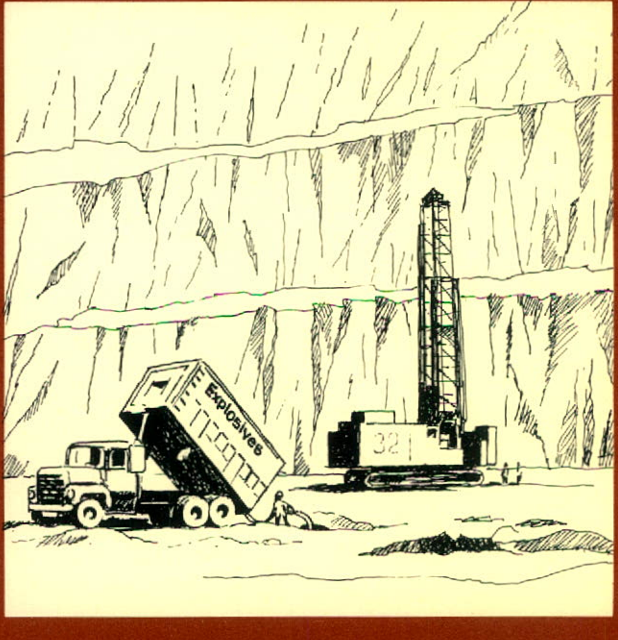
LIBERIAN IRON ORE LIMITED □ ANNUAL REPORT □ 1977



Operating and Financial Summaries

	1977	1976
LAMCO JOINT VENTURE		
Production of finished ore products (metric tons)	8,700,000	9,600,000
Shipments during the year (metric tons)	8,200,000	9,300,000
Project expenditures—		
Investments in property and equipment	$ 27,062,000	$ 18,955,000
Exploration and development costs deferred	$ 1,770,000	$ 1,099,000
LAMCO		
Sales—metric tons	6,900,000	7,000,000
—amount	$105,639,000	$116,915,000
Profit from operations	$ 15,085,000	$ 39,816,000
Net profit	$ 9,299,000	$ 33,556,000
Dividends on preferred stock	$ 2,643,000	$ 3,122,000
Distributions to common stockholders	$ 13,447,000	$ 9,354,000
Appropriations to reserves	$ 34,000	$ 53,000
Balance of annual profit subject to Board determination	$ 3,401,000	$ 25,704,000
LIO		
Dividends and interest income	$ 7,057,000	$ 5,498,000
Profit before adjustment for equity in LAMCO (per share $1.65 and $1.28)	$ 6,545,000	$ 5,078,000
Adjustment for equity in results of LAMCO for the year	$ (886,000)	$ 12,879,000
Net profit (per share $1.43 and $4.54)	$ 5,659,000	$ 17,957,000
Dividends (per share $1.20 and $1.60)	$ 4,746,000	$ 6,328,000
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders	4,529	4,567
located in Liberia	2,741	2,746
U.S.A. and Canada	1,567	1,559
Other countries	221	262

Information with respect to LIO shares

For quarter ending	Dividends	Range of prices per share on Toronto Stock Exchange (expressed in Canadian currency)	
March 31, 1976	$0.40	$13	$16¾
June 30, 1976	0.40	13¾	16½
September 30, 1976	0.40	14¼	15¾
December 31, 1976	0.40	14¼	15⅞
March 31, 1977	0.40	14	16
June 30, 1977	0.40	11	16
September 30, 1977	0.20	13⅜	15½
December 31, 1977	0.20	10½	14

LIBERIAN IRON ORE LIMITED

LIO Annual Report 1977

The annual general meeting of LIO shareholders will be held on Wednesday, June 7, 1978, at 2:00 p.m. at The Ritz-Carlton Hotel, Montreal, Quebec, Canada.

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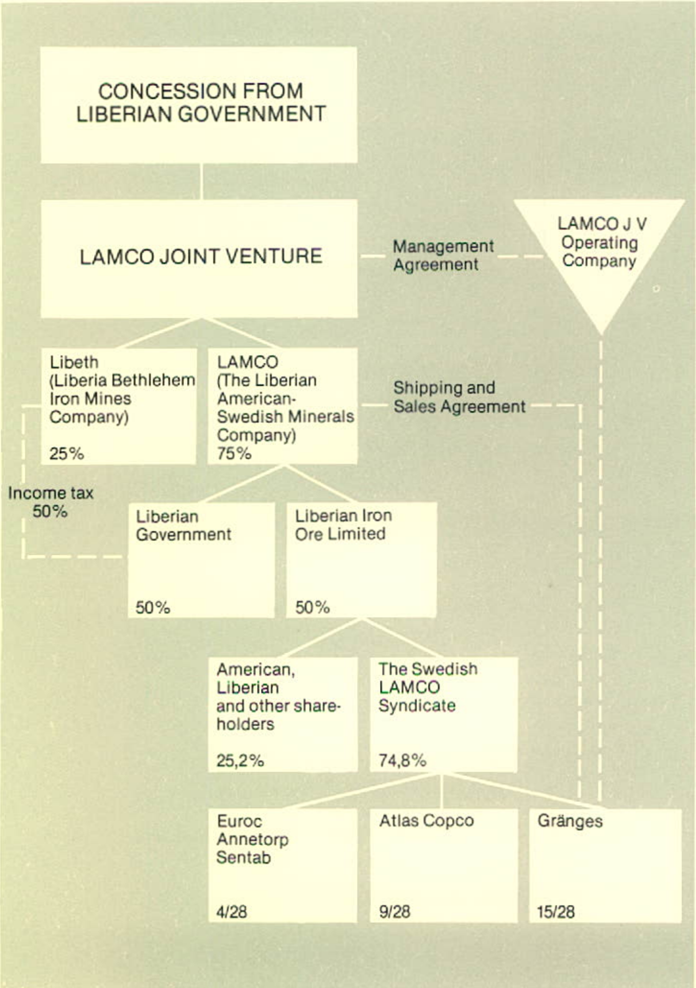

LIBERIAN IRON ORE LIMITED (LIO)

is an equal partner with the Liberian Government in LAMCO, The Liberian American-Swedish Minerals Company. LAMCO, in turn, is a participant (75%) with Bethlehem Steel Corporation through its wholly owned subsidiary Liberia Bethlehem Iron Mines Company (25%) in the LAMCO Joint Venture iron ore project. This mining enterprise represents a basic investment of more than $275,000,000 in the development of high grade iron ore deposits in the Nimba Mountain region of Northern Liberia. The mine, and the modern mining community, is connected by a 165-mile railroad with the Liberian port of Buchanan. Ore loaded here is shipped to steel plants in Europe, North America and Japan.

GRÄNGES INTERNATIONAL MINING

is a company in the Gränges AB Group, acting as Managing Agent for and on behalf of the Joint Venturers and as Sales Agent for LAMCO.

OFFICERS Tryggve Angel, *President*

Arne Dahlström, *Executive Vice President*

HEAD OFFICE P.O. Box 16316, S-103 26 Stockholm, Sweden

LAMCO J.V. OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICERS Hans Åstrand, *General Manager*

HEAD OFFICE P.O. Box 69, Monrovia, Roberts International Airport, Liberia

BOARD OF DIRECTORS

Erland Waldenström
Chairman—President
First Vice Chairman of Skandinaviska Enskilda Banken, Chairman of The Swedish LAMCO Syndicate, Gränges AB & Co. (prior to January 1, 1978), Stockholm, Sweden

Tryggve Angel
President of Gränges International Mining, Stockholm, Sweden

Kurt-Allan Belfrage
Vice Chairman of Atlas Copco AB, Stockholm, Sweden

Joseph C. Bennett
President of Clifford Minerals Corporation, Salt Lake City, Utah, U.S.A.

Robert I. E. Bright
Member of the House of Representatives of the Republic of Liberia and President of Robert Bright & Sons, Inc., Monrovia, Liberia

Brock F. Clarke
Partner of the law firm of Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard, Montreal, Quebec, Canada

Alfred H. Eggleton
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Sten Lindh
President of Industri AB Euroc, Chief Executive Officer of the Euroc Group, Malmö, Sweden

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Vice Chairman
Director of First Boston Inc., New York, N.Y., U.S.A.

Richard G. Powell
Partner of the law firm of Sullivan & Cromwell, New York, N.Y., U.S.A.

