DU PONT
CANADA

ANNUAL REPORT 1988

CANADA
AWARDS FOR
BUSINESS
EXCELLENCE
GOLD AWARD 1988 PRODUCTIVITY

Contents

Nous serons heureux de vous envoyer, sur demande, l'édition française de ce rapport.

Our front cover displays the logo of the Canada Awards for Business Excellence. The 1988 Gold Award for Productivity recognized the achievement of outstanding productivity improvement by Du Pont Canada employees.

Corporate citizenship and responsibility are important to our company and employees. Our commitment has resulted in several instances of public recognition recently.

- *The Leeds-Grenville and Lambton Community Awareness and Emergency Response* (CAER) *organizations received 1988 "Responsible Care" awards from the Canadian Chemical Producers Association. Many of our employees in Maitland and Sarnia are active members.*
- *A 1988 National Crime Prevention Award from the Solicitor General of Canada recognized our efforts to prevent sexual assault with the Du Pont Personal Safety Program.*
- *In 1987, the Du Pont Company worldwide was awarded the gold medal for international corporate environmental achievement by the United Nations World Environmental Centre.*

Highlights of 1988

This was a banner year for earnings before extraordinary items, increasing to $99.9 million from $90.6 million in 1987.

Our record earnings resulted in higher earnings per share from operations of $3.17, up 12 per cent from $2.82 in 1987.

Our return on equity from operations was 22.1 per cent.

We increased common share dividends twice, from 10 cents to 12.5 cents for the second quarter and to 15 cents for the fourth quarter.

The year-end market price of common shares was $24, compared with $4.25 six years earlier.

We increased revenue by 3 per cent to $1.39 billion. We also raised export sales 18 per cent in 1988, to $239 million.

Capital expenditures to modernize facilities and expand capacity were $107 million, up 68 per cent from $63 million in 1987.

We reduced debt by $85 million to $23 million at year-end, 1988. The debt to capital ratio, which was 33 per cent at year-end 1983, was reduced to 4 per cent.

It was an exceptional year for innovation and new product development. Rigid packaging systems, blow-moulded nylon polymers, nylon 12/12 engineering polymers, high performance modified polymers, new industrial nylon films and the extension of our liquid packaging system into new fields, all show great promise for the future.

At year-end we announced a 20 per cent increase in research and development spending and a 50 per cent increase in capital authorizations planned for 1989. Opportunities created by the Free Trade Agreement with the United States account for a large portion of these increases.

Du Pont Canada Inc. is a leading Canadian diversified industrial company with gross investment and annual sales each exceeding $1.2 billion. We employ 4,052 highly skilled people at manufacturing sites and at sales offices across Canada. We manufacture specialty products and chemicals for demanding end-uses in manufacturing, resource and service sectors for customers in over sixty countries worldwide.

Our businesses fall into three main groups. "Fibres and Intermediates" are businesses which manufacture and supply a variety of synthetic fibres and the intermediate chemicals used in the production of nylon. Our customers are the makers of apparel, carpets, home furnishings, industrial products and tires.

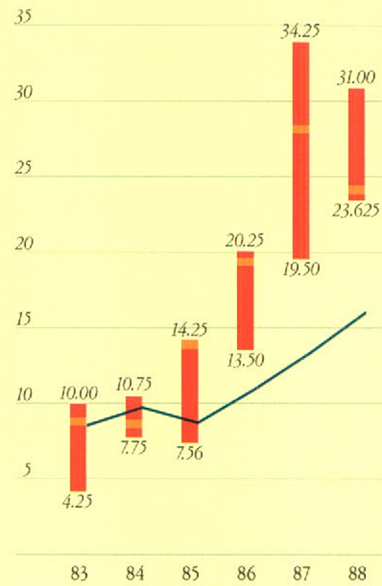
"Specialty Chemicals and Materials" are businesses which use complex technology to upgrade basic chemicals into specialty chemicals and finishes for customers in the pulp and paper, refrigeration and automotive industries. Our offering from this group also includes a large number of products from worldwide Du Pont sources for Canadian customers in agriculture, electronics, medical and health testing fields, non-woven fabrics and electronic imaging.

Our "Specialty Plastics and Films" businesses manufacture and sell plastic resins, and design and supply packaging systems. Our customers include plastic processors, food and materials packagers, wire and cable producers, the mining industry, contractors and construction materials suppliers. We license our versatile linear polyethylene technology around the world.

Du Pont Canada plays a strategic leadership role within worldwide Du Pont in several businesses. Notable examples include light decitex industrial yarns, some specialty plastics, nylon film and liquid packaging systems.

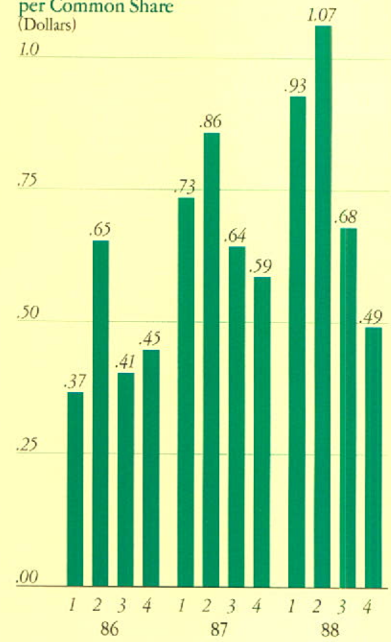
E.I. du Pont de Nemours & Company, Wilmington, Delaware, owns approximately 75 per cent of the common shares of Du Pont Canada Inc. The remaining shares are held for the most part by Canadian investors. Canadian investors have been partners in the enterprise since its inception, 126 years ago. Common shares are listed on the Toronto and Montreal stock exchanges, and trade under the ticker symbol DUP. A.

Common Stock Values
(Dollars)



	83	84	85	86	87	88
Book value at year end	8.66	9.76	8.74	10.81	12.97	15.91
Close Dec. 31st.	8.94	8.88	14.25	19.63	28.50	24.00

Quarterly Earnings from Operations per Common Share
(Dollars)



Du Pont Canada Inc. Common Stock
DUP.A vs TSE 300 vs Dow Jones
Industrial Average
Levels set to 100 in 1983 (1st. Q.)

Du Pont Canada
Dow Jones Industrial Average
Toronto Stock Exchange

Return on Average Common
Shareholders' Equity
Before Extraordinary Items
(Percentage)

1979–1988 Average 16%
1984–1988 Average 17.1%
1986–1988 Average 21.7%

Financial Highlights

(Dollars in millions except where indicated)	1988	1987	% change
Operating Results			
Net sales	$1 378	$1 341	+ 3
Net earnings from operations	100	91	+10
Net earnings after extraordinary items	118	89	+33
Financial Position			
Working capital—conventional basis	$ 168	$ 18	—
—excluding cash resources	138	106	+30
Long-term debt	12	16	−25
Shareholders' equity	499	415	+20
Total assets	763	777	− 2
Data per Common Share			
Earnings (loss)—from operations	$ 3.17	$ 2.82	+12
—extraordinary items	0.57	(0.06)	—
Net earnings	3.74	2.76	+36
Dividends declared	0.50	0.325	+54
Cash flow from operations ($ millions)	$ 121	$ 134	−10
—per share	3.84	4.17	− 8
Value at year-end			
Company books	15.91	12.97	+23
Market (TSE)	24.00	28.50	−16
Key Ratios			
Earnings from operations on sales	7.3%	6.8%	
Return on average common shareholders' equity			
—before extraordinary items	22.1%	23.4%	
—after extraordinary items	25.1%	22.8%	
Current ratio	2.0	1.1	
Debt to total capital	4%	21%	

Streamlining the company's management structure and broadening each employee's span of control has aided performance and productivity. Although it varies slightly within the company, there are, at most, six levels of leadership. The senior leadership team is the Policy Committee, led by Chairman and President J.E. (Ted) Newall (2nd left). On his right is Senior Vice-President Gord Wittman. To his left, Senior Vice-Presidents Jim Stewart, Don Ivison and Finn Hovland.

Introduction

Our 126th year was excellent. Revenue was increased by 3 per cent to $1.39 billion. Net earnings before extraordinary items were raised 10 per cent to $99.9 million. Earnings per share from operations set a new record at $3.17 per share, up from $2.82 per share last year. A number of extraordinary items raised final earnings to $3.74 per share. Return on equity from operations was 22.1 per cent for 1988, raising the five-year average to 17.1 per cent and placing us among the better performing Canadian companies.

Operations

For more than a decade we have been investing primarily in high value-added specialty products. We invested only in businesses which were or could become fully competitive internationally without the aid of tariffs. We support this strategy with steady reinvestment to keep our facilities modern and to raise quality and productivity at well above average rates. We are investing heavily in the training and development of our people.

These strategies continue to deliver excellent results. Most of our businesses now have costs, quality and product properties competitive with the best. This enabled us in 1988 to serve our customers effectively, increasing our share of key domestic markets, and expanding our exports by 18 per cent to $239 million.

Strong cash flow from operations enabled the company to retire over $85 million of short and long term debt, despite capital spending of $107 million. At year-end, cash and marketable securities totalled $41 million, more than sufficient to offset the remaining $23 million of debt. New authorizations of capital to be spent on expansion and improvement of our facilities totalled $104 million. Our financial strength will allow us to take advantage of every attractive investment opportunity and positions us well in the event of a recession.

This year we marked the 50 years of Du Pont progress heralded by the inventions of nylon and Teflon* with several celebrations and we continued to make significant progress in the "materials revolution". Some of the more important and interesting developments during 1988 included:

- Initial production and sale of development quantities of nylon 12/12, a new high performance engineering polymer with very attractive potential.
- Initial production and sale of commercial quantities of Enhance# rigid nylon trays for packaging premium convenience meals and the development of a full packaging system for this market.
- Doubling of capacity to produce Dartek# nylon films and the introduction of a number of promising new nylon films for industrial markets.
- The extension of the liquid packaging system from packaging cold liquids to hot fill applications for institutional food markets.
- Successful start-up of new facilities more than doubling capacity to compound engineering polymers at Maitland, supported by modernization and expansion of facilities to produce nylon polymer at Kingston.
- Development and initial commercial sale of a nylon polymer for production of blow-moulded structures which will expand the use of nylon to larger fabricated parts.
- Development and initial commercial sale of a number of new high performance modified polymers for wire and cable, adhesives and packaging applications and the expansion of capacity to produce these specialty resins at Sarnia.
- Two major expansions to capacity to produce high strength light decitex nylon industrial yarns and the commercial introduction of pre-dyed and low shrinkage yarns which will expand the range of applications for our industrial yarns.
- Doubling of capacity to produce Lycra* yarns.

