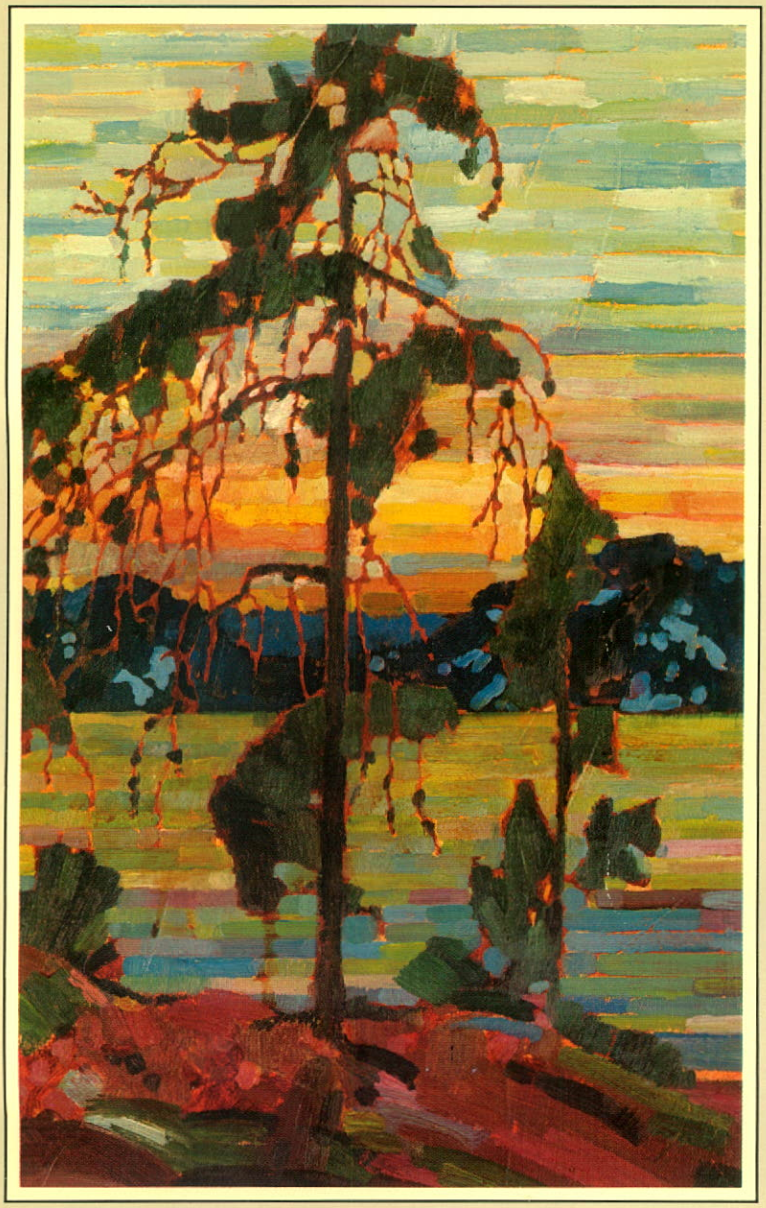
Rolland inc.

ANNUAL REPORT 1981



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1882-1982

Rolland inc.
Highlights
54th ANNUAL REPORT

	1981	1980
Net Sales	**$177,752,000**	$166,978,000
Earnings		
Earnings (loss) before extraordinary item	**(142,000)**	2,620,000
Extraordinary item	—	3,311,000
Net earnings (loss)	**(142,000)**	5,931,000
Earnings per share		
Class "A"		
Earnings (loss) before extraordinary item	**(0.10)**	1.40
Extraordinary item	—	1.80
Net earnings (loss)	**(0.10)**	3.20
Class "B"		
Earnings (loss) before extraordinary item	**(0.15)**	1.35
Extraordinary item	—	1.80
Net earnings (loss)	**(0.15)**	3.15
Dividends on class "A" and "B" shares	**1,301,000**	1,301,000
Per class "A" share	**0.72**	0.72
Per class "B" share	**0.67**	0.67
Funds provided by operations	**2,273,000**	5,809,000
Per class "A" share	**1.22**	3.14
Per class "B" share	**1.17**	3.09
Book value per class "A" and "B" shares	**16.52**	17.34
Working capital	**24,525,000**	28,563,000
Long-term debt	**13,595,000**	15,048,000
Capital expenditures	**4,386,000**	10,474,000

Rolland inc.

