LIBERIAN IRON ORE LIMITED

Annual Report 1978

Operating and Financial Summaries

	1978	1977
LAMCO JOINT VENTURE		
Production of finished ore products (metric tons)	9,000,000	8,700,000
Shipments during the year (metric tons)	10,800,000	8,200,000
Project expenditures—		
Investments in property and equipment	$ 9,053,000	$ 26,381,000
Exploration and development costs deferred	$ 743,000	$ 874,000
LAMCO		
Sales—metric tons	8,500,000	6,900,000
—amount	$107,037,000	$105,639,000
(Loss) profit from operations	$ (9,285,000)	$ 15,085,000
Net (loss) profit	$(16,796,000)	$ 9,299,000
Dividends on preferred stock		$ 2,643,000
Appropriations to reserves		$ 34,000
LIO		
Dividends and interest income	$ 413,000	$ 7,057,000
Profit before adjustment for equity in LAMCO (per share $0.01 and $1.65)	$ 55,000	$ 6,545,000
Change in equity in the undistributed earnings of LAMCO	$ (7,137,000)	$ (886,000)
Net (loss) profit (per share [$1.79] and $1.43)	$ (7,082,000)	$ 5,659,000
Dividends (per share $0.50 and $1.20)	$ 1,978,000	$ 4,746,000
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders	4,160	4,529
located in Liberia	2,531	2,741
U.S.A. and Canada	1,408	1,567
Other countries	221	221

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, 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
March 31, 1978	0.20	8½	11
June 30, 1978	0.20	8¾	9¾
September 30, 1978	0.10	8½	9⅞
December 31, 1978	nil	6½	9¼

LIBERIAN IRON ORE LIMITED

LIO Annual Report 1978

The annual general meeting of LIO shareholders will be held on Monday, June 11, 1979, at 10:00 a.m. at The Ritz-Carlton Hotel, Montreal, Quebec, Canada.

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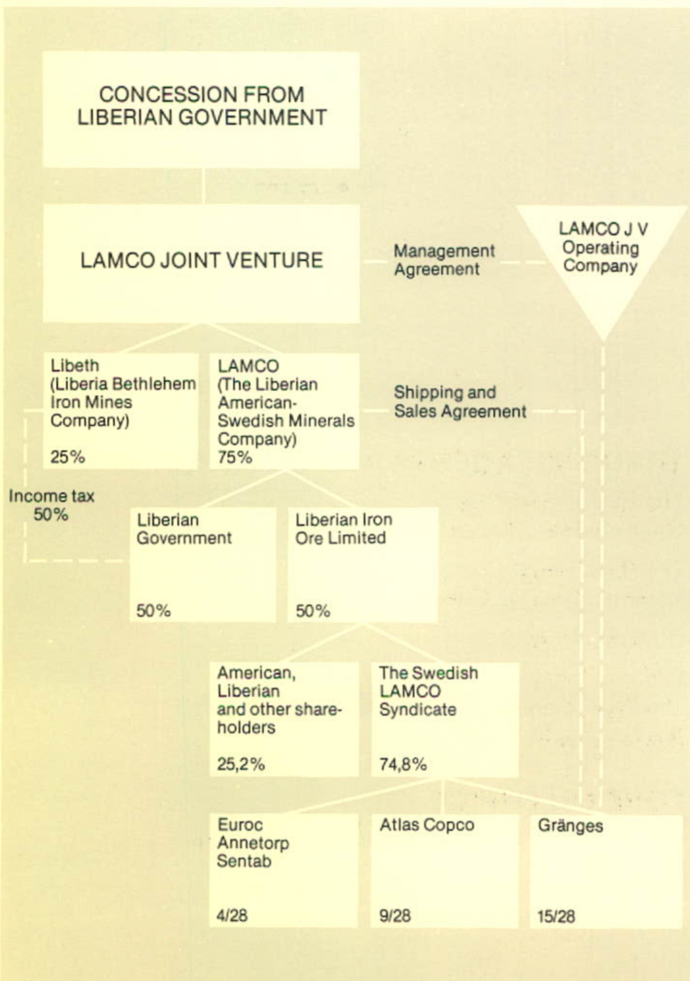

LIBERIAN IRON ORE LIMITED (LIO)

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 $375,000,000 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

L I O LIBERIAN IRON ORE LIMITED

BOARD OF DIRECTORS

Hans Werthén *Chairman—President*	*Group Executive Chairman of AB Electrolux, Group Executive Chairman of Gränges AB, Stockholm, Sweden*
Bo Abrahamsson	*President of Gränges AB, 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	*General Secretary of the True Whig Party 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	*Chairman and Director of Armature Electric Limited, Vancouver, British Columbia, Canada*
Sten Lindh	*President of Industri AB Euroc, Chief Executive Officer of the Euroc Group, Malmö, Sweden*
Andrew N. Overby *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*

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

420 Lexington Avenue, Suite 2920, New York, N.Y., 10017, 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

Bo Abrahamsson
President of Gränges AB, Stockholm, Sweden

Tryggve Angel
President of Gränges International Mining, Stockholm, Sweden

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

Oliver Bright, Jr.
Minister of Justice of the Republic of Liberia, Monrovia, Liberia

Robert I. E. Bright
General Secretary of the True Whig Party 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.