- Widespread acceptance of the new ChromaBase# and ChromaClear# system of automotive finishes.
- A series of actions in chlorofluorocarbons to reduce their environmental impact and to develop alternatives that meet societal needs.
- The signing of licences for the sale of SCLAIRTECH polyethylene technology to the Fushun Petrochemical Project of the People's Republic of China, Politeno Industria e Comercio S. A. of Brazil, Asia Polymer Corporation of Taiwan and the National Petrochemical Corporation of Nigeria.
- Capital spending to modernize and automate facilities and to improve quality and raise productivity was increased by 68 per cent over the previous year.
- Over the past five years we have substantially increased the resources assigned to new process, product and market development. New or substantially modified products introduced over the past five years accounted for about 33 per cent of 1988 sales revenue providing solid evidence that the company's research and development efforts are very productive.

The People of Du Pont Canada

The shareholders of Du Pont Canada are well served by a winning team of exceptionally able employees. The substantial improvement in results achieved over the past decade exemplifies this. Their accomplishments have also earned them much external recognition as noted just inside the front cover of this report.

We were disappointed with our safety results in 1988. We continue to be a leader in safety in Canada although our performance did not match that of earlier years. A tragic event was the death of a valued young employee, Brian Andress, as a result of an accident at our Maitland site. We are determined to improve our safety performance in 1989.

Shareholders

The quarterly dividend rate on common shares was raised from 10 cents to 12.5 cents for the second quarter and to 15 cents for the fourth quarter. The trend of improving results over several years has also been reflected in the market price of the stock which was $24 at year-end compared with $4.25 at the end of 1982.

Directors

The Honourable Donald S. Macdonald resigned from the Board in September, after ten years of service, to take up his new post as Canadian High Commissioner in London, England. David K. Barnes resigned at year-end after seven and one-half years of service on his retirement as a Director of E.I. du Pont. Their wisdom made a significant contribution to the success of the Company.

George T. Richardson, President, James Richardson & Sons Limited of Winnipeg was appointed to the Board of Directors in December.

Outlook

We think it likely that more difficult business conditions will prevail in many of our markets in 1989, reflecting slower economic growth in North America. The Company's breakeven levels are at historic lows and we are well prepared. We expect to deliver good results in 1989.

J.E. Newall

J.E. Newall
Chairman, President and
Chief Executive Officer

February 3, 1989

We expect certain key global economic trends to continue, including slower economic growth, the emergence of stronger regional economies and trading blocs, the globalization of competition and wide swings in currency values. For the balance of the century, competition will intensify, both for us and for our customers. In this environment only excellent organizations will prosper. We will be one of those organizations.

Our *Market Strategy* has two major elements. The first is to create partnerships with our existing customers and to contribute to their progress by bringing them a steady flow of new higher quality products tailored to meet their special requirements. The second is to develop new customers for our products in North America and overseas. Good progress was made on both elements in 1988.

Our *Product Strategy* continues to gain momentum. It is focussed on bringing high value-added specialty products to North American and export markets. We are concentrating on products where we have special strengths, allowing us to create sustainable competitive advantage for the long term. We are also finding an increasing number of opportunities to partner with E.I. du Pont to supply the worldwide marketing network of global Du Pont. The Free Trade Agreement, through the elimination of tariffs, will make Canadian products more cost-competitive in the U.S. market.

Our *Capital Allocation Strategy* has two major thrusts. The first is to strengthen the competitive position of our core businesses by ensuring that we have world-class manufacturing facilities capable of delivering competitive costs, superior quality and a steady stream of new products. The second thrust is to create more opportunities to increase sales growth even more quickly, without departing from our high value-added specialty product strategy. In December 1988, we approved capital spending plans for the next three years which are over fifty per cent higher than the previous three year period. The increased spending is designed in part to take advantage of increased opportunities provided by the Free Trade Agreement.

Pace-setting execution of strategy is often the factor that sets a prosperous, high performance organization apart from the rest. Our people play a critical role. We use the phrase, "business excellence and people excellence depend entirely upon each other" to sum up our central belief in the interdependence of what we do and who we are.

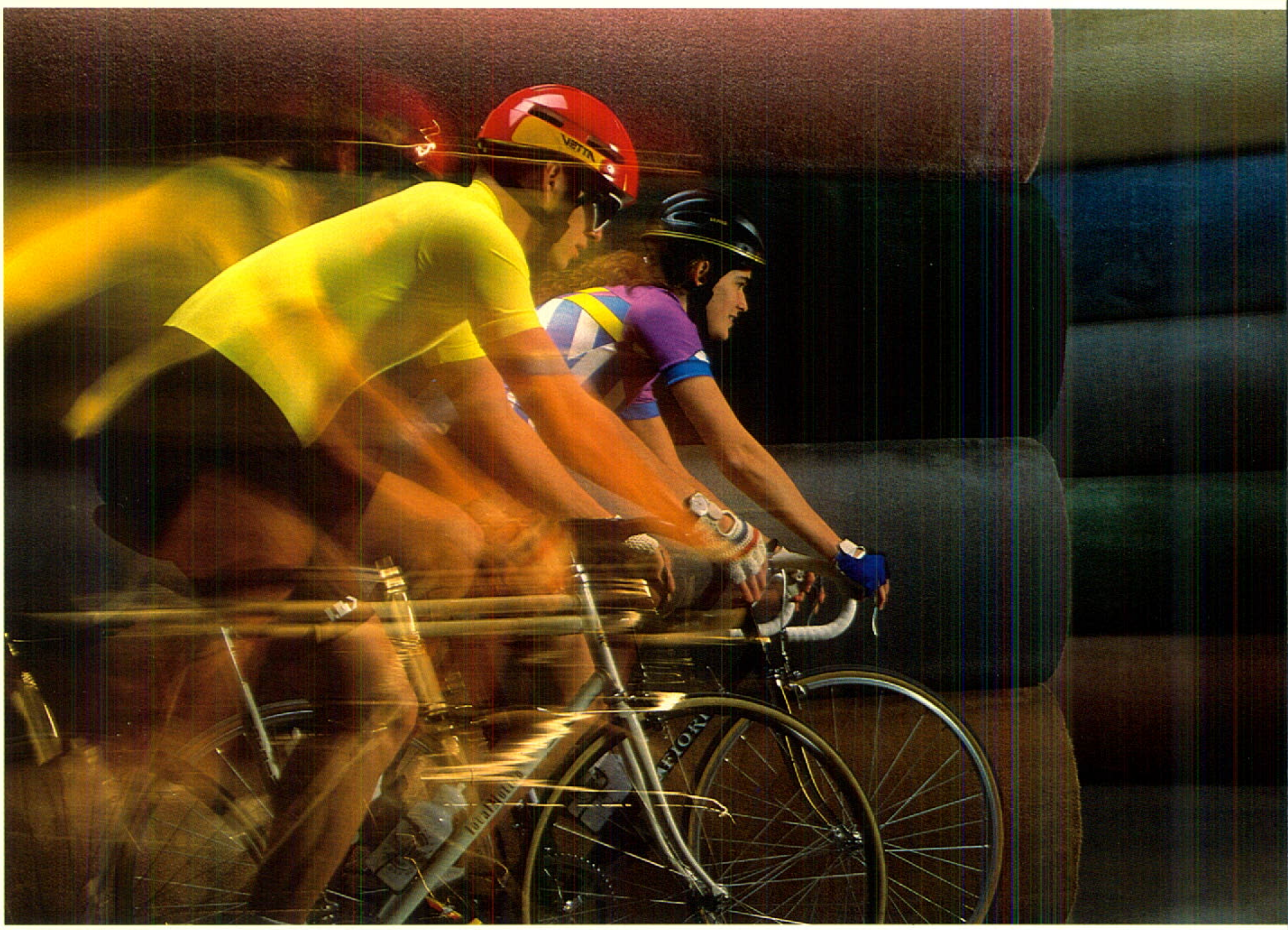
Our *Human Resources Strategy* thus involves us in pioneering new work systems and striving to create jobs and working relationships which unleash and stimulate the talents, energies and imaginations of our employees. We are creating a workplace environment which helps our employees increase their commitment to delivering outstanding results. In support of these efforts, we are involved in the largest training and development program in the history of the Company.

FIBRES & INTERMEDIATES Major Products	Major Raw Materials	Production Site	Major Industries/Markets Served	Domestic Market Position
Bulked continuous filament nylon	Adipic acid, hexamethylene diamine	Kingston	Carpet mills	Largest manufacturer
Nylon staple	Adipic acid, hexamethylene diamine	Kingston	Carpet mills	Largest manufacturer
Light decitex nylon industrial yarns	Adipic acid, hexamethylene diamine	Kingston	Industrial high strength threads & wovens (life vests, airplane escape slides, parachutes)	Only manufacturer & major exporter
Heavy decitex nylon industrial yarns	Adipic acid, hexamethylene diamine	Kingston	Rubber industry (tires, hoses, conveyer belts)	Largest manufacturer & largest exporter
Nylon apparel yarns	Adipic acid, hexamethylene diamine	Kingston	Knitters & weavers of apparel fabrics, hosiery manufacturers, texturizers	Only manufacturer
Lycra* spandex yarns	Glycol, isocyanate	Maitland	Makers of hosiery, active wear, sports equipment, intimate apparel, diapers, knitters & weavers	Only manufacturer & major exporter
Adipic acid	Cyclohexane, nitric acid	Maitland	Nylon production, food additive	Only manufacturer
Dibasic acids	By-product from manufacturing adipic acid	Maitland	Paint & plastics manufacturers	Only manufacturer, serving specialty markets
Dibasic esters	By-product from manufacturing adipic acid, methanol	Maitland	Paint & plastics manufacturers	Only manufacturer, serving specialty markets
Nomex** aramid fibre	n/a	Various sources within global Du Pont Company	Makers of fabric for heat resistant garments for firefighters, other specialty clothing, electrical insulation	Largest supplier
Kevlar** aramid fibre	n/a	as above	For high strength applications in boats, brake linings, fibre-optic cable, ballistic clothing	Largest supplier
Dacron** polyester fibre	n/a	as above	Pillows, duvets, sleeping bags, winter clothing	Important supplier
Orlon** acrylic fibre	n/a	as above	Knitting yarns	Largest supplier

