

# **STELCO INC.**

## **ANNUAL INFORMATION FORM**

For fiscal year ended December 31, 1997

APRIL 28, 1998

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## ANNUAL INFORMATION FORM DATED APRIL 28, 1998

### STELCO INC.

#### **1. INCORPORATION AND RELATED INFORMATION**

##### **1.1 Corporate Profile**

Stelco Inc. ("Stelco" or the "Corporation"), through its Business Units (one Division and eleven wholly owned subsidiaries) and jointly owned corporate entities, is in the business of producing and marketing rolled and fabricated steel products. Stelco is Canada's largest steel producer. Stelco owns four steel-producing Business Units: Hilton Works in Hamilton, Ontario; Lake Erie Steel Company Ltd. in Nanticoke, Ontario; Stelco-McMaster Ltée in Contrecoeur, Quebec; and AltaSteel Ltd. in Edmonton, Alberta. Stelco also owns a number of steel-fabricating businesses. Steel products supplied by Stelco businesses to the North American market include hot rolled, cold rolled and coated sheet, plate, bars and wire rod, and manufactured products, such as wire and wire products, and pipe and tubular products.

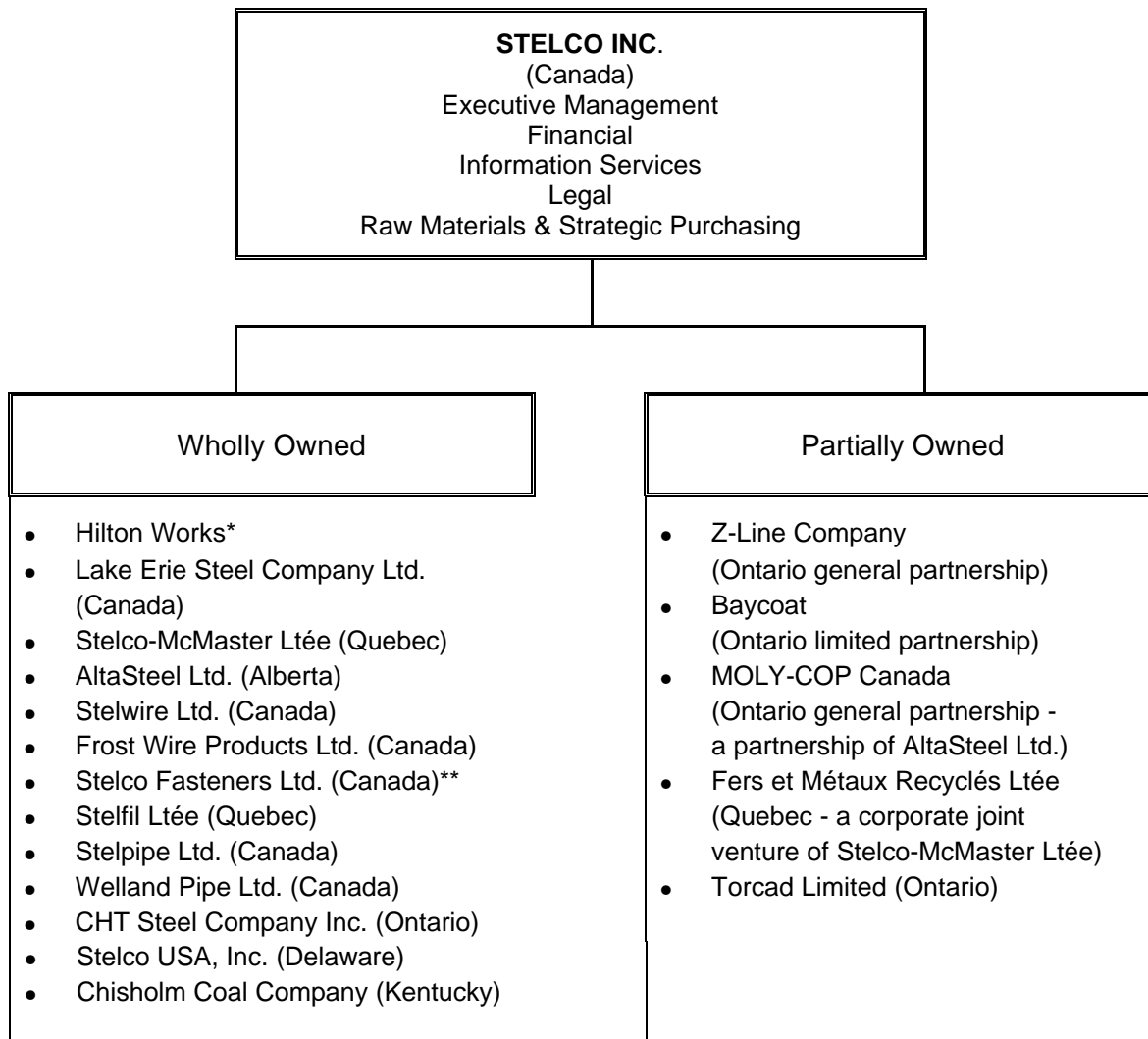
In 1997, the Stelco Group of Businesses produced 5.1 million tons of steel and shipped 4.8 million tons of steel products valued at \$3.1 billion. Annual steelmaking capacity is 5.3 million tons.

##### **1.2 Incorporation**

Stelco was created by the amalgamation, effective January 1, 1969, of The Steel Company of Canada, Limited; Page-Hersey Tubes, Limited; Premier Steel Mills Ltd.; and The Canadian Drawn Steel Company, Limited. The Steel Company of Canada, Limited, one of the predecessor corporations, was incorporated in 1910 to consolidate a number of established corporations which were engaged in the production of iron and steel, and related products. The Corporation was continued pursuant to the Canada Business Corporations Act by certificate of continuance dated June 27, 1980. The Corporation's executive offices are located at 100 King Street West, Hamilton, Ontario, Canada. The material subsidiaries of the Corporation and their respective jurisdictions of incorporation are shown on page 2 and described in section 3 – Description of the Business.

### 1.3 The Stelco Group of Businesses

The Stelco Group of Businesses with jurisdiction of incorporation or organization are set out below as at December 31, 1997. Subsidiaries and jointly owned businesses where the interest of Stelco is at least 50 percent are shown.



\* A Division of Stelco Inc.

\*\* Business was sold on January 21, 1998

## **2. GENERAL DEVELOPMENT OF THE BUSINESS**

### **2.1 Five-year Overview**

Following a severe downturn in steel consumption during the early 1990s, demand for steel products in Canada and the U.S.A. has risen steadily over the past five years. [Note that for the purpose of this report, Canada and U.S.A. will be referred to as North America.] Steel consumption in Canada in 1997 was 17 million tons, a record high.

During this period of favourable economic conditions, the Corporation's earnings and operating cash flows improved substantially. The main focus of the Corporation's efforts was to take advantage of the improved operating cash flows to strengthen its financial position, which had been weakened by strikes in 1990 and by the 1991–1992 economic downturn. By 1996, through an aggressive debt deleveraging programme made possible by strict limitations on capital expenditures, disposals of some non-core assets, and stringent cost controls, the Corporation's financial position had been restored.

Having established a solid financial base, in 1996 the Corporation's strategic emphasis shifted to enhancing shareholder value through improved financial performance. To achieve the objective of improved financial performance, the Corporation is now focusing on continuous improvement in operational performance, particularly in productivity, product yields and energy usage; increasing profitability by growth in the value-added mix of products sold; and securing access to markets through improved quality, customer service and supply dependability. In support of these efforts, capital expenditures of approximately \$450 million have been authorized since December 1995.

### **2.2 Major Events - 1993 through 1997**

#### **1993**

During the year, the plants comprising the Wire and Wire Products Group were incorporated as four wholly owned companies: Stelwire Ltd., Stelfil Ltée, Frost Wire Products Ltd., and Stelco Fasteners Ltd.

In December, agreement in principle was reached to sell Stelco Technical Services Limited to Hatch Associates Ltd. of Mississauga, Ontario; the agreement was finalized in 1994. An agreement was also reached in 1993 to sell all of the assets and all reclamation and environmental liabilities of the Mathies Mine in Pennsylvania.

The Canadian-based manufacturing businesses of Stelco negotiated new three-year labour agreements with their unions, the exception being Stelco Fasteners Ltd. of Brantford, Ontario, which concluded a one-year agreement. The labour contract at the Chisholm Mine in Kentucky expired in February; a series of extensions of the agreement were arranged until

January 1994 when a new collective agreement was signed with the United Mine Workers of America. Labour agreements at Wabush Mines, Newfoundland and Quebec, and the Eveleth Mine, Minnesota, expired during the year; unionized employees at both locations worked without a collective agreement.