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

Because of the recession in the steel industry, LAMCO, in which LIO is a partner with the Liberian Government, reported a net loss of $16,796,000 in 1978 compared with a net profit of $9,299,000 in 1977. Shipments increased by some 23 percent in 1978 to approximately 8.5 million tons but total revenues increased only about one percent to $107,037,000 due to reductions in prices.

The structural transformation of the European steel industry, LAMCO's main market, continues as a result of its economic problems. The effects on the iron ore industry have been serious. Prices have declined since 1976 and demand has been reduced, especially for pellets. Some improvement in the volume of the market was noted in 1978 and is expected to continue in 1979. In spite of this and the price increase of some 8 percent for 1979 shipments, LAMCO's management does not expect a return to profits in 1979.

The LAMCO Joint Venture austerity program introduced in 1977 is being continued in order to further reduce capital expenditures and operating costs. LAMCO's Board of Directors did not declare any dividends on the preferred or common stock in respect of 1978. Furthermore, the holders of LAMCO's preferred stock have agreed to the postponement to 1980 of scheduled redemptions due in 1977, 1978 and 1979 aggregating $8.9 million. Unpaid cumulative dividends on LAMCO's preferred stock aggregated $3,700,000 as of December 31, 1978, and at that date dividends on the LAMCO common stock held by LIO equivalent to the royalty accrued to the Government of Liberia aggregating $5,300,000 had not been declared.

As a result of the operations of LAMCO, LIO incurred a net loss in 1978, after the change in equity in the undistributed earnings of LAMCO, of $7,082,000 or $1.79 per share, compared with a net profit, calculated on the same basis, of $5,659,000, or $1.43 per share, in 1977. Excluding adjustments for equity in LAMCO, LIO had a profit of $56,000, or $.01 per share, in 1978, compared with a profit of $6,545,000, or $1.65 per share, in 1977.

In 1978 LIO received no income from LAMCO. The Board of Directors of LIO reduced LIO's dividends to 20 cents per share, paid in respect of the fourth quarter of 1977 and the first two quarters of 1978, and to 10 cents per share paid in respect of the third quarter of 1978. The LIO Board announced in October 1978 the suspension of further dividends until substantial improvements are noted in the results of LAMCO. Dividends are not presently expected to be resumed by LIO in 1979.

The following changes in the Boards of Directors of LIO and LAMCO have occurred since the publication of the 1977 annual report:

LIO

Mr. Hans Werthén, a director since 1977, was elected chairman and president of the Company, succeeding Mr. Erland Waldenström, who retired. Mr. Werthén is chairman of the Gränges and Electrolux companies of Sweden.

Mr. Bo Abrahamsson, president of the Gränges company, was elected a director, filling the vacancy caused by Mr. Waldenström's retirement.

LAMCO

Mr. Abrahamsson was elected a director, succeeding Mr. Waldenström.

The past year has been a difficult one for both LIO and LAMCO. I can assure the shareholders that every effort is being made to improve our position.

May, 1979

H Werthén

Hans Werthén
Chairman and President

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

1978 in Review and Preview of 1979

Iron Ore and Steel Market and LAMCO Sales

The world market for iron ore recovered slightly during 1978 but did not match the increase in world production of steel, which was higher than in the previous record year of 1974. As the demand for steel rose, many steel mills were able to fill their ore needs from already large stockpiles and thus had no need for purchases in the world market. In addition, most of the increase in steel production occurred in the U.S.S.R., the People's Republic of China and certain developing countries, areas which are largely self-supporting in terms of their iron ore requirements. The consumption of steel scrap was also relatively high, further reducing the need for ore.

The output of crude steel in the three major iron ore importing regions—the European Economic Community, Japan and the United States—was still below peak-year figures. In the EEC area, mills produced only 132 million tons in 1978, compared with 156 million in 1974. Steel mills in Japan produced only 102 million tons of steel last year, as against 117 million tons four years earlier. Steel production in the United States, 123 million tons, was also 13 million tons below the record established in 1973. Thus, while world production of steel was marginally higher than in 1974, trading in iron ore was still 15 percent below the level of 1974.

In Europe, which is LAMCO's main market, the steel industry is continuing to suffer heavy losses and the consequent restructuring of the industry has had a serious impact on producers of iron ore. However, some improvement in the demand for iron ore was noted in 1978 and is expected to continue in 1979. LAMCO's shipments increased substantially, from 6.9 million tons in 1977 to 8.5 million in 1978. LAMCO's sales revenues rose only marginally, however, from $105,639,000 in 1977 to $107,037,000 in 1978 because of a decrease in sales prices.

For 1979 LAMCO has negotiated sales prices which are up some 8 percent compared to 1978. Sales are at this time expected to reach 8.0 million tons, provided that the activity in the European steel industry continues to improve.

LAMCO Joint Venture Production and Shipments

Combined Joint Venture production of finished products from the Nimba and Tokadeh mines in 1978 was 9.0 million tons, an increase of 3 percent from the 8.7 million tons produced a year earlier. Except for the production of a limited quantity of run-of-mine ore, the Tokadeh mine was closed throughout the year, as was the pellet plant in Buchanan.

Joint Venture production consisted of 8.4 million tons of fines, about 200,000 tons of run-of-mine ore and approximately 400,000 tons of washed lumpy ore produced early in the year before completion of the crushing station in Buchanan.