SPECIALTY CHEMICALS & MATERIALS Major Products	Major Raw Materials	Production Site	Major Industries/Markets Served	Domestic Market Position
Hydrogen peroxide	Hydrogen, natural gas	Maitland	Pulp & paper	Leading manufacturer important exporter
Freon,* Formacel-S* fluorocarbons	Hydrogen fluoride, carbon tetrachloride, chloroform, perchlorethylene, chlorine	Maitland	Refrigeration, air conditioning, foamed plastics, electronic solvents	Major manufacturer important exporter
ChromaBase# ChromaClear,# Centari,* Lucite,* automotive solvents, finishes	Acrylic & polyester resins, pigments, additives	Ajax	Automobile manufacturers auto-body refinishers	Major manufacturer
Herbicides, insecticides, fungicides	n/a	Various sources within global Du Pont Company	Agriculture, forestry	Major supplier
Imaging films, proof papers, processing chemicals, equipment, printing plates	n/a	as above	Graphic arts trade, commercial printers, applications in architecture, engineering, oil & gas exploration	Leading supplier
Connectors, photoresist films, processing chemicals, solvents	n/a	as above	Manufacturers of computers, printed circuit boards, telecommunication equipment	Leading supplier
X-ray films & systems, pharmaceuticals, radiopharmaceuticals, diagnostic & laboratory equipment	n/a	as above	Hospitals, clinics, medical testing laboratories, other health care markets	Important supplier
Specialty chemicals & pigments (titanium dioxide pigment, sodium cyanide)	n/a	as above	Resource industries, paint manufacturers, other industrial producers	Important supplier
Tyvek** spunbonded olefin	n/a	as above	Housewrap for residential construction, protective packaging, stationery products, specialty apparel	Leading supplier

SPECIALTY PLASTICS & FILMS Major Products	Major Raw Materials	Production Site	Major Industries/Markets Served	Domestic Market Position
Sclair# polyethylene resins	ethylene	Sarnia	Plastics processors, wire & cable, packaging	Major manufacturer & large exporter
SCLAIRTECH polyethylene technology	n/a	Sarnia/Kingston Research Centre	Licensed for polyethylene manufacture internationally	Only exporter
Engineering polymers Zytel* nylon resins	nylon 6/6 polymer	Maitland/ Kingston	Automotive, electrical, sporting goods, consumer & industrial durables	Major manufacturer & large exporter
Modified polymers (specialty compounded products)	various resins, additives	Sarnia	Packaging, wire & cable, construction, materials handling, automotive	Major manufacturer & large exporter
Sclairfilm# specialty polyethylene films	polyethylene resin	Whitby	Flexible packaging for food, industrial uses	Major manufacturer & large exporter
Liquid packaging systems	Sclairfilm# polyethylene film, filling technology	Whitby	Dairy industry, food service industry	Major systems supplier & important exporter
Dartek# nylon film	Nylon 6/6 polymer	Whitby	Flexible packaging for food, industrial uses	Major manufacturer & large exporter
Enhance# rigid dual oven packaging systems	Nylon 6/6 polymer, filling technology	Toronto	Frozen meals & entrées	Important manufacturer
Vexar* extruded netting	Polyethylene resin	Whitby	Packaging produce, wrapping trees, fencing	Important manufacturer
Aldyl* polyethylene pipe Sclairpipe# polyethylene pipe	Polyethylene resin	Saskatoon	Small diameter pipe for natural gas distribution, large diameter pipe for mining, other industries	Important manufacturer
Butacite** polyvinyl butyral	n/a	Various sources within the global Du Pont Company	Automotive glass, architectural glazing	Major supplier
Elvax** ethylene vinyl acetate copolymer	n/a	as above	Adhesives, packaging, automotive, construction, footwear	Important supplier
Hytrel** polyester elastomer	n/a	as above	Automotive, building, furnishings, electrical components, footwear, wire & cable	Major supplier
Surlyn** ionomer	n/a	as above	Packaging, automotive and footwear	Major supplier
Neoprene synthetic rubber	n/a	as above	Adhesives, appliances, automotive, building, furnishings, electrical components	Major supplier
Delrin** acetal resin	n/a	as above	Appliances, electrical components, industrial equipment, sporting goods, aircraft, aerospace	Important supplier
Mylar** polyester film	n/a	as above	Flexible packaging for food, industrial uses	Major supplier

(dollars in millions)	1988	1987	1986	1985	1984	1983
Net sales	$420	$433	$393	$349	$321	$349
% of total company	30	32	32	30	27	31
Segment earnings	$ 79	$104	$ 69	$ 27	$ 21	$ 38
% of total company	41	56	52	39	27	55



LYCRA SPANDEX FIBRE TOOK OFF IN NEW DIRECTIONS IN 1988, FINDING ITS WAY INTO ALL KINDS OF SPORTSWEAR, BUT ESPECIALLY VISIBLE IN THE EYE-POPPING COLOURS OF CYCLING SUITS. QUALITY CONTROL SPECIALIST HENRY FISCHER (LEFT) AND PROCESS GROUP LEADER RON GAMBLE FROM OUR MAITLAND FACILITY HELPED DEVELOP A PROCESS THAT PUTS LYCRA INTO ANOTHER NEW APPLICATION. LYCRA XA IS MAKING ITS PRESENCE FELT IN THE LEGS OF DISPOSABLE DIAPERS. BEHIND IT ALL, STAINMASTER CARPET, RESISTANT TO THE PERILS OF BICYCLES AND BABIES, CONTINUES TO GROW AS THE CARPET OF CHOICE FOR CANADIAN HOMES.

PERFORMANCE

Flooring Systems

Our sales of carpet fibre were good in 1988. The market demand for carpeting was down from the extraordinarily high levels of 1987, due to somewhat lower housing activity and the end of customer inventory build-ups.

We continued to modernize our Kingston, Ontario, carpet yarn and fibre facilities and added more computerized quality and process control systems. These are aimed at reducing our costs, increasing flexibility and delivering better quality to our customers. We introduced five new products for the residential and commercial market segments. We increased capital authorizations to almost $9 million for modernization, aimed at achieving world-class status as a nylon carpet staple producer and sustaining that status in our bulked continuous filament nylon facilities.

Specialty Industrial Yarns and Fibres

Strong sales continued in North America and we are now developing export markets, primarily in Europe. During 1988 we started-up additional equipment to make light decitex nylon industrial yarn, which is used to make high performance sewing threads and woven fabrics which serve in demanding applications such as automotive upholstery, aircraft escape slides, personal survival and flotation devices, specialty sportswear, ropes and parachutes. Project, start-up and market development activities reduced earnings somewhat compared to 1987.

Late in the year we authorized $16 million to increase manufacturing capacity for these yarns. Du Pont Canada is the leader in the business activity for these yarns within worldwide Du Pont.

Heavy Industrial Yarns

In both domestic and export markets, demand for heavy industrial yarns was strong in 1988. We increased sales to domestic conveyor belt manufacturers; we expanded our penetration of the domestic hose market and diversified our growing export business.

Facilities operated at capacity all year, and we invested $9 million in computer systems and new equipment to modernize our Kingston production operations and to improve quality.

As a consequence of our project activity in light decitex industrial yarns, we will increase our heavy industrial yarn capacity, starting in early 1989, to capitalize on the strong market outlook.

Intermediates & Chemicals

As a result of the rationalization of our nylon intermediates facilities at Maitland, Ontario, with those in the U.S.A., capacity has been freed-up to supply customer requirements for intermediates products in a range and volume well beyond our traditional internal needs. Among these products are adipic acid, plasticizers and solvents. These newer businesses contributed substantially to earnings in 1988.

During the course of the year, expansion activity at Maitland was significant. We are increasing our capacity for adipic acid, an intermediate chemical used in both nylon production and as a food additive. This $26 million project was adversely affected by construction labour difficulties but we expect to meet our planned start-up date of April 1989.

Apparel Fibres

Our apparel yarn manufacturing facilities at Maitland and Kingston operated at capacity during 1988 to meet strong domestic and export demand. Export markets for Lycra spandex yarns were very strong during 1988 and we spent $9 million during the year to expand our capacity for Lycra at Maitland to meet the growing worldwide demand.

Silky Sheers women's hosiery, made with Lycra and nylon yarns, penetrated the market rapidly due to their superior fit, comfort and wearability.

New end-uses for Lycra in outerwear, fitness and cycling apparel contributed to strong sales this year. Lycra XA, a specialty engineered yarn for use in disposable diapers has good potential for significant growth in world markets.

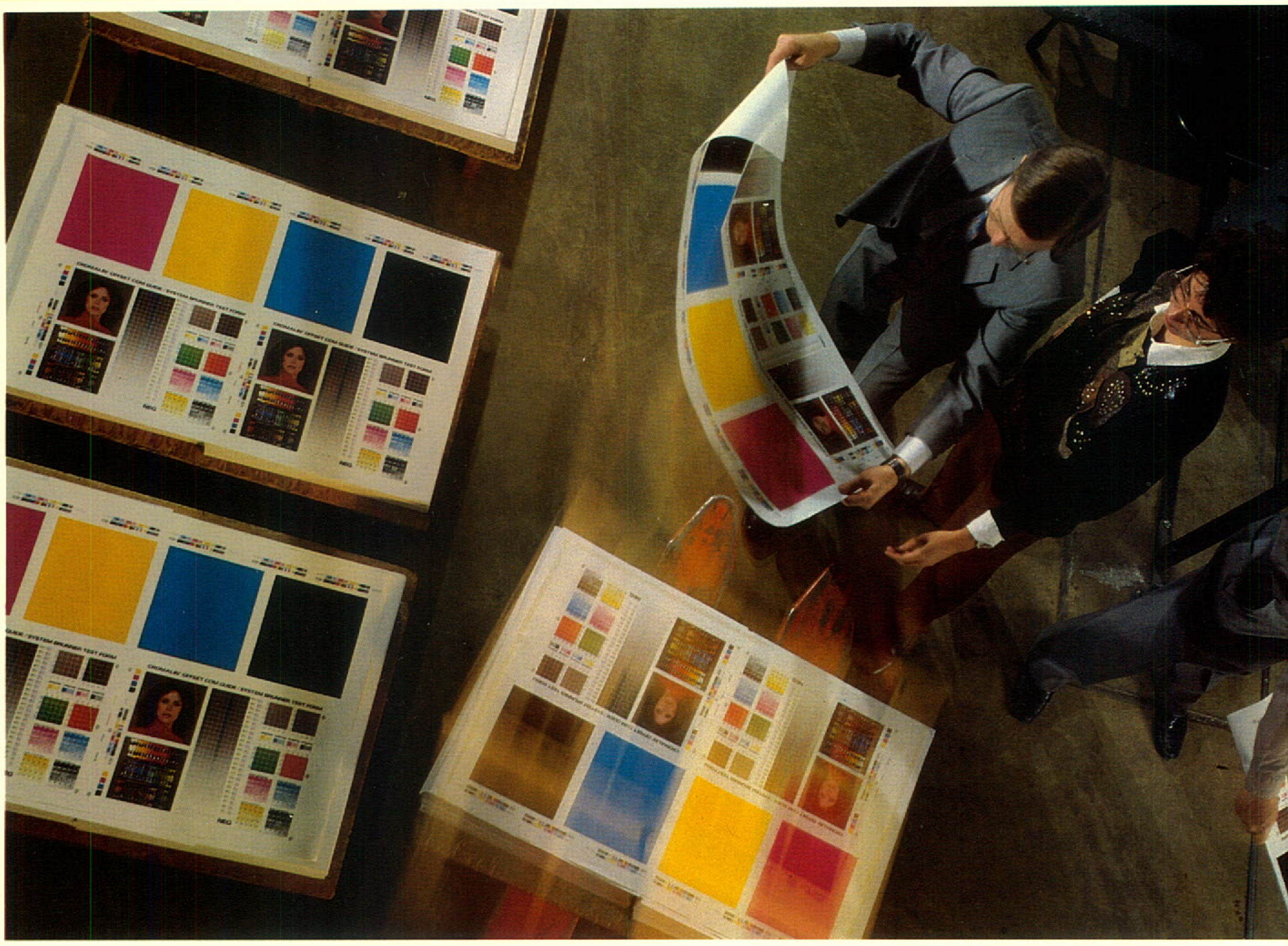
Flooring Systems

Consumer acceptance of certified Stainmaster carpets grew well in 1988. This was due, in part, to the strong support of Canadian carpet manufacturers who introduced a much broader range of carpet styles incorporating our stain-resistant technology.