DIRECTORS

****Douglas A. Berlis, Q.C.**
A Senior Partner in the law firm
Aird & Berlis, Barristers and
Solicitors — Toronto

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

****Paul Chapdelaine**
A Company Director
Sainte-Adèle

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

***E. Jacques Courtois, Q.C.**
A Senior Partner in the law firm
Stikeman, Elliott, Tamaki,
Mercier & Robb
Barristers and Solicitors
Montréal

Richard A. Irwin
A Company Director
London, Ontario

***Gérard Plourde, O.C.**
Chairman of the Board, UAP 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
Piedmont

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

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

OFFICERS

Lucien G. Rolland
President and Chief Executive Officer

Joseph A. Weldon
Vice-President and Financial Consultant

Albert Rolland
Vice-President and Marketing Consultant

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

Terry L. Pitchford
Executive Vice-President, Distribution Division

Alphonse St-Jacques
Vice-President, Special Projects

Marc Léonard
Secretary

Luc O. Désy
Assistant Secretary and Legal Counsel

Guy Duplessis
Assistant Treasurer

The Annual General Meeting of Shareholders of Rolland inc. will be held in the Salon Cartier of the Hyatt Regency Hotel in Montréal, on Monday, May 3, 1982 at 2:30 p.m. The Shareholders of Rolland inc. are invited to attend.

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

Directors' Report to Shareholders

SALES AND EARNINGS

Your Corporation reports a net loss of $142,000 for 1981 compared to earnings before extraordinary item of $2,620,000 and net earnings of $5,931,000 in the previous year. The year 1981 was a most difficult one. An unexpectedly high number of serious operating problems following the modernization and speed-up of No. 8 paper machine, a fifteen-day strike at the Saint-Jérôme mill and a sharp drop in demand during the last quarter all combined to reduce sales and affect adversely the results of the Fine Papers Division. The Distribution Division improved sales satisfactorily but experienced difficult supply conditions throughout the first half of the year which, added to a very competitive market environment, resulted in a decline in profit margins.

Net sales for the year amounted to $177.8 million, an increase of 6.5% over 1980. The net loss was equivalent to 10¢ per class "A" share and 15¢ per class "B" share, compared with earnings before extraordinary item of $1.40 per class "A" share and $1.35 per class "B" share and net earnings of $3.20 per class "A" share and $3.15 per class "B" share in 1980.

DIVIDENDS

Your Directors maintained dividends at $0.72 per class "A" share and $0.67 per class "B" share and the regular dividend of $4.25 on preferred shares was also maintained throughout 1981. Total dividend disbursements amounted to $1,360,000.

However, early in 1982, after the fourth quarter results and in order to preserve the Corporation's cash position during a period of difficult business conditions, it was decided to reduce the level of quarterly dividends to a rate of 2½¢ per class "A" share, and 1¼¢ per class "B" share.

ECONOMIC AND MARKET CONDITIONS

After a relatively poor performance last year, the Canadian economy showed some improvement in 1981 as Real Gross National Product increased by 3% over the previous year. However, the pattern of growth was very uneven. Following a strong first half, the economy underwent an abrupt change and its severity has been striking: the business downturn has turned into a steep recession. Interest rates moved frequently during the year with the prime rate ranging from 22.75% to 17.25% while the rate of inflation, as measured by the G.N.P. deflator, was about 10%, a slight decrease from the 10.6% rate experienced in 1980.

The Canadian fine paper market as a whole followed the general trend of the economy and registered an increase of approximately 4% in consumption despite a sharp drop in demand during the fourth quarter; however, growth was minimal in markets of prime interest to Rolland. Tight supply conditions persisted through the first half of the year as a result of a prolonged strike affecting a significant part of the industry's capacity. Imports filled the gap and accounted for an increased portion of total consumption in the early part of the year. For the year as a whole, they represented 25% of consumption compared to 18% in 1980. Market conditions changed quickly from a tight supply of Canadian grades during the first half to one of abundance during the second half of the year. A sharp weakening in the demand then resulted in some downtime for a number of Canadian fine paper mills during the last quarter. Domestic shipments by Canadian fine paper manufacturers declined by 5% as a result of strikes and operating difficulties. The industry operated at 77% of capacity.

The American fine paper market was one of the last to weaken in the downturn and the mid-1981 price increase for uncoated white papers has now been rescinded. In total, the U.S. fine paper industry recorded an increase of 1% in shipments compared to 1980 largely as a result of a strong market in coated papers. In this environment, competition from American mills became a significant factor in the Canadian market and also made it more difficult for Canadian mills to export to the United States.

Fine paper distributors operated in a difficult business environment. In the early part of the year, they faced a tight supply situation followed later on by a softening in demand. This resulted in increased competition in the market-place, higher operating costs and profit margins below historical levels.

FINE PAPERS DIVISION

This Division is involved in the production and marketing of high-quality coated and uncoated fine papers covering the range from all-rag to sulphite grades. Users of its products include commercial printers, office equipment manufacturers, corporations, governments, quick-printing copy centres, business forms processors, envelope manufacturers and organizations specializing in the production of lottery tickets, security and currency papers.