The improvement in Joint Venture shipments early in the year made it necessary to operate the Nimba Mine at full capacity beginning in April. The LAMCO stockpile of washed lumpy, which had amounted to 2,753,000 tons at the beginning of 1978, was reduced by 1,660,000 tons during the year, largely through crushing to fines. The remaining stockpile is expected to be substantially eliminated during 1979 and 1980. To meet the changed market demand, all lumpy ore produced in the washing plant is now being crushed to fines.

During 1978 LAMCO shipped virtually all of its stockpile of pellets, amounting to 800,000 tons. Forecasts for pellet sales are not encouraging enough to warrant reopening of the pelletizing plant.

Joint Venture production in 1979 is forecast at 9.7 million tons, of which LAMCO will take 7.3 million tons.

Operating Costs

The Joint Venture had net costs of production of $84.4 million in 1978, the same as in 1977. Cost savings were realized during 1978 as a result of the closing down of the pellet plant. However, these savings were partially offset by higher employee costs and by a write-off of materials and supplies related to the pellet plant.

Exploration and Iron Ore Reserves

On the basis of a rock stability and pit optimization study of the Nimba Main Orebody carried out in 1974, the Manager has estimated the total remaining proven and mineable ore reserves in the Nimba range as of December 31, 1978 at 92 million tons having an average grade of 63 percent (dry) Fe. These reserves are estimated to be sufficient for the continuation of production of crude ore at the rate of 12 million tons per year through the mid-1980s, at which point production would decline until terminated. The Manager is presently reestimating the ore reserves of the Nimba Main Orebody through a new pit optimization study in which current ore prices and costs for waste stripping are important factors.

As part of a long range development program the Joint Venture has continued exploration and mine planning work of deposits within the western part of the Nimba Concession Areas. The geological reserves of proven soft and medium hard ore in this area (Mts. Tokadeh, Gangra, Yuelliton and Beeton) as of December 31, 1978, are estimated by the Manager at 535 million tons having an average grade of 51.3 percent (dry) Fe. Preliminary estimates indicate that out of these geological reserves 438 million tons can be classified as mineable reserves, which would produce roughly 260 million tons of finished products.

A total of $743,000 was spent on exploration in 1978, as compared with $874,000 in 1977. Expenditures in 1979 are expected to be at a lower level than in 1978.

Product Development

As a result of changing market demand, the Joint Venture is crushing all lumpy ore to fines and mixing it with other washed fines. The new permanent crusher was placed in operation during the early part of 1978, supplementing a temporary crusher. Nearly 1.5 million tons of lumpy ore from the stockpile were crushed during 1978, compared with approximately 900,000 tons in 1977.

Capital Expenditures

The size of Joint Venture capital expenditures was affected by the austerity program introduced in the latter part of 1977. A total of $9.1 million was spent on property and equipment in 1978, compared with $26.4 million in 1977. The largest investment project in 1978 involved completion of the Washed Lumpy conversion project at Buchanan, at a final cost of $5.6 million.

Capital expenditures for the Joint Venture in 1979 are currently estimated at $14 million.

Commercial Traffic

Commercial traffic on the Joint Venture's railway amounted to 4,068 carloads, an increase of 1,268 over the 2,800 carloads moved in 1977, when there had been exceptionally low volumes of logs and sawn timber. The higher traffic in 1978 generated additional gross revenues of approximately $500,000.

Traffic in the commercial harbor at Buchanan totaled 241,000 tons, a decrease of 91,000 tons compared with the 1977 volume. Virtually all of the decrease was attributable to Joint Venture goods. Exports from the harbor increased by 8,000 tons.

Labor Relations

After long and protracted negotiations, an agreement was reached between the Joint Venture and the LAMCO Mine Workers Union in December 1978. The agreement, which is retroactive to January 1, 1978, provides for wage increases in 1978 and 1979, housing subsidies, shift allowances, and other worker benefits. As a result of the agreement, additional costs to the Joint Venture for 1978 and 1979 are estimated to be $6,400,000, of which approximately $2,000,000 was incurred in 1978.

In addition, the agreement provides for the Joint Venture to renovate 547 worker houses; management estimates the cost of this renovation will be $2,500,000.

Personnel and Liberianization

At year-end 1978, the Joint Venture had a total of 4,546 employees, compared with 4,695 at the close of the preceding year. The number of foreign staff employees was 477 at the end of 1978, compared with 521 a year earlier. The percentage of Liberians in job classifications where expatriates have been employed increased again in 1978. At the end of the year 54 percent of the positions in this job category were held by Liberians, as compared with 50 percent at year-end 1977.

Late in 1978 the Government of Liberia requested the Joint Venture to file a new program calling for accelerated Liberianization of the work force. Although a new program has not yet been completed, it is believed that the costs associated with a more rapid

Liberianization of the Joint Venture will be substantial.

Training Program and Scholarships

Training activity continued at a high level during 1978, with emphasis on qualitative programs in line with the Liberianization objectives. A total of about 600 persons participated in training programs or development courses. In addition, 27 vocational/high school graduates were enrolled in basic skills programs. The expansion of facilities at the Wallenberg Training Center progressed on schedule and construction work will be completed in 1979.

During the year 42 Joint Venture employees participated in the railroad training program organized in collaboration with the Swedish State Railways. A new Railroad Training Center was completed in 1978 and will become fully operational in 1979.

