Harris Steel Group Inc. Annual Report 1980

Description of the business

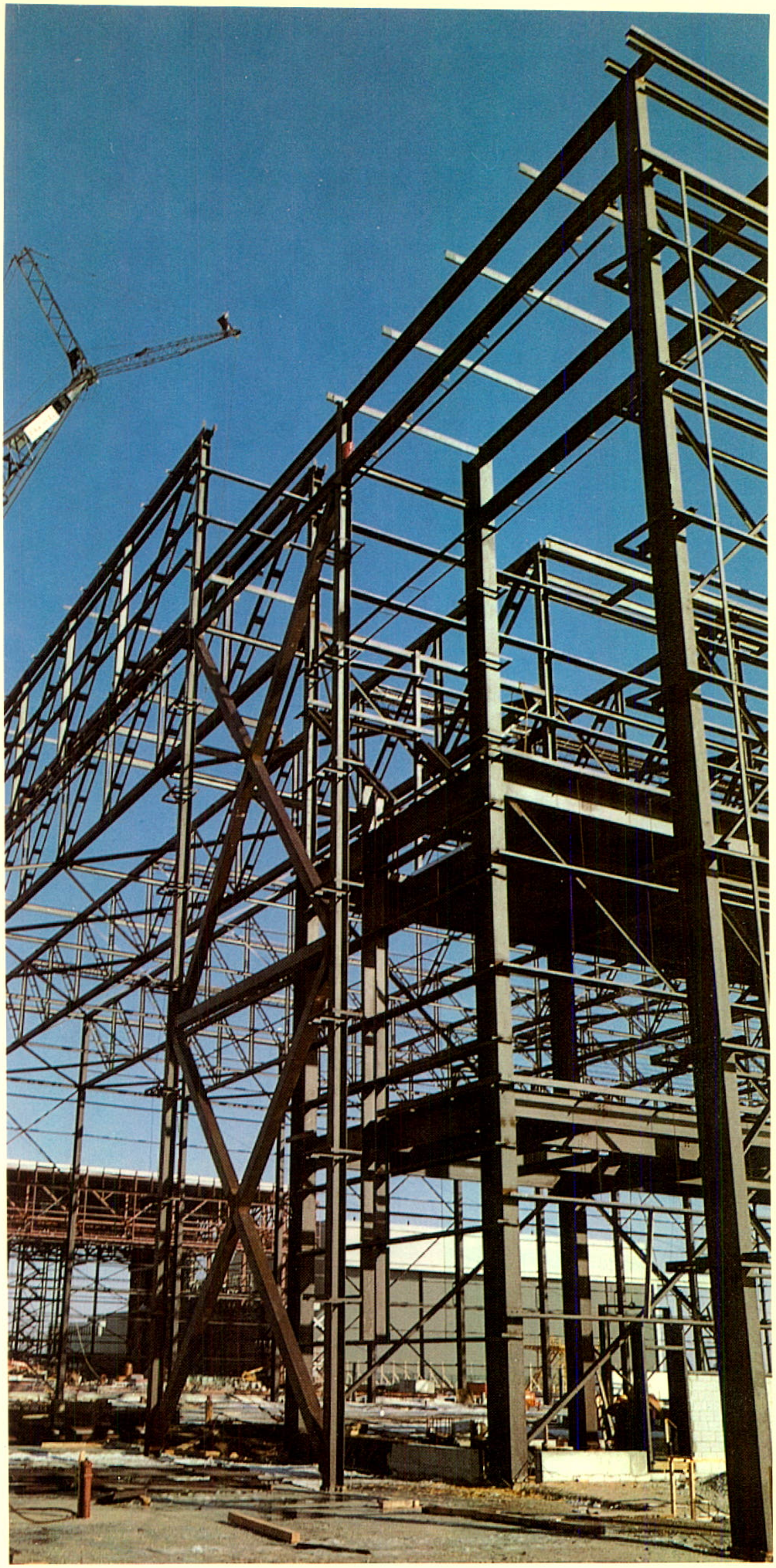
The Harris Steel Group fabricates and distributes steel to the heavy construction industry and manufactures cold finish bars for general industrial use. Harris also performs as a contractor for major construction projects, providing the materials and expertise needed through its various subsidiaries.

The company serves all of Canada through 4 strategically located plants, 2 warehouses and 8 branch offices. A subsidiary, Thomsson Steel, markets and distributes the company's products in the United States.

Since becoming a public company in 1967, Harris sales and earnings have grown at a compound rate of 24%. Harris has paid dividends since 1973.

Annual meeting

All shareholders are cordially invited to attend the annual meeting on June 8, 1981 3:00 p.m. in the Essex Room of the Sheraton Centre, 123 Queen Street West, Toronto.



Cover Picture:
World Headquarters – Owens Illinois Corp., Toledo, Ohio. Structural steel supplied and erected by Frankel Steel Limited.

At right:
Canadian Pacific Jumbo Hangar, Toronto International Airport, Frankel Steel Limited.

HARRIS STEEL GROUP

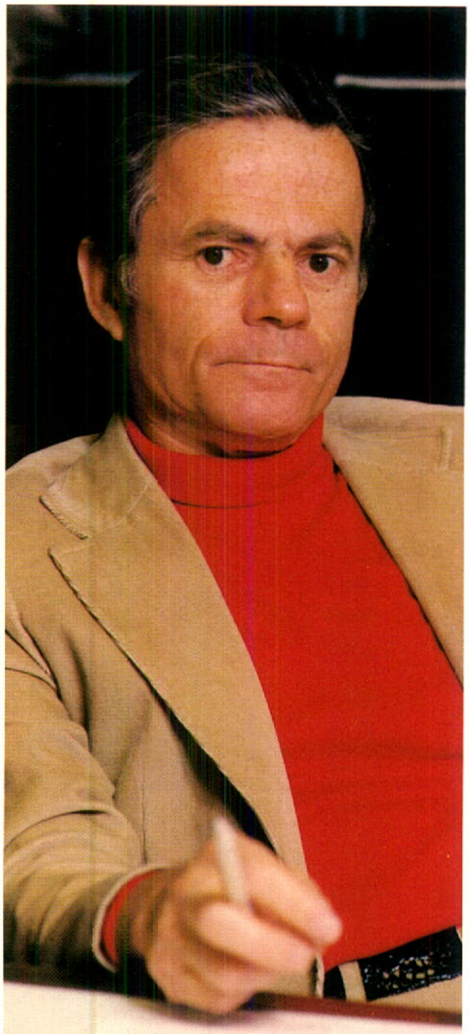
Financial highlights

Years ending December 31

(Dollars in thousands except per share amounts)

	1980	1979	% Change
Operating results			
Sales	**$142,484**	$118,668	20.1
Income before taxes	**7,892**	5,089	55.1
Net income	**4,547**	3,049	49.1
Return on sales	**3.2%**	2.6%	
Return on average equity	**21.3%**	16.5%	
Per Share			
Net income	**$ .97**	$ .65	49.1
Dividends	**.23**	.17	35.3
Shareholders' equity	**4.92**	4.18	17.6
Average shares outstanding	**4,703,048**	4,701,648	
At year-end			
Total assets	**$ 64,555**	$ 75,825	
Long-term debt	**7,682**	8,573	
Shareholders' equity	**23,116**	19,653	
Long-term debt/Total capital	**24.9%**	30.4%	
Current ratio	**1.4:1**	1.2:1	
Number of employees	**1,309**		
Number of shareholders – Class A	**412**		
– Class B	**356**		

Message to shareholders



I am pleased to report that our company achieved a strong operating performance and a substantial improvement in its financial position in 1980. Our ability to increase profits by 49% when most companies in the Canadian secondary steel industry (of which we are a part) experienced marginal or non-existent profits confirms the soundness of our long-term strategic plan.