Trade rulings rendered by the U.S. Department of Commerce in June contained dumping margins of 68.7 percent on steel plate, 16.86 percent on hot rolled sheet, 48.29 percent on cold rolled sheet and 28.27 percent on corrosion-resistant (galvanized) sheet. Given the size of these margins, it was necessary for the Units affected, Hilton Works and Lake Erie Works, to reposition their order books. When the U.S. International Trade Commission handed down "no injury" findings in July for hot and cold rolled sheet products, the Units continued normal sale of these particular products in the U.S. segment of the North American marketplace.

During the year, Stelco, along with other Canadian steelmakers, filed unfair trade cases against the U.S. and other selected countries covering cut-to-length plate, and hot rolled, cold rolled and galvanized sheet. Margins of dumping were found in all cases. Injury was found in the case of cold rolled sheet and partial injury was found in the case of plate. No injury was found in the hot rolled sheet case. The galvanized sheet case remained in process at year-end.

Redemption and repurchase of the Corporation's long-term debt for sinking fund purposes totalled \$52 million.

## **1994**

Page-Hersey Works and Welland Tube Works were incorporated as wholly owned subsidiary companies—Stelpipe Ltd. and Welland Pipe Ltd.

Stelco's 50 percent ownership in M E International was sold to GS Technologies Corporation of Missouri. The 50 percent ownerships in Jannock Steel Fabricating Company of Oakville, Ontario, and Jannock Steel Fabricating Inc. of Kentucky were sold to Jannock Limited of Toronto, Ontario.

Hilton Works and Mitsubishi Corporation formed a corporate venture to acquire and finance a pulverized coal injection facility to supply energy to this Unit's blast furnaces.

Steel production at Hilton Works was adversely affected by an unplanned outage at "D" Blast Furnace in late November that kept the facility off line until the beginning of January 1995. Lost production was largely offset by purchasing steel and drawing down inventories, enabling this Unit to maintain shipments and provide good customer service.

In July, Stelco Fasteners Ltd. signed a three-year collective agreement, with a company option to renew for a fourth year, with Local 3767, United Steelworkers of America. New three-year collective agreements were ratified with United Steelworkers of America locals at the Wabush and Eveleth Mines.

Common Share Purchase Warrants issued in 1991 as part of a major equity financing were exercised in 1994, resulting in 22 million Series A Convertible Common Shares being issued for a total consideration of \$125 million.

Four long-term debt issues totalling \$133 million were redeemed in advance of their normal expiry dates, and repurchase of long-term debt for sinking fund purposes totalled \$9 million. An option to reacquire the assets associated with the slab caster at Lake Erie Works for \$25 million was exercised; these assets had been sold and leased-back in 1984. In November, the Corporation made its first semi-annual payment of \$15 million on the notes issued to finance construction of the slab and bloom caster facilities at Hilton Works in the mid-1980s.

Regular cash dividends of \$14 million were paid on all series of Preferred Shares. An additional amount of \$3 million in respect of preferred share dividend arrears was paid, reducing the total dividend in arrears to \$34 million at year-end.

## **1995**

Surplus land and buildings in Burlington, Ontario, formerly used as a fastener shipping facility were sold.

During the year, Hilton Works idled its tinplate production assets and withdrew from the market for tinplate. Steel formerly sold to container manufacturers was diverted into other markets principally in the form of cold rolled, galvanized and prepainted products.

The Pulverized Coal Injection facility at Hilton Works began operation at year-end. This facility, which injects coal directly into the two blast furnaces, reduces operating costs by replacing more expensive coke with pulverized coal as part of the furnace burden and enhances environmental performance by allowing the idling of three of this Unit's older coke oven batteries.

A debt issue of \$150 million was purchased in advance of its 1998 maturity date, and the repurchase of long-term debt for sinking fund purposes totalled \$8 million. Payments on the notes payable issued in the 1980s to finance the construction of the slab and bloom caster facilities at Hilton Works totalled \$30 million. In addition, all \$9 million in outstanding long-term debt at Eveleth and Tilden iron ore mines was discharged. During the year, both the Canadian Bond Rating Service and the Dominion Bond Rating Service restored Stelco's senior and subordinated debt to investment grade.

Regular quarterly cash dividends on all series of preferred shares were paid in the amount of \$14 million. In addition, all dividend arrears, totalling \$34 million, were paid. The purchase of preferred shares pursuant to share condition requirements had been suspended as long as dividends were in arrears. During the year, purchases resumed upon declaration and payment of all dividends in arrears.

## 1996

In April, Stelco's 40 percent interest in Bliss & Laughlin Industries Inc. was sold.

New collective agreements were signed with the United Steelworkers of America locals at nine Business Units. These agreements will run for six years at Hilton Works, Stelco-McMaster Ltée and Stelwire Ltd. (Burlington Works); for four years at Lake Erie Steel Company Ltd. and Stelwire Ltd. (Parkdale Works); for three years at AltaSteel Ltd., Frost Wire Products Ltd., and Stelfil Ltée; and for two years at CHT Steel Company Inc.

At Stelpipe Ltd., operations halted on October 31 when this Company and Local 523, CAW/TCA Canada were unable to reach a new labour agreement and the CAW/TCA elected to strike. The strike was ongoing at year-end. At Welland Pipe Ltd., an agreement with Local 523, CAW/TCA Canada to temporarily extend the labour agreement that expired October 31 allowed this Company to continue operations.

The process of organizational restructuring continued with the conversion of Lake Erie Works to the status of a wholly owned subsidiary known as Lake Erie Steel Company Ltd.

Lake Erie Steel successfully completed a 35-day planned shutdown when major repairs were made at the blast furnace, coke ovens, steelmaking, and central power station.

During the year, six more of the wholly owned Business Units received ISO 9002 registration status in recognition of their ongoing commitment to improved product and service quality. All manufacturing Units are ISO 9002 certified.

During 1996, Hilton Works participated actively in the administrative reviews by the U.S. Department of Commerce (DOC) of 1993 rulings involving steel shipments of plate and galvanized sheet from Canada to customers in the U.S. In March, the DOC issued its final margins on shipments for the period ending July 31, 1994. The low rates obtained by all Canadian producers were appealed by U.S. petitioners. In September, the DOC announced preliminary margins of zero and 0.45 percent respectively for sales of plate and galvanized sheet by Hilton Works for the 12 months ending July 31, 1995. In its final determination issued April 4, 1997, the DOC confirmed the zero margin for plate but increased the margin for galvanized to 0.55 percent, which is over the "de minimis" level of 0.5 percent and thus requires duty deposits for each shipment into the U.S.

In December 1996, Hilton Works' management requested that Revenue Canada investigate the injurious dumping of carbon steel plate from China, Mexico, Poland, Russia, and South Africa. The action was supported by the other Canadian plate producers and follows closely a similar complaint filed in the U.S. by producers exposed to dumped plate from many of the same sources. In February 1997, Revenue Canada accepted the case presented by Hilton Works.



During the year, the Corporation announced that it was proceeding with several projects, which will significantly upgrade production facilities:

- A \$23 million walking beam bloom reheat furnace to be built at the Bloom and Billet Mill at Hilton Works to enhance billet quality and reduce conversion costs by 30 percent when completed in 1998.
- An \$85 million upgrade of the Plate Mill at Hilton Works to reduce operating costs, enhance quality, expand product range, and increase mill capacity.
- At Hilton Works, a \$108 million upgrade to No. 7 Coke Oven Battery to reduce coke costs, improve output, and improve environmental performance.
- Lake Erie Steel to undertake a \$105 million upgrade and expansion of its facilities. When completed in 1998, this programme will increase capacity by 20 percent and enhance cost, quality, and product range.

A debt issue with an outstanding balance of \$20 million was repurchased in advance of its maturity date. Payments on the notes payable issued in the 1980s to finance the construction of the slab and bloom caster facilities at Hilton Works totalled \$30 million.

An unscheduled plant-wide shutdown at Hilton Works in June, caused by an electrical failure, halted production at this facility for 48 hours. Failure of a 6,000 hp drive motor on Lake Erie Steel's hot strip mill interrupted strip rolling for 11 days in December.

## **1997**

In May, Welland Pipe Ltd. entered into a new four-year labour agreement with its hourly-rated employees, who had been working under a temporary extension to an agreement that expired on October 31, 1996. In July, Stelpipe Ltd. successfully negotiated the resolution of a work stoppage, which began on October 31, 1996; the new agreement expires in July 2001. Also, during the year, Chisholm Coal Company signed a new labour agreement with the United Mine Workers of America, which will expire on December 31, 2002.

During the year, the Canadian International Trade Tribunal ("CITT") upheld an anti-dumping complaint filed in December 1996 by Stelco and other Canadian producers concerning plate imported from China, Mexico, Russia, and South Africa. An appeal to a binational panel has been filed by Mexico. The CITT also initiated sunset reviews of two existing unfair trade findings; the first relating to the May 6, 1993, finding on plate and the second relating to a cold sheet finding of July 29, 1993. Stelco and the other Canadian producers have filed submissions proposing that the rulings be kept in place.