Alan G. Thompson
President of J. Henry Schroder & Co. Limited, Calgary, Alberta, Canada

Hans Werthén
Group Executive Chairman of AB Electrolux, Group Executive Chairman of Gränges AB, Stockholm, Sweden

Secretary-Treasurer
Håkan Castegren

COUNSEL

Ogilvy, Montgomery, Renault, Clarke,
Kirkpatrick, Hannon & Howard,
The Royal Bank Building, 1 Place Ville Marie,
Montreal, Quebec, Canada H3B 1Z7

Sullivan & Cromwell,
125 Broad Street, New York, N.Y., 10004, U.S.A.

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.,
153 East 53rd Street, New York, N.Y., 10022,
U.S.A.

HEAD OFFICE

Douglas Building, University Avenue,
Charlottetown, Prince Edward Island, Canada

TRANSFER AGENTS AND REGISTRARS

The Royal Trust Company,
Charlottetown, Prince Edward Island, Canada

The Royal Trust Company,
Toronto, Ontario, Canada

Citibank, N. A.,
Monrovia, Liberia

The Trust Company of New Jersey,
Jersey City, N. J., U.S.A.

FOREIGN OFFICE

70 Pine Street, Suite 5104, New York, N.Y., 10005, U.S.A.

BOARD OF DIRECTORS

Chairman Emeritus Marcus Wallenberg

James T. Phillips, Jr.
Chairman — *Minister of Finance of the Republic of Liberia, Monrovia, Liberia*

Tryggve Angel — *President of Gränges International Mining, Stockholm, Sweden*

Kurt-Allan Belfrage — *Vice Chairman of Atlas Copco AB, Stockholm, Sweden*

Oliver Bright — *Minister of Justice of the Republic of Liberia, Monrovia, Liberia*

Robert I. E. Bright — *Member of the House of Representatives of the Republic of Liberia and President of Robert Bright & Sons, Inc., Monrovia, Liberia*

Sten Lindh — *President of Industri AB Euroc, Chief Executive Officer of the Euroc Group, Malmö, Sweden*

D. Franklin Neal — *Minister of Planning and Economic Affairs of the Republic of Liberia, Monrovia, Liberia*

George E. Putnam, Jr. — *Chairman, Citicorp International Group, New York, N.Y., U.S.A.*

Erland Waldenström — *Chairman and President of LIO, First Vice Chairman of Skandinaviska Enskilda Banken, Chairman of The Swedish LAMCO Syndicate, Gränges AB & Co. (prior to January 1, 1978), Stockholm, Sweden*

J. Milton Weeks — *Economic and Financial Consultant, Monrovia, Liberia*

Hans Werthén — *Group Executive Chairman of AB Electrolux, Group Executive Chairman of Gränges AB, Stockholm, Sweden*

President
John G. Leinmark

Vice President
Stephen B. Dunbar, Jr.

Secretary-Treasurer
Jan Ewetz

COUNSEL

Henries Law Firm,
31 Benson Street, Monrovia, Liberia

Morgan, Grimes & Harmon Law Firm,
Lynch Street, Monrovia, Liberia

Sullivan & Cromwell,
125 Broad Street, New York, N.Y., 10004, U.S.A.

HEAD OFFICE

Maxwell Building,
Ashmun Street, Monrovia, Liberia

INDEPENDENT ACCOUNTANTS

Price Waterhouse & Co.,
153 East 53rd Street, New York, N.Y., 10022, U.S.A.

FOREIGN OFFICE

c/o Skandinaviska Enskilda Banken,
Kungsträdgårdsgatan 8,
S-106 40 Stockholm, Sweden

To the Shareholders

The worldwide recession in the steel industry which began in 1975 persisted during 1977 and, at the present time, no significant improvement is expected in 1978. As a result, the demand for iron ore continued to be low, prices have been reduced and a large amount of worldwide iron ore capacity has been idled. In addition, stockpiles of ore at mines and steelworks throughout the world at the end of 1977 were well in excess of normal levels.

LIO had a net profit in 1977 of $5,659,000, or $1.43 per share, compared with $17,957,000, or $4.54 per share, in 1976. Excluding adjustment for equity in results of LAMCO the profit for 1977 was $6,545,000, or $1.65 per share, which amounts reflect the payment by LAMCO of a cash dividend to LIO of $3,000,000 paid in 1977 in respect of 1976 net profit of LAMCO. The profit a year earlier was $5,078,000, or $1.28 per share.

Substantially all of LIO's income is derived from LAMCO, in which LIO is an equal partner with the Liberian Government. LAMCO's shipments of ore in 1977 totaled 6.9 million tons as against 7.0 million tons in 1976. Sales for 1977 totaled $105,639,000 compared with $116,915,000 in 1976. Net profit decreased from $33,556,000 in 1976 to $9,299,000 in 1977.

For 1978, sales prices were reduced by 10% on fines and lumpy ores and 18% on pellets. The sales of pellets are also expected to decrease in volume. Accordingly, LAMCO's sales revenues are expected to be lower in 1978 than in 1977, despite an expected increase in shipments of more than 10%, from 6.9 million tons to 7.6 million tons.

In view of the general outlook for 1978, an austerity program to reduce costs and capital expenditures and to cut back production in 1978 was put into effect by the Joint Venture in late 1977. Also, declarations of the fourth quarter 1977 dividends on LAMCO's Series B and C preferred stock, as well as the fourth quarter dividend to LIO equivalent to the royalty paid to the Liberian Government, were rescinded in December, 1977. Dividends are not expected to be resumed by LAMCO in 1978 and the holders of LAMCO's preferred stock have agreed to a one-year postponement of their right to redemptions due in 1978.

Because of the austerity program, the anticipated increased volume of shipments, the non-payment of dividends and deferment of preferred stock redemptions, LAMCO does not expect to have any major liquidity problems in 1978. However, LAMCO expects to incur a loss from operations in 1978.

As noted in the 1976 Annual Report, LAMCO entered into a three-year $20,000,000 credit agreement in July, 1977. The full amount was drawn down during the year.

On December 1, 1977 LIO paid a quarterly dividend of 20 cents per common share, a reduction of 50% in the amount paid quarterly in recent years. Another quarterly dividend at this reduced rate was paid on March 7, 1978. A dividend at the same rate has also been declared payable on May 26, 1978.

The following changes in the boards of directors of LIO and LAMCO have occurred since the publication of the 1976 Annual Report:

LIO
Mr. Erik Fris, who resigned as Secretary-Treasurer of LIO at the end of 1976, tendered his resignation as a director. To succeed him, the Board elected Mr. Hans Werthén, a prominent Swedish industrialist who is group executive chairman of the Gränges and Electrolux companies.

LAMCO
Mr. James T. Phillips, Jr., Minister of Finance of the Republic of Liberia, succeeded Mr. Erland Waldenström as Chairman of LAMCO following the principle of rotating the chairmanship between representatives of the Class A and Class B stockholders.

Mr. D. Franklin Neal, Minister of Planning and Economic Affairs of the Republic of Liberia, succeeded Mr. Adolph W. Yancy as a director.

Mr. Werthén was elected a director, succeeding Mr. Erik (Lionhead) Leijonhufvud who had continued on the Board following his resignation as President in 1976.

We extend to the retiring directors of LIO and LAMCO our warm thanks and deep appreciation for their loyal and productive service.

After twenty years of association with the Company from its inception, first as a director and since 1970 as President and Chairman, I have decided not to stand for re-election at this year's annual meeting. This is a further step in reducing my many business commitments which—having reached retirement age—I started last year in withdrawing from Gränges and will continue by retiring from the LAMCO board, as well as the Company board, this year. While I leave LIO and LAMCO with much nostalgia, I have confidence in the prospects for these companies in the years to come, knowing LAMCO's sound competitive position and the cooperation and understanding that have developed between the private investors and the Liberian Government. I extend all my best wishes to the LIO/LAMCO group.

May, 1978

E. Waldenström

Erland Waldenström
Chairman and President

This report is submitted on behalf of the Board of Directors.