It operates paper mills in Saint-Jérôme and Mont-Rolland, Québec, while coating facilities are located in Scarborough, Ontario. The Mont-Rolland mill also produces base papers for decorative laminates used in wall coverings, furniture and kitchen counters.

The Fine Papers Division experienced serious operating problems following the modernization of No. 8 paper machine which resulted in a decline in sales tonnage and a loss from operations.

The modernization of No. 8 paper machine was undertaken in November 1980 and the start-up took place in January 1981. The project involved speeding up the machine from 1,250 to 2,000 feet per minute. Extensive modifications were made including the installation of a new head-box, a pick-up felt, a new tri-nip press and additional dryers. Gradual progress was made during the year in de-bugging the new equipment. This, however, involved numerous shut-downs in order to effect the necessary changes and modifications to the equipment. A loss of capacity ensued and production costs were excessively high throughout the period under review.

In addition to the above factors, a fifteen-day strike at our Saint-Jérôme mill during the third quarter had a further adverse effect on the year's results. The strike coincided with a considerable weakening in the demand which lasted until year end and still prevails as of this date. Machine downtime became inevitable in December and caused additional deterioration of earnings.

Problems experienced in manufacturing operations disrupted our marketing efforts both in uncoated and coated papers. Your Corporation nevertheless retains a strong base in these markets and with the operating problems well on the way towards final solution, it is expected that the growth pattern of recent years in business and printing papers will resume.

Previous years' investments in research and equipment for the production and marketing of base papers for decorative laminates brought encouraging results during 1981 and this product group showed a profit for the first time despite less than buoyant market conditions. Sales tonnage increased by almost 50% reflecting the success of the product development program. Operations showed continued improvement as the level of expertise and experience in these very specialized products reached a higher degree of maturity.

The difficulties experienced by the Fine Papers Division led to a curtailment of the capital investment program of the Division. The bulk of the expenditures, or an amount of $2.2 million, was spent on the completion of the modernization of No. 8 paper machine. Other projects included a new refiner for No. 7 paper machine and electronic instrumentation for steam generators at the Saint-Jérôme mill.

During 1981, your Corporation announced that it had received offers of grants totalling $5.7 million from the Canada and Québec governments for the completion of the second phase of the modernization program at the Saint-Jérôme and Mont-Rolland mills. This second phase includes the modernization of paper machines and finishing facilities, energy conservation programs and environmental projects which could involve investments of approximately $37.0 million. Difficulties encountered with the modernization of No. 8 paper machine have delayed detailed plans for the second phase but the program will be reassessed during 1982 in the light of the evolution on the economic scene.

DISTRIBUTION DIVISION

The Division is responsible for the distribution activities of the Corporation through sales offices and warehouses in Toronto, Montréal, Québec City, Ottawa and Sudbury. It distributes fine papers and related products to the graphic arts industry and other fine paper consumers.

Suppliers include your Corporation's Fine Papers Division and other fine paper manufacturers in Canada, the United States and Europe. Operations are carried out under the trade names of Graphic Papers, The Wilson-Munroe Company and Les Papiers Graphiques.

Considerable effort was devoted during 1981 to streamline the Québec operations and to improve our position in the market-place. During the first quarter, construction of a new distribution centre for the Montréal unit of Les Papeteries Kruger was completed. Built in Ville d'Anjou, in the north-east area of the Island of Montréal at a total cost of $1.9 million, the new facilities provide more than 52,000 square feet of modern warehouse and office premises. Occupancy took place in late March 1981 and concurrently Les Papeteries Kruger changed its name to Les Papiers Graphiques. Similar name changes were effected later in the year for Kruger units in Québec City and Ottawa which became Les Papiers Graphiques and Graphic Papers respectively. In order to further strengthen the organization in Montréal, the Division proceeded with the amalgamation of its two Montréal distributors, La Cie Wilson-Munroe and Les Papiers Graphiques, during the fourth quarter. The new organization operating under the name of Les Papiers Graphiques has combined modern and efficient facilities, sophisticated marketing expertise, excellent suppliers and all the human resources necessary to improve its service and commitment to its customers.

Results of the Distribution Division for 1981 showed a decline from the previous year, but are nevertheless satisfactory. Sales activity remained strong throughout most of the year and an increase in market share was recorded both in Ontario and Québec. However, the tight supply situation which existed in the first half of the year as well as very competitive markets throughout the year increased operating costs and reduced profit margins.

