C

LIBERIAN IRON ORE LIMITED

Annual Report 1980

LIBERIAN IRON ORE LIMITED

Annual Report 1980

THE ANNUAL GENERAL MEETING OF LIO SHAREHOLDERS WILL BE HELD ON JUNE 11, 1981, AT 2:00 PM AT THE HOLIDAY INN, 6700 TRANS CANADA HIGHWAY, POINT CLAIRE, QUEBEC, CANADA.

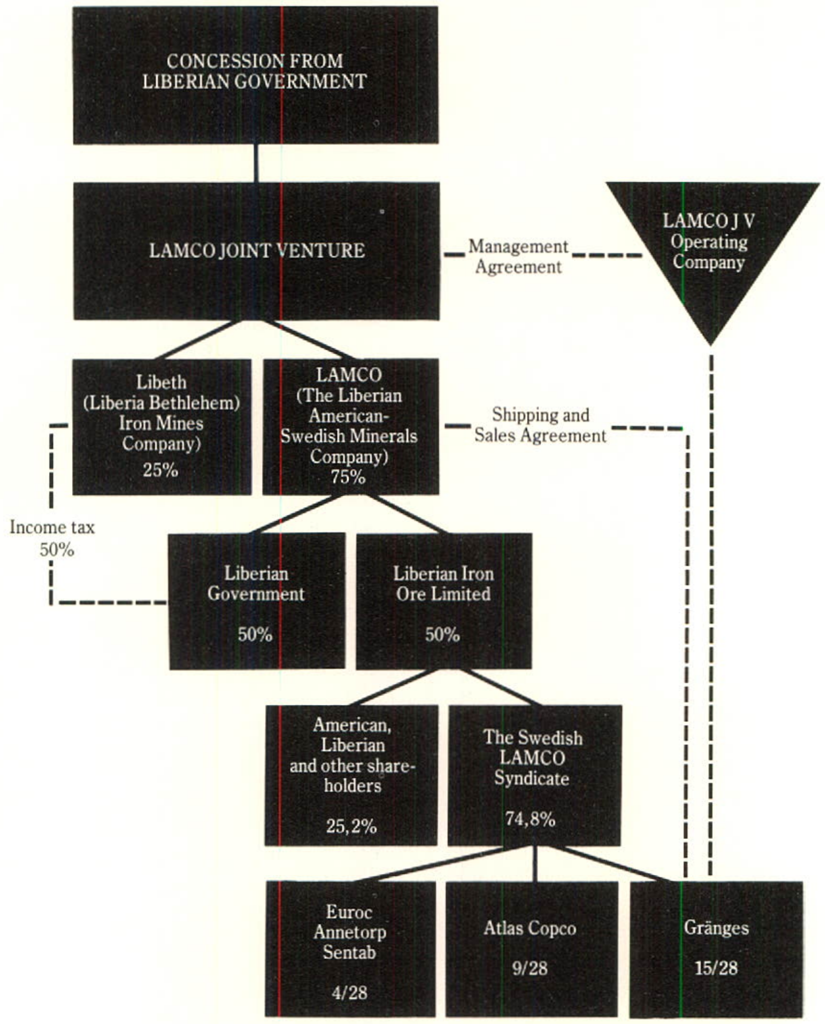
CONTENTS

Letter to the Shareholders — 3
LIO Board of Directors — 4
LAMCO Board of Directors — 5
Operating and financial Summaries — 6
1980 in Rewiew and Preview 1981 — 7
LIO Statement of Loss — 10
LIO Balance Sheet — 11
LIO Statement of Changes in Financial Position — 12
LIO Statement of Retained Earnings — 12
LAMCO Statement of Loss — 13
Report of Independent Accountants — 13
LAMCO Balance Sheet — 14
LAMCO Statement of Changes in Financial Position — 16
Notes to the Financial Statements of LIO and LAMCO — 17
Management's Discussion and Analysis of financial condition and results of operations — 24
Five-year Earnings Summaries of LAMCO and LIO — 26

LIBERIAN IRON ORE LIMITED (LIO)

is a 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 $350,000,000 in the development of high grade iron ore deposits in the Nimba Mountain region of 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.

LAMCO JOINT VENTURE OWNERSHIP STRUCTURE



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 163 16
S-103 26 Stockholm, Sweden

LAMCO J.V. OPERATING COMPANY

is a subsidiary of Gränges International Mining.

OFFICER
JOHN L. PERVOLA *General Manager*

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

LETTER TO THE SHAREHOLDERS

As a result of the operations of LAMCO, LIO incurred a net loss in 1980 after the change in equity in the undistributed earnings of LAMCO attributable to Common Stock, of $0.3 million or $0.08 per share, compared with a net loss of $15.5 million or $3.91 per share, in 1979. Excluding adjustments for equity in LAMCO, LIO had a loss of $0.1 million, or $0.02 per share, in 1980 compared with a loss of $0.5 million, or $0.13 per share, in 1979.

In 1980 LIO received no cash dividends from LAMCO, and the only cash received consisted of interest on cash on deposit with banks. Dividends by LIO have been suspended since 1978 and are not presently expected to be resumed in 1981.

LAMCO's operations, which resulted in a net loss of $3.2 million in 1980, improved from 1979 when the net loss was $32.3 million, including a $9.7 million provision for the write-off of the pellet plant. Shipments decreased by 0.6 million tons to 7.5 million tons in 1980 as compared to 8.1 million tons in 1979, due to the continuing recession of the iron ore market.

The European steel industry, LAMCO's main market, has experienced severe economic problems in recent years, which have in turn adversely affected the iron ore industry. Ore price increases in 1979 and 1980, after two years of declining prices, have not offset increased costs of production and transportation.

Total sales revenues increased from $104.9 million in 1979 to $110.9 million in 1980, mainly due to a 15.8% price increase on 1980 contracts. The effect of the price increase was, however, to a great extent offset by the decline in shipments. Costs of production continued to escalate due to fuel oil price increases, higher labor costs and general inflation. LAMCO's operations resulted in a $15.2 million increase in working capital during 1980 compared to a decrease of $23.0 million in 1979.

The Joint Venture has continued the austerity program to reduce cash outflow, which began in 1977. Major capital expenditures have been postponed to the extent possible. In order to reduce operating expenses virtually all mining is carried out in the main orebody. The redundancy program implemented in March, 1980, was, as a consequence of the coup d'état on April 12, 1980, interrupted but has continued on a voluntary basis.

LAMCO's Board of Directors did not declare any dividends on Preferred Stock or Common Stock in respect of 1980. Furthermore, the holders of LAMCO's Series A, B and C Preferred Stock have agreed to postpone until 1982 scheduled redemptions aggregating $14.6 million previously due in 1977–1981. As of December 31, 1980 the unpaid cumulative dividends on LAMCO's Series A, B and C preferred stock aggregated $9.4 million. In addition, at December 31, 1980, dividends on the LAMCO Class B Common Stock held by LIO equivalent to the royalty accrued to the Government of Liberia aggregating $13.9 million had not been declared.

Unless there is in 1981 a substantial improvement in the iron ore market resulting in higher ore prices and increased shipments, LAMCO shall also have to rely in 1981 on short-term financing including factoring, capital financing credits and guaranteed borrowings. Arrangements have been made by LAMCO's management to obtain any necessary short-term financing, and management is convinced that all obligations arising in the normal course of business can be met. On December 1, 1980, LAMCO paid in full all remaining indebtedness under the Bond Indenture, thus making its assets available as security for new borrowings.