In the United States, wire rod producers Co-Steel Raritan, G.S. Technologies, North Star Steel, and Keystone Steel and Wire filed both antidumping and countervail complaints against imports from Canada, Germany, Trinidad and Tobago, and Venezuela. The U.S. Department of Commerce found no subsidization of Stelco shipments. In November, the U.S. International Trade Commission ("ITC") voted no injury with respect to subsidization. In

February 1998, the U.S. Department of Commerce established a 0.91 percent margin for Stelco in its dumping investigation, the lowest margin found against any of the corporations included, and below the “de minimis” level of 2 percent for new investigations. In March 1998, the ITC voted no injury with respect to dumping.

At year-end, the Corporation recorded an after-tax charge of \$10 million, or \$0.10 per share, against its investment in Stelco Fasteners Ltd. This Unit was subsequently sold on January 21, 1998, to Genfast Manufacturing Company.

The Corporation continued with the significant capital projects initiated in 1996. Capital spending on these and other projects totalled \$252 million in 1997. The \$105 million upgrade and expansion at Lake Erie Steel Company Ltd. was essentially completed by year-end. Construction and commissioning of the slab caster, the major undertaking in the project, was completed in November 1997. Installation of a second casthouse at the Blast Furnace was completed in January 1998. The remaining projects are scheduled for completion in 1998. During 1997, the Corporation announced approval of a \$12 million project for Phase 1 of a programme to upgrade cold-rolling facilities at Hilton Works.

During 1997, the Corporation received \$153 million from drawdowns on previously arranged long-term debt financing for major capital projects. Repayments of long-term debt totalled \$57 million in 1997. Debts paid down were \$30 million on the notes payable issued in the 1980s to finance the construction of slab and bloom caster facilities at Hilton Works, \$13 million on the term loan at Stelco-McMaster Ltée and \$14 million against amounts owing by proportionately consolidated joint ventures.

In June 1997, the Corporation declared the first common share dividend in six years. On February 2, 1998, the Corporation announced that it had exercised its right to redeem about 60 percent of its outstanding preferred shares and that a plan was in place to purchase up to 5 percent of the outstanding common shares. These steps reflect the substantial strengthening of the balance sheet.

The United Steelworkers of America union local at Hilton Works filed a complaint with the Ontario Labour Relations Board regarding certain pension plan payments. Refer to section 3.15 on Page 29 for more information.

### **3. DESCRIPTION OF THE BUSINESS**

#### **3.1 Market Overview**

Canadian and U.S. steelmakers serve North American customers in a North American marketplace. Steel's automotive customer and supplier base is characterized by common ownership on both sides of the border. Purchasing decisions involve comparable products at comparable prices with emphasis being placed upon quality, service, and supply dependability, and not on country of origin.

The North American steel industry is also characterized by vigorous competition amongst the resident producers. The growth in recent years in steel output from mini-mills, which produce steel from scrap in electric-arc furnaces, and the emergence of thin-slab casting technologies, which allow mini-mills to produce certain sheet products, has substantially increased competitive pressures.

North American steel producers also face significant competition from foreign producers. The intensity of such competition is affected by global steelmaking capacity, worldwide demand for steel products, and relative currency valuations. Some foreign steel producers are owned, controlled or subsidized by their governments; consequently, their sales decisions may be influenced by political and economic policy decisions rather than by prevailing market conditions. The Corporation monitors steel imports for compliance with fair-trade practices and initiates action under Canadian trade legislation where there is evidence of unfair trade.

The following tables set out summary information regarding producer shipments and steel consumption in Canada and the U.S.:

**Apparent Steel Consumption – Canada**

(Million Tons)	1997	1996	1995	1994	1993
Gross Shipments	16.0	15.6	14.7	14.8	14.7
Less: Exports	(5.3)	(5.3)	(5.1)	(4.9)	(5.4)
Domestic Shipments	10.7	10.3	9.6	9.9	9.3
Imports (ex producer imports)	6.2	4.0	4.1	4.3	2.6
Apparent Consumption	17.0	14.3	13.7	14.2	11.9
Imports (%)	37	28	30	30	22

**Apparent Steel Consumption – U.S.**

(Million Tons)	1997	1996	1995	1994	1993
Gross Shipments	105.5	100.9	97.5	95.1	89.0
Less: Exports	(6.0)	(5.0)	(7.1)	(3.8)	(4.0)
Domestic Shipments	99.5	95.8	90.4	91.3	85.1
Imports (ex producer imports)	24.8	21.6	19.2	22.1	14.5
Apparent Consumption	124.3	117.4	109.6	113.4	99.6
Imports (%)	20	18	18	19	15

The following table sets out Stelco Inc.'s consolidated shipments and market share:

**Consolidated Shipments – Stelco Inc.**

(Thousand Tons)	1997	1996	1995	1994	1993
Steel Shipments	4,818	4,577	4,380	4,460	4,492
Domestic Shipments					
- Percent of Apparent Canadian Consumption	24	25	27	25	28
Total Shipments					
- Percent of Apparent Canadian and U.S. Consumption	3	4	4	3	4

Over the 1993–1997 period, Stelco's shares of the domestic market and of the combined Canada and U.S. markets have remained relatively stable in the 24 to 28 percent and 3 to 4 percent ranges, respectively.

### 3.2 Products and Markets

The following table provides the Corporation's total consolidated sales and a percentage breakdown by major product group over the past five years:

#### Sales By Product Type

	1997	1996	1995	1994	1993
Consolidated Sales (\$ millions)	3,149	2,941	2,926	2,916	2,491
Hot Rolled Sheet	27%	24%	24%	23%	23%
Cold Rolled Sheet	11	11	11	10	9
Coated Sheet	22	22	21	23	25
Plate	6	6	7	6	5
Bars & Wire Rod	16	17	18	17	17
Wire & Wire Products	10	10	10	10	11
Pipe & Tubular Products	6	8	8	9	9
Other	2	2	1	2	1
Total	100%	100%	100%	100%	100%

The following table provides steel shipments from the Corporation's steel-producing Units and a percentage breakdown by principal markets:

#### Shipments By Market Sector

	1997	1996*	1995*	1994*	1993*
Rolled Steel Shipments (thousand tons)	4,786	4,578	4,346	4,420	4,504
Automotive	35%	36%	36%	36%	38%
Steel Service Centres	26	25	25	21	20
Pipe & Tubular Products	12	13	12	16	16
Fabrication & Manufacturing	12	12	13	12	12
Other	5	2	2	2	1
Subsidiaries (section 3.7)	9	11	12	13	13
Total	100%	100%	100%	100%	100%

\*Figures for 1993 through 1996 have been reclassified.

### 3.3 Business Strategy

The current focus of Stelco's business strategy is to maintain its solid financial position and enhance shareholder value through improved financial performance. This will be accomplished through: continuous improvement in operational performance to reduce costs (particularly in productivity, quality, product yields and energy usage); improvement in the value-added mix of products sold; and securing access to markets through improved quality, customer service and supply dependability. Selective facility investment and workforce training will be employed to equip our people with the technology and skills required to carry out this strategy.

### 3.4 Business Units

An outline of the Corporation's key operating businesses is provided below:

Type of Operation	Unit/Location	Stelco <sup>(1)</sup> Ownership	Principal Products	1997 Sales <sup>(2)</sup> (\$ millions)
Integrated Steelmaking	Hilton Works Hamilton, Ontario	Division of Stelco Inc.	Hot Rolled Sheet Cold Rolled Sheet Coated Sheet Plate Bars Wire Rod	\$ 1951
	Lake Erie Steel Company Ltd. Nanticoke, Ontario	100%	Hot Rolled Sheet	\$ 969
Mini-Mill Steelmaking	Stelco-McMaster Ltée Contrecoeur, Quebec	100%	Billets Merchant & Special Quality Bars	\$ 197
	AltaSteel Ltd. Edmonton, Alberta	100%	Merchant & Special Quality Bars	\$ 124
Manufactured Products	Stelwire Ltd. Hamilton, Ontario	100%	Wire & Wire Products	\$ 206
	Frost Wire Products Ltd. Hamilton, Ontario	100%	Wire Fence & Fabric	\$ 34
	Stelfil Ltée Lachine, Quebec	100%	Wire & Wire Products	\$ 75
	Stelco Fasteners Ltd. <sup>(3)</sup> Brantford, Ontario	100%	Automotive Fasteners	\$ 65
	Stelpipe Ltd. Welland, Ontario	100%	Pipe & Tubular Products	\$ 31

