rate (LIBOR) or, at the option of the Corporation, from 1 1/8% to 1 1/4% over one-half of the U.S. base rate of a Canadian chartered bank on United States dollar demand loans to commercial customers resident in Canada. The debentures are convertible, at the option of the Corporation, into a Canadian currency obligation bearing interest which varies from 1 1/8% to 1 1/4% over one-half of the prime lending rate of the bank. The Corporation is permitted to convert this obligation into series J debentures bearing taxable interest at various rates and, at the option of the Corporation, may be in either United States or Canadian currency. A United States currency loan would bear interest which varies from 7/8% to 1% over LIBOR or, at the option of the Corporation, from .42% to .55% over the U.S. base rate of the bank on United States dollar demand loans to commercial customers resident in Canada. A Canadian currency loan would bear interest which varies from .42% to .55% over the prime lending rate of the bank.

7. Long-Term Debt, cont'd

(c) An agreement with three Canadian chartered banks provides a declining revolving line of credit, secured by series N debentures, aggregating $292.5 million, in Canadian or equivalent United States funds. The funds available decline annually until maturity at December 31, 1995. Loans under this line, in the form of bankers' acceptances, are $260.0 million.

Since the Corporation has the ability to replace short-term debt with term loans under this line of credit, bank loans and short-term promissory notes are classified as long-term debt.

Unused lines of credit total $69.4 million, consisting of $32.5 million under the declining revolving line and $36.9 million under normal operating lines.

(d) Long-term debt denominated in United States funds totals U.S. $170.0 million (1987 U.S. $171.0 million).

8. Pensions

Pension costs charged to earnings were $25.9 million in 1988 ($28.2 million in 1987).

The status of the Corporation's accrued pension benefits at December 31 is summarized as follows:

Millions of Dollars		**1988**		1987
Present value of accrued pension benefits	**$**	**632 (1)**	$	560
Value of pension fund assets		**468**		440
Excess of present value of accrued pension benefits over fund assets	**$**	**164**	$	120
Accrued pension cost shown in the statement of Financial Position	**$**	**17**	$	30
Pension cost not recorded	**$**	**147**	$	90

(1) Includes $46 million respecting benefit improvements in 1988.

9. Commitments

(a) The Corporation, as a joint venture participant in the Tilden mining operation, is entitled to receive its share of iron ore pellet production and is committed to pay its share of costs including minimum charges for utilities. The Corporation's share of such minimum charges was $7.3 million in 1988 and will average approximately $5.0 million annually until 1992 when the commitment ends. The Corporation is entitled to 30% of 1988 production from the existing hematite processing facility. Beyond 1988, it will receive 50% of the production from a new magnetite processing facility, expected to start up in the first half of 1989, and 25% of the production from the existing facility. The Corporation's share of expenditures for facility modifications and associated projects is estimated at $9.6 million in 1989.

(b) The estimated amount required to complete approved capital projects is $199 million which includes approximately $119 million for the installation of a round caster and ladle steel refining facilities. At December 31, 1988 contractual commitments amount to $63 million in respect of these projects.

(c) In December, 1988, Ferrum Inc. (Ferrum), a 50% owned company, purchased all of the common shares of TI Canada Inc., a manufacturer of welded and fabricated tubular products based in Woodstock, Ontario. Ferrum financed the $59 million purchase price with long-term loans of $25 million from its shareholders and short-term bridging bank loans. The shareholders have committed to cause Ferrum to replace the bridging loans during 1989.

10. Long-Term Leases

Rentals under long-term leases amounted to $10.0 million in 1988. Future minimum rentals will aggregate $44.9 million and in each of the next five years will be (in millions of dollars) $7.9, $7.3, $5.6, $5.0 and $4.0. These rentals are payable principally under leases of steel processing plant and equipment which contain options to purchase and under leases of raw material properties.

11. Capital Stock

(a) Preference shares

Authorized - 2,864,087 Preference Shares, which rank prior to Class B Preference Shares and are issuable in series, of which 464,087 shares are reserved for conversion of series A shares into series B shares.
- 11,999,790 Class B Preference Shares, issuable in series.