March, 1981

H Werthén

HANS WERTHÉN
Chairman and President

BOARD OF DIRECTORS

HANS WERTHÉN *Chairman and President*	*Chairman of AB Electrolux, and Chairman of Gränges AB, Stockholm, Sweden*
BO ABRAHAMSSON	*President of Gränges AB, Stockholm, Sweden*
TRYGGVE ANGEL *Vice President*	*President of Gränges International Mining, Stockholm, Sweden*
KURT-ALLAN BELFRAGE	*Vice Chairman of Atlas Copco AB, Stockholm, Sweden*
JOSEPH C. BENNETT	*President of Federal Resources Corporation, Salt Lake City, Utah, U.S.A.*
BROCK F. CLARKE	*Partner of the law firm of Ogilvy, Renault, Montreal, Quebec, Canada*
ALFRED H. EGGLETON	*Director of Armature Electric Limited, Vancouver, British Columbia, Canada*
STEN LINDH	*President of Industri AB Euroc, and 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.*
ROBERT L. MUNRO	*Partner of the law firm of Oglivy, Renault, Montreal, Quebec, Canada*
RICHARD G. POWELL	*Partner of the law firm of Sullivan & Cromwell, New York, N.Y., U.S.A.*
ALAN G. THOMPSON	*Chairman of Brink, Hudson and Lefever Ltd. Vancouver, British Columbia, Canada*

OFFICER
G. E. JONES
Secretary-Treasurer

COUNSEL
OGLIVY, RENAULT,
The Royal Bank Building, 1 Place Ville Marie, Montreal, Quebec, Canada H3B1Z7

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

FOREIGN OFFICE
666 Third Avenue, New York, N.Y. 10017, U.S.A.

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.

BOARD OF DIRECTORS

MARCUS WALLENBERG *Chairman Emeritus*	
HANS WERTHÉN *Chairman*	*Chairman of AB Electrolux, and 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*
CHEA CHEAPOO	*Minister of Justice of the Republic of Liberia, Monrovia, Liberia*
GEORGE DUNYE	*Minister of Finance of the Republic of Liberia, Monrovia, Liberia*
MOSES DUOPU	*Minister of Labour, Youth and Sports of the Republic of Liberia, Monrovia, Liberia*
FODAY KROMAH	*Minister of Lands and Mines of the Republic of Liberia, Monrovia, Liberia*
STEN LINDH	*President of Industri AB Euroc, and Chief Executive Officer of the Euroc Group, Malmö, Sweden*
GEORGE E. PUTNAM, JR.	*Chairman and Chief Executive Officer, Citicorp International Group, London, England*
TOGBA N. TIPOTEH	*Minister of Planning and Economic Affairs of the Republic of Liberia, Monrovia, Liberia*

OFFICERS

ARNE DAHLSTRÖM
President

INGEMAR UUSSAAR
Secretary-Treasurer

COUNSEL
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
P.O. Box 69,
Monrovia, Liberia

FOREIGN OFFICE
C/O GRÄNGES INTERNATIONAL MINING,
P.O. Box 163 16,
S-103 26 Stockholm, Sweden

OPERATING AND FINANCIAL SUMMARIES

	1980	1979
LAMCO JOINT VENTURE		
Production of finished ore products (metric tons)	10,100,000	8,900,000
Shipments during the year (metric tons)	9,300,000	10,200,000
Project expenditures:		
Investments in property and equipment	$ 9,400,000	$ 10,300,000
Exploration and development costs deferred	$ 64,000	$ 911,000
LAMCO		
Sales–metric tons	7,500,000	8,100,000
Sales–amount	$110,875,000	$104,885,000
Profit (loss) from operations	$ 1,974,000	($ 17,036,000)
Net loss	($ 3,165,000)	($ 32,326,000)
LIO		
Interest income	$ 564,000	$ 452,000
(Loss) before adjustment for equity in LAMCO (per share ($0.02) and ($0.13))	($ 74,000)	($ 531,000)
Change in equity in the undistributed earnings of LAMCO	($ 244,000)	($ 14,945,000)
Net (loss) (per share ($0.08) and ($3.91))	($ 318,000)	($ 15,476,000)
Shares outstanding during the year	3,955,025	3,955,025
Number of shareholders	3,872	4,011
located in Liberia	2,526	2,529
U.S.A. and Canada	1,143	1,267
Other countries	203	215

MARKET FOR LIO'S COMMON SHARES

The Common Shares (without nominal or par value) of LIO are listed on the Toronto Stock Exchange and are traded on the over-the-counter market in New York. Until 1980, the Common Shares were quoted in the National Association of Securities Dealers Automated Quotation system (NASDAQ); trading in the Common Shares did not continue to meet the volume requirements for quotation in NASDAQ.

No dividends have been declared or paid on the Common Shares of LIO in 1979 or 1980.

Under applicable United States-Canada tax treaties, dividends paid by LIO to United States holders of Common Shares are subject to withholding taxes at a rate of 10%.

INFORMATION WITH RESPECT TO LIO SHARES

For quarter ending	Dividends	Range of prices per share on the Toronto Stock Exchange (expressed in Canadian dollars)	
March 31, 1979	nil	7 1/4	9
June 30, 1979	nil	7 7/8	8 3/8
September 30, 1979	nil	7 3/4	8 1/4
December 31, 1979	nil	6 1/4	8 3/8
March 31, 1980	nil	7	8
June 30, 1980	nil	2 11/20	6 1/4
September 30, 1980	nil	4	4 7/10
December 31, 1980	nil	3	3 17/20

1980 IN REVIEW AND PREVIEW OF 1981

IRON ORE AND STEEL MARKETS AND LAMCO SALES

Following considerable increases both in 1980 and 1979 the world production of crude steel dropped in 1980 to 718 million tons, compared with 747 million tons in 1979. The American steel industry was particularly hit by the recession, reducing the production for the year to some 100 million tons, compared with 123 million tons in 1979. The steel production within EEC fell off from 140 million tons to 128 million tons, whereas the Japanese steel industry maintained practically the same production as the preceding year, 111 million tons.

Very few of the industrial countries outside the communist bloc could increase steel production, and the total of the groups shows a reduction by 8%. The growth within the Comecon remained marginal, no more than about 1%. The production in China is believed to have increased by about 7%.

Also several former rapidly expanding developing countries were affected by the weakening market and recorded decreases of production. A few developing countries, e g Brazil, Venezuela, Chile and South Korea, were able to increase production. The production growth for the whole group of developing countries is estimated at some 3.5%.

The beginning of the year was characterized by the continuation of the favourable steel market development in Europe (the major market for LAMCO's products), but conditions deteriorated very quickly during the early part of the summer. As the orders received by the steel industry declined very much towards the end of the summer, the slackening demand caused considerable price reductions. As a result of this development, the ministers of the EEC Commission decided on October 30, 1980 in Luxembourg to apply the provisions of § 58 in the EEC Treaty, which ment introducing steelproduction quotas; these production quotas will apply as from October 1, 1980 to June 30, 1981.

The international iron ore trade was of course affected by the collapse of the steel market during the year, and the strict limitation of the steel production within the EEC steel industry soon caused reductions of the iron ore imports; reduction were made not only in order to balance the supply of ore to the reduced consumptions, but also in order to reduce stockpiles.

A number of pelletizing plants in the US, Canada, Australia and Norway were closed down. Several of them, most notably in Brazil, Liberia and Sweden, have been closed down for an indefinite period of time.

LAMCO's shipments for 1980 reached 7.5 million tons, compared with 8.1 million tons in 1979, a reduction of 7.5%. However, because of an increase in LAMCO's prices fob Buchanan by 15.8% on tonnage shipped under 1980 contracts, LAMCO's sales revenues increased from $104.9 million in 1979 to $110.9 million in 1980 in spite of the reduction in shipments.

