Annual Report 1979

Rolland inc

Rolland inc

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52nd Annual Report

The Annual General Meeting of Shareholders will be held at the Head Office of the Corporation, 800 Victoria Square, Suite 3620, Montréal, Québec, at 14:00 hours, April 25, 1980.

Si vous préférez recevoir votre rapport annuel en français, veuillez écrire au Secrétaire, Rolland inc., 800, Place Victoria, suite 3620, Montréal, Québec H4Z 1H3.

Rolland inc.

Papermaking Specialist

Head Office:
800 Victoria Square, Suite 3620
Montréal, Québec H4Z 1H3

Sales Offices:
Montréal, Toronto and Ottawa

Paper Mills:
Saint-Jérôme and Mont-Rolland, Québec
Scarborough, Ontario

Cover:
The Corporation's new name has been in use since August 27th last.

Directors

Hon. John B. Aird, O.C., Q.C.
A senior Partner in the law firm
Aird & Berlis, Barristers and
Solicitors — Toronto

Roger A. Ashby
Executive Vice-President and Chief
Operating Officer
Rolland inc.
Montréal

*G. Drummond Birks
President, Henry Birks
and Sons Limited
Montréal

**Paul Chapdelaine
A Company Director
Montréal

**Roger H. Charbonneau
President
Laboratoires Anglo-French Limitée
Montréal

E. Jacques Courtois, Q.C.
A Partner in the law firm
Courtois, Clarkson, Parsons & Tétrault
Barristers and Solicitors
Montréal

Richard A. Irwin
A Company Director
London, Ontario

*Gérard Plourde
Chairman of the Board, U A P Inc.
Montréal

*Albert Rolland
Vice-President and Marketing
Consultant
Rolland inc.
Laval

*Lucien G. Rolland
President and Chief Executive Officer
Rolland inc.
Montréal

Marc Rolland
Retired Executive
Saint-Jérôme

Pierre A. Salbaing
Vice-président Directeur général
Air Liquide, Paris (France)

***Joseph A. Weldon, M.B.E., M.C.
Vice-President and Financial Consultant
Rolland inc.
Montréal

Officers

Lucien G. Rolland
President and Chief Executive Officer

Joseph A. Weldon
Vice-President and Financial
Consultant

Albert Rolland
Vice-President and Marketing
Consultant

Roger A. Ashby
Executive Vice-President and Chief
Operating Officer

Jean-Louis Chollet
Executive Vice-President
Fine Papers Division

Adrien Desautels
Vice-President, Finance and Treasurer

Jean R. Dubé
Vice-President, Human Resources and
Industrial Relations

Jean A. Elie
Vice-President Planning, Secretary
and Legal Counsel

Terry L. Pitchford
Executive Vice-President, Wholesale
Distribution Division

Alphonse St-Jacques
Vice-President, Special Projects

Wholly-Owned Subsidiary
Fine Papers, Limited

Transfer Agents
Montreal Trust Company
The Royal Trust Company

Registrars
Canadian Trust Company
The Bankers' Trust Company

Shares Listing
Montreal Stock Exchange
Toronto Stock Exchange

Auditors
Touche Ross & Co.

*Member of the Executive Committee
**Member of the Audit Committee

Highlights

	1979	1978
Net Sales	**$159,998,000**	$129,351,000
Earnings		
Earnings before extraordinary items	**6,165,000**	4,759,000
Extraordinary items	**413,000**	—
Net earnings	**6,578,000**	4,759,000
Earnings per share		
Class "A"		
Earnings before extraordinary items	**3.33**	2.57
Extraordinary items	**0.22**	—
Net earnings	**3.55**	2.57
Class "B"		
Earnings before extraordinary items	**3.28**	2.52
Extraordinary items	**0.22**	—
Net earnings	**3.50**	2.52
Dividends on class "A" and "B" shares	**1,301,000**	804,000
Per class "A" share	**0.72**	0.45
Per class "B" share	**0.67**	0.40
Funds provided by operations	**8,941,000**	9,710,000
Per class "A" share	**4.84**	5.26
Per class "B" share	**4.79**	5.21
Book value per class "A" and "B" shares	**14.86**	12.02
Working capital	**25,138,000**	20,151,000
Long-term debt	**14,959,000**	16,141,000
Capital expenditures	**2,899,000**	1,233,000

Directors' Report to Shareholders

Sales and Earnings

1979 was a record year for your Corporation. Consolidated net sales amounted to $160 million, an increase of 24% over the previous year. Consolidated net earnings were $6.6 million, or $3.55 and $3.50 per class "A" and per class "B" share respectively, as against $4.8 million in 1978, or $2.57 per class "A" and $2.52 per class "B" share.

These include an extraordinary gain in 1979 of $413,000 or $0.22 per class "A" and per class "B" share, pertaining to Orchard Decor Canada Limited, a subsidiary which ceased operations in May 1978.

The return on shareholders' equity was 21.4% while the return on capital employed was 14.2%.

The increase in our net earnings before the extraordinary gain was attributable to a turnaround in the results of the Wholesale Distribution Division which more than offset the reduced earnings of the Fine Papers Division. The elimination of the operating loss of Orchard Decor Canada Limited in Granby together with higher income from short-term investments contributed further to the improved results.

Economic and Market Conditions

Despite a sluggish performance of the Canadian economy, the overall market environment for fine papers was most favourable during the year. Consumption totalled more than 900,000 tons, an increase of 7% over 1978.

In recent years, imported fine paper products, manufactured mostly in the United States, played an important role in the Canadian market and represented more than 20% of consumption.

Since 1978, the lower value of the Canadian dollar, vis-à-vis the U.S. dollar, together with the tight supply-demand situation in the United States, resulted in a reduction of imports. In 1979, they accounted for less than 15% of Canadian consumption. Canadian fine paper manufacturers were thus able to recapture at least part of their traditional domestic market.

The cost advantages resulting from the lower value of the Canadian dollar also encouraged the execution by our customers in Canada of some large printing contracts that in the recent past were carried out in the United States.

This level of demand required that Canadian fine paper mills operate at full capacity during the year. Shipments by Canadian manufacturers to the domestic market were up 11.3% while exports increased by 30%. However, there were no serious shortages of fine paper products.