We invested substantially in advertising to carry the Stainmaster story to Canadian consumers.

As the year closed we embarked on a carpet certification system similar to Stainmaster for commercial carpets made from all Du Pont fibres, including the recently announced polypropylene bulked continuous filament being manufactured in the United States. Carpets in this commercial carpet certification program will be promoted under the Proselect†† name.

(dollars in millions)	1988	1987	1986	1985	1984	1983
Net sales	$419	$441	$397	$406	$429	$384
% of total company	30	33	32	34	37	35
Segment earnings	$ 36	$ 26	$ 13	$ 20	$ 26	$ 20
% of total company	19	14	10	28	32	28



It's a colourful business at one of the nation's busiest print shops, as pressman Milt Everingham shifts a batch of newly printed commercial grade papers. Our pulp and paper market development manager, Alan Bird (left) and papermaking technical specialist, Claudine Blay are seen at Arthurs-Jones Lithographing Ltd., during a print evaluation of several grades of paper.

These high brightness papers give outstanding colour reproduction. Made in North America with the Compozil papermaking chemical system, the papers contain up to 65 per cent hydrogen peroxide bleached chemi-thermo mechanical pulp (BCTMP). We help produce such papers in ongoing efforts to assist new industry developments.

And we carry our involvement with paper through to the printing industry. Our products include Dylux** proofing paper, Cromalin** four colour proofing system and a variety of graphic arts films and papers.

Specialty Industrial Yarns and Fibres

We introduced the world's first colour-sealed high strength light decitex nylon industrial yarns in a range of colours. These bright colourfast yarns are more stable in ultraviolet light, and will substantially enhance end-product versatility for our customers. We are marketing these specialty products under the trade-name Assurance#.

"Stronger," "lighter," and "faster," are words that describe an innovation flowing from a developmental partnership with C & C Yachts of Niagara-on-the-Lake, Ontario. We launched a new use for Kevlar** aramid fibre in sailboat construction by developing and marketing a high strength hybrid material that combines our Kevlar aramid fibre with glass yarn. The resulting C & C 37R sailboat is 25 per cent lighter than conventional boats yet retains hull rigidity to give race-winning performance.

OUTLOOK

In April we expect to start up our new adipic acid refining capacity. Once underway, we will be making a product of very high purity and expect to achieve significant export sales to other Du Pont nylon production facilities.

Higher interest rates and a decline in housing starts are forecast for 1989, and we expect these factors to reduce demand for durable goods, including carpets. In international markets, we expect sales of light decitex nylon industrial yarns will be stronger and demand for heavy nylon industrial yarns will remain high. We expect Lycra to remain sold out, including our new capacity which came on stream at year-end.

There are many conflicting signals, but overall we expect to deliver good results in 1989.

PERFORMANCE

Pulp & Paper and Hydrogen Peroxide

The North American pulp and paper industry enjoyed excellent demand in 1988 and pulp production using hydrogen peroxide bleaching systems expanded rapidly. A number of new pulp mills went into production and we established a strong supply position with all of them. We increased hydrogen peroxide sales revenue by 35 per cent in Canada. About 30 per cent of our output was exported to the United States.

Fluorocarbons

Our Maitland fluorocarbon facility ran at capacity for most of 1988. Customers in the refrigeration and air-conditioning industries experienced strong demand due to the long, hot summer. Export sales to the U.S.A. were also strong. We continued to upgrade our manufacturing facility and intensified development work on alternative products to replace fully halogenated chlorofluorocarbons (CFCs).

Finishes

Revenue in 1988 was raised 16 per cent compared to 1987, resulting from good demand for our broadened line of ChromaBase and ChromaClear refinish products; the introduction of a new flexible primer for the plastic automotive parts market; and the strengthening of our customer base in automotive original equipment. Sales to General Motors for their Buick Regal line were higher than in 1987 and we also began supplying the new Toyota plant in Cambridge, Ontario.

Agricultural Products

Agricultural product sales grew by 45 per cent over 1987, despite difficult drought conditions in Canadian agriculture in 1988. Sales of Glean* and Ally* herbicides were particularly strong, and we increased sales of Benlate* fruit fungicide and soybean herbicides, Lexone* and Lorox.*

Medical Products

In 1988, we increased revenue in medical products by 12 per cent. We increased market share by approaching major hospitals with a total supply concept for all of Du Pont's products and services. We secured a multi-year contract with the Canadian Red Cross to supply AIDS testing systems, thus achieving the major share of the Canadian testing market for AIDS.

Despite increasing competition, we remain the leading supplier of x-ray films, specialized equipment and imaging agents for radiology in Canada. Our pharmaceutical sales were up significantly as well.

YEAR IN REVIEW

Fluorocarbons

In March, the Du Pont Company led the industry by announcing a worldwide production phase-out of fully halogenated chlorofluorocarbon production. This followed the NASA Ozone Trends Panel release of new scientific findings on global change in the earth's ozone layer and the likely involvement of chlorine.

The Du Pont Company is surpassing the phase-down measures advocated under the Montreal Protocol. We are involved in a program of research and development, toxicity testing and alternatives evaluation to find products that perform well; are compatible with customer equipment and processes; are acceptable from a value-in-use standpoint; and above all, are environmentally acceptable.

In the spring of 1988, we introduced Formacel-S*, an alternative fluorocarbon for foamed food packaging applications. By the end of the year, we had assisted major customers in Canada to switch to the new product. We introduced two transition products with reduced ozone depletion propensity, Freon* SMT and Freon MCA, solvents for cleaning electronics and metals and we began initial market testing of Dymel** propellant, an alternative for aerosols. We also initiated a program with customers to reduce CFC emissions by recycling CFCs for which no alternatives are yet available.

Finishes

Two years of intensive development at our Ajax, Ontario, testing facility resulted in the introduction of a new flexible primer product for use under our topcoat finishes on plastic automotive parts. We also expanded the ChromaBase and ChromaClear basecoat/clearcoat system of refinish products for the auto body shop market. We were given top honours for the quality of our finishes by General Motors in Oshawa, Ontario, in an internal audit and customer survey.

Imaging Systems

"Black and white" describes the clear-cut and simple; and the new HighLight** Scanner/Recorder 2000 system which makes black and white images much sharper, is also simple to use. It allows for rapid and high quality reproduction of black and white artwork. We installed the first unit in Canada during 1988, at H & S Reliance Limited of Toronto, a leading supplier of graphic services.

Medical Products

We introduced the Genesis** 2000 DNA sequencing system, a breakthrough for scientists who needed a faster, more accurate way of sequencing DNA. Du Pont pooled its working knowledge in molecular biology, organic chemistry and physics to find a way to automate this process. We introduced other new products to the market as well, including the Cell-Dyn** line of hematology equipment for whole blood analysis and the RC28S Supraspeed Centrifuge. We also initiated an agreement to co-market the Hoffman LaRoche Company's injectable sedative, Versed.

OUTLOOK

Pulp and Paper and Hydrogen Peroxide

Canadian demand for hydrogen peroxide will continue to grow rapidly and we will maintain our leading position in the pulp and paper market in 1989. We will extend our technical and commercial services to customers and perfect our coast-to-coast distribution system to solidify the preferred supplier position we have won.

Fluorocarbons

We expect demand for our products to remain strong in 1989. Development and production of CFC alternatives will increase as we phase down and out of CFC production.

Finishes

Results from our finishes business will continue to improve, due to increasing sales of new products. Additional revenue will come from our sales to the new CAMI plant (a joint venture of Suzuki and General Motors) in Ingersoll, Ontario. Modernization of our Ajax manufacturing facility will continue in 1989.

Agricultural Products

Further growth of our agricultural business from existing products and the registration of Refine* cereal herbicide is expected in 1989. Dynamic growth through the next five years is expected, as six additional herbicides and fungicides are launched, including Muster,* a unique herbicide to control mustard in canola.

