

Scott Paper Limited
1992 Annual Report

T E A M I N G

U P F O R

C H A N G E



SCOTT

Scott Paper Limited
Financial Highlights

For the Year	1992	1991	% Increase (Decrease)
Financial Results (in thousands of dollars)			
Net sales and operating revenue	\$399,590	\$434,791	(8.1%)
Operating income	6,526	37,375	(82.5%)
(Loss) income after taxes	(5,792)	12,321	-
Cash flow from operating activities	34,393	58,089	(40.8%)
Per Common Share (in dollars)			
(Loss) income after taxes	(.38)	.81	-
Dividends40	.38	5.3%
Cash flow from operating activities	2.25	3.80	(40.8%)
Book value (year end)	8.36	9.14	(8.5%)
Additional Information			
Common shares outstanding	15,280,800	15,280,800	
Common shareholders of record	2,053	1,997	
Return on average shareholders' equity	(4.3%)	9.0%	
Number of employees	2,304	2,392	

Head Office

Vancouver, B.C.

Plants

New Westminster, B.C.

Crabtree, Quebec

Lennoxville, Quebec

Hull, Quebec

Division Sales Offices

New Westminster, B.C.

Calgary, Alberta

Toronto, Ontario

Montreal, Quebec

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

President's Message

The following is our report for 1992. It includes a brief summary of financial results and insights, a review of how the company is responding to changes in its competitive environment and, finally, a financial section including the Management's Discussion and Analysis, where a detailed and comprehensive discussion of the year is provided.

The significant excess capacity in the Canadian tissue industry and the aggressive pricing levels of industry participants throughout 1992 have negatively impacted our sales and operating revenue for 1992 which, at \$399.6 million, is 8.1 percent below the level attained in 1991.

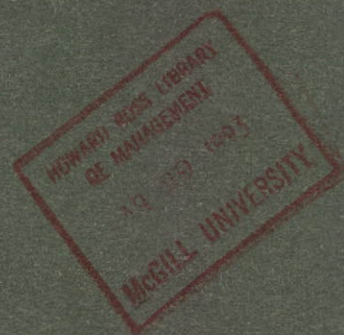
As the company responds to this market situation, it has aggressively driven cost and expense reductions throughout the business. These cost reductions have not been sufficient to offset the rate of decline in sales and operating revenue. As a result, the company is reporting a loss of \$5.8 million, or 38 cents per share, as compared to earnings of \$12.3 million, or 81 cents per share for 1991.

As previously reported to our shareholders, competitive conditions in our industry are such that price competition will remain intense until such time as the excess capacity is taken up by either demand growth in domestic or offshore markets, or the permanent closure of non cost-competitive manufacturing facilities.

In 1992, in addition to cost reduction activities, we also implemented a number of fundamental changes throughout the business which will, we believe, serve to further strengthen our key franchises and support our longer term position. Many of these changes are highlighted in the following section of this report.

1993 will be a demanding year for the business as we continue to adjust to today's competitive reality. We will be challenged throughout our business to further reduce costs while continuing to increase customer and consumer value. Programs to respond to such challenges are being implemented and I remain confident that with the continuing support and commitment of consumers, our customers and our employees, we will emerge from this cycle a leaner and stronger company.

Robert T. Stewart
Chairman, President and Chief Executive Officer
February 8, 1993



Teaming Up For Change

The year 1992 witnessed far-reaching political and economic changes worldwide – changes that, in themselves, initiated dynamics demanding further change.

Canada, as a country, was by no means exempt from this process. During 1992, we wrestled with decisions about our constitutional structures, questioning the very nature of what Canada is and what it should be. At the same time, we struggled to adjust to the realities of a worldwide economic slowdown in an increasingly interdependent global economy. The political, economic and social pressures resulting from these changes affected all Canadians in 1992.

The Canadian tissue industry is no stranger to the impacts of change. New suppliers have entered the marketplace, installed capacity has grown dramatically and, with the implementation of the Free Trade Agreement, the parameters of the industry have widened so that, increasingly, Scott is competing in a North American market, rather than a Canadian one.

Our customers are also facing change – new channels of distribution have been created and competition has increased as consumers have become more value focused and more discriminating about what they buy.



At Scott, we recognize that we must redefine the way we do business. Instead of reacting to each individual component of change after it happens, we must put in place processes that allow us to continuously deal with change as part of our daily routine. These processes must bring us into alignment with the objectives of our consumers, our customers and our employees. Indeed, we must actively team up with these groups so that we can collectively manage change in a way that allows us to reach our goals.

We call this process *Teaming Up For Change*. It's the concept underlying Scott's competitive strategies; it is also the key to Scott's future success in a marketplace which is evolving at a faster and faster pace.

Leanne Van Schetsen, Apprentice
Millwright, and Roger Edgar,
Journeyman Electrician, at our mi
in New Westminster, work with
current technology to ensure
that quality standards are met.