Long-term strategy

We are convinced that in the 1980's, and probably beyond, capital construction will absorb a steadily increasing portion of the Gross National Product. The gamut of energy requirements, as well as resource development, will require massive investment programs.

In the Canadian West, we see a very strong energy and resource market developing now. This does not take into account the huge mega projects, such as the Alsands and Cold Lake projects, which will not proceed until Alberta and the Federal Government agree on oil pricing. It is my opinion that we are unlikely to have a Federal-Provincial agreement in the near future. Critical issues involving the balance of fiscal power and derivative political power must be resolved before these mega projects will be able to proceed.

We believe the total heavy construction industry will be hard pressed to meet present market requirements, and this strain on human resources will only be exacerbated by the realization of any of the mega projects. Those companies possessing broad skills and capacity in the heavy steel construction market will have no trouble marketing them at attractive rates of return.

We can be a major beneficiary of these capital programs by supplying a wide range of steel products and engineering construction services. Our game plan involves internal expansion and acquisition, utilizing the outstanding skills and experience of our management team.

To further strengthen our position we are developing increasing experience and expertise in the international markets. The world-competitiveness of Canadian steel and technical skills, along with a low Canadian dollar exchange rate and strong Canadian Government export support, have made us very competitive abroad. We will continue to pursue these opportunities.

1980 operations

Sales increased 20% to $142,483,513, and earnings were up by 49% to $4,546,506 or $.97 per share. Earnings represented 3.2% of sales compared to 2.6% of sales in 1979. Return on average shareholders' equity improved from 16.5% in 1979 to 21.3%.

While the nonresidential construction market was strong in 1980, our sales growth was largely attributable to decisions made in 1978 and 1979.

Our wire company, Laurel Steel Products Limited, has made excellent progress in their first full year in their new plant. They have successfully diversified their carbon wire market away from a dependence on the automotive industry and thereby were able to avoid the disastrous fall-off in the automotive steel market which occurred in the first quarter of 1980. Their penetration of the cold finished bar market has been excellent and their total customer list has continued to expand. Laurel was able to exceed their 1980 Profit Plan earnings by 80% and I especially congratulate their Management team for a very successful effort.

All of our steel construction companies – Harris, Epoxicote, Frankel, Fisher & Ludlow and the rebar division of Quecor – performed well above projections.

The net result was that the total Group exceeded the 1980 Profit Plan by more than 20%.

The two problem areas identified in my 1979 message to shareholders, Thomsson Steel and Quecor Steel, suffered substantial losses in 1980.

We concluded that Thomsson's reinforcing steel fabrication operation could not justify further investment of our managerial and financial resources. We therefore discontinued steel reinforcing operations at Thomsson. All liquidation costs, including any significant losses projected for 1981, have been expensed in 1980. Thomsson will continue as a sales distribution company for our Group in the United States.

During 1980, Quecor's management was reorganized and an effective inventory system developed. By year-end strong management was in place, and the company's large surplus inventory position had been eliminated. Last month Quecor attained profitability after more than a year of losses. We are forecasting a profitable year for Quecor.

The very positive effect that Quecor's steel warehouse has had on other operations in the Harris Steel Group, as well as its own profit potential, more than justifies our allocation of resources to it.

Our outstanding results have been achieved through the exceptional effort and skills of our management team and staff. On behalf of the Board and shareholders, I would like to thank all of the employees of Harris Steel Group.

Financial position

Despite higher sales volume in 1980, we managed to lower inventories (including unbilled contract costs) and receivables by $11 million. This allowed us to reduce our operating and term loans.

Working capital increased by $3.3 million and our current ratio improved from 1.24 :1 to 1.45 :1 at year-end.

Last fall we negotiated a $4 million, 8 year bank loan at 13.25%. This replaced borrowings tied to the prime rate and fixed a portion of our interest costs, an important consideration given relatively high and volatile short-term rates. Long-term debt now represents 25% of our total capitalization, down from 30% at year-end 1979.

Dividends paid for the year amounted to $.23 per share compared to $.17 per share in 1979. This month the quarterly dividend rate was raised from $.06 per share to $.07 per share, an indicated annual rate of $.28 per share. The Board regularly reviews dividend policy and recognizes the need to balance current return with the company's on-going capital requirement.

1981 outlook and expansion plans

The volume of heavy construction coming onstream convinces us that we will continue to see many opportunities for profitable application of our skills. We have allocated approximately $4 million in 1981 to the further expansion of our wire and steel construction operations.

We have decided to invest heavily in Western Canada over the next two years. As a first step, we are starting up a reinforcing steel operation in Vancouver which should be fully operational by May. This will give us full market coverage for rebar in Canada from St. John's, Newfoundland to Vancouver, British Columbia. Harris continues to expand the market for epoxy coated rebar in Canada, and our success in this product has been exceptional.

Frankel is currently adding a third bay to their structural steel plant in Milton, thereby increasing capacity by 50%. When completion comes in July, Frankel will have one of the best equipped and largest structural steel plants in the country.

Fisher & Ludlow increased their capacity by 60% in the last six months by adding new equipment. Despite the expansion, Fisher & Ludlow continues to operate at capacity.

Laurel Steel continues to penetrate new markets at a very rapid pace. Laurel will be bringing in new equipment in May which will double their size range in cold-finished bar from 11/16" to 1½". They have experienced spectacular success with this product line, and we expect great things from Laurel in 1981 and beyond.

Acquisition

We are all excited about our newest acquisition, Secord Manufacturing Limited. Secord designs and manufactures light to heavy capacity steel cranes, as well as industrial doors. They are currently producing overhead cranes up to 140 tons capacity for steel mill and other heavy industrial plants. Secord also provides strong service capability for cranes, doors and machine shop products. Many companies already doing a large volume of business with the Harris Group, including Stelco, Dofasco, Algoma and Inco, are customers of Secord.

As Secord has some of the best crane expertise in North America, its addition will greatly enhance our ability to market comprehensive packages to large construction projects. Similarly, Harris' strong financial and administrative back-up will enable Secord to realize the excellent potential of their management team.

All in all, we expect 1981 to be an exciting and rewarding year. All of our operating groups should contribute to profits in 1981, and margins will show further improvement.