Price negotiations for 1981 have not yet (March 1981) been concluded.

LAMCO JOINT VENTURE PRODUCTION AND SHIPMENT

Total Joint Venture production of finished products in 1980 was 10.1 million tons compared with 8.9 million tons in 1979. The crude ore was taken from the Nimba Main Orebody and Mt Gbahm. Except for the production of a limited quantity of ore for test purposes the Tokadeh mine was closed throughout the year. Joint Venture production consisted of 9.4 million tons of washed fines and 0.7 million tons of washed lumpy.

Production was on schedule until the beginning of April when the coup d'état occurred. As a result of a curfew and operational disturbances, particularly during the period April–August, the cumulative production losses amounted to 1.1 million tons although the production was above budget during the last quarter of the year.

With the pellet plant shut down indefinitely the Joint Venture continued to stockpile the pellet feed resulting from the washing process. Some of this high grade material was mixed in with fines and the remaining has been stockpiled for deliveries as from 1981 to a steel manufacturer in Nigeria.

LAMCO's shipments in 1980 included 6,931,000 tons of washed fines (6,673,000 tons in 1979), 561,000 tons of washed lumpy (1,385,000 tons) and 17,000 tons of pellets (48,000 tons).

The Joint Venture plans to increase its production in 1981.

OPERATING COSTS

The Joint Venture had net costs of production of $108.7 in 1980 compared with $103.5 in 1979. The increase was partly due to higher production of finished products (10.1 million tons in 1980 compared with 8.7 million tons in 1979) but primarily to increased costs for fuel and lubricants as a consequence of world-wide oil price increases, increased salaries, wages and other personnel expenses, and general inflation. Total fuel costs for the Joint Venture in 1980 amounted to $22.0 million as compared with $15.0 million in 1979 and $9.3 million in 1978. For 1981 the fuel costs are estimated at $25.4 million.

The Joint Venture's programs for improving productivity and reducing costs were further intensified during 1980. During the year the number of employees was reduced by 432 to 3,983. Redundancy costs following reduction of the workforce amounted to $2.1 million. The positive effect of the personnel reduction will be realized in 1981. Substantial savings were made in the areas of materials and supplies consumption, as well as in transportation. In negotiations with the Government and a Liberian company having the exclusive right of importing and manufacturing explosives in Liberia the Joint Venture has requested reductions of the company's prices to a competitive level. By such price reductions or by importing the explosives required for its mining operations the Joint Venture would save an annual $1.0 million.

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 and reevaluated in 1979 in light of current ore prices and costs of waste stripping, the Manager has estimated the total remaining proven and mineable ore reserves in the Nimba range as of December 31, 1980 at 71 million tons having an average grade of 62% Fe (dry). 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-1980's, at which point production would decline until terminated.

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 Area. The geological reserves of proven soft and medium hard ore in this area (Mts Tokadeh, Gangra, Yuelliton and Beeton) as of December 31, 1980 are estimated by the Manager at 609 million tons having an average grade of 50.8% Fe (dry). Preliminary estimates indicate that out of the geological reserves a combined plant feed reserve of 399 million tons having an average grade of 53.7% Fe (dry) can be obtained. Adjustment has thereby been made for losses of tonnage during mining operations as well as dilution with waste corresponding to a lowering of the Fe content of 1% Fe. These reserves would give the Joint Venture an additional operational life of some 20 years maintaining present level of production of finished products.

A total of $64,000 was spent on exploration in 1980, compared with $911,000 in 1979. Expenditures in 1981 are expected to be at the same level as in 1980.

CAPITAL EXPENDITURES

Joint Ventures capital expenditures are being maintained at a level necessary to preserve the efficient operation of the mining and processing facilities. A total of $9.4 million was spent on property, plant and equipment in 1980, compared to $10.3 million in 1979.

Down payments of $1.2 million was made for equipment to be used for the reopening of the Tokadeh Mine now scheduled for the middle of 1981. Total capital expenditures for this project are estimated at $4.2 million.

Extension of the sewage plant at Yekepa was completed at a total cost of $1.3 million.

Construction of new workers' houses, housing renovations and improvements in work site conditions amounted to $0.6 million. This is a part of the program decided upon in connection with the latest collective bargaining agreement.

Capital expenditures for the Joint Venture in 1981 are currently estimated at $8.7 million.

COMMERCIAL TRAFFIC

Commercial traffic on the Joint Venture's railroad amounted to 3,119 car loads in 1980, compared with 3,271 car loads in 1979.

The traffic in the commercial port increased 1980 by 41,000 tons to 285,000 tons. Out of these volumes 99,000 tons in 1980 related to general cargo and fuel for the Joint Venture, compared with 90,000 tons in 1979.

EMPLOYEES AND LABOR RELATIONS

At the end of 1980 the total number of employees in the Joint Venture was 3,983 compared with 4,415 at the end of the preceding year. The number of foreign employees has continuously been reduced, which is reflected in the following figures for the end of each of the last four years; 521 (1977), 477 (1978), 377 (1979) and 309 (1980). This development is explained partly by the Liberianization Program and partly by the difficulties of recruiting and retaining expatriates; the recruiting difficulties has resulted in high vacancy rates for positions which cannot yet be Liberianized.

In January 1980, a personnel reduction program was started with the aim of reducing staff and workers on all levels by 18% during 1980. The program was undertaken to improve operational productivity. Following the coup d'état in April, at the request of the Government, the further implementation of the program was delayed. Since the coup, the reduction has been on a voluntary basis only and the full expected cost savings have not yet been realized.

The Lamco Mine Workers' Union has not been in the position to continue negotiations on a new contract to replace the contract that expired at the end of 1979.

No industrial conflicts have occurred during the year.

TRAINING AND SCHOLARSHIP PROGRAMS

During 1980 training activities continued at a high level with emphasis on quality programs in line with the Liberianization objectives.

A total of 686 Liberian employees participated in different training and development programs. In order to secure candidates for the advanced training program, a new apprentice program was started. A total of 75 overseas scholarships and 112 local scholarships were administrated under the Joint Venture's program. The railroad training continued in co-operation with the Swedish State Railways.

Repeated safety inspections were carried out in the plants and on the worksites. Safety meetings were held throughout the Joint Venture. The inspection and accident reports reflect a steadily improving working environment.

HOUSING AND MEDICAL CARE

The Joint Venture provides housing for all employees in the Yekepa area. At Buchanan, company housing is only provided for senior staff, since ordinary housing facilities are available in the Buchanan municipality for other employees; these latter employees are paid adequate housing allowances by the Joint Venture.

The Joint Venture's two hospitals, with 120 and 150 beds respectively, continued to provide high standard medical care to employees and many outsiders.

TRANSPORTATION OF GUINEAN ORE

In 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-Nimba Co. began in 1977 and continued in 1980, focusing primarily on the price the Joint Venture will charge for its services. While the parties at this time seem very close to agreeing on the price, it is not possible for the Joint Venture to predict at what time Mifergui-Nimba Co. will decide to proceed with the project.

In addition to the Government of the Republic of Guinea, the shareholders of Mifergui-Nimba Co. include the governments of Nigeria, Liberia, Libya and Rumania, Sonarem of Algeria, MKS of Yugoslavia, Mifergui Japan Corporation, INI and Cofei of Spain and Solmer and Usinor of France. The Joint Venture has been informed that the United States Steel Corporation is actively negotiating to aquire an interest in Mifergui-Nimba Co.

The Joint Venture understands that the shareholders intend to consume all of the ore produced by Mifergui-Nimba Co. in steel plants they already own or plan to construct before the new project goes into production.