Type of Operation	Unit/Location	Stelco <sup>(1)</sup> Ownership	Principal Products	1997 Sales <sup>(2)</sup> (\$ millions)
Steel Processing	Welland Pipe Ltd. Welland, Ontario	100%	Large-Diameter Oil & Gas Transmission Pipe	\$ 92
	Camrose Pipe Company Camrose, Alberta	40%	Pipe & Tubular Products Large-Diameter Oil & Gas Transmission Pipe	\$ 184
	MOLY-COP Canada Kamloops, B.C.	50%	Grinding Balls	\$ 50
	CHT Steel Company Inc. Richmond Hill, Ontario	100%	Heat Treatment of Plate	\$ 7
	Stelco USA, Inc. Troy, Michigan	100%	Consignment, Processing & Warehousing	\$ U.S. 61
	Z-Line Company Hamilton, Ontario	60%	Zinc Coating of Cold Rolled Steel	\$ 62
	Baycoat Hamilton, Ontario	50%	Painting of Cold Rolled & Galvanized Steel	\$ 84
Raw Materials	Torcad Limited Toronto, Ontario	50%	Metal Plating & Finishing	\$ 15
	Chisholm Coal Company Jamboree, Kentucky	100%	Coal	\$ U.S. 30
	Wabush Mines Newfoundland & Quebec	37.9%	Iron Ore	\$ 233
	Hibbing Mine Minnesota	15%	Iron Ore	\$ U.S. 292
	Eveleth Mines L.L.C. Minnesota	15%	Iron Ore	\$ U.S. 170
	Tilden Mining Company L.C. Michigan	15%	Iron Ore	\$ U.S. 237
	Fers et Métaux Recyclés Ltée New Brunswick & Quebec	50%	Scrap	\$ 70

(1) Direct or Indirect

(2) Sales include inter-unit transactions at market price. For the partially owned Units, sales represent 100 percent of the business activity.

(3) This business was sold on January 21, 1998.

### **3.5 Integrated Steelmaking Operations**

#### **3.5.1 Hilton Works**

The Hilton Works Business Unit is a Division of Stelco Inc. It occupies 1,100 acres, including harbour facilities, in Hamilton. It is a fully integrated steelmaking facility and is Stelco's largest Business Unit. Its location on Lake Ontario provides good access to raw material sources in Canada and the U.S.A. via water-borne transportation. In addition, its location provides ready access via water, rail, and highway transportation to steel-consuming markets in Canada and the U.S.A.

##### **(a) Semi-finished Steel**

Facilities used in the production of semi-finished steel include two coke oven batteries, a pulverized coal injection facility, two blast furnaces, a three-vessel basic oxygen furnace shop, and a ladle metallurgy/continuous casting complex with one slab caster and one combination slab/bloom caster. Semi-finished steelmaking capacity is approximately 2,700,000 tons. In 1996, a \$108 million upgrade to No. 7 Coke Oven Battery was announced; this project will reduce coke costs, improve output, and improve environmental performance. At year-end 1997, work on this project was proceeding as scheduled for completion of construction in the fourth quarter of 1998.

Steel slabs and blooms produced are used at Hilton Works in the production of plate, sheet, and rod and bar products.

##### **(b) Plate and Strip**

Slabs for flat rolled products are hot-processed through a 148-inch plate mill or a 56-inch coilbox-equipped hot strip mill. Steel from the Hot Strip Mill is shipped as hot rolled product or further processed through one of three pickle lines prior to processing through one of two cold reducing mills. This 56-inch strip mill was upgraded with the installation of an \$8 million automation package completed in 1997.

The 148-inch plate mill is being modernized to a "New Generation Plate Mill" with the capital expenditure of \$85 million. The new upgraded unit will be a combination discrete plate and coil plate rolling facility incorporating the Steckel Mill Rolling Process. The mill will have lower costs and increased productivity and capabilities to meet the quality demanded in the market place in both discrete plate and skelp products. At year-end 1997, work on this project was proceeding toward completion of construction in the fourth quarter of 1998.

This Division is a major supplier of plate products in the North American market; products include commercial-grade plate, heat-treated plate produced at CHT Steel



Company Inc. and skelp for high-strength, large-diameter transmission pipe. The Division's production of hot rolled strip is shipped to the Cold Rolled and Coated Division at Hilton Works for further processing or is sold to external customers.

Principal markets for plate products in North America are steel service centres, steel fabricators, railway car manufacturers, shipbuilders, and producers of large-diameter transmission pipe for the oil and gas industry. The product is used to make such things as pressure vessels, off-highway vehicles, and heavy equipment. Over the past five years, approximately 13 percent of the sales of this Division were shipped to related-party customers.

This Division's major competitors in the plate market include Algoma Steel Inc. and Ipsco Inc. in Canada, several integrated steel producers in the U.S.A., and imports.

Major competitors in the hot rolled sheet market include Dofasco Inc. and Algoma Steel Inc. in Canada, a number of integrated and mini-mill steel producers in the U.S.A., and imports.

**(c) Cold Roll and Coated**

Hot rolled sheet which has been "pickled" (i.e. cleaned of rolling scale) is further processed by cold rolling through an 80-inch 4-stand, 4-high tandem mill or a 56-inch 5-stand, 4-high tandem mill. The Division's other facilities include batch annealing and temper mills and two hot-dip galvanizing lines. The Division also provides management and operating services to the Z-Line Company (see Z-Line Company on Page 23).

Hilton Works is a major supplier of cold rolled and coated products to the North American market. Products include cold rolled, galvanized and prepainted sheet. Prepainted sheet is produced at Baycoat (see Baycoat on Page 23).

Principal markets for cold rolled and coated products in North America are the automotive, construction, appliance, and steel service centre sectors.

The Division's principal competitors in the market for cold rolled and coated sheets in North America include Dofasco Inc. in Canada, a number of integrated steel producers in the U.S.A., U.S.-based speciality producers of cold rolled and/or coated sheet, and imports.

#### **(d) Rod and Bar**

Blooms for long products (i.e. rod and bar) are hot-processed through a bloom and billet mill to produce billets, which are then processed through either a bar mill or rod mill. The rod mill is also used to process billets for outside producers. Installation of a \$23 million walking beam bloom reheat furnace is under way at the bloom and billet mill; this investment is expected to improve mill productivity and product quality, and reduce operating costs. At year-end 1997, work on this project was proceeding as scheduled for completion in the second quarter of 1998.

Principal markets for rod and bar products in North America are the automotive sector, and wire and wire products producers. Over the past five years, approximately 38 percent of the sales of this Division were shipped to related-party customers.

This Division's principal competitors in North America include Ivaco Inc. and Ispat-Sidbec Inc. in Canada, and a number of mini-mill and speciality producers in the U.S.A.

#### **3.5.2 Lake Erie Steel Company Ltd.**

Lake Erie Steel Company Ltd., a wholly owned subsidiary, is situated on 4,100 acres in Nanticoke, Ontario, on the north shore of Lake Erie approximately 40 miles from Hamilton. This fully integrated steelmaking facility, commissioned in stages from 1980 to 1983, is Stelco's newest plant and the most recent greenfield integrated steel complex to be built in North America. A 2,500-acre industrial park and a woodlot preserve form a buffer zone on the north side of this facility in a predominantly rural location. Its location provides good access to raw material sources in the U.S.A. via water-borne transportation. Its location also provides ready access via highway transportation to steel-consuming markets in Canada and U.S.A. In 1996, Lake Erie Works was incorporated to become Lake Erie Steel Company Ltd.

Primary production facilities include coke ovens, one blast furnace, a two-vessel basic oxygen furnace shop, a vacuum degasser and a twin-strand slab caster. Semi-finished steelmaking capacity is 1.9 million tons, all in the form of slabs. Slabs produced at Lake Erie are rolled on a coilbox-equipped 80-inch hot strip mill. In support of its position as a premier producer of hot rolled sheets, this Unit is completing a \$105 million programme to upgrade its facilities. This programme is designed to improve productivity and product quality, and increase capacity to 2.3 million tons to enable this Unit to meet the growing demand for high-quality hot rolled sheet. At year-end 1997, this project was essentially completed; construction and commissioning of the slab caster, the major undertaking in the project, was completed in November 1997, and installation of a second casthouse at the Blast Furnace was completed in January 1998.

Lake Erie Steel Company is focused on the production and sale of high-quality hot rolled sheet. Principal markets for hot rolled sheet products in North America are the

automotive sector, steel service centres, and pipe and tubular products manufacturers. Over the past five years, approximately 31 percent of the sales of this Unit were shipped to related-party customers.

Lake Erie Steel's major competitors in the North American market for hot rolled sheet include Dofasco Inc. and Algoma Steel Inc. in Canada, a number of integrated and mini-mill steel producers in the U.S.A., and imports.

### **3.6 Mini-Mills**

#### **3.6.1 Stelco-McMaster Ltée**

Stelco-McMaster Ltée, a wholly owned subsidiary with its head office and plant in Contrecoeur, Quebec, about 35 miles from Montreal, is a stand-alone mini-mill steelmaking facility. The facility has ready access to major North American steel markets via rail and truck, and to offshore markets via year-round shipping facilities operated by the Port of Contrecoeur, located near the plant. Stelco-McMaster produces steel from scrap sourced in Canada and the northeastern United States. Stelco-McMaster owns 50 percent of Fers et Métaux Recyclés Ltée, a processor of ferrous and non-ferrous scrap (see section 3.9.4 on Page 25). Through its relationships with Fers et Métaux and other scrap suppliers, Stelco-McMaster has access to stable and adequate scrap supplies.