M.E. Harris

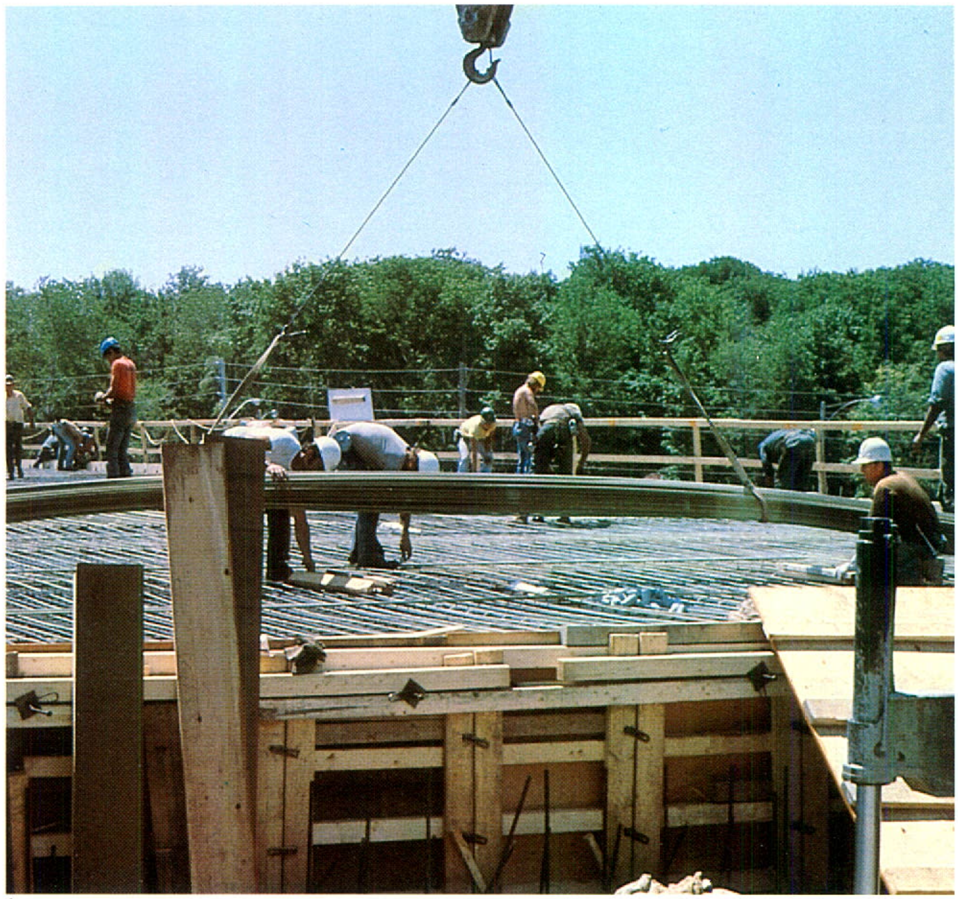
Milton E. Harris
President and Chief Executive

Corporate overview

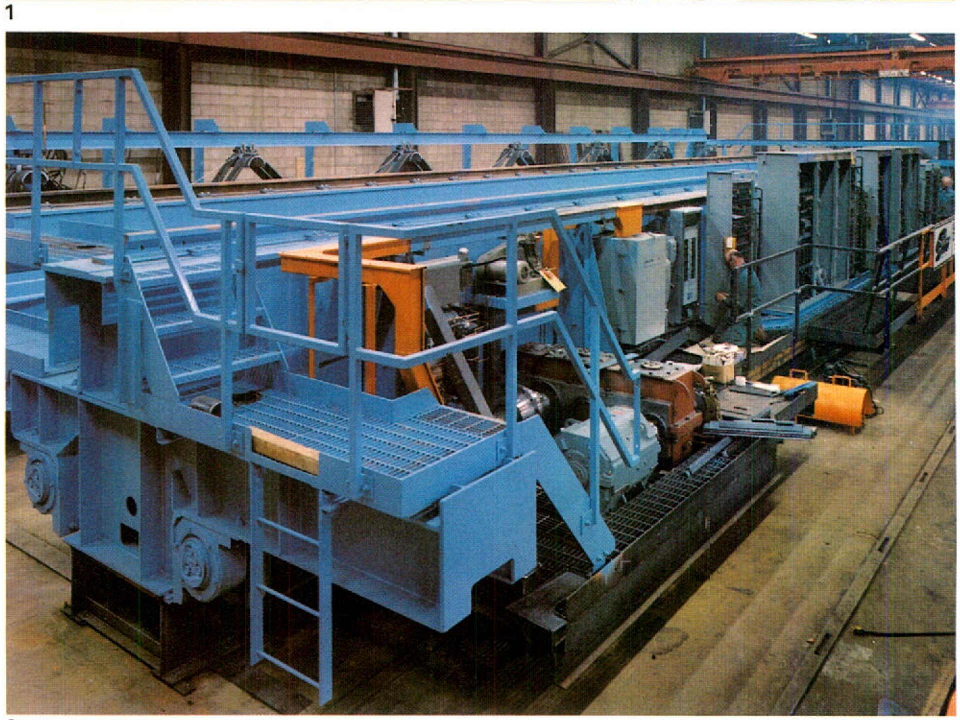
Harris Steel Group consists of six independent operating companies which collectively manufacture, fabricate, warehouse and distribute carbon steel, structural steel and related steel products to a wide variety of markets. While day-to-day operations are highly decentralized, each subsidiary complements the Group's total activities through the following:

1. Improves the company's buying position with major steel suppliers. The company is a large, important steel buyer assured of access in periods of tight supply. To this end steel purchases are made on a Group basis.
2. Sells into a common market. The wider the variety of products and services offered on both a horizontal and vertical basis, the better Harris can serve its markets.
3. Enhances the Group's ability to package large scale heavy construction projects where Harris provides the materials and the application know-how. This will not only move Harris toward high technology fabrication but also add stability to the earnings base.

The Group's principal objectives are to expand the business, both internally and through acquisitions, and gradually diversify the earnings base away from the traditional, and more volatile, steel markets. The criteria outlined above apply to all future expansionary moves.



1



2

1. EPOXICOTE rebar installation on Queen Elizabeth Way overpass at Toronto. **2.** 140 Ton, 72 foot span Mill Crane for the new No. 2 Hot Strip Mill at Dofasco. **3.** 7½ Ton Semi gantry cranes for production of 300 ton off road vehicles at Euclid plant, Guelph, Ontario.

Business operations review

Frankel Steel Limited

Frankel Steel supplies, fabricates and erects structural steel. Through its highly skilled work force and new fabrication facilities in Milton, Ontario, the company leads the structural steel industry in quality, productivity and technology. Frankel has developed international steel construction capability, having participated in major projects in the Caribbean and the United States.

1980 was an outstanding year for Frankel. Sales volume increased 24%, as an enlarged labor force enabled Frankel to bid on more work and maintain full plant utilization. The company also led the Group in profit contribution, having entered the year with an excellent backlog of jobs taken at good prices. Profits were up 59% over the previous year.