A total of 45 overseas scholarships for Liberians were administered under the Joint Venture's scholarship program. Overall, 68 employees commenced or continued overseas training in 1978, including 24 who completed their programs and returned to Liberia. In addition, 109 local scholarships were awarded to students in Liberian educational institutions.

At the opening of the school year in the fall of 1978 there were 4,002 pupils and 168 teachers in the LAMCO Area School System, compared with 4,353 pupils and 160 teachers a year earlier. The Joint Venture continued its $275,000 annual contribution to the System and made other financial support available to a large number of students throughout Liberia.

Housing and Medical Care

The first 63 houses in the Joint Venture's "Own Your Own Home" program were completed during 1978. The program, designed to improve the housing opportunities for junior staff and skilled workers in the Buchanan area, was made possible through the donation of land by the Liberian Government and long-term financing arrangements underwritten by the Joint Venture. It is planned to expand the community in Buchanan to cover 150 homes and supporting facilities. A similar project is under consideration in Nimba.

During the year the Joint Venture hospitals in Nimba and Buchanan treated a total of 7,699 patients, most of whom were not associated with LAMCO.

Transportation of Guinean Ore

As shareholders have been advised earlier, the Joint Venture and Mifergui-Nimba Co., a Guinean mixed company, entered into a basic agreement in 1976 describing 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 portion of the Nimba Range in the Republic of Guinea, about 20 kilometers from the Joint Venture's mine in Liberia. Negotiations with Mifergui on a transportation contract began in 1977 and are continuing. A feasibility study by Mifergui was completed in 1978.

Balance Sheet

(Expressed in United States dollars)

	December 31, 1978	December 31, 1977
ASSETS		
Current Assets		
Cash, including time deposits of $4,030,000 ($6,680,000-1977)	$ 4,059,000	$ 6,722,000
Accounts receivable	47,000	116,000
Total current assets	4,106,000	6,838,000
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	36,080,000	43,217,000
Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation	12,856,000	12,856,000
	58,836,000	65,973,000
Organization and Preoperating Expenses less accumulated amortization of $377,000 ($352,000-1977) (Notes 1 and 6)	237,000	262,000
	$63,179,000	$73,073,000
LIABILITIES and CAPITAL		
Current Liabilities		
Accounts payable	$ 68,000	$ 111,000
Dividends declared and unpaid		791,000
Total current liabilities	68,000	902,000
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	37,374,000	46,434,000
	63,111,000	72,171,000
	$63,179,000	$73,073,000

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

Hans Werthén
Bo Abrahamsson

Statement of Profit and Loss

(Expressed in United States dollars)	Year ended December 31, 1978	1977
Dividends and interest income:		
Dividends from LAMCO:		
Series C preferred stock		$ 556,000
Class B common stock (includes $3,000,000 distribution in 1977 of 1976 equity in earnings)		6,221,000
		6,777,000
Interest income	$ 413,000	280,000
	413,000	7,057,000
Expenses:		
Liberian tax on preferred stock dividends (Note 9)		139,000
Other expenses (Notes 6 and 13)	358,000	373,000
	358,000	512,000
Profit before adjustment for equity in LAMCO	55,000	6,545,000
Change in equity in the undistributed earnings of LAMCO (Note 11)	(7,137,000)	(886,000)
Net (loss) profit	($ 7,082,000)	$ 5,659,000
Net (loss) profit per share (including $0.01 in 1978; $1.65 in 1977 in dividends and interest income less expenses)	($ 1.79)	$ 1.43

Statement of Retained Earnings

(Expressed in United States dollars)	Year ended December 31, 1978	1977
Net (loss) profit per accompanying statement of profit and loss	($ 7,082,000)	$ 5,659,000
Retained earnings at beginning of year	46,434,000	45,521,000
	39,352,000	51,180,000
Deduct: — Cash dividends declared of $0.50 per share ($1.20-1977)	1,978,000	4,746,000
Retained earnings at end of year	$37,374,000	$46,434,000
Represented by:		
Accumulated profits before equity in undistributed earnings of LAMCO	$ 4,544,000	$ 6,467,000
Equity in undistributed earnings of LAMCO	32,830,000	39,967,000
	$37,374,000	$46,434,000

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

(Expressed in United States dollars)

	December 31, 1978	December 31, 1977
ASSETS		
Current Assets		
Cash, including interest-bearing deposits of $9,050,000 ($2,800,000-1977)	$ 10,648,000	$ 3,725,000
Accounts receivable:		
Trade	18,148,000	25,298,000
Other	2,954,000	1,450,000
Inventories (Note 1)		
Mined ore and processed products	26,006,000	47,205,000
Materials and supplies	10,500,000	12,174,000*
Prepaid expenses	100,000	333,000
Total current assets	68,356,000	90,185,000
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	6,435,000	6,395,000
Buildings	33,679,000	32,274,000
Rolling stock	11,853,000	11,853,000
Special purpose structures, machinery and equipment	106,554,000	101,358,000*
Motor vehicles, boats and heavy-duty equipment	28,670,000	26,807,000
	260,207,000	251,703,000
Less—Accumulated depreciation	142,773,000	126,628,000
	117,434,000	125,075,000
Construction in progress	2,270,000	5,852,000
	119,704,000	130,927,000
Exploration and Development Costs, Interest during Preoperating Period and Mining Concession, less accumulated amortization of $20,363,000 ($18,494,000-1977) (Notes 1 and 6)	15,404,000	16,716,000
	$203,464,000	$237,828,000

