Annual Report 1980

1944 1945 1946 1947 1948 1949 1950 1951 1952 1953 1954 1955 1956 1957 1958 1959 1960 1961 1962 1963 1964 1965 1966 1967 1968 1969 1970 1971 1972 1973 1974 1975 1976 1977 1978 1979 1980

75
1905-1980

dominion textile inc.

Corporate Profile

Dominion Textile Inc., which began operations in 1905, is the largest Canadian manufacturer of textiles and related products, with worldwide manufacturing and sales activities.

In Canada the Corporation is engaged in the design, production, finishing and marketing of a wide range of spun yarns for knitters and weavers; woven fabrics for the apparel industry including indigo-dyed denim and corduroy; consumer products such as sheets, bedspreads, blankets, towels, knitted sportswear and underwear; industrial products of cotton, man-made fibres and continuous filament yarns engineered to meet the requirements of many manufacturing and process industries.

Operations outside Canada include the manufacture and sale of denim, polyester/cotton yarn, interlining and fusible fabrics for the apparel industry and plastic products.

The Corporation operates 26 plants in Canada, 6 in the United States, 5 in Europe and 1 in South America. Worldwide employment at June 30, 1980 was 13 900.

The Head Office is located at 1950 Sherbrooke Street West, Montréal, Québec

Stock Transfer Agent, Registrar and Dividend Disbursing Agent
The Royal Trust Company: principal offices in Montréal, Toronto and Vancouver

Trustee: 5¾% Convertible Debentures, 1992
Montreal Trust Company: principal offices in Montréal, Toronto, Winnipeg, Calgary and Vancouver

Stock Exchange Listings
Montréal and Toronto

Annual Meeting
The annual meeting of shareholders will be held at 3:30 p.m., Daylight Saving Time, on Wednesday, 15 October 1980, at Le Château Champlain Hotel, Place du Canada, Montréal

Valuation Day Values (22 December 1971)
Common — $21.00
(Split 3 for 1 — October 1972)

Cumulative First Preferred — $101.00

Contents

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They took this business seriously. They believed, as did the small company of people in 1905, that this country needs and deserves an effective textile industry of its own, designed to serve Canadian needs, independent of foreign suppliers whose priorities differ from those of Canadians.

This "idée fixe" has pervaded all areas of corporate endeavour — in senior and middle management dealing with each day's new problems; in the knowledgeable and innovative technical personnel of all disciplines who have consistently either known the answers to problems or have sought them out in research. It is sensed by employees in our plants and offices and is expressed in their own contributions to the continuing progress.

Similar attitudes have been manifest in all areas of activity, in the burgeoning world of textile chemistry, in modern mechanics, in production methods, in marketing science, computer science, environmental concerns and above all, perhaps, in the social and psychological sciences that through our ongoing relationships with the work force, with the staff, with investors and with the ultimate patrons — our customers and consumers — have held together this great team of people, this Corporation, over seven and a half decades of common striving.

The people in this Corporation have not only believed that Canada was entitled to its own strong, competitive textile industry but they have asserted that Dominion Textile could do the job come what may.

We continue to believe this and our belief is encouraged by the continuing response of our customers, our employees and our investors.

T. R. Bell

For 75 years, a company of people

In the business world one gets accustomed to thinking of the word "company" as being identical with "corporation".

It is well to remind ourselves that in another and older use, a company was a group of individuals, usually having something in common such as a destination if they were travellers, a faith if they shared some belief or an objective if they were joined in their endeavours.

The phrase "keeping company" is still familiar. A company, corporate or otherwise, is really "people together".

In January 1905, just over 75 years ago, a small group of PEOPLE got *together* in Montréal and formed Dominion Textile COMPANY, Limited.

The *objective* they shared was the melding of four financially indigent textile firms into a financially healthy corporation. There was a good deal of *faith* among them, at least in a business sense, for the changing tides of history and world trade at the end of the last century had crippled this Canadian industry and forced thousands of workers to emigrate to New England to support their families. Success of the new company was not promising. The *destination,* likely seen only vaguely at that time, was to find a way out of the morass.

That destination has turned out to be, 75 years later, a multinational enterprise, based in Canada and manufacturing or selling in some 80 countries around the world.

The first few people shared an important characteristic: they had faith in the viability of their project despite the gloomy prospects. Our shareholders today know its success.

Perhaps the key over these 75 years is that the Corporation has always attracted people who shared this common faith.

This characteristic has applied at all levels in this organization. There have been widely varying styles and talents, different personalities, differing concepts and the useful tension of active minds which have at times challenged each other in developing solutions to problems.

But through this range of personal qualities there has remained one constant creed. None of the many hundreds whose efforts built Dominion Textile ever doubted for a moment that the challenges would be met and that success would be achieved.

Dominion Textile Inc.

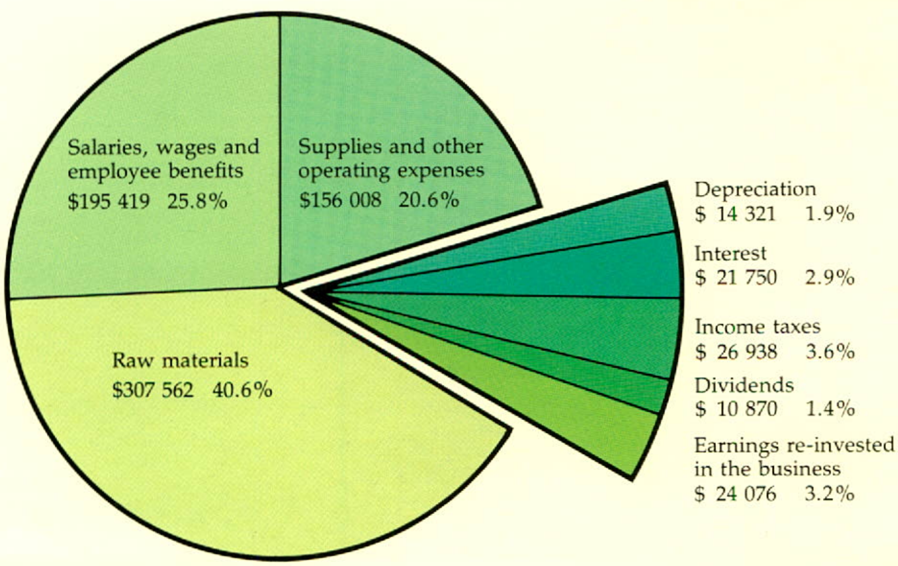
Highlights

(in thousands of dollars)

	1980	1979
Sales	**$756 944**	$667 417
Net income	**34 946**	25 417
Net income applicable to Common shares	**32 414**	25 298
Funds generated from operations	**$ 57 803**	$ 41 844
Additions to fixed assets	**33 449**	22 213
Working capital	**$190 598**	$170 801
Total assets	**541 746**	442 909
Long term debt	**119 044**	92 920
Shareholders' equity	**223 448**	194 995
In dollars per Common share:		
Net income — Basic	**$ 3.66**	$ 3.02
— Fully diluted	**3.55**	2.80
Funds generated	**6.24**	4.98
Dividends	**0.94**	0.73
Book value	**21.50**	19.19
Market price — High	**16.50**	15.13
— Low	**12.00**	10.25

Distribution of 1980 Sales Dollar

(in thousands of dollars)



Report to the Shareholders

The year's results
In the 75th Anniversary year of Dominion Textile new records were established in sales and net income:

- Consolidated sales exceeded three-quarters of a billion dollars and were 13% higher than the previous year.
- Net income reached $34.9 million, a substantial increase over the previous year's $25.4 million.
- Net income of $32.4 million after preferred dividends improved 28% over fiscal 1979 and brought earnings per share to $3.66.