It is vital for Scott Paper to keep abreast of the changing product needs of consumers – our success depends on it. We do this by monitoring competitive products in the market, by paying close attention to consumer correspondence, by conducting research through focus groups and by undertaking attitudinal and behavioural studies. By working with consumers, Scott can best understand their needs and preferences.

Over the last few years, Scott has witnessed numerous changes in the lifestyles and attitudes of Canadian consumers. More women work outside the home than ever before, increasingly sharing domestic responsibilities with their partners. Time and convenience are becoming critical factors influencing consumer buying decisions. Consumers are also more aware of environmental issues and how their market behaviour can impact on the environment. Above all, today's consumers are focused on value – the combination of price and quality that best meets their particular needs.



In 1992, Scott continued to respond to these changing needs by reformulating several products and repackaging and relaunching others.

Foremost among these changes was the relaunch of Cottonelle, Eastern Canada's leading quality brand of bathroom tissue. Consumer preference for greater softness in bathroom tissue was addressed through the reformulation and introduction of a thicker, softer Cottonelle in a two-ply format in early 1992. As a line extension, new Cottonelle was also made available as a 100 percent recycled product.

Responding to the time and convenience factors, Scott also introduced larger products and pack sizes (see sidebar).

As we consider consumers' perceptions about the environment, we continue to develop our recycled fibre capability. In the spring of 1992, we recommissioned an existing recycled fibre facility at Crabtree, Quebec which, in conjunction with a new plant started up in 1991, now provides us with over 300 tonnes per day of recycled fibre. We are the largest recycler of waste paper in the Canadian tissue business. In Western Canada in 1992, Scott acquired a site in Mission, B.C. for the potential development of a recycling facility to support our Western Canadian manufacturing operations.

1992 Product and Packaging Introductions:

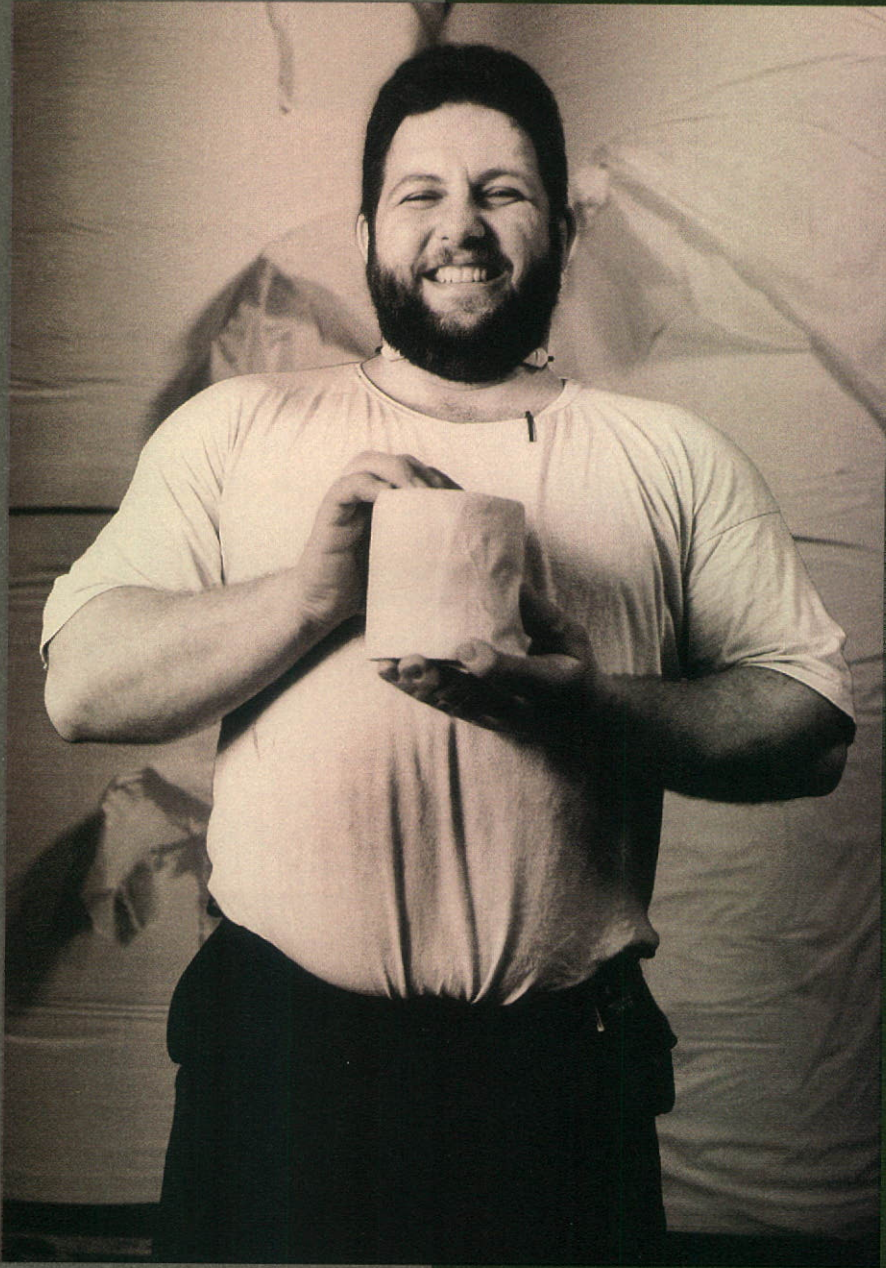
- Two-ply Cottonelle bathroom tissue
- 100 percent recycled Cottonelle bathroom tissue
- Jumbo-size Cottonelle bathroom tissue – with 50 percent more sheets per roll
- Six roll Viva towels
- 12 roll White Swan towels
- 12 roll Cashmere bathroom tissue
- 24 roll White Swan bathroom tissue
- 12 pack White Swan facial tissue
- Baby Fresh wipes refill packages
- White Swan package graphics