* Reclassified for comparative purposes.

the LAMCO Joint Venture)

	December 31, 1978	December 31, 1977
LIABILITIES and CAPITAL		
Current Liabilities		
Current maturities of senior indebtedness	$ 16,805,000	$ 13,229,000
Short-term loans (Note 7)	19,750,000	25,750,000
Accounts payable and accrued liabilities	10,554,000	12,945,000
Accrued royalty (Note 2)	1,003,000	1,005,000
Accrued interest	1,315,000	1,292,000
Total current liabilities	49,427,000	54,221,000
Reserve for Pension Obligations (Notes 1 and 8)	5,464,000	3,695,000
Senior Indebtedness (Notes 2, 3 and 7)	18,932,000	33,475,000
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 (Notes 2, 3 and 7)		
Series A— 23,770 shares	2,377,000	2,377,000
Series B—356,640 shares	35,664,000	35,664,000
Series C— 99,000 shares	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	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	3,522,000
Reserve for concession development and other corporate purposes	52,513,000	52,513,000
Balance of accumulated net profit subject to Board determination (Note 10)	6,309,000	23,105,000
	129,641,000	146,437,000
Contractual Commitments and Contingent Liabilities (Note 12)		
	$203,464,000	$237,828,000

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, 1978	1977
Sales	$107,037,000	$105,639,000
Cost of sales:		
Inventory of processed ore at beginning of year	44,014,000	36,526,000
Production costs	65,001,000	73,073,000
Depreciation and amortization (Notes 1, 5 and 6)	19,793,000	17,470,000
Inventory of processed ore at end of year	(19,970,000)	(44,014,000)
	108,838,000	83,055,000
Gross (loss) profit	(1,801,000)	22,584,000
Selling expenses	1,703,000	1,818,000
General and administrative expenses	1,500,000	1,455,000
Accrued royalty to Government of Liberia (Note 2)	4,281,000	4,226,000
(Loss) profit from operations	(9,285,000)	15,085,000
Financing charges (net):		
Interest expense (Note 7)	5,612,000	3,675,000
Exchange losses, including provision for unrealized losses of $1,680,000 ($1,767,000-1977) (Notes 1 and 7)	1,899,000	2,111,000
Net (loss) profit	($16,796,000)	$ 9,299,000

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, 1978	1977
Dividends on preferred stock:		
Series A		$ 136,000
Series B		1,951,000
Series C		556,000
		2,643,000
Dividends to Class B common stockholder equivalent to accrued royalty to Government of Liberia (Note 11)		3,221,000
Appropriation by Board of Directors to reserves:		
As required by the indenture relating to the Series A and D Notes calculated at February 15, 1978		34,000
Balance of current year's loss	($16,796,000)	
Balance of 1977 profit subject to Board determination		3,401,000
Net (loss) profit as shown by the statement of profit and loss	($16,796,000)	$ 9,299,000
Distributions to common stockholders:		
To Government of Liberia:		
Accrued royalty	$ 4,281,000	$ 4,226,000
Dividends on Class A common stock from 1976 profit		3,000,000
	4,281,000	7,226,000
To LIO:		
Dividends on Class B common stock, as above, equivalent to accrued royalty (Note 11)		3,221,000
Dividends on Class B common stock from 1976 profit		3,000,000
		6,221,000
Total to Government of Liberia and LIO	$ 4,281,000	$13,447,000

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, 1978	1977
Working capital provided:		
Net (loss) profit	($16,796,000)	$ 9,299,000
Depreciation and amortization	19,793,000	17,470,000
Increase in reserve for pension obligations	1,769,000	580,000
Unrealized exchange losses on long-term indebtedness	862,000	1,202,000
Working capital provided by operations	5,628,000	28,551,000
Proceeds from equipment loans	582,000	2,191,000
Proceeds from term loan		20,000,000
	6,210,000	50,742,000
Working capital applied:		
Reduction of senior indebtedness (net of current year's exchange adjustments)	15,987,000	12,790,000
Additions to property and equipment	6,701,000	24,809,000*
Exploration costs capitalized	557,000	1,328,000
1977 preferred stock redemptions waived		(2,596,000)
Dividends on preferred stock		2,643,000
Dividends distributed equally to Class A and Class B common stockholders in respect of 1976		6,000,000
Dividends to Class B common stockholder		3,221,000
	23,245,000	48,195,000
(Decrease) increase in working capital	($17,035,000)	$ 2,547,000

	1978	1977
Composition of (decrease) increase in working capital:		
Cash	$ 6,923,000	($ 8,467,000)
Accounts receivable	(5,646,000)	7,652,000
Inventories	(22,873,000)	7,179,000*
Prepaid expenses	(233,000)	156,000
Senior indebtedness	(3,576,000)	(1,048,000)
Preferred stock		3,146,000
Short-term loans	6,000,000	(6,235,000)
Accounts payable and accrued liabilities	2,391,000	(607,000)
Accrued royalty	2,000	212,000
Accrued interest	(23,000)	(1,031,000)
Accrued dividends on preferred stock		373,000
Profit declared as a dividend on common stock and unpaid		1,217,000
(Decrease) increase in working capital	($17,035,000)	$ 2,547,000

* Reclassified for comparative purposes.