Thousands of Dollars	Number of Shares 1988	Stated Capital 1988	Stated Capital 1987
Issued at December 31			
Preference Shares			
8% cumulative redeemable tax deferred series A	**464,087**	**$ 11,602**	$ 37,570
9 3/4% cumulative redeemable series B	**923,513**	**23,088**	—
Class B Preference Shares $2.00 cumulative redeemable convertible series 1	**3,799,790**	**94,995**	95,000
		$ 129,685	$ 132,570

After September 1, 1988, the 8% cumulative redeemable tax deferred series A preference shares became exchangeable into 9 3/4% cumulative redeemable series B preference shares on a share-for-share basis at the option of the holder. At December 31, 1988, 923,513 series A preference shares have been exchanged under this provision. The Corporation is obligated to purchase, in the twelve month period ending May 31, 1989, up to 120,000 series A preference shares to the extent that they are available at market prices not exceeding $25.00 per share. During 1988, the Corporation purchased for cancellation 115,200 series A preference shares at prices averaging $23.87 per share. Commencing June 1, 1989, the Corporation will be similarly obligated to purchase proportionately up to an aggregate of 120,000 series A and series B preference shares in each twelve month period.

Class B series 1 shares are entitled to annual dividends of $2.00 per share payable quarterly. Subject to certain conditions, they are redeemable at the option of the Corporation at $25.00 per share and a premium of $1.00 which reduces annually. They are convertible at the option of the holder into .8676 of a common share at any time up to December 1, 1990. Commencing January 1, 1991, the Corporation is obligated to purchase annually 4% of the balance of Class B series 1 shares outstanding at December 2, 1990, to the extent that they are available at market prices not exceeding $25.00 per share. During 1988, the Corporation purchased for cancellation 210 Class B series 1 shares tendered by shareholders.

(b) Common shares

Authorized - 30,186,323 shares of which 3,296,698 are reserved for conversion of Class B Preference Shares series 1 into common shares.

Thousands of Dollars	Number of Shares	Stated Capital
Issued		
Balance at January 1, 1988	**17,281,583**	**$ 134,687**
Shares issued for cash to employees under special stock options	**1,425**	**23**
Shares purchased for cancellation	**(309)**	**(8)**
Balance at December 31, 1988	**17,282,699**	**$ 134,702**

12. Dividends

Dividends were declared as follows:

Thousands of Dollars	1988	1987
Cash dividends		
Preference Shares		
Series A $2.00 per share in 1988 and 1987	$ 2,463	$ 3,127
Series B $0.61 per share in 1988	533	—
Series C $0.79 per share in 1987	—	1,581
Series D $1.54 per share in 1987	—	1,843
Class B Preference Shares		
Series 1 $2.00 per share in 1988 and 1987	7,600	7,600
Common Shares	—	41 *
	10,596	14,192
Stock dividends		
Common Shares		
For each 100 shares held, one and four-tenths shares equivalent to $.308 per share in 1987	—	5,209
	$ 10,596	$ 19,401

*Cash in lieu of fractional shares arising from stock dividend.

13. Cash Provided from Earnings

Thousands of Dollars	1988	1987
Earnings from operations	$ 159,397	$ 100,278
Items not affecting cash:		
Depreciation and amortization	72,634	56,635
Other non-cash costs (net)	5,329	11,830
Share of earnings of associated steel processing operations	(7,227)	—
Blast furnace reline expenditures	(40,650)	(1,081)
	$ 189,483	$ 167,662

14. Related Party Transactions

Effective August 19, 1988, Dofasco Inc. of Hamilton, Ontario acquired all of the outstanding common shares and Class B convertible preference shares of the Corporation. Consequently, the Corporation is related to a number of integrated steel operations in the Dofasco group of companies. Prior to the acquisition by Dofasco Inc., the Corporation was a 54% owned subsidiary of Canadian Pacific Enterprises Limited and was therefore related to the Canadian Pacific Limited group of companies.

The Corporation holds interests in the following associated iron ore and steel processing operations:

	Per Cent Holding
Tilden Mining Operations	
Tilden Mining Company	30
Tilden Magnetite Partnership	50
Ferrum Inc.	50
Huron Steel Products and The Mohawk Metal Products Limited Partnerships	40
Superior Tube Limited Partnership	50

In the normal course of business the Corporation sells its products, at prevailing market prices and credit terms, to its related parties. Similarly, the Corporation regularly purchases iron ore pellets, transportation and other services and capital goods from its related parties. The Corporation had a revolving operating line of credit at competitive rates with Canadian Pacific Securities Limited in the amount of $75 million which terminated in November, 1988.