In our away-from-home market, we introduced:

- Super Purex 500 sheet bathroom tissue
- Cottonelle premium bathroom tissue
- Omni towel dispenser system



Scott employees, like Daniel Bigras, a technician in Hull, take pride in ensuring that we meet and exceed consumer expectations – that softness, strength and quality are built into every roll we sell.



Teaming Up With Customers

The ultimate consumers of Scott Paper products are the customers of our customers. So Scott's success and the success of Scott's customers depends on the same thing: the combined value that we can give to our shared end-consumers. This means that we must continue to work more closely with our customers, recognizing their needs and responding to the changes that they and our consumers are facing.

The Canadian retail environment of the '90s is increasingly competitive. As the number and diversity of retail outlets grows, so too does our customers' need for distinct products that stand out in a crowded marketplace – products that consumers clearly perceive as representing value.

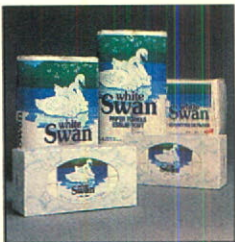
As we work with our customers to maximize this value to consumers, our focus must broaden out to the full level of customer service and a commitment to add further value through such service. At Scott, we strive to do this by working in partnership with our customers. This involves developing cross-functional teams (consisting of

employees from Scott's sales, marketing and manufacturing sectors, and from various departments of the customer) to integrate our activities in a way that maximizes efficiency and reduces costs. Lower costs mean greater value to the consumer.

More specifically, Scott is working with customers to better understand our shared consumers. Joint teams are taking measures to better manage paper flow and information processing. We are also teaming up on logistics functions – forecasting product requirements and optimizing delivery schedules and methods.

As we look at each of these activities, it is essential that everyone involved in the process of product manufacture, delivery, and customer service focus on meeting and exceeding the expectations of the next person in that process. If we ultimately expect to meet and exceed the expectations of the final consumer, we must collectively operate with this focus. To achieve our objective, we are implementing a service quality strategy throughout the organization.

We want to work more closely with our customers, enabling us to better understand their business and their needs. Only by working in partnership with our customers can we maximize value to our consumers and thereby ensure our combined success.



Only by working in partnership
with our customers can we maximize
value to our consumers. Scott Account
Supervisor Nick Curalli teams up with
Vancouver supermarket manager,
Richard Williams.



Teaming Up With Employees

In today's economy, sustaining our competitive advantage depends on the capability and commitment of our employees. To maximize this capability and commitment, Scott will develop new organizational relationships to truly team up with employees and to emphasize the important role each employee plays in adding value to our consumers.



Scott starts with a strong base in employee relations. The company has always believed in extensive employee communication and, over the years, has built strong partnerships with all employee groups. These relationships have allowed us to resolve many issues before they become problems.

Six union leaders were recently canvassed for their perceptions of Scott. **André Berniquez**, President, Communications, Energy and Paperworker's Union of Canada (CEP), local 50, in Hull; **Jim Hockley**, President, and **Phillip Duckitt**, First Vice President, Communications, Energy and Paperworker's Union of Canada (CEP), local 456, in New Westminster; **Paula Mackay**, Shop Steward, Office and Technical Employees' Union (OTEU) in New Westminster; **Sylvain Parent**, Président, Syndicat National des Travailleuses et Travailleurs des Pâtes et Papiers de Crabtree Inc. in Crabtree; and **Gaston Turcotte**, Président, Le Syndicat des Salariés de Papiers Scott Limitée (CSN) in Lennoxville, were all interviewed for this report.

Without necessarily endorsing all aspects of the company's plans, each had positive things to say about management-employee relations within Scott.

Such attitudes augur well for Scott, our customers, consumers and, consequently, for all employees. As we deal with continuing change, we will continue to implement new strategies which emphasize increased cooperation, communication and teamwork. We will share more information with employees and give them responsibility for prompt and appropriate decision making with the goal of continually improving customer and consumer satisfaction. New teams will be created, bringing together people with different skills to work more effectively at addressing customer needs.

Individual and collective skill training programs will be put in place to assist each of us in developing our capabilities to respond to these organizational changes. As a team, we will strive continually to meet and exceed the expectations of all our customers and, ultimately, our end consumer.