The increase in sales volume and market share reflects the strengthening of the marketing organization undertaken last year. Further progress in this direction was made during 1981. Market segmentation, rationalization of products, expansion of sales territories and the amalgamation of the two Montréal distributors are among the measures taken in this regard. The Distribution Division now possesses a strong organization and will occupy an increasingly important place in the Canadian fine paper distribution market in the coming years.

HUMAN RESOURCES AND INDUSTRIAL RELATIONS

All labour agreements came up for renewal between November 1980 and April 30, 1981. Early in the year, a three-year agreement was signed with the warehouse employees of Les Papiers Graphiques, Montréal. Intensive negotiations were held during the second quarter with the Canadian Paperworkers Union representing unionized employees in Saint-Jérôme (Locals 14, 170 and 201), in Mont-Rolland (Local 454) and in Scarborough (Locals 310 and 1284). These negotiations resulted in settlements extending to April 30, 1984 in Mont-Rolland, in Scarborough and with Locals 170 and 201 in Saint-Jérôme. However, finishing and maintenance employees (Local 14) rejected our offer for a similar settlement and went on strike for a fifteen-day period from July 22 to August 6, thus paralyzing the operations of our Saint-Jérôme mill for that period. Agreements for a three-year period were subsequently reached with Local 14 and with office employees of the Saint-Jérôme and Mont-Rolland mills.

Settlement of labour contracts extending into 1984 is obviously a positive development. We are nevertheless concerned at the trend in wage settlements in the Canadian fine paper industry compared to settlements by American fine paper manufacturers. The advantage afforded by a lower Canadian dollar has been completely eroded by higher wage rates and lower productivity in Canada. With the decrease in tariffs scheduled over the next few years, Canadian manufacturers will find themselves in an increasingly difficult competitive situation vis-à-vis American producers unless wage settlements are brought under better control and productivity improvements are achieved in order to match labour costs in American fine paper mills.

During the course of the year, Mr. Jean A. Elie, Vice-President, Planning, Secretary and Legal Counsel, resigned from the Corporation. Mr. Marc Léonard, a partner in an important law firm in Montréal, was appointed Secretary of the Corporation and Mr. Luc O. Désy, Assistant Secretary and Legal Counsel. Mr. Guy Duplessis was appointed Assistant Treasurer.

In the Fine Papers Division, Mr. Michael A. Catalfamo became Marketing Manager in April. In January 1982, Mr. Rolland Lambert retired after faithfully serving the organization for 30 years and Mr. Yvan Duchesne was appointed to replace him as Director of Operations for the Saint-Jérôme and Mont-Rolland mills.

In the Distribution Division, Mr. Nigel Raincock was appointed General Manager, The Wilson-Munroe Company in Toronto, succeeding Mr. Russ Turnbull who was appointed to the newly created position of Marketing Manager for the Division.

BOARD OF DIRECTORS

In April, Mr. E. Jacques Courtois was appointed to the Executive Committee following its expansion from five to six members. Mr. Courtois' broad business experience will be a valuable addition to the Committee. Mr. Douglas A. Berlis was appointed to the Audit Committee replacing Mr. Joseph A. Weldon.

A member of the Board of Directors since 1936 and an officer of the Corporation since 1949, Mr. Weldon has indicated his intention to retire as a director and officer, effective at the next Annual General Meeting of Shareholders. During his long association with Rolland, he has been a member of the Executive Committee and the Audit Committee and his advice, sound judgment and good business sense have greatly contributed to the Corporation's growth and success. His outstanding contribution will be long remembered and certainly missed by his colleagues.

To replace Mr. Weldon on the Board of Directors, management intends to nominate Mr. Roger Lachapelle at the Annual General Meeting of Shareholders. Mr. Lachapelle is President and Chief Executive Officer of Corby Distilleries Limited as well as a director of other Canadian corporations.

OUTLOOK ON 1982

The outlook is for another difficult year in 1982. Both the Canadian and U.S. economies are in a recession and no easy or early upturn is in sight. No growth is anticipated for the Canadian economy as a whole. Interest rates, although high by historical levels, appear to have almost bottomed out and could head upwards again during the second half of the year. Inflation is expected to decrease slightly but will remain high.

In such an environment, little or no growth is forecast for Canadian fine paper consumption. Canadian mills should operate at approximately 90% of capacity. Imports should decrease somewhat following the expected higher level of available capacity.

Your Corporation will mark the one hundredth anniversary of its foundation in 1982. Rolland's success over the years has been built on a tradition of quality of products and excellence of service. Against the economic and industrial background described above, we intend not to deviate but to pursue and strengthen our commitment to quality. In order to improve results and respond successfully to the challenges of our second century, aggressive marketing policies, improvements in productivity and judicious capital investments will continue to make meaningful contributions.

The performance of the Fine Papers Division is expected to improve. Better market penetration and improved operating efficiency should provide the basis for a significant turnaround.

