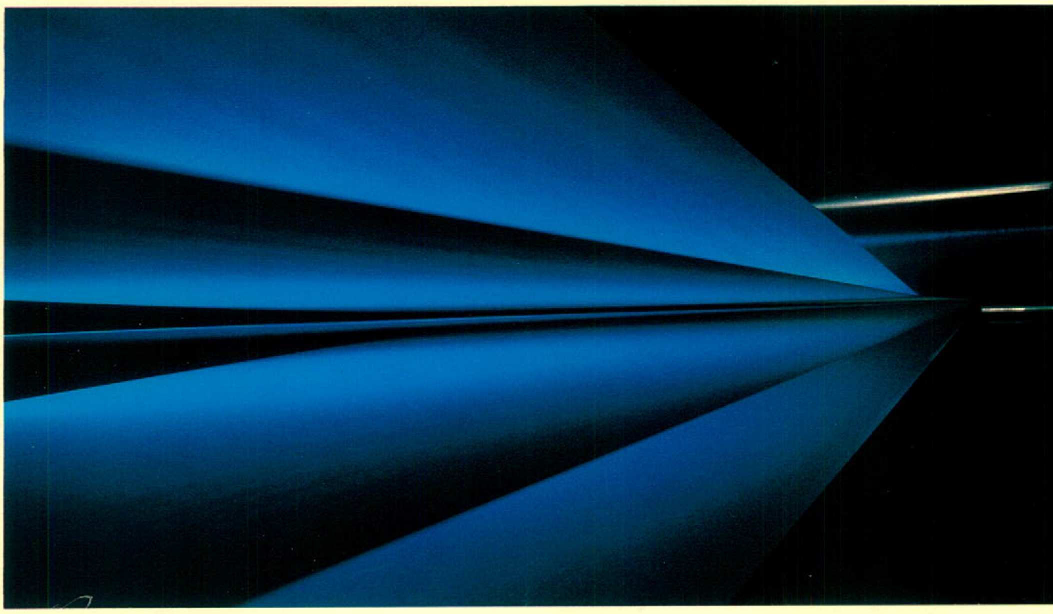
ROLLAND INC.

ANNUAL REPORT 1986



OUR CORPORATION

Rolland inc., an important manufacturer and distributor of fine papers, is a Canadian company which was incorporated in 1928 to carry on the business of a predecessor company founded in 1882 by Senator Jean-Baptiste Rolland.

The Fine Papers Division makes well over 100 grades of high-quality uncoated fine paper ranging from all-cotton to chemical pulp grades used for commercial printing, reprography, business forms, envelopes, and special applications. This Division sells its fine papers through its own sales offices in Montreal, Toronto, Ottawa, and Quebec to Canadian fine paper merchants and to paper converters who manufacture envelopes, business forms, etc. Technical papers are sold to laminators throughout North America.

The Corporation has diversified its operations into the distribution field through the acquisition of important Canadian and American fine paper merchants. These distributors stock and sell fine papers from leading manufacturers, including Rolland products, and their business has become an important part of the Corporation's operations.

The Distribution Division operates under the trade names of Select Papers, Graphic Papers, and Les papiers graphiques in Canada and of W.H. Smith Paper Corporation, C.H. Robinson Paper Co., and Select Papers in the United States.

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COVER:
PAPER SHEETS CONVERGE TOWARDS THE BLADES OF A JAGENBERG SHEETER.

	1986	1985
Net Sales	**$344,672,000**	$300,748,000
Earnings		
Earnings before extraordinary item	**7,363,000**	5,200,000
Extraordinary item	—	935,000
Net earnings	**7,363,000**	6,135,000
Earnings per share		
Class "A"		
Earnings before extraordinary item	**1.99**	1.40
Net earnings	**1.99**	1.66
Class "B"		
Earnings before extraordinary item	**1.97**	1.38
Net earnings	**1.97**	1.64
Dividends on class "A" and "B" shares	**1,890,000**	1,817,000
Per class "A" share	**0.52**	0.50
Per class "B" share	**0.495**	0.475
Funds provided by operations	**13,272,000**	9,707,000
Per class "A" share	**3.60**	2.63
Per class "B" share	**3.58**	2.61
Book value per class "A" and "B" shares	**14.12**	12.64
Working capital	**41,158,000**	36,009,000
Long-term debt	**18,771,000**	14,510,000
Capital expenditures	**9,672,000**	8,020,000

Rolland inc.

MANUFACTURER AND
DISTRIBUTOR OF FINE PAPERS

The fine paper industry has benefitted from a favourable economic climate and displayed above average growth. Although margins were affected by very competitive selling prices and by a rapid rise in raw material costs, your Corporation achieved a significant gain in earnings and results for 1986 are the second best in its history.

Financial Results

Net earnings for the year amounted to $7,363,000, or $1.99 per class "A" share and $1.97 per class "B" share. This represents an increase of 42% over the earnings before extraordinary item of $5,200,000, or $1.40 per class "A" share and $1.38 per class "B" share, attained in 1985. An extraordinary gain of $935,000 brought 1985 net earnings to $6,135,000, or $1.66 per class "A" share and $1.64 per class "B" share. All per share figures reflect the two-for-one subdivision of class "A" and class "B" shares approved by shareholders in July 1986.

Net sales reached $344.7 million, an increase of 14.6% over sales of $300.7 million for the previous year. Both divisions recorded healthy increases in sales from ongoing activities. In addition, the Fine Papers Division benefitted from the acquisition of the business of Technographics Fitchburg Paper, Inc. in July and the Distribution Division, from the opening of three new branches.

The increase in earnings is attributable to the Fine Papers Division where a higher volume of shipments, better efficiency, lower energy costs, and modest increases in selling prices combined to offset higher raw material costs. Earnings of the Distribution Division declined slightly as lower margins and higher operating expenses eliminated the positive effect of a higher sales volume and a small increase in selling prices.

Economic and Market Conditions

While the Canadian economy continued to grow at a moderate pace during 1986, business activity in the fine paper industry showed relative strength, particularly in the uncoated fine paper segment. Total shipments by Canadian fine paper manufacturers increased by 9% over the previous year with domestic shipments up 8% and exports up 12%. The average operating rate was at 95% of capacity compared with 92% in 1985. After a decline in 1985, imports of fine papers resumed a sharply upward trend and accounted for 26% of Canadian fine paper consumption compared with 24% in 1985. Severe pressure from imports was felt in the coated paper segment of the market. Growth for the U.S. fine paper industry was somewhat lower than in Canada as total shipments increased by 6%, the uncoated fine paper market segment being the strongest. The dollar value of shipments by fine paper distributors rose by approximately 8% both in Canada and in the United States.

Despite the growth in the industry, market conditions remained very competitive throughout the year, particularly in distribution. Cost pressures led to an increase in selling prices for fine papers in mid-June, the first one since 1984.

Planning and Development

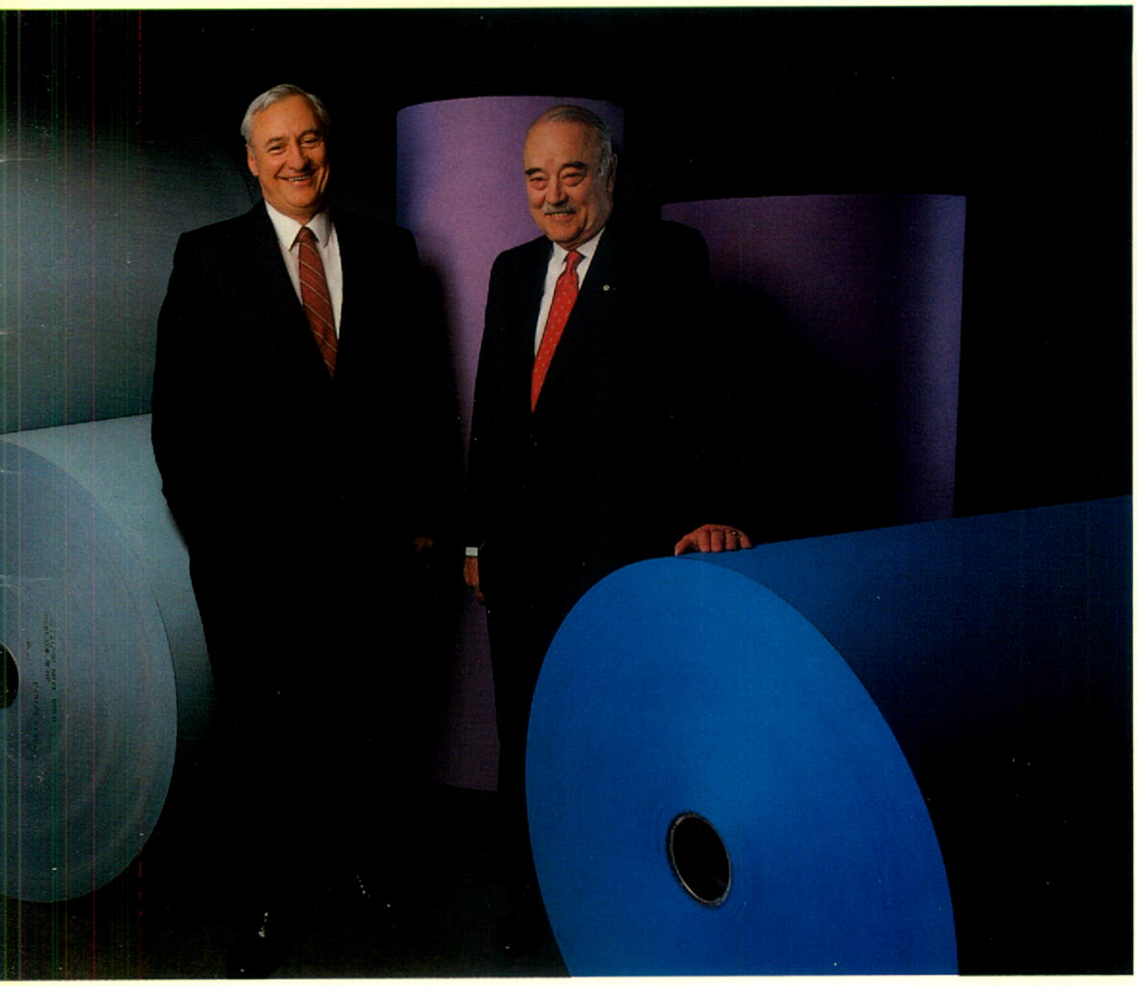
During 1986, the Corporation pursued the course set for the short and medium terms. The Fine Papers Division optimized earnings by improving production facilities and productivity, reducing costs, upgrading the product mix and developing new value-added products. The efforts of the Division to further improve the product mix will be pursued in 1987 and specific developments and investment projects are planned accordingly. The Distribution Division has continued its expansion through the opening of three new branches.

The acquisition of the business of Technographics Fitchburg Paper in July 1986 has enabled Rolland to become a leading supplier of base papers for decorative laminates in North America. During 1987, it is planned to spend $7.5 million for upgrading No. 3 paper machine in order to consolidate the manufacturing of this grade in Mont-Rolland. Eventually, this mill will be entirely specialized in the manufacturing of technical papers and will then have a much improved earnings base.