"There isn't a lot of difference between Scott Paper management and our local union except we get paid on opposite Fridays... We all work for the same company and the same goal; if they don't make a profit then it affects all of us, not just management and not just our local union." - **Jim Hockley**.

"Scott is a company that is really open ... We have regular meetings, we don't let things drag, and as much as possible we try to solve problems through consensus." - **André Berniquez**.

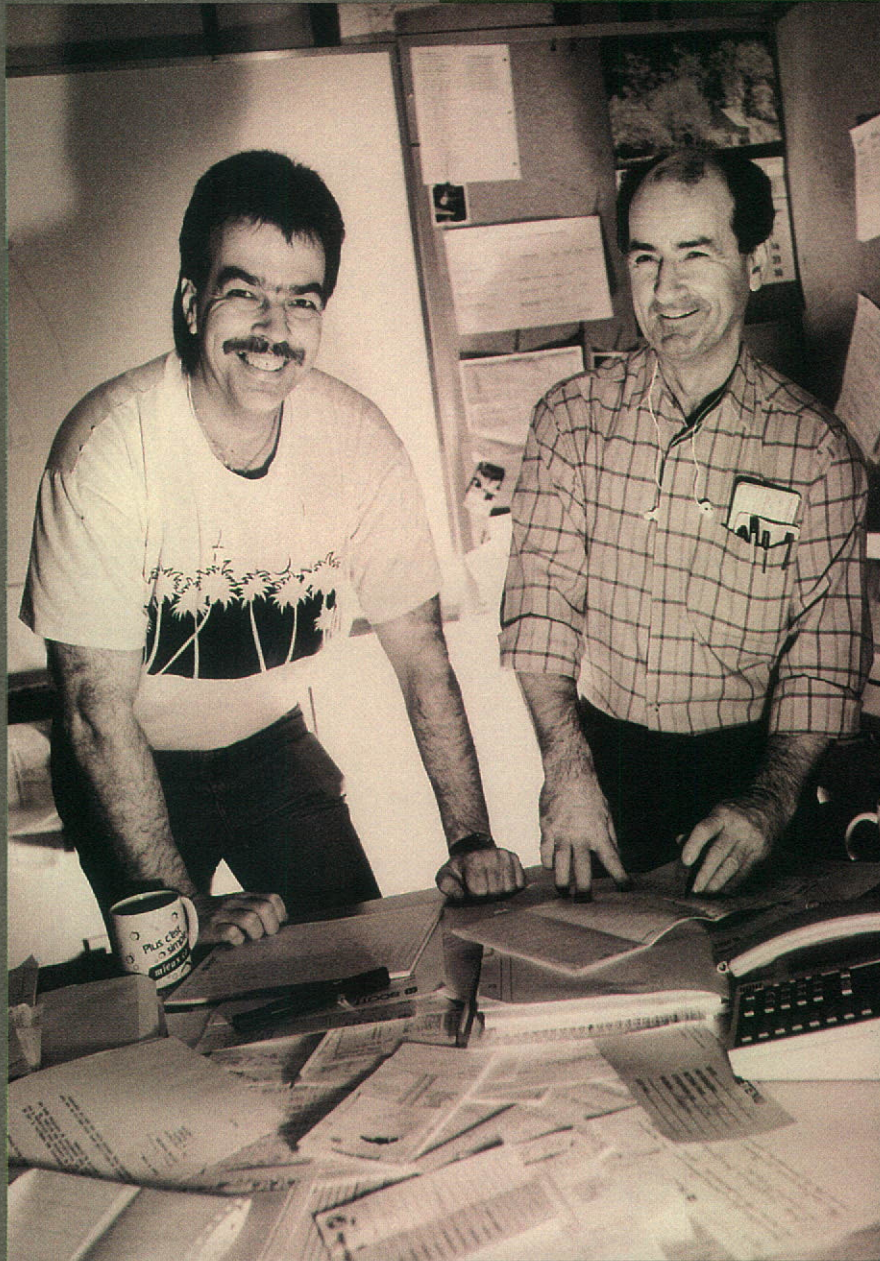
"The negotiation process we went through this year really opened up a lot of discussions and allowed us the opportunity to let the company be aware of how people are feeling in the union." - **Paula Mackay**.

"One of the things that has really helped is the problem solving group we worked hard to establish in 1992. But the relationship with management has been good for years." - **Gaston Turcotte**.

"We are in the middle of developing a new project called 'jointness' which we hope will foster better communication ... It is really interesting for us because it will give our employees the opportunity to be actively involved in decision making." - **Sylvain Parent**.



Scott has built strong partnerships with all employee groups over the years. Here Yvon Loubert, Operator, and Robert Bourgeois, Supervisor, work together at the Crabtree mill to discuss issues before they become problems.



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, 1992 Compared With Year Ended December 31, 1991

Sales and operating revenue for 1992 amounted to \$399.6 million, a decline of \$35.2 million or 8.1% from the 1991 amount of \$434.8 million. Operating income at \$6.5 million was down \$30.9 million from 1991 and the after tax loss of \$5.8 million represented a decline of \$18.1 million from the \$12.3 million after tax income earned in 1991. On an earnings per share basis, the 1992 results represent a loss of \$0.38 per share as compared to earnings of \$0.81 per share in 1991.