Despite such a market environment, the profit margin of fine paper manufacturing operations was progressively eroded as the year developed. Encouraged by a strong world market for their product, pulp producers substantially increased prices during the year. In the course of 1979 alone, your Corporation was faced with an average increase of 40% in the price of its most important raw material. Unfortunately, it was not in a position to increase fine paper prices to the same extent.

The strong market environment also benefited distributors and your Corporation's own wholesale fine paper distributors achieved excellent results.

Fine Papers Division

This Division is involved in the production and marketing of specialized coated and uncoated fine papers covering the range from all-rag to sulphite papers. They are used by such diverse consumers as commercial printers, office equipment manufacturers, corporations, governments, quick printing copy centres, business forms and envelope manufacturers, and organizations specializing in the production of lottery tickets, security and currency papers.

Photo:
The Saint-Jérôme mill as seen from la Rivière du Nord.


ROLLAND

In addition, the Mont-Rolland mill manufactures base papers for decorative laminates used in wall coverings, furniture and kitchen counters.

Marketing results for the year were good. Sales increased and market share improved in the commercial printing and business paper sectors while the Division maintained its foothold in other markets.

To satisfy the strong demand, paper manufacturers had to operate at maximum capacity. The Division used all its resources to satisfy a consistently strong backlog of orders. It was successful in meeting the requirements of our long standing customers.

All three mills benefited from the productivity advantages of full-capacity operations. In addition, a continuing program aimed at streamlining production and at increasing efficiency enabled the Division to reduce unit labour costs in many areas.

Such efforts, however, could only partly offset the inflationary pressures on the cost of energy, chemicals, and pulp. The rate of increase in the price of pulp was unprecedented and the Division was unable to raise the price of coated and uncoated papers to the same extent. This brought about a progressive erosion of profit margins that started in the second quarter and continued through the remainder of the year.

In the marketing of its products, the Division must meet North American competition. Although Canadian products are still cheaper than American imports, this is attributable to a great extent to the high exchange premium on the U.S. dollar. Should pulp prices continue to rise at such a rapid pace, it might be difficult for your Corporation to increase the price of its products in such a way as to restore previous profit margins without inviting more foreign competition.

In view of the strong demand and the necessity to increase capacity and cost competitiveness, the Division accelerated its capital investment program. A second high-precision sheeter was installed. The process computer system which had been pioneered by your Corporation many years ago and which proved to be profitable during its useful life, was replaced by a new and more versatile system. The Division also announced the details of a modernization program requiring additional investments of $8.5 million over the next twelve months.

The program involves speeding up the number 8 paper machine from 1,250 feet of paper per minute to 2,000 feet per minute. The higher speed will allow the production of an additional 14,000 metric tonnes of printing and business papers per year. The project will also reduce production costs and progressively create approximately 50 new permanent jobs in the finishing sector.

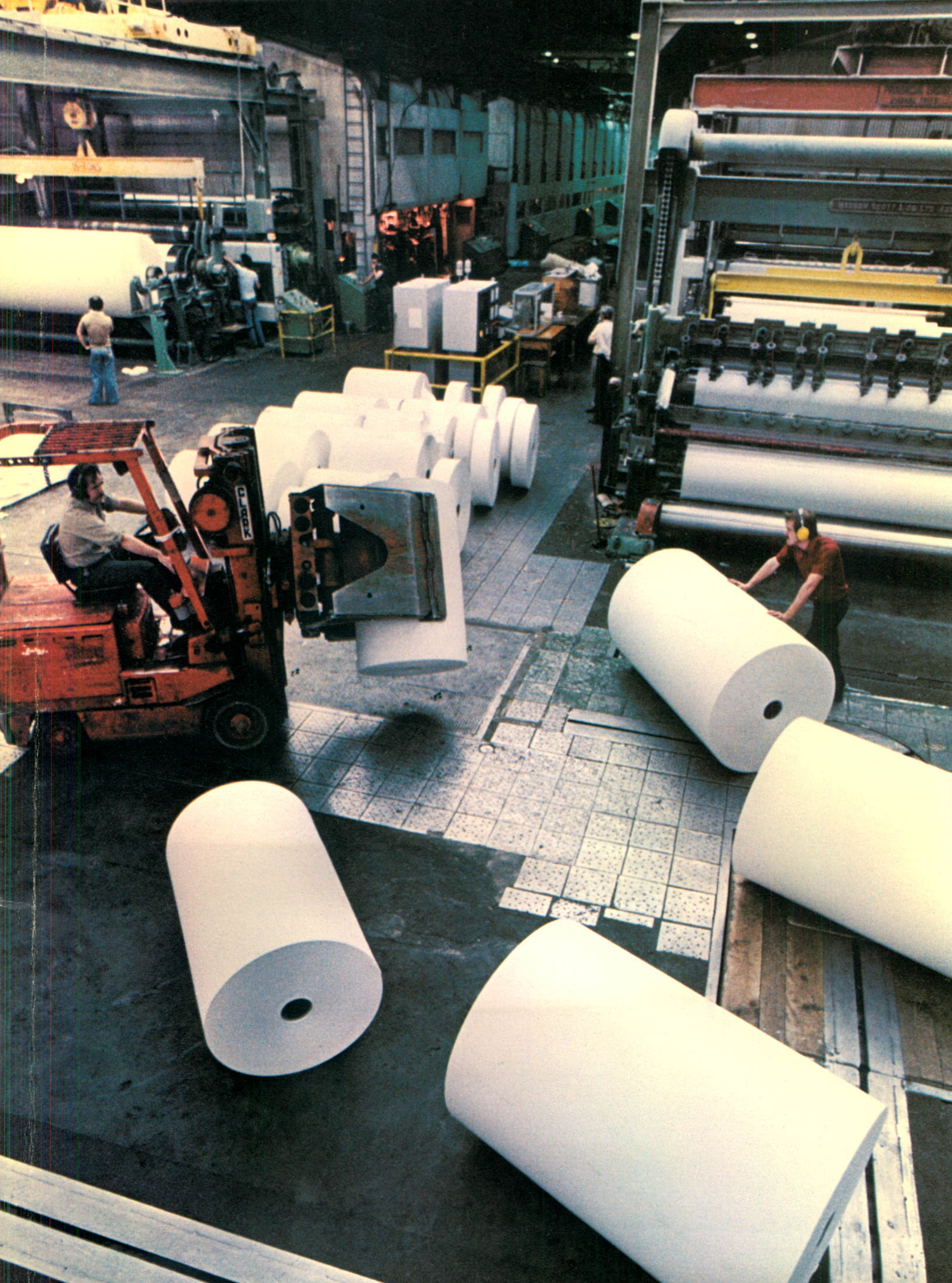
The program was made possible by a grant of $2.1 million under the Canada-Québec Assistance Program for the modernization of the Province's pulp and paper industry.