LAMCO THE LIBERIAN AMERICAN-SWEDISH MINERALS COMPANY

1977 in Review and Preview of 1978

Iron Ore and Steel Market and LAMCO Sales

The development of the iron and steel industry is undergoing profound changes throughout the world. Steel consumption has decreased since the boom years of 1973 and 1974. Steel production in 1977 in the European Community, the United States and Japan decreased by 16 million tons, or almost 5% below the already low level of 1976. At the same time capacity has continued to grow to the point where it is estimated that about 150 million tons of steelmaking capacity is now idle. A substantial reduction in exports of steel from Europe has also taken place and a number of developing countries have increased their capacity and production.

In Europe, which is LAMCO's main market, the steel industry is suffering heavy losses and has begun the painful process of adjusting its capacity to the lower demand anticipated in the future. The growth rate of the European steel industry is expected to be much lower than the world average during the next decade.

As a result of the steel crisis, iron ore consumption in Europe and worldwide is down substantially from the peak in 1974. International trade of about 400 million tons in 1974 has dropped by some 50 million tons in 1977. Producers of lumpy ores and pellets have been particularly hit since steelworks, during periods of reduced production of crude steel, tend to utilize their own sintering plants into which they feed sinter fines, cutting out lumpy ores and pellets. To the extent pellets are used, the mills favor suppliers in whom they have a proprietary interest.

New steel mills in the developing countries will offer some potential expanding market for the iron ore mines. However, a number of these mills are based on the development of local ore deposits and thus represent no opportunities to replace the decline in sales to the industrialized countries.

LAMCO shipments decreased marginally, from 7.0 million tons in 1976 to 6.9 million in 1977. LAMCO sales, expressed in dollar terms, decreased 10%, from \$116,915,000 in 1976 to \$105,639,000 in 1977.

LAMCO Joint Venture Production and Shipments

Combined Joint Venture production of finished products from the Nimba and Tokadeh mines in 1977 amounted to 8.7 million tons, a decrease of 9% from the 9.6 million tons produced in 1976. Production, which was the lowest in the recent history of the Joint Venture, was at an annual average rate of about 70% of mine capacity. It consisted of 7.9 million tons of washed lumpy ores and fines, 0.7 million tons of pellets and 0.1 million tons of run-of-mine ore.

The number of ore carriers leaving Buchanan during 1977 was 163, with an average load of 51,000 tons, compared with 162 carriers with an average load of 58,000 tons in 1976.

In view of the adverse market conditions in the iron and steel industry, the manager and participants of the LAMCO Joint Venture adopted in 1977 an austerity program to reduce cash outflow. Certain major capital expenditures have been postponed. In anticipation of a reduction of inventories, production was curtailed beginning in 1977 to a level sufficient to meet the participants' requirements. In 1977 pellet production was reduced to approximately 35% of full capacity. The pellet plant was closed for part of the year and is expected to be closed during all of 1978.

Operating Costs

Net cost of production decreased slightly, from $87.1 million in 1976 to $84.4 million in 1977. The operating costs per ton were higher than a year earlier, especially for pellets, since the major portion of the costs are fixed and cannot be reduced proportionately with curtailments in production. A major overhaul of the power plant at Buchanan amounted to an additional nonrecurring cost of nearly $2 million.

Exploration and Iron Ore Reserves

Total mineable reserves of high grade iron ore in the Nimba Range at December 31, 1977 were estimated at 104 million tons with an average grade of 63% (dry) Fe.

Having completed a major exploration program in 1976, the Joint Venture continued exploration in the Western Area at a somewhat lower rate. The work included approximately 12,200 feet of drilling at Mount Tokadeh, 7,500 feet at Mount Beeton and about 900 feet in other areas. The ore reserve calculation based on this exploration has not yet been completed.

The geological reserves of soft and medium-hard ore proven in the Western Area at year-end 1977 were estimated at 498 million tons with an average grade of 51.7% (dry) Fe. Based on ore testing work and preliminary mine plans, it is estimated that 416 million tons of these reserves can be classified as mineable.

Product Development

In order to improve the quality of the Joint Venture's pellets and make them more marketable, substantial new facilities to improve the pellet feed process were put into operation. The flotation process has been replaced by high-intensity magnetic separators which remove more impurities and allow for greater variations and lower grade ore types available in the mine.

The Joint Venture has decided to eliminate the washed lumpy grade of ore by crushing all lumpy ore to fines and mixing it with other washed fines to obtain a more marketable product. In 1977 approximately 900,000 tons of lumpy ore were crushed by use of a temporary crusher under contract. Permanent crushing facilities have been installed and began operating in April, 1978.

Production at many of the mills in the emerging steel centers is based on so-called direct reduction methods requiring high grade ore, usually in the form of pellets with 67 to 70% Fe content. Few suppliers can currently meet this requirement. LAMCO has therefore undertaken a major development program to get access to this important market.

Capital Expenditures

Capital expenditures by the Joint Venture in 1977 totaled $27 million, compared with $19 million in 1976. Expenditures in 1977 included a substantial portion of the pellet feed improvement project. Other major investments covered the lumpy ore crushing project, purchases of heavy-duty mining equipment, replacement of the communications system along the rail line linking Buchanan and Nimba, improvements in the power plant at Buchanan and residential construction within the two Concession areas.

Total Joint Venture capital expenditures in 1978 are estimated at about $14 million, approximately half of the amount invested in 1977.

Commercial Traffic

Commercial traffic on the Joint Venture's railway amounted to 2,800 carloads, a substantial drop from the 4,700 carloads moved in 1976. The decrease was attributable primarily to lower volumes of logs and sawn timber, due to the general recession in the forest products industry worldwide.

Labor Relations

The collective bargaining agreement between the Joint Venture and the union representing hourly paid employees ended on December 31, 1977, but is expected to remain in force pending the negotiation and signing of a new agreement. Relations between management and labor were good during 1977.

Personnel and Liberianization

At year-end 1977, the Joint Venture had a total of 4,695 employees, compared with 4,842 at the close of the preceding year. The number of foreign staff employees was 521 at the end of 1977, compared with 543 at the end of 1976. The percentage of Liberians in job classifications where expatriates have been employed increased during the year, notably at the foreman level. Twenty-one Liberian employees were promoted from senior technician to foreman positions. In addition, 16 Liberians were promoted from junior staff to senior staff positions. Liberians now hold 50% of all staff jobs.

Training Program and Scholarships

Training activity continued at a high level, with emphasis on qualitative programs keyed to Liberianization objectives. A total of 1,301 employees participated. Enrollment at technician-level training courses totaled 94, with 31 of the 47 employees comprising the first group of trainees to achieve technician status by year-end.

A railroad training program, organized in cooperation with the Swedish State Railways, gained momentum in 1977, with 94 employees, including 12 high school graduate recruits, taking part in basic training, refresher and trainman courses.

A total of 157 scholarships — 73 for study overseas and 84 for courses in Liberian institutions — were administered under the Joint Venture's scholarship program during 1977.

Late in 1976 the Joint Venture made a commitment to assist in the conversion of the Liberian/Swedish Vocational Training Center into a Senior Technical High School. The contribution will amount to $100,000 for the conversion, plus $100,000 annually for operating costs. The design and layout for the conversion were completed in 1977 and Liberian teachers are currently upgrading their skills at the International Advanced Technical and Vocational Training Center in Turin, Italy.

With the opening of an additional school in 1977, the number of pupils enrolled in the LAMCO Area School System increased by 8%, to 4,353, compared with 4,022 in 1976. Twenty-eight teachers were added in the System during the year, making a total of 160. The pupil/teacher ratio was about 27 to 1, slightly better than a year earlier.

In addition to its regular $275,000 annual contribution to the operational cost of the System, the Joint Venture continued to support grant-in-aid scholarships to a substantial number of students in various institutions throughout Liberia.

Housing and Medical Care

The Joint Venture housing program had to be curtailed for economic reasons. However, 26 staff houses were completed in Nimba and 10 in Buchanan. Ten houses are under construction in Nimba and seven have been approved for construction in Buchanan.

Following the provision of land by the Liberian Government, the Joint Venture's "Own Your Own Home" program came closer to realization during the year. Contracts for the construction of the first 63 houses were signed and plans have been made to extend the community to include 150 homes and supporting facilities.

The hospitals maintained by the Joint Venture in Nimba and Buchanan admitted 7,647 patients, most of them not associated with LAMCO, during 1977.

Partnership for Productivity

The "Partnership for Productivity" program, partly sponsored by the Joint Venture, promotes the development of Liberian-managed enterprises in the Nimba area. Projects started during 1977 included a machine shop, an agricultural equipment service center, the production of charcoal through the utilization of forestry waste, the production of brick and clay products, a piggery and an 80-member farmers' cooperative.