With respect to base papers for decorative laminates, market conditions which relate closely to the construction industry will remain soft at least through the first half of the year. A slight improvement in earnings is nevertheless anticipated as we will benefit from the product development efforts of recent years.

Market conditions in the fine paper distribution industry are expected to remain very competitive. In such a context, the Distribution Division should benefit from its strong marketing and sales organization.

In summary, while 1982 is not expected to be an easy year and despite the unfavourable economic conditions facing the industry, your Corporation should come out of the difficulties experienced in 1981 stronger and healthier. We have come through such difficulties many times in the past and we are certainly well positioned to do it again this time.

ACKNOWLEDGMENTS

Your Directors wish to thank all employees for their efforts and dedication during what has been a most challenging year. They also wish to express their appreciation to customers and suppliers for their understanding, support and cooperation.

As the Corporation moves confidently forward into its second century, your Directors reaffirm the Corporation's commitment to its tradition of excellence, its dedication to traditional ethical standards and its will to participate in the promises of the future of our great Canadian Nation.

On behalf of the Board,

Lucien G. Rolland

Lucien G. Rolland
President and Chief Executive Officer

Montréal, February 24, 1982

Financial Statements 1981

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Financial Review

Net sales for the year reached $177.8 million, an increase of 6.5% over 1980. However, the level of shipments declined in the Fine Papers Division reflecting the operating difficulties experienced following the modernization of No. 8 paper machine, a fifteen-day strike at the Saint-Jérôme mill and a sharp drop in demand during the last quarter. The Distribution Division, on the other hand, recorded a satisfactory increase in sales volume.

Results in 1981 yielded a net loss of $142,000 compared to earnings before extraordinary item of $2,620,000 in 1980. An extraordinary gain of $3,311,000 had brought 1980 net earnings to $5,931,000. The negative factors mentioned previously resulted in a loss of production capacity and excessive operating costs in the Fine Papers Division. Tight supply conditions during the first half of the year and competitive market conditions also put downward pressure on profit margins in the Distribution Division.

Total selling and administrative expenses increased by 20.2% and interest expense by 62.1% to $2,318,000 reflecting the higher level of short-term borrowings as a result of the low level of cash flow from operations. The Corporation sustained a loss from operations of $1,431,000 compared to an operating profit of $3,322,000 for the previous year.

The negative results for 1981 resulted in a recovery of income taxes in the amount of $681,000 of which $259,000 relate to current income taxes and the balance of $422,000 to deferred taxes.

Working capital decreased by $4,038,000 during the year and stood at $24,525,000 at December 31, 1981. The ratio of current assets to current liabilities declined to 2.2:1 from 2.9:1 at the end of the previous year. Non-cash components of working capital required additional funds of $4,927,000 at year end reflecting primarily an increase in accounts receivable and inventories and a decrease in the level of payables. In total, the Corporation's net cash position deteriorated by $8,965,000 during 1981. Funds generated by operations decreased sharply to $2,273,000, or $1.22 per class "A" share, compared to $5,809,000, or $3.14 per class "A" share, in 1980.

Outlays for capital expenditures amounted to $4,386,000 in 1981 compared to $10,474,000 in 1980. Completion of the modernization of No. 8 paper machine and of a new distribution centre for Les Papiers Graphiques in Montréal required investments of $2.2 million and $700,000 respectively. Government grants of $500,000 in 1981 and $1,959,000 in 1980 were recorded as a reduction of fixed assets.

Long-term debt decreased by $1,453,000 and amounted to $13,595,000 at December 31, 1981. Redemption and cancellation of debentures for sinking fund purposes amounted to $1,063,000 during the year. The ratio of long-term debt to shareholders' equity stood at 30/70 at the end of 1981 compared to 31/69 at December 31, 1980.

Capital employed and shareholders' equity both decreased during 1981 and stood at $51,848,000 and $31,858,000 respectively at the end of the year. Book value per class "A" and "B" shares was $16.52 down from $17.34 at the end of 1980. The market price for the Corporation's shares on the Canadian stock exchanges fluctuated from $10.88 to $5.50 for class "A" shares and from $9.63 to $6.00 for class "B" shares.