The modernization of the paper machine is expected to be completed by the fall of 1980.

With respect to base papers for decorative laminates, the results of this development show some progress. Sales have increased substantially over those of the previous year and the operating loss has been reduced, with the expectation of profitable operations in 1980.

As stated in the 1978 annual report, the market for these papers is small and difficult to penetrate. Customers are located mainly in the United States and for many years have been supplied by well-known and reliable American companies. Specifications of these papers vary from one purchaser to another and their production requires the backup support of consider-

Photo:
The two most important machines — no. 7 and no. 8 — produce several of the Corporation's uncoated paper products, including Repro Plus the most recent addition to the photocopy paper line.


CLARK

able technical expertise. The Mont-Rolland mill, where substantial investments have been made in previous years in manpower, technology, and equipment, manufactures a high-quality product and has introduced new sheets with unique properties.

The results achieved in 1979 point to the Division's ability to further increase its share of this market.

Fine Papers, Limited

This wholly-owned subsidiary is responsible for the Wholesale Distribution activities of the Corporation. Through sales offices and warehouses in Toronto, Montréal, Québec City, Ottawa and Sudbury, Fine Papers, Limited distributes fine papers and related products to the graphic arts industry and to other fine paper consumers.

Their suppliers include your Corporation's Fine Papers Division and other fine paper manufacturers. Operations are carried out under the trade names of Graphic Papers, The Wilson-Munroe Company, and Kruger Fine Paper Wholesale.

Although demand was strong, the market place was nevertheless very competitive.

Your Wholesale Distribution Division thrived in this environment. Not only did sales increase at an above average rate but profit margins improved. The higher level of activity and efficiency, combined with a reduction in expenses and a better management of inventories and accounts receivable, produced an impressive turnaround in the results. This is especially true of the units operating in the province of Québec.

Operations of the Ottawa branch were strengthened by a move to new and better warehousing facilities.

All in all, it was a good year, providing your Corporation with a better return on its investment.

The decision to acquire Canadian fine paper merchants goes back to 1970. Your Corporation, which had been exclusively interested in the manufacturing and marketing of fine paper products, felt that such a course of action would diversify its earnings base while providing an opportunity to consolidate its foothold in certain markets. Today our wholly-owned distributors play an important role in the Ontario and Québec markets.

The various units were consolidated into a division operating as a separate business and profit centre.

The results of this past year and the contribution to the earnings of the Corporation indicate the ever-increasing role of this Division in the growth of your Corporation.

Human Resources and Industrial Relations

The quality and motivation of its Human Resources is a prime concern of your Corporation. It is with leadership and initiative that our organization expects to manage its affairs effectively. Accordingly, the Human Resources planning program referred to in our last annual report was actively pursued.

Particular attention was given to the fringe benefit program throughout the Corporation. Efforts were renewed by management to foster safety in the work environment and to prevent accidents in our fine paper mills.

Several collective agreements were renewed during the year.

The first concerned the hourly-paid employees of our coating mill at Scarborough, Ontario. They had been without a contract since November 30, 1978. A new agreement was signed in the first quarter of the year pursuant to conciliation proceedings. This was followed, early in the second quarter, by an agreement with the office employees of the same mill, but only after a seven-week strike.

Labour contracts with Unions covering hourly, office and salaried employees at the Saint-Jérôme and Mont-Rolland mills were

Photo:
A continuing and sustained program aimed at improving our production and control methods has enabled our mills to improve product quality and lower unit costs in many areas.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also renewed in 1979 and in the first weeks of 1980.

In July, Mr. Adrien Desautels was appointed Vice-President, Finance and Treasurer of the Corporation and Mr. Alphonse St-Jacques was named Vice-President, Special Projects.

Mr. Terry Pitchford, President of Fine Papers, Limited, was appointed Executive Vice-President of the Wholesale Distribution Division and became an officer of the Corporation.

In September, the Board of Directors was increased from 12 to 13 and Mr. Roger Ashby, Executive Vice-President and Chief Operating Officer of the Corporation, was elected to the Board.

In the Wholesale Distribution Division, Mr. André Cantin was appointed General Manager of Kruger Fine Paper Wholesale, Québec City.

It is with deep regret that we record the death of Mr. Jacques Sarrazin, General Manager of The Wilson-Munroe Company, in Montréal. His long experience in the graphic arts industry and his contribution to the affairs of the Wholesale Distribution Division will be missed by all his colleagues.

Dividends

Following the improvement in results, your Directors declared dividends of $0.72 per class "A" and $0.67 per class "B" share during the year. This compares to $0.45 and $0.40 per class "A" and class "B" share respectively in the previous year.

Starting with the payment of $0.1250 per class "A" share and $0.1125 per class "B" share on March 15, the dividends were increased to $0.1500 and $0.1375 for the second quarter and to $0.1800 and $0.1675 per class "A" and class "B" share respectively for the third and fourth quarters. An extra dividend of $0.0850 per class "A" and per class "B" share was also declared payable December 15.

The regular quarterly dividend of $1.0625 on the preferred shares was paid throughout the year.

Total dividend disbursements for 1979 amounted to $1,360,296.

Continuance

Pursuant to the adoption of a Special Resolution at the last Annual and Special General Meeting of Shareholders on April 25, 1979, the Directors applied for a Certificate of Continuance. This procedure was necessary to abide by the provisions of the Canada Business Corporations Act which came into force on December 15, 1975.

The Resolution provided that the name of the Corporation be changed from Rolland Paper Company, Limited — Compagnie de Papier Rolland, Limitée to Rolland inc.

The Articles of continuance were delivered on August 27, 1979, and the new name has been in use as of that date.