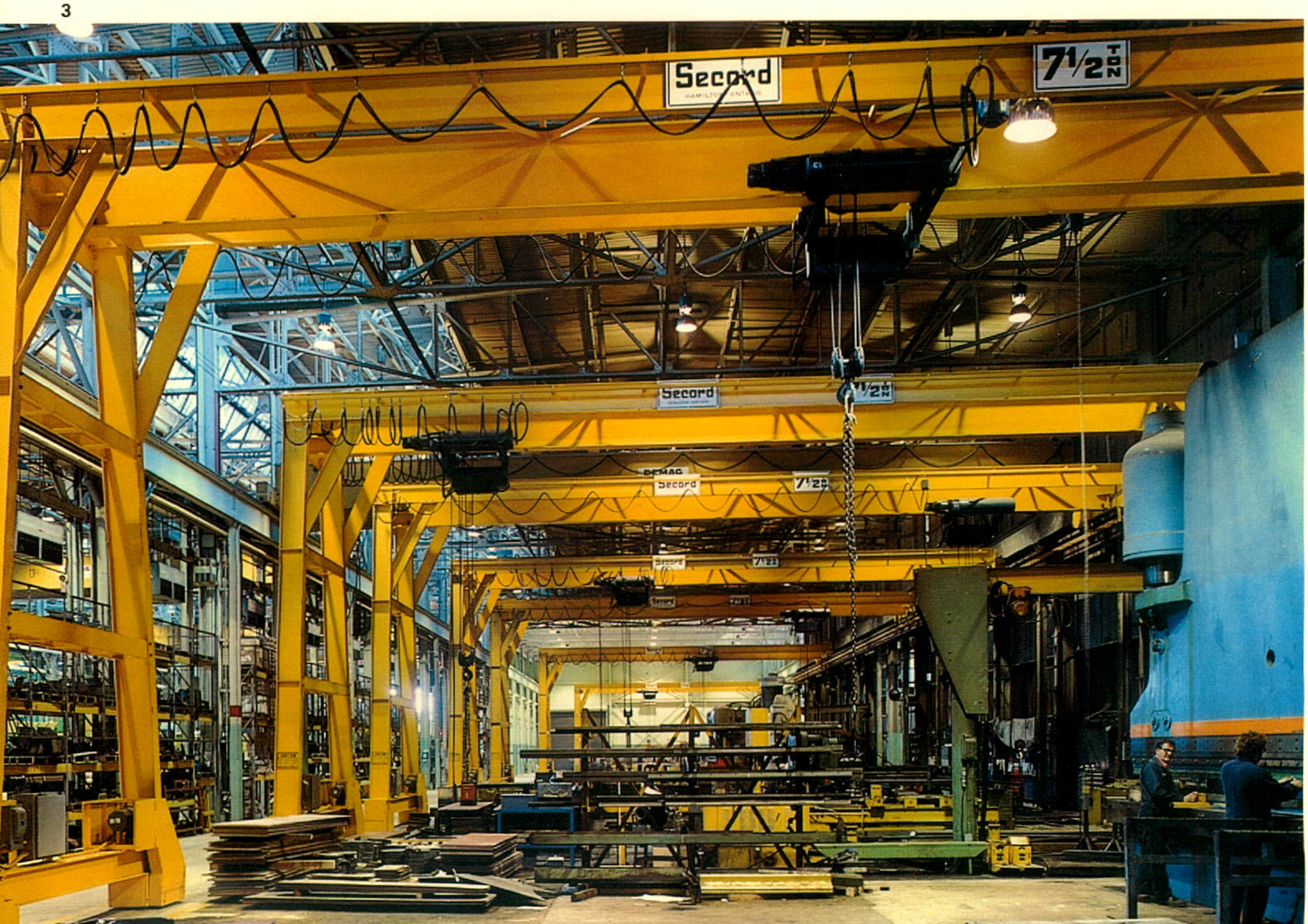
The calibre and track record of Frankel's management team and the volume of work anticipated place us in a position to exploit myriad opportunities here and in international markets. We are, therefore, increasing the Milton plant capacity by 50%. Completion is scheduled for July.

Harris/VSL

Harris/VSL supplies, fabricates and erects reinforcing steel bars, post tensioning systems and epoxy coated reinforcing steel bars under the trade name "Epoxicote". Harris' epoxy coating process, which has gained wide acceptance, prevents deterioration caused by salt and extends the life of reinforcing steel from an average of 3 to 18 years to 50 years or more.

Through its seven branches in Windsor, Thunder Bay, Halifax, St. John's, Calgary, Edmonton and Vancouver (opening May, 1981) Harris serves the construction market across Canada.

A significant backlog of well-priced work and continued strong sales of "Epoxicote" resulted in a good year from Harris reinforcing steel operations. Sales volume for 1980 rose 25% over the previous year, and profits improved even more significantly. We expect continued strong growth in sales and earnings for 1981.



Laurel Steel Products Ltd.

Laurel Steel manufactures low carbon wire, shaped wire, welded wire mesh, reinforcing steel bar supports and cold finish bars for general industrial use.

In 1980 Laurel's sales volume increased 37%, primarily due to new markets for cold finish bars and clean bright wire. Laurel successfully diversified their carbon wire market away from the automotive industry, thereby avoiding a disastrous fall-off in the automotive steel market which occurred in the first quarter of 1980. Further, Laurel built up a strong network of US distributors and continued to expand its customer list throughout North America.

Despite having to bear the overhead associated with the company's large new production facilities, Laurel was able to exceed 1980 profit plan earnings by 80%.

Laurel is currently negotiating a technical exchange agreement with a large Japanese processor. With this, and the augmentation of its cold-finished bar equipment, we look forward to another record year from Laurel.

Fisher & Ludlow Inc.

Fisher & Ludlow manufactures and fabricates heavy steel grating for nonresidential construction.

Sales and profits for this operating division were up about 17%.

Late in October another steel grating machine was brought on stream. The production from this new machine will increase Fisher & Ludlow's mat making capacity 35% to 40% for the full 1981 year.

Divisional sales in Montreal proved strong in 1980 as full warehouse and fabrication facilities were open for the entire year. Quecor's outstanding marketing team continued to support Fisher & Ludlow's sales effort in Quebec.