Transportation of Guinean Ore

The Joint Venture and Mifergui-Nimba Co., a Guinean mixed company, entered in 1976 into a basic agreement setting forth the general principles under which the Joint Venture will agree to transport, handle and load ore from a new mine to be constructed in a part of the Nimba Range of mountains located in the Republic of Guinea, some 20 kilometers from the Joint Venture's mine in Liberia. Negotiations on a transportation contract with Mifergui began in 1977 and are continuing. A feasibility study by Mifergui is currently in process and is expected to be completed in 1978.

Balance Sheet

(Expressed in United States dollars)

	December 31, 1977	December 31, 1976
ASSETS		
Current Assets		
Cash including time deposit of 1977 $6,680,000; 1976 $3,855,000	$ 6,722,000	$ 3,918,000
Accounts receivable	116,000	21,000
Receivable from LAMCO (Notes 2, 3 and 14)		
Dividends		1,303,000
Redemption of preferred stock		550,000
Total current assets	6,838,000	5,792,000
Investment in LAMCO (Notes 1, 2 and 3)		
6-¼% Series C preferred stock	9,900,000	9,900,000
Class B common stock, at equity	43,217,000	44,103,000
Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation	12,856,000	12,856,000
	65,973,000	66,859,000
Organization and Preoperating Expenses less accumulated amortization of 1977 $352,000; 1976 $330,000 (Notes 1 and 6)	262,000	284,000
	$73,073,000	$72,935,000
LIABILITIES and CAPITAL		
Current Liabilities		
Accounts payable	$ 111,000	$ 74,000
Accrued Liberian tax on preferred stock dividends (Note 9)		21,000
Dividends declared and unpaid	791,000	1,582,000
Total current liabilities	902,000	1,677,000
Capital		
Capital stock—without par value:		
Authorized—5,000,000 shares		
Issued—3,955,025 shares	23,487,000	23,487,000
Equity in capital in excess of par value of LAMCO	2,250,000	2,250,000
Retained earnings, per accompanying statement	46,434,000	45,521,000
	72,171,000	71,258,000
	$73,073,000	$72,935,000

The accompanying financial statements of Liberian Iron Ore Limited have been approved by its Board of Directors.

Erland Waldenström
Hans Werthén

Statement of Profit and Loss

(Expressed in United States dollars)	Year ended December 31, 1977	Year ended December 31, 1976
Dividends and interest income:		
Dividends from LAMCO:		
Series C preferred stock	$ 556,000	$ 668,000
Class B common stock (includes $3,000,000 distribution in 1977 of 1976 equity in earnings)	6,221,000	4,677,000
	6,777,000	5,345,000
Interest income	280,000	153,000
	7,057,000	5,498,000
Expenses:		
Liberian tax on preferred stock dividends (Note 9)	139,000	167,000
Other expenses (Notes 6 and 11)	373,000	253,000
	512,000	420,000
Profit before adjustment for equity in LAMCO	6,545,000	5,078,000
Adjustment for equity in results of LAMCO for the year (Note 14)	(886,000)	12,879,000
Net profit	$ 5,659,000	$17,957,000
Net profit per share (including $1.65 in 1977; $1.28 in 1976 in dividends and interest income less expenses)	$ 1.43	$ 4.54

Statement of Retained Earnings

(Expressed in United States dollars)	Year ended December 31, 1977	Year ended December 31, 1976
Net profit per accompanying statement of profit and loss	$ 5,659,000	$17,957,000
Retained earnings at beginning of year	45,521,000	33,892,000
	51,180,000	51,849,000
Deduct: — Cash dividends declared of $1.20 per share in 1977; $1.60 in 1976	4,746,000	6,328,000
Retained earnings at end of year	$46,434,000	$45,521,000
Represented by:		
Accumulated profits before equity in undistributed earnings of LAMCO	$ 6,467,000	$ 4,668,000
Equity in undistributed earnings of LAMCO	39,967,000	40,853,000
	$46,434,000	$45,521,000

Balance Sheet (Including LAMCO's undivided 75% share of the assets and liabilities of

(Expressed in United States dollars)

	December 31, 1977	1976
ASSETS		
Current Assets		
Cash (including interest-bearing deposits 1977 $2,800,000; 1976 $8,850,000)	$ 3,725,000	$ 12,192,000
Accounts receivable:		
Trade	25,298,000	17,268,000
Other	1,450,000	1,828,000
Inventories (Notes 1 and 15):		
Mined ore and processed products	47,205,000	37,894,000
Materials and supplies	16,722,000	14,306,000
Prepaid expenses	333,000	177,000
Total current assets	94,733,000	83,665,000
Property and Equipment, in concession areas, at cost (Notes 1 and 5):		
Railroad	46,887,000	46,887,000
Harbor	26,129,000	26,129,000
Roads and airstrips	6,395,000	6,395,000
Buildings	32,274,000	30,503,000
Rolling stock	11,853,000	11,814,000
Special purpose structures, machinery and equipment	96,810,000	80,690,000
Motor vehicles, boats and heavy-duty equipment	26,807,000	22,542,000
	247,155,000	224,960,000
Less—Accumulated depreciation	126,628,000	112,447,000
	120,527,000	112,513,000
Construction in progress	5,852,000	9,350,000*
	126,379,000	121,863,000
Exploration and Development Costs, Interest during Preoperating Period and Mining Concession, less accumulated amortization in 1977 $18,494,000; 1976 $16,771,000 (Notes 1 and 6)	16,716,000	17,112,000*
	$237,828,000	$222,640,000

* Reclassified for comparative purposes.

the LAMCO Joint Venture)

	December 31, 1977	December 31, 1976
LIABILITIES and CAPITAL		
Current Liabilities		
Current maturities:		
Senior indebtedness	$ 13,229,000	$ 12,181,000
Preferred stock (Note 7)		3,146,000
Short-term loans (Note 7)	25,750,000	19,515,000
Accounts payable and accrued liabilities	12,945,000	12,338,000
Accrued royalty (Note 2)	1,005,000	1,217,000
Accrued interest	1,292,000	261,000
Accrued dividends on preferred stock (Note 14)		373,000
Profit declared as a dividend on common stock and unpaid (Note 14)		1,217,000
Total current liabilities	54,221,000	50,248,000
Reserve for Pension Obligations (Notes 1 and 8)	3,695,000	3,115,000
Senior Indebtedness (Notes 2, 3 and 7)	33,475,000	22,871,000
Capital		
Capital obligation, noninterest-bearing, payable only in the event of liquidation	12,856,000	12,856,000
Preferred stock $6.25, $100 par value—authorized and issued (excluding shares included in current maturities) (Notes 2, 3 and 7)		
Series A— 23,770 shares (1976: 17,810)	2,377,000	1,781,000
Series B—356,640 shares (1976: 336,640)	35,664,000	33,664,000
Series C— 99,000 shares (1976; 99,000)	9,900,000	9,900,000
Common stock $1 par value—authorized and issued (Note 3):		
Class A and Class B—1,000,000 shares of each issue	2,000,000	2,000,000
Capital in excess of par value (no change since 1960)	4,500,000	4,500,000
Reserves appropriated out of profits in accordance with the Concession Agreement:		
As required by the lenders	3,522,000	3,488,000
Reserve for concession development and other corporate purposes	52,513,000	52,513,000
Balance of 1976 profit subject to Board determination (Note 14)	19,704,000	25,704,000
Balance of 1977 profit subject to Board determination	3,401,000	
	146,437,000	146,406,000
Contractual Commitments and Contingent Liabilities (Note 10)		
	$237,828,000	$222,640,000

Statement of Profit and Loss

(Including LAMCO's share of the costs of production of the LAMCO Joint Venture) (Notes 2 and 4)

(Expressed in United States dollars)