The agreements with Nocopi International Inc. for the exclusive manufacturing of photocopy-proof papers in Canada and their exclusive distribution in North America are also part of the Corporation's thrust to upgrade its product mix by finding new niches of specialty papers.

The installation of a modern precision sheeter for copy and duplicating papers at the Saint-Jérôme mill and the opening of distribution centres in Belleville and Kitchener, Ontario in Canada and Syracuse, N.Y. in the United States are other significant developments.

Our current development activities are aimed primarily at meeting the challenges we will be facing in coming years due to major additions to fine paper capacity in



AT RIGHT, LUCIEN G. ROLLAND, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, AT LEFT, MARCEL C. BEAUDOIN, PRESIDENT AND CHIEF OPERATING OFFICER.

North America. Our strategy is to gradually move away from commodity grades and replace the tonnage with higher value-added specialties. We also seek other opportunities for expansion and acquisitions offering a high degree of synergy with our current operations and which could enhance the return on shareholders' equity.

In February 1987, the Corporation announced it would cease the production of coated papers at its Scarborough mill in Ontario. However, some paper converting operations will be maintained at the Scarborough location for a short period. Increasing competition from imported papers and high production costs have made it uneconomical to continue this operation. The mill has recorded substantial operating losses over the past several years and efforts to improve the results have been unsuccessful.

The mill closure will result in a reduction of approximately 180 jobs. Every effort has been made to provide assistance to all employees involved by setting up job search and assistance programs as well as by providing severance arrangements which exceed the requirements of the applicable provincial legislation.

This closure will not materially affect sales and earnings of the Corporation in 1987 but will be beneficial in future years.

Trade and Taxation Policies

In our 1985 Annual Report, we stated clearly our opposition to the free-trade negotiations initiated by the Canadian government. This issue has remained in the forefront of public discussion and warrants further comment.

In the current context of increasing protectionism and the proliferation of non-tariff barriers, no one can deny the need for trade liberalization discussions with our trading partners and, in particular, with the United States, the most important one. We have serious misgivings, however, about the type of negotiations which have been undertaken by the Canadian and United States governments.

Total free trade implies a fundamental change in the competitive environment for several industries, including the fine paper industry. It could entail a major shift in the labour force as some industries and regions benefit while others are adversely affected. It raises other questions concerning our current and future trade balance as well as the proportion of our total trade with the United States, our vulnerability to fluctuations in the U.S. economy and our willingness to adapt our taxation and social policies to a North American competitive environment.

We simply do not feel that, so far, such questions have been addressed with the seriousness they deserve and, consequently, we are not convinced that the Canadian government has taken the proper direction on this issue. It is not apparent to us that a free-trade agreement would eliminate the danger of American retaliatory measures such as countervailing duties whenever the United States, in their sole judgment, deem they are facing unfair trade practices. In our view, Canada should seek a more balanced trade profile and make a conscious effort to broaden its trading base. Greater geographic trade diversification would mean more negotiating leverage as well as more elbow room in economic and other spheres.

Concurrently with the free-trade negotiations, the federal government has initiated a reform of the taxation system for corporations involving a severe curtailment in fiscal incentives for capital expenditures. Investment tax credits are being phased out and indications are that capital cost allowance rates will be reduced. In coming years, Canadian fine paper manufacturers will need to invest heavily to upgrade production facilities and meet the competitive challenges that lie ahead, including the possibility of free trade. We believe that the generation of funds necessary to meet the needs of the industry requires incentives through the tax system. Removing investment tax credits and reducing capital cost allowance levels, even if tax rates are to be reduced, will result in lower cash flow for many companies in our industry. Such changes to the taxation system are unwarranted and untimely in the present competitive context.

Human Resources and Industrial Relations

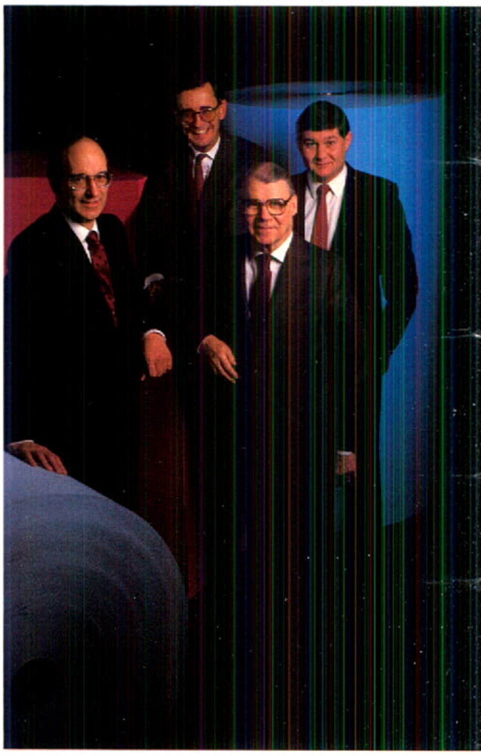
Enhanced safety and greater employee involvement remained at the forefront of human resources management activities during 1986. Although a fatal accident at the Saint-Jérôme mill cast a shadow over the improvements achieved in the area of safety, our efforts in this regard are producing concrete results. Accident prevention programs have been implemented in our mills during the past two years in cooperation with labour unions and 1986 saw a marked decrease in the number of lost-time accidents. We intend to make our mills among the safest in the industry and we will continue our efforts towards this goal.

A new project introduced at the Mont-Rolland mill in 1985 to promote greater employee involvement and participation played a significant role in improving results. This initiative has evolved into a permanent process and constitutes a key ingredient of its improved operating efficiency. In Saint-Jérôme, the installation of a new sheeter for copy and duplicating papers provided the opportunity for a similar project involving intensive training, development of team work, and reduced supervision. The experiment has proven successful and this style of management will be extended to other areas of the mill. Ever-increasing competition and the resulting need to improve productivity require that we provide an environment allowing our employees to develop their skills more fully in relation to their potential. This objective will be actively pursued in cooperation with our employees.

Negotiations with all unionized groups will take place during 1987. The labour contract with warehouse and delivery employees at Les papiers graphiques, Montreal, terminated on December 31, 1986 while agreements covering hourly-paid and salaried employees at the Saint-Jérôme and Mont-Rolland mills will terminate on April 30, 1987. It is expected that realism will prevail and that the agreements will be renewed without eroding our competitive position.

Takeover Bid

In November, your Corporation was the object of a takeover bid by Cascades Inc. This bid was unsolicited. It followed discussions between senior officers of Cascades and Rolland's controlling



FROM LEFT TO RIGHT: ADRIEN DESAUTELS, MICHEL ROLLAND, ALPHONSE ST-JACQUES AND TERRY L. PITCHFORD.

shareholders during which the latter clearly stated that they had no intention of accepting Cascades' offer.

Subsequent to the formal offer, the Board of Directors issued a circular to shareholders stating that in view of the controlling shareholders' decision not to accept the Cascades offer, one of the conditions of the offer, namely acceptance by holders of 90% of class "A" shares and 90% of class "B" shares, could not be met and that a recommendation to shareholders was not warranted in the circumstances. It was the opinion of the Directors that, although Cascades could waive this condition, such a waiver would constitute a modification of the original offer.

Approximately 40% of the class "A" shares and 32% of the class "B" shares were tendered under the Cascades offer. Following Cascades' decision to keep the class "B" shares and to return the class "A" shares to their holders, Rolland requested that the Commission des Valeurs Mobilières du Québec and The Ontario Securities Commission look into this transaction on the grounds that it contravened securities and corporation laws. After a joint hearing held in Montreal on January 13 and 14, 1987, the commissions ruled that Cascades must make a new offer, at $20 a share, to the holders of class "A" shares who had tendered their shares under the original offer. In addition, Cascades must compensate shareholders who sold their class "A" shares on the open market for less than $20 per share after the shares were returned. Cascades has announced that it will conform to the commissions' decision.

Rolland's objective in seeking corrective measures from the securities commissions was to ensure that the offer be made in compliance with applicable laws and that the conditions of the offer with respect to the holders of the class "A" shares be abided by. The ruling satisfied this objective.

Board of Directors, Officers

In October, the number of directors was increased to 14 and Mr. Marc Léonard was appointed to the Board of Directors. Mr. Léonard, a partner in the law firm of Desjardins, Ducharme, Desjardins and Bourque, has been Secretary of the Corporation since September 1981 and will continue in that function.

In April, Mr. Michel Rolland, previously Director, Corporate Planning, was appointed Vice-President, Planning. His appointment reflects the increased importance given to planning and development activities in order to achieve long-term growth and profitability.

Capital Stock, Dividends

In July, holders of class "A" and class "B" shares approved the subdivision of these shares on a two-for-one basis. This subdivision became effective July 31, 1986 and is expected to provide greater market liquidity.

Also in July, the rate of quarterly dividends was increased from $0.125 to $0.135 on class "A" shares and from $0.11875 to $0.12875 on class "B" shares. For the year as a whole, dividends of $0.52 on class "A" shares and $0.495 on class "B" shares were paid.

Outlook

Modest growth appears to be the consensus in forecasts for the North American economies in 1987. Shipments of fine papers by Canadian manufacturers are expected to increase by 3 to 4% and the industry operating rate should be in the 93 to 95% range. Selling prices increased early in the new year as a result of cost pressures but it is expected that the business environment will remain highly competitive.

The continued rise in pulp prices will make further improvement in earnings more difficult to achieve in the short term. There is, however, potential for increased earnings through better operating efficiency and higher productivity. This objective will be pursued with renewed emphasis. Although earnings increased in 1986, return on shareholders' equity remained below our objective. Achieving a higher return on equity is our number one priority.

Acknowledgements

The improved results of 1986 were only achieved through the constant commitment of our personnel. Your Directors wish to express their appreciation to all employees for their efforts and dedication. They also wish to thank customers and suppliers for their faithful support.

On behalf of the Board

Lucien G. Rolland
Chairman of the Board
and Chief Executive Officer

Marcel C. Beaudoin
President and Chief
Operating Officer

Montreal, February 23, 1987

The Fine Papers Division achieved a significant gain in earnings over the previous year. All product groups showed improved results with uncoated fine papers obtaining the largest increase.

Operating profit, before corporate charges, interest and income taxes amounted to $12,974,000 compared with $8,335,000 in 1985. Shipments increased by 7.2%, in step with the industry pattern. Net sales jumped 16.9% to $181.9 million as a result of an increase in shipments from ongoing activities, an improved product mix, and the addition of the business of Technographics Fitchburg Paper in July.

Uncoated Papers

Demand for uncoated fine papers was firm throughout the year and all market segments recorded increases over the previous year. On the domestic market, business forms and copy and duplicating papers achieved the highest rate of growth whereas the increase in shipments of offset printing papers was slightly below average.

Total shipments of uncoated fine papers by the Division increased by 6.5%. Further rationalization of the product line was achieved in conformity with the objective of establishing a stronger position in higher-value printing and business papers, while at the same time gradually eliminating certain commodity grades. Exports of printing papers to the United States, which also occupy a key role in our current marketing orientation, increased significantly during 1986.