Steelmaking facilities include one 130-ton electric-arc furnace, a ladle metallurgy station and a four-strand billet caster. Semi-finished steelmaking capacity is approximately 500,000 tons per year. Bar mill facilities include a cross-country mill equipped with four 12-inch, one 14-inch, two 18-inch and two 20-inch rolling stands and an automatic bar packaging system. Bar rolling capacity is approximately 300,000 tons. Facilities improvement projects completed in 1997 were: a high-output, water-cooled oxygen lance for the steelmaking furnace; electromagnetic mould stirring; and replacement of the steelmaking furnace power transformer.

Stelco-McMaster manufactures and sells billets, rebar, merchant quality and special quality bars, and railway-related products.

Principal markets served by Stelco-McMaster include the automotive-related, railway, and construction sectors, and steel service centres in North America. Efforts are under way to expand market participation in Mexico and South America. Over the past five years, approximately 25 percent of the sales of this Unit were shipped to related-party customers.

Stelco-McMaster's major competitors in the North American market include Ispat-Sidbec Inc., Co-Steel Inc., Gerdau Courtice Steel Inc., Gerdau MRM Steel Inc. and Slater Industries Inc. in Canada, and a number of mini-mill steel producers in the U.S.A.

### **3.6.2 AltaSteel Ltd.**

AltaSteel Ltd., a wholly owned subsidiary with its plant and head office in Strathcona County near Edmonton, Alberta, is a stand-alone mini-mill steelmaking facility. AltaSteel produces steel from scrap sourced primarily from Western Canada. Scrap is purchased from local scrap dealers and scrap-generating customers. AltaSteel owns 50 percent of MOLY-COP Canada, (see section 3.7.4 on Page 22), a producer of grinding balls for the Canadian mining industry.

Steelmaking facilities consist of one 80-ton electric arc furnace, a ladle furnace, and one 3-strand billet caster. Semi-finished steel capacity is approximately 325,000 tons per year. The bar mill has evolved into a configuration which features two rolling outlets providing flexibility for a wide range of products. In addition, AltaSteel operates a scrap preparation facility, which includes an auto hulk shredder. During 1997, AltaSteel completed a \$5 million programme to install a ladle furnace that will permit more precise control of the steel refining process which will enhance product quality and reduce costs. Start-up was on schedule in early 1998. Other facilities improvement projects largely completed in 1997 include facilities for automatic bundling of bars, installation of oxy-fuel wall burners on the electric furnace, and purchase of a CNC roll-lathe.

AltaSteel manufactures and sells merchant quality and special quality bars.

Principal markets served by AltaSteel Ltd. include the mining, construction and manufacturing industries, the automotive-related sector, the oil and gas industry, and steel service centres. Over the past five years, approximately 40 percent of this Unit's sales were shipped to a related party.

AltaSteel's major competitors in the markets it serves are Co-Steel Inc., Gerdau MRM Steel Inc. and Ispat-Sidbec Inc. in Canada, and a number of mini-mill steelmakers located in the U.S.A.

## **3.7 Manufactured Products**

### **3.7.1 Wire Businesses**

#### **Stelwire Ltd.**

Stelwire Ltd., a wholly owned subsidiary with its head office in Hamilton, Ontario, and plants in Hamilton (Parkdale Works) and Burlington, Ontario (Burlington Works), is one of North America's largest producers of steel wire and nails.

The Parkdale Works operation consists of a 621,000-square-foot production plant located on a 51-acre site. Facilities include rod storage and handling, 2 cleaning and coating lines, more than 40 wire drawing machines, a batch annealing shop, over 100 nail machines, a 36-strand hot-dip wire galvanizing line, 1 stabilized prestressed concrete strand manufacturing

line and 3 oil-temper lines. The plant also operates extensive wire and nail packaging, inspection, testing, maintenance and shipping facilities. The Burlington Works operation consists of a 91,000-square-foot production plant located on a 26-acre site. Facilities include a cleaning and coating line and 2 high-capacity continuous annealing furnaces.

Products manufactured at Stelwire include cold heading wire, low carbon bright and galvanized industrial quality wire, high carbon and alloy wire for springs and wire screens, prestressed concrete strand, processed rod and bar, and a wide range of bright and galvanized nails.

Stelwire services the major industrial and commercial markets of North America either directly or through distributors. The automotive, agricultural, construction and household sectors of the North American market make up a large portion of Stelwire's customer base. Over the past five years, approximately 18 percent of the sales of this Unit were to related-party customers.

Stelwire's major competitors in the North American market are Ivaco Inc., Ispat-Sidbec Inc., Titan Steel and Wire Co. Ltd., Tree Island Industries Ltd., Duchesne & Fils Limitée and Laurel Steel (Div. of Harris Steel Group) in Canada, a number of wire and wire products producers based in the U.S.A., and imports.

### **Stelfil Ltée**

Stelfil Ltée, a wholly owned subsidiary with its head office and plant in Lachine, Quebec (near Montreal), produces wire and wire products.

Stelfil's operation is located in a 443,000-square-foot manufacturing facility on a 20-acre site. Facilities include rod storage and handling, a fully-automated batch cleaning and coating line, 2 hot-dip galvanizing and 2 electro-galvanizing lines, 1 patenting line, 26 wire drawing frames, a small batch anneal operation, and 2 tubular wire stranders. The facility is also equipped with extensive material testing and maintenance facilities.

Products manufactured at Stelfil include low and high carbon wire, bright and galvanized wire, and industrial and special quality wire.

Stelfil services the major industrial markets in North America either directly or through distributors. The communication-cable, pulp-tying, electrical, and construction sectors of the North American market make up a large portion of Stelfil's customer base. Over the past five years, approximately 10 percent of the sales of this Unit were to related-party customers.

Stelfil's principal competitors in the North American market are Ivaco Inc. and Ispat-Sidbec Inc. in Canada, a number of wire and wire products producers based in the U.S.A., and imports.

### **Frost Wire Products Ltd.**

Frost Wire Products Ltd., a wholly owned subsidiary with its head office and plant in Hamilton, Ontario, is Canada's largest manufacturer of fence and welded wire products.

Frost's Hamilton operation is housed in a 320,000-square-foot facility located on a 15-acre site. Facilities include a hot-dip galvanizing line for chain link and light welded-wire fabrics, 9 welded-fabric machines, 9 chain-link looms, 3 tightlock fence looms, 1 hingelock loom, 2 vinyl extruders, 14 barbed wire machines, a post punch and paint line, and a number of wire coiling and bundling machines.

Products manufactured by Frost include chain link fence, welded wire fabric, farm fencing, barbed wire, and a range of packaged wire, fence accessories and merchant wire products.

Frost's principal customers are in the construction, farm, residential, and industrial sectors, primarily in Ontario and Quebec, although products are shipped coast-to-coast in Canada and to selected U.S. markets.

Frost's competitors in Canada for construction and welded wire mesh are - Laurel Steel (Div. of Harris Steel Group), Canadian Phoenix Ltd., Ivaco Inc., Duchesne & Fils Limitée, Fertek Inc. Frost's competitors for fence products in Canada are Tree Island Industries Ltd., Langley Wire Ind. Ltd., Advanced Fence and Wire Manufacturing, Clôture Lasalle Ltée, and imports from manufacturers in the U.S.A.

### **3.7.2 Stelco Fasteners Ltd.**

Stelco Fasteners Ltd., a wholly owned subsidiary of the Corporation as of December 31, 1997, was sold on January 21, 1998, to Genfast Manufacturing Company for net proceeds of \$11 million. As a result of the sale, Stelco Inc. recorded an after-tax charge of \$10 million or \$0.10 per share against its fourth quarter earnings for 1997. The Company produces engineered and standard fasteners primarily for the automotive industry.

### **3.7.3 Pipe and Tubular Businesses**

#### **Stelpipe Ltd.**

Stelpipe Ltd., a wholly owned subsidiary with its head office and plant in Welland, Ontario, manufactures pipe and tubular products in diameters ranging from 0.5 to 16 inches.

Facilities at Stelpipe include one electric-resistance-weld, hot-stretch-reduction mill (ERW/SRM), two ERW pipe mills and one cold-drawn tubing mill. Pipe-making capacity is approximately 300,000 tons.

Stelpipe's product range includes oil well tubing hollows, oil well casing hollows, water well casing, sprinkler pipe, hollow structural sections, mechanical, pressure and automotive tubing, heating and plumbing pipe, galvanized pipe, drill rod and specialty tubing.