Why earnings improved
The improvements in earnings were attributable to:

- Exceptional results from the Corporation's denim operations in the United States, Canada and Europe.
- A strong performance from the Canadian units, spearheaded by the Sales Yarn Division.
- A substantial improvement in the profit generated by the overseas companies which comprise the International Division.

Dividends
The continuation of the upward trend in earnings enabled the Board of Directors to raise the dividend for the third consecutive year. In February 1980, the quarterly dividend was raised to $0.25 per share, from the previous rate of $0.22 per share. The $0.94 dividend paid in fiscal 1980 represented an increase of 29% over the dividend paid in 1979.

Capital expenditures
Capital expenditures for the year ended June 30, 1980 amounted to $33.4 million of which over 70% was spent in Canada. Major expenditures were:

- In the Apparel Fabrics Division, over $6.5 million was spent in the Magog, Richelieu and Drummondville plants for the expansion of denim capacity.
- At Long Sault Fabrics, 50 new looms were installed at a cost of $1.2 million.
- In the Consumer Products Division, $2.4 million was invested in the ongoing modernization program at the Montmorency plant.
- In the Industrial Products Division, the needlepunching capacity at the Fiberworld and Jaro plants was expanded at a cost of $1.5 million.
- At Domil Yarn, expansion of open-end spinning capacity resulted in expenditures of $1.2 million.
- At Swift Textiles in Columbus, Ga., $2.6 million was spent on the continuing program of conversion from ring spinning to open-end spinning.

Acquisitions and reorganizations
Important developments affecting the corporate structure this year were:

- The acquisition at a cost of U.S. $21.5 million of Linn-Corriher Corporation of Landis, North Carolina, a substantial producer of polyester/cotton yarn. Linn-Corriher operates two modern spinning mills as well as a yarn dyeing plant. The acquisition expands Dominion Textile's manufacturing and marketing involvement in the United States and continues the established pattern of diversifying both the product offering and geographical scope of the Corporation's activities.
- The merging of the North American interlining operations of DHJ Industries Inc. with another company in the same business, Facemate Corporation of Chicopee, Mass. We hold a 50% interest in the new company, DHJ-Facemate Inc. and, while previously our U.S. interlining operations were in a loss position, the new company operated profitably from its inception during fiscal 1980.
- The establishment of an International Division grouping together all of the subsidiaries and affiliates which, throughout the world, are engaged in the interlining business. Also forming part of the group are the European companies which have exclusive marketing rights to the denim produced in a facility owned by the Tunisian government.

Organization
A number of changes were made in senior responsibilities as a result of the reorganizations and acquisition previously referred to —

- Charles A. McCrae who spearheaded the integration and reorganization of DHJ Industries Inc. in New York and is a member of the Corporation's Board of Directors, has been appointed Senior Vice-President, Corporate Planning and Administration, with responsibility for the Corporation's long range strategic planning.
- William N. Gagnon, a Vice-President of the Corporation and formerly President and Director General of DHJ Industries Europe S.A. in Paris, has been appointed Vice-President and General Manager, International Division, with headquarters in Montréal.

• Robert M. Wilson, Vice-President and General Manager, Sales Yarn Division, has also assumed the position of Chairman of the Board of Linn-Corriher Corporation.

• On behalf of the Board of Directors and personnel of Dominion Textile, a warm welcome is extended to J. Fred Corriher, Jr., President of Linn-Corriher and to the employees of this latest member of the Corporation.

Financing

During fiscal 1980, the Corporation:

• Raised approximately $30 million of new long term debt principally to finance the acquisition of Linn-Corriher.

• Undertook and subsequently decided, due to unfavourable market conditions, not to proceed with an issue of common shares.

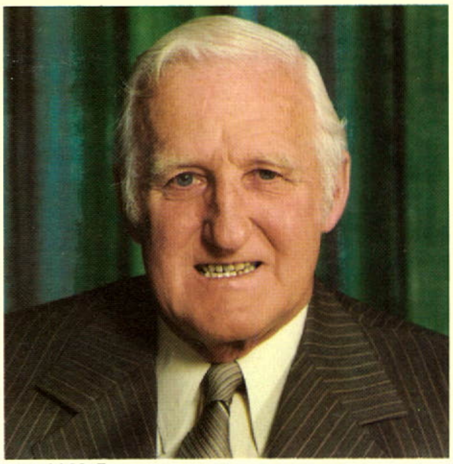
• Issued 376 020 Common shares on conversion of convertible debentures.

• Issued a further 34 271 Common shares from treasury under the employee share purchase plan.

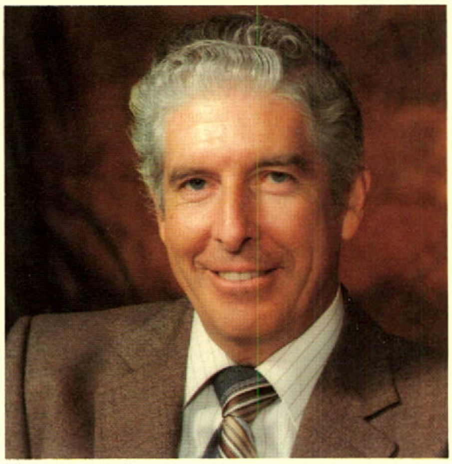
National textile policy

These developments were noteworthy during the past year:

• Five bilateral agreements, mainly on clothing items, were negotiated with developing countries by the federal authorities bringing to twelve the number of bilateral



Ronald H. Perowne
Chairman of the Board



Thomas R. Bell
President and Chief Executive Officer

agreements presently in place. These agreements remain in effect until the end of December 1981. In addition, there are currently six other agreements in place which restrain imports on a very limited number of products. These agreements now provide the Canadian textile industry with a trading environment similar to, although not as extensive in coverage as, that long enjoyed by Canada's major trading partners. For example, the United States currently has in place some thirty bilateral restraint agreements.

• The Textile and Clothing Board concluded its comprehensive review of existing textile and clothing import restraints and submitted its report to the Government. Neither the Board's conclusions and recommendations nor the Government reaction to them have been made public. A positive Board finding and its subsequent prompt implementation are important to the maintenance of the climate of confidence so necessary to support the major capital investments this Corporation and the textile industry will be called upon to make in the 1980's.

• However, while the recommendations of the Board and the resulting policy of the Government of Canada are important, a number of other facts should also be kept in mind. First, the majority of textile and clothing imports are not subject to quotas under bilateral agreements. Second, there are no quotas on imports of textiles and clothing from the United States and other developed countries. To an increasing degree, it is these producers with which the Corporation competes successfully and must continue to compete in the future.

Capital expenditures in 1980-81

Demands from all sectors of the Corporation indicate that spending in fiscal 1981 may reach some $70 million including the following major projects:

• $32 million to expand denim capacity by 30% and bring about substantial productivity improvements at Swift Textiles in Columbus, Georgia.

• $3 million to further upgrade and expand the finishing facilities in Magog.

• $2.5 million to continue the modernization program at Montmorency.

• $4.2 million to improve the Salaberry plant of the Sales Yarn Division in Valleyfield.

• A further $4.2 million at the Domil Yarn plant in Sherbrooke for additional open-end spinning equipment and to increase production of ring spun yarn.

• $2.9 million to continue the expansion of denim production in Canada.

• $2.6 million to construct a new, automated warehouse at the Hubbard dyeing plant in Montréal.

Directors

We are pleased to report that Mr. Alex D. Hamilton, President and Chief Executive Officer of Domtar Inc., was elected to the Board of Directors at the annual meeting of shareholders on October 17, 1979.

Outlook

Before reporting on the outlook for fiscal 1981, it might be appropriate, in this the 75th year of the Corporation, to comment briefly on the challenges facing us in the years immediately ahead.