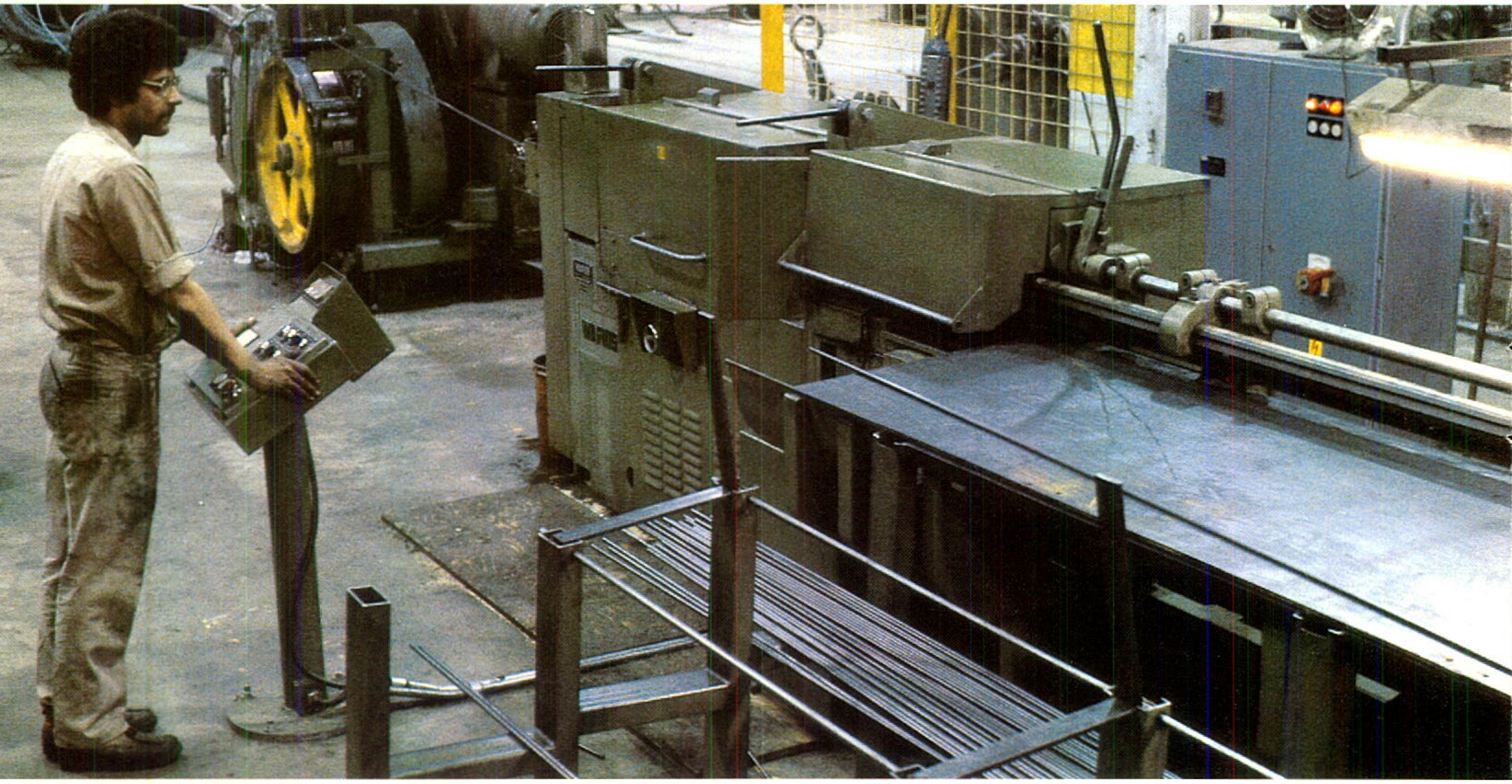
Demand for Fisher & Ludlow's products remains high, and the company's expanded production capability is fully utilized.

Quecor Steel Limited

Quecor Steel processes and distributes general carbon steel products, and supplies, fabricates and erects reinforcing steel bars. Quecor occupies an excellent position in the Quebec plate warehouse market.

Quecor faced a difficult year in 1980. The company was plagued with managerial problems and a large inventory surplus position at the beginning of 1980. Further, demand for basic industrial steel products fell off with the general economic downturn, causing substantial losses for the steel warehousing operations.

The second half of 1980 was spent completely reorganizing management, and a large corporate effort was



1. Cold finished bar manufacturing line – Laurel Steel Products, Burlington, Ontario.

2. Cutting grating to length with friction saw – Fisher & Ludlow.

3. Newly installed cold finished bar-straightening and polishing machine, Laurel Steel.

expended in developing a sophisticated and effective inventory control system. These tasks were accomplished by year-end. Quecor enters 1981 with strong management and good inventory levels and controls.

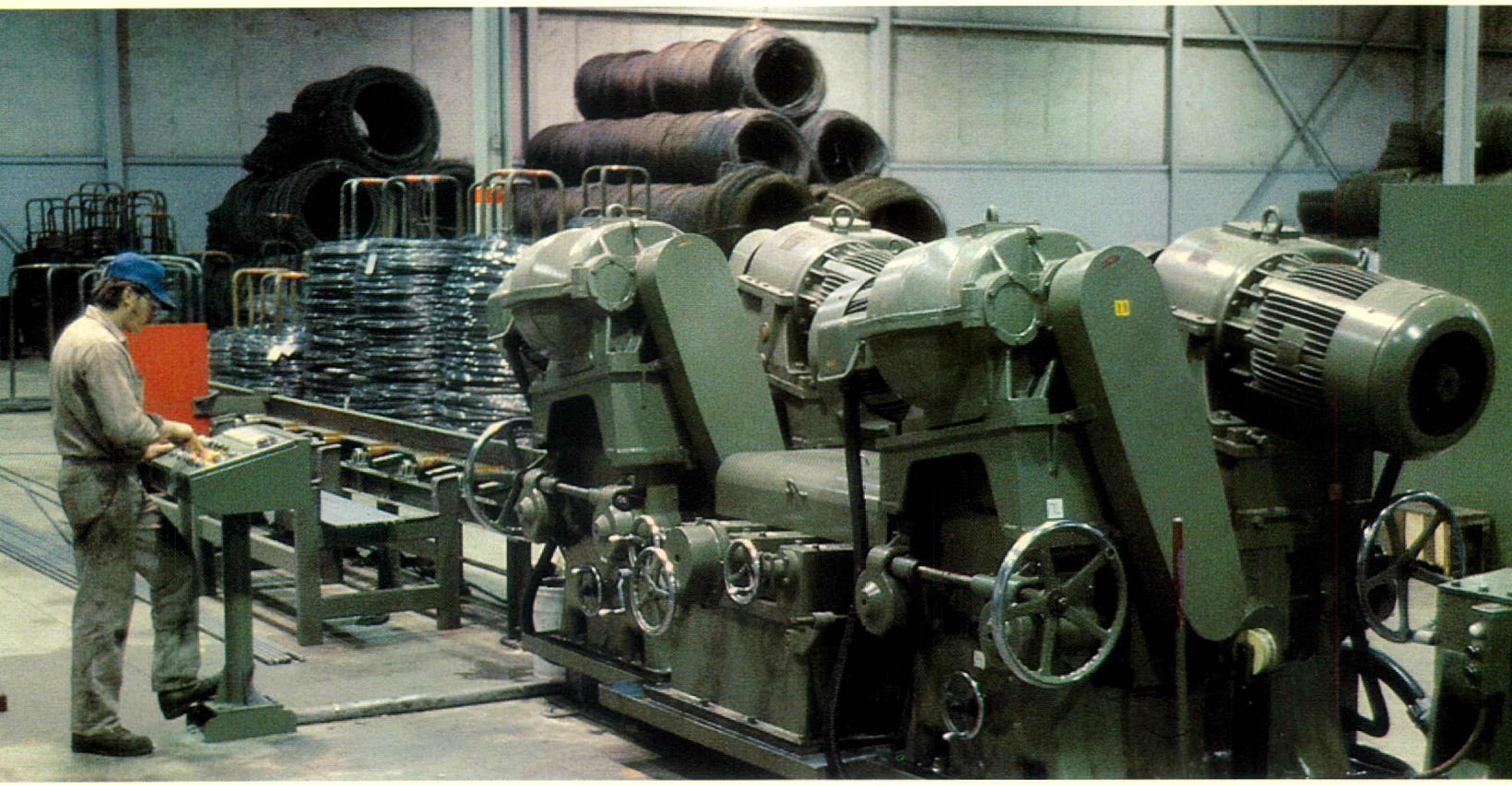
Thomsson Steel Company Inc.