	Year ended December 31, 1977	1976
Sales	$105,639,000	$116,915,000
Cost of sales:		
Inventory of processed ore at beginning of year	36,526,000	24,132,000
Production costs	73,073,000	65,593,000
Depreciation and amortization (Notes 1, 5 and 6)	17,470,000	15,736,000
Inventory of processed ore at end of year	(44,014,000)	(36,526,000)
	83,055,000	68,935,000
Gross profit	22,584,000	47,980,000
Selling expenses	1,818,000	1,999,000
General and administrative expenses	1,455,000	1,488,000
Accrued royalty to Government of Liberia (Note 2)	4,226,000	4,677,000
Profit from operations	15,085,000	39,816,000
Financing charges (net):		
Interest expense (Note 7)	3,675,000	2,776,000
Exchange losses including provision for unrealized losses of $1,767,000 in 1977 ($3,272,000 in 1976) (Notes 1 and 7)	2,111,000	3,484,000
Net profit	$ 9,299,000	$ 33,556,000

Statement of Appropriation and Disposition of Net Profit

In accordance with the Concession Agreement (Note 2)

(Expressed in United States dollars)	Year ended December 31, 1977	1976
Net profit as shown by statement of profit and loss	$ 9,299,000	$33,556,000
Dividends on preferred stock:		
Series A	(136,000)	(173,000)
Series B	(1,951,000)	(2,281,000)
Series C	(556,000)	(668,000)
	(2,643,000)	(3,122,000)
Dividends to Class B common stockholder equivalent to accrued royalty to Government of Liberia (Note 14)	(3,221,000)	(4,677,000)
Appropriations by Board of Directors to reserves:		
As required by the indenture relating to the Series A and D Notes calculated at February 15, 1978 and 1977	(34,000)	(53,000)
Balance of current year's profit subject to Board determination	(3,401,000)	(25,704,000)
Transfer from balance of 1976 profit	6,000,000	
Dividends distributed equally to Class A and Class B stockholders in respect of 1976	$ 6,000,000	
Distributions to common stockholders:		
To Government of Liberia:		
Accrued royalty	$ 4,226,000	$ 4,677,000
Dividends on Class A common stock	3,000,000	
	7,226,000	4,677,000
To LIO:		
Dividends on Class B common stock equivalent to accrued royalty (Note 14)	3,221,000	4,677,000
Dividends on Class B common stock	3,000,000	
	6,221,000	4,677,000
Total to Government of Liberia and LIO	$13,447,000	$ 9,354,000

Statements of Changes in Financial Position

LAMCO
(Including LAMCO's undivided 75 % share of the assets and liabilities of the LAMCO Joint Venture)

(Expressed in United States dollars)

	Year ended December 31, 1977	1976
Working capital provided:		
Net profit	$ 9,299,000	$33,556,000
Depreciation and amortization	17,470,000	15,736,000
Increase in reserve for pension obligations	580,000	832,000
Unrealized exchange losses on long-term indebtedness	1,202,000	1,469,000
Working capital provided by operations	28,551,000	51,593,000
Proceeds from equipment loans	2,191,000	2,045,000
Proceeds from term loan	20,000,000	
	50,742,000	53,638,000
Working capital applied:		
Reduction of:		
Senior indebtedness (net of current year's exchange adjustments)	12,790,000	11,730,000
Preferred stock		3,146,000
1977 preferred stock redemptions waived	(2,596,000)	
Exploration costs capitalized	1,328,000	825,000*
Additions to property and equipment	20,261,000	13,688,000*
Dividends on preferred stock	2,643,000	3,122,000
Dividends to Class B common stockholder	3,221,000	4,677,000
Dividends distributed equally to Class A and Class B common stockholders in respect of 1976	6,000,000	
	43,647,000	37,188,000
Increase in working capital	$ 7,095,000	$16,450,000
Composition of increase in working capital:		
Inventories	$11,727,000	$12,382,000
Accounts receivable	7,652,000	(1,174,000)
Preferred stock	3,146,000	
Profit declared as a dividend on common stock and unpaid	1,217,000	5,806,000
Accrued dividends on preferred stock	373,000	23,000
Accrued royalty	212,000	(194,000)
Prepaid expenses	156,000	15,000
	24,483,000	16,858,000
Cash	(8,467,000)	8,326,000
Short-term loans	(6,235,000)	647,000
Senior indebtedness	(1,048,000)	(4,753,000)
Accrued interest	(1,031,000)	(5,000)
Accounts payable and accrued liabilities	(607,000)	(4,623,000)
	(17,388,000)	(408,000)
Increase in working capital	$ 7,095,000	$16,450,000

* Reclassified for comparative purposes.

LIO
(Expressed in United States dollars)

	Year ended December 31, 1977	Year ended December 31, 1976
Working capital provided:		
Net profit	$5,659,000	$17,957,000
Amortization of organization and preoperating expenses	22,000	21,000
Adjustment for equity in results of LAMCO	886,000	(12,879,000)
Preferred stock redemptions		550,000
Working capital provided by operations	6,567,000	5,649,000
Working capital applied:		
Dividends to shareholders	4,746,000	6,328,000
Increase (decrease) in working capital	$1,821,000	($ 679,000)
Composition of increase (decrease) in working capital:		
Cash	$2,804,000	$ 2,100,000
Dividends declared and unpaid	791,000	
Accounts receivable and payable	58,000	28,000
Accrued Liberian tax on preferred stock dividends	21,000	1,000
	3,674,000	2,129,000
Receivable from LAMCO:		
Dividends	(1,303,000)	(2,808,000)
Preferred stock	(550,000)	
	(1,853,000)	(2,808,000)
Increase (decrease) in working capital	$1,821,000	($ 679,000)

Report of Independent Accountants to the Shareholders of Liberian Iron Ore Limited and the Stockholders of The Liberian American-Swedish Minerals Company

In our opinion, the accompanying financial statements of Liberian Iron Ore Limited and The Liberian American-Swedish Minerals Company appearing on pages 8 through 21 of this Annual Report present fairly the financial position of these companies at December 31, 1977 and 1976, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE & CO.
New York, March 29, 1978

Notes to the Financial Statements of LIO and LAMCO

Note 1—Statement of Accounting Policies

LIO: Investment in LAMCO: Liberian Iron Ore Limited (LIO) owns 50% of the common stock of The Liberian American-Swedish Minerals Company (LAMCO) and records its investment at an amount assigned by the Board of Directors of LAMCO adjusted for equity in capital in excess of par value of LAMCO and for equity in undistributed profits of LAMCO. (Note 2).

Organization and preoperating expenses: These expenses are being amortized on a unit-of-production basis over proven reserves of the LAMCO Joint Venture.

LAMCO: Investment in the LAMCO Joint Venture: LAMCO includes in its financial statements its undivided 75% share of the assets and liabilities of the LAMCO Joint Venture. Current operating costs of the joint venture are recorded in proportion to the production taken. (Notes 2 and 4).

Inventories: Mined ore and processed product inventories are stated at the lower of average production cost or market. (Note 15). Inventories of materials and supplies are stated at average cost less provision for obsolescence.

Property and equipment and related depreciation: Depreciation is provided on a straight-line basis over the estimated service or economic lives of the properties. Interest costs applicable to major projects are deferred during the construction period and are amortized over the estimated service or economic lives of the related properties. Maintenance and repairs are charged to cost of production; renewals or betterments increasing the capacity or the value of the assets are charged to property and equipment accounts. The cost of assets sold or scrapped and the related accumulated depreciation are eliminated from property and equipment accounts, and gains or losses on disposals, net of proceeds, are taken into income.

Exploration and development: These costs are deferred when they relate to ore reserves where commercial mining appears possible but has not yet begun. Costs incurred in connection with development of an operating mine are charged to production currently. Deferred costs are amortized principally on a unit-of-production basis over the proven reserves of the applicable ore body.

Translation of foreign currency liabilities: Exchange gains and losses attributable to repayments and translation adjustments arising from obligations payable in currencies other than U.S. dollars are included in the determination of net profit for the year in which the rate changes.

Pension plans: In 1975, the legislature of Liberia enacted a new social security law which provides for certain welfare and pension benefits to be funded by employers covering employees in Liberia. However, such law has not been implemented as yet. It is anticipated that future pension cost under this new law will not be materially different from the pension cost presently provided by the company. Obligations under the current plans for Liberian employees are provided for by accruals and include amounts for current service, amortization of prior service and interest on amounts accrued to date and on unamortized prior service. Prior service costs are amortized over ten years. Other employees at the joint venture are covered by plans for which annual payments are made to insurance institutions. All pension costs are charged to production.