Statement of Earnings

YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(in thousands of dollars)	
Net sales	**$177,752**	$166,978
Cost of goods sold	**158,463**	146,726
Gross profit	**19,289**	20,252
Selling and administrative expenses	**16,570**	13,790
Depreciation and amortization	**3,013**	2,454
Interest (Note 2)	**2,318**	1,430
Other income	**(1,181)**	(744)
	20,720	16,930
Operating profit (loss)	**(1,431)**	3,322
Investment income	**608**	590
Earnings (loss) before income taxes and extraordinary item	**(823)**	3,912
Income taxes (Note 3)	**(681)**	1,292
Earnings (loss) before extraordinary item	**(142)**	2,620
Extraordinary item	**—**	3,311
Net earnings (loss)	**($ 142)**	$ 5,931
Earnings (loss) per share		
Class "A" shares		
Before extraordinary item	**($0.10)**	$1.40
After extraordinary item	**(0.10)**	3.20
Class "B" shares		
Before extraordinary item	**(0.15)**	1.35
After extraordinary item	**(0.15)**	3.15

Statement of Retained Earnings

YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(in thousands of dollars)	
Retained earnings at beginning of year	**$ 24,798**	$ 20,227
Net earnings (loss) for the year	**(142)**	5,931
	24,656	26,158
Dividends		
Preferred shares	**59**	59
Class "A" shares	**979**	979
Class "B" shares	**322**	322
	1,360	1,360
Retained earnings at end of year	**$ 23,296**	$ 24,798

Balance Sheet

AT DECEMBER 31, 1981

	1981	1980
	(in thousands of dollars)	
ASSETS		
Current assets		
Cash and short-term investments	**$ 3,613**	$ 5,025
Accounts receivable	**18,914**	17,240
Grants receivable (Note 4)	**1,069**	2,233
Inventories (Note 5)	**20,860**	18,862
Prepaid expenses	**264**	300
	44,720	43,660
Grants receivable (Note 4)	**234**	416
Fixed assets (Note 6)	**25,972**	24,907
Intangible assets		
Excess of consideration over value of assets acquired (Note 7)	**925**	1,125
Unamortized debenture issue expense	**192**	214
	$ 72,043	$ 70,322

On behalf of the Board:

Lucien G. Rolland, Director

Lucien G. Rolland

Roger H. Charbonneau, Director

Roger Charbonneau

	1981	1980
	(in thousands of dollars)	
LIABILITIES		
Current liabilities		
Bank indebtedness	**$ 8,372**	$ 819
Accounts payable and accrued liabilities	**11,439**	14,121
Income taxes payable	**—**	30
Long-term debt due within one year	**384**	127
	20,195	15,097
Long-term debt (Note 8)	**13,595**	15,048
Deferred income taxes	**6,395**	6,817
SHAREHOLDERS' EQUITY		
Capital stock (Note 9)	**8,562**	8,562
Retained earnings	**23,296**	24,798
	31,858	33,360
	$ 72,043	$ 70,322

Statement of Changes in Financial Position

YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(in thousands of dollars)	
Source of working capital		
Operations		
Earnings (loss) before extraordinary item	($ 142)	$ 2,620
Items not affecting working capital		
Depreciation and amortization	3,013	2,454
Deferred income taxes	(422)	741
Gain on disposal of fixed assets	(176)	(6)
	2,273	5,809
Increase in long-term debt	26	823
Grants receivable	182	445
Proceeds from disposal of fixed assets	206	19
Proceeds from disposal of investment	—	6,938
	2,687	14,034
Application of working capital		
Additions to fixed assets	3,886	8,515
Reduction of long-term debt	1,479	734
Dividends	1,360	1,360
	6,725	10,609
Increase (decrease) in working capital	(4,038)	3,425
Working capital at beginning of year	28,563	25,138
Working capital at end of year	$ 24,525	$ 28,563

Changes in Components of Working Capital

YEAR ENDED DECEMBER 31, 1981

	1981	1980
	(in thousands of dollars)	
Changes in non-cash components of working capital		
Accounts receivable	**$ 1,674**	$ 1,136
Grants receivable	**(1,164)**	2,100
Inventories	**1,998**	(2,656)
Prepaid expenses	**(36)**	(79)
Accounts payable and accrued liabilities	**2,682**	(2,605)
Income taxes payable	**30**	2,605
Long-term debt due within one year	**(257)**	(97)
Increase in non-cash components of working capital	**4,927**	404
Increase (decrease) in cash and short-term investments	**(1,412)**	1,106
(Increase) decrease in bank indebtedness	**(7,553)**	1,915
Increase (decrease) in working capital	**($ 4,038)**	$ 3,425

Notes to Financial Statements

DECEMBER 31, 1981

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Inventories of finished paper and paper in process 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.

Fixed assets and depreciation

Fixed assets are recorded at cost which, in cases of major projects, includes interest during construction. Government grants related to capital expenditures are deducted from 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 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.

Intangibles

Excess of consideration over value of assets acquired 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 at the end of 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 has 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 dividends paid on preferred shares and the differential in the dividends paid during the year on class "A" and class "B" shares.