LIO

(Expressed in United States dollars)

	Year ended December 31, 1978	1977
Working capital provided:		
Net (loss) profit	($7,082,000)	$5,659,000
Amortization of organization and preoperating expenses	25,000	22,000
Change in equity in the undistributed earnings of LAMCO	7,137,000	886,000
Working capital provided	80,000	6,567,000
Working capital applied:		
Dividends to shareholders	1,978,000	4,746,000
(Decrease) increase in working capital	($1,898,000)	$1,821,000
Composition of (decrease) increase in working capital:		
Cash	($2,663,000)	$2,804,000
Accounts receivable and payable	(26,000)	58,000
Receivable from LAMCO		(1,853,000)
Accrued Liberian tax on preferred stock dividends		21,000
Dividends declared and unpaid	791,000	791,000
(Decrease) increase in working capital	($1,898,000)	$1,821,000

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, 1978 and 1977 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 26, 1979

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 accounts for its investment under the equity method (Notes 2 and 11).

Organization and preoperating expenses: These expenses are being amortized on a unit-of-production basis over proven ore 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 shared 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. 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 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. Deferred costs are amortized principally on a unit-of-production basis over the proven reserves of the applicable ore body. Costs incurred in connection with development of an operating mine are charged to production currently.

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 results of operations 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 stockholder 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 11). Additional dividend restrictions are included in a loan agreement entered into in 1977.

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 stock of LAMCO is held by the Government and the Class B common stock is held by LIO. 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 of the years 1977 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.

See Notes 11 and 7 concerning the rescission of the declaration of Series B and C preferred stock dividends for the fourth quarter of 1977 and waived preferred stock redemptions.

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 remaining service lives at December 31, 1978 was as follows:

	Years
Railroad and harbor	8
Roads and airstrips	8
Buildings and rolling stock	5—8
Special purpose structures, machinery and equipment	3—8
Motor vehicles, boats and heavy-duty equipment	3—8

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. If a decision is made to develop these properties in the future, the depreciable lives of the railroad, harbor and certain other assets would be lengthened to coincide with the new mining plans.

No interest costs were deferred during 1978 or 1977. Amortization of previously deferred interest costs amounted to $104,000 in 1978 and 1977.

Note 6—Organization Expenses, Exploration and Development Costs

LAMCO additions to exploration and development costs in 1978 amounted to $557,000 ($1,328,000-1977). Annual amortization of LIO amounted to $25,000 ($22,000-1977) and $1,869,000 for LAMCO ($1,723,000-1977), including $445,000 of interest deferred during the preoperating period ($409,000-1977).

Note 7—Short-term Loans and Senior Indebtedness

The short-term loans outstanding at December 31, 1978 and 1977 incur interest at annual rates varying from 12.375% to 12.5% (7.75% to 8.063%-1977) and are denominated in U.S. dollars.

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

Short-term loans at December 31, 1978 mature between May through June 1979. The maximum amount of short-term loans outstanding at any month-end during 1978 and 1977 was $25,750,000 and the average amount of loans outstanding during 1978 was $21,981,000 ($20,768,000-1977) with average annual interest rates of 8.68% and 5.1% in 1978 and 1977, respectively.

The details of senior indebtedness were as follows:

	December 31, 1978	December 31, 1977
Senior indebtedness:		
Series A Notes 5-¾%, due 1965—1980	$ 2,650,000	$ 3,900,000
Series B Bonds 6-¾%, due 1965—1980 payable in Deutsche marks	10,107,000	12,845,000
Series D Notes 5-¾%, due 1968—1980	672,000	1,020,000
Series E Bonds 6-¾%, due 1968—1980 payable in Deutsche marks	2,667,000	3,458,000
Series G Notes 5-½%, due 1968—1980		1,574,000
Loans under credit agreement with international banks and equipment credits	19,641,000	23,907,000
	35,737,000	46,704,000
Less—		
Current maturities	16,805,000	13,229,000
Total senior indebtedness	$18,932,000	$33,475,000

In July 1977, LAMCO borrowed $20,000,000 from a consortium of international banks. The loan is repayable in five semi-annual instalments of $4,000,000 each commencing in July 1978. Interest is payable at the average of the London interbank 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.

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.

Among the terms governing the issue of the Series A notes, the Series B bonds, the Series D notes and the Series E bonds (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 are $7,865,000 in 1979 and $8,231,000 in 1980.

Maturities and redemptions of senior indebtedness and preferred stock are scheduled for repayment as follows:

	Senior indebtedness	Preferred stock
1979	$16,800,000	
1980	17,200,000	$12,000,000
1981	1,000,000	2,600,000
1982	600,000	2,600,000
1983	100,000	2,600,000
After		28,100,000

During 1977 LAMCO received waivers from the holders of its Series A and B preferred stock as it related to 1977 redemptions amounting to $2,596,000. Scheduled redemption on the Series C preferred stock amounting to $550,000 in 1977 was made. Subsequent to December 31, 1977, the holders of all the preferred stock series waived their redemption rights for 1978 and 1979, amounting to $3,146,000 in each year, until 1980. Accordingly, the table above reflects $8,888,000 of preferred stock redemptions included in 1980 which would have normally been payable in 1977, 1978 and 1979.