PROPOSED STEEL PLANT

During 1979 the Joint Venture commenced negotiations with a newly-formed corporation which is studying a proposal to erect a steel plant near the Joint Venture's facilities at Buchanan, Liberia. In the fall of 1980, it was annonced by the National Investment Corporation of Liberia, a governmental agency, that an understanding had been reached between this corporation and the Government.

LAMCO has expressed willingness to negotiate an ore sales contract covering a period of several years, but many details remain to be worked out. The proposal is still in the formative stage, and the Joint Venture cannot predict at this time whether any plant will be built, or not.

STATEMENT OF LOSS

(Expressed in thousand United States dollars, except for per share amounts)	Year ended December 31, 1980	1979	1978
Interest income	$ 564	$ 452	$ 413
Expenses (Notes 11, 14 and 18)	638	983	358
(Loss) profit before adjustment for undeclared and unpaid current dividends on Series C preferred stock and for change in equity in the undistributed earnings of LAMCO attributable to common stock	(74)	(531)	55
Undeclared and unpaid current dividends on Series C preferred stock	619	619	619
Change in equity in the undistributed earnings of LAMCO attributable to common stock (Note 13)	(863)	(15,564)	(7,756)
Net loss	($ 318)	($15,476)	($7,082)
Net loss per share	($0.08)	($ 3.91)	($ 1.79)

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

HANS WERTHÉN
BO ABRAHAMSSON

BALANCE SHEET

(Expressed in thousand United States dollars)	December 31, 1980	December 31, 1979*
ASSETS		
CURRENT ASSETS		
Cash, including time deposits of $4,012 ($4,071–1979)	$ 4,110	$ 4,122
Accrued interest receivable	10	17
Total current assets	4,120	4,139
INVESTMENT IN LAMCO (Notes 1, 2, 3, 4 and 13)		
6¼% Series C preferred stock, at cost plus undeclared and unpaid cumulative dividends	11,834	11,215
Class B common stock, at cost adjusted for changes in equity in undistributed earnings of LAMCO attributable to common stock	18,957	19,820
Capital obligation, noninterest-bearing, at cost, receivable only upon liquidation	12,856	12,856
	43,647	43,891
ORGANIZATION AND PREOPERATING EXPENSES less accumulated amortization of $432 ($402–1979) (Note 1)	182	212
	$47,949	$48,242
LIABILITIES AND CAPITAL		
CURRENT LIABILITIES		
Accounts payable	$ 149	$ 259
Total current liabilities	149	259
Deferred Liberian taxes (Note 11)	483	348
CAPITAL		
Common shares without nominal or par value: Authorized–5,000,000 shares Issued–3,955,025 shares	23,487	23,487
Equity in capital in excess of par value of LAMCO	2,250	2,250
Retained earnings, per accompanying statement	21,580	21,898
	47,317	47,635
	$47,949	$48,242

*Reclassified for comparative purposes

STATEMENT OF CHANGES IN FINANCIAL POSITION

(Expressed in thousand United States dollars)

	Year ended December 31, 1980	1979	1978
WORKING CAPITAL PROVIDED (APPLIED):			
Net loss	($318)	($15,476)	($7,082)
Charges (credits) not using or providing current working capital:			
Amortization of organization and preoperating expenses	30	25	25
Change in equity in the undistributed earnings of LAMCO attributable to common stock	863	15,564	7,756
Deferred taxes	135	348	
Increase in unpaid cumulative dividends on Series C preferred stock	(619)	(619)	(619)
Dividends to shareholders			(1,978)
Increase (decrease) in working capital	$ 91	($ 158)	($1,898)
COMPOSITION OF INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash	($ 12)	$ 63	($2,663)
Accrued interest receivable	(7)	(30)	(69)
Accounts payable	110	(191)	43
Dividends declared and unpaid			791
Increase (decrease) in working capital	$ 91	($ 158)	($1,898)

STATEMENT OF RETAINED EARNINGS

(Expressed in thousand United States dollars)

	Year ended December 31, 1980	1979*	1978
Net loss per accompanying statement of loss	($ 318)	($15,476)	($ 7,082)
Retained earnings at beginning of year	21,898	37,374	46,434
	21,580	21,898	39,352
Deduct–Cash dividends declared of $0.50 per share in 1978			1,978
Retained earnings at the end of year	$21,580	$21,898	$37,374
Represented by:			
Accumulated profits before equity in undistributed earnings of LAMCO	$ 3,939	$ 4,013	$ 4,544
Undeclared and unpaid dividends on Series C preferred stock	1,934	1,315	773
Equity in undistributed earnings of LAMCO attributable to common stock	15,707	16,570	32,057
	$21,580	$21,898	$37,374

* Reclassified for comparative purposes

STATEMENT OF LOSS

(INCLUDING LAMCO'S SHARE OF THE COSTS OF PRODUCTION OF THE LAMCO JOINT VENTURE)

(Expressed in thousand United States dollars) (Notes 2 and 5)	Year ended December 31, 1980	1979	1978
Sales	$110,875	$104,885	$107,037
Cost of sales (Note 6)	101,127	114,017	108,838
Gross profit (loss)	9,748	(9,132)	(1,801)
Selling expenses	1,847	1,696	1,703
General and administrative expenses	1,492	2,013	1,500
Royalty to Government of Liberia (Note 2)	4,435	4,195	4,281
Profit (loss) from operations	1,974	(17,036)	(9,285)
Provision for loss on pellet plant (Note 7)		9,700	
Financing charges (net):			
Interest expense (Note 9)	5,455	5,159	5,612
Exchange (gains) losses, including provision for unrealized losses of $425 in 1979 and $1,680 in 1978 (Notes 1 and 9)	(316)	431	1,899
Net loss	($ 3,165)	($ 32,326)	($ 16,796)

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 10 through 23 of this Annual Report present fairly the financial position of these companies at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, 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 30, 1981

BALANCE SHEET

(INCLUDING LAMCO'S UNDIVIDED 75% SHARE OF THE ASSETS AND LIABILITIES OF THE LAMCO JOINT VENTURE)

(Expressed in thousand United States dollars)

	December 31, 1980	1979
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing deposits, 1980–$1,750; 1979–$6,400)	$ 3,826	$ 7,689
Cash in Escrow (Note 16)	330	
Accounts receivable:		
Trade	7,588	15,109
Other (Net of reserve 1980–$593; 1979–$1,063)	3,534	2,795
Inventories (Notes 1 and 6):		
Processed ore	8,135	5,718
Mined ore and ore in process	16,888	8,678
Materials and supplies (Net of reserve 1980–$2,528; 1979–$2,528)	13,760	12,971
Prepaid expenses	281	17
Total current assets	54,342	52,977
PROPERTY AND EQUIPMENT in concession areas, at cost (Notes 1 and 7):		
Railroad	46,886	46,886
Harbor	26,129	26,129
Roads and airstrips	6,447	6,447
Buildings	34,160	33,902
Rolling stock	13,565	12,559
Special purpose structures, machinery and equipment	81,081	80,795
Motor vehicles, boats and heavy-duty equipment	33,745	32,126
	242,013	238,844
Less accumulated depreciation	(158,556)	(143,412)
	83,457	95,432
Construction in progress	3,879	3,482
	87,336	98,914
EXPLORATION AND DEVELOPMENT COSTS, INTEREST DURING PREOPERATING PERIOD AND MINING CONCESSION, less accumulated amortization in 1980–$26,498; 1979–$22,323 (Notes 1 and 8)	10,001	14,128
Total assets	$151,679	$166,019

(Expressed in thousand United States dollars)