Imaging Systems and Electronics

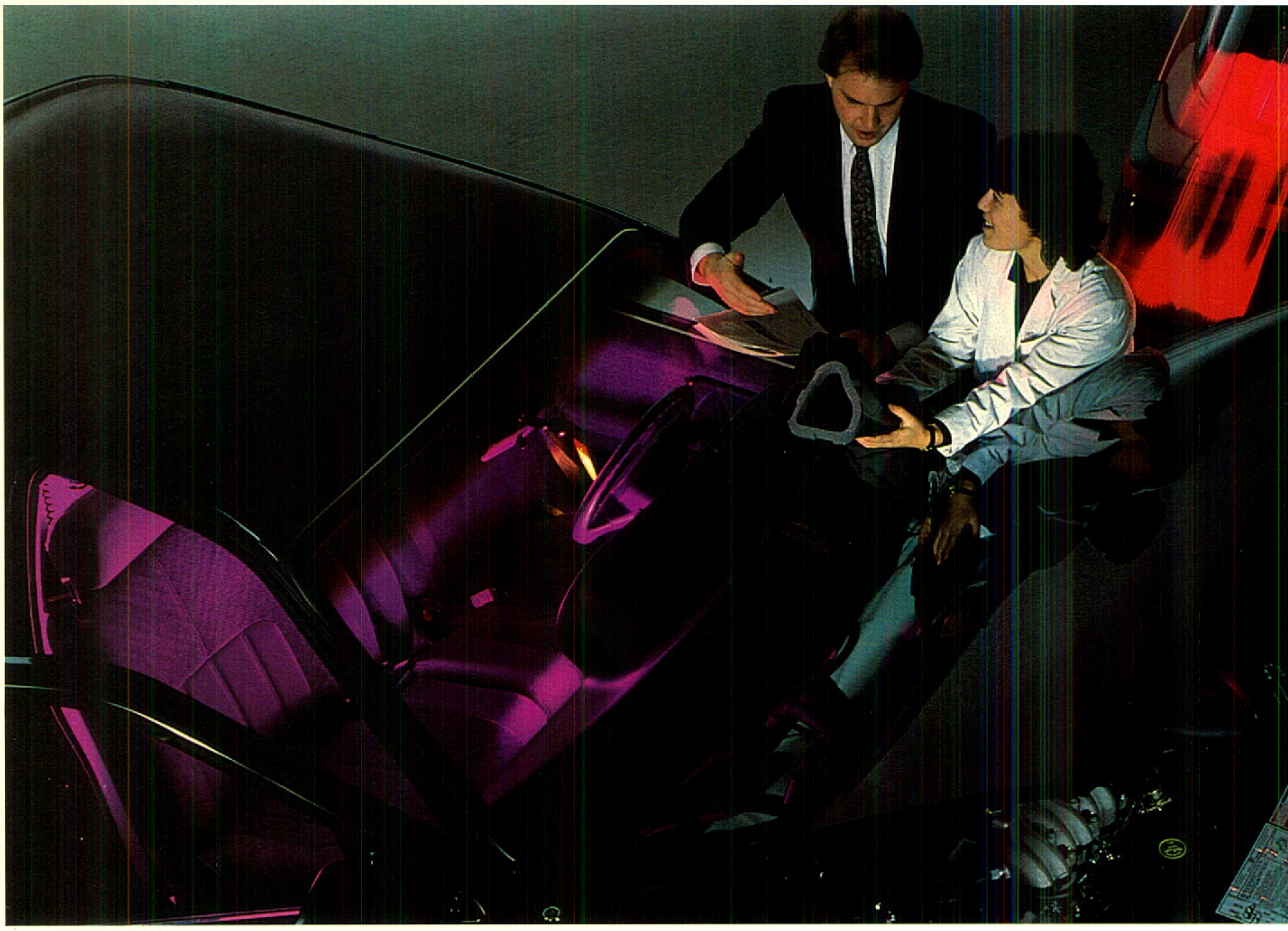
The outlook for these businesses remains excellent and we have plans to introduce a wide variety of new products.

Medical Products

In 1989, we expect medical products to maintain a strong growth rate, bolstered by the introduction of new products. The Montreal Heart Institute's experimental program has already begun to prove the benefits of Cardiolite,** a new generation product that assists in the diagnosis of heart disorders and determines the extent of damage after an attack.

Also slated for introduction is a new organ preservative—an improved medium for the transportation of donor organs; and the Micro Medical Manager, an information management system for private specialty practices.

(dollars in millions)	1988	1987	1986	1985	1984	1983
Net sales	$539	$467	$453	$431	$421	$383
% of total company	40	35	36	36	36	34
Segment earnings	$ 76	$ 56	$ 51	$ 23	$ 32	$ 11
% of total company	40	30	38	33	41	17



DU PONT CANADA FOUND A SPECIAL PLASTIC FOR ONE OF FORD'S "CARS OF TOMORROW" THIS YEAR. MARKET DEVELOPMENT SPECIALIST RICHARD HILL (LEFT) AND PLASTICS SPECIALIST SYLVIE CLOUTIER OF OUR KINGSTON RESEARCH CENTRE WERE ON THE TEAM THAT FOUND A SPECIAL BLOW-MOULDABLE, ENHANCED MELT-STRENGTH NYLON TO MAKE A TOUGHER PART FOR FORD. THE AIR INDUCTION RESONATOR IN FORD'S TAURUS USED TO NEED AN ADDITIONAL PROTECTIVE COVER TO GUARD AGAINST ENGINE HEAT. THE 1989 FORD TAURUS HAS THE TOUGH NEW RESONATOR, MADE BY SIEMENS-BENDIX AUTOMOTIVE ELECTRONICS OF CHATHAM, ONTARIO, WITH ENGINEERING RESIN FROM OUR MAITLAND PLANT. MODERN CARS, INCLUDING THE TAURUS AND PROBE SEEN HERE, CONTAIN ABOUT 90 KG (200 LBS) OF PLASTIC. ABOUT 10 KG (22 LBS) OF THAT TOTAL ARE SPECIALTY MODIFIED POLYMERS OR ENGINEERING RESINS. DU PONT CANADA IS A MAJOR SUPPLIER TO THE AUTOMOTIVE INDUSTRY.

PERFORMANCE

Specialty Polymers

We had record earnings from our specialty polymer business in 1988. The demand for all plastics was strong, and worldwide demand for polyethylene resins exceeded supply during much of the year.

We doubled capacity for the production of compounded engineering resins at our Maitland facility in 1988 with an investment of $15 million. This expansion came on line in a strong market during the second half of the year.

We invested $4.2 million in an advanced catalyst system for polyethylene resin production in Sarnia. The new system developed by our Kingston researchers enhances product quality, improves energy and efficiency and lowers operating costs.

The value and versatility of our SCLAIRTECH polethylene technology were recognized worldwide this year. We signed four multi-million dollar licensing agreements to supply our technology to the Peoples Republic of China, Brazil, Taiwan and Nigeria.

Pipe

Demand for engineered large diameter Sclairpipe# polyethylene pipe and Aldyl* gas pipe was steady in 1988. We consolidated our manufacturing operations at our plant in Saskatoon, Saskatachewan, improving our cost position and profitability.

Specialty Packaging and Films

Revenue from our specialty packaging business was up due to higher selling prices combined with strong demand for all our products. Earnings were adversely affected by high research and development spending combined with market development and product introduction costs. In 1988, we doubled our Dartek nylon film capacity at Whitby, Ontario, and we introduced a number of new products which will expand the use of Dartek film in new markets.

YEAR IN REVIEW

Specialty Polymers

Our modified polymers group worked with Northern Telecom to bring two new fire-resistant polymer compounds to the wire and cable market. The worldwide need for these products represents a significant opportunity.

We introduced three lines of advanced industrial compounds in 1988. Zemid# modified polymers make tough, stiff plastics that withstand extreme cold. Bynel** and Fusabond# industrial adhesive polymers showed major growth in packaging applications in both domestic and export markets. The generation of new product concepts with worldwide marketing potential has been a key thrust of our modified polymers business.

Pipe

During the year we launched our Corrotech# liner system for re-habilitating high pressure pipelines in the oil field and industrial markets.

Specialty Packaging and Films

We introduced our Enhance trays, for frozen food entrées to the market this year. Campbell Soup Co. Ltd. is now using our rigid trays, which are suitable for use in both conventional and microwave ovens, for their LeMenu dinners across North America.

During 1988 we introduced many new food service industry customers to liquid packaging. The easy to handle pouches, like the familiar milk pouches used across Canada, are now used to package syrups, pie fillings and other fluid foods utilizing our new hot fill system, which we also brought to the market this year. It is providing cost and quality advantages to our customers.

OUTLOOK

Specialty Plastics and Films

We expect the markets for our specialty products to remain strong during 1989. Polyethylene margins are at a good level, but higher ethylene prices are causing problems in the industry. Additional capacity brought on line during 1988 and newly developed products in specialty polymers, rigid packaging, liquid packaging, specialty films and pipe will deliver higher volumes and profits next year. Investments will continue to meet market growth and new opportunities in the domestic and export markets.

1988 net sales revenue of $1.378 billion set a new record, posting an increase of 3 per cent over the previous 1987 record of $1.341 billion. The gain reflected a 10 per cent improvement in average selling prices for manufactured products. In aggregate, volume of shipments was down 7 per cent from last year, including the negative impact of the sale of our explosives business in January 1988. Excluding explosives sales from both periods, sales revenue was increased 8 per cent year-over-year.

Fibres and Intermediates sales declined 3 per cent from 1987, reflecting shipments to the carpet industry which fell 11 per cent from the exceptional levels of 1987, and partially offset by increased sales of intermediates, light decitex nylon industrial yarns and of heavy industrial nylon yarns for the rubber industry.

Sales of Specialty Chemicals and Materials by continuing businesses (excluding explosives) were up 13 per cent, with particularly strong gains in the finishes, hydrogen peroxide and fluorocarbons businesses and solid growth in specialty products resold from E.I. du Pont.

Specialty Plastics and Films achieved a year-over-year sales growth of 15 per cent. Polyethylene resin sales led this group with a 28 per cent gain over 1987 sales. Specialty polymers were buoyant through most of the year, rising 6 per cent. Specialty packaging and films sales improved 13 per cent over last year.

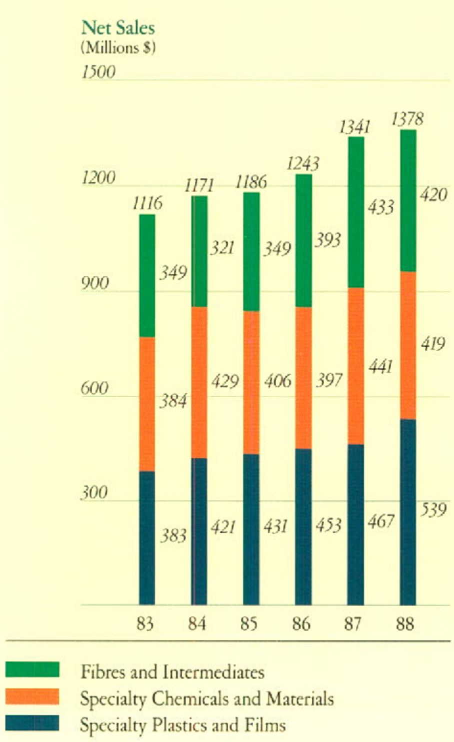
Two of the three major business groups, Specialty Chemicals and Materials and Specialty Plastics and Films, delivered increased year-over-year contributions to earnings, while Fibres and Intermediates earnings were down. Segment earnings, measured for this purpose before allocation of interest income or expense, income taxes, and certain corporate-level charges, are reported in Note 12—Segmented Information—included in the Consolidated Financial Statements on page 33.