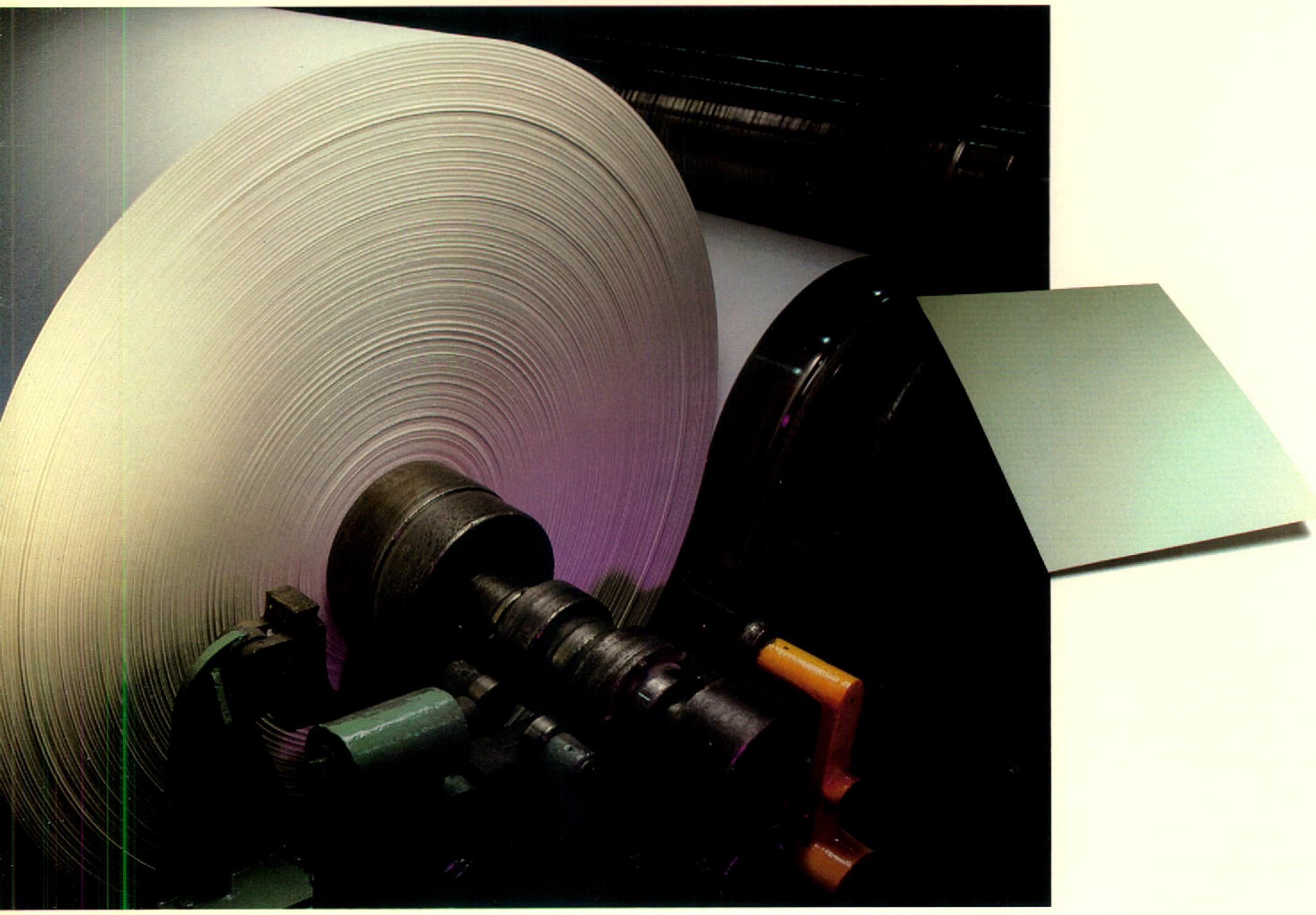
The strong demand from domestic and export markets enabled the Division to maintain a high operating rate for the Saint-Jérôme and Mont-Rolland mills and reach record production levels. However, profit margins were under severe pressure as the rapid rise in pulp prices from April on could not be offset by the increase in selling prices which took effect in mid-June. Other factors enabled the Division to improve profitability. In addition to increased shipments and a richer product mix, substantial savings in energy costs were achieved. Investments made during the past two years also contributed to lower production costs and to higher productivity. As a result, the uncoated paper group showed a healthy increase in earnings and obtained a satisfactory return on capital employed.

Coated Papers

Market conditions in the coated paper segment deteriorated in 1986. Although end-user demand was firm, Canadian manufacturers suffered from the strong competition of low-price imported papers. Such imports, especially those from Europe, created a very competitive environment and some erosion of market share. Shipments of coated papers from the Scarborough mill were down 1.3% from the previous year and the results remained highly unsatisfactory. A decision was reached early in 1987 to cease operations at that location.

Base Papers for Decorative Laminates

Demand for base papers for decorative laminates was firm throughout the past year and shipments were substantially higher. This product group had achieved a turnaround in its results in 1985 and the increase in sales volume

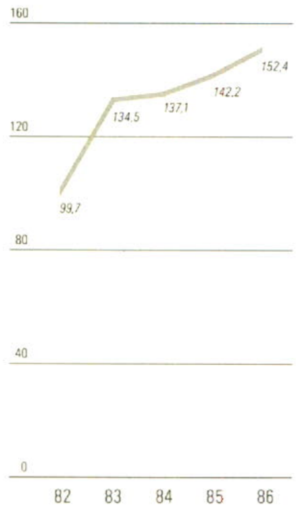


THE QUALITY OF A JUMBO ROLL IS CHECKED BY ALFRED VÉZINA TO ENSURE UNIFORM WINDING.

UPPER RIGHT: THE COMPUTER IS OMNIPRESENT ALL ALONG THE PAPERMAKING PROCESS.

LOWER LEFT: "PRODUCTIVIDÉES" TEAMS IN MONT-ROLLAND PARTICIPATE IN THE IMPROVEMENT OF THE OPERATING EFFICIENCY.

has been the key factor in continuing this positive trend in 1986. Employee participation in a permanent process aimed at improving operations helped maintain a high level of production efficiency and product quality. Investments made during 1984 and 1985 have provided us with much improved facilities to meet customer requests for new grades and played an important role in achieving a higher sales volume. Improvement in earnings was attained despite substantial increases in raw material costs.



Shipments – Fine Papers Division
(thousands of short tons)

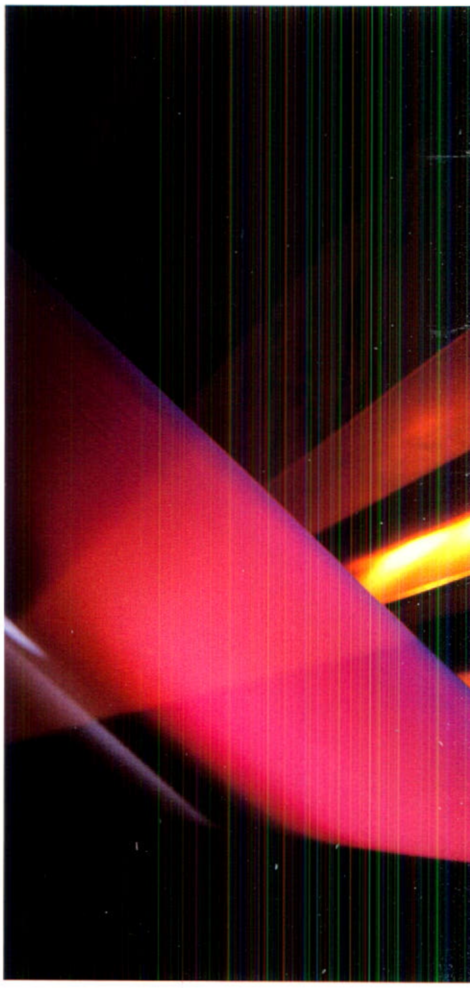
The acquisition of the Technographics Fitchburg Paper business in July underlines our determination to succeed in this highly specialized market. The additional volume resulting from this transaction has enabled Rolland to become a leading supplier of base papers for decorative laminates in North America. Under the terms of the agreement, the Fine Papers Division acquired the inventory of finished goods and has been handling all sales to customers since July 1986. In addition, a manufacturing agreement was signed with Technographics Fitchburg Paper whereby they would manufacture exclusively for Rolland. Late in 1986, it was decided to consolidate all manufacturing operations of base papers for decorative laminates at the Mont-Rolland mill. This will be achieved by mid-1987 following the upgrading of No. 3 paper machine and Technographics Fitchburg Paper will continue to supply these products in the interim.