As stated earlier, demands from all sectors of the Corporation indicate that capital spending in fiscal 1981 may reach some $70 million. Our current expectations are that the level of expenditures will continue to be very high in subsequent years. To an extent which is not appreciated by many the textile industry has, during the last few years, undergone a substantial change in manufacturing technology with new spinning and weaving processes now proven effective.

Change is most often accompanied by opportunity and the advances in technology present Dominion Textile with opportunities to continue our pattern of growth and development. The international diversification has resulted in profitable and expanding operations in the United States, around the world, as well as in Canada. Our product diversification has made us one of the world's leading producers of denim.

It is from these bases that we intend to accelerate the program of re-equipping our facilities to introduce the most modern machinery available today. While the cost of this new equipment is high, it is our expectation that rapid payback on many projects and improved cash flow from existing operations will result from these expenditures. Nevertheless, substantial external financing will also be necessary in part to provide the Corporation with the resources to undertake this major investment in new machinery as well as to sustain our program of growth through acquisition.

Although we remain confident concerning the longer term outlook, as we enter fiscal 1981 conditions are less favourable than they were a year ago.

There are soft spots in some of the markets served by the Apparel Fabrics and Industrial Products Divisions. The markets for corduroy and light apparel fabrics are weak and sales of industrial fabrics to the automotive and construction industries are down. In recent months, sales have fallen off in our European operations and, finally, a strengthening Canadian dollar could increase competition from imports.

On the other hand, the divisionalized structure of the Corporation and our geographic and product diversification will allow us to intensify our efforts in the stronger market areas. In addition, the substantial losses sustained in the interlining operations in the United States are not expected to recur in fiscal 1981. The strengths noted above and our continued emphasis on customer service have together produced results over the last few years which have outpaced most North American textile companies.

While the current economic climate suggests that 1981 will be a most challenging year, our flexibility and the momentum which has developed in recent years should offset the weaker areas of our business.

The 1980-81 year will be full of new problems and opportunities. Fortunately, in one important respect, the burden will be easier in the new business year. Dominion Textile takes pride in being a Québec-based company and has built its success on the foundation of its operations in Québec. The decision rendered by the citizens of Québec in the referendum of last May is bound to have a positive influence, particularly if it serves as a catalyst to bring all sections of Canada closer together.

In conclusion, the Board congratulates and expresses its sincere thanks and appreciation to all of the employees for an outstanding performance in the year just ended.

Submitted on behalf of the Board

RHPerowne.

Ronald H. Perowne
Chairman of the Board

TRBell

Thomas R. Bell
President and Chief Executive Officer

Montréal, Québec
August 6, 1980.

The Year in Review

At June 30, 1980 the Corporation had 13 900 employees, some 700 more than one year ago. Of this total, 10 700 were located in Canada, with 8 500 in Québec, 1 750 in Ontario and 450 in other provinces. Employment in the United States totalled 2 700 with the remaining 500 employees located in Europe and elsewhere.

Of the Corporation's 38 manufacturing plants, 26 are located in Canada: 18 in Québec, 7 in Ontario, and 1 in Nova Scotia. Twelve plants are situated outside Canada with 6 in the United States, 5 in Europe and 1 in South America.

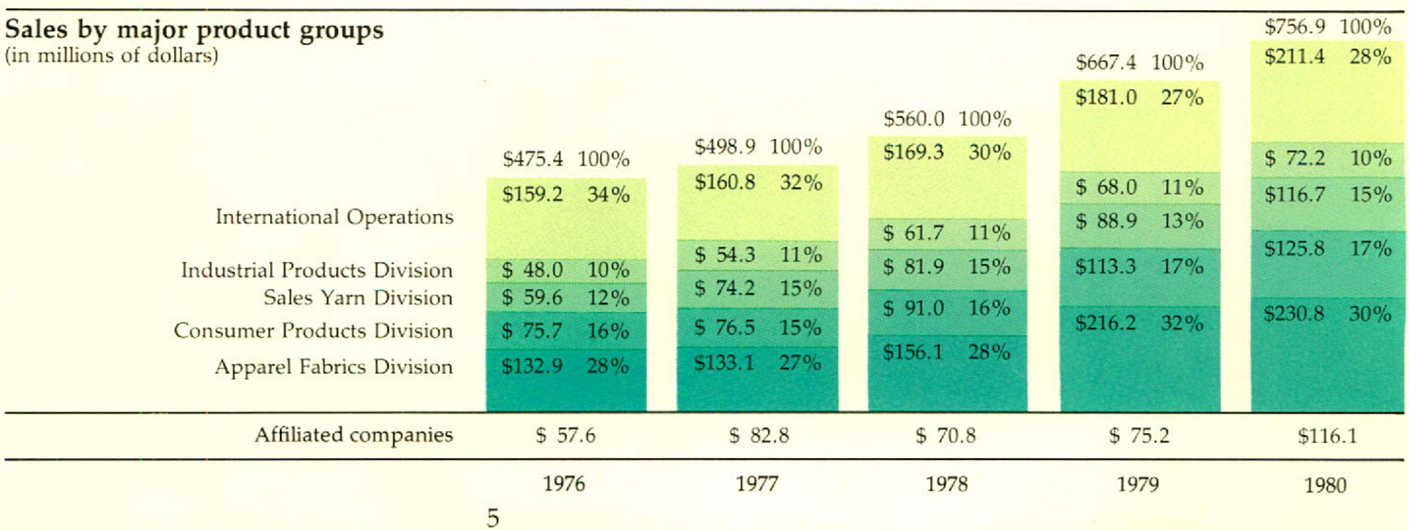
Exports from Canada in fiscal 1980 amounted to $39.6 million. Taking into account the sales of the Corporation's units in the United States and elsewhere, 35% of the consolidated sales of Dominion Textile Inc. were made outside Canada.

A report on each major business segment of the Corporation appears on the following pages.

Sales by the major product groups have been as follows in the last two years:

	1980 (*$ millions*)	1979 (*$ millions*)
Apparel Fabrics Division *Woven fabrics of cotton and blends for ladies' sportswear and blouses, shirts, nightwear, outerwear, career apparel and rainwear; jeans fabrics including indigo-dyed denim, heavyweight twills and drills and corduroy; fabrics for home sewing and furnishings. Major brand names are TEXMADE and FIRESIDE FABRICS.*	**$230.8**	$216.2
Consumer Products Division *Sheets, pillow slips, bedspreads, flannelette sheets, comforters, blankets, quilts, nonwoven blankets, towels, table fashions, knitted sportswear, T-shirts and underwear. Major brand names are TEXMADE, CALDWELL, ESMOND and PENMANS.*	**125.8**	113.3
Sales Yarn Division *Spun yarns made from cotton, wool, man-made and blend fibres for sale to knitters and weavers and many other industries. (Fiscal 1980 includes sales of Linn-Corriher for two months.)*	**116.7**	88.9
Industrial Products Division *Fabrics for manufacturers to process or incorporate into a broad variety of products including sports and camping products, filters and protective covers, tires and conveyor belts, sandpapers and buff wheels, footwear and work gloves, carpets and upholstery, and many other items of general and special uses. Major brand names are TEXMADE, JARO, PENROAD and FIBERWORLD. (Includes sales of the Plastics Division of DHJ Industries Inc.)*	**72.2**	68.0
International Operations *Woven and nonwoven interlinings for shirt and other garment manufacturers; cotton and blend denim fabrics for jeans and other garments. Major brand names are DHJ and SWIFT. (Includes sales of Swift Textiles, Inc., the International Division and DHJ Industries Inc.)*	**211.4**	181.0
	$756.9	$667.4

Sales by major product groups
(in millions of dollars)



Apparel Fabrics Division

The Division's sales in fiscal 1980, at $231 million, were higher by 7% than last year. Changes in product mix and a substantial reduction in the purchase of grey fabrics from outside sources contributed to a modest improvement in profit.