Note 2—Concession Agreement

LAMCO participates with Liberia Bethlehem Iron Mines Company (LIBETH), a wholly owned subsidiary of Bethlehem Steel Corporation, in a joint venture to develop and mine iron ore deposits in Liberia under a concession granted by the Government of the Republic of Liberia (Government) which expires on November 18, 2023. (Note 4).

Under the Concession Agreement as amended, in 1974, LAMCO is required to pay a royalty to the Government in the amount of 4% of its net sales of iron ore and iron ore products during each quarter. The payment of such royalty is subordinated to the senior debt of LAMCO. The profit of LAMCO, after appropriation to reserves required by lenders (dependent upon the amount of Series A and Series D notes outstanding and other factors), is distributed first to the preferred stockholders for the required dividends and then to Liberian Iron Ore Limited (LIO)—as holder of the Class B common stock—as a dividend in an amount equivalent to the royalty accrued to the Government. Subject to any payments required to be made to the Class A common stockholders if a debt equity ratio of 3-½ to 1 (as defined) is exceeded and after adjustment of the reserve for concession development and other corporate purposes pursuant to a resolution by LAMCO's board of directors, any remaining amount will be distributed equally to the Government as holder of the Class A common stock and to LIO. (Note 14). However, additional dividend restrictions are included in a loan agreement entered into in 1977. (Note 7).

Note 3—Capital

LAMCO is incorporated under the laws of the Republic of Liberia and its accounts are maintained in U.S. dollars. The Class A common stockholder elects five and the Class B common stockholder elects six of LAMCO's eleven directors. The Class B common stock has been pledged by LIO as collateral under terms of a bond indenture dated October 1, 1961, as amended, relating to LAMCO's long-term debt.

Among the provisions of LAMCO's Certificate of Incorporation governing the Series A preferred stock are:

1) Holders of Series A preferred stock are entitled to cumulative annual cash dividends of $6.25 per share.
2) The Series A preferred stock is to be redeemed pursuant to a schedule which provides for the redemption, at $100 per share plus accrued dividends, of 5,960 shares annually in each year through 1979 and of the remaining 5,890 shares in 1980. LAMCO also has the option to redeem shares of Series A preferred stock at any time at $100 per share plus accrued dividends.
3) The Series A preferred stock has priority over the Series B and Series C preferred stock and the Class A and Class B common stock with respect to the payment of dividends and the distribution of assets in the event of liquidation.

Among the provisions of LAMCO's Certificate of Incorporation governing the Series B and Series C preferred stock are:

1) Holders of Series B and Series C preferred stock are entitled to cumulative annual cash dividends of $6.25 per share.
2) The Series B and Series C preferred stock is to be redeemed pursuant to a schedule which provides for the redemption, at $100 per share plus accrued dividends, of 20,000 shares of Series B preferred stock and 5,500 shares of Series C preferred stock annually in each of the years 1977 through 1984 and of the remaining 196,640 shares of Series B preferred stock and 60,500 shares of Series C preferred stock in 1985. In addition, LAMCO has the option to redeem shares of Series B and Series C preferred stock at any time after all the bonds have been retired at $100 per share plus accrued dividends.
3) The Series B preferred stock has priority over the Series C preferred stock and the Class A and Class B common stock, and the Series C preferred stock has priority over the Class A and Class B common stock with respect to dividends and the distribution of assets in the event of liquidation.

The Series A and B preferred stock is held by The Swedish LAMCO Syndicate (Syndicate) and its members and the Series C preferred stock is held by LIO.

During 1977 LAMCO received waivers from the holders of its Series A and Series B preferred stock as it related to 1977 redemptions amounting to $2,596,000. Scheduled redemptions on the Series C preferred stock amounting to $550,000 in 1977 were redeemed. Subsequent to December 31, 1977 the holders of all the preferred stock series waived their redemption rights for 1978 until 1979. Accordingly, LIO will not receive payment in the amount of $550,000 in 1978 representing the redemption of 5,500 shares of LAMCO's Series C preferred stock. See Note 14 concerning the rescission of the declaration of Series B and C preferred stock dividends for the fourth quarter of 1977.

Note 4—Joint Venture Agreement

The LAMCO Joint Venture Agreement between LAMCO and LIBETH provides that LAMCO has a 75% and LIBETH a 25% undivided interest in the concession and in the facilities established to develop the concession. The two parties share production of the joint venture generally in a 75—25 ratio with the proviso that, if LAMCO so requires under stated circumstances, LIBETH's portion must be a minimum of 2,500,000 tons annually. The parties may agree in any year to share in different proportions but over the long term it is intended that the 75—25 ratio be observed.

Note 5—Property and Equipment

Property and equipment are being depreciated over the shorter of the useful lives of the assets or the depletion date of the ore reserves presently being mined, which is estimated to occur in 1986. Accordingly, the range of estimated service lives in use at December 31, 1977 was principally as follows:

	Years
Railroad and harbor	9
Roads and airstrips	9
Buildings and rolling stock	5—9
Special purpose structures, machinery and equipment	3—9
Motor vehicles, boats and heavy-duty equipment	3—9

However, substantial additional iron deposits are geologically proven in the western areas of the concession and, based upon studies by the manager of the LAMCO Joint Venture, all or part of such reserves might be mined on a profitable basis. During 1977, the manager and the participants of the LAMCO Joint Venture decided that due to continuing adverse factors in the iron and steel industry the proposed expansion program to mine such reserves would have to be postponed. However, if the expansion program is undertaken in the future the depreciable lives of the railroad, harbor and certain other assets would be lengthened to fit the new mining plans.

No interest costs were deferred during 1977 or 1976. Amortization of previously deferred interest costs amounted to $104,000 in 1977 and 1976.

Note 6—Organization Expenses, Exploration and Development Costs

LAMCO additions to exploration and development costs in 1977 amounted to $1,328,000 ($825,000, 1976). Annual amortization of LIO amounted to $22,000 ($21,000, 1976) and $1,723,000 for LAMCO ($1,443,000, 1976), including $409,000 of interest deferred during the preoperating period ($414,000, 1976).

Note 7—Short-term Loans and Senior Indebtedness

The short-term loans outstanding at December 31, 1977 and 1976 incur interest at annual rates varying from 7.75% to 8.063% (2% to 3.625%, 1976) and are denominated as follows:

	December 31, 1977	December 31, 1976
US dollars	$25,750,000	
Swiss francs		$19,515,000
Total short-term loans	$25,750,000	$19,515,000

Short-term loans in the amount of $19,750,000 are guaranteed by the Syndicate.

Short-term loans at December 31, 1977 mature between May through November 1978 except for $6,000,000 which was repaid by March 1978. The maximum amount of short-term loans outstanding at any month-end during 1977 was $25,750,000 ($22,747,000, 1976) and the average amount of loans outstanding during the year was $20,768,000 ($19,910,000, 1976) with average annual interest rates of 5.1% and 2.8% in 1977 and 1976, respectively.

	December 31, 1977	December 31, 1976
Senior indebtedness:		
Series A Notes 5-3/4%, due 1965—1980	$ 3,900,000	$ 5,050,000
Series B Bonds 6-3/4%, due 1965—1980 payable in Deutsche marks	12,845,000	14,889,000
Series D Notes 5-3/4%, due 1968—1980	1,020,000	1,368,000
Series E Bonds 6-3/4%, due 1968—1980 payable in Deutsche marks	3,458,000	4,101,000
Series G Notes 5-1/2%, due 1968—1980	1,574,000	7,432,000
Bank loans maturing within five years	23,907,000	2,212,000
	46,704,000	35,052,000
Less—		
Current maturities	13,229,000	12,181,000
Total senior indebtedness	$33,475,000	$22,871,000

In July, 1977, LAMCO borrowed $20,000,000 from a consortium of international banks. The loan is repayable in five installments of $4,000,000 each commencing in July, 1978 and maturing in July, 1980. Interest is payable at the average of the London inter bank offered rates of the lending banks plus 2%.

The Credit Agreement contains various covenants, which, among other things, limit LAMCO from creating any additional encumbrances without providing equal security to the banks; limit dividends and payments on capital stock; place conditions on incurring additional debt and reductions of capital; and require LAMCO to maintain a positive working capital at the end of each fiscal quarter. At December 31, 1977 as prescribed by the dividend limitation formula $31,700,000 of LAMCO's reserves, appropriated out of profits in accordance with the Concession Agreement and balance of profits subject to Board determination, are unrestricted for purposes of dividends and preferred stock redemptions.