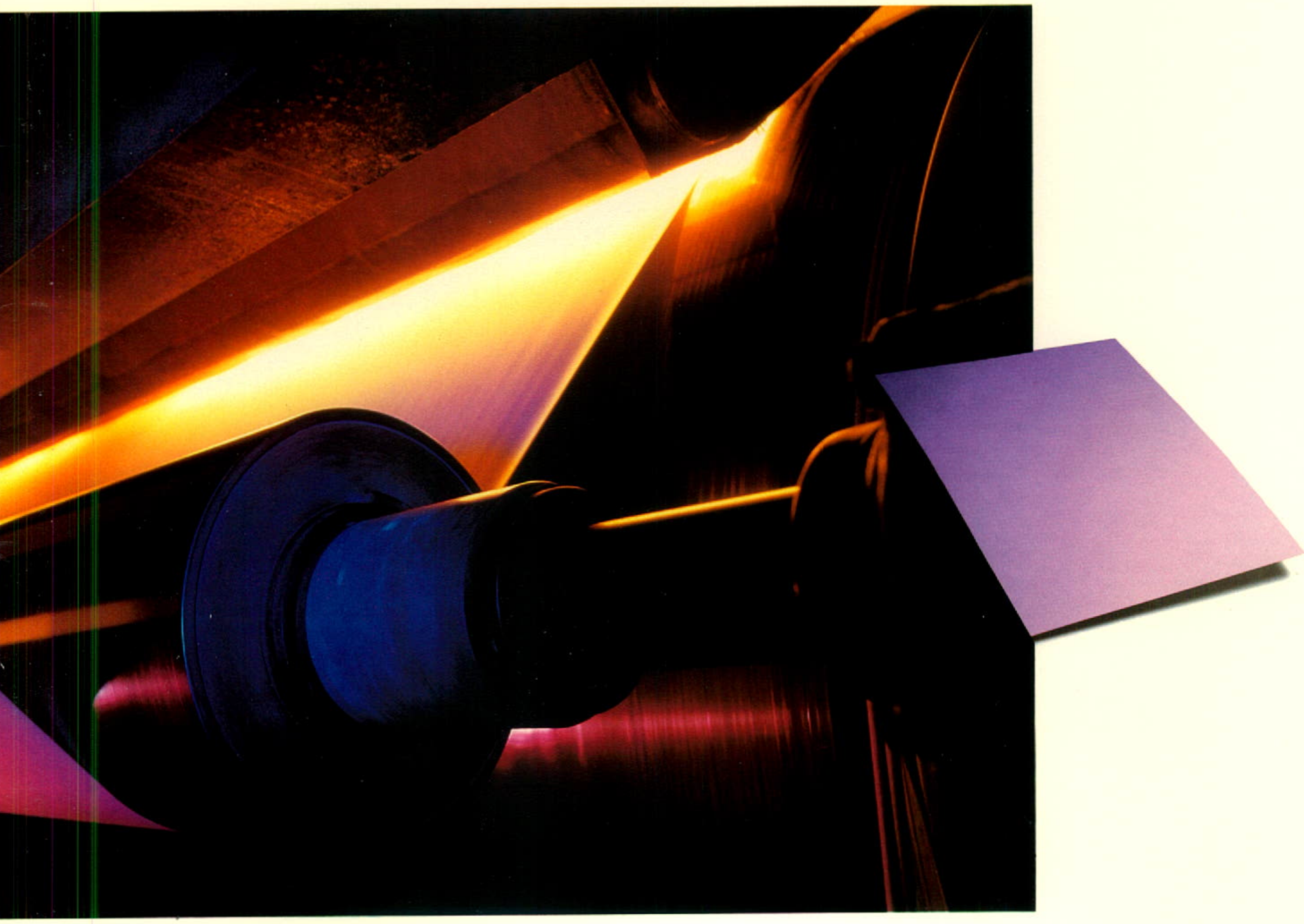
Capital Expenditures

Total capital expenditures for the Division amounted to $6.2 million in 1986. The thrust of the capital spending program remains directed at cost reduction and product development activities. The installation of a new precision sheeter for copy and duplicating papers has resulted in a substantial improvement in productivity and has also provided the Fine Papers Division with superior quality products to service a fast-growing market.

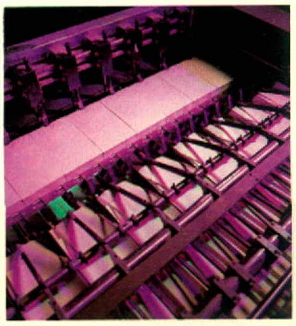
Completed in July at a cost of approximately $3 million, this state-of-the-art finishing line incorporates complete wrapping equipment. Late in the year, the upgrading of No. 3 paper machine in Mont-Rolland was approved. This project will involve capital expenditures of $7.5 million, most of which will be spent in 1987. In addition, funds have been earmarked to upgrade and specialize all the other paper machines. An amount of $700,000 is currently being expended on No. 5 and No. 6 machines for the manufacturing of high-quality specialty papers.

Capital expenditures are expected to increase in 1987 as the Division pursues its objectives of improving its product mix and decreasing production costs. Product development and productivity improvement groups set up in 1985 and 1986 are progressing in their respective areas.





THE INFRA-RED SYSTEM AT THE END OF NO. 8 PAPER MACHINE CONTROLS THE HUMIDITY ACROSS THE SHEET.



UPPER LEFT: MICHEL VILLENEUVE AT THE CONTROLS OF ONE OF OUR JAGENBERG SHEETERS AT SAINT-JÉRÔME.

LOWER CENTRE: OUR NEW STATE-OF-THE-ART PRECISION SHEETER CUTS EIGHT REAMS OF PAPER SIMULTANEOUSLY AT A SPEED OF 985 FEET PER MINUTE.

Human Resources

The improved safety record and the continued emphasis on employee involvement and on more autonomous work teams are contributing to create a more productive work environment in our mills. Quarterly meetings held with non-unionized personnel and union committees to communicate and discuss financial results and improvement programs are also helping to promote a better understanding of the Division's orientation and objectives.

The Division's sales and marketing team underwent a reorganization in August 1986. Following the transfer of Mr. Duncan C. MacCalman, previously Director of Sales and Marketing, to W.H. Smith Paper Corporation, Mr. Ross Rehel, previously Sales Manager, Eastern Region, was appointed General Sales Manager, responsible for all sales and customer service functions for coated and uncoated papers. In addition, Mr. Daniel Beaulieu was appointed Marketing Manager. Concurrently with the acquisition of the business of Technographics Fitchburg Paper, Mr. William C. Lane became Sales Manager, Decorative Laminate Papers in the United States.

In May, the Saint-Jérôme mill management team was strengthened through the addition of Mr. Paul Martin as Productivity Manager. Mr. Martin heads the productivity improvement group created during 1986. In September, Mr. Douglas G. Senn joined the Division as Purchasing Manager for the Saint-Jérôme and Mont-Rolland mills. The mills' engineering group was also considerably reinforced during the year and provides the necessary expertise to undertake the important capital investment projects planned for 1987 and subsequent years.

Divisional Results

(thousands of dollars)	**1986**	1985
Total sales (including inter-divisional sales)	**$181,921**	$155,635
Operating profit before corporate charges, interest and income taxes	**12,974**	8,335
Identifiable assets at year end	**73,811**	53,669

FROM LEFT TO RIGHT: JEAN-LOUIS CHOLLET, JEAN R. DUBÉ, AND YVAN DUCHESNE.

CARTON PACKING ON THE NEW SHEETING LINE.

DISTRIBUTION DIVISION

ABOVE: AT SELECT PAPERS, MISSISSAUGA, A COMPUTERIZED MANAGEMENT SYSTEM IMPROVES CUSTOMER SERVICE. FROM LEFT TO RIGHT, ROBERT R. PARISE, BRUCE LOPEZ AND IRENE J. BARTNIK.

BELOW: EFFECTIVE STORAGE IS ESSENTIAL. JOHN SOULLIERE OPERATES A LIFT TRUCK AT SELECT PAPERS, MISSISSAUGA.

Operating results of the Distribution Division improved slightly in 1986 despite a highly competitive market environment. Net sales reached $201.3 million, an increase of 11.7% over the previous year. Operating profit, before corporate charges, interest and income taxes, amounted to $7,239,000 compared with $6,891,000 in 1985. However, net earnings declined somewhat as a result of increases in the above-mentioned charges including a higher income tax rate.

Canada

Total sales by Canadian fine paper distributors have increased by 8% in 1986 with inflation accounting for approximately half of the growth. The Ontario market recorded the highest growth rate at 9.6% while the Quebec market was up by 7.3%. Supply of uncoated and coated products remained abundant throughout the year with imports of offshore coated papers on the rise and accounting for a higher proportion of the domestic coated paper consumption. Market conditions remained highly competitive. Although selling prices increased in July, the first general price increase since 1984, this had little impact on results as the abundant supply, the addition of four new distributors in the Toronto area, and the ongoing competition for market share contributed to put downward pressure on profit margins. In such market conditions and with customer service becoming of even greater importance, the Division took steps to improve all service levels and carry higher inventories. The resulting increase in operating costs offset gains achieved in sales volume.

Overall, the Distribution Division further strengthened its market position in Canada and succeeded in upgrading its product mix.

United States

Fine paper distributors in the United States experienced an increase in sales volume similar to that in Canada. Market conditions varied significantly between regions: the New England market serviced by C.H. Robinson Paper Co. showed an increase of 10.9% over 1985 whereas the New York State market serviced by W.H. Smith Paper Corporation grew by only 4.1%.

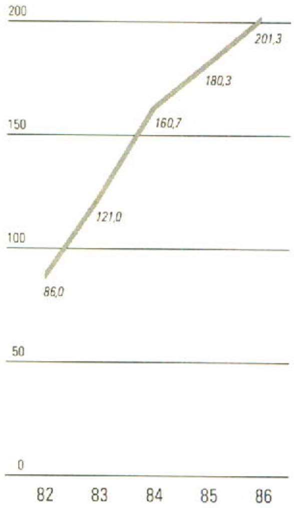
Total sales of the Distribution Division in the United States increased by 6.4% but earnings declined slightly as a result of lower margins and high operating expenses. However, C.H. Robinson Paper Co. recorded healthy increases in sales and earnings.

Marketing Developments

Further geographical expansion and acquisition of exclusive franchises were at the forefront of the Division's development activities in 1986.

Through the opening of new branches in Belleville, Ontario in February, Kitchener, Ontario in June and Syracuse, N.Y. in September, the Division is consolidating its market position in areas which offer good potential for growth and profitability. In the past, distribution activities had been carried out in these regions on a limited basis and the opening of the new branches will ensure a stronger presence and a greater market share.

The Division has also been improving its competitive position by upgrading its product mix through the acquisition of exclusive franchises. The agreements with Nocopi International Inc. for the exclusive distribution of photocopy-proof papers in Canada and the United States represent a significant development in this area. The Nocopi family of security papers comprises three grades with varying levels of protection to reduce or eliminate reproduction of any material printed on them. The Division is handling distribution in the areas it services and is completing the establishment of nation-wide distribution networks in Canada and the United States at the wholesale and retail levels. The Nocopi papers are breaking new ground and future sales volume is therefore difficult to estimate; however, initial response by potential users has been excellent and indicates that these products could make a substantial contribution to the Division's earnings in coming years.



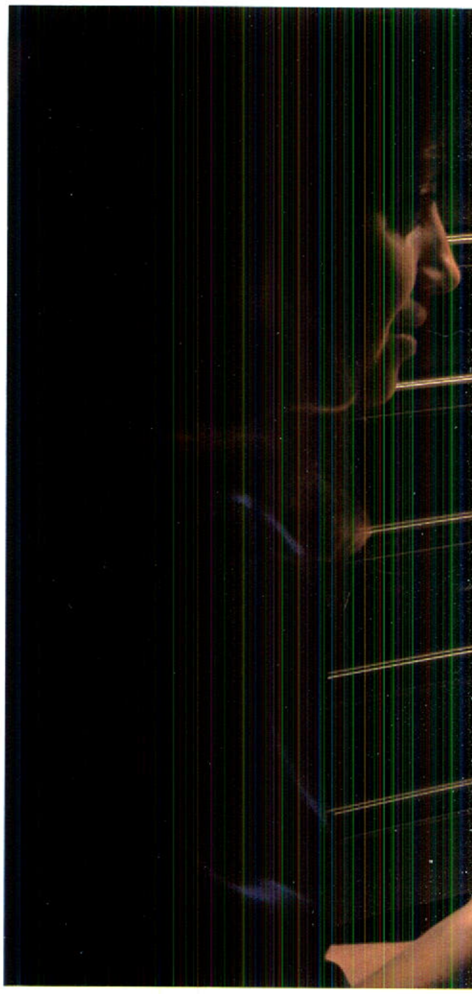
Net Sales – Distribution Division
(millions of dollars)