14. Related Party Transactions, cont'd

Transactions with related parties and balances at year end are as follows:

Thousands of Dollars	1988	1987
The Dofasco Inc. Group and the Corporation's Associated Operations*		
Transactions		
Sales of product	**$ 95,523**	$ 4,634
Purchases, principally iron ore pellets	**81,131**	74,785
Investment in associated operations		
Capital stock in Ferrum Inc.	**11,000**	—
Loans	**12,760**	—
Additional investment in Tilden mining operations for retirement of mortgage notes	**—**	93,654
Preference share dividends paid	**1,900**	—
Balances at December 31		
Accounts receivable	**16,700**	884
Accounts payable	**980**	—
Loans receivable	**12,760**	—
The Canadian Pacific Limited Group**		
Transactions		
Sales of product	**19,620**	51,218
Purchases, including transportation and capital goods	**9,639**	21,427
Interest expense on long-term debt	**3,403**	1,875
Funds received for seamless tube mill construction	**—**	36,694
Balances at December 31		
Accounts receivable	**—**	7,401
Accounts payable	**—**	978
Short-term promissory notes payable	**—**	40,000

* Includes Dofasco Inc. group for period August 19 to December 31, 1988.

** For the period January 1 to August 18, 1988 and the year ended December 31, 1987.

15. Business Segments Information

Lines of Business

The Corporation is a vertically integrated steel producer which obtains most of its iron ore and coal requirements from properties which it owns, leases or in which it has an interest in Canada and the United States. The Corporation's revenue is derived almost entirely from the sale of rolled steel products and coal. Virtually all of the Corporation's assets are related to integrated steelmaking activities.

Operations by Geographic Area

	Consolidated		Canada		United States	
Thousands of Dollars	1988	1987	1988	1987	1988	1987
Sales						
External	$ 1,384,273	$1,227,952	$1,193,184	$1,055,902	$ 191,089	$ 172,050
Intra-enterprise sales between geographic areas	248,740	208,385	85,038	64,197	163,702	144,188
	1,633,013	1,436,337	1,278,222	1,120,099	354,791	316,238
Eliminations	(248,740)	(208,385)	(85,038)	(64,197)	(163,702)	(144,188)
Total	$ 1,384,273	$1,227,952	$1,193,184	$1,055,902	$ 191,089	$ 172,050
Earnings						
From operations	$ 166,586	$ 114,390	$ 128,887	$ 89,951	$ 37,699	$ 24,439
Eliminations	(7,189)	(14,112)	216	(70)	(7,405)	(14,042)
	159,397	100,278	$ 129,103	$ 89,881	$ 30,294	$ 10,397
Interest expense	(61,846)	(51,281)				
Other income	1,296	4,622				
Exchange gain (loss) on foreign currencies	4,011	(4,811)				
Income taxes - deferred	(30,152)	(18,151)				
Earnings before extraordinary gains	72,706	30,657				
Extraordinary gains	7,330	9,594				
Net earnings	$ 80,036	$ 40,251				
Identifiable assets at December 31	$ 1,693,122	$1,571,510	$1,457,260	$1,333,877	$ 235,862	$ 237,633

Intra-enterprise sales between geographic areas are at market prices for similar products. Export sales originating at Canadian operations were approximately $252 million in 1988 ($241 million in 1987).

Five-Year Summary of Operating and Employment Data

Tons in thousands and dollars in millions		1988	1987	1986	1985	1984
Production - Iron Ore (1)	G.T.	**3,397**	2,939	2,394	2,978	2,866
- Coal - Metallurgical	N.T.	**1,667**	1,493	1,624	2,067	2,026
- Steam	N.T.	**2,612**	2,502	1,944	1,383	891
- Coke	N.T.	**1,354**	1,248	1,139	1,334	1,246
- Iron	N.T.	**2,437**	2,428	2,184	2,506	2,307
- Raw Steel	N.T.	**2,529**	2,590	2,422	2,742	2,528
- Continuously Cast	%	**75.2**	75.2	72.2	65.6	58.0
Shipments - Coal - Metallurgical (2)	N.T.	**742**	730	624	412	730
- Steam	N.T.	**2,792**	2,376	2,001	1,307	1,051
- Steel Products	N.T.	**2,132**	2,125	2,032	2,063	1,951
Employment - Average number		**9,206**	8,903	8,668	9,670	9,320
- Cost elements						
Wages and salaries						
For time worked	$	**321**	289	271	292	254
For vacations and statutory holidays	$	**54**	49	44	49	46
Benefits						
Company pension plans	$	**26**	28	30	35	42
Workers' compensation	$	**17**	14	13	14	13
Unemployment insurance	$	7	7	7	7	6
Group insurance plans and other benefits	$	**38**	37	36	35	30
Total	$	**463**	424	401	432	391

Notes

(1) Includes mines operated by the Corporation and its share of production from joint ventures.

