SCOTT PAPER LIMITED
1991 Annual Report

Every day, Scott products touch the lives of millions of Canadians — from major metropolitan areas to the more remote communities of the country.

Our cover photo, showing a truckload of Scott product destined for an island community off the coast of British Columbia, illustrates Scott's effort to keep in touch with the vast and highly diverse market that is Canada.

There has never been a more urgent need for Canadian corporations to keep in touch; to gain an understanding of the evolving interests, concerns, and needs of the Canadian consumer.

It is an objective which demands a serious commitment to communication — with particular emphasis on the listening skills. Scott made that commitment long ago. It's how we stay in touch with our world. We listen, and by listening, we find that we care about the same things you do.

Head Office:
Vancouver
British Columbia

Plants
New Westminster, B.C.
Crabtree, Quebec
Lennoxville, Quebec
Hull, Quebec

Division Sales Offices
Vancouver, B.C.
Winnipeg, Manitoba
Toronto, Ontario
Montreal, Quebec
Dartmouth, Nova Scotia

Le présent rapport annuel est publié en français et en anglais. Pour tout exemplaire supplémentaire, prière de s'addresser au secrétaire.

Financial Highlights

SCOTT

For the Year	1991	1990	% Increase (Decrease)
Financial Results (in thousands of dollars)			
Net sales and operating revenue	**$434,791**	$477,993	(9.0%)
Operating income	**37,375**	41,040	(8.9%)
Income after taxes	**12,321**	13,847	(11.0%)
Cash flow from operating activities	**58,089**	62,678	(7.3%)
Per Common Share (in dollars)			
Income after taxes	**.81**	.91	(11.0%)
Dividends	**.38**	.34	11.8%
Cash flow from operating activities	**3.80**	4.10	(7.3%)
Book value (year end)	**9.14**	8.71	4.9%
Additional Information			
Common shares outstanding	**15,280,800**	15,280,800	
Common shareholders of record	**1,997**	2,074	
Return on average shareholders' equity	**9.0%**	10.8%	
Number of employees	**2,392**	2,451	

The Year In Review

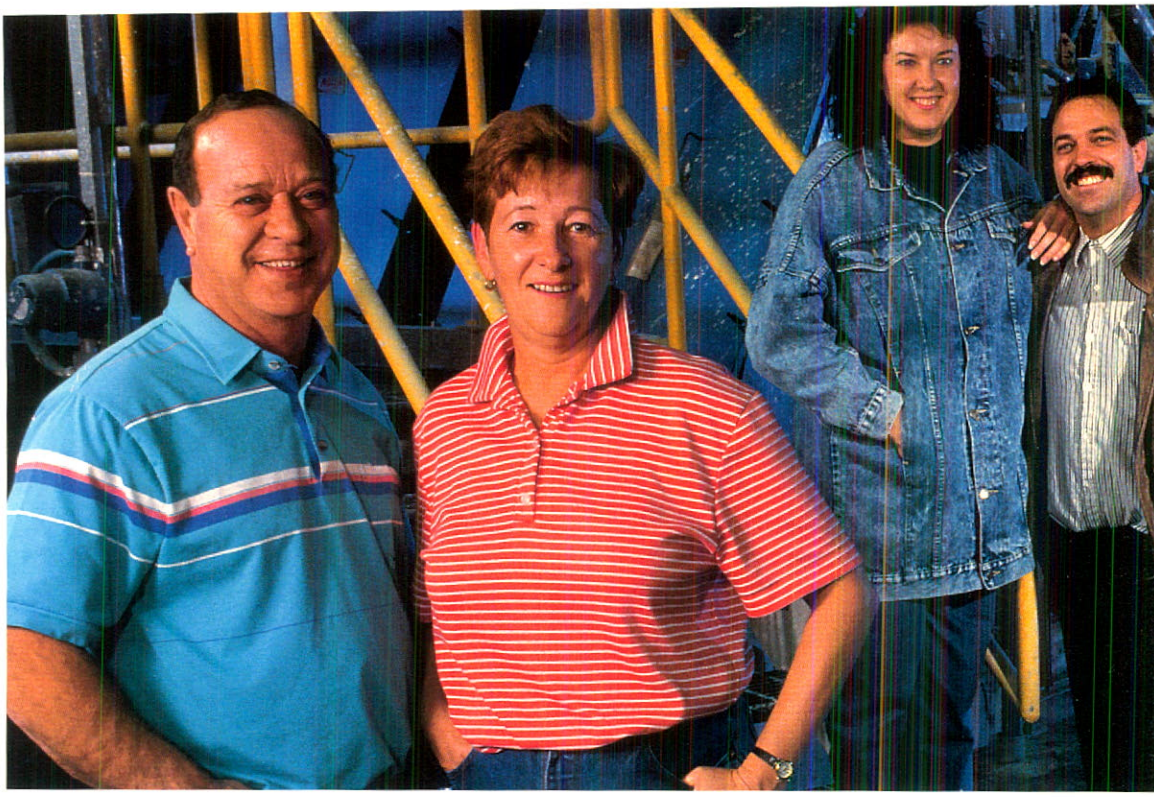
Following is our report for 1991. It includes a short summary of financial results and insights; perspectives on communications within the company, cooperative ventures between Scott and plant-city communities, the environment and marketing; and, finally, the financial section including the Management's Discussion and Analysis, where a detailed and comprehensive discussion of the year is provided.

For the year just concluded, sales and other revenue of $434.8 million and income after taxes of $12.3 million or $0.81 per share were 9% and 11% respectively below the levels attained in 1990. These results reflect the affect of continuing high excess tissue industry capacity and the poor economic conditions in North America.

Although physical sales volumes within Canada were even with last year, lower price levels, coupled with a significantly lower volume of export business, combined to result in the decrease in revenue.

The impact of reduced revenues for the year was significantly offset by improved costs and efficiencies, particularly at the company's manufacturing locations, and the net result was a decline in our earnings from $0.91 per share in 1990 to $0.81 per share in 1991.

There were many positive accomplishments during the year, but it is also clear that competitive conditions in our industry have been fundamentally altered for some time into the future until market growth absorbs the increased capacity. Meanwhile, in order to continue progressing towards our strategic objectives of being fully competitive in the North American marketplace, an aggressive program to tailor controllable expenses to anticipated pricing levels has been undertaken.



Sharing A Common Interest In Doing Well – As A Company; As Individuals

Perhaps the best way to test a company's communications skills is to talk to its employees. All too commonly, they're the last to learn about decisions that affect them.

Scott believes employees are a great deal more than hired hands. They are an integral part of the company's operation and they deserve to be kept informed. Employees have as much at stake in the company as the company has in them. Both share a common interest in seeing the company do well.

Scott uses a variety of means to stay in touch with its people.