LIABILITIES and CAPITAL

	December 31, 1980	1979
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 9)	$ 2,764	$ 18,374
Short-term debt (Note 9)	25,750	19,750
Trade accounts payable and accrued liabilities	11,004	13,072
Accrued salaries, wages and vacation pay	1,951	3,912
Accrued royalty (Note 2)	1,005	1,043
Accrued interest	745	939
Total current liabilities	43,219	57,090
LONG-TERM PENSION OBLIGATIONS (Notes 1 and 10)	8,391	7,182
LONG-TERM DEBT (Note 9)	5,919	4,432
REDEEMABLE PREFERRED STOCK		
$6.25, $100 par value-authorized and issued (Notes 2, 4 and 13):		
Series A– 23,770 shares	2,377	2,377
Series B–356,640 shares	35,664	35,664
Series C– 99,000 shares	9,900	9,900
	47,941	47,941
CAPITAL		
Common stock $1 par value–authorized and issued:		
Class A and Class B–1,000,000 shares of each issue (Note 3)	2,000	2,000
Capital in excess of par value	4,500	4,500
Capital obligation, noninterest-bearing, payable only in the event of liquidation	12,856	12,856
Reserves appropriated out of profits in accordance with the Concession Agreement as required by the lenders	3,522	3,522
Reserve for concession development and other corporate purposes	52,513	52,513
Balance of accumulated (loss) (Note 12)	(29,182)	(26,017)
	46,209	49,374
CONTRACTUAL COMMITMENTS–CONTINGENCIES (Notes 16 and 20)		
Total liabilities and capital	$151,679	$166,019

STATEMENT OF CHANGES IN FINANCIAL POSITION

(INCLUDING LAMCO'S UNDIVIDED 75% SHARE OF THE ASSETS AND LIABILITIES OF THE LAMCO JOINT VENTURE)

(Expressed in thousand United States dollars)

	Year ended December 31, 1980	1979	1978
WORKING CAPITAL PROVIDED BY (USED FOR):			
Net loss	($ 3,165)	($32,326)	($16,796)
Changes not requiring use of working capital:			
Depreciation and amortization	20,929	20,613	19,793
Increase in long-term pension obligations	1,209	1,718	1,769
Net book value of pellet plant written off		9,700	
Unrealized exchange losses on long-term loans			862
Working capital provided by (used for) operations	18,973	(295)	5,628
Reduction of long-term loans (net of current year's exchange adjustments)	(3,267)	(18,262)	(15,987)
Additions to property and equipment (net)	(5,176)	(7,564)	(6,701)
Exploration cost capitalized	(48)	(684)	(557)
Proceeds from equipment credits	4,754	3,763	582
Increase (decrease) in working capital	$15,236	($23,042)	($17,035)
COMPOSITION OF INCREASE (DECREASE) IN WORKING CAPITAL:			
Cash	($ 3,533)	($ 2,959)	$ 6,923
Accounts receivable	(6,782)	(3,198)	(5,646)
Inventories	11,416	(9,139)	(22,873)
Prepaid expenses	264	(83)	(233)
Increase (decrease) in current assets	1,365	(15,379)	(21,829)
Long-term debt (current maturities)	15,610	(1,569)	(3,576)
Short-term debt	(6,000)		6,000
Accounts payable and accrued liabilities	4,029	(6,430)	2,391
Accrued royalty	38	(40)	2
Accrued interest	194	376	(23)
(Increase) decrease in current liabilities	13,871	(7,663)	4,794
Increase (decrease) in working capital	$15,236	($23,042)	($17,035)

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 13).

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 5).

Inventories: Processed ore, mined ore, and ore in process are stated at the lower of average production cost or market. 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. 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 or 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: Obligations under the current plan for Liberian employees are provided for by accruals and include amounts for current and prior service and interest on amounts accrued to date. No amounts pertaining to the Liberian plan are funded. Other employees 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 5).

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, 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 stock-holder if a debt equity ratio of 3½ 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 13).

NOTE 3

COMMON STOCK

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. In addition, whenever one year's dividends on any series of preferred stock is in arrears, the holders of such series are entitled to elect one additional director. The holders of the preferred stock have waived this right until the 1982 LAMCO annual stockholders' meeting.

NOTE 4

REDEEMABLE PREFERRED STOCK

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 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 Note 13 concerning suspended preferred stock dividends.

The required redemptions of Series A and B preferred stock for years 1977–1981 have been waived by the holders until 1982. The required redemptions of Series C preferred stock for years 1978–1981 have been waived by the holder, LIO, until 1982. The table below sets forth the repayment schedule under present terms of the waivers (***expressed in thousand U.S. dollars***):

	Series			
	A	B	C	Total
1982	$2,377	$12,000	$2,750	$17,127
1983		2,000	550	2,550
1984		2,000	550	2,550
1985		19,664	6,050	25,714
	$2,377	$35,664	$9,900	$47,941

NOTE 5

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 6

INVENTORIES

Inventories used in determining cost of sales at December 31, 1980, 1979 and 1978 were $8,135,000, $5,718,000 and $18,153,000 respectively. LAMCO's share of the costs of production of the LAMCO Joint Venture for the years ended December 31, 1980, 1979 and 1978 were $82,615,000, $80,969,000 and $64,083,000 respectively.

NOTE 7

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, 1980 was as follows:

	Years
Railroad and harbor	6
Roads and airstrips	6
Buildings and rolling stock	5–6
Special purpose structures, machinery and equipment	3–6
Motor vehicles, boats and heavy-duty equipment	3–6

Substantial additional iron deposits are geologically proven in the western areas of the concession. If all or part of such reserves might be mined on a profitable basis, and 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 1980, 1979 or 1978. Amortization of previously deferred interest costs amounted to $104,000 in 1980, 1979 and 1978.

The pellet plant, closed in 1977 due to reduced demand and depressed selling prices for pellets, was indefinitely shut down in 1979, and the remaining net book value of the pellet plant was written off.

NOTE 8

ORGANIZATION EXPENSES, EXPLORATION AND DEVELOPMENT COSTS

LAMCO's additions to exploration and development costs in 1980, 1979 and 1978 amounted to $48,000, $684,000 and $557,000 respectively. Annual amortization for LIO amounted to $30,000 for 1980 ($25,000–1979; $25,000–1978), and for LAMCO to $4,175,000 in 1980 ($1,959,000–1979; $1,869,000–1978), including $543,000 of interest deferred during the preoperating period ($443,000–1979; $445,000–1978). LAMCO's amortization charge for 1980 includes $1,940,000 regarding the write off of net book value covering deferred exploration expenses for geographic areas where commercial mining no longer appears possible.

NOTE 9

LONG-TERM DEBT AND SHORT-TERM DEBT

The details of long-term debt are as follows (*expressed in thousand U.S. dollars*):

	December 31, 1980	1979
Senior indebtedness:		
Series A Notes 5¾%, due 1965–1980		$1,350
Series B Bonds 6¾%, due 1965–1980 payable in Deutsche marks		5,541
Series D Notes 5¾%, due 1968–1980		324
Series E Bonds 6¾%, due 1968–1980 payable in Deutsche marks		1,440
		8,655
Special term loan		8,000
Capital financing credits	$8,683	6,151
	8,683	22,806
Less–Current maturities:		
Senior indebtedness		8,655
Special term loan		8,000
Capital financing credits	2,764	1,719
	2,764	18,374
Net long-term portion:		
Senior indebtedness		
Special term loan		
Capital financing credits	5,919	4,432
	$5,919	$4,432

The senior indebtedness was fully repaid in 1980. Accordingly, all liens on the Class B common stock of LAMCO and on LAMCO's 75% interest in the LAMCO Joint Venture and dividend restrictions have been removed.