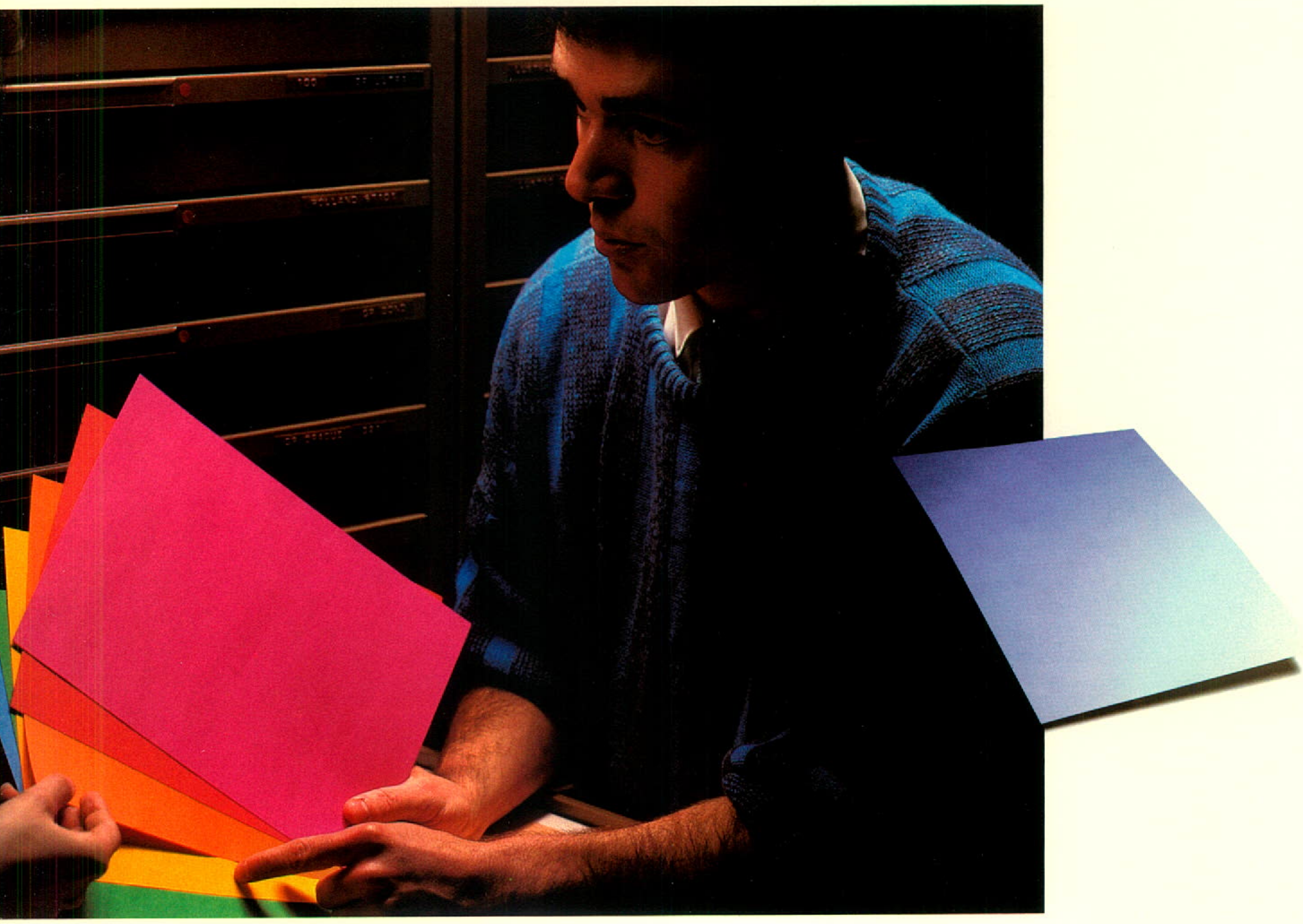
Other exclusive franchises for text and cover, high-quality coated, pressure sensitive and carbonless papers were obtained during 1986. The Division has set up a special marketing group operating under the name Fine Papers to act as sales agent for Nocopi and other specialty papers in Canada and the United States, particularly when the distribution network extends beyond its own branches.

Several other marketing initiatives were taken during the year to strengthen the Division's position in the market place. Advertising and promotion programs were increased substantially in order to improve the visibility of Rolland's distributors and provide exposure for the exclusive products they carry. In the same vein, the Division conducted customer seminars and established closer contact with end users and advertising agencies to promote specification of certain products. A decentralization of marketing services towards the branches was effected in order to bring them closer to the market. To broaden the earnings base, graphic arts and industrial products as well as school supplies were added to the product line, particularly in smaller branches.

Operations

In recent years, warehousing facilities throughout the Division have been gradually modernized and 1986 saw a continuation of this trend. In November, Graphic Papers, Sudbury moved into new custom-built facilities. Rapid growth of the Graphic Papers, Toronto branch has necessitated an expansion of its warehouse; started toward the end of the year, it will be completed in April. It is expected that Graphic Papers, Ottawa and C.H. Robinson Paper Co., Woburn, Mass. will move into new premises during 1987, by which time all branches of the Division will be operating out of modern and efficient facilities.





ROSA VISAGGIO AND CHRIS ARSENAULT OF GRAPHIC PAPERS, SCARBOROUGH, ARE ASSEMBLING SAMPLES.

STANLEY GREGORY, GRAPHIC PAPERS, SCARBOROUGH, PREPARES AN ORDER OF CUT-SIZE PAPERS.

During the last quarter of 1985, an integrated on-line order entry and inventory control system was introduced at Select Papers, Toronto. While complete implementation took longer than anticipated, the system is now fully operational at Select Papers. It provides the Division with an efficient tool to enhance customer service and productivity. Installation in other large branches has started and it is expected that all units in Canada will have been converted to the new system by the end of 1987.

Human resources

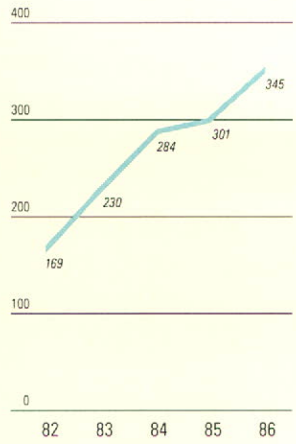
Several additions were made to the Division's management team during 1986. Concurrently with the opening of new branches, Messrs. Robert Hunt, Don Judges, and Herb Baum were appointed to the position of Branch Manager at Graphic Papers, Belleville, Select Papers, Kitchener and Select Papers, Syracuse, respectively. In August, Mr. Michael Artichuk was appointed General Manager of the Fine Papers marketing group in Toronto with primary responsibility for the promotion of the Nocopi papers. Also in August, Mr. Duncan C. MacCalman, previously Director of Sales and Marketing, Fine Papers Division, joined the Distribution Division as General Manager of W.H. Smith Paper Corporation in Albany, while Messrs. Serge Verronneau and Bert McGraw joined the Quebec management late in the year. All the above individuals bring valuable experience to their new position and provide considerable strength and depth to the Division management team.

Outlook

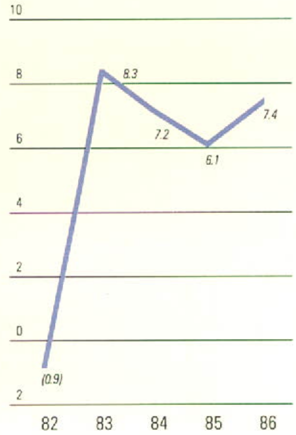
In recent years, the Distribution Division has invested heavily in facilities, systems, supply lines, and human resources to improve its position in the market place and provide a solid base for future growth. While results have been positive in terms of growth in sales volume, the erosion of profit margins has meant that earnings have not kept pace with this increased volume. In the short term, the Division will put emphasis on consolidating its current position and improving profitability through higher margins and greater operating efficiency. It will also pursue its expansion and diversification objectives through product and territory expansion.

Divisional Results

(thousands of dollars)	**1986**	1985
Total sales	**$201,321**	$180,292
Operating profit before corporate charges, interest and income taxes	**7,239**	6,891
Identifiable assets at year end	**58,572**	47,419



Net Sales
(millions of dollars)



Net Earnings
(millions of dollars)

Operating Results

Net sales for the year reached $344.7 million, an increase of 14.6% over net sales of $300.7 million in 1985. Part of the increase in sales is attributable to the acquisition of the business of Technographics Fitchburg Paper in July 1986. Sales of the Fine Papers Division were up by 16.9% while the Distribution Division recorded an 11.7% increase. Shipments of the Fine Papers Division were 7.2% higher than in 1985; an increase in fine paper selling prices in June and a better product mix accounted for the balance of the increase in net sales for this Division. In the Distribution Division, shipments increased by approximately 8% reflecting growth in ongoing activities and the addition of three new branches. Sales outside Canada totalled $102.4 million of which $35.4 million were export sales and the balance originated from operations of subsidiaries in the United States.

Net earnings of $7,363,000 were the second highest in the Corporation's history and were up 42% over the earnings before extraordinary item of $5,200,000 in the previous year. An extraordinary gain of $935,000 brought net earnings to $6,135,000 in 1985. Gross profit increased to $55.4 million from $45.9 million and represented 16.1% of net sales as against 15.3% last year. The higher gross margin percentage was achieved primarily in the Fine Papers Division as a result of an improved sales mix.

Selling and administrative expenses increased by 13.4% to $37,539,000 but declined slightly from 11% to 10.9% of net sales. Depreciation expense rose by $408,000 to $4,651,000 while interest expense was affected by high working capital requirements and increased to $2,925,000 from $2,278,000 last year. Total expenses, net of other income, amounted to $43,090,000, or 12.5% of net sales as against 12.6% in 1985. Operating profit reached $12,287,000, or 3.6% of net sales, compared with $7,991,000, or 2.7% of net sales last year.

Income taxes amounted to $4,945,000 of which $3,687,000 were booked as current taxes with the balance of $1,258,000 deferred. The effective income tax rate increased from 35.2% to 40.2% primarily as a result of the elimination of the inventory allowance since February.

Return on average class "A" and class "B" shareholders' equity reflects the higher earnings and improved to 14.8% from 13.7% in 1985. The average return for the last five years now stands at 14.2%.

Changes in Financial Position

Operating activities generated funds of $13,272,000 before working capital requirements. However, funds required for working capital purposes increased by $18,626,000 resulting in a net cash outflow of $5,354,000 from operating activities. The acquisition of the business of Technographics Fitchburg Paper accounts for $9,275,000 of the higher working capital requirements while the balance is attributable to increases in inventories and accounts receivable due to higher volume and prices. Inventories were approximately $5 million higher than normal at year end in anticipation of the transfer to Mont-Rolland of products currently manufactured by Technographics Fitchburg Paper and it is expected that this excess inventory will be eliminated by the middle of 1987.

Financing activities generated a net amount of $4,622,000. New obligations of $3,469,000 under capital leases were added while payments of $625,000 were made on existing leases. A U.S. subsidiary, Rolland Paper Corporation, added a term loan in the amount of $4,832,000 (U.S. $3,500,000) and used part of the proceeds to repay outstanding notes payable. Total payments made against these notes during the year amounted to $3,107,000 (U.S. $2,223,000).

Investment activities required an outflow of funds of $10,571,000. Gross capital expenditures amounted to $9,672,000 and investment tax credits of $340,000 were recorded as a reduction of the book value of these assets. Deferred charges of $1,239,000 consist of pre-operating expenses and other costs in connection with the modernization of No. 3 paper machine in Mont-Rolland. These costs will be amortized over a four-year period from the date the project becomes fully operational.