Getting Everything In Focus

How is the company doing? Could it be doing better? These were some of the questions discussed at a series of eight intensive information seminars held across the country for Scott's 2,400 employees last year.

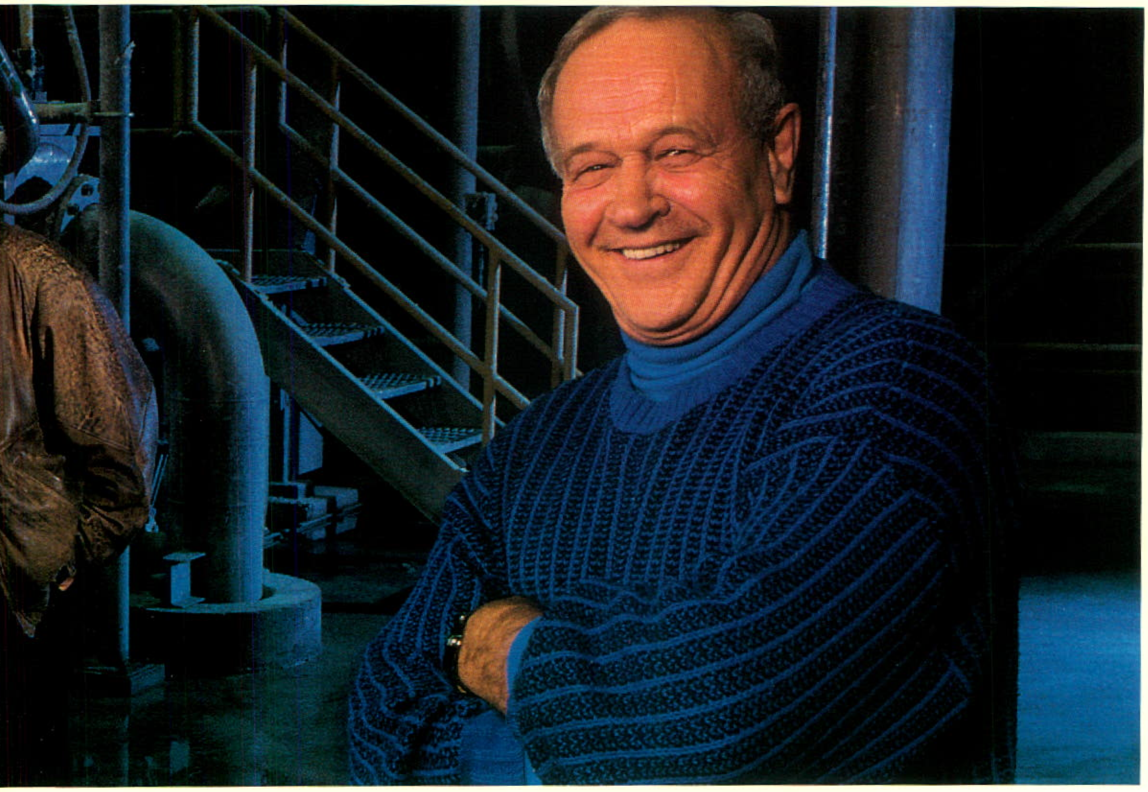
Called "Focus 1991," the sessions provided a comprehensive report to employees to inform them on changing conditions within the industry, and to bring them up-to-date on the company's performance.

The Focus '91 sessions were also aimed at getting people to communicate and exchange ideas. Topics ranged from the effects of free trade to a strengthening Canadian dollar; from considerations of the North American supply and demand for sanitary tissue to the environment; from new product introductions to Canadian unity.

Once A Year Is Not Enough

Ongoing programs at Scott provide additional avenues for communications over and above special efforts like Focus '91. One of them, the "Interchange Program," was initiated several years ago as one of the results of a company-wide communications survey.

Under the program, employees are invited to attend planning and operations meetings in which they are not normally involved. In addition, each plant holds annual gatherings of all plant employees. These annual meetings are similar to the Focus sessions, but are more narrowly defined with discussion revolving around considerations affecting the specific plant, its operations and its people.



Keeping It In The Family

People tend to stay with Scott. In fact, in Crabtree, Lennoxville and New Westminster, working for Scott has become a family affair, and it is not uncommon to find several generations of the same family who have been employed by Scott. At Crabtree for instance, six members of the Parent family, husbands and wives, fathers and sons, all work for Scott.

On the left are Roch Parent and his wife, Rachelle, who work in Division B. He is a machine operator and she, a product inspector. In the center are Sylvain Parent, union president at the plant, and his wife, Danielle. On the far right is Guy Parent, Sylvain's father, Roch's brother, and one of the sons of Deliphat Parent who was born in 1888 and retired from Scott back in 1953. Missing from the picture is Sylvain's brother, Simon Parent, who works in the paper mill.

Sylvain and Simon represent the third generation of the Parent family to work at Scott's Crabtree plant.

The Company Is Only As Good As Its Employees

When employees improve at their jobs, the whole company benefits. As part of the Scott team, individual employees are encouraged to grow and develop their skills through on-the-job training within the company, or through continuing education courses taken outside the company, the costs of which the company underwrites.

Support and encouragement of educational achievement extends to the children of employees as well.

Scholarships are awarded each year to qualifying students who plan to further their education at a Canadian college or university. Although funded by Scott, the scholarship program is actually administered by the Canadian Association of Colleges and Universities in Ottawa.

Scott's Employee And Family Assistance Program

Another effort that extends to the family is Scott's Employee and Family Assistance Program. This program, initiated in Vancouver and the Lower Mainland of B.C. in 1988, was expanded throughout the company last year.

It is a totally confidential program which provides professional assistance from outside the company to Scott employees and family members trying to cope with personal problems.

Assistance can be provided for problems such as parent-child and marital relationships, substance abuse, grief, stress or financial difficulties. Assessment, referral and follow-up services are provided at no cost to active and retired employees and their families.

Attracting And Retaining Good People

These various employee communication and support programs are part of the reason Scott can attract and retain good people. Make no mistake about it, Scott has a vested interest in skilled, well trained and informed employees.

The results of good communication also show in employee willingness to stay with Scott through the years. Employee turnover, and the parallel need for expensive retraining, is very limited.

Good people can achieve personal goals working at Scott. Scott is able to accomplish its corporate objectives because of the quality of the people the company has been able to hire and retain.

Meeting A Multitude Of Objectives

From a small cafe in the food service industry to the largest manufacturing operation, cleaning up is a part of doing business – from towels to tissues, from specialty wipers to hand care products – everyday, for businesses across the country.

Quality products for efficient clean-ups on the job controlled by dispensing systems that minimize waste; dramatic reductions in maintenance time and costs; convenience and efficiency in operation – these are the objectives of the various product dispensing systems sold through Scott to meet the needs of virtually every type of business in Canada.