Stelpipe's principal markets are the North American automotive, construction, manufacturing, fabricating, and distribution market sectors.

Stelpipe's competitors include Ispat-Sidbec Inc., Ipsco Inc., Prudential Steel Ltd., Copperweld Canada Ltd., and Welded Tube of Canada Limited, a large number of tubular product producers in the U.S.A., and imports.

Operations at Stelpipe halted on October 31, 1996, when the Company and Local 523, CAW/TCA Canada were unable to reach a new labour agreement and the CAW/TCA elected to strike. The strike was settled on July 7, 1997. The new agreement expires on July 8, 2001.

### **Welland Pipe Ltd.**

Welland Pipe Ltd., a wholly owned subsidiary with its head office and plant in Welland, Ontario, produces large-diameter transmission pipe for the oil and gas industry.

Facilities include a Stelform spiral weld mill (36- to 60-inch diameter) and a U and O mill (20- to 36-inch) diameter. Combined annual capacity of the two mills is approximately 500,000 tons.

Welland Pipe serves the oil and gas transmission industry in North America.

Welland Pipe competes with Ipsco Inc. and Camrose Pipe Company in Canada, and a number of U.S.-based large-diameter pipe producers.

On May 14, 1997, Welland Pipe negotiated a new four-year collective agreement with Local 523, CAW/TCA Canada, which will expire October 31, 2000.

### **Camrose Pipe Company**

Stelco owns 40 percent of the Camrose Pipe Company ("Camrose"), a partnership with Oregon Steel Mills, Inc. ("Oregon Steel"), of Portland, Oregon, which produces large-diameter transmission pipe for the oil and gas industry as well as pipe ranging in diameter from 4 to 16 inches.

Camrose operates two pipe mills: an electric-resistance-weld (ERW) mill that manufactures pipe ranging in diameter from 4 to 16 inches with an annual capacity of 140,000 tons, and a U and O mill that manufactures pipe ranging in diameter from 20 to 42 inches with an annual capacity of 180,000 tons.

Camrose services the oil and gas distribution, and transmission and construction markets, primarily in Western Canada and the northwestern United States.

Under the agreement by which Oregon Steel acquired its 60 percent interest in Camrose from Stelco, either Stelco or Oregon Steel may initiate a buy-sell procedure pursuant to which the initiating party establishes a price for Camrose and the other party must either sell its interest at that price or purchase the initiating party's interest at that price.

#### **3.7.4 Other**

##### **MOLY-COP Canada**

AltaSteel Ltd. (see section 3.6.2 on Page 18) owns 50 percent of MOLY-COP Canada, a producer of forged grinding balls for the mining and mineral industry. This partnership with GS Industries of Charlotte, North Carolina, is located in Kamloops, B.C.

MOLY-COP's 83,000 ton-per-year plant is the largest grinding media production facility in Canada. It produces a complete range of forged and heat treated grinding balls from 1 inch to 5.25 inches in diameter.

MOLY-COP's products are sold principally to the Canadian mining and mineral industry.

#### **3.8 Steel Processing**

##### **CHT Steel Company Inc.**

CHT Steel Company Inc., a wholly owned subsidiary of Stelco Inc. located in Richmond Hill, Ontario, specializes in heat treating of plate. The business is operated from a 125,000-square-foot facility on 6.85 acres. The facility contains three quench and temper lines, a normalizing/annealing line, and two shot blasters. CHT Steel provides a complete range of toll heat treating services including annealing, stress relieving, normalizing, and quenching and tempering. Hilton Works (see section 3.5.1 on Page 14) is CHT Steel's only significant customer.

##### **Stelco USA, Inc.**

Stelco USA, Inc., wholly owned by Stelco through Stelco Holding Company, is located in Troy, Michigan. Stelco USA purchases the products of Stelco's Business Units for the purposes of consignment, further processing, and warehousing in the United States prior to shipment to the final customer.



### **Z-Line Company**

Stelco Inc. owns 60 percent of the Z-Line Company, which is located at Hilton Works (see section 3.5.1(c) on Page 15). The Z-Line facility toll zinc coats cold rolled sheets for Hilton Works for a wide variety of demanding applications.

### **Baycoat**

Stelco Inc. owns 50 percent of Baycoat, which toll applies a variety of paint finishes to flat rolled steel coils at its facility in Hamilton, Ontario. Baycoat operates three coil-coating lines each equipped to coat cold rolled or galvanized substrates with a variety of exterior and interior paint systems. Baycoat's customers are its owners, Stelco Inc. and Dofasco Inc.

### **Torcad Limited**

Stelco Inc. owns 50 percent of Torcad Limited, which operates a metal plating plant (Torcad Division) in Toronto, Ontario, and a metal finishing plant (D.C. Chrome Division) in Stoney Creek, Ontario.

The Torcad Division provides a wide variety of metal plating services for numerous customers in the automotive-related, manufacturing, and construction sectors. The D.C. Chrome Division textures and chromium plates work rolls used in cold rolling of steel for Hilton Works (see section 3.5.1 on Page 14) as well as for other customers.

## **3.9 Raw Materials**

### **3.9.1 General**

The principal raw materials used in the Corporation's integrated steelmaking operations are coal and iron ore. The Corporation obtains approximately 25 percent of its requirements of metallurgical coal from the Chisholm Coal Company (see section 3.9.2 on Page 24), which currently provides all of the coal required by the pulverized coal injection facility at Hilton Works (see section 3.5.1 on Page 14). The balance of the Corporation's coal requirements are purchased from independent coal producers at market prices; the Corporation believes the current sources of purchased coal to be sufficiently stable and adequate for the maintenance of operations. The Corporation's iron ore requirements are met, mostly, from iron ore mines in which the Corporation has interests (see section 3.9.3 on Page 24).

The principal raw material used in the Corporation's mini-mill steelmaking operation is scrap. Supply arrangements and adequacy of this commodity are discussed, with particular reference to the appropriate operation, in sections 3.6.1 on Page 17 and 3.6.2 on Page 18 of this Annual Information Form. The integrated steelmaking operations also consume considerable quantities of scrap; the Corporation believes the current sources are sufficiently stable and adequate for the maintenance of operations.

The Corporation's operations consume large quantities of electricity and natural gas. In 1997, electricity costs and natural gas were approximately 2.5 percent and 3.2 percent, respectively, of total manufacturing costs. Management believes that current sources of these commodities are sufficiently stable and adequate for the maintenance of operations.

### **3.9.2 Coal Supply**

Chisholm Coal Company, located in Jamboree, Kentucky, is an indirect wholly owned subsidiary of Stelco Inc. Chisholm Mine is a producer of high-quality metallurgical coal. Coal produced is consumed partially by the integrated steel producers, Hilton Works and Lake Erie Steel Company, with the remainder being sold commercially. At current mining rates, coal reserves at Chisholm are estimated to be 5 1/2 years. In 1997, Chisholm signed a new labour agreement with the United Mine Workers which expires on December 31, 2002.

### **3.9.3 Iron Ore Supply**

Stelco owns substantial interests in iron ore properties in North America to ensure secure sources of iron ore. These interests include mining rights on leases and the ownership of related production facilities. Stelco has a right to a pro-rata share, based on ownership, to the production from each of its iron ore properties. The Corporation's mineral reserves are estimated at capacity mining rates to contain more than 30 years' supply of iron ore.

Typically, the Corporation obtains about 75 percent of its iron ore requirements from ownership sources. The balance is obtained under the terms of flexible long-term contracts.

The rated annual capacities for the iron ore mines referred to below represent maximum production capabilities. Actual operation levels are adjusted annually to meet the requirements of the participants in the mining projects.

The Corporation has a 37.9 percent direct interest, the largest interest of the several participants, in Wabush Mines. The mine and concentrator are located in Wabush, Newfoundland, and the pelletizing plant is located in Pointe Noire, Quebec. Rated annual capacity is 6.0 million gross tons of iron ore pellets. Stelco's ownership interest increased to its present level in 1995 from 34.5 percent as a result of the withdrawal of one of the partners from the joint venture.

Through wholly owned subsidiaries, the Corporation has a 15 percent interest in Tilden Mining Company L.C. located in Michigan. Rated annual capacity is 7.0 million gross tons of iron ore pellets. The Tilden holding was reorganized into an interest in a limited liability company in 1995.

Through wholly owned subsidiaries, the Corporation has a 15 percent interest in Eveleth Mines L.L.C. located in Minnesota. Rated annual capacity is 5.2 million gross tons of iron ore pellets. The Eveleth holding was reorganized into an interest in a limited liability company in 1996, with Stelco's share of the new entity remaining at 15 percent.

Through wholly owned subsidiaries and partially owned joint ventures, the Corporation has a 15 percent interest in the Hibbing Mine located in Minnesota. Rated annual capacity is 8.3 million gross tons of iron ore pellets.