Dividends

The rate of quarterly dividends was increased in the third quarter from $0.125 to $0.135 for class "A" shares and from $0.11875 to $0.12875 for class "B" shares. Quarterly dividends of $1.0625 were paid on preferred shares. In total, dividends paid during the year amounted to $1,949,000 as against $1,876,000 in 1985.

Financial Position

In order to finance working capital requirements, net bank indebtedness increased significantly during 1986 and amounted to $21,653,000 at year end compared with $8,401,000 at December 31, 1985. Working capital increased by $5,149,000 to $41,158,000 but the ratio of current assets to current liabilities declined from 2.1:1 to 1.8:1.

Shareholders' equity increased by $5,414,000 to $53,401,000. Book value per class "A" and class "B" shares was $14.12 at year end, up from $12.64 at December 31, 1985. Long-term debt, excluding the current portion, increased by $4,261,000 and amounted to $18,771,000 at year end. The ratio of long-term debt to shareholders' equity increased slightly to 26/74 from 23/77 at the end of 1985. The ratio of total interest-bearing debt to shareholders' equity was 44/56 compared with 34/66 at December 31, 1985. The rating of the Corporation's debentures was increased to B++ from B+ during 1986 reflecting the improvement in the financial position over the recent years, the greater stability of earnings and the increased interest coverage provided by the current level of profitability.

Market Price

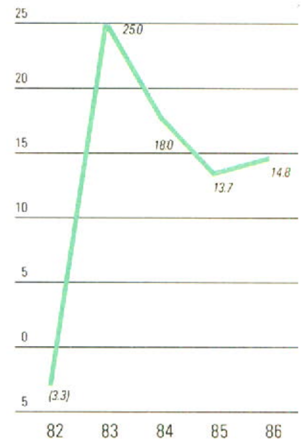
Market price for the Corporation's shares increased significantly during the year. Closing prices at December 31, 1986 were $17.25 for class "A" shares and $23.00 for class "B" shares compared with $9.69 and $10.00 respectively at December 31, 1985. Class "A" shares traded in a range of $9.38 to $19.50 and class "B" shares in a range of $10.25 to $23.50.

All per share figures reflect the two-for-one subdivision of class "A" and class "B" shares which took effect on July 31, 1986.

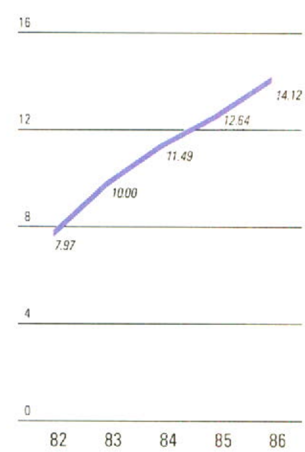
Accounting for the Effects of Inflation

Since 1983, Rolland has been including a special section in its annual report on "Accounting for the Effects of Inflation" in conformity with the standards issued by the Canadian Institute of Chartered Accountants (CICA). The data was presented as supplementary information to the historical cost financial statements and its purpose was to give recognition to the effect of changing prices on the financial position and operating results of the Corporation.

Although the CICA standards appeared to respond to a need, particularly during a period of high inflation, the experience of the past three years indicates that little use, if any, has been made of the information published on inflation accounting. The sharp decline in inflation rates has no doubt been a factor in the lack of interest. In addition, the CICA standards involve a high degree of subjectivity which makes interpretation and comparability of the information difficult. In the circumstances, Rolland does not believe that the supplementary data on inflation is useful to readers of its financial statements and has decided not to include such data in its 1986 Annual Report.



Return on Average Class "A" and "B" Shareholders' Equity
(per cent)



Shareholders' Equity per Class "A" and Class "B" shares
(dollars)

CONSOLIDATED STATEMENT OF EARNINGS
YEAR ENDED DECEMBER 31, 1986

(thousands of dollars)	**1986**	1985
Net sales	**$344,672**	$300,748
Cost of goods sold	**289,295**	254,876
Gross profit	**55,377**	45,872
Expenses (income)		
Selling and administrative	**37,539**	33,113
Depreciation and amortization	**4,651**	4,243
Interest on long-term debt	**1,800**	1,811
Other interest	**1,125**	467
Other income	**(2,025)**	(1,753)
	43,090	37,881
Operating profit	**12,287**	7,991
Investment income	**21**	34
Earnings before income taxes and extraordinary item	**12,308**	8,025
Income taxes (Note 3)	**4,945**	2,825
Earnings before extraordinary item	**7,363**	5,200
Extraordinary item	**—**	935
Net earnings for the year	**$ 7,363**	$ 6,135
Earnings per share		
Class "A" shares		
Earnings before extraordinary item	**$ 1.99**	$ 1.40
Net earnings	**1.99**	1.66
Class "B" shares		
Earnings before extraordinary item	**1.97**	1.38
Net earnings	**1.97**	1.64

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1986

(thousands of dollars)	**1986**	1985
Retained earnings at beginning of year	**$ 39,425**	$ 35,166
Net earnings for the year	**7,363**	6,135
	46,788	41,301
Dividends		
Preferred shares	**59**	59
Class "A" shares	**1,415**	1,360
Class "B" shares	**475**	457
	1,949	1,876
Retained earnings at end of year	**$ 44,839**	$ 39,425

CONSOLIDATED BALANCE SHEET
AS AT DECEMBER 31, 1986

(thousands of dollars)	**1986**	1985
Assets		
Current assets		
Accounts receivable	**$ 40,533**	$ 31,651
Income taxes recoverable	**—**	1,099
Inventories (Note 4)	**53,245**	35,634
Prepaid expenses	**554**	410
	94,332	68,794
Fixed assets (Note 5)	**37,876**	33,187
Deferred charges	**1,239**	—
Goodwill	**—**	144
	$133,447	$102,125

On behalf of the Board:

Lucien G. Rolland, Director

Roger H. Charbonneau, Director

(thousands of dollars)	**1986**	1985
Liabilities		
Current liabilities		
Bank indebtedness	**$ 21,653**	$ 8,401
Accounts payable and accrued liabilities	**28,689**	23,027
Income taxes payable	**1,250**	—
Current portion of long-term debt	**1,582**	1,357
	53,174	32,785
Long-term debt (Note 6)	**18,771**	14,510
Deferred income taxes	**8,101**	6,843
Shareholders' Equity		
Capital stock (Note 7)	**8,562**	8,562
Retained earnings	**44,839**	39,425
	53,401	47,987
	$133,447	$102,125

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1986

(thousands of dollars)	**1986**	1985
Cash provided by (used for)		
Operating activities		
Earnings before extraordinary item	**$ 7,363**	$ 5,200
Depreciation and amortization	**4,651**	4,243
Deferred income taxes	**1,258**	264
Funds provided by operations	**13,272**	9,707
Net change in non-cash elements of working capital		
Accounts receivable	**(8,882)**	(1,954)
Inventories	**(17,611)**	289
Prepaid expenses	**(144)**	58
Accounts payable and accrued liabilities	**5,662**	1,517
Income taxes payable	**2,349**	(1,740)
Decrease in cash resulting from changes in non-cash elements of working capital	**(18,626)**	(1,830)
	(5,354)	7,877
Investment activities		
Additions to fixed assets, net of investment tax credits	**(9,332)**	(7,531)
Deferred charges	**(1,239)**	—
Extraordinary item		
Proceeds from disposal of fixed assets	**—**	1,261
	(10,571)	(6,270)
Dividends	**(1,949)**	(1,876)
Internal cash flow (deficiency)	**(17,874)**	(269)
Financing activities		
Increase in long-term debt	**8,301**	479
Repayment of long-term debt	**(3,815)**	(1,806)
Grants related to capital expenditures	**136**	680
	4,622	(647)
Decrease in net cash position	**(13,252)**	(916)
Net cash position at beginning of year	**(8,401)**	(7,485)
Net cash position at end of year	**$ (21,653)**	$ (8,401)

1. Summary of significant accounting policies

Principles of consolidation

The accompanying financial statements include the accounts of the Corporation and its subsidiary companies. Earnings of subsidiaries are included in the consolidated financial statements from the date of acquisition.

Foreign exchange

a. Translation of foreign subsidiaries' accounts:
Assets and liabilities of foreign subsidiaries are translated at exchange rates prevailing at balance sheet dates and earnings items are translated at the average exchange rate for the year. Exchange gains or losses on translation of foreign subsidiaries' accounts are deferred.

b. Foreign currency transactions:
Assets and liabilities of foreign currency monetary items are translated at exchange rates prevailing at balance sheet dates and transactions made in foreign currency are translated at the average exchange rate for the year. Gains or losses arising on settlement of foreign currency monetary items are included in current year earnings.

Inventories

Inventories of raw materials, operating supplies, repair parts and maintenance materials are carried at the lower of cost, first-in, first-out method, and replacement value. Inventories of finished paper and paper in process are carried at the lower of cost, first-in, first-out method, and net realizable value. Adequate provision is made for slow-moving and obsolete inventories.

Fixed assets and depreciation

Fixed assets are recorded at cost which, in cases of major projects, includes interest during construction. Government grants and investment tax credits related to capital expenditures are deducted from the cost of the respective fixed assets. Assets acquired under capital lease agreements are included in fixed assets. At the time of sale or retirement, the cost of the assets and the related accumulated depreciation are removed from the accounts and any gain or loss is included in earnings.
Depreciation is calculated over the estimated economic lives of the assets, on the straight-line method at the following rates:

Buildings	2½% – 4%
Machinery and equipment	5% – 10%
Automotive and computer equipment	20%
Leasehold improvements	Term of lease

Deferred charges

Deferred charges consist of pre-operating expenses and other costs in connection with the modernization of major manufacturing facilities before they become operational. These costs will be amortized over a four-year period.

Goodwill

Goodwill represents the excess of the purchase price of the subsidiaries over their adjusted book value at the date of acquisition. Goodwill is amortized over a two-year period from the date of acquisition.

Income taxes

Deferred income taxes result from differences between deductions claimed for tax purposes and amounts charged in the accounts.

Net earnings per share

The net earnings per share are calculated after taking into account the dividends paid on the preferred shares and the differential in the dividends paid during the year on class "A" and class "B" shares.

2. Acquisition

On July 2, 1986, the Corporation acquired the business and certain assets of Technographics Fitchburg Paper, Inc. of Fitchburg, MA. Assets acquired consist primarily of finished paper inventories for which a cash consideration of $2,553,000 (U.S. $1,837,000) was paid during 1986. The cost of acquisition of the business is related to future sales tonnage and will be paid over a five-year period from the date of acquisition. Payments made during 1986 are included in deferred charges.