Outlook on 1980

The Canadian economy is expected to slow down in 1980. Gross National Product should increase by approximately 1%. Québec and Ontario should be the slowest growing regions, mainly due to a downturn in manufacturing industries. The growth in Net Provincial Product is expected to be approximately 0.2% as against an increase of 3.6% and 1.95% for Québec and Ontario respectively in 1979.

These provinces account for more than 85% of the total Canadian fine paper consumption. It is thus expected that overall Canadian consumption will exhibit little growth in the coming year, with certain end-use markets showing a decline.

Against this background, one can foresee a very competitive environment for the Canadian wholesale distributors as the participants pursue their efforts to increase their share of the available business. Supply will remain a key issue.

The Wholesale Distribution Division is

Photo:
Kruger Fine Paper Wholesale and Graphic Papers are among the units which constitute the Wholesale Distribution Division. Our wholly-owned distributors play an important role in the Ontario and Québec markets.


ROLLAND OFFSET
POUR VOUS FACILITER LA TÂCHE
WE'LL MAKE IT EASIER FOR YOU
Les Papeteries Kruger
Kruger Fine Paper Wholesale
graphic papers
60 coronet rd., toronto, ont. M8Z 2M1
branch
4908

expected to maintain its good performance. Particular attention will be given to developing new end-use markets while maintaining careful controls on inventories and on operating expenses.

The outlook for the Fine Papers Division is somewhat different. The demand should allow our mills producing coated and uncoated papers to operate at capacity, but the outcome for 1980 will depend on the results of our modernization program, on the level of foreign competition and on market pulp prices.

Modernization

The modernization program already referred to will necessitate a shutdown of our largest paper machine for approximately six weeks. Although measures have been taken to supply customers from inventories during this period, the level of annual shipments and of earnings for the full year will be affected.

Foreign Competition

The recently concluded negotiations of the Tokyo Round in Geneva on April 12, 1979 call for an average reduction in tariffs of 48% over the next eight years on most imports of fine papers. At the end of the period, the tariff protection will stand at 6.5% compared with 12.5% in 1979.

As of January 1, 1980, the tariffs applicable on most of the fine paper products entering Canada will stand at 11.75%.

In the course of 1979, the lower value of the Canadian dollar — when compared with the U.S. dollar — constituted an additional protection against foreign imports landed in Canada and generally reduced their competitiveness. Furthermore, the tight supply-demand situation prevailing in the United States market encouraged American manufacturers to supply their U.S.-based customers.

Should this situation change, however, and should the anticipated recession reduce American fine paper consumption, Canadian manufacturers could be faced with larger and more competitive American imports.

Pulp Market

The situation of the international pulp market and, more particularly, the evolution of pulp prices will be one of the main factors in the earnings performance of the Fine Papers Division in 1980.

Market pulp prices have experienced wide fluctuations over the past decade. Furthermore, since pulp is sold in U.S. dollars, the relative values of our Canadian currency increase the effect of its gyrations.

The viability of pulp producers in the end depends on the fortunes of their respective customers. Fluctuating prices disturb their business. Book publishers, magazine owners and advertisers must make firm commitments months ahead of time, based on current prices. Distributors, printers, and converters which are all major paper buyers must submit quotations for jobs which include the price of paper. Pulp price increases repeated quarter after quarter with a few days' notice, cannot be passed on to end-users selling their products on a contract basis.

In 1974-1975, pulp prices skyrocketed and this contributed to a psychology of false scarcity as paper distributors and consumers were faced with increasingly rising paper prices. Consumption dropped abruptly thereafter and it was not until mid-1978 that it reached the same level as in 1974. More price stability is necessary for the welfare of the market pulp producers and also for the continued prosperity of their customers.

Base Papers for Decorative Laminates

Since the anticipated recession is not expected to affect the home-remodelling market, the demand for decorative laminate base papers should be good.

Our ability to remain competitive in the United States, where more than 90% of such papers is consumed, rests, here again, with the lower value of the Canadian dollar. Should the exchange premium on American currency be reduced, our profitability would automatically be affected.