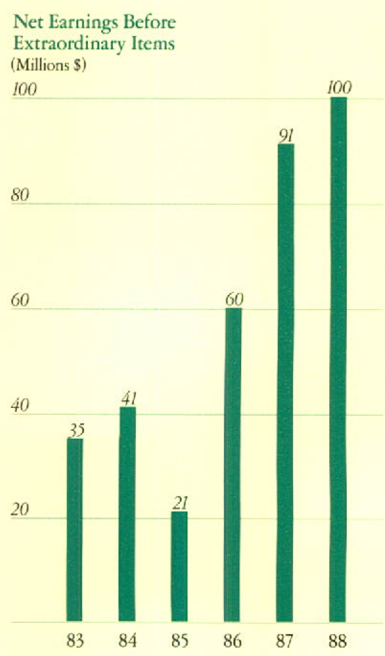
Other revenue of $14 million increased by 39 per cent over 1987. The principal item is revenue from licensing of SCLAIRTECH polyethylene technology, which at $7 million, has almost doubled from a year ago.

Selling, general and administrative expenses increased 3 per cent from 1987. Research and development expenditures of $21 million were up 13 per cent. Interest on short and long-term debt was reduced sharply from $19 million in 1987 to $6 million in 1988. Since the end of the third quarter of 1987, long-term debt has been reduced by $110 million, and by October 1988 most short-term debt had also been retired.

Net earnings before extraordinary items were $100 million in 1988, 10 per cent higher than 1987 and set a second consecutive record. Per common share, earnings were $3.17 compared with $2.82 per share in 1987.

After extraordinary items totalling $18 million or $0.57 per common share for the year, final net earnings were $118 million or $3.74 per share, up 33 per cent from 1987. Extraordinary items included the combined effect of a $30 million gain on sale of the explosives business and a $12 million loss on redemption of Polysar Limited preferred shares.





Consolidated Statement of Earnings and Retained Earnings
Years Ended December 31

(Dollars in thousands except per common share)	1988	1987
Net Sales	$ 1 377 965	$ 1 340 977
Other revenue (Note 1)	13 952	10 066
	1 391 917	1 351 043
Costs and expenses before the following:	1 046 030	1 016 468
Selling, general and administrative expenses	143 212	138 720
Research and development expenses	20 648	18 299
Interest on long-term debt	1 488	17 597
Other interest	4 662	1 091
	1 216 040	1 192 175
Earnings before Income Taxes and Extraordinary Items	175 877	158 868
Income taxes (Note 2)		
Current	74 816	63 593
Deferred	1 151	4 723
	75 967	68 316
Net Earnings before Extraordinary Items	99 910	90 552
Extraordinary items (Note 3)	17 977	(1 801)
Net Earnings	$ 117 887	$ 88 751
Earnings per Common Share		
Before extraordinary items	$ 3.17	$ 2.82
After extraordinary items	$ 3.74	$ 2.76
Retained Earnings at Beginning of Year	$ 365 977	$ 302 233
Add: Net earnings	117 887	88 751
Less: Dividends declared:		
Preferred shares ($3.75 per share)	174	174
Common shares (1988—$0.50 per share)	15 693	
(1987—$0.325 per share)		10 410
Excess of consideration paid over stated capital of common shares purchased for treasury	18 288	14 423
Retained Earnings at End of Year	$ 449 709	$ 365 977

Discussion of Consolidated Statement of Changes in Financial Position

Total cash resources increased $119 million during the year, reflecting cash flows from operations, sale of the explosives business and our liquidation of preferred share investments with Polysar Energy & Chemical Corporation and Polysar Limited which had been acquired in the restructuring of Petrosar in 1985.

Cash generated from operations of $121 million, or $3.84 per common share was down $13 million from $134 million or $4.17 per share in 1987. Net earnings of $100 million were augmented by depreciation, amortization and equity accounting losses totalling $54 million. Working capital increased by $34 million, reflecting inventory growth of $14 million and a reduction of $26 million in current liabilities, offset in part by a $10 million decrease in receivables.

Dividend declarations totalled $16 million. Common shareholders benefitted from two dividend increases during 1988. The quarterly rate was raised from 10 cents per share to 12.5 cents for the second quarter of 1988 and to 15 cents for the fourth quarter. The dividend rate has been increased five times in the last three years.

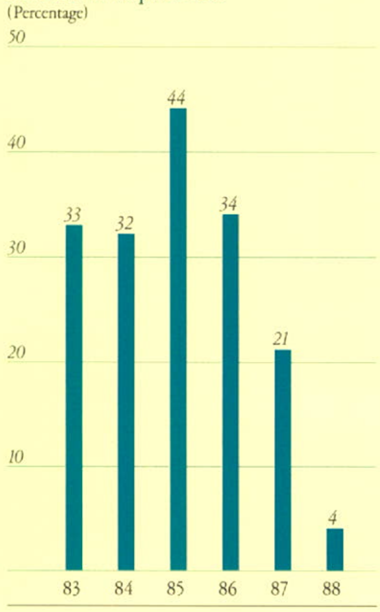
New investment in plants and properties amounted to $107 million in 1988, an increase of $43 million over last year. In addition, $20 million was invested in our oil and gas exploration partnership with Conoco Canada Limited. We authorized total capital expenditures of $104 million during 1988, directed to expanding and modernizing plants and equipment in our strongest businesses. At year-end, $95 million remained outstanding to be completed.

Discontinued operations generated $51 million, reflecting the sale of the explosives business early in 1988. In addition, the redemption of preferred shares generated $113 million in cash and marketable securities. These redemptions included $93.6 million of Polysar Energy & Chemical Corporation holdings and $31.3 million of Polysar Limited shares. A loss of $12.3 million was reflected on the surrender of the Polysar Limited holdings.

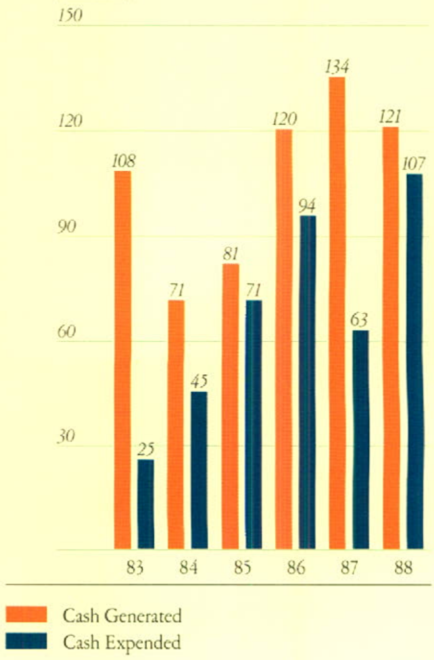
We issued 52,700 common shares under the Employee Stock Option Plan at an average option price of $18.09 per share. We purchased 667,800 common shares on the open market at an average price of $28.87 through a normal course issuer bid subject to Toronto Stock Exchange (TSE) regulations. The TSE has subsequently approved a normal course issuer bid for a maximum of 750,000 shares to be acquired at management's discretion during the period January 3, 1989 to December 29, 1989. These share purchase programs are designed to prevent dilution of shareholder interest from the operation of the Option Plan.

Long-term debt was reduced by $4 million to $12 million at year-end. Short-term debt at $91 million at the end of 1987 has also been decreased to $11 million at year-end 1988. As a result the ratio of debt to total capital has fallen to 4 per cent from 21 per cent a year ago.

Debt to Total Capital Ratio
(Percentage)



Cash Generated from Operations and Expended on Plants and Properties
(Millions $)



(Dollars in thousands)	1988	1987
Cash Resources From (Used In)		
Operations		
Net earnings before extraordinary items	$ 99 910	$ 90 552
Non-cash items in earnings statement:		
Depreciation and amortization	46 660	49 475
Loss from equity accounted investments	7 461	8 055
Deferred income taxes	1 151	4 723
Net change in working capital excluding cash resources	(34 382)	(18 819)
	120 800	133 986
Dividends to Shareholders	(15 867)	(10 584)
Investments		
Plants and properties	(106 621)	(63 401)
Discontinued operations	51 356	13 715
Preference shares	112 569	18 002
Oil and gas exploration partnership	(20 300)	(12 200)
Other	(566)	(4 681)
	36 438	(48 565)
Financing		
Issue of common shares	953	1 816
Purchase of common shares for treasury	(19 280)	(15 179)
Reduction in long-term debt	(4 052)	(159 755)
	(22 379)	(173 118)
Change in Cash Resources	118 992	(98 281)
Cash resources at beginning of year	(88 853)	9 428
Cash Resources at End of Year	$ 30 139	$ (88 853)
Components of Cash Resources at End of Year		
Cash and short-term investments	$ 40 687	$ 2 569
Bank and other short-term indebtedness	(10 548)	(91 422)
	$ 30 139	$ (88 853)

The Company's balance sheet at the end of 1988 reflects another year of strong financial performance.

Cash and marketable securities of $41 million increased by $38 million. These investments are short-term, diversified, highly-rated debt instruments which can be liquidated to fund capital investment opportunities as required.

Accounts receivable of $134 million as at December 1988 were reduced by $10 million from $144 million in 1987. The average collection period, expressed as "35 days sales outstanding" was unchanged from a year ago.

Inventories increased by $14 million to $153 million at the end of 1988. This was due to a buildup of manufactured finished goods inventory experienced by all three major business groups. Inventory turnover—an indicator of resource utilization—declined moderately to 9 turns in 1988 from 10 turns in 1987.

The current ratio, a measure of our ability to meet current obligations improved from 1.1 in 1987 to 2.0 at the end of 1988.

Investment in plants and properties was increased $55 million in 1988. New investment in our facilities totalled $107 million, partially offset by depreciation and amortization of $45 million, and by various asset dispositions and write-offs.

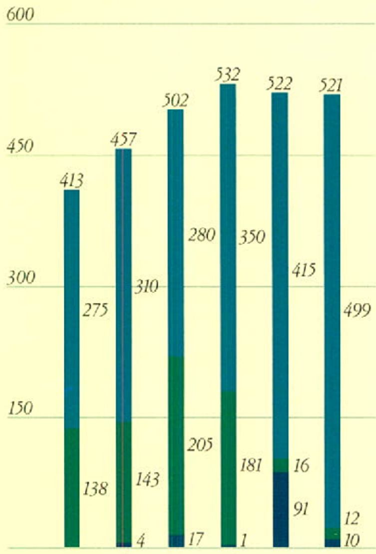
Investments decreased by $112 million during 1988. Our preferred shares of Polysar Energy & Chemical Corporation ($93.6 million) were redeemed for full face value, and our holding of Polysar Limited preferred shares ($31.3 million) was exchanged for cash and marketable securities valued at $19 million. The major remaining investment is our interest in an oil and gas exploration venture with Conoco Canada Limited.