3. Income taxes

(thousands of dollars)	**1986**	1985
Current	**$ 3,687**	$ 2,561
Deferred	**1,258**	264
	$ 4,945	$ 2,825

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

	1986	1985
Combined basic income tax rate	**45.6%**	45.4%
Increase (decrease) in rate resulting from		
Manufacturing and processing profit deduction	**(5.4)**	(5.8)
Inventory allowance	**(0.4)**	(4.6)
Other	**0.4**	0.2
Effective income tax rate	**40.2%**	35.2%

4. Inventories

(thousands of dollars)	**1986**	1985
Raw materials and operating supplies	**$ 5,405**	$ 4,740
Repair parts and maintenance materials	**2,314**	1,968
Finished paper and paper in process	**45,526**	28,926
	$53,245	$35,634

5. Fixed assets

(thousands of dollars)	**1986**			1985
	Cost	**Accumulated depreciation**	**Net**	Net
Land	**$ 779**	**$ —**	**$ 779**	$ 782
Buildings	**14,888**	**6,929**	**7,959**	7,934
Leasehold improvements	**431**	**228**	**203**	227
Machinery and equipment	**66,219**	**41,579**	**24,640**	22,756
Assets under capital leases	**6,429**	**2,134**	**4,295**	1,488
	$88,746	**$50,870**	**$37,876**	$33,187

6. Long-term debt

(thousands of dollars)	**1986**	1985
Rolland inc.		
Sinking fund debentures, series B, 11¾%, due July 2, 1995	**$ 7,935**	$ 7,935
Obligations under capital leases	**4,707**	1,863
	12,642	9,798
Subsidiaries		
Term loans, 7⅜% to 8⅝%, principal repayable between March 30, 1988 and December 16, 1991 (U.S. $3,500,000)	**4,832**	—
Industrial Development Revenue Bonds, 9%, repayable by quarterly instalments of $77,600 (U.S. $55,500) including principal and interest, until January 1, 2008 (U.S. $2,118,400)	**2,879**	2,962
Note, 9%	**—**	982
Notes, prime rate	**—**	2,125
	20,353	15,867
Less current portion	**1,582**	1,357
	$18,771	$14,510

Principal repayments for the next five years

(thousands of dollars)	**1987**	1988	1989	1990	1991
11¾% sinking fund debentures	**$ 635**	$ 650	$ 650	$ 650	$ 650
Obligations under capital leases	**899**	973	1,143	725	767
Term loans	**—**	1,381	690	1,381	1,380
Industrial Development Revenue Bonds, 9%	**48**	53	59	64	70
	$1,582	$3,057	$2,542	$2,820	$2,867

7. Capital stock

(thousands of dollars)		**1986**	1985
Authorized			
21,995	preferred shares without nominal or par value, issuable in series		
An unlimited number of class "A" shares without nominal or par value			
1,600,000	class "B" shares without nominal or par value		
Issued			
13,995	$4.25 cumulative redeemable preferred shares	**$1,399**	$1,399
2,720,032	class "A" and		
960,016	class "B" shares	**7,163**	7,163
		$8,562	$8,562

On July 17, 1986, the holders of class "A" and class "B" shares approved the subdivision of these shares, on a two-for-one basis, effective July 31, 1986. Shareholders also approved an increase in the number of shares authorized, from 2,400,000 to an unlimited number for class "A" shares and from 800,000 to 1,600,000 for class "B" shares. The number of shares issued and earnings per share for 1985 have been restated to reflect the subdivision.

The preferred shares issued are redeemable at $104 per share and are non-voting unless four quarterly dividends are in arrears. Class "A" shares are non-voting unless the Corporation shall fail, for a period of two consecutive years, to pay any dividend on such shares.

Class "A" shares are entitled to a non-cumulative dividend at the rate of 5 cents per share per annum before payment of any dividend on class "B" shares. If in any fiscal year dividends at the rate of 2.5 cents per share per annum are paid on class "B" shares, any further distribution in respect of that fiscal year shall be made equally, share for share, upon all outstanding class "A" and class "B" shares.

On April 25, 1986 the shareholders approved the creation of a stock option plan for certain key employees of the Corporation. During 1986, options were granted to a number of officers and employees to purchase, between March 18, 1987 and March 17, 1993, up to an aggregate of 21,396 class "A" shares of the Corporation.

8. Pension plans

The Corporation has contributory trusteed pension plans. Two subsidiaries have non-contributory trusteed pension plans. The cost of the current service portion is charged to earnings as incurred. The latest actuarial valuation, dated December 31, 1985, for a pension plan covering unionized hourly employees of Rolland inc. shows a deficit of $414,000. This deficit is being amortized over a maximum period of 15 years. According to the latest actuarial valuations as of December 31, 1985 for the other pension plans, there are no unfunded liabilities.

9. Commitments

The Corporation's commitments under lease agreements of various terms for premises and equipment (excluding capital leases) aggregate $22,156,000 at December 31, 1986. The annual rentals in 1987 under these leases will be $3,591,000.

10. Insurance claim

The Corporation has filed a claim in the amount of $1,564,000 with two insurance companies covering repair costs and business interruption losses related to a two-week shutdown of a paper machine in January 1984. The insurance companies have denied coverage and the Corporation has instituted legal proceedings to recover the said amount less any applicable deductibles. In the opinion of management and legal counsel, the Corporation has a valid claim and is entitled to its payment. Because legal proceedings are involved, settlement of the claim could be delayed for a prolonged period and it has therefore not been reflected in the financial statements. Any recovery will be treated as a prior-period adjustment when received.

11. Industry segment and sales outside Canada

The Corporation is engaged entirely in the manufacturing and distribution of fine papers. Sales outside Canada are mainly in the United States and totalled $102,430,000 ($75,268,000 — 1985) of which $67,019,000 ($52,571,000 — 1985) relate to operations of U.S. subsidiaries.

12. Subsequent event

On February 18, 1987, the Corporation announced that it would cease the production of coated papers at its Scarborough, Ontario mill. In the opinion of management, the anticipated costs of discontinuing operations should be offset by a potential gain on the sale of the property and no significant loss is expected from this closure. Furthermore, the effect on future sales volume and financial results of the Corporation is not material.

The Shareholders,
Rolland inc.

We have examined the consolidated balance sheet of Rolland inc. as at December 31, 1986 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche Ross
Chartered Accountants

Montreal, Quebec,
February 23, 1987.

QUARTERLY FINANCIAL INFORMATION

1986	1st	2nd	3rd	4th	Year
(thousands of dollars, except per share amounts)					
Net sales	$81,341	$82,084	$88,126	$93,121	$344,672
Gross profit	13,581	13,651	13,273	14,872	55,377
Net earnings	2,145	1,883	1,291	2,044	7,363
Per class "A" share					
Net earnings	$ 0.57	$ 0.52	$ 0.35	$ 0.55	$ 1.99
Market price					
High	12.00	16.50	15.00	19.50	19.50
Low	9.38	11.38	12.75	15.00	9.38

1985					
Net sales	$75,654	$76,224	$73,880	$74,990	$300,748
Gross profit	11,095	11,759	10,786	12,232	45,872
Earnings before extraordinary item	1,355	1,225	1,052	1,568	5,200
Net earnings	1,355	2,160	1,052	1,568	6,135
Per class "A" share					
Earnings before extraordinary item	$ 0.36	$ 0.33	$ 0.28	$ 0.43	$ 1.40
Net earnings	0.36	0.59	0.28	0.43	1.66
Market price					
High	12.00	11.19	11.00	9.75	12.00
Low	7.25	9.00	8.88	8.38	7.25

		1986	1985
Earnings	Net sales	**$344,672**	$300,748
(thousands of dollars)	Depreciation and amortization	**4,651**	4,243
	Interest expense	**2,925**	2,278
	Operating profit (loss)	**12,287**	7,991
	Investment income	**21**	34
	Income taxes	**4,945**	2,825
	Earnings (loss) before extraordinary items	**7,363**	5,200
	Extraordinary items	**—**	935
	Net earnings (loss)	**7,363**	6,135
	Percentage of operating profit (loss) to net sales	**3.6%**	2.7%
	*Return on average capital employed	**11.3%**	9.3%
	Return on average class "A" and "B" shareholders' equity	**14.8%**	13.7%
Distribution of earnings	Dividends on preferred shares	**59**	59
(thousands of dollars)	Dividends on class "A" and "B" shares	**1,890**	1,817
	Retained in the business (deficiency)	**5,414**	4,259
Financial position	Capital employed:		
(thousands of dollars)	Working capital	**41,158**	36,009
	Investment in securities	**—**	—
	Fixed assets, net	**37,876**	33,187
	Other assets	**1,239**	144
		80,273	69,340
	Financed by:		
	Long-term debt	**18,771**	14,510
	Deferred income taxes	**8,101**	6,843
	Preferred shareholders' equity	**1,399**	1,399
	Class "A" and "B" shareholders' equity	**52,002**	46,588
	Total capitalization	**80,273**	69,340
	Ratio of current assets to current liabilities	**1.8:1**	2.1:1
	Ratio of long-term debt to shareholders' equity	**26/74**	23/77
	Funds provided by operations	**13,272**	9,707
	Capital expenditures	**9,672**	8,020
Statistics	Per share:		
	** Per class "A" share		
	Earnings (loss) before extraordinary items	**1.99**	1.40
	Extraordinary items	**—**	0.26
	Net earnings (loss)	**1.99**	1.66
	Dividend	**0.52**	0.50
	Funds provided by operations	**3.60**	2.63
	Book value per class "A" and "B" shares	**14.12**	12.64
	Price range for class "A" shares – high	**19.50**	12.00
	– low	**9.38**	7.25
	Other:		
	Number of shareholders at end of year	**1,103**	1,167
	Average number of employees	**1,684**	1,550

*Return on average capital employed = Earnings (loss) before extraordinary items + interest on long-term debt after tax divided by average capital employed.

**Per share figures for class "B" shares are 2½ cents less than per class "A" share except in 1977 when the differential is 1¼ cents.