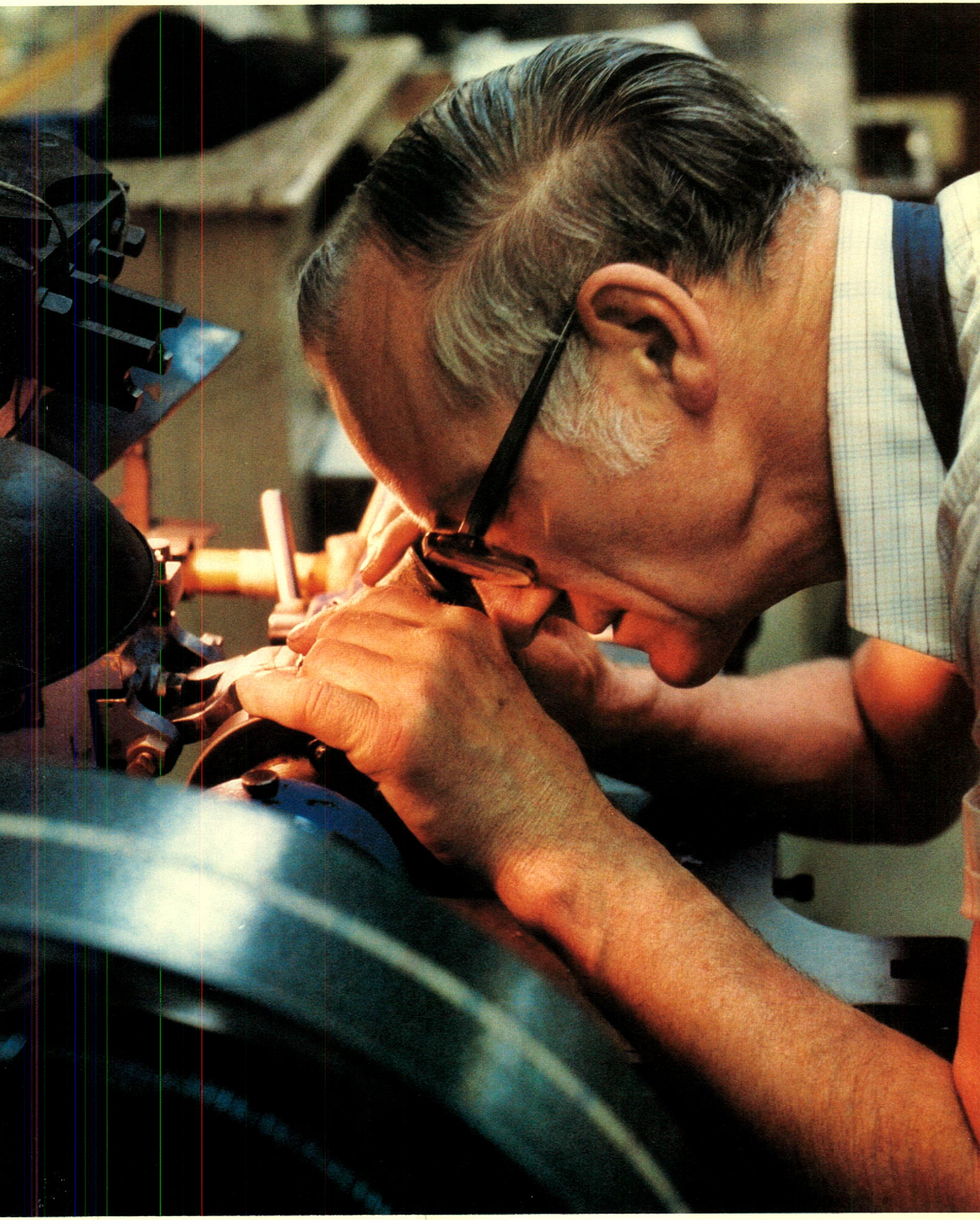
In the first half of the year demand was firm in most markets, but a major exception was prints, as products in this category experienced their worst year in recent times. During the second half most product areas were affected by the slowing North American economy, the continuing squeeze on consumer disposable income and record high interest rates which contributed to inventory reductions by both garment manufacturers and retailers. Lower pricing on fabrics imported from the Orient accompanied these conditions.

The only exception to the foregoing was denim and this product area achieved a substantial increase in both unit shipments and sales revenue as the Division continued to capture an increasing share of the Canadian market. Quality denim continues to be in strong demand throughout the world.

The Division's grey manufacturing plants operated at full capacity throughout the year. The total investment in denim production, primarily in our grey plants, continued to increase and now stands at close to $19 million. The return on this investment continues to be excellent and major productivity gains have been achieved since the denim facilities came on stream.

The finishing plants at Magog and Beauharnois operated at below capacity for the last half of the year and these plants were closed for an extra week prior to the 1980 mill vacation period. The printed fabrics business throughout North America has been particularly depressed and steps were taken to further reduce the number of printing machines in operation at Magog. Similar reductions in capacity have been made recently in the United States.

Work was continued on the modernization of the open-width bleach range at Magog and this project has progressed in a most satisfactory manner. The installation of a new thermosol dye range, referred to in last year's Annual Report, has been postponed until the spring of 1981.



The Division's order book is down appreciably from this time last year and looking ahead at the next twelve months we expect to encounter more difficult market conditions. The first six months of the new fiscal year can be expected to be slow with an improving trend only in the second half. The plants will be operated in accordance with the requirements of the marketplace with a view to controlling inventories. Similar action has been taken by most American mills. The control of inventories by our U.S. counterparts will in due course bring a returning strength to our markets.

Our greatest asset remains our diversified product mix which played a major role in the Division's performance this past year. This, together with shorter delivery lead times in response to difficult business conditions, should keep us a step ahead of our competition and will stand us in good stead in this new fiscal year.

DIVISIONAL OFFICERS

William A. McVey
Vice-President,
General Manager

Colin R. Avery
Controller

W. Hood Gambrell
Vice-President, Finishing Plants

Lawrence G. McDonough
Vice-President,
Grey Manufacturing

Donald E. Suddaby
Vice-President, Marketing

PLANTS

Greige fabric plants

Domil, Sherbrooke, Québec
Gordon McD. Shaw, Manager
Polyester/combed cotton blend fabrics for shirtings, uniforms, rainwear and tablecloths

Drummondville, Drummondville, Québec
Oscar J. Paquette, Manager
Denim and industrial fabrics

Gault, Valleyfield, Québec
Gordon Largy, Manager
Corduroy, cotton and polyester/cotton blend fabrics for sportswear, work clothing, pocketings, draperies and industrial fabrics

Long Sault, Long Sault, Ontario
Bernard Hamel, Manager
Polyester/combed cotton blend fabrics for broadcloth shirtings, uniforms, rainwear and sportswear

Magog, Magog, Québec
Roger Bouchard, Manager
Cotton and polyester/cotton blend fabrics for dress and nightwear prints, corduroy, home furnishings and industrial fabrics

Richelieu, St. Jean, Québec
Marc Théberge, Manager
Cotton and polyester/cotton blend fabrics for sportswear, work clothing, pocketings, interlinings, dress prints and denim

Converting and finishing plants

Magog Finishing Plant, Magog, Québec
Jacques St-Onge, Manager
Bleaching, dyeing, printing and finishing; cotton, blend fabrics, corduroy and denim

Fireside Fabrics, Montréal, Québec
Stanley H. Chambers, Manager
Corduroy cutting operation

Beauharnois Finishing Plant, St. Timothée, Québec
A. Richard Tremaine, Manager
Bleaching, dyeing and finishing; cotton and blend fabrics

Dominion Textile Company (U.K.) Limited, London, England

William D. Whittaker, Director
The Corporation's selling agent for United Kingdom and Europe

Consumer Products Division

The Consumer Products Division markets a wide range of products under the well known brand names TEXMADE, CALDWELL, ESMOND and PENMANS.