The special term loan arising from a $20,000,000 borrowing in July 1977 from a consortium of international banks was fully repaid in 1980. Accordingly LAMCO has been released from the special term loan Credit Agreement covenants.

The long-term debt remaining at December 31, 1980 consisting of capital financing credits, will mature in amounts of $2,437,000, $1,674,000, $1,279,000 and $529,000 in the years 1982, 1983, 1984 and 1985 respectively.

The short-term loans outstanding at December 31, 1980 in the amount of $19,750,000 are guaranteed by the Syndicate. These loans incur interest at annual rates varying from 9.375% to 19.5625% (15.250% to 16.375%-1979; 12.375% to 12.500%-1978) and will be due over varying periods during 1981. The maximum amount of short- term loans outstanding at any month-end during 1980, 1979 and 1978 was $29,750,000. The average amount of loans outstanding during 1980 was $21,769,000 ($20,673,000–1979; $21,981,000–1978) with average annual interest rates of 15.76%, 12.81% and 8.68% in 1980, 1979 and 1978 respectively.

Skandinaviska Enskilda Banken (Luxembourg) S.A. has supplied short-term financing from time to time during 1980. Such loans amounted to $6,000,000 at December 31, 1980 with an interest rate of 22.4375%. These loans are guaranteed by Gränges AB. LAMCO expects to pledge certain ore sales contracts and assets to secure the guarantee of its borrowing by Gränges.

During 1980 LAMCO utilized a factoring facility without recourse carrying a discountrate equivalent to the London Inter Bank Offered Rate plus 3/4%. The factoring discount rate during 1980 varied from 12.125% to 24.0625%.

NOTE 10

PENSIONS

Under the current pension plans, as described in Note 1, LAMCO's pension obligations charged to cost of production in 1980, 1979 and 1978 amounted to $1,209,000, $1,718,000 and $1,769,000, respectively. In 1979 the actuarial cost method used to estimate pension costs was modified; this change did not materially affect the annual pension costs.

The long term pension obligation is computed using the accrued benefit method and approximates the actuarially computed value of vested and non-vested benefits. The actuarially computed present value of accumulated vested benefits is approximately $300,000. The interest rate assumption is 6%. No amounts pertaining to the long term pension obligation have been funded.

NOTE 11

TAXATION

LIO was incorporated under the Companies Act of Canada and has been continued as of December 1, 1980 under the Canada Business Corporations Act. In accordance with Canadian tax regulations, all business income of LAMCO paid as a dividend to LIO is 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 will be subject to a 25% withholding tax by the Government of Liberia. A provision of $135,000 and $348,000 for such taxes is included in the expenses for 1980 and 1979 respectively.

Included in expenses for 1980 are Canadian income taxes payable amounting to $30,000, after utilization of all available tax loss carry forwards. In 1979, available tax loss carry forwards were utilized to fully offset taxes payable that otherwise would have amounted to $28,000. As of December 31, 1980 all tax loss carry-forwards which arose from years prior to 1979 have been fully utilized.

LIO's income for Canadian tax purposes differs from its net loss for financial statement purposes due to the inclusion of certain items in expenses under generally accepted accounting principles which are not deductible for Canadian income tax purposes.

The loss before adjustment for undeclared and unpaid current dividends on Series C preferred stock and for change in equity in the undistributed earnings of LAMCO attributable to common stock is reconciled to taxable income as follows *(expressed in thousand U.S. dollars):*

	1980	1979
Loss before adjustment	($74)	($531)
Add:		
Canadian taxes payable	30	
Provision for deferred Liberian taxes	135	348
Acquisition expenditures – tax basis	43	241
Taxable income before utilization of tax loss carry-forwards	134	58
Utilization of tax loss carry-forwards	(70)	(58)
Taxable income	$64	–

NOTE 12

BALANCE OF ACCUMULATED NET PROFIT (LOSS) SUBJECT TO BOARD DETERMINATION

The balance of accumulated net profit (loss) subject to Board determination is composed of the following *(expressed in thousand U.S. dollars):*

	December 31, 1980	1979
Balance of 1976 profit subject to Board determination	$19,704	$19,704
Balance of 1977 profit subject to Board determination	3,401	3,401
1978 loss	(16,796)	(16,796)
1979 loss	(32,326)	(32,326)
1980 loss	(3,165)	–
	($29,182)	($26,017)

NOTE 13

LAMCO DIVIDENDS AND LIO'S EQUITY IN LAMCO'S EARNINGS

LAMCO's Board of Directors has not declared any dividends on the Series B or C preferred stock or the Class B common stock for amounts equivalent to the accrued royalty to the Government of Liberia or on the Class A and B common stock equally since the third quarter of 1977. No dividends on the Series A preferred stock have been declared during 1978, 1979 or 1980.

As of December 31, 1980, the unpaid cumulative dividends on LAMCO's Series A, B and C preferred stock aggregated $9,357,000 of which $1,934,000 pertained to Series C ($1,315,000–1979; $773,000–1978). Under the Concession Agreement, these dividends and scheduled redemptions of preferred stock $14,600,000 must be satisfied before common stock distributions may be declared. Such unpaid cumultative dividends represent a priority distribution of LAMCO retained earnings and as such are considered income to LIO when due irrespective of when such dividends might be paid by LAMCO.

The investment in Series C preferred stock consists of the following *(expressed in thousand U.S. dollars):*

	December 31, 1980	December 31, 1979
Investment at cost	$ 9,900	$ 9,900
Undeclared and unpaid cumulative dividends	1,934	1,315
	$11,834	$11,215

In addition, an amount equivalent to the royalty paid to the Government of Liberia and which has not yet been declared as a dividended to LIO aggregating $13,916,000 at December 31, 1980 must be declared and paid before other dividends to the Class A and Class B common stockholders in equal amounts can be resumed.

LIO's equity in the changes in the undistributed earnings of LAMCO attributed to common stock has been computed in accordance with the provisions of the Concession Agreement and consists of the following elements (*expressed in thousand U.S. dollars*):

	December 31, 1980	1979	1978
LAMCO's net loss	($ 3,165)	($32,326)	($16,796)
Dividends on Series A, B and C preferred stock, undeclared and unpaid	(2,996)	(2,996)	(2,996)
Amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock	(4,435)	(4,195)	(4,281)
Basis for calculating LIO's equity in LAMCO's losses attributable to common stock	($10,596)	($39,517)	($24,073)
LIO's 50% share thereof	($ 5,298)	($19,759)	($12,037)
Add: amount equivalent to royalty paid to Government of Liberia, not yet declared as a dividend to LIO on the Class B common stock	4,435	4,195	4,281
Change in LIO's equity in undistributed earnings of LAMCO attributable to Class B common stock	($ 863)	($15,564)	($ 7,756)

LIO's investment in LAMCO Class B common stock of $18,957,000, $19,820,000 and $35,307,000 at December 31, 1980, 1979 and 1978 respectively, includes LIO's cost adjusted for LIO's 50% share of earnings, losses and dividends received plus LIO's right to a priority distribution from LAMCO's retained earnings of the unpaid equalizing dividends, equivalent to the royalty paid by LAMCO to the Government of Liberia, as follows *(expressed in thousand U.S. dollars):*

	December 31, 1980	1979
Investment in Class B common stock of LAMCO, adjusted for LIO's 50% share of earnings, losses and dividends received	$ 5,041	$10,339
Cumulative undeclared equalizing dividends, equivalent to royalty paid by LAMCO to the Government of Liberia	13,916	9,481
	$18,957	$19,820

The disproportionate sharing in LAMCO's retained earnings by LIO arises from the Concession Agreement under which the royalty to the Government of Liberia must be paid annually and accounted for by LAMCO as an expense, whereas the equalizing payment to LIO is accounted for as a dividend by LAMCO when declared and paid. The equalizing dividend is treated as income to LIO when the royalty is paid to the Government of Liberia, irrespective of when such dividends might be declared and paid by LAMCO.