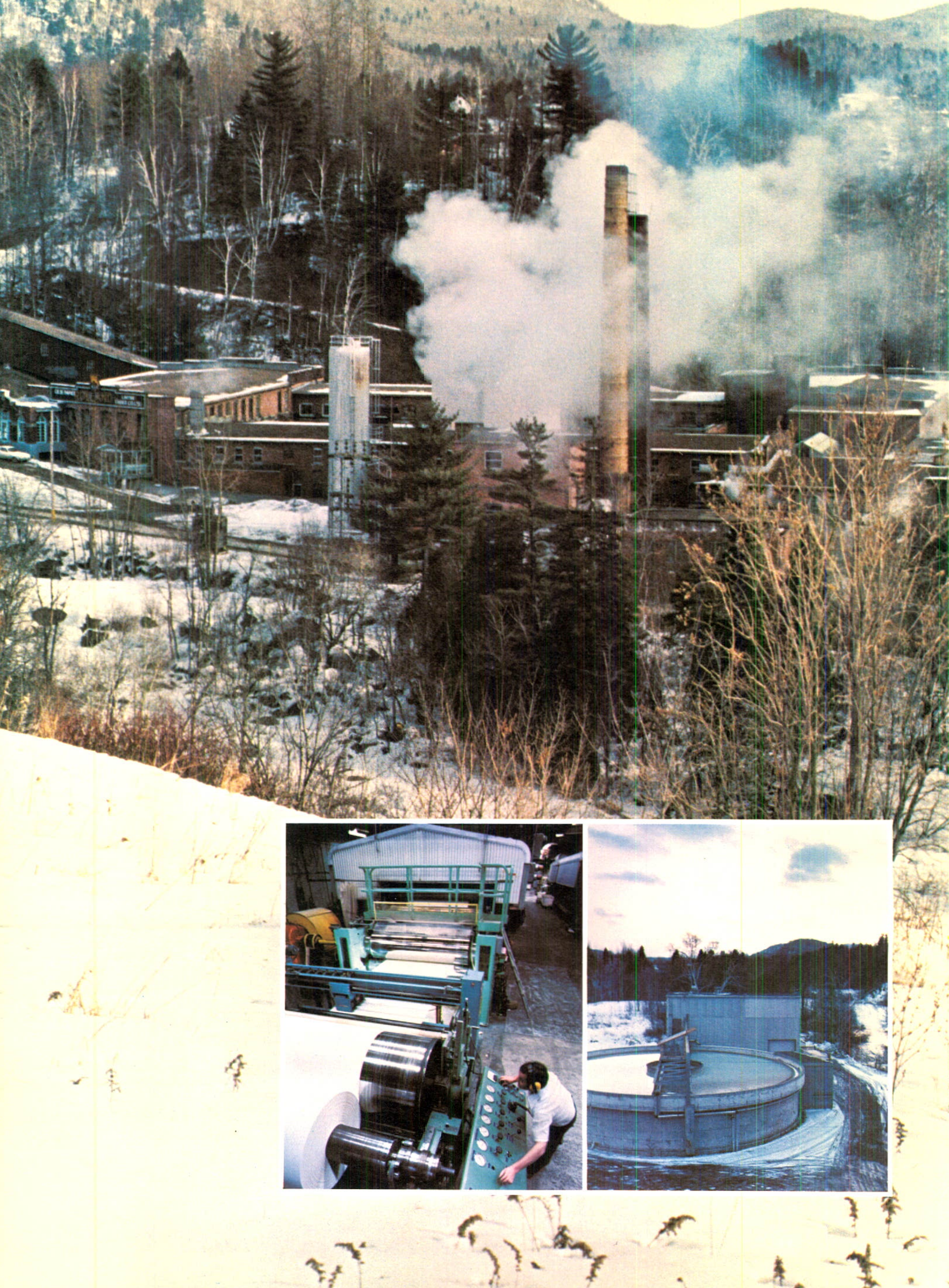
Acknowledgements

This past year was demanding and rewarding for your Corporation. Both Divisions were faced with a highly competitive market-place and a tight supply-demand situation. Through their initiative, commitment, and hard work, our employees met the challenge, providing the organization with the highest earnings in its history. Your Directors wish to thank them. They also wish to express their appreciation to customers, distributors and suppliers whose confidence, support, and close cooperation were instrumental in attaining the year's results.

On behalf of the Board,

Lucien G. Rolland
President and Chief Executive Officer

Montréal, February 20, 1980



Financial Review

Sales and earnings of the Corporation reached record levels in 1979. Earnings before extraordinary items amounted to $6,165,000, an increase of 29.5% over 1978 earnings of $4,759,000 and a significant improvement over the previous record earnings of $5,288,000 in 1974. An extraordinary gain of $413,000 brought net earnings to $6,578,000 in 1979.

Consolidated net sales for the year totalled $160 million, an increase of 23.6% over 1978. Sales volume increased in both Divisions reflecting a higher level of shipments as well as inflationary factors.

The percentage of gross margin on sales declined from the level of 1978 as selling price increases were not sufficient to offset cost increases in the fine papers manufacturing operations. However, consolidated selling, administrative and interest expenses, in total, were maintained roughly at the same level as last year and, as a result, the margin of operating profit before income taxes improved slightly over 1978. Operating profit amounted to $9,274,000 or 5.8% of net sales compared with $7,134,000 or 5.5% of net sales in 1978.

Other income increased to $948,000 from $330,000 in 1978. Income from short-term investments and profit on redemption of debentures account for most of this improvement.

The provision for income taxes of $4,281,000 includes $4,143,000 in current income taxes with the balance of $138,000 added to deferred income taxes. The Corporation's effective tax rate for 1979 was 41.9% compared to 38% last year.

Extraordinary items of $413,000 relate to Orchard Decor Canada Limited, a subsidiary whose operations were discontinued in 1978. The assets of Orchard Decor were distributed and losses for tax purposes were transferred to the Corporation. Income tax reductions amounting to $835,000 were recorded through the utilization of the losses and other fiscal advantages while disposal of the fixed assets resulted in a net loss of $422,000.

Funds generated by operations amounted to $8,941,000 in 1979, or $4.84 per class "A" share, compared with $9,710,000, or $5.26 per class "A" share, in the previous year. This decline is attributable to a much lower proportion of deferred income taxes. They totalled $138,000 in 1979 compared to $2,074,000 in 1978 as capital cost allowance claimed for tax purposes was significantly higher in 1978.

Capital expenditures increased to $2,899,000 from $1,233,000 in 1978. A strengthened financial position has enabled the Corporation to embark on a program to modernize its production facilities and improve its competitive position. For 1980, capital expenditure projects totalling some $11 million are planned including $8.5 million for the modernization of No. 8 paper machine at the Saint-Jérôme mill. A grant offer of $2.1 million under the Canada-Québec Assistance Program for the modernization of the Province's pulp and paper industry has been accepted in relation to this project.

Working capital reached $25,138,000 at December 31, 1979, an increase of $4,987,000 over the previous year-end. The ratio of current assets to current liabilities was 2.5:1 compared to 2.4:1 a year ago. The Corporation maintained good liquidity throughout the year. Current assets included short-term investments of $3,000,000 at the end of 1979. The current rate of inflation is nevertheless placing a heavier demand on corporate funds as cash requirements to finance accounts receivable and inventories increased by $7,419,000 in 1979.

Long-term debt amounted to $14,959,000 at December 31, 1979, a reduction of $1,182,000 from the previous year-end. Redemption and cancellation of debentures for sinking fund purposes amounted to $1,310,000 in 1979. The ratio of long-term

Photo:
The Mont-Rolland mill is the site of our manufacturing facilities for the production of base papers for decorative laminates. Substantial investments have been made in the last few years in manpower, technology and equipment.

debt to shareholders' equity was 34/66 at the end of 1979 as against 41/59 at December 31, 1978.

Capital employed at year-end was $49,593,000. Return on capital employed provided by earnings before extraordinary items plus interest expense after tax was 14.2% in 1979 compared to 12.7% in 1978. Earnings before extraordinary items represented 21.4% of shareholders' equity in 1979 as against 20.2% in the previous year.

Book value per class "A" and "B" shares increased to $14.86 from $12.02 at the end of 1978. The market price for the Corporation's shares on the Canadian stock exchanges during 1979 fluctuated from $11.75 to $8.00 for the class "A" shares and from $11.00 to $8.00 for the class "B" shares.