1980 was a disappointing year for Thomsson. While sales rose 11% over the previous year, operations were conducted at a modest loss. The Washington D.C. nonresidential construction market showed little improvement during the year.

Late in 1980 a decision was made to change the nature of Thomsson's operations. Rather than fabricate and distribute reinforced steel, Thomsson will serve as the US distributor for the products of Harris' other subsidiaries. This will minimize our exposure in a highly competitive local market and provide a central outlet for our steel products.

2

3



HARRIS STEEL GROUP

HARRIS STEEL GROUP INC.

(Incorporated under the laws of Ontario)

Consolidated balance sheet

December 31, 1980 (with comparative figures at December 31, 1979)

ASSETS	1980	1979
Current:		
Accounts receivable	**$25,580,094**	$27,675,806
Inventories (note 3)	**15,424,402**	25,326,342
Unbilled contract costs	**5,957,318**	4,907,711
Prepaid expenses and deposits	**216,120**	728,588
Total current assets	**47,177,934**	58,638,447
Investments:		
Shares in other companies, at cost (estimated market value 1980 – $250,000; 1979 – $225,000)	**28,500**	28,500
Fixed assets:		
Land	**1,344,802**	1,335,883
Buildings	**6,793,109**	6,618,425
Machinery and equipment	**13,878,184**	13,115,683
Mobile equipment	**2,578,165**	2,424,029
	24,594,260	23,494,020
Less accumulated depreciation	**7,721,702**	6,872,557
	16,872,558	16,621,463
Other assets:		
Goodwill, at amortized cost	**476,411**	536,411
	$64,555,403	$75,824,821

On behalf of the Board:

M. Harris

Director

B. D. Poe

Director

(See accompanying notes)

LIABILITIES	**1980**	1979
Current:		
Bank indebtedness (inventories and accounts receivable pledged as security)	**$16,299,441**	$23,425,369
Accounts payable and accrued charges	**9,152,235**	18,540,379
Income and other taxes payable	**3,000,841**	1,338,770
Deferred income taxes	**3,788,000**	3,513,000
Current portion of long-term debt (note 4)	**316,535**	511,293
Total current liabilities	**32,557,052**	47,328,811
Long-term debt (note 4)	**7,682,178**	8,573,359
Deferred income taxes	**1,200,000**	270,000
Shareholders' equity (note 5):		
Capital (without par value) –		
Authorized:		
25,000,000 Class A shares		
10,000,000 Class B shares		
100 common shares		
Issued:		
3,135,232 Class A shares (1979 – 3,134,432 shares)		
1,570,216 Class B shares (1979 – 1,567,216 shares)		
4,705,448	**2,473,563**	2,470,295
Retained earnings	**20,642,610**	17,182,356
	23,116,173	19,652,651
	$64,555,403	$75,824,821

HARRIS STEEL GROUP

Consolidated statement of income

Year ended December 31, 1980 (with comparative figures for 1979)

	1980	1979
Sales and construction revenue	$142,483,513	$118,668,006
Cost of sales and contract costs	119,575,677	101,149,053
Gross operating profit	22,907,836	17,518,953
Expenses:		
Selling and administrative expenses	9,740,878	7,782,530
Amortization of goodwill	60,000	60,000
Depreciation	1,250,078	1,032,028
Interest on long-term debt	1,549,506	921,586
Other interest expense	2,415,398	2,633,532
	15,015,860	12,429,676
Income before income taxes	7,891,976	5,089,277
Income taxes (note 7)	3,345,470	2,040,000
Net income for the year	$ 4,546,506	$ 3,049,277
Earnings per share	$0.97	$0.65

Consolidated statement of retained earnings

Year ended December 31,1980 (with comparative figures for 1979)

	1980	1979
Retained earnings, beginning of year	$ 17,182,356	$ 14,916,688
Excess of the purchase price over the paid-up value of the company's shares purchased (note 5)	20,148	
	17,162,208	14,916,688
Net income for the year	4,546,506	3,049,277
	21,708,714	17,965,965
Deduct:		
Dividends paid (note 5)	1,066,104	783,609
Retained earnings, end of year	$ 20,642,610	$ 17,182,356

(See accompanying notes)

Consolidated statement of changes in financial position

Year ended December 31, 1980 (with comparative figures for 1979)

	1980	1979
Source of funds:		
Net income for the year	$ 4,546,506	$ 3,049,277
Charges to operations not involving an outlay of funds –		
Depreciation and amortization	1,310,078	1,092,028
Deferred income taxes	930,000	670,000
Loss on disposal of fixed assets	7,881	67,634
Gain on sale of investments		(38,241)
Funds from operations	6,794,465	4,840,698
Proceeds from long-term debt	4,000,000	7,000,000
Proceeds from sale of fixed assets	410,721	155,878
Proceeds from the issuance of shares	6,000	
Proceeds from sale of investments		54,000
	11,211,186	12,050,576
Application of funds:		
Additions to fixed assets	1,919,775	6,032,521
Dividends	1,066,104	783,609
Reduction of long-term debt	4,891,181	511,293
Purchase of shares of the company	22,880	
	7,899,940	7,327,423
Increase in working capital	3,311,246	4,723,153
Working capital, beginning of year	11,309,636	6,586,483
Working capital, end of year	$ 14,620,882	$ 11,309,636

(See accompanying notes)

Auditors' report

To the Shareholders of
Harris Steel Group Inc.:

We have examined the consolidated balance sheet of Harris Steel Group Inc. as at December 31, 1980 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
March 13, 1981.

Clarkson Gordon
Chartered Accountants

Notes to the consolidated financial statements

December 31, 1980

1. Accounting policies

a) Basis of consolidation –

The consolidated financial statements include the accounts of the company and all its subsidiaries.

Joint ventures, both incorporated and unincorporated, are accounted for under the proportionate consolidation method. This method reflects the company's share of the joint ventures' assets, liabilities, revenues and expenses in the financial statements as indicated in note 2.

b) Foreign exchange –

Assets, liabilities, revenues and expenses stated in other currencies together with the accounts of the company's U.S. subsidiary are translated as follows:

Monetary assets and liabilities – at year-end rate of \$1 U.S. = \$1.1938 Cdn.;

Non-monetary assets and depreciation expense – at historic rates;

Revenues and expenses, other than depreciation – at average exchange rates for the year.