1984	1983	1982	1981	1980	1979	1978	1977
$284,448	$229,662	$168,504	$177,752	$166,978	$159,998	$129,351	$108,785
3,869	3,593	3,011	3,013	2,454	2,238	2,351	1,926
2,003	2,195	2,000	2,318	1,430	1,650	1,869	2,184
10,306	12,072	(2,036)	(1,431)	3,322	9,611	7,086	400
771	588	79	608	590	786	459	423
3,894	4,327	(1,044)	(681)	1,292	4,232	2,786	276
7,183	8,333	(913)	(142)	2,620	6,165	4,759	547
—	—	—	—	3,311	413	—	(2,467)
7,183	8,333	(913)	(142)	5,931	6,578	4,759	(1,920)
3.6%	5.3%	(1.2)%	(0.8)%	2.0%	6.0%	5.5%	0.4%
13.2%	17.0%	(0.2)%	1.3%	6.7%	14.8%	13.2%	3.7%
18.0%	25.0%	(3.3)%	(0.6)%	19.8%	26.3%	23.2%	(10.3)%
59	59	59	59	59	59	59	59
1,651	791	114	1,301	1,301	1,301	804	34
5,473	7,483	(1,086)	(1,502)	4,571	5,218	3,896	(2,013)
35,121	30,236	25,508	24,525	28,563	25,138	20,151	12,836
—	—	—	—	—	3,396	3,396	3,396
30,703	26,422	26,763	25,972	24,907	18,635	19,240	20,697
315	519	1,002	1,351	1,755	2,424	3,104	3,448
66,139	57,177	53,273	51,848	55,225	49,593	45,891	40,377
15,863	12,747	17,150	13,595	15,048	14,959	16,141	16,597
6,548	6,175	5,351	6,395	6,817	5,845	6,179	4,105
1,399	1,399	1,399	1,399	1,399	1,399	1,399	1,399
42,329	36,856	29,373	30,459	31,961	27,390	22,172	18,276
66,139	57,177	53,273	51,848	55,225	49,593	45,891	40,377
2.1:1	2.0:1	2.4:1	2.2:1	2.9:1	2.5:1	2.4:1	1.7:1
27/73	25/75	36/64	30/70	31/69	34/66	41/59	46/54
11,425	12,750	1,036	2,273	5,815	8,941	9,710	3,183
8,196	6,035	1,208	4,386	10,474	2,899	1,233	783
1.94	2.26	(0.26)	(0.05)	0.70	1.67	1.28	0.14
—	—	—	—	0.90	0.11	—	(0.67)
1.94	2.26	(0.26)	(0.05)	1.60	1.78	1.28	(0.53)
0.455	0.2213	0.0375	0.36	0.36	0.36	0.225	0.0125
3.09	3.45	0.27	0.61	1.57	2.42	2.63	0.85
11.49	10.00	7.97	8.26	8.67	7.43	6.01	4.95
8.13	7.25	3.13	5.44	4.69	5.88	4.88	2.69
6.63	2.50	1.80	2.75	3.75	4.00	2.25	1.78
1,441	1,544	1,565	1,637	1,622	1,621	1,689	1,760
1,448	1,361	1,240	1,368	1,380	1,400	1,387	1,383

Note: Results of W.H. Smith Paper Corporation are included from January 1, 1983 and results of C.H. Robinson Paper Co. from September 12, 1984.

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President and Chief Operating Officer
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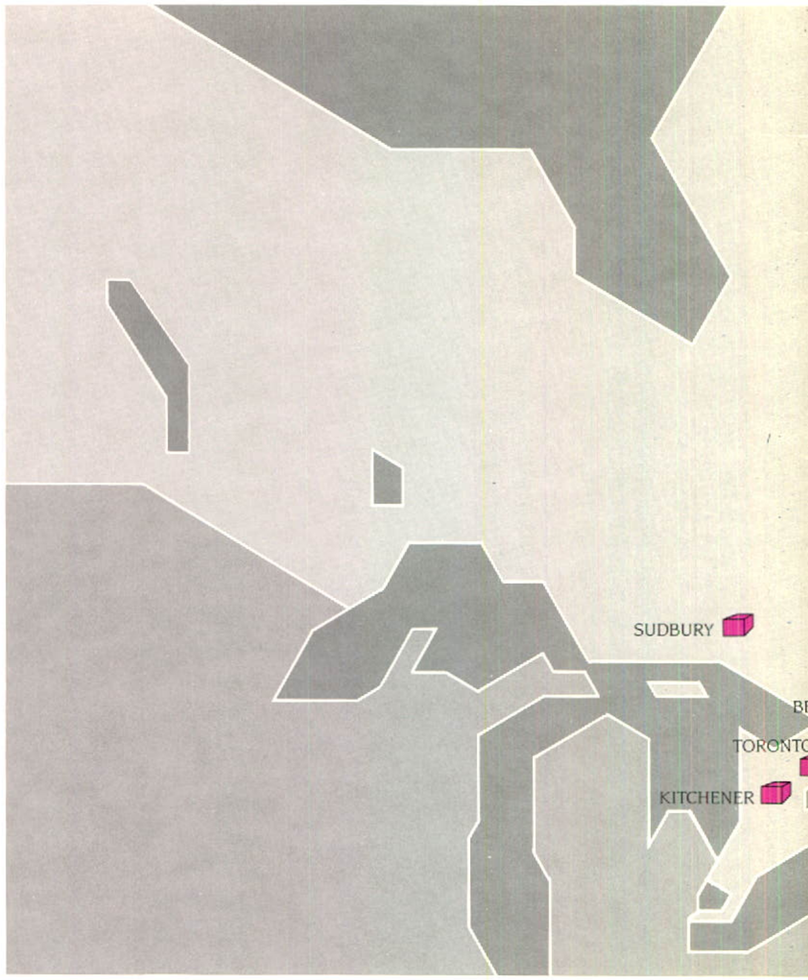
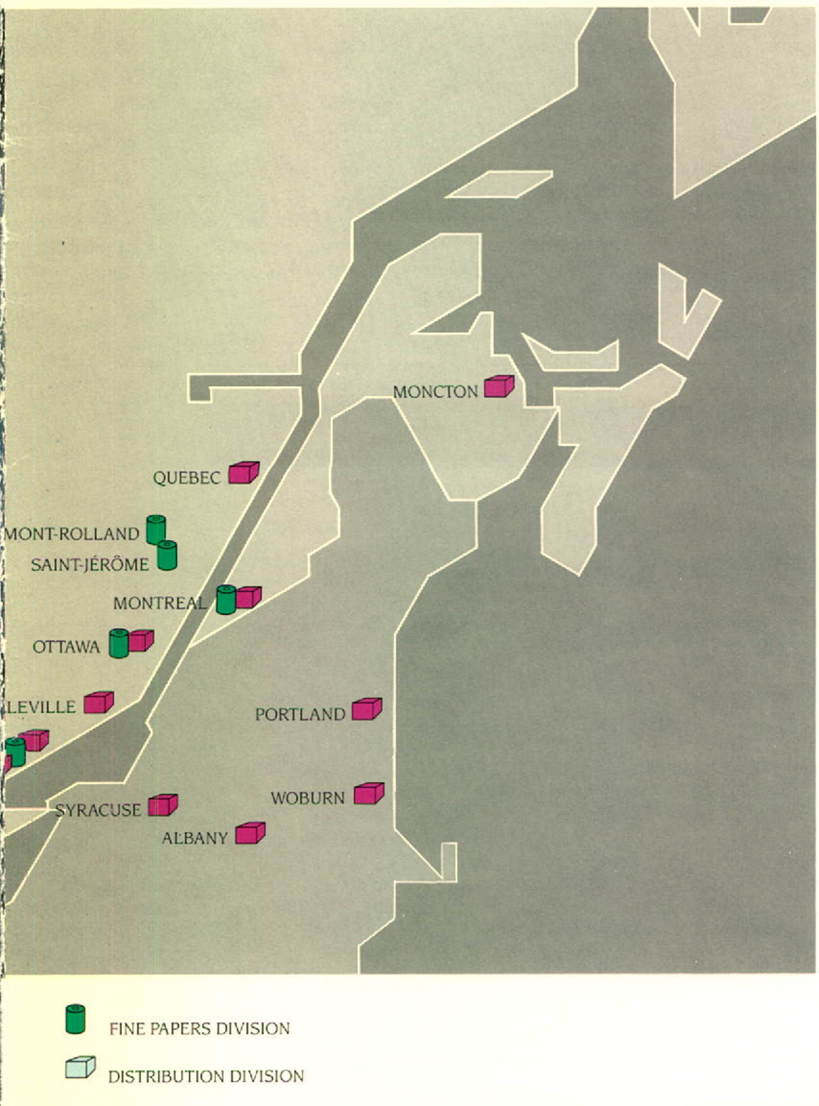
** Member of the Executive Committee*
*** Member of the Audit Committee*



OFFICES, PLANTS, AND PRODUCTS



Fine Papers Division

Sales Offices:
100 Alexis-Nihon Boulevard
Suite 500
Saint-Laurent, Quebec H4M 2P1

120 Eglinton Avenue East
Toronto, Ont. M4P 1E2

1749 St. Laurent Boulevard
Ottawa, Ont. K1G 3V4

Paper Mills:
455 Rolland Avenue
Saint-Jérôme, Quebec J7Z 5V6

Mont-Rolland, Quebec J0R 1G0

Products:
High-quality uncoated fine papers ranging from all-cotton to chemical pulp grades, for commercial printing, business papers, business forms, envelopes, and specialty papers.
Base papers for decorative laminates used in wall coverings, furniture, and kitchen counters.

Distribution Division

Executive Office:
200 Ronson Drive
Suite 501
Etobicoke, Ont. M9W 5Z9

Sales Offices and Warehouses:
Select Papers
3190 Caravelle Drive
Mississauga, Ont. L4V 1K9

Select Papers
20 Steckle Place
Suite 21-23
Kitchener, Ont. N2E 2C3

Graphic Papers
345 Passmore Avenue
Scarborough, Ont. M1V 3N8

Graphic Papers
1228 Innes Road
Ottawa, Ont. K1B 3V3

Graphic Papers
1350 Kelly Lake Road
Sudbury, Ont. P3E 5P4

Graphic Papers
330 Bell Boulevard
Belleville, Ont. K8N 5E8

Les papiers graphiques
10000 Ray Lawson Boulevard
Ville d'Anjou, Quebec H1J 1L8

Les papiers graphiques
2800 Dalton Street
Ste-Foy, Quebec G1P 3S4

Les papiers graphiques
80 Driscoll Crescent
Moncton, N.B. E1E 3R8

W.H. Smith Paper Corporation
15 Industrial Park Road
Albany, N.Y. 12206

Select Papers
6604 Jay Road
East Syracuse, N.Y. 13057

C.H. Robinson Paper Co.
160 Fox Street
Portland, ME 04101

C.H. Robinson Paper Co.
39 Commerce Way
Woburn, MA 01801

Products:
An extensive range of fine papers and related products for all segments of the graphic arts industry.

SHAREHOLDER INFORMATION

Head Office

2000 McGill College Avenue
Suite 1400
Montreal, Quebec H3A 3H3
Telephone (514) 289-1779

Transfer Agents and Registrars

Class "A" and Class "B" Shares
The Royal Trust Company
Preferred Shares
Montreal Trust Company
The Canadian Trust Company

Stock Listings

Class "A" Shares
Montreal Exchange
Toronto Stock Exchange
Class "B" Shares and Preferred Shares
Montreal Exchange

Auditors

Touche Ross

Valuation Day Prices

Prices on December 22, 1971, for the purpose of Canadian income tax on capital gains, were as follows:

Class "A" shares	$ 3.10
Class "B" shares	$ 2.75
Preferred shares $4.25	$50.00

The Valuation Day price of the class "A" and class "B" shares does not reflect the two-for-one subdivision which was effective July 31, 1986.

Annual Meeting

The Annual General Meeting of Shareholders of Rolland inc. will be held in the Vice-Regal Suite of the Ritz-Carlton Hotel in Montreal, Quebec, on April 30, 1987 at 4:00 p.m. The shareholders of Rolland inc. are invited to attend.

Si vous préférez recevoir votre rapport annuel en français, veuillez écrire au Secrétaire, Rolland inc., 2000, avenue McGill College, Bureau 1400, Montréal (Québec) H3A 3H3

PAPER
Cover:
Imperial Offset Enamel
260M/192g/m²
Interior:
Imperial Offset Enamel
200M/148g/m²

Graphic Design:
Nolin Larosée et Associés inc.,
Montréal

Printed in Canada

Rolland inc.

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