The intense competitive activity evident in the market for the company's products in 1991 further increased in 1992. During the period 1989 to 1992, installed Canadian tissue capacity has increased by 30.0%. A relatively high Canadian/U.S. dollar exchange rate and the elimination over a five-year period ending January 1, 1993 of duties on U.S. tissue products coming into Canada have further accelerated the supply side growth of the Canadian tissue industry. Demand growth over the same time period has been very modest, reflecting the impact of a recessionary North American economy, high unemployment and flat disposable income levels. The market imbalance resulting from these factors has exerted significant downward pressure on industry pricing levels. This pressure will continue until such time as industry operating rates improve, either from the absorption of the excess capacity by increased domestic, North American or offshore demand, or by the permanent closure of non cost-competitive manufacturing facilities.

Overall, physical tonnage sales for the company in 1992 were at the same level as 1991. Some modest decline in domestic finished product sales was offset by growth in export sales of semi-finished product. The decline in revenues of 8.1% is attributable to a decline in the combined average price realization per tonne of semi-finished and finished products sold.

Cost of products sold in 1992 at \$311.3 million represented 77.9% of sales and operating revenue as compared to \$312.4 million or 71.8% for 1991. The increase in the percentage cost of sales results from the 8.1% decline in average price realization per tonne referenced in the preceding paragraph. Overall, costs per tonne of products sold in 1992 were broadly at the same level as 1991. Upward pressures on unit costs resulting from increased labour rates, plant curtailment costs and finished product upgrades were offset by reductions in fibre costs and gains resulting from productivity improvement programs at each of our manufacturing locations.

Selling, distribution, research and development, and general and administrative costs in 1992 totalled \$81.8 million, \$3.2 million or 3.8% below the level of 1991. This reduction represents the aggregate net benefit realized as a result of ongoing productivity programs in all segments of our business. Expressed as a percentage of sales and operating revenue, these categories of costs increased to 20.5% as compared to 19.5% in 1991, an increase resulting entirely from the decline in sales and operating revenue.

As a combined result of the above, operating income for 1992 amounted to \$6.5 million, \$30.9 million less than the 1991 amount of \$37.4 million.

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 9.0% 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, 11.0% less than the comparable earnings for 1990 of \$0.91 per share.

The decline in sales and operating revenue in 1991 of \$43.2 million, 9.0%, 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 74.0% 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 costs 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.

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 \$1.1 million. The earnings impact of this variation depends upon the competitive dynamics of the overall marketplace for the company's products and the relative impact on the competitive cost structures and selling price levels within that market.

Liquidity and Capital Resources

The reduction in earnings in 1992 was reflected in a decline in the total net cash flow generated from operating activities. Before interest, cash flow from operating activities in 1992 declined by \$23.7 million to \$34.4 million as compared to \$58.1 million in 1991. Interest costs at \$15.2 million for 1992 were \$3.3 million or 18.0% lower than 1991, a function of lower prevailing market interest rates through 1992. Total net cash flow generated from operating activities for 1992 was therefore \$19.2 million, down \$20.3 million from 1991.

At \$50.0 million, the company's overall operating working capital was \$0.4 million less than at December 31, 1991. Plant curtailments during 1992 resulted in a net reduction of \$9.8 million or 13.0% in overall inventory levels. This decline was offset by a \$6.5 million net change in the company's income tax position, a result primarily of the tax recovery relating to the current year's loss and a \$2.9 million net reduction in accounts payable and an increase in prepaid expenses.

As a combined result of the above, total cash provided by business activities and available for investment and financing activities in 1992 was \$19.6 million as compared to \$44.8 million for 1991.

Total net investment expenditures in 1992 aggregated \$29.0 million, \$7.0 million higher than 1991. These expenditures consisted of ongoing modernization and efficiency upgrading programs at our operating facilities in Crabtree, Lennoxville and Hull, Quebec and New Westminster, B.C., the completion of the upgrade of the original Crabtree recycled fibre facility at a cost of \$8.5 million and the acquisition, at a cost of \$6.3 million, of a site for a potential recycled fibre facility in Western Canada.

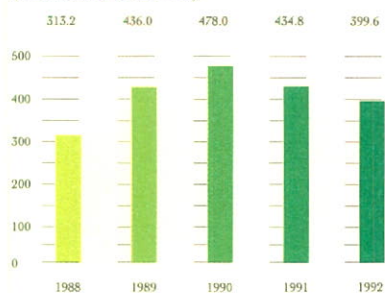
The quarterly dividend rate for the dividends paid in 1992 was \$0.10 per share. Overall dividend payments for the year amounted to \$6.1 million as compared to \$5.8 million in 1991. The dividend rate for the dividend payable January 31, 1993 was established at \$0.025 cents per share.