NOTE 14

DIRECTORS, OFFICERS AND THEIR REMUNERATION

There are twelve directors and six officers of LIO. Three of the officers are also directors. Aggregate remuneration was $69,000 in 1980 ($56,000–1979; $56,000–1978).

NOTE 15

LAMCO CUSTOMERS

LAMCO sells its iron ore products to customers principally located in Europe. In 1980 LAMCO recorded sales to four customers, each of which is in excess of 10% of LAMCO's total sales for the year (three–1979; three–1978). Sales to these customers in 1980 were $15.6 million, $14.8 million, $13.2 million and $11.4 million ($16.7, $16.6 and $11.4 million–1979; $19.0, $15.0 and $10.9 million–1978).

NOTE 16

CONTINGENCIES AND LEGAL MATTERS

The new Government is experiencing economic and financial difficulties, and certain Liberian companies which are major vendors to the LAMCO Joint Venture are currently experiencing financial problems, most importantly, the Liberian Petroleum Refining Company on which the LAMCO Joint Venture is solely dependent for its supply of fuels and lubricants.

In February, 1980, a judgment in the amount of $293,000 was entered against the LAMCO Joint Venture and the LAMCO Mine Worker's Union, jointly and severally, by the Debt Court for Grand Bassa County, Liberia in a suit brought by a transportation company which had contracted with the union to transport workers. Subsequently, the LAMCO Joint Venture was required to post a non-interest bearing bond equal to 1 1/2 times the amount of the judgment. LAMCO's portion, amounting to $330,000 has been recorded at December 31, 1980 as cash in escrow.

Management of the LAMCO Joint Venture, upon consultation with outside counsel, maintains that it has been erroneously included as a party to the lawsuit brought by the transportation company and has appealed the judgment to the People's Supreme Tribunal of Liberia.

NOTE 17

WORKERS UNION SETTLEMENT

In August 1979, a final agreement was reached between the Joint Venture and the LAMCO Mine Workers Union. The agreement, retroactive to January 1, 1978, provided for wage increases in 1978 and 1979, housing subsidies, shift allowances, and other worker benefits. Such increases resulted in additional costs to the Joint Venture.

The collective bargaining agreement noted above expired on December 31, 1979. Negotiations with respect to a new two-year contract have not yet commenced. Until a new agreement is reached, the terms of the previous agreement apply pursuant to a government decree, which provides that there should be no wage increases in 1980 and 1981.

NOTE 18

LIO EXPENSES

Included in 1979 expenses is $253,000 for consulting, legal, accounting and other fees and expenses relating to LIO's proposed participation in the acquisition of an operating coal mine. The proposed transaction was not consummated. However LIO continued its investigations into various investment opportunities during 1980. Expenses for such activities amounted to $45,000.

NOTE 19

CURRENT OPERATIONS

As indicated in the Management's Discussion and Analysis of Financial Condition and Results of Operations, the continuation of LAMCO as a going concern, and its ability to continue support of the LAMCO Joint Venture is dependent upon its success in carrying out further cost reduction measures and the availability of short-term financing in the near term. LAMCO believes it has obtained sufficient commitments necessary to ensure the availability of short-term financing for 1981 operations and is confident that short-term working capital requirements and necessary capital expenditures can be met.

NOTE 20

CONTRACTUAL COMMITMENTS

All with Gränges AB, a member of the Swedish LAMCO Syndicate, are as follows:

Service	Fees
1 Management of the project for indefinite period, cancellable on two years' notice after 1978.	10 cents per ton of finished ore produced plus expenses.
2 Sales agent for indefinite period, cancellable on two years' notice after 1978.	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 Management and administrative services for LAMCO for indefinite period, cancellable on one year's notice.	Actual expenses as incurred.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY

LAMCO's sole business is the mining, processing and sale of iron ore and its revenues are solely derived from receipts under ore sales contracts. The worldwide iron ore market has been depressed for several years and increases in unit prices of ore have been inadequate to meet the increased costs of production and shipping. In addition, substantial arrearages in 1980 of contracted quantities of ore scheduled to be shipped adversely affected revenues. As a result, LAMCO's cash requirements in recent years, including the retirement since January 1, 1978 of \$33.5 million in long-term debt at maturity, have often exceeded the amounts of cash available from operations. Such requirements have been met with guaranteed short-term borrowings, with factoring of accounts receivable and with financing credits for capital expenditures. Short-term borrowings of \$19,750,000 have been guaranteed by the Swedish LAMCO Syndicate and short-term loans in 1980 ranging from \$4,000,000 to \$10,000,000 have been guaranteed by Granges AB. In addition, capital financing credits of \$3.8 million and \$4.8 million were obtained in 1979 and 1980, respectively.

The Manager and the Joint Venture participants have taken steps to reduce cash requirements, and LAMCO's dependence on short-term borrowings. These steps include the deferral of capital and maintenance expenditures which was begun in 1977 and other cost reduction measures, including the more economic and efficient uses of equipment, materials and supplies and a reduction in the work force.

In connection with such reduction, the Joint Venture Participants agreed in January 1980 to an across-the-board 18% reduction in staff and workers. The implementation of such program was, however, delayed at the request of the Government following the April coup d'etat. Since the coup, the reduction has been on a voluntary basis only and, because the expected cost savings during 1980 have been more than offset by severance payments and other costs, such savings have not been fully realized.

The holders of LAMCO's preferred stock have also waived until 1982 the dividends and redemptions scheduled for 1977–1981 and LAMCO has not paid any preferred or common stock dividends since late 1977.

Even after giving effect to the efforts to reduce cash requirements discussed above, unless there is in 1981 a substantial improvement in ore prices and the volume of shipments, LAMCO will be required to rely on guaranteed short-term borrowings, factoring of accounts receivable and capital financing credits in order to meet its cash requirements.

CAPITAL RESOURCES

Due to the limited capital resources available, LAMCO's capital expenditure budget has been significantly reduced in 1980 and 1981. Generally, capital expenditures are being made only when necessary to preserve the efficient operation of the mining and processing facilities. As noted above, LAMCO's required short-term borrowings have been guaranteed; similarly LAMCO has obtained financing credits for the purchase of capital equipment. In the United States, such financing credits have been guaranteed by the Export-Import Bank of the United States ("Eximbank") and in Sweden by the Swedish Export Credit Corporation ("SECC"). Because of the uncertain political and economic situation in Liberia, the SECC in late 1980 denied LAMCO's application for a guarantee of additional financing credits.

LAMCO retired all of its senior indebtedness, other than financing credits, and a special term loan in 1980. As a result security interests of the debt holders in LAMCO's Class B common stock, ore sales contracts and its 75% interest in the Joint Venture were terminated. The possibility of LAMCO obtaining additional long-term financing in the near future is dependent upon substantial improvements in the iron ore market. The need for such financing is dependent upon a commitment to develop additional iron ore reserves already held by LAMCO, the development of which would provide for LAMCO's longer-term viability.