A Systematic Approach To Saving Customers Time And Money

In commercial markets, customers look to Scott for more than quality paper products. They want ideas that can save them time and money.

It's a continuing challenge that demands a close working relationship and a high level of communication among the company's commercial division, its distributors and their customers.

In serving the diverse needs of restaurants, hospitals, manufacturing operations or highrise office buildings, Scott utilizes a variety of product dispensing systems to minimize maintenance time and cost, reduce product waste and, at the same time, provide product quality and convenience to the end user.

Systems Do A Better Job

One such system, "The Protector," for both wipers and towels, features centre flow design with convenient one-hand operation. This system is now available for dispensing Extender and Premiere hand towels, Economizer Wipers and ScottPure Special Task Wipers for jobs requiring a lint-free wiper. This high capacity system for wipers or towels reduces maintenance time and features hygenic cost effectiveness.

Refill maintenance economies are also an integral part of the new 500-foot HRT and Gemini Roll Towels available within both the Scott and White Swan product lines respectively.

As part of the ongoing commitment to the environment and to ensure that its customers' overall expectations are met, Scott's commercial products offer an engineered balance of fibre and performance.

In the lodging and hospitality supply market, new graphics adorned Super Purex, Scotties and Mini Wipes. Up-scale graphics also were introduced with the new cube line of facial tissues.

What Will They Want Tomorrow?

It's the question that keeps sales and marketing people awake at night. People buy the brands that best suit their needs and their life-styles. But both change constantly.

The secret to keeping up with change is staying ahead of it – no easy task. It can take years to develop and bring a new product to market. Staying ahead often involves forecasting what consumers will want...before they want it. No one has the benefit of a crystal ball, but within the industry, Scott has set a standard in predicting and leading trends.

Last year saw the introduction of 25 product innovations including new colours, new print designs, larger pack sizes, recycled and unbleached products.

Keeping Current With Changing Consumer Attitudes

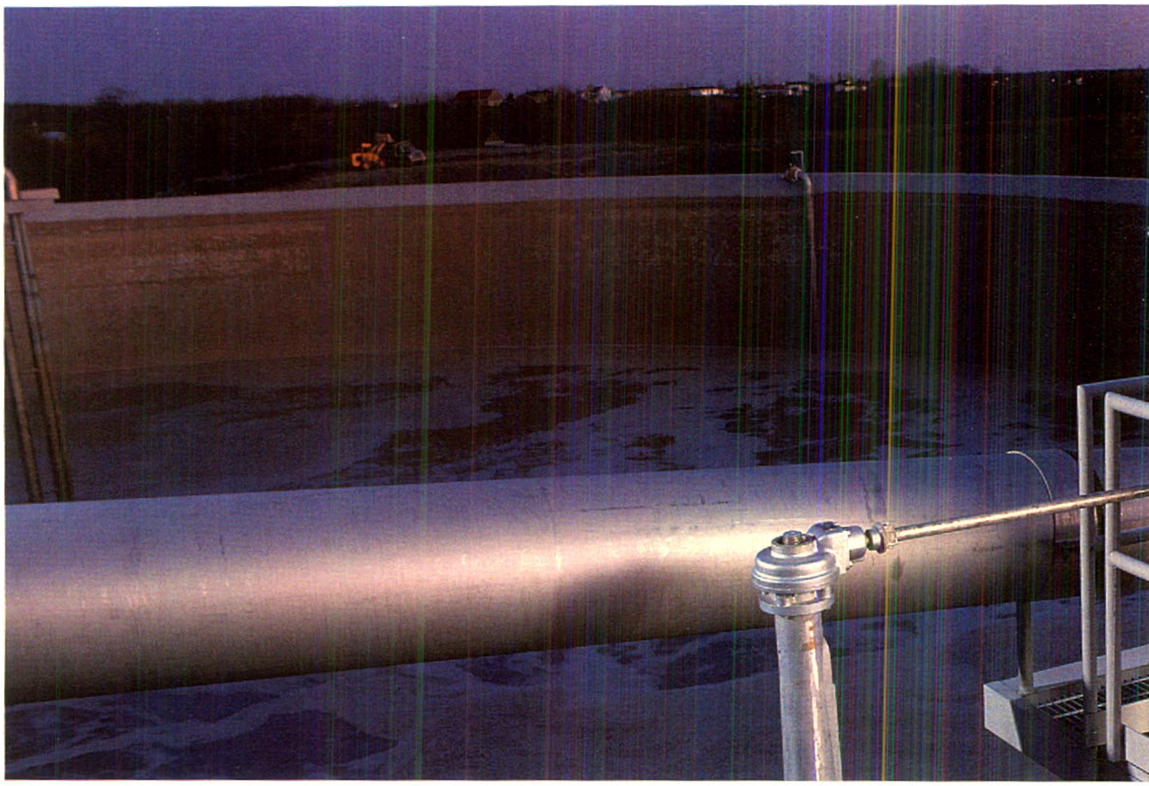
Every year, Scott receives hundreds of letters from people who use our products. Some letters express ideas, others, concerns. All offer insights which are carefully considered.

Canadian consumers are more educated and better informed than ever before. They hold definite opinions on a variety of issues, and they act on them. Often, those opinions have a bearing on what they buy. If a manufacturer is not prepared to listen and provide the kind of products consumers expect, they will look elsewhere.

New Products To Meet New Needs

Scott has led the industry in providing products that respond to changing consumer attitudes. In Eastern Canada, Scott introduced line extensions of Cashmere bathroom tissue and of Viva towels — both new products made from 100% recycled fibre. The availability of high quality recycled fibre from the new Crabtree plant made it possible to increase the recycled fibre content to the 100% level in those brands and to the two-thirds level in Scotties facial tissue.

In the West, consumer interest in environmental products has been met by the introduction of Cashmere unbleached bathroom tissue, Purex unbleached bathroom tissue and Viva unbleached towels.



The Community Spirit Of Scott

"The impersonal hand of government can never replace the helping hand of a good neighbour," so said the late Hubert H. Humphrey, one time candidate for president of the United States.

It's a philosophy shared at Scott. Over the years, the company has benefited from the communities and the regions in which it operates. As a "good neighbour," Scott tries to return the favour by providing a helping hand where possible.

Sometimes that means providing programs or services that would not otherwise be available. In other instances, it's about working together to solve common problems.

Getting Down To Work

Scott Paper and the Municipality of Crabtree, Quebec, were busy building together in 1991. Along with the opening of a new waste water treatment facility, jointly built by Scott and the municipality, Scott also worked with the community to renovate the Crabtree Arena for the benefit of young skaters in the area.