Foreign exchange gains and losses on transactions during the year and on the year-end translation of the accounts, which are reflected in income, were not significant.

c) Inventories –

The company values its inventories at the lower of cost and market. Cost is determined on a weighted average basis for structural steel and steel warehouse inventories and on a first-in, first-out basis for all other inventories.

d) Unbilled contract costs –

Unbilled contract costs represent contracts in progress valued on the percentage-of-completion basis. Under the percentage-of-completion method, profit is accrued as the work is performed, and provision is made for anticipated losses to the completion of the contract. Although the company uses its best engineering estimates, the final results of jobs in progress will necessarily be dependent upon future costs and revenues. Claims for additional compensation are only included in income when approved by the owner.

e) Fixed assets and depreciation –

Fixed assets are recorded at historical cost. The company depreciates its buildings, machinery and equipment on a straight-line basis and its mobile equipment on a declining balance basis at the following rates:

Buildings	2½%
Machinery and equipment	7½%
Mobile equipment	30 %

Gain or loss on disposal of individual assets is recognized in income in the year of disposal.

f) Goodwill –

Goodwill represents the excess of the cost of investments in shares of subsidiaries over the fair values of their underlying net assets at the date of acquisition. Goodwill is being amortized on a straight-line basis over a period of ten years.

g) Income taxes –

The company follows the income tax allocation method of accounting for income taxes. Deferred income taxes included in current liabilities relate to contracts in progress, investment in joint ventures and holdbacks receivable. The non-current portion of deferred income taxes relating to fixed assets has been reduced by future income tax recoveries relating to losses carried forward for tax purposes.

Investment tax credits relating to fixed asset purchases are accounted for as a reduction in the current year's tax provision net of the deferred income taxes. This treatment is commonly referred to as the "flow through" method.

h) Earnings per share –

Earnings per share are calculated on the weighted average number of shares outstanding during the year.

2. Accounting for joint ventures

(see note 8(b))

A summary of the company's pro rata share of joint venture operations is summarized below:

	1980	1979
Assets	$ 4,409,144	$ 7,050,173
Liabilities	2,310,737	3,193,689
Revenues	8,927,752	11,427,644
Expenses	7,977,972	8,541,184

3. Inventories

Inventories consist of the following:

	1980	1979
Raw materials	$12,979,887	$23,765,660
Work in progress	557,637	563,975
Finished goods	1,886,878	996,707
	$15,424,402	$25,326,342

4. Long-term debt

	1980	1979
Loan payable to Manufacturers Hanover Leasing Canada Limited at 13.25%, repayable in blended monthly instalments of principal and interest of $67,112 with the balance due November 1, 1988	$3,976,055	
Term bank loans bearing interest at bank prime plus ¾%, due in annual instalments of $800,000 commencing in 1982	4,000,000	$9,000,000
9% mortgage loan due 1988		54,566
13% conditional sale agreement due 1983	22,658	30,086
	7,998,713	9,084,652
Less current portion	316,535	511,293
	$7,682,178	$8,573,359

Specific fixed assets are pledged against each of the above loans.

Principal repayments during the next five fiscal years are as follows:

1981 – $316,535; 1982 – $1,161,000; 1983 – $1,204,000; 1984 – $1,254,000; 1985 – $1,316,000.

5. Capital stock and dividends

Voting rights –

a) Each Class A share is not entitled to vote unless the company has failed to pay dividends totalling 5¢ per Class A share for eight consecutive fiscal quarters. Thereafter, Class A shares shall be entitled to one vote until, in any fiscal quarter, a dividend of 5¢ per Class A share has been paid or declared and set aside for payment.

b) Each Class B share is entitled to one vote at all meetings of the shareholders.

Dividends –

a) Each Class A share is eligible to receive a preferential, non-cumulative, quarterly dividend of 5¢ per share.

b) Each Class B share is not eligible to receive a dividend in any quarter until a dividend of 5¢ has been paid on the Class A shares. Thereafter, Class B shares are eligible for a dividend of up to 5¢ per share in any quarter.

c) Dividends in excess of 5¢ per share in any quarter will be paid equally on the Class A shares and Class B shares.

d) During the first quarter of 1980 the company paid a dividend of 5¢ per issued Class A share ($156,722) and 4¢ per issued Class B share ($62,808). The company paid a dividend of 6¢ per issued Class A share and 6¢ per issued Class B share during each quarter thereafter aggregating $563,937 and $282,637, respectively.

Share capital transactions –

During the year:

a) The company purchased 5,200 Class A shares on the open market for a cash consideration of $22,880. The excess of the purchase price over the paid-up value of the shares purchased, which totalled $20,148, was charged to retained earnings. Subsequent to the year-end, a further 6,800 Class A shares and 10,300 Class B shares were purchased for a total cash consideration of $80,470.

b) 6,000 Class A shares and 3,000 Class B shares were issued for $6,000 cash under the employees' stock option plan. No further employee stock options are outstanding.

6. Lease commitments

The company is required to make aggregate future minimum lease payments of $2,520,000 under operating leases that have non-cancellable lease terms in excess of one year at December 31, 1980. Annual lease payments during the next five fiscal years are as follows:

1981 – $438,000; 1982 – $398,000; 1983 – $331,000; 1984 – $254,000; 1985 – $315,000.

7. Income taxes

The provision for income taxes has been reduced by the 3% inventory allowance and the investment tax credits utilized during the year.

8. Contingent liabilities

a) During 1978, a judgment for $532,000 plus costs was awarded against a subsidiary of the company and another defendant relating to allegedly defective structural work completed in 1967. The judgment, as well as the allocation of the award among the defendants is under appeal. When the ultimate liability to the company has been settled, it will be reflected in the financial statements for that year as a prior period adjustment.

b) The company has guaranteed the bank indebtedness of a corporate joint venture in which it has a fifty percent interest to a maximum of $2,000,000. The bank indebtedness of the joint venture was $1,519,000 at December 31, 1980, and fifty percent of this amount is included in bank indebtedness in the financial statements.

9. Subsequent event

Under a purchase agreement dated January 8, 1981, the company on February 26, 1981, acquired all of the outstanding shares of Secord Manufacturing Limited for a consideration not to exceed $650,000, including approximately 28,000 Class A shares valued at $4.50 per share.

Financial summary

(Dollars in thousands except per share amounts)

	1980	1979	1978	1977	1976
Operating results					
Sales	**$142,484**	$118,668	$64,427	$55,120	$58,592
Income before taxes and extraordinary items	**7,892**	5,089	121	3,806	3,506
Income taxes	**3,345**	2,040	(33)	1,374	1,511
Net income from operations	**4,547**	3,049	154	2,432	1,995
Return on sales	**3.2%**	2.6%	0.2%	4.4%	3.4%
Return on average equity	**21.3%**	16.5%	0.8%	13.9%	12.6%
Per Share					
Net income from operations	**$ .97**	$ .65	$ .03	$ .50	$ .41
Dividends	**.23**	.17	.16	.16	.14
Shareholders' equity	**4.92**	4.18	3.70	3.79	3.37
Average shares outstanding	**4,703,048**	4,701,648	4,699,777		
At year-end					
Total assets	**$ 64,555**	$ 75,824	$55,684	$30,771	$33,242
Current assets	**47,178**	58,638	42,799	22,658	25,244
Current liabilities	**32,557**	47,329	36,212	10,766	15,832
Working capital	**14,621**	11,309	6,587	11,892	9,412
Current ratio	**1.4:1**	1.2:1	1.2:1	2.1:1	1.6:1
Fixed assets, less depreciation	**$ 16,873**	$ 16,621	$11,844	$ 8,069	$ 7,954
Investments and goodwill	**505**	565	641	44	44
Deferred income taxes	**1,200**	270	(400)	1,426	905
Long-term debt	**7,682**	8,573	2,085	58	61
Shareholders' equity	**23,116**	19,652	17,387	18,521	16,444
Long-term debt/Total capital	**24.9%**	30.4%	10.7%	0.3%	0.4%