The combined 1992 cash requirement of the above investment and dividend expenditures was \$35.1 million, \$15.5 million greater than the total net cash generated by business activities. As a result, the company's aggregate debt level has increased from \$158.5 million at December 31, 1991 to \$174.0 million at December 31, 1992.

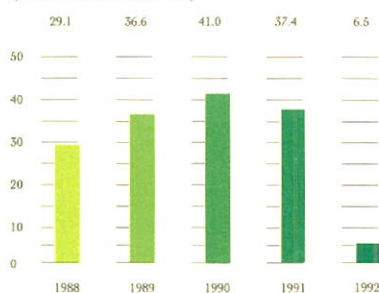
Total debt as at December 31, 1992 represents 48.4% of total capitalization as compared to 44.7% of total capitalization as at December 31, 1991. At December 31, 1992, 30.0% of the total debt is carried at a weighted average fixed rate of 9.8%. The balance of the company's debt is carried at floating 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.

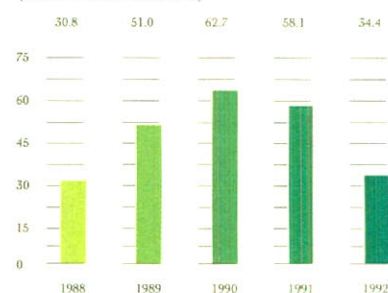
Sales
(in millions of dollars)



Operating Income
(in millions of dollars)



Cash Flow From Operations
(in millions of dollars)



Management's Report to the Shareholders

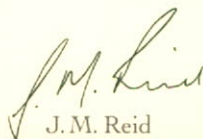
The management of Scott Paper Limited is responsible for the preparation of the consolidated financial statements accompanying this Annual Report and the presentation of all other information in the report. The financial statements have been prepared in accordance with appropriate and generally accepted accounting principles and reflect management's best estimates and judgements. All other financial information in the report is consistent with that contained in the financial statements.

The company's independent auditors, Price Waterhouse, review the system of internal accounting controls to the extent they consider necessary to evaluate the system as required by generally accepted auditing standards. The report covering their examinations of the financial statements accompanies this report.

The Board of Directors, through its Audit Committee, oversees management in carrying out its responsibilities for financial reporting and systems of internal control. The Audit Committee, which is composed of directors who are not officers or employees of the company, meets regularly with financial management and external auditors to satisfy itself as to the reliability and integrity of financial information and the safeguarding of assets. The Audit Committee reports its findings to the Board of Directors for consideration in approving the annual financial statements to be issued to shareholders.



R. T. Stewart
Chairman, President and
Chief Executive Officer
January 29, 1993



J. M. Reid
Corporate Vice President,
Finance

Auditor's 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, 1992 and December 31, 1991 and the consolidated statements of operations 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, 1992 and December 31, 1991 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 periods.



Chartered Accountants
January 29, 1993
Vancouver, B.C.

Scott Paper Limited
Consolidated Statement of Operations and Retained Earnings

	Year Ended December 31	
	1992	1991
	(in thousands)	
Income		
Sales and operating revenue,		
less allowances	<u>\$399,590</u>	<u>\$ 434,791</u>
Expenses		
Cost of products sold.....	311,295	312,403
Selling and distribution	64,841	66,910
Research and development	3,327	3,557
Administrative and general	<u>13,601</u>	<u>14,546</u>
	<u>393,064</u>	<u>397,416</u>
Operating income	6,526	37,375
Interest (Note 4)		
Long-term debt.....	13,169	16,205
Short-term debt	<u>2,049</u>	<u>2,349</u>
	<u>15,218</u>	<u>18,554</u>
(Loss) income before income taxes (recovery)	(8,692)	18,821
Income taxes (recovery)(Note 6)		
Current.....	(4,200)	2,400
Deferred.....	<u>1,300</u>	<u>4,100</u>
	<u>(2,900)</u>	<u>6,500</u>
(Loss) income for year	<u>\$ (5,792)</u>	<u>\$ 12,321</u>
(Loss) income per share	<u>\$ (.38)</u>	<u>\$.81</u>
Retained earnings		
Retained earnings at beginning of year	\$131,785	\$ 125,271
(Loss) income for year	<u>(5,792)</u>	<u>12,321</u>
	125,993	137,592
Dividends (\$0.40 per share; 1991-\$0.38 per share)	6,112	5,807
Retained earnings at end of year	<u>\$119,881</u>	<u>\$ 131,785</u>

Scott Paper Limited
Consolidated Statement of Financial Position

	December 31	
	1992	1991
	(in thousands)	
Current assets		
Cash	\$ 48	\$ 49
Trade and other accounts receivable (Note 7)	34,650	34,612
Income taxes recoverable	5,264	-
Inventories (Note 2)	65,282	75,069
Prepaid expenses	2,434	1,880
	<u>107,678</u>	<u>111,610</u>
Current liabilities		
Bank indebtedness	32,227	22,215
Accounts payable and accrued liabilities	57,636	59,961
Income taxes payable	-	1,187
Current portion of long-term debt (Note 4)	1,891	1,686
	<u>91,754</u>	<u>85,049</u>
Working capital	15,924	26,561
Add: Non-current assets		
Fixed assets (Note 3)	303,802	299,956
Deferred charges	5,256	3,782
	<u>309,058</u>	<u>303,738</u>
Deduct: Non-current liabilities		
Long-term debt (Note 4)	139,850	134,563
Deferred income taxes	57,403	56,103
	<u>197,253</u>	<u>190,666</u>
Net assets	<u>\$127,729</u>	<u>\$ 139,633</u>
Shareholders' interest		
Share capital (Note 5)	\$ 7,848	\$ 7,848
Retained earnings	119,881	131,785
	<u>\$127,729</u>	<u>\$ 139,633</u>