#### **3.9.4 Scrap Supply**

Stelco-McMaster Ltée owns 50 percent of Fers et Métaux Recyclés Ltée, a processor of scrap derived primarily from obsolete vehicles, which operates facilities in La Prairie, Quebec, and Scoudouc, N.B.

Fers et Métaux operates vehicle shredding facilities at both its plants. The steel fractions of the shredded vehicles are recovered. At the La Prairie facilities, the remainder of the shredded scrap is separated into non-ferrous metals and residual material. The La Prairie facility also operates a shear for processing non-automotive steel scrap. Installation of a new heavy-duty shredder was completed in 1996. The new shredder adds capacity as well as the ability to process a greater variety of raw materials.

Steel scrap produced by Fers et Métaux is supplied to Stelco-McMaster for use in its electric steelmaking furnace. Non-ferrous metals are sold to the appropriate non-ferrous refiners or processors.

#### **3.10 Employees**

The Corporation, directly and through its wholly owned subsidiaries, employed an average of 10,763 people in 1997. Of this total, approximately 8,150 were represented by 13 separate collective bargaining agreements, such agreements being limited to single plants. Approximately 95 percent of the unionized employees belong to the United Steelworkers of America with the balance holding membership in either the CAW/TCA Canada or the United Mine Workers of America.

Termination dates and union affiliation of the wholly owned business units are shown below:

<b>Business Unit</b>	<b>Length of Contract</b>	<b>Expiry Date</b>
<i>United Steelworkers of America (USWA)</i>		
Hilton Works (Unit of Stelco Inc.)	6 years	July 31, 2002
Lake Erie Steel Company Ltd.	4 years	July 31, 2000
Stelco-McMaster Ltée	6 years	July 31, 2002 (wage reopener July 31, 1999)
AltaSteel Ltd.	3 years	July 31, 1999
Stelwire Ltd. – Parkdale	4 years	July 31, 2000
Stelwire Ltd. – Burlington	6 years	July 31, 2002
Frost Wire Products Ltd.	3 years	July 31, 1999
Stelfil Ltée	3 years	July 31, 1999
CHT Steel Company Inc.	2 years	Mar. 31, 1998
<i>National Automobile, Aerospace and Agricultural Implement Workers' Union of Canada (CAW/TCA)</i>		
Stelpipe Ltd.	4 years	July 7, 2001
Welland Pipe	4 years	Oct. 31, 2000
<i>International Union, United Mineworkers of America (UMWA)</i>		
Chisholm Coal Company	6 years	Dec. 15, 1999

### **3.11 Health, Safety & Environment**

The Corporation's Group of Businesses are subject to substantial and evolving environmental laws and regulations concerning, among other things, emissions to the air, discharges to surface ground water, noise control, and the generation, handling, storage, transportation, treatment and disposal of toxic and hazardous substances. These laws and regulations vary depending on the location of the Business Unit and can involve federal, provincial and municipal laws and regulations.

The Stelco Group of Businesses spent \$64 million in 1997 on environmental compliance programmes and operation of environmental equipment, and also spent over \$38 million in 1997 on capital improvements to equipment to meet overall corporate and business goals and objectives, and to maintain compliance with environmental laws. The Corporation is of the view that future costs relating to environmental compliance will not have a material adverse effect on its financial position, but there can be no assurance that unforeseen

changes in the laws or enforcement policies of relevant government bodies, or the discovery of changed conditions on the Corporation's real property or in its operations, will not result in the occurrence of materially adverse costs.

Hilton Works is presently faced with the requirement to meet certain water emission standards established by the Ontario Government under its Municipal/Industrial Strategy for Abatement (MISA) with a compliance date in 1998 acceptable to the Ontario Government. The Corporation believes that this Unit will meet the requirements of this water emission control regulation by the appropriate date and that expenditures required will not have a material adverse effect on the Corporation's financial position.

The Corporation's Group of Businesses have engaged in a range of voluntary activities aimed at environmental abatement, such as the Accelerated Reduction and Elimination of Toxics (ARET) programme, the Canadian Industrial Program for Energy Conservation (CIPEC), the Federal Environment Minister's Benzene Challenge, the Canadian Chemical Producers' Association National Emission Reduction Masterplan and Responsible Care Activity, the Ontario Minister of the Environment Smog Accord, Saint Laurent 2000 in Quebec, Lake Erie Steel's Community Advisory Panel, Hilton's Hamilton Air Quality Committee, and the Remedial Action Plan for Hamilton Harbour. The Stelco Group of Businesses face varying challenges arising from the federal government's Toxic Substances Management Plan (TSMP) as it relates to Priority Substances Lists of toxic substances that continue to be identified, characterized, and, in certain cases, added to the list of substances requiring management pursuant to the TSMP. Despite the fact that this is an ongoing process, the Corporation believes that any operating or capital expenditures that may be required to achieve compliance with the TSMP will not have a material adverse effect on the Corporation's financial position. The Corporation also faced uncertainties arising from the Federal Government's commitments for Canada in respect to global warming and the Kyoto Accord. Since the Canadian government has not yet developed policies to address the requirements of the Accord, the effect on the Corporation's financial position cannot be assessed at this time.

The Corporation maintains an internal health, safety, environment, and risk audit system, which is carried out at its wholly owned Business Units, to determine compliance with respect to legal requirements and Stelco's corporate policies in these areas.

The Corporation is faced with a variety of health and safety legislation administered by provincial authorities throughout Canada where facilities are located. The Corporation does not believe that it is faced with any requirements in respect of health and safety or industrial hygiene that will have a material adverse effect on the Corporation's financial position.

### 3.12 Research and Development

Stelco Inc. and its wholly owned subsidiaries spent \$5 million on research-related activities in 1997. In addition to product and process development undertaken at the individual businesses, significant research was undertaken through industry-based consortia under the auspices of Corporate Research and Development. These include:

- UltraLight Steel Auto Body (ULSAB) – Phase II – this programme, sponsored by 35 of the world's leading steel companies, is designed to demonstrate a lightweight steel auto body structure that meets a wide range of performance targets. Phase II – Validation includes an improved economic analysis of ULSAB versus conventional steel auto bodies; development of a final engineering design, including crash simulation; and demonstration of ULSAB's manufacturability using body-in-white prototypes.
- Formtech – Phase II – this programme has been undertaken by a consortium of two Canadian steel companies, four metal stampers, and a European automaker, and is aimed at developing advanced Computer-Aided Engineering (CAD/CAE) programmes that incorporate metal forming science. The resulting software has the ability to provide rapid simulation at early stages of styling, product design and tool development. These programmes are capable of optimizing process plans and overcoming part production problems, including identifying forming problems and predicting key factors such as part springback and press load requirements.
- Projet Bessemer – Phase V of this project has continued the development of process and product technology for the direct casting of thin (5 mm) carbon steel strip, using a pilot caster at the Industrial Materials Institute (IMI) of the National Research Council. This project is sponsored by a consortium of Canadian steel companies in co-operation with IMI. During 1997, IMI successfully commissioned a new one-ton furnace, an in-line rolling mill, a strip shear, a strip downcoiler, and roll powder spray equipment. Also, IMI continued development of casting procedures to produce acceptable commercial quality thin strip.
- AISI Advanced Process Control – this multi-project programme is sponsored by 14 member companies of the American Iron and Steel Institute, and is aimed at developing advanced process sensors and software to maintain the competitive advantage of North American steel producers. Significant progress was achieved in several project areas, including Microstructural Engineering of Hot Strip Mills, Optical Sensors and Controls for Improved Basic Oxygen Furnace Operation, and On-Line Measurement of Mechanical Properties.

### **3.13 Patents and Trademarks**

The Corporation's operations are not dependent, to any significant extent, upon any single or related patents, licenses or franchises. The Corporation's operations are also not dependent upon any single trademark, although certain trademarks are identified with a number of the Corporation's products and services, and are important in the sale and marketing of such products and services.

### **3.14 Foreign Operations**

The Corporation has owned iron ore and coal producing properties in the U.S.A. for many years. These properties are a critical source of raw materials for the integrated steelmaking Units. Although these properties and the operations associated with them are located in a foreign country, the Corporation believes that there are no material risks associated with them by virtue of that fact.

### **3.15 Litigation**

The union local at Hilton Works filed a complaint with the Ontario Labour Relations Board (the "Board") alleging that representations were made to it in the course of bargaining that solvency deficiency payments would be made to the bargaining unit pension plan over the course of the six-year labour agreement reached in 1996. The union complaint seeks various remedies including a reopening of the 1996 labour agreement or an order that solvency deficiency payments be made. Should the Board order solvency deficiency funding to be made to the plan on a continuing basis, the special employer contribution on account of solvency deficiency payments would be in the range of \$60 million for 1997 and \$20 million for 1996. In subsequent years, such contributions would depend on a variety of factors such as interest rates and workforce retirement age. Making such payments to the pension plan for 1996 and 1997 would be a timing consideration, affecting the Corporation's cash resources but not its pension plan expense amount. A hearing is expected in mid-1998.