Photo:
The Wilson-Munroe Company is an integral part of the Wholesale Distribution Division. The latter's excellent results in 1979 point to its ever increasing role in the growth of the Corporation.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Consolidated Statement of Earnings

Year ended December 31

Financial Statements 1979

	1979	1978
	(in thousands of dollars)	
Net sales	$159,998	$129,351
Cost of goods sold	134,102	105,306
Gross profit	25,896	24,045
Selling and administrative expenses	12,934	12,891
Depreciation and amortization	2,038	2,151
Interest on long-term debt	1,557	1,638
Other interest	93	231
	16,622	16,911
Operating profit	9,274	7,134
Other income	948	330
Profit before income taxes	10,222	7,464
Income taxes (Note 2)	4,281	2,835
Earnings from operations	5,941	4,629
Amortization of excess of consideration over value of assets acquired — Net of income taxes	(151)	(151)
Dividend income	375	281
Earnings before extraordinary items	6,165	4,759
Extraordinary items (Note 3)	413	—
Net earnings	$ 6,578	$ 4,759
Earnings per share		
Class "A" shares		
Earnings before extraordinary items	$ 3.33	$ 2.57
Extraordinary items	0.22	—
Net earnings	$ 3.55	$ 2.57
Class "B" shares		
Earnings before extraordinary items	$ 3.28	$ 2.52
Extraordinary items	0.22	—
Net earnings	$ 3.50	$ 2.52

Consolidated Statement of Retained Earnings

Year ended December 31

	1979	1978
	(in thousands of dollars)	
Retained earnings at beginning of year	**$15,009**	$11,113
Net earnings for the year	**6,578**	4,759
	21,587	15,872
Dividends		
Preferred shares	**59**	59
Class "A" shares	**979**	612
Class "B" shares	**322**	192
	1,360	863
Retained earnings at end of year	**$20,227**	$15,009

Consolidated Balance Sheet

At December 31

Assets

	1979	1978
	(in thousands of dollars)	
Current		
Cash and short-term investments	$ 3,919	$ 3,651
Accounts receivable	16,237	13,737
Inventories (Note 4)	21,518	16,599
Prepaid expenses	379	372
	42,053	34,359
Grants receivable (Note 5)	861	1,314
Investment (Note 6)	3,396	3,396
Fixed		
Property, plant and equipment (Note 7)	18,635	19,240
Intangible		
Excess of consideration over value of assets acquired (Note 8)	1,325	1,525
Unamortized debenture issue expense	238	265
	$66,508	$60,099

On behalf of the Board:
Lucien G. Rolland, Director
Joseph A. Weldon, Director

Liabilities

	1979	1978
	(in thousands of dollars)	
Current		
Bank indebtedness	$ 2,734	$ 1,647
Accounts payable and accrued liabilities	11,516	11,813
Income taxes payable	2,635	611
Long-term debt due within one year	30	137
	16,915	14,208
Long-term debt (Note 9)	14,959	16,141
Deferred income taxes	5,845	6,179
Shareholders' Equity		
Capital (Note 10)		
Authorized		
21,995 Preferred shares without nominal or par value issuable in series		
2,400,000 class "A" and 800,000 class "B" shares without nominal or par value		
Issued		
13,995 $4.25 Cumulative redeemable preferred shares	1,399	1,399
1,360,016 class "A" and 480,008 class "B" shares	7,163	7,163
	8,562	8,562
Retained earnings	20,227	15,009
	28,789	23,571
	$66,508	$60,099

Consolidated Statement of Changes in Financial Position

Year ended December 31

		1979	1978
		(in thousands of dollars)	
Source of working capital	Operations		
	Earnings before extraordinary items	$ 6,165	$ 4,759
	Depreciation and amortization	2,238	2,351
	Write-down of construction in progress	400	526
	Deferred income taxes	138	2,074
	Total from operations	8,941	9,710
	Increase in long-term debt	171	—
	Grants receivable	453	103
	Proceeds from disposal of fixed assets, less gain included in earnings	15	54
	Extraordinary items (Note 3)		
	Reduction of income taxes payable	673	—
	Proceeds from disposal of fixed assets	346	—
		10,599	9,867
Application of working capital	Additions to fixed assets	2,899	1,233
	Reduction of long-term debt	1,353	456
	Dividends	1,360	863
		5,612	2,552
Increase in working capital		4,987	7,315
Working capital at beginning of year		20,151	12,836
Working capital at end of year		$25,138	$20,151

Changes in Components of Working Capital

Year ended December 31

		1979	1978
		(in thousands of dollars)	
Increase (decrease) in current assets	Cash and short-term investments	$ 268	$2,551
	Accounts receivable	2,500	1,419
	Inventories	4,919	2,029
	Prepaid expenses	7	(105)
		7,694	5,894
Increase (decrease) in current liabilities	Bank indebtedness	1,087	(4,549)
	Accounts payable and accrued liabilities	(297)	2,648
	Income taxes payable	2,024	611
	Long-term debt due within one year	(107)	(131)
		2,707	(1,421)
Increase in working capital		$4,987	$7,315

Notes to Consolidated Financial Statements

December 31, 1979

1. Summary of significant accounting policies

Principles of consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly-owned subsidiaries, The Wilson-Munroe Company Limited and Fine Papers, Limited. The acquisition of all subsidiary companies is accounted for on a purchase basis and earnings are included in the consolidated financial statements from the date of acquisition of control. All significant inter-company transactions have been eliminated.

Inventories
Inventories of raw materials, operating supplies, repair parts and maintenance materials are carried at the lower of cost, generally first-in, first-out method, and replacement value. The cost of finished paper and paper in process includes raw materials, direct labour and manufacturing overhead expenses; these inventories are carried at the lower of cost, generally first-in, first-out method, and net realizable value. Adequate provision is made for slow-moving and obsolete inventories.

Investment
The investment consisting of 375,000 common shares of Consolidated-Bathurst Inc. is carried at cost less write-down for decline in value.

Property, plant and equipment
These assets are recorded at cost which, in cases of major expansion projects, includes interest during construction. Government grants related to capital expenditures are deducted from the respective 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 on the estimated economic lives of the assets, generally on the straight-line method at the following rates:

Buildings	2½%
Machinery and equipment	5% — 10%
Automotive and computer equipment	20%
Leasehold improvements	term of lease

Amortization of capitalized leased assets has been calculated at the same rate as depreciation on similar assets owned by the Corporation.