Approved by the Board of Directors



Robert T. Stewart
Director



Brian D. Gregson
Director

Scott Paper Limited
Consolidated Statement of Changes in Financial Position

	Year Ended December 31	
	1992	1991
	(in thousands)	
Cash provided by		
Operating activities		
Operating income	\$ 6,526	\$ 37,375
Depreciation	23,954	22,984
Other	(287)	130
	<u>30,193</u>	<u>60,489</u>
Current income taxes	4,200	(2,400)
	<u>34,393</u>	<u>58,089</u>
Interest paid	15,218	18,554
	<u>19,175</u>	<u>39,535</u>
Operating working capital decrease	419	5,233
	<u>19,594</u>	<u>44,768</u>
Total cash provided		
Cash applied to		
Investment activities		
Fixed asset expenditures	28,096	19,974
Increase in other assets	1,486	2,088
Other	(595)	(50)
	<u>28,987</u>	<u>22,012</u>
Financing activities		
Dividends	6,112	5,807
(Increase) decrease in long-term debt	(5,492)	11,822
	<u>620</u>	<u>17,629</u>
Total cash applied	<u>29,607</u>	<u>39,641</u>
(Decrease) increase in cash position	(10,013)	5,127
Cash position at beginning of year	(22,166)	(27,293)
Cash position at end of year	<u>\$ (32,179)</u>	<u>\$ (22,166)</u>
Comprised of		
Cash	\$ 48	\$ 49
Bank indebtedness	<u>(32,227)</u>	<u>(22,215)</u>
	<u>\$ (32,179)</u>	<u>\$ (22,166)</u>

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 2½% to 20% of original cost per annum. For major capital projects 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:

	1992	1991
	(in thousands)	
Finished products and work-in-process.....	\$ 43,551	\$ 50,577
Raw materials and supplies	21,731	24,492
	<u>\$ 65,282</u>	<u>\$ 75,069</u>

Scott Paper Limited
Notes to Consolidated Financial Statements December 31, 1992 and December 31, 1991

3. Fixed assets	1992	1991
	(in thousands)	
Land, at cost	\$ 11,307	\$ 11,319
Depreciable assets, at cost		
Buildings	91,898	89,932
Less: Accumulated depreciation	23,545	20,673
	<u>68,353</u>	<u>69,259</u>
Machinery and equipment		
Subject to straight-line basis of depreciation	299,136	280,941
Subject to units of production basis		
of depreciation	72,558	72,558
Less: Accumulated depreciation	159,663	140,508
	<u>212,031</u>	<u>212,991</u>
Assets under construction or development	12,111	6,387
Net book value of depreciable assets	<u>292,495</u>	<u>288,637</u>
	<u>\$ 303,802</u>	<u>\$ 299,956</u>

Interest capitalized during 1992 amounted to \$173,000 (1991 - \$Nil).

4. Long-term debt	1992	1991
	(in thousands)	
16.20% Australian dollar Senior Unsecured Notes		
maturing September 1994	\$ 50,000	\$ 50,000
Floating rate, revolving term bank loan	89,512	80,350
11.50% purchase money obligations payable 1993 - 1997 - secured	8,804	10,489
	<u>148,316</u>	<u>140,839</u>
Unrealized exchange gain in respect of 16.20%		
Australian dollar Senior Unsecured Notes	(6,575)	(4,590)
	<u>141,741</u>	<u>136,249</u>
Less: Current portion	1,891	1,686
	<u>\$139,850</u>	<u>\$ 134,563</u>

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, 1992, \$89,512,000 had been drawn down under this facility.

The company has entered into a number of swap arrangements relating to the floating rate term loan. At December 31, 1992, the combined result of these swap arrangements is that \$25,000,000 of the floating rate term loan is fixed at 10.99% for the period December 12, 1994 to December 11, 1997. The remainder of the loan is carried at floating rates related to prevailing bankers acceptance rates.

Scott Paper Limited**Notes to Consolidated Financial Statements December 31, 1992 and December 31, 1991**

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:

1993	\$ 1,891
1994	\$ 51,590
1995	\$ 22,223
1996	\$ 62,492
1997	\$ 197

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:

	1992 (Recovery)	1991
	%	
Combined federal and provincial income tax rate after manufacturing and processing credit	(35.8)	35.0
Large corporations tax	8.0	3.8
	(27.8)	38.8
Permanent rate differences and other	(5.6)	(4.3)
Effective rate reflected in statement of operations	<u>(33.4)</u>	<u>34.5</u>

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 \$6,925,000 and \$12,703,000 respectively (1991 – \$3,980,000 and \$11,978,000 respectively).