Events of default under the Credit Agreement include any change materially adverse to the banks in the Concession Agreement or the LAMCO Bond Indenture or Chattel Mortgage.

Maturities and redemptions of long-term debt and preferred stock are scheduled for repayment as follows:

	Long-term debt	Preferred stock
1978	$13,200,000	
1979	15,900,000	$8,900,000
1980	16,300,000	3,100,000
1981	800,000	2,600,000
1982	500,000	2,600,000
After		30,700,000

The table above reflects $5,742,000 of preferred stock redemptions included in 1979 which would have normally been payable in 1977 and 1978 as more fully explained in Note 3.

Among the terms governing the issue of the Series A notes, the Series B bonds, the Series D notes, the Series E bonds and the Series G notes (referred to below collectively as the "bonds") contained in the indenture relating thereto are:

1) The bonds are secured by a first lien on the Class B common stock of LAMCO and on LAMCO's 75% interest in the project.
2) No dividends may be declared or paid nor may any distribution be made on common stock unless the guarantee of the Syndicate is in effect in the amount of $15,000,000 or the principal amount of the bonds outstanding, whichever is lower, or the guarantee shall have terminated in accordance with its terms.
3) The bonds are repayable semi-annually on June 1 and December 1 during the years set forth above and the Series B and E bonds benefit from the operation of a sinking fund. The total annual repayments and sinking fund requirements of the bonds vary from $8,400,000 in 1978, $7,000,000 in 1979 and the remaining amount of $7,400,000 is payable in 1980. LAMCO is obligated in certain circumstances to make annual repayments, under the Series G notes, in addition to the annual repayments, under a formula based on annual net profits. On April 1, 1977 a required prepayment of $4,000,000 was made; however, no prepayment in 1978 is necessary.

Note 8—Pensions

LAMCO's share of the unamortized amount of prior service pension costs at December 31, 1977 was estimated to be $171,000. Pension obligations charged to LAMCO's share of production costs amounted to $1,200,000 in 1977 ($1,425,000, 1976).

Note 9—Taxation

LIO is incorporated under the Companies Act of Canada and qualifies as a "foreign business corporation". Under the general tax laws of Canada, LIO's dividend income was exempt from Canadian corporate income tax until 1976. In 1976 and subsequent years, dividends received by LIO from LAMCO have been and will be exempt from Canadian tax if the dividends are paid out of exempt surplus, i.e., active business income earned by LAMCO in 1972 to 1975 and that part of its active business income earned after 1975 in countries with which Canada has a tax treaty, including Liberia. The tax treaty between Canada and Liberia was signed in November 1976 and upon ratification will become effective as of January 1, 1976. This treaty in effect will provide that all dividends received by LIO from LAMCO out of its active business income will be exempt from Canadian tax, and further will provide that LIO's cost basis for the Series C preferred stock (purchased in 1974 with proceeds from redemption of junior subordinated debentures) will be approximately Canadian $11,900,000—the Canadian equivalent of the principal amount of US$11,000,000 paid for the debentures in 1966.

LIO is subject to the full Canadian corporate tax rate (48%) on its taxable income derived from interest income less normal business expenses.

Dividends received on the Series C preferred stock are subject to a 25% tax by the Government of Liberia.

Note 10—Contractual Commitments and Contingent Liabilities

LAMCO has agreed with customers for the sale of ore products as set forth below and certain contracts have been pledged to the bondholders.

	Agreed sales quantities (tons in millions)	Pledged contracts
1978	8.0	2.1
1979	5.3	2.1
1980	3.6	0.7

The sales contracts for 1978 include 1.3 million tons previously contracted for 1977. One contract aggregating approximately 1.2 million tons annually extends to 1979 with an option of renewal by the buyers to 1999.

In connection with the pledging of contracts to the bondholders LAMCO has also agreed to offer in good faith to sell to German steel producers at least 1.1 million tons annually of iron ore at prices not exceeding the prices agreed upon by LAMCO with its other principal European customers. LAMCO satisfied all conditions for 1976 and 1977. Additional contracts are required to be pledged in 1978, 1979 and 1980 to bring the annual total to 2.5 million tons.

Additionally, under the terms of the bond indenture and with the consent of LIBETH, LAMCO has pledged all its right, title and interest in the Concession Agreement, Joint Venture Agreement, Management Agreement and has entered into a chattel mortgage, as supplemented, covering its interest in tangible personal property in Liberia used in connection with the project.

Other contractual commitments are:

Service	*Contracting party*	*Fee*
1. Management of the project for indefinite period, cancellable on two years' notice after 1978.	Gränges AB	10 cents per ton of finished ore produced plus expenses.
2. Sales agent for indefinite period cancellable on one year's notice.	Gränges AB	2% of net invoice prices, f.o.b. Liberian port, on sales of first 5,000,000 tons; 1% on sales in excess of 5,000,000 tons.
3. Financial advisor for indefinite term cancellable on 90 days' notice.	Skandinaviska Enskilda Banken	On reasonable and customary basis. Annual fees for services to June 30, 1978 have been agreed at $200,000.

Note 11—Directors, Officers and their Remuneration

There are twelve directors and six officers of LIO. Three of the officers are also directors. Aggregate remuneration of directors as such included in other expenses was $46,000 in 1977 ($34,000, 1976).

Note 12—Transportation of Guinean Ore

On November 8, 1976, the Joint Venture and Mifergui-Nimba Co., a Guinean mixed company, entered into a basic agreement setting forth the general principles under which the Joint Venture will agree to transport, handle and load ore from a new mine to be constructed in a part of the Nimba Range of mountains located in the Republic of Guinea, some 20 kilometers from the Joint Venture's mine in Liberia. Negotiations on a transportation contract with Mifergui began in 1977 and are continuing. A feasibility study by Mifergui is currently in process and is expected to be completed in 1978.

Note 13—LAMCO Customers

LAMCO sells its iron ore products to customers principally located in Europe. In 1977 LAMCO recorded sales to three customers, each of which is in excess of 10% of LAMCO's total sales for the year. Sales to these customers were $23.1 million, $14.6 million and $11.1 million.

Note 14—LAMCO Dividends

At a meeting on March 25, 1977 the Board of Directors of LAMCO deferred until July, 1977, consideration of the disposition of the balance of 1976 profit of which 50%, or $12,852,000, was included in LIO's 1976 statement of profit and loss as equity in undistributed earnings of LAMCO. At the July meeting the LAMCO Board of Directors declared a $6,000,000 dividend in respect of 1976. Such dividend was paid equally to the Government of Liberia and LIO as holders of LAMCO's common stock. LIO's share of this dividend ($3,000,000) is included in 1977 dividend income from LAMCO with a corresponding adjustment included in the determination of LIO's equity in the results of LAMCO for the year. Accordingly, the $3,000,000 dividend in respect of 1976 has no effect on LIO's net profit for 1977.

At a meeting on December 2, 1977 the LAMCO Board of Directors rescinded the declaration of the fourth quarter 1977 dividends on the Series B and C preferred stock as well as the fourth quarter dividend to LIO equivalent to the royalty paid to the Government of Liberia. Consequently, LIO did not receive its 1977 fourth quarter dividend equivalent to the accrued royalty to the Government of Liberia amounting to $1,005,000, nor did it receive its fourth quarter dividend on the Series C preferred stock of LAMCO amounting to $155,000, of which $77,500 is applicable to 1977. Both dividend payments were scheduled for February, 1978. LAMCO does not expect to resume dividend payments in 1978 and accordingly LIO's dividend income from LAMCO in 1978 is expected to be nil.

The dividend amounts not paid by LAMCO aggregated $1,717,000. Consequently, all said amounts must be satisfied before any further dividends on LAMCO's common stock may be declared. In addition, LAMCO's scheduled redemptions of preferred stock must be satisfied before common stock distributions can be made.

Note 15—Market Conditions and Operations

In view of the adverse market conditions in the iron and steel industry experienced during 1977 and expected to continue through 1978, the manager and participants of the LAMCO Joint Venture have adopted an austerity program to reduce cash outflow. Certain major capital expenditures have been postponed and in anticipation of a reduction of inventories, production has been curtailed, beginning in 1977, to a level sufficient to meet customers' requirements. In 1977 pellet production was reduced to approximately 35% of full capacity and the pellet plant was closed for part of the year. The estimated costs related to the idle pelletizing operation were $1.2 million recorded in the fourth quarter.