(2) To third parties.

Directors

§ **Charles H. Hantho**
Islington, Ontario
Chairman and Chief Executive Officer
Dominion Textile Inc.

† **John Macnamara**
Sault Ste. Marie, Ontario
Chairman
The Algoma Steel Corporation, Limited

John T. Mayberry
Burlington, Ontario
Vice President – Works Manager
Dofasco Inc.

§ **Arthur H. Mingay**
Toronto, Ontario
Former Chairman
Canada Trust

Peter M. Nixon
Sault Ste. Marie, Ontario
President and Chief Executive Officer
The Algoma Steel Corporation, Limited

Paul J. Phoenix
Burlington, Ontario
President and Chief Executive Officer
Dofasco Inc.

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

§ **Thomas Van Zuiden**
Hamilton, Ontario
Senior Vice President – Finance and Administration
Dofasco Inc.

† **William L. Wallace**
Burlington, Ontario
Executive Vice President and Chief Operating Officer
Dofasco Inc.

† **Adam H. Zimmerman**
Toronto, Ontario
Chairman and Chief Executive Officer
Noranda Forest Inc.

† Member of Compensation Committee
§ Member of Audit Committee

Principal Officers

THE ALGOMA STEEL CORPORATION, LIMITED

John Macnamara
Chairman

Peter M. Nixon
President and Chief Executive Officer

Ross H. Cutmore
Vice President – Finance and Accounting

Gary S. Lucenti
Vice President – Manufacturing

Gerry B. Hudson
Vice President – Commercial

James T. Melville
Vice President, Treasurer and General Counsel

Paul J. Paciocco
Vice President – Engineering and Technical Services

Robert Turpin
Vice President – Employee Relations

Paul C. Finley
Secretary

William J. Reed
Controller – Steel and Iron Ore Operations

CANNELTON INDUSTRIES, INC.

Allen S. Pack
President and Chief Executive Officer

A. Douglas Tolley
Vice President – Operations

Corporate Information

EXECUTIVE OFFICES
Sault Ste. Marie, Ontario

MANUFACTURING AND MINING FACILITIES

(Wholly Owned)

Canada

Sault Ste. Marie, Ontario
The Algoma Steel Corporation, Limited
- Steelworks Division
- Tube Division
- Marine Division
- Welded Beam Division

Wawa, Ontario
- Algoma Ore Division

United States

West Virginia
Cannelton Industries, Inc.
- Kanawha Division, Cannelton
- Pocahontas Division, Superior
- Indian Creek Division, Peytona

Maple Meadow Mining Company, Fairdale

(Partnerships and Joint Ventures)

Canada

Brampton, Ontario
Ferrum Inc. (50%)

Windsor, Ontario
Huron Steel Products (40%)*
The Mohawk Metal Products (40%)*

Edmonton, Alberta
Superior Tube Limited Partnership (50%)

United States

Ishpeming, Michigan
Tilden Mine Joint Venture (30%)
Tilden Magnetite Partnership (50%)

* 100% control acquired by the Corporation effective January 6, 1989.

Products and Sales Office Locations

PRODUCTS

Sheet
- Hot Rolled and Cold Rolled Coils and Cut to Length
- Cold Rolled Sheet for Motor Laminations

Plate
- Hot Rolled
  - Sheared and Gas Cut
  - Floor (Pattern)
- Heat Treated
  - Normalized
  - Ouenched and Tempered

Seamless Tubular Products
- Casing
- Tubing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Couplings and Coupling Stock

Structurals
- Wide Flange
- Bearing Pile Shapes
- Standard Angles, Channels and Beams
- Welded Wide Flange Shapes
- Welded Special Shapes

Rails and Tie Plates

SALES OFFICES

Head Sales Office
Mississauga, Ontario

Regional Sales Office
Calgary, Alberta

Algoma Tube Corporation
Houston, Texas