Note 8—Pensions

LAMCO's share of the unamortized amount of prior service pension costs at December 31, 1978 was estimated to be $86,000. Pension obligations charged to LAMCO's share of production costs amounted to $2,360,000 in 1978 ($1,200,000-1977). The increase in pension cost is attributable to a further definition, as interpreted by management for the LAMCO Joint Venture, of the Liberian Labor Law regarding the basis for calculation of pension rights.

Note 9—Taxation

LIO is incorporated under the Companies Act of Canada. Under the general tax laws of Canada, LIO's dividend income was exempt from Canadian corporate income tax until 1976. As a result of amendments to the Canadian tax laws, such income is subject to Canadian corporate income tax unless paid out of active business income earned in a listed country, that is a country with which Canada has or expects to have a tax treaty. The Republic of Liberia is so listed. A tax treaty between Canada and Liberia was signed in November 1976 and upon ratification will be effective from January 1, 1976. The effect of the treaty and the aforesaid regulations is that all business income of LAMCO paid as a dividend to LIO will be exempt from Canadian tax.

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—Balance of Accumulated Net Profit subject to Board Determination

The balance of accumulated net profit subject to Board determination is composed of the following:

	December 31, 1978	December 31, 1977
Balance of 1976 profit subject to Board determination	$19,704,000	$19,704,000
Balance of 1977 profit subject to Board determination	3,401,000	3,401,000
1978 loss	(16,796,000)	
	$ 6,309,000	$23,105,000

Note 11—LAMCO Dividends and LIO's Equity in LAMCO's Earnings

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 fourth quarter dividend on the Series C preferred stock of LAMCO amounting to $155,000, of which $77,500 is applicable to 1977 nor did it receive the 1977 fourth quarter dividend on its common stock equivalent to the accrued royalty to the Government of Liberia amounting to $1,005,000. LAMCO's Board of Directors has not declared any dividends on preferred or common stock during 1978.

As of December 31, 1978, the unpaid cumulative dividends on LAMCO's Series A, B and C preferred stock aggregated $3,708,000, of which $773,000 pertained to Series C. Under the Concession Agreement, these dividends and scheduled redemptions of preferred stock (Note 2) must be satisfied before common stock distributions may be declared.

In addition, an amount equivalent to the royalty accrued to the Government of Liberia and which has not yet been declared as a dividend to LIO aggregating $5,286,000 at December 31, 1978, must be declared and paid before other dividends to the Class A and B common stockholders can be resumed (Note 2).

LIO's equity in the changes in the undistributed earnings of LAMCO has been computed in accordance with the provisions of the Concession Agreement and consists of the following elements:

	1978	1977
LAMCO's net (loss) profit	($16,796,000)	$9,299,000
Dividends on Series A, B and C preferred stock unpaid for 1978, partially paid for 1977	(2,996,000)	(3,010,000)
Amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock	(4,281,000)	(4,226,000)
Basis for calculating LIO's equity in LAMCO's earnings	($24,073,000)	$2,063,000
LIO's 50% share thereof	($12,037,000)	$1,032,000
Add—Unpaid dividends on Series C preferred stock	619,000	77,000
Add—Amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock	4,281,000	1,005,000
Less—Partial distribution of 1976 equity in earnings		(3,000,000)
Change in LIO's equity in undistributed earnings of LAMCO	($ 7,137,000)	($ 886,000)

Note 12—Contractual Commitments and Contingent Liabilities

LAMCO has agreements with customers for substantially all its 1979 ore sales. Certain of these contracts have been pledged to bondholders under the terms of the bond indenture and additional contracts will be pledged 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*	*Fees*
1.	Management of the project for indefinite period, cancellable on two years' notice after 1978.	Gränges AB, a member of the Syndicate	10 cents per ton of finished ore produced plus expenses.
2.	Sales agent for indefinite period cancellable on one year's notice.	Gränges AB, a member of the Syndicate	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 (SEB)	On reasonable and customary basis. Annual fees for services to June 30, 1979 have been agreed at $200,000.

SEB participates to the extent of 25% in the July 1977 credit agreement with international banks (Note 7) and has supplied short-term financing and equipment credits from time to time.

Note 13—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, included in other expenses, was $56,000 in 1978 ($46,000-1977).

Note 14—Transportation of Guinean Ore

In November 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 was completed in 1978.

Note 15—LAMCO Customers

LAMCO sells its iron ore products to customers principally located in Europe. In 1978 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 $19.0 million, $15.0 million and $ 10.9 million.

Note 16—Market Conditions and Operations

The structural transformation of the European steel industry, LAMCO's main market, continues as a result of its economic problems. The effects on the iron ore industry have been serious. Prices have declined since 1976 and demand has been reduced, especially for pellets. Some improvement in the volume of the market was noted in 1978 and is expected to continue in 1979. In spite of this and a price increase of some 8 percent, LAMCO's management does not expect a return to profits in 1979.

The Manager and Participants of the LAMCO Joint Venture have continued the austerity program begun in 1977 to reduce cash outflow. Major capital expenditures have been postponed to the extent possible. Appropriate steps are being taken to reduce operating expenses and maintain inventories at minimum levels. Mining is being carried out only in the main orebody and the pellet plant continues to be shut down. LAMCO has obtained waivers as to the redemptions of its preferred stock scheduled for 1977—1979 and has not declared any dividends on either the preferred or common stock since late 1977. LIO in turn has reduced the payment of dividends in 1978 and has announced that no further dividends will be declared until LAMCO's situation improves.