Long-term debt outstanding at December 31, 1988 consisted only of the remaining $12 million of 10½ per cent debentures due in 1995. All sinking fund requirements have been met for the life of the issue and we have utilized optional redemptions at par value and open market purchases at attractive prices to reduce this debt further.

Retained earnings increased by $84 million during 1988. Net earnings added $118 million, reduced by dividend declarations of $16 million and a charge of $18 million related to our market purchases of common stock to offset potential dilution created by the Employee Stock Option Plan.

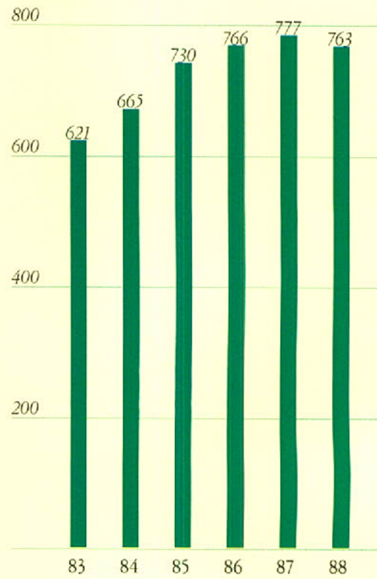
Return on average shareholders' equity for 1988 was 25.1 per cent in total and 22.1 per cent before extraordinary items. Comparative performance in 1987 was 22.8 per cent and 23.4 per cent respectively. The average for the five years ending 1988 was 15.4 per cent in total and 17.1 per cent before extraordinary items.

Capital Structure
(Millions $)



(% Percentage)	83	84	85	86	87	88
Shareholders' equity	67	68	56	66	79	96
Long-term debt	33	31	41	34	3	2
Short-term debt	—	1	3	—	18	2

Total Assets
(Millions $)



Consolidated Balance Sheet at December 31

(Dollars in thousands)	1988	1987
ASSETS		
Current Assets		
Cash and short-term investments	$ 40 687	$ 2 569
Accounts receivable	134 246	144 392
Inventories:		
Finished goods and work in process	104 618	92 737
Raw materials and supplies	48 291	46 385
Prepaid expenses	9 835	7 775
	337 677	293 858
Plants and Properties (Note 4)	369 277	313 953
Investments (Note 5)	26 480	138 880
Other Assets (Note 6)	29 504	30 181
	$ 762 938	$ 776 872
LIABILITIES		
Current Liabilities		
Bank and other short-term indebtedness	$ 10 548	$ 91 422
Accounts payable and accrued liabilities	140 466	145 352
Income and other taxes	13 775	36 353
Dividends	4 726	3 227
	169 515	276 354
Long-Term Debt (Note 7)	12 049	16 101
Deferred Income Taxes	82 531	69 267
Shareholders' Equity		
Capital stock (Note 8)	49 134	49 173
Retained earnings	449 709	365 977
	498 843	415 150
	$ 762 938	$ 776 872

Signed on behalf of the Board:

J.E. Newall
Director

E.L. Smith
Director

The consolidated financial statements of Du Pont Canada Inc. and its subsidiaries and all information in the annual report are the responsibility of management. Financial information contained elsewhere in the annual report is consistent with that shown in the financial statements.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily include some amounts that are based on management's best estimates and judgements.

Management has developed and maintains systems of internal accounting controls, policies and procedures in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets: An internal audit unit reviews and evaluates the accounting records and related systems of internal controls on an ongoing basis, and reports its findings and recommendations to management and to the Audit Committee.

The Board has established an Audit Committee and appoints its members from outside directors. This committee reviews the consolidated financial statements with management and the external auditors prior to submission to the Board for approval, as well as the recommendations of the external and internal auditors for improvements in internal controls and the action of management to implement such recommendations.

Touche Ross & Co., Chartered Accountants, are responsible for performing an independent examination of the consolidated financial statements in accordance with generally accepted auditing standards and for expressing an opinion on the statements. Their report follows.

J.E. Newall

Chairman, President and
Chief Executive Officer

D.A.S. Ivison

Senior Vice-President
Chief Financial Officer

Auditor's Report

To the Shareholders of Du Pont Canada Inc.

We have examined the consolidated balance sheet of Du Pont Canada Inc. as at December 31, 1988 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended as they appear on pages 23, 25, 27 and 29 to 33. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Mississauga, Ontario
February 2, 1989.

Touche Ross & Co.

Chartered Accountants

Summary of Significant Accounting Policies

December 31, 1988

Basis of Consolidation

Du Pont Canada Inc. is incorporated under the Canada Business Corporations Act (by continuance). These consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada.

Inventories

Inventories are carried at the lower of average cost and net realizable value. The cost of finished goods inventories is based on material, direct labour and other costs relating to product conversion.

Plants and Properties and Related Depreciation

Plants and properties are carried at cost. Preproduction expenses related to manufacturing and interest on borrowed money incurred in connection with new facilities are charged to expense as incurred.

Depreciation is provided based on the estimated useful life of assets. For manufacturing facilities, the diminishing balance method is used and rates of 12% or 10% are applied to the net investment at each plant site, provided that amounts set aside in the accounts are generally not less than 5% of the original cost. Thus the provision for depreciation is higher in the early life of the assets when the risk is greater. Depreciation is not charged on new assets until they become operative.

Patents, Processes and Goodwill

Purchased patents and processes are amortized over their economic life. Goodwill was acquired prior to 1974 and is not amortized.

(Dollars in thousands unless otherwise indicated)

Note 1—Other Revenue	1988	1987
Other revenue consists of:		
Licensing and royalty income	$ 7 432	$ 3 788
Interest and dividend income	6 496	6 236
Other	24	42
	$ 13 952	$ 10 066

Note 2—Income Taxes

The Company's effective income tax rate is determined as follows:		
Combined basic Canadian federal and provincial income tax rate	45.6%	49.5%
Increase (decrease) in income tax rate resulting from:		
Manufacturing and processing allowance	(3.6)	(6.8)
Non-taxable dividends received	(0.9)	(1.3)
Federal income tax surcharge	0.9	0.9
Other	1.2	0.7
Effective income tax rate	43.2%	43.0%

Tax reform measures implemented during the year reduced the Company's combined basic income tax rate from 49.5% to 45.6%, and were the primary factor in reducing the Company's manufacturing and processing tax credit from 6.8% to 3.6%. Overall, the Company's effective tax rate increased slightly.

Note 3—Extraordinary Items and Discontinued Operations

In January the Company sold its explosives business, resulting in an extraordinary gain of $30 307, net of income taxes of $11 616.

In February the Company exchanged its preferred shares of Polysar Limited, which were redeemable in the period 1995—2005 and had a carrying value of $31 299, for the right to the assets of a tax-sheltered irrevocable trust valued at cost, which approximates market, of $18 969. The adjustment in carrying value, which has no income tax effect, is reflected as an extraordinary loss of $12 330. Assets of the trust are invested in marketable securities, and the Company can exercise its right to liquidate the trust and receive the proceeds at any time prior to the trust's termination in February 1998.

Note 4—Plants and Properties	1988	1987
Plants and properties include the following:		
Buildings and equipment	$ 734 906	$ 704 166
Construction in progress	88 449	48 013
Land	9 200	9 242
	832 555	761 421
Less: Accumulated depreciation and amortization	463 278	447 468
	$ 369 277	$ 313 953
Depreciation and amortization	$ 45 076	$ 42 468

At December 31, 1988, $95 167 remained unexpended on authorized capital appropriations.

(Dollars in thousands unless otherwise indicated)

Note 5—Investments

Investments totalling $25 220 (1987—$12 381), primarily representing the Company's interest in an oil and gas exploration limited liability partnership with its general partner, Conoco Canada Limited, are accounted for on the equity basis.

Other investments, carried at cost, total $1 260 (1987—$126 499). The significant reduction in these investments in the year reflects the redemption at full face value of $93 600 of Polysar Energy & Chemical Corporation preferred shares and the exchange of $31 299 of Polysar Limited preferred shares for the right to the proceeds of an irrevocable trust (see Note 3).

Note 6—Other Assets

	1988	1987
Other assets include:		
Employee relocation loans, secured	$ 11 422	$ 12 660
Patents, processes and goodwill	14 738	16 089
Other	3 344	1 432
	$ 29 504	$ 30 181

Note 7—Long-Term Debt

	1988	1987
Long-term debt consists of:		
10½% Sinking Fund Debentures due May 1, 1995	$ 12 049	$ 16 101

Debenture sinking fund requirements have been satisfied to maturity. Under certain conditions, the Company may redeem all or part of the outstanding debentures.

Note 8—Capital Stock

	1988		1987	
	Number of Shares	Stated Capital	Number of Shares	Stated Capital
Class A Common Shares without nominal or par value:				
January 1	31 830 892	$ 46 848	32 185 192	$ 45 788
Add: Issued during the year on exercise of options	52 700	953	164 000	1 816
Less: Treasury shares purchased for cash	667 800	992	518 300	756
December 31	31 215 792	46 809	31 830 892	46 848
Class A $3.75 Cumulative Preferred Shares	46 500	2 325	46 500	2 325
		$ 49 134		$ 49 173

Note 8—Capital Stock (continued) (Dollars in thousands unless otherwise indicated)

Pursuant to an employee stock option plan, options to acquire Class A Common Shares of the Company have been granted, and remain outstanding, as follows:

Year	Options Granted	Price Per Share	Earliest Exercise Date	Expiry Date	Number of Options Outstanding as at December 31, 1988
1988	175 800	$27.70	Feb. 1989	Feb. 1993	175 800
1987	250 200	$21.675	Feb. 1988	Feb. 1992	222 900
1986	156 200	$15.40	Feb. 1987	Feb. 1991	76 100
1985	409 400	$ 8.55	March 1986	March 1990	21 700

Each option represents the right to purchase one common share of the Company at the indicated price during the period shown.

Note 9—Transactions with Affiliates	1988	1987
In the normal course of business, the Company had transactions with its major shareholder, E. I. du Pont de Nemours & Company and its affiliates, as summarized below:		
Sales	$ 124 525	$ 106 522
Purchases for consumption and resale	417 753	412 572
Interest on notes	—	10 827
Accounts receivable	6 392	4 747
Accounts payable and accrued liabilities	46 445	58 993
Funds invested in oil and gas exploration partnership during year	20 300	12 200

Note 10—Pension Costs and Obligations

The Company has a non-contributory defined benefit pension plan covering all regular employees. Benefits are based on length of service and average earnings in the employee's best consecutive thirty-six months. Pension costs are funded through payments made to an irrevocable trust fund held by an independent trustee.