Leases
In 1979, the Corporation adopted the method of accounting for leases recommended by The Canadian Institute of Chartered Accountants. Leases which transfer substantially all of the benefits of ownership to the Corporation have been treated as asset acquisitions which are included under Property, plant and equipment. The corresponding debt obligations have been included in Long-term debt. Leases signed prior to 1979 have also been capitalized where applicable. The adoption of this accounting treatment does not have a material impact on these financial statements.

Intangibles
Excess of consideration represents the excess of the purchase price over the value of the net tangible assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited at date of acquisition. The excess is being amortized over a ten-year period.

The debenture issue expense is amortized over the life of the 11¾% Sinking Fund Debentures, Series "B" proportionately to the amount of debentures outstanding each year.

Income taxes
Income taxes are based on accounting income which differs in some respects from taxable income. Differences generally arise because items of income and expense, such as depreciation, are reflected in different time periods for accounting purposes and for tax purposes. Deferred income taxes represent the amount by which taxes on accounting income exceed taxes paid or payable on taxable income. The investment tax credits relating to capital expenditures are accounted for as a reduction of income tax expense in the year realized.

Pension plans
The Corporation and its subsidiaries have contributory, trusteed pension plans. The cost of the current service portion is charged to income as incurred. Any unfunded liability for prior years' services is charged to income as it is funded over a maximum period of 15 years.

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

2. Income taxes

	1979	1978
	(in thousands of dollars)	
Income taxes otherwise payable	**$ 4,603**	$ 1,357
Less:		
Investment tax credits	**249**	420
3% inventory allowance tax reductions	**211**	176
Current income taxes	**4,143**	761
Deferred income taxes	**138**	2,074
	$ 4,281	$ 2,835

3. Extraordinary items

Extraordinary items relate to Orchard Decor Canada Limited, a subsidiary whose operations were discontinued in 1978.

	(in thousands of dollars)
Reduction of income taxes resulting from the: Utilization of accumulated losses, affecting current income taxes	$ 673
Application of other credits, affecting deferred income taxes	162
	835
Loss on disposal of fixed assets, less deferred income tax credits of $310,000	(422)
	$ 413

4. Inventories

	1979	1978
	(in thousands of dollars)	
Raw materials and operating supplies	$ 4,406	$ 3,355
Repair parts and maintenance materials	1,157	1,080
Finished paper and paper in process	15,955	12,164
	$21,518	$16,599

5. Grants receivable

The grants receivable are subject to reduction if the Corporation fails to comply with the terms of the agreements.

6. Investment

The investment consisting of 375,000 common shares of Consolidated-Bathurst Inc. was written down by $2,467,000 in 1977 to recognize a reduction in its economic value to the Corporation.

	1979	1978
	(in thousands of dollars)	
Cost	$ 5,863	$ 5,863
Write-down	2,467	2,467
Book value	$ 3,396	$ 3,396
Market value	$ 5,344	$ 5,344

7. Property, plant and equipment

	Cost	Accumulated Depreciation	Net 1979	Net 1978
			(in thousands of dollars)	
Land	$ 405	$ —	$ 405	$ 439
Buildings	7,941	4,555	3,386	3,869
Leasehold improvements	477	411	66	54
Machinery and equipment	35,831	25,080	10,751	10,856
Construction in progress	3,878	—	3,878	4,022
Capitalized leased assets	245	96	149	—
	$48,777	$30,142	$18,635	$19,240

Construction in progress which relates to the modernization of No. 8 paper machine was suspended on July 1, 1976 and no interest has been capitalized thereon since that date. The cost has been written down by $400,000 and $526,000 in 1979 and 1978 respectively, to reflect physical deterioration since suspension of work.

The Corporation intends to complete the installation of the equipment during 1980 at an estimated cost of $8,500,000. An incentive offer of $2,091,250 by the governments of Canada and Québec has been received and accepted in relation to this project.

8. Excess of consideration

	1979	1978
	(in thousands of dollars)	
Excess arising on the purchase of the assets of the Wholesale Distribution Division of Kruger Pulp and Paper Limited	$2,000	$2,000
Accumulated amortization	675	475
	$1,325	$1,525

9. Long-term debt

		1979	1978
		(in thousands of dollars)	
Sinking fund debentures, Series "A" 5¾% due July 2, 1984	$ 7,500		
Deduct:			
Debentures redeemed and cancelled including $709,000 in anticipation of future sinking fund requirements	3,109	**$ 4,391**	$ 5,089
Sinking fund debentures, Series "B" 11¾% due July 2, 1995	12,000		
Deduct:			
Debentures redeemed and cancelled including $478,000 in anticipation of future sinking fund requirements	1,603	**10,397**	11,009
		14,788	16,098
Obligations, capital leases		**201**	—
Mortgage, 12% due June 15, 1996		**—**	180
		14,989	16,278
Deduct:			
Instalments due within one year included in current liabilities		**30**	137
		$14,959	$16,141

Principal repayments for the next five years

	1980	1981	1982	1983	1984
			(in thousands of dollars)		
5¾% Sinking fund debentures	$ —	$291	$500	$500	$3,100
11¾% Sinking fund debentures	—	172	325	325	325
Obligations, capital leases	30	33	37	40	41
	$30	$496	$862	$865	$3,466

10. Capital

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 10 cents per share per annum before payment of any dividend on class "B" shares. If in any fiscal year dividends at the rate of 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.

11. Long-term leases

The Corporation and its subsidiaries' commitments under lease agreements of various terms for premises and equipment (excluding capital leases) aggregate $3,079,400 at December 31, 1979. The annual rentals in 1980 under these leases will be $772,100.

12. Pension plans

The pension plans of the Corporation and its subsidiaries are fully funded as at December 31, 1979.

13. Remuneration of Directors and Officers

The aggregate remuneration paid to Directors and Officers of the Corporation during the year amounted to $802,200.

14. Comparative figures

Comparative figures have been reclassified to conform with the method of presentation adopted in 1979.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Rolland inc. as at December 31, 1979 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, 1979 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 & Co.
Chartered Accountants

Montréal, Québec
February 20, 1980.