Management has concluded arrangements necessary for the short-term financing required in 1979 and believes that all obligations can be met and all necessary capital expenditures can be made. While longer term financing arrangements have not yet been made, management is confident that appropriate solutions can be found in the future.

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,				
	1974	1975	1976	1977	1978
Statement of Profit and Loss					
Sales	$105,375	$113,240	$116,915	$105,639	$107,037
Gross profit (loss)	$ 46,148	$ 55,998	$ 47,980	$ 22,584	($ 1,801)
Selling, general and administrative expenses	3,035	3,207	3,487	3,273	3,203
Accrued royalty to Government of Liberia	4,216	4,530	4,677	4,226	4,281
Profit (loss) from operations	38,897	48,261	39,816	15,085	(9,285)
Financing charges (net):					
Interest expense	6,334	3,662	2,776	3,675	5,612
Exchange losses (gains)	8,652*	(2,904)	3,484	2,111	1,899
Net profit (loss)	$ 23,911*	$ 47,503	$ 33,556	$ 9,299	($ 16,796)
Statement of Appropriation and Disposition of Net Profit					
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	
Dividends distributed equally to Class A and Class B common stockholders	5,236	6,000			
Appropriations by Board of Directors to reserves:					
As required by lenders	141	91	53	34	
Reserve for concession development and other corporate purposes	11,796*	33,630			
Balance of current year's loss					($ 16,796)
Balance of current year's profit subject to Board determination			25,704	3,401	
Net profit (loss)	$ 23,911	$ 47,503	$ 33,556	$ 9,299	($ 16,796)
Distributions to common stockholders:					
To Government of Liberia:					
Accrued royalty	$ 4,216	$ 4,530	$ 4,677	$ 4,226	$ 4,281
Dividends on Class A common stock	2,618	3,000		3,000	
	6,834	7,530	4,677	7,226	4,281
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	2,618	3,000		3,000	
	6,834	7,530	4,677	6,221	
Total to Government of Liberia and LIO	$ 13,668	$ 15,060	$ 9,354	$ 13,447	$ 4,281

* Restated for change in accounting for foreign currency translation.

Management's Discussion and Analysis of the Summary of Operations

LAMCO

1978 versus 1977

Contract prices for deliveries in 1978 were lower than in 1977 because of the continued worldwide recession in the steel industry and an excess supply of iron ore on the world market. However, during 1978 some improvement in sales volume was noted. Sales were up from 6.9 million tons to 8.5 million (or 23%) while revenues increased from $105.6 million to $107 million (or 1%) due to the lower per ton selling prices in 1978.

Lower sales prices in 1978, continued cost escalation, somewhat lower capacity utilization and depreciation on recently acquired assets resulted in an

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

(Expressed in thousand United States dollars)	Year ended December 31,				
	1974	1975	1976	1977	1978
Statement of Profit and Loss					
Dividends and interest income:					
Dividends from LAMCO:					
Series C preferred stock	$ 527	$ 688	$ 668	$ 556	
Class B common stock	6,834	7,530	4,677	6,221**	
	7,361	8,218	5,345	6,777	
Interest income	403	182	153	280	$ 413
	7,764	8,400	5,498	7,057	413
Expenses:					
Interest expense	22				
Other expenses	460	435	420	512	358
	7,282	7,965	5,078	6,545	55
Change in equity in the undistributed earnings of LAMCO	5,968*	16,860	12,879	(886)	(7,137)
Net profit (loss)	$13,250*	$24,825	$17,957	$ 5,659	($ 7,082)
Earnings per share based on 3,955,025 average shares outstanding:					
Net profit (loss) per share (including $1.84 in 1974; $2.01 in 1975; $1.28 in 1976; $1.65 in 1977 and $0.01 in 1978 in dividends and interest income less expenses)	$ 3.35*	$ 6.28	$ 4.54	$ 1.43	($ 1.79)
Cash dividends per share	$ 1.50	$ 1.60	$ 1.60	$ 1.20	$ 0.50
Statement of Retained Earnings					
Net profit (loss)	$13,250*	$24,825	$17,957	$ 5,659	($ 7,082)
Retained earnings at beginning of year	8,077*	15,395	33,892	45,521	46,434
	21,327	40,220	51,849	51,180	39,352
Deduct—Cash dividends declared	5,932	6,328	6,328	4,746	1,978
Retained earnings at end of year	$15,395*	$33,892	$45,521	$46,434	$37,374
Represented by:					
Accumulated profits before equity in undistributed earnings of LAMCO	$ 4,281	$ 5,918	$ 4,668	$ 6,467	$ 4,544
Equity in undistributed earnings of LAMCO	11,114*	27,974	40,853	39,967	32,830
	$15,395	$33,892	$45,521	$46,434	$37,374

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

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

operating loss of $1.8 million compared to a profit of $22.6 million in 1977.

Interest expense increased approximately $2 million, principally because of higher interest costs on short and medium term loans and larger discounting charges.

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 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.

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 Board of Directors of LIO announced in October 1978, after the declaration of a 10 cents per share dividend in respect of the third quarter of 1978, the suspension of further dividends until substantial improvements were noted in the results of LAMCO. The suspension was necessary because LIO received no dividends or other income from LAMCO during 1978 and does not expect to receive any during 1979.

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