Actuarial valuations are prepared regularly to determine the costs of pension benefits and the appropriate amounts of contributions to the fund. The actuarial method used estimates the present value of accrued pension benefits based on projections of salaries and wages to normal retirement dates. Pension fund assets are valued using a method which averages recognition of changes in the market value of the investment portfolio over a four-year period in order to reflect long-term market trends rather than short-term fluctuations.

Valuation reports prepared as at December 31 indicate that the present value of accrued pension benefits and the net assets available to provide for these benefits are as follows:

	1988	1987
Accrued pension benefits	$ 425 000	$ 415 000
Pension fund assets	431 000	415 000
Pension expense for the year included in net earnings	9 401	9 101

(Dollars in thousands unless otherwise indicated)

Note 11—Minimum Lease Payments under Operating Leases		1988	1987
The Company's future minimum lease payments under operating leases are as follows:			
Years ending December 31			
—1989	$ 6 455		
—1990	4 997		
—1991	6 541		
—1992	1 569		
—1993	1 325		
Remainder	5 704		
	$ 26 591		

Note 12—Segmented Information	1988	1987
Industry Segments		
Net sales		
Fibres and Intermediates	$ 419 698	$ 432 940
Specialty Chemicals and Materials	419 493	440 676
Specialty Plastics and Films	538 774	467 361
	$ 1 377 965	$ 1 340 977
Export sales included above	$ 238 541	$ 202 198
Operating earnings		
Fibres and Intermediates	$ 78 913	$ 103 646
Specialty Chemicals and Materials	36 231	26 292
Specialty Plastics and Films	75 751	55 844
	190 895	185 782
Other Corporate earnings and expenses	(15 018)	(26 914)
Income taxes	(75 967)	(68 316)
Net earnings—from operations	99 910	90 552
—extraordinary items	17 977	(1 801)
	$ 117 887	$ 88 751
Assets		
Fibres and Intermediates	$ 179 215	$ 137 561
Specialty Chemicals and Materials	209 345	219 191
Specialty Plastics and Films	247 028	217 556
Corporate	127 350	202 564
	$ 762 938	$ 776 872

	Capital Expenditures		Depreciation and Amortization	
	1988	1987	1988	1987
Fibres and Intermediates	$ 52 457	$ 19 164	$ 14 771	$ 14 720
Specialty Chemicals and Materials	10 575	11 464	12 916	14 012
Specialty Plastics and Films	29 761	21 885	10 566	8 685

(Amounts in thousands of dollars except where otherwise noted)	1988	1987	1986	1985	1984	1983
OPERATING RESULTS						
Sales and other revenue	1 391 917	1 351 043	1 250 259	1 192 712	1 182 823	1 120 691
Earnings before income taxes	175 877	158 868	107 316	30 153	63 936	51 635
Income taxes	75 967	68 316	46 872	9 533	22 755	16 422
Net earnings before extraordinary items	99 910	90 552	60 444	20 620	41 181	35 213
Extraordinary items	17 977	(1 801)	13 776	(46 520)	—	—
Net earnings	117 887	88 751	74 220	(25 900)	41 181	35 213
Percent return on:						
Average total investment*	9.9	8.1	7.4	—	5.0	4.8
Average common shareholders' equity	25.1	22.8	24.0	—	13.9	13.8
FINANCIAL POSITION						
Current assets	337 677	293 858	272 406	278 405	310 290	305 958
Current liabilities	169 515	276 354	175 299	198 617	154 685	150 312
Working capital	168 162	17 504	97 107	79 788	155 605	155 646
Plants and properties at cost	832 555	761 421	727 757	666 433	601 189	580 709
Accumulated depreciation and amortization	463 278	447 468	425 194	407 186	378 498	373 049
Plants and properties—net	369 277	313 953	302 563	259 247	222 691	207 660
Other assets	55 984	169 061	190 983	192 626	132 357	104 680
Long-term debt	12 049	16 101	180 732	205 165	142 967	137 797
Deferred income taxes	82 531	69 267	59 575	46 221	57 512	54 713
Shareholders' equity	498 843	415 150	350 346	280 275	310 174	275 476
GENERAL						
Company average selling price index —domestic manufactured products (1978 = 100)	190	172	165	161	164	161
Expenditures on plants and properties	106 621	63 401	94 430	71 433	45 329	25 193
Depreciation and amortization	46 660	49 475	46 819	38 881	35 748	41 445
Research and development expenses	20 648	18 299	13 661	12 999	13 491	12 261
Average total investment (before deducting accumulated depreciation and amortization)	1 237 345	1 232 900	1 175 570	1 097 266	1 034 045	939 849
Average number of employees	4 013	4 227	4 550	4 854	5 017	4 991
Average total investment per employee	308.3	291.7	258.4	226.1	206.1	188.3
RESULTS PER COMMON SHARE (in dollars)**						
Average number of common shares outstanding	31 461 188	32 095 930	32 069 116	31 610 932	31 545 192	31 545 192
Earnings—before extraordinary items	3.17	2.82	1.88	0.65	1.30	1.11
—total	3.74	2.76	2.31	(0.82)	1.30	1.11
Dividends	0.50	0.325	0.225	0.20	0.20	0.105
Book value (year end)	15.91	12.97	10.81	8.74	9.76	8.66
Market value (year end close)	24.00	28.50	19.63	14.25	8.88	8.94

*Based on net earnings before interest expense
**Restated to reflect 2 for 1 stock splits in 1984 and 1987

1982	1981	1980	1979	1978
984 599	1 143 165	996 364	879 619	662 617
(14 618)	54 273	73 227	96 555	17 765
(7 192)	20 773	30 612	38 295	7 995
(7 426)	33 500	42 615	58 260	9 770
(5 644)	(38 242)	7 916	—	—
(13 070)	(4 742)	50 531	58 260	9 770
—	0.7	6.6	8.5	3.0
—	—	20.1	29.1	5.6
240 217	310 408	284 998	241 699	190 668
132 450	165 924	163 078	138 019	160 428
107 767	144 484	121 920	103 680	30 240
560 086	637 550	603 154	553 727	531 020
340 516	408 997	324 499	293 530	265 070
219 570	228 553	278 655	260 197	265 950
107 271	85 427	70 991	71 806	61 247
140 244	143 822	122 158	125 204	125 000
50 614	53 232	75 196	79 920	54 049
243 750	261 410	274 212	230 559	178 388
162	156	137	117	100
23 855	47 175	53 189	23 339	10 674
36 971	42 260	37 609	31 429	30 471
11 946	10 105	7 320	6 654	6 090
965 531	1 005 979	896 524	818 645	759 796
5 432	6 142	5 937	5 560	5 408
177.7	163.8	151.0	147.2	140.4
31 545 192	31 545 192	31 545 192	31 545 192	31 545 192
(0.24)	1.06	1.35	1.85	0.30
(0.42)	(0.16)	1.60	1.85	0.30
0.14	0.25	0.2125	0.1875	—
7.65	8.21	8.62	7.24	5.58
4.25	7.50	7.88	6.63	3.85

Shareholder Information

Stock Listings

Common Stock—(DUP.A)
Valuation Day value $5.0625*
The Montreal Exchange
The Toronto Stock Exchange

Preferred Stock—(DUP.PR.B)
Valuation Day value $52.00
The Montreal Exchange

*Restated to reflect 2 for 1 stock splits in 1984 and 1987.

Stock Transfer Agent and Registrar

Montreal Trust Company, Montreal,
Toronto, Calgary and Vancouver

Debenture Transfer Agent and Registrar

The Royal Trust Company, Montreal
Royal Trust Corporation of Canada
Toronto, Winnipeg, Calgary and
Vancouver

Auditors

Touche Ross & Co.
201 City Centre Drive
Suite 504
Mississauga, Ontario
L5B 2T4

Please address inquiries to:

The Secretary
Du Pont Canada Inc.
Box 2200, Streetsville
Mississauga, Ontario
L5M 2H3
(416) 821-3300

Notice of Meeting

The 78th Annual Meeting of Shareholders will be held at the Royal York Hotel, 100 Front Street West, Toronto, Ontario, on Friday, May 5, 1989 at 12:00 noon.

Directors and Corporate Management

Board of Directors

David K. Barnes*
Director
E.I. du Pont de Nemours & Company

Michel F. Bélanger
Chairman and Chief Executive Officer
National Bank of Canada

Elwood P. Blanchard, Jr.
Vice Chairman of the Board
E.I. du Pont de Nemours & Company

Arnold M. Ludwick
Vice-President, The Seagram Company Ltd.
Deputy Chairman,
Joseph E. Seagram & Sons Limited

Hon. Donald S. Macdonald, P.C.**
Partner, McCarthy & McCarthy

Gerald J. Maier
President and Chief Executive Officer
TransCanada PipeLines

Donald S. McGiverin
Governor and Chairman of the Board
Hudson's Bay Company

J. Edward Newall
Chairman, President and
Chief Executive Officer
Du Pont Canada Inc.

Gordon F.J. Osbaldeston, P.C., O.C.
Senior Fellow
School of Business Administration
University of Western Ontario

John J. Quindlen
Senior Vice President—Finance and
Chief Financial Officer
E.I. du Pont de Nemours & Company

George T. Richardson
President
James Richardson and Sons, Limited

Elvie L. Smith
Chairman of the Board
Pratt & Whitney Canada Inc.

Gordon R. Wittman
Senior Vice-President
Du Pont Canada Inc.

** Resigned from the Board in December 1988*
*** Resigned from the Board in September 1988*

Board Committees

Audit Committee

E.L. Smith, *Chairman*

M.F. Bélanger
A.M. Ludwick
G.F.J. Osbaldeston
J.J. Quindlen

Human Resources Committee

G.J. Maier, *Chairman*

M.F. Bélanger
E.P. Blanchard
D.S. McGiverin
G.T. Richardson

Pension Committee

D.S. McGiverin, *Chairman*

A.M. Ludwick
G.J. Maier
G.F.J. Osbaldeston
J.J. Quindlen
G.T. Richardson
E.L. Smith

Corporate Management

J. Edward Newall
Chairman of the Board,
President and Chief Executive Officer

Gordon R. Wittman
Senior Vice-President

Finn Hovland
Senior Vice-President

Donald A.S. Ivison
Senior Vice-President
and Chief Financial Officer

Arthur R. Sawchuk
Senior Vice-President

James M. Stewart
Senior Vice-President

John C. Carson
Vice-President

F. Gerald Fox
Vice-President—Human Resources,
General Counsel and Secretary

Paul M. Costello
Vice-President and Treasurer

John A. Walsh
Vice-President, Corporate Affairs

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