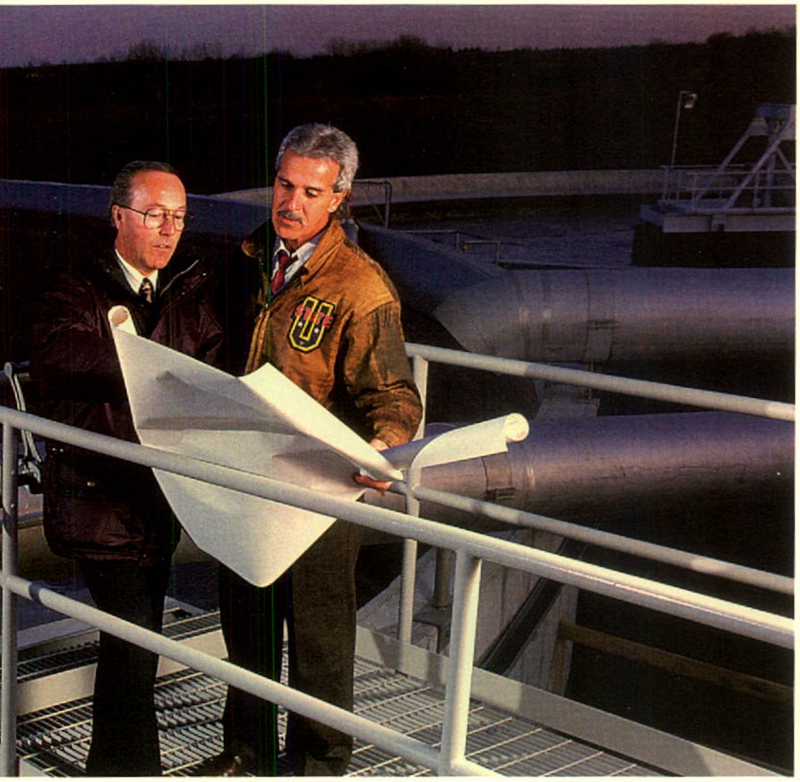
Scott's involvement went beyond dollars. Assistance was provided with engineering expertise, evaluation of quotes, on-site inspection of the work in progress and quality control.

In Hull, Scott revamped the overall appearance of the mill, with particular emphasis on the entrance to the property which lies just across the street from city hall. The effort made the mill look better and, at the same time, contributed to a better overall impression of that part of the city.

An extensive five-year communications program involving custom designed T-shirts, pancake breakfasts, dunking tanks for both management and union employees and a host of other promotions turned the United Way campaign around at the New Westminster mill.

Five years ago, the annual campaign was a low profile event. Scott employees took it in hand and quickly demonstrated that raising funds for community charities and service organizations can be effective and fun at the same time.

Today, Scott's program is considered a model by the United Way. In spite of difficult financial times, it generates three times the revenues it did five years ago and its "Gold Level" performance is becoming a tradition.



Getting Things Accomplished... Together

Jacques Malo of Scott Paper and Raymond Gauthier, Municipal Services Manager of the town of Crabtree, Quebec, have learned there's nothing like a common problem to get people working together.

In 1988, both the Scott plant and the municipality found themselves faced with requirements to improve their waste water treatment facilities. Scott's need came from a proposed expansion of its de-inking and recycling operation at the mill. The municipality was required to upgrade its waste water treatment capability to meet provincial water quality standards.

Scott and the municipality worked together toward a mutually beneficial goal and last November celebrated the opening of a new, jointly-built, waste water treatment facility.

By working together, both Scott and the Municipality of Crabtree realized significant savings. Operated by Scott technicians on behalf of both the company and the municipality, the new waste water treatment facility meets the most stringent effluent specifications in all of Canada.

Saving The Trumpeter Swan

On a regional level, a Scott promotion of White Swan products has been developed around a program to help save the Trumpeter Swan. This magnificent bird, hunted to near extinction, is slowly making a comeback, but is still considered rare.

Scott's fund raising program will support efforts to reintroduce these beautiful birds to the marshlands, lakes and ponds of Eastern Canada that were once their natural habitat.

Les Joies de la Musique Scott

Les Joies de la Musique Scott completed its fifth, year-long celebration of classical music with a series of concerts in Montreal, the Joliette region, Quebec City and Hull.

The program is aimed at the advancement of the music culture of Quebec, and the support of the province's young musicians through scholarship competitions open to instrumentalists under the age of 16 years.

Canada's National Community

Scott's community involvement also extended to the national level with sponsorship of the "Lend a Helping Hand" program, a Canada-wide promotion aimed at raising funds in support of children with chronic or life-threatening illnesses. The 1991 campaign marked the third year that Scott has participated along with the Ronald Mc Donald Children's Charities in this fund raising effort. Over the three years, due to the support of its customers and consumers, the promotion has raised more than $500,000 for this very worthwhile cause.

The year also marked the tenth anniversary of Scott Paper's sponsorship of the Canadian Women's Curling Championships, "The Scott Tournament of Hearts."

This was the most successful tournament yet. More than 1,100 volunteers turned out in March in Saskatoon to contribute their services. More than 70,000 people, double the previous record, attended to watch the week-long playdown in person.

Putting A Weed Tree To Work

Call it a poplar, or a cottonwood if you prefer. It has historically been referred to as a "weed tree" due to its facility for rapid growth and early maturity. And that's just one of several reasons why Scott Paper considers it a tree worthy of cultivation.

While most hardwoods need between 50 and 100 years to reach maturity, the cottonwood (with a little help from Scott's woodlands staff at Harrison Mills, B.C.) reaches its full size in only 25 years.

This phenomenal growth rate provides Scott with a steadily renewable supply of wood fibre. At the same time, the environment gets a tree with a voracious appetite for carbon dioxide, one of the major causes of ozone depletion. The cottonwood's colour is another benefit. Its wood is naturally white and bright, and requires minimal bleaching.

It Has Always Made Sense To Be In Touch With The Environment

When a business depends on natural resources, its future depends on the prudent preservation of those resources. Scott's commitment to environmentally sound products and processes dates back years . . . several decades before it was the politically correct thing to do. Attitudes change but common sense doesn't.

That's why in 1948, Scott Paper initiated a forest management program aimed at developing a source of pulp from a rapidly renewable resource — the fast growing cottonwood tree. Over the years, it has become an increasingly important source of fibre for Scott's operations in Western Canada.

Fifteen years ago, Scott began recapturing and reusing fibre by recycling waste papers otherwise destined for disposal in landfills. Today, Scott is the largest producer of recycled fibre in the Canadian sanitary tissue industry. Each year the company recycles some 100,000 tonnes of waste paper which ultimately makes its way into virtually all of Scott's eastern products.

Environmental performance throughout the company has been assigned a high priority. Efforts in this area have been backed up with the creation of an Environment Committee within the Board of Directors.

Reduced Packaging Reduces Waste

Scott is a volunteer participant in the National Packaging Protocol, an effort coordinated by the Canadian Council of Ministers of the Environment. This program is aimed at reducing the amount of packaging used in Canada by 50% by the end of the year 2000.