In fiscal 1980, the Division enjoyed another record year with sales of $126 million, 11% higher than the previous year. Export sales, particularly in the sheeting area, were substantially higher than the previous year.

There were increases in sales of sheets and pillow slips merchandised under the TEXMADE, CALDWELL and ESMOND brand names. However, competitive conditions in this market did not allow selling prices to keep pace with rising costs.

Flannelette sheets and blankets, sold under the TEXMADE label had a successful year. However, the slump in the blanket market, which was experienced in both Canada and the United States, led to a decline in shipments of the Division's ESMOND blankets from the record level achieved the previous year. In the coming year we expect the blanket market to return to a more normal level.

Record sales and operating results were achieved at Caldwell in 1980. Much of this success resulted from the wider range of quality towels now being marketed following the expansion and upgrading of production facilities in recent years.

Penmans enjoyed a successful year with sales increasing more than 24% over 1979. During the year, eleven high-speed finecut jersey machines were added to the manufacturing complement, effectively doubling T-shirt production capacity and substantially improving quality. The buoyant market for T-shirts and the new line of fashion garments were important factors in the success enjoyed by Penmans in 1980. Added strength resulted from the growing acceptance of fleece apparel as fashion wear by the youth market.

We are pleased to report that the Penmans Sports Council has been enhanced with the addition of Diane Jones Konihowski, one of Canada's outstanding athletes and a gold medal winner at the most recent Pan-American Games. She joins Gary Carter, Peter Dalla Riva, Guy Lafleur, Howie Meeker and Borje Salming as a member of the Penmans sales promotion team. Increased activity is planned for the Sports Council in 1981 through a series of major promotional campaigns.

During fiscal 1980, work began on the installation of additional sheet finishing capacity at the Magog finishing plant. In addition, the modernization program at the Montmorency plant continued with expenditures of $2.4 million on equipment to improve the working environment and to increase capacity and upgrade the quality of yarn produced for the Caldwell towel plant. Plans are presently being finalized to continue this program, and expenditures of a further $2.5 million are targeted for the current year.

Fiscal 1981 will also see the Division begin a major program to redesign and upgrade the systems

used for order processing, production planning, warehousing and shipping. The project will take a number of years to implement fully. When completed, the new procedures will allow the Division to offer its customers a level of service unparalleled within the industry.

While our optimism for the coming year is tempered by the uncertain outlook for the North American economy, we are confident that our continuing dedication to quality and service coupled with continued fashion leadership will again produce positive gains for the Consumer Products Division during fiscal 1981.

DIVISIONAL OFFICERS

Harry Braid
Vice-President,
General Manager

Gerald A. Ascah
Controller

James H. Griffin
Vice-President, Marketing

Robert M. Sage
Director of Operations

Jacques Savoie
Director of Manufacturing

PLANTS

Greige fabric plants

Caldwell, Iroquois, Ontario
Roland Johnson, Manager
Terry towels, towelling and bath mats

Sherbrooke, Sherbrooke, Québec
Raymond Nicol, Manager
Polyester/cotton sheeting for sheets, pillow slips, comforters and bedspreads

Montmorency, Montmorency, Québec
Reynald Leduc, Manager
Mop yarns, cotton sales yarn and twines; cotton flannelette blankets and blend flannelette sheets; tabling

Esmond, Granby, Québec
W. Dale Allen, Manager
Woven and nonwoven blankets, bedspreads and draperies

Penmans, Paris and Brantford, Ontario; St. Hyacinthe, Québec
Frank H. Boone, Divisional Vice-President and General Manager
Knit sportswear and underwear

Converting and finishing plant

Magog Finishing Plant, Magog, Québec
Jacques St-Onge, Manager
Sheets, pillow slips, tabling, bedspreads, blankets and flannelette sheets

Industrial Products Division

Sales of the Industrial Products Division totalled $72.2 million in fiscal 1980. The increase of 6% over the previous year was mainly attributable to additional exports which accounted for 18% of sales. The increased penetration of export markets, together with improved performance in several of the plants, enabled the Division to sustain its record of earnings growth. The year's performance, however, was affected by the slowdown in industrial activity in North America which was led by the decline in automobile sales and which, by year-end, had spread to most of the markets served by the Division.

The Division's plants maintained a reasonably active work schedule throughout the year. Improved efficiency and cost performance was achieved at the Yarmouth plant and a new three-year labour contract was negotiated in October 1979. The Fiberworld plant in Hawkesbury changed from a five-day, three-shift to a seven-day, four-shift schedule in October, increasing its effective capacity and improving its competitive position in the marketplace.

Export markets for tire cord, particularly in the Asian and South American regions, provided a good opportunity for increased sales, and consequently, despite a weakening domestic market, the tire cord operations in the Drummondville plant operated at capacity during most of the year.

The range of the Division's industrial products was broadened during the year with the introduction of PENROAD geotextiles. Geotextiles are fabrics used in civil engineering works for ground stabilization, drainage and erosion control, and are sold to the construction industry, railroads and resource industries. With growing market acceptance of geotextiles, there is a wide variety of potential uses for these new products in all parts of Canada. PENROAD products were developed and are manufactured at our plants in Woodstock and Hawkesbury. In response to these market trends we have installed additional needlepunch machinery at these plants. The new products will replace other nonwoven products at the Woodstock plant which have been adversely affected by recent changes in market conditions and have been discontinued.

Expectations for 1981 are tempered by the weak economic situation in both Canada and the United States. Many customers shut down their production facilities for a longer than usual vacation period this summer, while others have reduced their operations. Accordingly it is expected that sales will be lower particularly in the first half of the year and that earnings will be squeezed by rising costs. At the beginning of the new fiscal year inventories were only a little higher than the desirable level and therefore should not be a cause for disruption of our manufacturing activities. Despite the weak conditions in many of our markets the order backlog in total compares favourably with the position at this time last year.

As a part of the reorganization of DHJ Industries Inc., the Plastics Division of that company, which operates from Plymouth, Massachusetts and New York City, now forms part of the Industrial Products Division. Plastics operations were affected

by the economic conditions in the U.S.A. during the year and consequently the operating income from plastics was reduced in comparison with the previous year despite a moderate increase in sales.

We record with deep regret the death of Robert W. Kolb in March 1980 after a short illness. Mr. Kolb was Vice-President, Development Research and had been a member of the Industrial Products Division since April 1978. His technical ability and leadership during the past two years contributed greatly to the improved operating performance achieved by the Division in that period. Mr. Kolb, who joined the Corporation in 1944, had served Dominion Textile with distinction in many capacities before joining the Division and he is greatly missed by his colleagues and friends in all levels of the organization.