#### 4. SELECTED CONSOLIDATED FINANCIAL INFORMATION

Consolidated financial results for each of the last five years and for the eight quarters ended December 31, 1997, are summarized in the following tables:

##### 4.1 Five Year

(\$ in millions except per share amounts)

Year Ended December 31	1997	1996	1995	1994 <sup>(1)</sup>	1993
Net Sales	3,149	2,941	2,926	2,916	2,491
Net Income (loss)	137	79	156	115	(36)
Total Assets	2,833	2,488	2,534	2,587	2,364
Long Term Debt	486	393	457	581	695
Redeemable Preferred Shares	166	167	172	178	178
Income (loss) per Common Share Basic <sup>(2)</sup>	1.17	0.63	1.35	1.01	(0.62)
Fully Diluted	1.14	N/A	N/A	N/A	N/A
Dividends - Preferred Shares					
Series A	\$0.22220	\$1.15322	\$4.60268	\$1.58286	\$0.37972
Series B	\$1.94000	\$1.94000	\$6.66875	\$2.42500	\$0.60625
Series C	\$1.94000	\$1.94000	\$6.66875	\$2.42500	\$0.60625
Dividends - Common Shares					
Series A	\$0.09	-	-	-	-
Series B <sup>(3)</sup>	\$0.09	-	-	-	-

- (1) Effective January 1, 1995, Accounting Standards require that corporations proportionately consolidate all joint venture investments. This change in accounting, which does not affect net income and retained earnings, has been applied retroactively to 1994 and has resulted in certain changes in 1994 comparative amounts.
- (2) After prescribed Preferred Share dividends.
- (3) Paid in additional Series B Common Shares on August 1, 1997, and November 1, 1997, and payable in cash of \$0.03 per share on February 1, 1998.

Dividends are reported in the Consolidated Financial Statements on a declared basis.

Dividends on each of the above classes and series of shares are paid quarterly on the first day of February, May, August, and November.

As of March 18, 1991, the Corporation suspended the payment of dividends on all series of preferred shares. On December 20, 1993, dividends were declared on all series of preferred shares as indicated in the above table. On March 20, 1995, the dividends declared on all series of preferred shares payable May 1, 1995, included an amount equal to all arrears of dividends on all outstanding preferred shares.



As of March 18, 1991, the Corporation suspended the payment of dividends on all series of common shares as part of the cash conservation initiatives instituted to strengthen its financial position. On June 23, 1997, in a decision reflective of the substantial strengthening of the Corporation's balance sheet, cash reserves and cash flow from operations, a common share dividend of \$0.03 per share, payable August 1, 1997, was declared.

## 4.2 Quarterly

(\$ in millions except per share amounts)

Three Months Ended	Net Sales	Net Income	Net Income Attributable to Common Shares	Earnings per Common Share Basic	Earnings per Common Share Fully Diluted
1997					
December 31	\$795	\$21	\$18	\$0.17	\$0.17
September 30	763	41	38	0.35	0.34
June 30	819	43	39	0.38	0.37
March 31	772	32	29	0.27	0.27
1996					
December 31	\$727	\$23	\$20	\$0.19	N/A
September 30	712	5	2	0.02	N/A
June 30	793	34	30	0.29	N/A
March 31	709	17	14	0.13	N/A

The information contained in Note 7 (Proportionately consolidated joint ventures and related commitments) of the Notes to Consolidated Financial Statements, December 31, 1997, appearing on page 27 of the 1997 Annual Report is incorporated herein by reference.

## **5. MANAGEMENT'S DISCUSSION AND ANALYSIS**

The information contained under the heading "Management's Discussion and Analysis of Results of Operations and Financial Condition" on pages 36 to 52 inclusive of the Corporation's Annual Report 1997 is incorporated herein by reference.

## **6. MARKET FOR SECURITIES**

The Series A and Series B Convertible Common Shares, and the Preferred Shares Series C are listed on The Toronto Stock Exchange and the Montreal Exchange. The Series B Preferred Shares are listed on The Toronto Stock Exchange.

## 7. DIRECTORS AND OFFICERS

The Corporation's directors and officers as at December 31, 1997, are set out below.

### 7.1 Directors

Name & Municipality of Residence	Principal Occupation(s) Within Past Five Years	Director Since
John N. Abell* Marlborough, Wilts., UK	Corporate Director	1992
James C. Alfano Ancaster, Ontario	President and Chief Executive Officer (formerly President and Chief Operating Officer, and Vice President and General Manager, Hilton Works)	1996
John E. Caldwell Thornhill, Ontario	President and Chief Executive Officer CAE Inc.	1997
William P. Cooper Oakville, Ontario	President and Chief Executive Officer Cooper Construction Limited	1989
Richard Drouin Sillery, Quebec	Corporate Director (formerly President and Chief Executive Officer, Hydro-Québec)	1996
George Lethbridge* Woodstock, Ontario	Corporate Director	1993
Douglas W. Mahaffy Toronto, Ontario	President and Chief Executive Officer McLean Budden Limited	1993
J. Dean Muncaster* Collingwood, Ontario	Corporate Director (formerly President, Environmental Technologies Inc.)	1985
J. Fraser Mustard Toronto, Ontario	Bell Canada Fellow and Founding President The Canadian Institute for Advanced Research The Founders' Network	1986
Peter J. Nicholson* Westmount, Quebec	Executive Vice President, Corporate Strategy BCE Inc.	1997
Helen K. Sinclair* Toronto, Ontario	Chief Executive Officer BankWorks Trading Inc. (formerly Chief Executive Officer Canadian Bankers Association)	1995
Frederick H. Telmer Burlington, Ontario	Chairman of the Board	1989

\* Member - Audit Committee

The term of office of all Directors expires with the annual meeting of the Corporation. The Corporation does not have an Executive Committee.

## 7.2 Officers

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Frederick H. Telmer Burlington, Ontario	Chairman of the Board
James C. Alfano Ancaster, Ontario	President and Chief Executive Officer
R. Eric Rogan Burlington, Ontario	Executive Vice President and Chief Financial Officer
G. Blair Cowper-Smith Toronto, Ontario	Corporate Secretary and Special Counsel
Paul J. Paciocco Burlington, Ontario	Vice President and General Manager – Hilton Works
Brian W. Warry Dundas, Ontario	Vice President - Purchasing, Raw Materials and Transportation
Gordon W. Rich Burlington, Ontario	Vice President and General Manager – Lake Erie Steel Company Ltd.
Karl H. Reitz Oakville, Ontario	Vice President - Manufactured Products Group
Matti Tuvikene Oakville, Ontario	Assistant Secretary

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All of the above-named officers of Stelco have been engaged for more than five years in their present occupations or in other positions with the Corporation, other than G. Blair Cowper-Smith who is a partner with the law firm of McCarthy Tétrault in Toronto, Ontario, and Paul J. Paciocco, who was appointed Vice President and General Manager - Hilton Works, effective July 15, 1996, and had previously been employed outside the Stelco Group of Businesses.

As at December 31, 1997, the Directors and senior officers of Stelco as a group owned, directly or indirectly, less than one percent of the Common Shares of Stelco.

## **8. ADDITIONAL INFORMATION**

(A) Additional financial information is provided in the Corporation's consolidated financial statements for the years ended December 31, 1997 and 1996, contained in the 1997 Annual Report, which can be obtained upon request from the Corporate Secretary, Stelco Inc., P.O. Box 2030, Hamilton, Ontario, L8N 3T1 (Telephone (905) 528-2511, Ext. 4985).

(B) Additional information, including the principal holders of securities; Executive Officers' remuneration, indebtedness, and options to purchase securities; and compensation of Directors, is contained in the most recent Management Proxy Circular of the Corporation dated March 20, 1998, for the Annual Meeting of Shareholders to be held on April 28, 1998, which can be obtained upon request from the Secretary of the Corporation at the address noted in (A) above.

(C) When the securities of the Corporation are in the course of a distribution pursuant to a short form prospectus or when a preliminary short form prospectus has been filed in respect of a distribution of the Corporation's securities, the Corporation will provide to any person, upon request to the Secretary of the Corporation at the address noted in (A) above, (i) one copy of this Annual Information Form, (ii) one copy of the 1997 Annual Report of the Corporation, (iii) one copy of any interim financial statements of the Corporation issued subsequent to December 31, 1997, (iv) one copy of the Management Proxy Circular of the Corporation referred to in (B) above, and (v) one copy of any other document that is incorporated by reference into the preliminary short form prospectus or the short form prospectus.

When the securities of the Corporation are not in the course of distribution, the Corporation will provide to any person, upon request to the Secretary of the Corporation at the address noted in (A) above, a copy of the documents referred to in (C) (i), (ii) and (iii) above, provided that the Corporation may require payment of a reasonable charge if the request is made by a person who is not a security holder of the Corporation.