Scott has also contributed to the support of provincial "blue box" type recycling programs in Quebec and Ontario and is evaluating participation in similar programs in other provinces.

Management's Discussion And Analysis Of Financial Conditions And Results Of Operations

General

The company operates within a single business segment being the production, distribution and sale, primarily within Canada, of a wide range of disposable tissue paper products for household, commercial and industrial use.

Results Of Operations

Year Ended December 31, 1991 Compared With Year Ended December 31, 1990

Sales and operating revenue for 1991 amounted to $434.8 million, a decline of $43.2 million or 9% from the 1990 amount of $478.0 million. In line with this decline, operating income at $37.4 million was 8.9% less than the comparable amount for 1990. After tax earnings were $1.5 million below 1990 levels and earnings per share for the year amounted to $0.81 per share, 11% less than the comparable earnings for 1990 of $0.91 per share.

The market for the company's products in 1991 was characterized by intense competitive activity. This activity reflected the combined impact of a weak North American economy, a relatively high Canadian/U.S. dollar exchange rate, and a 30% increase in the installed capacity within the Canadian tissue industry over the period 1988 to 1991. The market imbalance created by this increased capacity exerted significant downward pressure on industry pricing levels in 1991, a pressure that will continue until such time as the excess capacity is absorbed by increased domestic, North American or offshore demand, or by the permanent closure of non cost-competitive manufacturing facilities.

The decline in sales and operating revenue in 1991 of $43.2 million, 9%, is a direct result of a decline in the physical volume of semi-finished product sales to North American and offshore markets, together with the impact of excess capacity on price realization levels for domestic finished product sales. Physical volumes of finished product sales within the domestic market were maintained at the same level in 1991 as 1990.

Cost of products sold in 1991 at $312.4 million represented 71.8% of sales and operating revenue as compared to $353.5 million or 74% for 1990. For the last three quarters of 1989, immediately subsequent to the company's acquisition of the White Swan Division of E.B. Eddy Forest Products Limited, cost of products sold represented 75.5% of sales and operating revenue. Additional per unit manufacturing costs were incurred in 1991 as a result of reduced sales volumes and corresponding increases in plant curtailment costs at our manufacturing sites. These costs were more than offset by continuing benefits associated with the ongoing integration activities relative to the White Swan operations, cost reduction benefits associated with a full year's operation of the Crabtree, Quebec, recycling facility, continued productivity improvements at all company manufacturing locations and declines in purchased fibre costs.

Selling, distribution, research and development, and general and administrative costs were maintained at absolute levels which were very similar to 1990. Overall, the combined total for these categories of cost was $85.0 million, $1.6 million or 1.9% higher than the comparable amount for 1990. Expressed as a percentage of sales and operating revenue, these categories of costs increased to 19.5% as compared to 17.5% in 1990, primarily a result of the 9.0% decline in 1991 sales revenue.

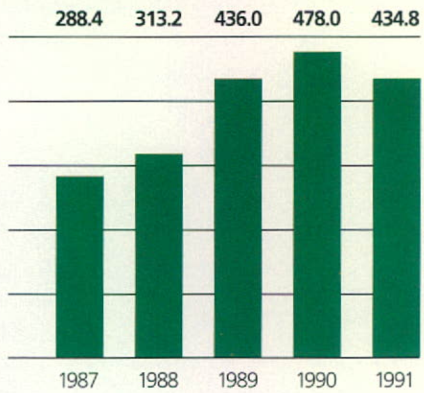
As an aggregate result of the above, operating income for 1991 amounted to $37.4 million, 8.9% less than the 1990 amount of $41.0 million.

Year Ended December 31, 1990 Compared With Year Ended December 31, 1989

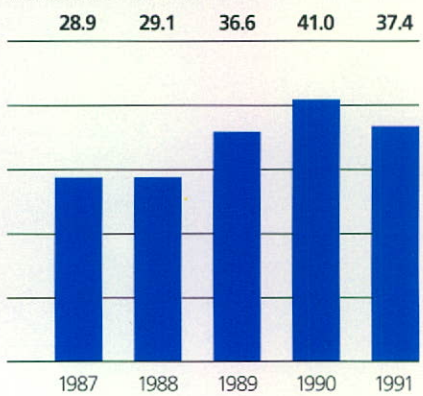
On March 28, 1989, the company acquired from E.B. Eddy Forest Products Ltd. the assets and related business of the White Swan Tissue Division. The financial statements for 1990 included the results of the combined operation for a full 12-month period. The 1989 financial statements include the results of the White Swan operations for only the 9-month period following the date of acquisition.

Total sales and operating revenue in 1990 increased 9.6% to $478.0 million compared to $436.0 million in 1989.

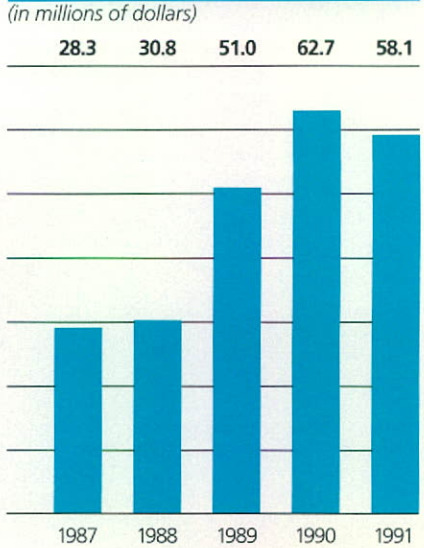
Sales
(in millions of dollars)



Operating Income
(in millions of dollars)



Cash Flow From Operations
(in millions of dollars)



Operating income at $41.0 million was 12% ahead of the 1989 amount of $36.6 million.

After tax income for 1990 was $13.8 million as compared to $18.0 million in 1989.

Earnings per share for 1990 amounted to $0.91, a decline of 22.9% from the 1989 earnings of $1.18. The 1989 earnings per share of $1.18 included $0.29 of non-recurring other income. Specifically, the gain on the sale of the company's investment in Sancella Inc. increased 1989 earnings per share by $0.42, while the write-off of one-time costs associated with the White Swan acquisition reduced earnings by $0.13 per share.

The growth in sales and operating revenue in 1990 of $42.0 million, 9.6%, is the combined result of the inclusion of the additional sales resulting from the White Swan acquisition for a full 12 months in 1990 (versus 9 months in 1989) and growth in the revenues of the other Scott operations. Substantial additions to domestic tissue industry capacity, coupled with modest demand growth, resulted in a significant increase in competitive activity. The 9.6% growth in revenue was driven primarily by increased physical volumes in all key product categories with only modest gains being achieved in unit net selling prices.