At December 31, 1992, \$820,000 (1991 – \$287,000) was outstanding in respect of sales transactions and is included in trade and other accounts receivable and \$1,216,000 (1991 – \$932,000) was outstanding in respect of purchases of goods and services and is included in accounts payable and accrued liabilities.

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 Operations 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, 1992 is \$87,000,000 (1991 – \$80,000,000) and the market adjusted value of the assets available to provide for these benefits at December 31, 1992 is \$86,100,000 (1991 – \$79,700,000).

Scott Paper Limited
Ten Year Review

	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
	(in thousands of dollars except per share)									
Sales and Earnings										
Net sales	\$399,590	434,791	477,993	436,017	313,173	288,396	261,854	246,820	216,370	193,599
Depreciation	23,954	22,984	21,294	17,976	11,261	10,212	9,165	8,167	7,078	5,628
Interest expense	15,218	18,554	19,543	15,963	2,361	3,614	3,965	5,091	4,790	1,018
(Loss) income before taxes	(8,692)	18,821	21,497	27,169	26,745	25,286	22,679	18,853	14,950	14,262
Income taxes (recovery)	(2,900)	6,500	7,650	9,200	10,500	10,772	9,750	7,670	5,150	4,750
(Loss) income after taxes	(5,792)	12,321	13,847	17,969	16,245	14,514	12,929	11,183	9,800	9,512
Per Share ^o										
(Loss) income before taxes	\$ (.57)	1.23	1.41	1.78	1.75	1.65	1.48	1.23	.98	.93
(Loss) income after taxes	(.38)	.81	.91	1.18	1.06	.95	.85	.73	.64	.62
Cash flow:										
Operating activities	2.25	3.80	4.10	3.34	2.02	1.86	1.77	1.92	1.81	1.40
Dividends paid40	.38	.34	.32	.30	.28	.26	.21	.18	.17
Shareholders' equity	8.36	9.14	8.71	8.15	7.29	6.53	5.86	5.27	4.75	4.29
Number of shares										
outstanding (thousands)	15,281	15,281	15,281	15,281	15,281	15,281	15,281	15,281	15,281	15,269
Condensed Cash Flow Statement										
Cash provided by:										
Operating activities	\$ 34,393	58,089	62,678	50,975	30,820	28,349	26,994	29,404	27,589	21,405
Interest	(15,218)	(18,554)	(19,543)	(15,963)	(2,361)	(3,614)	(3,965)	(5,091)	(4,790)	(1,018)
Other income	-	-	-	6,505	-	-	-	-	-	-
Operating working capital	419	5,233	(2,546)	(21,124)	(11,158)	4,781	(11,084)	17,015	(9,754)	10,972
	19,594	44,768	40,589	20,393	17,301	29,516	11,945	41,328	13,045	31,359
Cash applied to:										
Investment activities	28,987	22,012	41,858	154,851	23,125	14,586	9,363	10,094	14,705	33,419
Financing activities	620	17,629	6,504	(127,250)	4,586	10,940	9,294	23,771	4,822	(10,038)
	29,607	39,641	48,362	27,601	27,711	25,526	18,657	33,865	19,527	23,381
Increase (decrease)										
in cash position	(10,013)	5,127	(7,773)	(7,208)	(10,410)	3,990	(6,712)	7,463	(6,482)	7,978
Financial Position										
Current assets	\$ 107,678	111,610	119,538	127,892	81,483	68,526	70,658	54,111	57,618	47,641
Current liabilities	91,754	85,049	92,688	94,312	61,819	49,610	50,951	39,546	33,932	27,227
Working capital	15,924	26,561	26,850	33,580	19,664	18,916	19,707	14,565	23,686	20,414
Fixed assets at net book value	303,802	299,956	303,166	283,071	144,107	133,669	129,952	129,409	127,898	121,186
Long-term debt	139,850	134,563	146,568	149,380	17,240	17,242	23,904	28,455	48,586	50,634

*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 January 1, 1993

BOARD OF DIRECTORS

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

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

Brian D. Gregson +
Chairman
Barbican Properties Inc.
Vancouver, B.C.

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

Eva Lee Kwok
President
Amara International Investment Corp.
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, Strategic Customer
Alliances – Consumer Business
Scott Worldwide, Inc.
Philadelphia, PA

° Member of the Compensation
Committee

+ Member of the Audit Committee

† Member of the Environmental
Committee

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)

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

Serge Guay
Corporate Vice President
(Manufacturing)

Robert W. Howcroft
Division Vice President,
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

Joseph C. Smith
Division Vice President
(Consumer Sales)

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

HEAD OFFICE

P.O. Box 3600
1111 Melville Street
Vancouver, B.C., Canada V6B 3Y7

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 19, 1993 in the Park Ballroom
of the Four Seasons Hotel,
Vancouver, B.C.