DIVISIONAL OFFICERS

Alex R. McAslan
Vice-President,
General Manager

Raymond Bégin
Director of Manufacturing

Monroe Froehlich, Jr.
General Manager,
Plastics Division

Dennis Godfrey
Marketing Manager,
Rubber Industry

Michael J. Grink
Controller

Richard B. King
Marketing Manager,
Fiberworld and Jaro

Neil K. Sanderson
Director of Marketing,
Rubber Industry

Tadeusz Storozum
Marketing Manager,
Woven Fabrics

PLANTS

Drummondville, Drummondville, Québec
Oscar J. Paquette, Manager
Textile, steel and glass tire fabrics; synthetic belt ducks; treated cords for V-belts

Fiberworld, Hawkesbury, Ontario
Claude Ferland, Manager
Polyolefin industrial fabrics and carpet backing

Jaro Nonwovens, Woodstock, Ontario
Robert E. Evans, Manager
Nonwoven fabrics for automotive, coating, furniture, filtration and other industrial trades

North River Plastics, Plymouth, Massachusetts
Charles Bourget, President
Injection molded plastic parts

Yarmouth, Yarmouth, Nova Scotia
André Trachy, Manager
Woven industrial fabrics of cotton and man-made fibres and filament yarns

Sales Yarn Division

Last year the Sales Yarn Division reported that the outlook was for another year of full production. With sales at $117 million, 31% higher than last year, these expectations have been fully realized. The continuing trend to a finer, more expensive product mix and an increase in unit shipments were the key factors behind the new record sales level.

In a buoyant market for the Corporation's products, the yarn plants and the Hubbard dyeing plant operated at close to full capacity. The level of finished goods inventory was drawn down during the course of the year and shipments were further bolstered by a continuation of the program of purchasing yarn from other suppliers for resale to our customers.

The operations of the Sales Yarn Division were significantly expanded in April 1980 when the Corporation acquired Linn-Corriher Corporation of Landis, North Carolina. Linn-Corriher, a substantial producer of polyester/cotton blend yarns, operates two large yarn manufacturing plants as well as a yarn dyeing plant. All three facilities are equipped with modern machinery and services comparing favourably with the highest industry standards. Linn-Corriher's sales in its latest fiscal year ended March 31, 1980 were U.S. $54 million. Its sales for the months of April and May are included in our consolidated sales and in Canadian funds amounted to $13 million.

Linn-Corriher will continue to operate in its own U.S. market, under the same name, with the same management, supplemented by technical and managerial assistance from Dominion Textile.

Last year the Sales Yarn Division indicated that capital spending in fiscal 1980 would be considerably higher than that of the last few years and new production capacity would be added within the Division. At the Salaberry plant, increased production was obtained as the additional spinning frames which came on stream late in fiscal 1979 operated for the full year.

New open-end spinning machinery was installed during the year at the Domil Yarn plant in Sherbrooke, Québec. The open-end spinning process is faster than conventional spinning and a substantial increase in production has been achieved with the completion of the first phase of this project. The scope of the spinning expansion project has been increased and will now also include some additional ring spinning machinery as well as more open-end spinning frames. Together, this new equipment will increase the plant's capacity by a further 30% at a cost of $4.2 million.

Also during the coming year a new 4 100 square meter warehouse will be built at the Hubbard plant, at a cost of $2.6 million to provide more efficient handling of goods and an improved process flow.

Despite the uncertain outlook for the North American economy and signs of weakness in the markets for velour and terry, both of which have been particularly strong over the last two to three years, we are encouraged by the market reception of newly-introduced sophisticated knit constructions. In addition, we believe that the acquisition of Linn-Corriher will add significantly to the growth and development of the Sales Yarn Division in the years ahead and that, on balance, a satisfactory level of activity can be maintained in the coming fiscal year.

DIVISIONAL OFFICERS

Robert M. Wilson
Vice-President,
General Manager

Paul-É. Boudreault
Director of Manufacturing

Allan R. Evans
Vice-President, Marketing

Gerry H. Schmidt
Controller

PLANTS

Domil, Sherbrooke, Québec
Camille Beaulieu, Manager

Long Sault, Long Sault, Ontario
Gaston Morneau, Manager

St. Anns, Montréal, Québec
André Giroux, Manager

Salaberry, Valleyfield, Québec
Jos. E. Huot, Manager

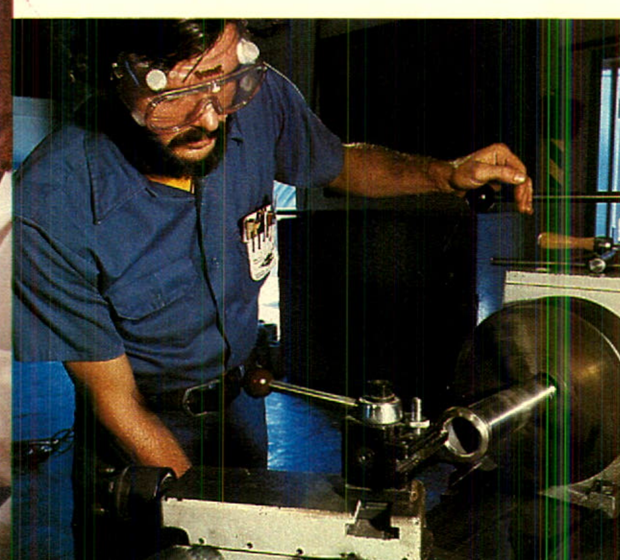
Tremont, Montréal, Québec
Paul-É. Boudreault, Director of Manufacturing

Mount Royal Dyehouse, Montréal, Québec
Alphonse G. Kelada, Manager

Hubbard Division, Montréal, Québec
Claude Lemire, General Manager
Commission dyeing and finishing of piece goods and yarn

PRODUCTS

Combed and carded yarns; cotton, man-made and wool; natural, bleached and dyed



Linn-Corriher Corporation

DIVISIONAL OFFICERS

Robert M. Wilson
Chairman

J. Fred Corriher, Jr.
President

PLANTS

Linn, Landis, North Carolina
Corriher, Landis, North Carolina
Corlin, Landis, North Carolina

PRODUCTS

Blend and cotton yarns

International Division

The International Division was established in October 1979 to coordinate and strengthen the direction of DHJ's worldwide organization and to give recognition to Dominion Textile's increasing involvement in international markets. An important role will be the introduction, through its worldwide distribution network, of Dominion Textile products to the various markets in which the Division operates. There is also great potential for the profitable movement of fabrics and products between the different countries which make-up the Division.

Consolidated sales for the Division in fiscal 1980 amounted to $109 million compared with $111 million the previous year while sales of the affiliated companies, which are not consolidated, increased from $75 million to $116 million.

The decline in consolidated sales occurred because North American interlining operations are now carried on by a 50% owned affiliate, DHJ-Facemate Corporation, which was formed in December 1979 to consolidate the operations of two companies, DHJ Industries Inc. and Facemate Corporation. Finishing for the new company is carried out at the Facemate plant, at Chicopee, Mass., thus permitting the closing of DHJ's former interlining plant at Monroe, Louisiana. The new combined operation is more cost effective and consequently our position in the North American interlining market has been strengthened.

During fiscal 1980, both sales and profits of the European operations showed good improvement. Sales of industrial nonwovens and interlinings for the outerwear market were particularly strong.

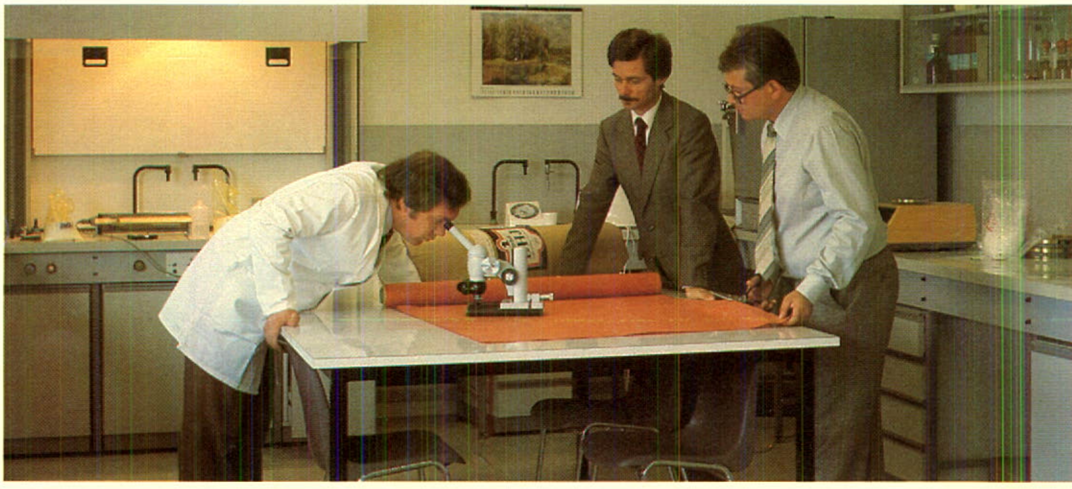
Results in Italy, our largest operation in Europe, were very good. Improvements to the computerized pattern-grading process during last year will help to maintain the momentum. France, England and Switzerland also showed further profit improvement.