Overall cost of products sold as a percentage of sales fell from 75% in 1989 to 74% in 1990. As was communicated in our 1989 Annual Report, "the higher unit production costs at the White Swan operations represent a major opportunity identified at the time of the acquisition and the company is in the process of implementing significant cost reduction plans, the net benefits of which will begin to be generated in 1990." The decline in unit cost of sales relative to sales values reflected the initial benefits of this ongoing program, together with continuing productivity improvements at all manufacturing locations and benefits from lower fibre costs in the second half of 1990.

Selling and distribution expenses increased by 13.8% in 1990 as compared to an increase in sales and operating revenue of 9.6%. These costs, expressed as a percentage of sales and operating revenue, grew from 13.2% to 13.7%. Selling expenses increased due to a higher level of marketing activity in 1990 with specific focus on the production and launching of new programs supporting the White Swan family of brands and other product introductions, including a line of recycled and unbleached products.

Research and development, and administrative and general costs as a percentage of sales declined to 3.7% in 1990 as compared to 3.8% in 1989.

The combined levels of selling, distribution, research and development, and general administrative costs were 17.5% of sales and operating revenue in 1990 and 17.1% in 1989.

As a combined result of the above, operating income for 1990 amounted to $41.0 million, 12% ahead of the 1989 amount of $36.6 million.

Earnings Sensitivities

The cost of fibre represents a key component of the company's overall cost of producing finished products. Kraft fibre is a U.S. dollar quoted commodity with a price level subject to cyclical worldwide shifts in supply and demand. The company purchases approximately 40% of its fibre requirements at prices related to prevailing market price levels. At current U.S./Canadian dollar exchange rates, each variation of $10 U.S. per tonne in the price of purchased Kraft fibre impacts the company's annualized cost by $1.0 million. The earnings impact of this variation depends upon the competitive dynamics of the overall marketplace for the company's products and the relative impacts on competitive cost structures and selling price levels within that market.

Liquidity And Capital Resources

The reduction in earnings in 1991 was reflected in a decline in the total net cash flow generated from operating activities. Before interest cash flow from operating activities in 1991 declined by $4.6 million or 7.3% to $58.1 million as compared to $62.7 million in 1990. Interest costs at $18.6 million for 1991 were $1.0 million or 5% lower than 1990, the combined result of lower debt levels and lower interest rates. Total net cash flow generated from operating activities for 1991 was therefore $39.6 million, down $3.5 million from 1990.

This decline was more than offset by a decrease of $5.2 million in the company's operating working capital as compared to an increase of $2.5 million in 1990. The working capital reduction was achieved principally as a result of a reduced level of accounts receivable and inventories offset in part by a decline in current liabilities.

As a combined result of the above, total cash provided by business activities available for investment and financing activities was $44.8 million, 10.3% higher than the equivalent amount for 1990.

Total net investment expenditures in 1991 amounted to $22.0 million as compared to $41.9 million in 1990. These expenditures consisted primarily of various modernization and efficiency upgrading programs at our operating facilities in Crabtree, Lennoxville and Hull, Quebec, and New Westminster, B.C.

In July 1991, the quarterly dividend rate was increased from $0.09 per share to $0.10 per share. Overall dividend payments for the year amounted to $5.8 million as compared to $5.2 million in 1990.

The combined 1991 cash requirement of the above investment and dividend expenditures was $27.8 million, $17.0 million less than the total net cash generated by business activities of $44.8 million. As a result, the company has reduced its aggregate debt level from $175.4 million at December 31, 1990 to $158.4 million at December 31, 1991.

Total long-term and short-term debt, at $158.4 million as at December 31, 1991, represents 44.7% of total capitalization as compared to $175.4 million or 48.7% of capitalization as at December 31, 1990. At December 31, 1991, 66.8% of the total debt is carried at a weighted average fixed rate of 10.41%. The balance of the company's debt is carried at floating rates.

The company believes that its cash flow from operating activities will be sufficient to meet its anticipated future cash requirements for operating, investing and financing activities.

Scott Paper Limited
Consolidated Statement Of Income And Retained Earnings

	1991	1990
	Year ended December 31 (in thousands)	
Income		
Sales and operating revenue, less allowances and excise taxes	**$ 434,791**	$ 477,993
Expenses		
Cost of products sold	**312,403**	353,496
Selling and distribution	**66,910**	65,607
Research and development	**3,557**	3,906
Administrative and general	**14,546**	13,944
	397,416	436,953
Operating income	**37,375**	41,040
Interest (Note 4)		
Long-term debt	**16,205**	16,477
Short-term debt	**2,349**	3,066
	18,554	19,543
Income before income taxes	**18,821**	21,497
Income taxes (Note 6)		
Current	**2,400**	(350)
Deferred	**4,100**	8,000
	6,500	7,650
Income for year	**$ 12,321**	$ 13,847
Income per share	**$ .81**	$ .91
Retained earnings		
Retained earnings at beginning of year	**$ 125,271**	$ 116,619
Income for year	**12,321**	13,847
	137,592	130,466
Dividends	**5,807**	5,195
Retained earnings at end of year	**$ 131,785**	$ 125,271

Scott Paper Limited
Consolidated Statement Of Financial Position

	1991	1990
	December 31 *(in thousands)*	
Current assets		
Cash	**$ 49**	$ 49
Trade and other accounts receivable (Note 7)	**34,612**	39,251
Inventories (Note 2)	**75,069**	78,486
Prepaid expenses	**1,880**	1,752
	111,610	119,538
Current liabilities		
Bank indebtedness	**22,215**	27,342
Accounts payable and accrued liabilities	**59,961**	63,843
Income taxes payable	**1,187**	–
Current portion of long-term debt (Note 4)	**1,686**	1,503
	85,049	92,688
Working capital	**26,561**	26,850
Add: Non-current assets		
Fixed assets (Note 3)	**299,956**	303,166
Deferred charges	**3,782**	1,674
	303,738	304,840
Deduct: Non-current liabilities		
Long-term debt (Note 4)	**134,563**	146,568
Deferred income taxes	**56,103**	52,003
	190,666	198,571
Net assets	**$ 139,633**	$ 133,119
Shareholders' interest		
Share capital (Note 5)	**$ 7,848**	$ 7,848
Retained earnings	**131,785**	125,271
	$ 139,633	$ 133,119