Quarterly financial data (unaudited)

(Dollars in thousands except per share amounts)

1980	First quarter	Second quarter	Third quarter	Fourth quarter	Year
Sales	$27,608	$36,818	$33,406	$44,652	$142,484
Income before taxes	585	1,852	2,530	2,925	7,892
Net income	331	989	1,408	1,819	4,547
Earnings per share	.07	.21	.30	.39	.97
1979					
Sales	$17,735	$22,425	$30,016	$48,492	$118,668
Income before taxes	(15)	1,079	2,529	1,496	5,089
Net income	16	617	1,401	1,015	3,049
Earnings per share	.003	.132	.298	.217	.65

Corporate directory

Harris Steel Group Inc.
Head Office:
First Canadian Place
Suite 6455
P.O. Box 163
Toronto, Ontario M5X 1C7
Telephone: (416) 862-0061
Telex: 06-217789

Harris Steel/VSL Canada
318 Arvin Avenue
Stoney Creek, Ontario L8E 2M2
Telephone: (416) 561-5611

Frankel Steel Limited
220 Attwell Drive
Unit #1
Rexdale, Ontario M9W 5B2
Telephone: (416) 675-1722

Laurel Steel Products Ltd.
5400 Fairview Street
Burlington, Ontario L7L 5N5
Telephone: (416) 364-4912

Fisher & Ludlow Inc.
750 Appleby Line
P.O. Box 5025
Burlington, Ontario L7R 3Y8
Telephone: (416) 632-2121

Quecor Steel Limited
2355 Chemin du Lac
Longueuil, Quebec J4N 1C1
Telephone: (514) 670-7011

Thomsson Steel Company Inc.
12201 Conway Road
P.O. Box 407
Beltsville, Maryland 20705
Telephone: (301) 953-2080

Secord Manufacturing Limited
P.O. Box 3185 Station C
Hamilton, Ontario L8H 7K6
Telephone: (416) 560-3611

Corporate officers

Milton E. Harris
Chairman of the Board and President

Geoffrey J. Jackson
Vice President

James Wilson
Vice President – Marketing

Glenn Riddell
Vice President – Manufacturing

Bruce Timmerman, C.A.
Vice President – Finance

John Harris, M.B.A.
Manager – Warehouse Operations

Lorie Waisberg
Secretary-Treasurer

Board of directors

Milton E. Harris
Chairman of the Board, President
Harris Steel Group Inc.
Director since 1953

Gordon Atlin, Q.C.
Senior Partner
Atlin, Goldenberg, Cohen & Armel
Director since 1970

Cecil H. Franklin
Chairman and Chief Executive Officer
Algonquin Mercantile Corporation;
Chairman of the Board
Hardee Farms International
Director since 1973

Joseph Godfrey
President and Director
York Wood Investments Limited
Jonat Construction Company Limited
Joseph Godfrey Investments Limited
Director since 1974

Neil B. Ivory
President of Pembroke Management Ltd.
Vice President of GBC Capital Ltd.
Director since 1977

Geoffrey J. Jackson
President
Frankel Steel Limited
Director since 1976

Barrie D. Rose, C.A.
Chairman and Chief Executive Officer
Androck Inc.
Director since 1973

Audit Committee

Milton E. Harris
Cecil H. Franklin
Neil B. Ivory
Barrie D. Rose, C.A.

Investor information

Registrar and transfer agent
National Trust Company Ltd.
21 King Street East
Toronto, Ontario M5C 1B3

Counsel
Goodman & Goodman

Auditors
Clarkson Gordon

Bankers
Royal Bank of Canada
Toronto Dominion Bank

Stock market trading information

The company's shares are listed on The Toronto Stock Exchange as Harris A (HSG A) and Harris B (HSG B).

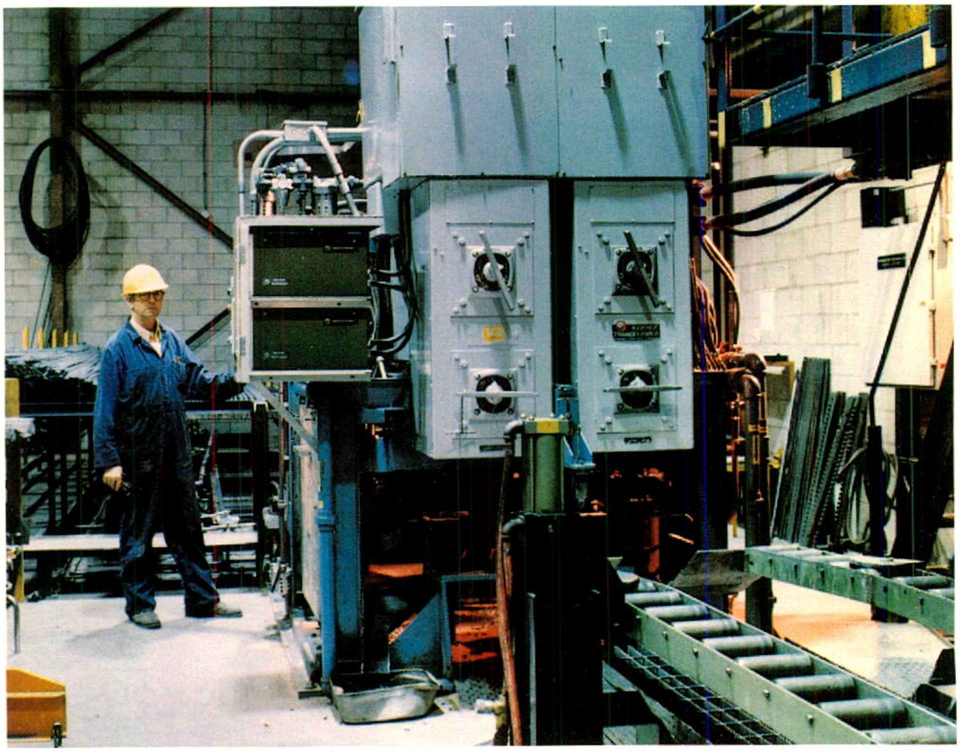
Class A shares 1980

	High	Low	Close	Shares traded	Dividend
First quarter	$5.00	$4.35	$4.35	157,600	$.05
Second quarter	4.50	3.90	4.30	39,800	.06
Third quarter	4.50	4.25	4.30	25,400	.06
Fourth quarter	4.75	4.10	4.10	51,500	.06
Year	5.00	3.90	4.10	274,300	.23
Year 1979	5.00	4.50	5.00	201,600	.17

Class B shares 1980

	High	Low	Close	Shares traded	Dividend
First quarter	$4.30	$4.00	$4.10	89,000	$.04
Second quarter	4.50	3.90	4.50	10,600	.06
Third quarter	4.50	4.00	4.00	5,100	.06
Fourth quarter	4.50	4.00	4.50	34,900	.06
Year	4.50	3.90	4.50	139,600	.22
Year 1979(1)	4.60	3.95	4.15	26,000	.16

(1) New class created November 5, 1979.
Figures reflect only two months' trading for that year.



Resistance welding machine used to manufacture steel grating at Fisher & Ludlow.

Printed in Canada