2. INTEREST

	1981	1980
	(in thousands of dollars)	
Interest on long-term debt	**$1,465**	$1,514
Other interest	**900**	173
	2,365	1,687
Less interest capitalized	**47**	257
	$2,318	$1,430

3. INCOME TAXES

	1981	1980
	(in thousands of dollars)	
Current income taxes	**($259)**	$551
Deferred income taxes	**(422)**	741
	($681)	$1,292

4. GRANTS RECEIVABLE

During the year, additional government grants totalling $500,000 were obtained and deducted from the respective fixed assets. To date, the Corporation has adhered to the terms of all agreements relating to grants obtained.

5. INVENTORIES

	1981	1980
	(in thousands of dollars)	
Raw materials and operating supplies	**$ 5,186**	$ 4,433
Repair parts and maintenance materials	**1,597**	1,454
Finished paper and paper in process	**14,077**	12,975
	$20,860	$18,862

6. FIXED ASSETS

	1981			1980
	Cost	Accumulated depreciation	Net	Net
	(in thousands of dollars)			
Land	$ 751	$ —	$ 751	$ 751
Buildings	10,641	5,053	5,588	3,935
Leasehold improvements	582	452	130	48
Machinery and equipment	47,376	28,246	19,130	18,761
Construction in progress	—	—	—	832
Capitalized leased assets	861	488	373	580
	$60,211	$34,239	$25,972	$24,907

7. EXCESS OF CONSIDERATION OVER VALUE OF ASSETS ACQUIRED

	1981	1980
	(in thousands of dollars)	
Excess at time of acquisition	$ 2,000	$ 2,000
Accumulated amortization	1,075	875
	$ 925	$ 1,125

8. LONG-TERM DEBT

		1981	1980
		(in thousands of dollars)	
Sinking fund debentures, Series "A" 5¾% due July 2, 1984	**$ 7,500**		
Deduct debentures redeemed and cancelled including $831,000 in anticipation of future sinking fund requirements	**4,231**		
		$ 3,269	$ 4,097
Sinking fund debentures, Series "B" 11¾% due July 2, 1995	**12,000**		
Deduct debentures redeemed and cancelled including $297,000 in anticipation of future sinking fund requirements	**2,072**		
		9,928	10,163
		13,197	14,260
Mortgage, 10%, due September 8, 1982		**210**	210
Obligations, capital leases		**572**	705
		13,979	15,175
Deduct instalments due within one year included in current liabilities		**384**	127
		$13,595	$15,048

Principal repayments for the next five years

	1982	1983	1984	1985	1986
			(in thousands of dollars)		
5¾% Sinking fund debentures	$ —	$ 169	$3,100	$ —	$ —
11¾% Sinking fund debentures	28	325	325	650	650
Mortgage, 10%	210	—	—	—	—
Obligations, capital leases	146	164	182	114	—
	$ 384	$ 658	$3,607	$ 764	$ 650

9. CAPITAL STOCK

	1981	1980
	(in thousands of dollars)	
Authorized		
21,995 Preferred shares without nominal or par value issuable in series		
2,400,000 class "A" shares without nominal or par value		
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

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.

10. COMMITMENTS

The Corporation's commitments under lease agreements of various terms for premises and equipment (excluding capital leases) aggregate $3,327,000 at December 31, 1981. The annual rentals in 1982 under these leases will be $1,227,000.

11. REMUNERATION OF DIRECTORS AND OFFICERS

The aggregate remuneration earned by the directors and officers of the Corporation during the year amounted to $692,000.

12. COMPARATIVE FIGURES

Comparative figures have been reclassified to conform with the method of presentation adopted in 1981.

AUDITORS' REPORT
to the Shareholders

We have examined the balance sheet of Rolland inc. as at December 31, 1981 and the 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 financial statements present fairly the financial position of the Corporation as at December 31, 1981 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 24, 1982

Ten-Year Comparative Statistics

Earnings (in thousands of dollars)	Net sales
	Depreciation and amortization
	Interest expense
	Earnings (loss) from operations
	Investment income
	Income taxes
	Earnings (loss) before extraordinary items
	Extraordinary items
	Net earnings (loss)
	Percentage of earnings (loss) from operations to net sales
	*Return on capital employed
Distribution of earnings (in thousands of dollars)	Dividend on preferred shares
	Dividend on class "A" and "B" shares
	Retained in the business (deficiency)
Financial position (in thousands of dollars)	Capital employed:
	Working capital
	Investment in securities
	Fixed assets, net
	Other assets
	Financed by:
	Long-term debt
	Deferred income taxes
	Minority shareholders' interest
	Preferred shareholders' equity
	Class "A" and "B" shareholders' equity
	Total capitalization
	Ratio of current assets to current liabilities
	Ratio of long-term debt to shareholders' equity
	Funds provided by operations
	Capital expenditures
Statistics	**Per share:
	Per class "A" share
	Earnings (loss) before extraordinary items
	Extraordinary items
	Net earnings (loss)
	Dividend
	Funds provided by operations
	Book value per class "A" and "B" shares
	Price range for class "A" shares — high
	— low
	Other:
	Number of shareholders at end of year
	Average number of employees