Since June 1980, negotiations have commenced in connection with a possible purchase of all common shares of SENFA, a modern fusible coating plant in Selestat, France. Previously a 25% owned affiliate, SENFA has been processing an increasingly significant part of DHJ's interlinings in Europe.

Swift Textiles Europe, an affiliate which handles the distribution of denim produced in Tunisia, had an excellent year with substantial increase in both sales and profits. The company is complementing its sales of denim with corduroy and this is becoming a growing segment of its business. To maintain the output of top quality denim for the European market, the Tunisian manufacturer has commenced a modernization program beginning with the installation of open-end spinning equipment.

Results of the Latin American units were mixed. Operations in Brazil, our largest interlining affiliate, were adversely affected by inflation and currency devaluation.

Quality control laboratory in France



However, steps taken to reduce costs and diversify product line will show significant positive results during the coming year.

Both Mexico and Chile showed gains for the year while the results for Colombia and Venezuela were adversely affected by specific local problems relating to imports and labour.

With widespread economic slow-down and a very difficult competitive situation in its markets, the Division faces a challenging year ahead. Nevertheless, we feel we have the management, organization and market position to compete successfully and we look for continuing growth in international markets.

DIVISIONAL OFFICERS

William N. Gagnon
Vice-President,
General Manager

Jean-Marie Bardin
Director of Research
and Development

Michael J. May
Director of Operations Services

Joseph M. Vesely
Director of Marketing

SUBSIDIARIES

DHJ Industries Europe S.A., Paris, France
William N. Gagnon, President
Philippe Comte, Director General

Dubin-Haskell-Jacobson Italy Distribution SpA, Milan, Italy
Renato Rivetti, President
Ercole Morino, Managing Director

DHJ Industries Deutschland GmbH, Bielefeld, Federal Republic of Germany
Dr. Ferdinand Langenkamp, Managing Director

DHJ Distribution (U.K.) Ltd., London, England
Jack Stanhope, Chairman and Managing Director

Dubin-Haskell-Jacobson de Argentina, S.A.C.I., Buenos Aires, Argentina
O. Rafael Soler, President and Managing Director

DHJ Canadian Ltd., Montréal, Québec
David Friedlander, Vice-President

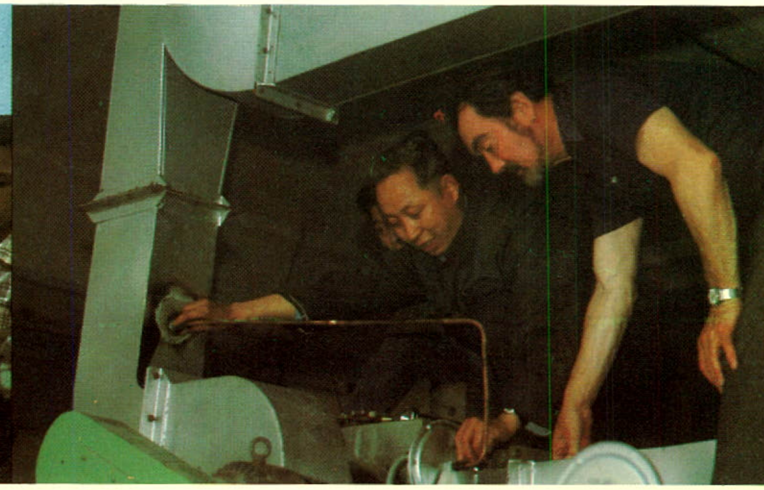
AFFILIATES

Austria, Brazil, Canada, Chile, Colombia, France, Hong Kong, Italy, Malaysia, Mexico, Portugal, Singapore, South Africa, Spain, Taiwan, United States, Venezuela

PRODUCTS

Interlining fabrics and die-cut linings


Manufacturing facilities in Brazil


Machinery inspection in Shanghai

Swift Textiles, Inc.

Last year's Annual Report indicated that conditions in the denim market improved substantially during the last six months of fiscal 1979 and that the outlook for 1980 was for significantly higher volume and improved operating results.

The year just ended did indeed see improved results. Demand for denim remained strong throughout the year and both sales and operating income showed substantial increases over 1979.

Swift occupies a strong position in the denim market and is the largest producer of blended denim in the industry. In order to more fully utilize its market reach and to enhance its leadership position within the industry, the company has embarked on a program to substantially expand production capacity.

The main components of this expansion will be the installation of additional shuttleless weaving and open-end spinning capacity. The expansion, which will involve the construction of a new plant and is expected to cost approximately $32 million in Canadian funds, is now in progress and will be completed in the first half of fiscal 1982.

High quality denim remains in strong demand throughout the world and we are confident that the existing market position and the expansion now under way will allow us to take full advantage of market opportunities as they develop.

DIVISIONAL OFFICERS

John A. Boland, Jr.
President

H. Alton Conner
Vice-President, Manufacturing

Michael T. Jetton
Controller

C. Robert Koon
Executive Vice-President, Marketing

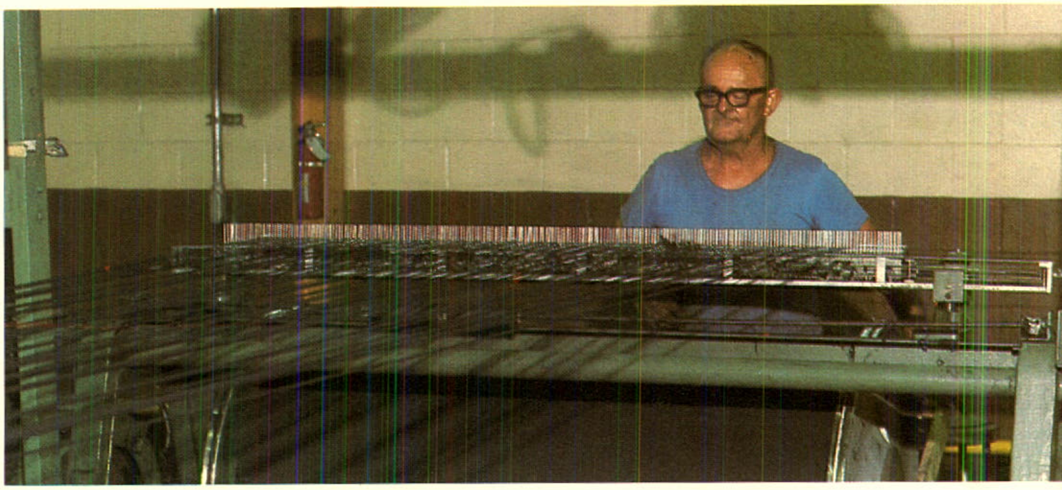
Frank D. Williams
Vice-President, Industrial and Public Relations

PLANT

Columbus, Georgia

PRODUCT

Indigo-dyed denim



Howard Cotton Company

Herman F. Riddle, President
Memphis, Tennessee
Corporation's cotton buying agent

Inflation and strong demand resulted in soaring cotton prices during fiscal 1980. Contributing to the strong demand was a record level of exports from the United States, which, with the People's Republic of China as the major purchaser, reached the highest level in fifty years.