Ten-Year Comparative Statistics

		1979
Sales and Earnings (in thousands of dollars)	Net sales	$159,998
	Depreciation and amortization	2,038
	Interest expense	1,650
	Earnings (loss) before income taxes and minority interest	10,222
	Income taxes	4,281
	Minority shareholders' interest	—
	Earnings (loss) from operations	5,941
	Dividend income	375
	Amortization of goodwill	(151)
	Earnings (loss) before extraordinary items	6,165
	Extraordinary items	413
	Net earnings (loss)	6,578
	Funds provided by operations	8,941
	Percentage of earnings (loss) from operations of net sales	3.7%
	*Percentage of net earnings (loss) to capital employed	14.2%
Distribution of Earnings (in thousands of dollars)	Dividend on preferred shares	$ 59
	Dividend on class "A" and "B" shares	1,301
	Retained in the business (deficiency)	5,218
Per Share**	Per class "A" share	
	Earnings (loss) before extraordinary items	$ 3.33
	Extraordinary items	0.22
	Net earnings (loss)	3.55
	Dividend	0.72
	Funds provided by operations	4.84
	Book value per class "A" and "B" shares	14.86
	Price range for class "A" shares — high	11.75
	— low	8.00
Financial (in thousands of dollars)	Net assets:	
	Working capital	$ 25,138
	Investment in securities	3,396
	Fixed assets, net	18,635
	Other assets	2,424
	Capital employed	49,593
	Financed by:	
	Long-term debt	$ 14,959
	Deferred income taxes	5,845
	Minority shareholders' interest	—
	Preferred shareholders' equity	1,399
	Class "A" and "B" shareholders' equity	27,390
	Total capitalization	49,593
	Ratio of current assets to current liabilities	2.5:1
	Capital expenditures	$ 2,899
Other Statistics	Number of shareholders at end of year	1,621
	Average number of employees	1,400

*Percentage of net earnings (loss) to capital employed = $\frac{\text{Earnings (loss) before extraordinary items + interest after tax}}{\text{Capital employed}}$

**Earnings (loss) before extraordinary items, net earnings, dividend and cash flow per class "B" share are 5 cents less than per class "A" share except in 1970 and in 1977 when the differential is 4 cents and 2½ cents respectively, and in 1971 and 1976 when there is no differential.

1978	1977	1976	1975	1974	1973	1972	1971	1970
$129,351	$108,785	$106,591	$99,763	$83,228	$61,130	$46,437	$41,555	$34,085
2,151	1,760	1,839	1,702	1,522	1,534	1,313	1,292	1,257
1,869	2,184	1,751	932	354	402	436	459	484
7,464	739	(4,160)	(310)	8,855	4,899	2,483	270	(808)
2,835	300	(1,458)	(353)	3,782	2,270	1,094	120	(324)
—	—	(157)	(11)	—	—	—	—	—
4,629	439	(2,545)	54	5,073	2,629	1,389	150	(484)
281	250	250	250	281	—	—	—	62
(151)	(142)	(142)	(122)	(66)	—	—	—	—
4,759	547	(2,437)	182	5,288	2,629	1,389	150	(422)
—	(2,467)	—	—	—	64	—	—	—
4,759	(1,920)	(2,437)	182	5,288	2,693	1,389	150	(422)
9,710	3,183	(1,979)	3,044	7,259	4,239	2,555	1,089	586
3.6%	0.4%	(2.4%)	0.1%	6.1%	4.3%	3.0%	0.4%	(1.4%)
12.7%	4.4%	(3.4%)	1.5%	15.3%	9.1%	5.4%	1.3%	(0.6%)
$ 59	$ 59	$ 59	$ 59	$ 59	$ 59	$ 60	$ 60	$ 60
804	34	—	1,080	1,099	620	160	—	534
3,896	(2,013)	(2,496)	(957)	4,130	2,014	1,169	90	(1,016)
$ 2.57	$ 0.27	$ (1.36)	$ 0.08	$ 2.85	$ 1.41	$ 0.73	$ 0.05	$ (0.25)
—	(1.34)	—	—	—	0.03	—	—	—
2.57	(1.07)	(1.36)	0.08	2.85	1.44	0.73	0.05	(0.25)
0.45	0.02½	—	0.60	0.61	0.35	0.10	—	0.30
5.26	1.70	(1.11)	1.64	3.93	2.28	1.37	0.56	0.30
12.02	9.90	11.00	12.35	12.87	10.63	9.53	8.90	8.85
9.75	5.38	7.88	8.25	10.00	10.75	7.88	4.50	7.00
4.50	3.55	3.60	5.25	7.00	6.75	3.10	2.30	3.65
$ 20,151	$ 12,836	$ 11,050	$17,297	$14,445	$11,443	$ 9,649	$ 8,385	$ 7,751
3,396	3,396	5,863	5,863	5,863	5,863	5,863	5,863	5,863
19,240	20,697	22,070	19,993	15,434	13,874	14,008	14,758	15,780
3,104	3,448	3,808	3,863	199	265	589	589	589
45,891	40,377	42,791	47,016	35,941	31,445	30,109	29,595	29,983
$ 16,141	$ 16,597	$ 17,308	$17,490	$ 6,645	$6,662	$7,393	$ 7,901	$ 8,025
6,179	4,105	3,795	5,185	4,155	3,772	3,696	3,842	4,196
—	—	—	157	—	—	—	—	—
1,399	1,399	1,399	1,399	1,399	1,399	1,422	1,422	1,422
22,172	18,276	20,289	22,785	23,742	19,612	17,598	16,430	16,340
45,891	40,377	42,791	47,016	35,941	31,445	30,109	29,595	29,983
2.4:1	1.7:1	1.7:1	2.1:1	2.8:1	2.7:1	2.9:1	3.1:1	2.3:1
$ 1,233	$ 783	$ 4,099	$ 7,720	$ 3,300	$ 1,550	$ 636	$ 297	$ 694
1,689	1,760	1,862	1,933	1,991	2,066	2,256	2,320	2,377
1,387	1,383	1,497	1,454	1,404	1,410	1,294	1,285	1,289

Note:

Results of Fine Papers, Limited are included from January 1, 1970, results of The Wilson-Munroe Company Limited from January 1, 1971, and results of Kruger Fine Paper Wholesale from April 1, 1975.

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