EFFECTS OF INFLATION ON LAMCO'S RESULTS OF OPERATION AND FINANCIAL CONDITION

As indicated above, unit price increases have not been adequate to meet the increased costs of production and shipments. Virtually all of LAMCO's costs of production duting the past three years have escalated more rapidly than the general rate of inflation. These include the cost of fuel oil, explosives and additional worker benefits, such as retroactive pay adjustments and worker housing. Variable costs of production are subject to reduction but only over a relatively longer period of time than immediate reductions in quantities of ore shipped. The inflationary increases in the actual current costs of goods and services to LAMCO are not, however, the only adverse effects of inflation insofar as it may be relevant to an evaluation of LAMCO's financial condition and results of operations. Depreciation and amortization charges are based upon historical costs of capital assets. If such charges were based upon current replacement costs, operating income would be substantially reduced and net loss would be substantially increased. Exploration and development expenditures, particularly the cost of harbor, rail facilities and the mining concession would probably be substantially higher if carried at current price levels.

Although it is not possible to determine with precision the current costs of finding and developing the Joint Venture's ore body and constructing the necessary fixed production and transportation facilities, it is believed that such costs have increased at a rate at least equivalent to general inflation.

Current replacement costs of present facilities may also not be wholly conclusive indicators of the effects of inflation on LAMCO's financial condition and results of operations. For example, if the existing harbor facility were replaced, even at significantly higher cost than such facilities are carried on the balance sheet, it is probable that the harbor capacity would be expanded, enabling LAMCO to service larger vessels thereby reducing freight charges and resulting in higher f.o.b. prices.

RESULTS OF OPERATIONS

Sales revenues in 1980 increased 5.7% from 1979 principally due to the 15.8% increase in the price of ore although volume decreased from 8.1 million tons in 1979 to 7.5 million tons in 1980 due to reduced demand from the European steel industry. Prices for 1979 sales were slightly higher than 1978; however, 1978 prices were significantly lower than 1977, as a result of the onset of the worldwide recession in the steel industry and an excess supply of iron ore on the world market.

Sales volume for the years 1977 and 1978 were 6.9 million tons and 8.5 million tons, respectively.

Cost of sales for 1980 decreased from 1979 by approximately 11.3% due primarily to productivity gains, in which costs per ton were reduced by approximately 10%, associated with greatly increased production, in spite of production interruptions resulting from the coup d'etat. Cost of sales in 1980 were further reduced by lower depreciation charges resulting from the pellet plant write off in 1979, but were charged with an additional write off of some $1.9 million relating to deferred exploration expenditures for geographic areas in which mine development is not expected to take place.

Cost of sales in 1979 increased over 1978 by 4.8% due principally to costs associated with lengthy labor disputes and a major conveyor belt collapse in 1979. Lower capacity utilization resulting from substantially lower production in 1978 and increased depreciation on assets acquired in 1978 increased the 1978 cost of sales by 31%as compared with 1977. In all years production costs have increased due to inflationary cost increases for materials and supplies.

Selling expenses and the royalty to the Government of Liberia from 1978 to 1980 have fluctuated in proportion to sales. The decrease in General and administrative expenses in 1980 from 1979 was due to an insurance claim recovery in 1980 amounting to $1.1 million for a major conveyor belt collapse in 1979, offset by increased expenses for demurrage and freight of $0.6 million.

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. In October 1978 the Board of Directors of LIO announced the suspension of further dividends until substantial improvements were noted in the results of LAMCO. The suspension remains necessary because LIO received no cash dividends from LAMCO during 1978, 1979 or 1980 and does not expect to receive any during 1981.

FIVE-YEAR SUMMARY STATEMENTS OF PROFIT AND LOSS AND RETAINED EARNINGS

(Expressed in thousand United States dollars, except for per share amounts)	Year ended December 31, 1976	1977	1978	1979	1980
STATEMENT OF PROFIT AND LOSS					
Dividends and interest income:					
Dividends from LAMCO:					
Series C preferred stock	$ 668	$ 556			
Class B common stock	4,677	6,221*			
	5,345	6,777			
Interest income	153	280	$ 413	$ 452	$ 564
	5,498	7,057	413	452	564
Expenses	420	512	358	983	638
	5,078	6,545	55	(531)	(74)
Change in equity in the undistributed earnings of LAMCO attributable to common stock	12,879	(1,040)	(7,756)	(15,564)	(863)
Undeclared and unpaid current dividends on Series C preferred stock		154	619	619	619
Net profit (loss)	$17,957	$ 5,659	($ 7,082)	($15,476)	($ 318)
Earnings per share based on 3,955,025 average shares outstanding:					
Net profit (loss) per share (including $1.28 in 1976; $1.65 in 1977; $0.01 in 1978; ($0.13) in 1979 and ($0.02) in 1980 in dividends and interest income less expenses)	$ 4.54	$ 1.43	($ 1.79)	($ 3.91)	($ 0.08)
Cash dividends per share	$ 1.60	$ 1.20	$ 0.50		

	1976	1977	1978	1979	1980
STATEMENT OF RETAINED EARNINGS					
Net profit (loss)	$17,957	$ 5,659	($ 7,082)	($15,476)	($ 318)
Retained earnings at beginning of year	33,892	45,521	46,434	37,374	21,898
	51,849	51,180	39,352	21,898	21,580
Deduct–Cash dividends declared	6,328	4,746	1,978		
Retained earnings at end of the year	$45,521	$46,434	$37,374	$21,898	$21,580
Represented by:					
Accumulated profits before equity in undistributed earnings of LAMCO	$ 4,668	$ 6,467	$ 4,544	4,013	$ 3,939
Equity in undistributed earnings of LAMCO attributable to common stock	40,853	39,813	32,057	16,570	15,707
Undeclared and unpaid current dividends on Series C preferred stock		154	773	1,315	1,934
	$45,521	$46,434	$37,374	$21,898	$21,580

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

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, 1976	1977	1978	1979	1980
STATEMENT OF PROFIT AND LOSS					
Sales	$116,915	$105,639	$107,037	$104,885	$110,875
Gross profit (loss)	47,980	22,584	(1,801)	(9,132)	9,748
Selling, general and administrative expenses	3,487	3,273	3,203	3,709	3,339
Royalty to Government of Liberia	4,677	4,226	4,281	4,195	4,435
Profit (loss) from operations	39,816	15,085	(9,285)	(17,036)	1,974
Provision for loss on pellet plant				9,700	
Financing charges (net):					
Interest expense	2,776	3,675	5,612	5,159	5,455
Exchange losses (gains)	3,484	2,111	1,899	431	(316)
Net profit (loss)	$33,556	$ 9,299	($16,796)	($32,326)	($3,165)
STATEMENT OF APPROPRIATION AND DISPOSITION OF NET PROFIT (LOSS)					
Dividends on preferred stock	$ 3,122	$ 2,643			
Dividends on Class B common stock equivalent to royalty to Government of Liberia	4,677	3,221			
Appropriations by Board of Directors to reserves;					
As required by lenders	53	34			
Transfer from balance of 1976 profit		(6,000)			
Dividends distributed equally on Class A and Class B common stock		6,000			
Balance of current year's net profit subject to Board determination	25,704	3,401			
Balance of current year's loss			($16,796)	($32,326)	($3,165)
Net profit (loss)	$33,556	$ 9,299	($16,796)	($32,326)	($3,165)
Distributions to common stockholders;					
To Government of Liberia:					
Royalty	$ 4,677	$ 4,226	$ 4,281	$ 4,195	$ 4,435
Dividends on Class A common stock		3,000			
	4,677	7,226	4,281	4,195	4,435
To LIO:					
Dividends on Class B common stock equivalent to royalty to Government of Liberia	4,677	3,221			
Dividends on Class B common stock		3,000			
	4,677	6,221			
Total to Government of Liberia and LIO	$ 9,354	$13,447	$ 4,281	$ 4,195	$ 4,435

LIBERIAN IRON ORE LTD. Annual Report 1980

Processing Typografen 1. Printing Ljunglöfs