Because of the decline in world iron ore prices, LAMCO has written down its processed ore inventories by $5.3 million to estimated market value, of which $1.9 million was recorded in the fourth quarter.

LAMCO
Five-year Summary Statements of Profit and Loss and Appropriation and Disposition of Net Profit in accordance with the Concession Agreement

(Expressed in thousand United States dollars)

	Year ended December 31,				
	1973	1974	1975	1976	1977
Sales	$73,008	$105,375	$113,240	$116,915	$105,639
Gross profit	$29,829	$ 46,148	$ 55,998	$ 47,980	$ 22,584
Selling, general and administrative expenses	2,266	3,035	3,207	3,487	3,273
Accrued royalty to Government of Liberia		4,216	4,530	4,677	4,226
Profit from operations	27,563	38,897	48,261	39,816	15,085
Financing charges:					
Interest expense (net)	8,721	6,334	3,662	2,776	3,675
Exchange losses (gains)		8,652*	(2,904)	3,484	2,111
Profit before extraordinary item	18,842	23,911*	47,503	33,556	9,299
Extraordinary expense resulting from currency revaluations	9,955*				
Net profit	8,887*	23,911*	47,503	33,556	9,299
Dividends on preferred stock		(2,522)	(3,252)	(3,122)	(2,643)
Dividends to Class B common stockholder equivalent to accrued royalty to Government of Liberia		(4,216)	(4,530)	(4,677)	(3,221)
(Appropriations) dispositions by Board of Directors to reserves:					
As required by lenders	(191)	(141)	(91)	(53)	(34)
Annual appropriation (to) or from reserve for concession development and other corporate purposes	2,316*	(11,796)*	(33,630)		
	2,125	(18,675)	(41,503)	(7,852)	(5,898)
Transfer from balance of 1976 profit					6,000
Dividends distributed equally to Class A and Class B common stockholders	$11,012	$ 5,236	$ 6,000		$ 6,000
Balance of Net profit subject to Board determination				$ 25,704	$ 3,401
Distributions to common stockholders:					
To Government of Liberia:					
Accrued royalty		$ 4,216	$ 4,530	$ 4,677	$ 4,226
Dividends on Class A common stock	$ 5,506	2,618	3,000		3,000
	5,506	6,834	7,530	4,677	7,226
To LIO:					
Dividends on Class B common stock equivalent to accrued royalty to Government of Liberia		4,216	4,530	4,677	3,221
Dividends on Class B common stock	5,506	2,618	3,000		3,000
	5,506	6,834	7,530	4,677	6,221
Total to Government of Liberia and LIO	$11,012	$ 13,668	$ 15,060	$ 9,354	$ 13,447

* Restated for change in accounting for foreign currency translation.

Management's Discussion and Analysis of the Summary of Operations

LAMCO

1977 versus 1976

The general worldwide recession in the steel industry which began in 1975 continued in 1977 and had an adverse impact on LAMCO's results for the year. Shipments of finished ore products by LAMCO were 6.9 million tons in 1977, a slight decrease from the prior year; however, sales revenues declined by $11.3 million as a result of lower selling prices and a significant reduction in sales of higher priced pellets. Gross profit was $22.6 million, a decrease of $25.4 million from the prior year. This substantial decline was caused by several factors, principally higher per ton production costs due to inflation and a reduction

LIO
Five-year Summary Statements of Profit and Loss and Retained Earnings

(Expressed in thousand United States dollars)

	Year ended December 31,				
	1973	1974	1975	1976	1977
Statement of Profit and Loss					
Dividends and interest income:					
Dividends from LAMCO:					
Series C preferred stock		$ 527	$ 688	$ 668	$ 556
Class B common stock	$5,506	6,834	7,530	4,677	6,221**
	5,506	7,361	8,218	5,345	6,777
Interest income	835	403	182	153	280
	6,341	7,764	8,400	5,498	7,057
Expenses:					
Interest expense	52	22			
Other expenses	443	460	435	420	512
	5,846	7,282	7,965	5,078	6,545
Adjustment for equity in results of LAMCO for the year	3,916*	5,968*	16,860	12,879	(886)
Equity in extraordinary expense of LAMCO resulting from currency revaluations	(4,977)*				
Net profit	$4,785*	$13,250*	$24,825	$17,957	$ 5,659
Earnings per share based on 3,955,025 average shares outstanding:					
Profit before equity in extraordinary expense of LAMCO (including $1.48 in 1973; $1.84 in 1974; $2.01 in 1975; $1.28 in 1976 and $1.65 in 1977 in dividends and interest income less expenses)	$ 2.47	$ 3.35	$ 6.28	$ 4.54	$ 1.43
Equity in extraordinary expense of LAMCO	(1.26)				
Net profit per share	$ 1.21*	$ 3.35*	$ 6.28	$ 4.54	$ 1.43
Cash dividends per share	$ 1.40	$ 1.50	$ 1.60	$ 1.60	$ 1.20
Statement of Retained Earnings					
Net profit	$4,785*	$13,250*	$24,825	$17,957	$ 5,659
Retained earnings at beginning of year	8,829*	8,077*	15,395	33,892	45,521
	13,614	21,327	40,220	51,849	51,180
Deduct—Cash dividends declared	5,537	5,932	6,328	6,328	4,746
Retained earnings at end of year	$8,077*	$15,395*	$33,892	$45,521	$46,434
Represented by:					
Accumulated profits before equity in undistributed earnings of LAMCO	$2,931	$ 4,281	$ 5,918	$ 4,668	$ 6,467
Equity in undistributed earnings of LAMCO	5,146*	11,114*	27,974	40,853	39,967
	$8,077	$15,395	$33,892	$45,521	$46,434

* Restated for equity in LAMCO's change in accounting for foreign currency translation.

** Includes $3 million distribution in 1977 of 1976 equity in earnings.

in the number of tons produced by the Joint Venture during the year; higher depreciation charges for recently acquired assets; idle pellet plant costs associated with shutdowns during the year; and a $5.3 million write-down of processed ore inventories to estimated market value.

Interest expense increased by approximately $0.9 million in 1977 because of increased borrowings during the year of $22.2 million, partially offset by normal retirements of long-term debt.

As a result of fluctuations in exchange rates between the U.S. dollar and the Deutsche mark and the Swiss franc, exchange losses amounted to $2.1 million in 1977 ($1.8 million unrealized losses), compared with exchange losses in 1976 of $3.5 million ($3.3 million unrealized losses). During 1977, LAMCO converted all its Swiss franc borrowings into U.S. dollar loans.

1976 versus 1975

The general worldwide recession in the steel industry also had an adverse effect on the iron ore industry in 1976. LAMCO's shipments of ore in 1976 increased slightly from the 1975 level of 6.8 million tons to 7.0 million tons, but such amount of shipments was still below LAMCO's share of 9.3 million tons of the Joint Venture's rated annual capacity. Ore production for LAMCO's account during 1976 was 7.2 million tons, compared with production of 8.5 million tons in 1975.

Sales revenues increased by 3% in 1976 as a result of somewhat lower ore prices in 1976 being offset by the increase of ore shipments and the shipments of arrears under 1975 contracts at higher prices.

LAMCO's profit from operations in 1976 decreased by $8.4 million as compared with 1975. This decrease is principally the result of increased production costs from inflation and higher labor and personnel costs, offset slightly by the 3% increase in sales revenues.

Interest expense in 1976 decreased by $0.9 million as a result of the normal retirement of long-term debt and interest rate reductions on short-term borrowings. As a result of fluctuation in exchange rates between the U.S. dollar and the Deutsche mark and the Swiss franc, exchange losses amounted to $3.5 million in 1976 ($3.3 million unrealized losses), compared with exchange gains in 1975 of $2.9 million ($2.7 million unrealized gains).

LIO

LIO, which holds 50% of LAMCO's common stock, derives substantially all its income from LAMCO. Accordingly, the results of LIO are almost entirely dependent upon the results of operations of LAMCO which are discussed above. The adjustment for equity in the results of LAMCO for the year and equity in the extraordinary expense of LAMCO (1973) have been restated to give effect to LAMCO's change in accounting for foreign currency translation in 1975.

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