1981	1980	1979	1978	1977	1976	1975
$177,752	$166,978	$159,998	$129,351	$108,785	$106,591	$ 99,763
3,013	2,454	2,238	2,351	1,926	2,005	1,844
2,318	1,430	1,650	1,869	2,184	1,751	932
(1,431)	3,322	9,611	7,086	400	(4,435)	(785)
608	590	786	459	423	516	594
(681)	1,292	4,232	2,786	276	(1,482)	(373)
(142)	2,620	6,165	4,759	547	(2,437)	182
—	3,311	413	—	(2,467)	—	—
(142)	5,931	6,578	4,759	(1,920)	(2,437)	182
(0.8)%	2.0%	6.0%	5.5%	0.4%	(4.2)%	(0.8)%
2.3%	6.2%	14.2%	12.7%	4.4%	(3.4)%	1.5%
59	59	59	59	59	59	59
1,301	1,301	1,301	804	34	—	1,080
(1,502)	4,571	5,218	3,896	(2,013)	(2,496)	(957)
24,525	28,563	25,138	20,151	12,836	11,050	17,297
—	—	3,396	3,396	3,396	5,863	5,863
25,972	24,907	18,635	19,240	20,697	22,070	19,993
1,351	1,755	2,424	3,104	3,448	3,808	3,863
51,848	55,225	49,593	45,891	40,377	42,791	47,016
13,595	15,048	14,959	16,141	16,597	17,308	17,490
6,395	6,817	5,845	6,179	4,105	3,795	5,185
—	—	—	—	—	—	157
1,399	1,399	1,399	1,399	1,399	1,399	1,399
30,459	31,961	27,390	22,172	18,276	20,289	22,785
51,848	55,225	49,593	45,891	40,377	42,791	47,016
2.2:1	2.9:1	2.5:1	2.4:1	1.7:1	1.7:1	2.1:1
30/70	31/69	34/66	41/59	46/54	44/56	42/58
2,273	5,815	8,941	9,710	3,183	(1,979)	3,044
4,386	10,474	2,899	1,233	783	4,099	7,720
(0.10)	1.40	3.33	2.57	0.27	(1.36)	0.08
—	1.80	0.22	—	(1.34)	—	—
(0.10)	3.20	3.55	2.57	(1.07)	(1.36)	0.08
0.72	0.72	0.72	0.45	0.02½	—	0.60
1.22	3.14	4.84	5.26	1.70	(1.11)	1.64
16.52	17.34	14.86	12.02	9.90	11.00	12.35
10.88	9.38	11.75	9.75	5.38	7.88	8.25
5.50	7.50	8.00	4.50	3.55	3.60	5.25
1,637	1,622	1,621	1,689	1,760	1,862	1,933
1,368	1,380	1,400	1,387	1,383	1,497	1,454

1974	1973	1972
$ 83,228	$ 61,130	$ 46,437
1,588	1,534	1,313
354	402	436
8,123	4,710	2,388
947	189	95
3,782	2,270	1,094
5,288	2,629	1,389
—	64	—
5,288	2,693	1,389
9.8%	7.7%	5.1%
15.3%	9.1%	5.4%
59	59	60
1,099	620	160
4,130	2,014	1,169
14,445	11,443	9,649
5,863	5,863	5,863
15,434	13,874	14,008
199	265	589
35,941	31,445	30,109
6,645	6,662	7,393
4,155	3,772	3,696
—	—	—
1,399	1,399	1,422
23,742	19,612	17,598
35,941	31,445	30,109
2.8:1	2.7:1	2.9:1
21/79	24/76	28/72
7,259	4,289	2,555
3,300	1,550	636
2.85	1.41	0.73
—	0.03	—
2.85	1.44	0.73
0.61	0.35	0.10
3.93	2.28	1.37
12.87	10.63	9.53
10.00	10.75	7.88
7.00	6.75	3.10
1,991	2,066	2,256
1,404	1,410	1,294

*Return on capital employed = Earnings (loss) before extraordinary items + interest after tax divided by Capital employed.

**Earnings (loss) before extraordinary items, net earnings (loss), dividends and funds provided by operations per class "B" share are 5 cents less than per class "A" share except in 1977 when the differential is 2½ cents, and in 1976 when there is no differential.

Note:

Results of Kruger Fine Paper Wholesale are included from April 1, 1975.

Rolland inc.

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