APPROVED BY THE BOARD OF DIRECTORS

R.T. Stewart

Robert T. Stewart
Director

W.D.H. Gardiner

W.D.H. Gardiner
Director

Scott Paper Limited
Consolidated Statement Of Changes In Financial Position

	Year ended December 31 1991	1990
	(in thousands)	
Cash provided by		
Operating activities		
Operating income	**$ 37,375**	$ 41,040
Depreciation	**22,984**	21,294
Other	**130**	(6)
	60,489	62,328
Current income taxes	**(2,400)**	350
	58,089	62,678
Interest	**18,554**	19,543
	39,535	43,135
Operating working capital decrease (increase)	**5,233**	(2,546)
Total cash provided	**44,768**	40,589
Cash applied to		
Investment activities		
Fixed asset expenditures	**19,974**	41,413
Increase in other assets	**2,088**	451
Other	**(50)**	(6)
	22,012	41,858
Financing activities		
Dividends	**5,807**	5,195
Decrease in long-term debt	**11,822**	1,309
	17,629	6,504
Total cash applied	**39,641**	48,362
Increase (decrease) in cash position	**5,127**	(7,773)
Cash position at beginning of year	**(27,293)**	(19,520)
Cash position at end of year	**$ (22,166)**	$ (27,293)
Comprised of		
Cash	**$ 49**	$ 49
Bank indebtedness	**(22,215)**	(27,342)
	$ (22,166)	$ (27,293)

Auditors' Report

To the Shareholders of
Scott Paper Limited

We have audited the consolidated statement of financial position of Scott Paper Limited as at December 31, 1991 and December 31, 1990 and the consolidated statements of income and retained earnings, and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1991 and December 31, 1990 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Price Waterhouse
Chartered Accountants
January 27, 1992
Vancouver, B.C.

Scott Paper Limited

Notes To Consolidated Financial Statements December 31, 1991 and December 31, 1990

1. Summary of significant accounting policies

Principles of consolidation

The consolidated financial statements include the accounts of Scott Paper Limited and its wholly-owned subsidiaries, Omega Products Limited, Westminster Paper Company Limited and West Tree Farms Limited.

Inventories

Inventories of finished products and work-in-process are valued at the lower of average cost and market value determined on the basis of net realizable value. Raw materials and supplies are valued at average cost which is not in excess of replacement cost.

Fixed assets

Depreciation is generally provided on buildings, machinery and equipment on a straight-line basis over their estimated useful economic lives at rates ranging from 2-1/2% to 20% of original cost per annum. For major capital additions depreciation is calculated using the units of production method.

The company capitalizes interest costs related to major capital expenditures during the period of construction.

Foreign exchange

The company follows the temporal method of foreign currency translation. Under this method, monetary assets and liabilities are translated at the rate of exchange in effect at the end of the year. Revenue and expense items are translated at the rate of exchange in effect on the dates they occur. Exchange gains or losses are reflected in income immediately except for unrealized gains or losses which relate to foreign denominated monetary items with a fixed or ascertainable life of more than one year, which are deferred and amortized over the remaining life of the monetary item.

Where a foreign currency denominated monetary item has been hedged by a forward exchange contract, that item is effectively translated at the rate of exchange applicable at the date of the transaction.

2. Inventories

Inventories consist of:

	1991	1990
	(in thousands)	
Finished products and work-in-process	**$ 50,577**	$ 53,188
Raw materials and supplies	**24,492**	25,298
	$ 75,069	$ 78,486

3. Fixed assets

Fixed assets consist of:

	1991	1990
	(in thousands)	
Land, at cost	**$ 11,319**	$ 11,081
Depreciable assets, at cost		
Buildings	**89,932**	86,428
Less: Accumulated depreciation	**20,673**	18,417
	69,259	68,011
Machinery and equipment		
Subject to straight-line basis of depreciation	**280,941**	266,903
Subject to units of production basis of depreciation	**72,558**	72,316
Less: Accumulated depreciation	**140,508**	120,232
	212,991	218,987
Assets under construction or development	**6,387**	5,087
Net book value of depreciable assets	**288,637**	292,085
	$299,956	$303,166

No interest was capitalized during 1991 (1990-$1,157,000).

4. Long-term debt

	1991	1990
	(in thousands)	
16.20% Australian dollar Senior Unsecured Notes maturing September 1994	**$ 50,000**	$ 50,000
Floating rate, revolving term bank loan	**80,350**	88,684
11.50% purchase money obligations payable 1992 - 1997 - secured	**10,489**	11,992
	140,839	150,676
Unrealized exchange gain in respect of 16.20% Australian dollar Unsecured Notes	**(4,590)**	(2,605)
	136,249	148,071
Less: Current portion	**1,686**	1,503
	$134,563	$146,568

The company has executed forward exchange agreements which effectively convert the Australian dollar Notes into Canadian dollar obligations at an annual interest cost of 9.50%.

In 1989 the company negotiated a seven year revolving credit facility in the amount of $100,000,000 with a major Canadian bank at market related rates. As of December 31, 1991, $80,350,000 had been drawn down under this facility.

The company has fixed the interest rate on $50,000,000 of its floating rate term loan by entering into an interest rate swap agreement for a seven year term with a fixed interest rate of 10.99%. In addition to the long-term swap, the company routinely hedges a portion of its floating rate interest positions by entering into short-term forward rate agreements which fix future interest rates for varying periods up to twelve months at market determined levels.

The purchase money obligations constitute debt assumed in respect of existing mortgages on manufacturing and warehousing facilities purchased by the company during 1990.

The minimum annual repayments of long-term debt over each of the next five years (in thousands) are as follows:

1992	$ 1,686
1993	$ 1,891
1994	$ 42,428
1995	$ 22,223
1996	$ 62,492

5. Share capital

The authorized share capital of the company consists of 36,000,000 common shares without par value of which 15,280,800 are issued and outstanding.

6. Income taxes

The company's effective income tax rate is made up as follows:

	%	
	1991	1990
Combined federal and provincial income tax rate after manufacturing and processing credit	**35.0**	35.7
Large corporations tax	**3.8**	2.9
	38.8	38.6
Permanent rate differences	**(2.0)**	(1.5)
Miscellaneous	**(2.3)**	(1.5)
Effective rate reflected in statement of income	**34.5**	35.6

7. Related party transactions

During the year, the company made sales to and acquired goods and services from Scott Paper Company and its associated companies, at commercially prevailing rates and terms, in the amounts of $3,980,000 and $11,978,000 respectively (1990-$23,973,000 and $10,594,000 respectively).

At December 31, 1991, $287,000 (1990-$1,848,000) was outstanding in respect of sales transactions and is included in trade and other accounts receivable and $932,000 (1990-$1,121,000) was outstanding in respect of purchases of goods and services and is included in accounts payable and accrued liabilities.

In 1989 the company borrowed $150,000,000 from Scott Paper Coordination Centre N.V. of which $50,000,000 was repaid during 1989 and $100,000,000 was repaid during 1990. In 1990 interest totalling $6,343,000 was paid under this loan.

8. Pension plans

The company's hourly employees at the Western Manufacturing Division are members of an industry pension plan to which the company contributes. In addition, the company has a number of contributory pension plans, participation being available to substantially all of its other employees. Length of service and individual earnings determine the pensions and retirement benefits for all members of the company plans.

Pension costs related to current service are charged to the Consolidated Statement of Income and Retained Earnings in the period during which the services are rendered. Past service costs as well as experience gains or losses are amortized over the expected average remaining service lives of the employee groups covered by the plans. The difference between the charge for pension costs and the funding payments is recorded in the Consolidated Statement of Financial Position under deferred charges or accrued liabilities as applicable.

The estimated actuarial present value of accrued pension benefits relating to services rendered to December 31, 1991 is $80,000,000 (1990-$74,200,000) and the market adjusted value of the assets available to provide for these benefits at December 31, 1991 is $79,700,000 (1990-$74,900,000).

Scott Paper Limited
Ten Year Review

	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982
				(in thousands of dollars except per share)						
Sales and Earnings										
Net Sales	**$ 434,791**	477,993	436,017	313,173	288,396	261,854	246,820	216,370	193,599	182,100
Depreciation	**22,984**	21,294	17,976	11,261	10,212	9,165	8,167	7,078	5,628	4,543
Interest expense	**18,554**	19,543	15,963	2,361	3,614	3,965	5,091	4,790	1,018	2,184
Income before taxes	**18,821**	21,497	27,169	26,745	25,286	22,679	18,853	14,950	14,262	12,981
Income taxes	**6,500**	7,650	9,200	10,500	10,772	9,750	7,670	5,150	4,750	4,300
Income after taxes	**12,321**	13,847	17,969	16,245	14,514	12,929	11,183	9,800	9,512	8,681
Per Share*										
Income before taxes	**$ 1.23**	1.41	1.78	1.75	1.65	1.48	1.23	.98	.93	.85
Income after taxes	**.81**	.91	1.18	1.06	.95	.85	.73	.64	.62	.57
Cash flow:										
Operating activities	**3.80**	4.10	3.34	2.02	1.86	1.77	1.92	1.81	1.40	1.52
Dividends paid	**.38**	.34	.32	.30	.28	.26	.21	.18	.17	.17
Shareholders' equity	**9.14**	8.71	8.15	7.29	6.53	5.86	5.27	4.75	4.29	3.84
Number of shares outstanding (thousands)	**15,281**	15,281	15,281	15,281	15,281	15,281	15,281	15,281	15,269	15,244
Condensed Cash Flow Statement										
Cash provided by:										
Operating activities	**$ 58,089**	62,678	50,975	30,820	28,349	26,994	29,404	27,589	21,405	23,099
Interest	**(18,554)**	(19,543)	(15,963)	(2,361)	(3,614)	(3,965)	(5,091)	(4,790)	(1,018)	(2,184)
Other income	**–**	–	6,505	–	–	–	–	–	–	–
Operating working capital	**5,233**	(2,546)	(21,124)	(11,158)	4,781	(11,084)	17,015	(9,754)	10,972	2,031
	44,768	40,589	20,393	17,301	29,516	11,945	41,328	13,045	31,359	22,946
Cash applied to:										
Investment activities	**22,012**	41,858	154,851	23,125	14,586	9,363	10,094	14,705	33,419	37,898
Financing activities	**17,629**	6,504	(127,250)	4,586	10,940	9,294	23,771	4,822	(10,038)	(21,560)
	39,641	48,362	27,601	27,711	25,526	18,657	33,865	19,527	23,381	16,338
Increase (decrease) in cash position	**5,127**	(7,773)	(7,208)	(10,410)	3,990	(6,712)	7,463	(6,482)	7,978	6,608
Financial Position										
Current assets	**$ 111,610**	119,538	127,892	81,483	68,526	70,658	54,111	57,618	47,641	56,467
Current liabilities	**85,049**	92,688	94,312	61,819	49,610	50,951	39,546	33,932	27,227	32,844
Working capital	**26,561**	26,850	33,580	19,664	18,916	19,707	14,565	23,686	20,414	23,623
Fixed assets at net book value	**299,956**	303,166	283,071	144,107	133,669	129,952	129,409	127,898	121,186	93,458
Long-term debt	**134,563**	146,568	149,380	17,240	17,242	23,904	28,455	48,586	50,634	38,320

**All per share calculations have been restated to reflect the following share splits: 2 for 1 on June 30, 1986*
3 for 1 on June 30, 1984

Corporate Information

As at December 31, 1991

Board of Directors

H. Clark Bentall
Chairman
The Dominion Company
Vancouver, B.C.

Fernand R. Bibeau
President
Beauward Shopping Centres Ltd.
St-Eustache, Quebec

W. Douglas H. Gardiner
President
W.D.H.G. Financial Associates Ltd.
Vancouver, B.C.

Jon K. Grant
President and Chief Executive Officer
Quaker Oats Company of Canada Limited
Peterborough, Ontario

Chester A. Johnson
Chairman and Chief Executive Officer
Western Pulp Inc.
Vancouver, B.C.

H. Gordon MacNeill
Chairman
Jannock Limited
Toronto, Ontario

George L. O'Leary
Retired Chairman of the Board
Vancouver, B.C.

Paul N. Schregel
Senior Vice President,
The Americas Region
Scott Worldwide, Inc.
Philadelphia, PA

Robert T. Stewart
Chairman, President and Chief Executive Officer
Vancouver, B.C.

Gerald C. Willis
Vice President,
Logistics and Strategic Development
Scott Worldwide, Inc.
Philadelphia, PA

Officers and Executive Management

Robert T. Stewart
Chairman, President and Chief Executive Officer

Paul A. Connelly
Division Vice President
(Manufacturing Resources Effectiveness)

Nigel N. Dexter
Division Vice President
(Commercial Marketing)

David M. Doherty
Division Vice President
(Consumer Sales)

James L.A. Glanville
Corporate Vice President
(Strategic Development)

Serge Guay
Corporate Vice President
(Manufacturing)

John J. Herb
Division Vice President and Corporate Secretary

Robert W. Howcroft
General Manager,
Western Manufacturing Division

Ralph M. Kitos
Division Vice President
(Human Resources)

Donald L. Pettit
Division Vice President
(Consumer Marketing Services)

John F. Philip
Division Vice President
(Business Development)

John M. Reid
Corporate Vice President
(Finance)

John R. Seaborn
Division Vice President
General Manager, Hull Manufacturing Division

David H.R. Stowe
Corporate Vice President
(Marketing)

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Transfer Agent and Registrar
Montreal Trust Company of Canada
Vancouver, Calgary, Toronto, Montreal and Halifax

Stock Listings
Vancouver, Toronto and Montreal Stock Exchanges

Operating Subsidiary
West Tree Farms Limited

Annual General Meeting
The company's Annual General Meeting will be held at 11:00 a.m. on April 15, 1992 in the Plaza Ballroom of the Hyatt Regency Hotel, Vancouver, British Columbia.

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