Concern about the potential effect of the economic slow-down on the textile industry has resulted in a modest decline in cotton prices. Although the impact of the recession remains unclear, it does appear that world supply and demand for all fibres will be keenly balanced. However, the effect of the recent drought conditions in the cotton-growing regions of the United States have not as yet been fully determined. Serious crop losses would, of course, produce upward pressure on cotton prices.

DHJ Industries Inc.

New York, New York

OFFICERS

Charles A. McCrae
President
Norman H. Block
Executive Vice-President,
Finance and Administration

PLANT

Hickory, North Carolina

PRODUCT

Commission dyeing and finishing

Officers— Service Divisions

Corporate Planning and Administration

Charles A. McCrae
Senior Vice-President,
Corporate Planning
and Administration

Fred R. Beaman
Director of Personnel

André Côté
Director of Special Projects

Corporate Services

Frank P. Brady, Q.C.
Senior Vice-President,
Corporate Services

Clifton M. Beck
Secretary and General Counsel

Raymond E. Boyer
Director of Linguistic Services,
Health and Safety at Work

T. Roy Hastings
Director of Tariff Administration

Léon Lepage
Director of Industrial Relations

Finance

Ilay C. Ferrier
Senior Vice-President, Finance

Gordon W. Miller
Director of Systems and
Computer Services

Richard G. Munro
Treasurer

Stephen J. Weir
Comptroller

Industrial Engineering

André A. Bélanger
Vice-President,
Industrial Engineering

Operation Services

Arthur P. Earle
Senior Vice-President,
Operation Services

Pierre E. de Broux
Director of Engineering

Hubert T. Chatelois
Vice-President,
Process Development

Norman R. Jones
Director of Purchasing

Larry L. Langille
Director of Distribution Services

E. John Macfarlane
Vice-President

Jacques B. Turcotte
Director of Quality Control

Dominion Textile Inc.

75

1905-1980

Annual Report 1980

Financial Review

Sales

Consolidated sales were at a record level for the fifth consecutive year and at $757 million were 13.4% higher than the previous year.

There are two factors to be considered when comparing the consolidated sales figures for 1980 and 1979. Firstly, the final six months of the latest year do not include any sales revenue from U.S. interlining operations; these operations now form part of DHJ-Facemate Inc., the sales of which, as a 50% owned affiliate, are not consolidated. Secondly, sales of Linn-Corriher for two months were incorporated in the consolidated sales figures and this added $13 million to the Corporation's consolidated sales.

Sales by quarter were as follows:

	1980	1979
	($ millions)	
First quarter	**$161.5**	$122.4
Second quarter	**190.1**	165.4
Third quarter	**193.5**	190.7
Fourth quarter	**211.8**	188.9
	$756.9	$667.4

The geographic distribution of sales indicates that 35% of the Corporation's sales were made outside of Canada in the last year. In fiscal 1979 the comparable figure was 32%.

Sales of affiliated companies totalled $116.1 million compared with $75.2 million in the prior year.

Net income

Consolidated net income was also at a record level in 1980 reaching $34.9 million, 37.5% above the previous record earnings level achieved in 1979. Earnings per Common share increased by 21.2% to $3.66.

On a fully diluted basis, which assumes full conversion of the outstanding 5¾% Convertible debentures at the beginning of the year, earnings per share were $3.55 compared with $2.80 a year ago.

Quarterly earnings per share have increased on a year-over-year basis for eighteen consecutive quarters. Earnings per share, by quarter, for 1980 and the two previous years are shown below:

	1980	1979	1978
First quarter	**$0.43**	$0.31	$0.28
Second quarter	**0.96**	0.67	0.53
Third quarter	**1.03**	0.92	0.69
Fourth quarter	**1.24**	1.12	0.81
	$3.66	$3.02	$2.31

The return on average Common shareholders' equity improved again in 1980, marking the fifth consecutive year in which this ratio showed an improvement over the prior year. The return achieved in 1980 was 18.1% compared with 16.7% in 1979.

The consolidated tax rate was 41.8% in fiscal 1980 and 42.9% in 1979.

A substantial portion of the Corporation's working capital is denominated in foreign currencies, particularly the U.S. dollar. Foreign exchange translation gains and losses may arise when the value of these currencies fluctuates against the Canadian dollar. The year under review produced a translation loss of $1 715 000 compared to a gain of $790 000 in 1979.

The 20% interest in Swift Textiles held outside Dominion Textile accounted for the bulk of the $2 651 000 share of earnings attributable to minority interests. In fiscal 1979, this item amounted to $1 075 000.

Working capital

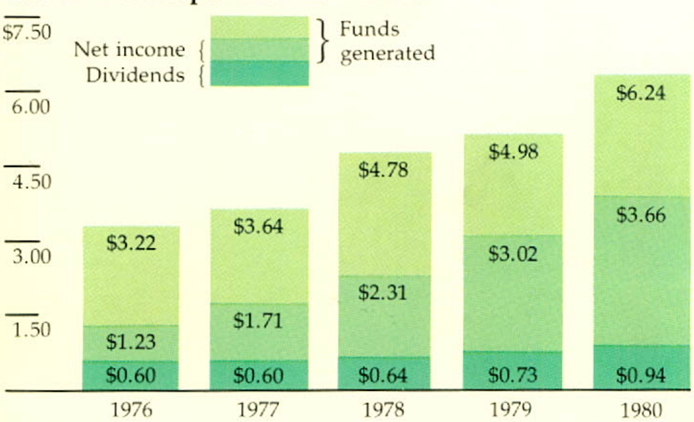
Working capital totalled $190.6 million at year end and the ratio of current assets to current liabilities was 2.1:1. A year earlier these figures were $170.8 million and 2.3:1 respectively.

The largest balance sheet item continued to be inventories which totalled $213.5 million at year end, $35.1 million higher than at June 30, 1979. Raw material accounted for the largest part of the increase and this resulted from both higher cotton prices and advance purchases made in anticipation of rising prices.

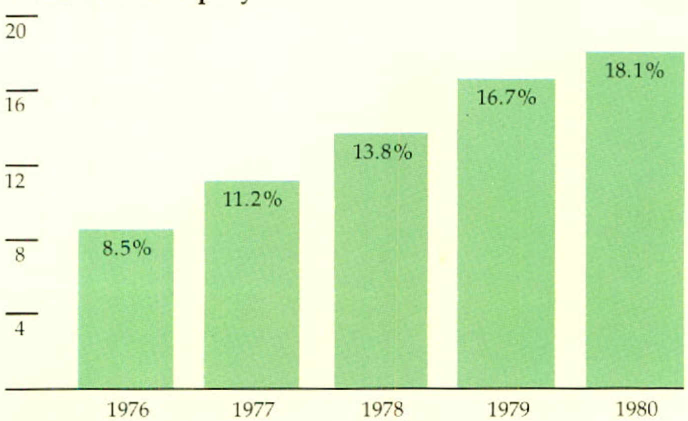
Accounts receivable, at $129.3 million, were up 12.5%. The number of days' sales in the receivables at year end was unchanged from a year earlier.

The level of short term borrowings stood at $66.4 million, up substantially from last year's $42.1 million principally on account of the cotton purchases.

Net income, funds generated and dividends per Common share



Return on Common shareholders' equity



Fixed assets

Capital expenditures for the year totalled $33.4 million. This was the highest level of spending in the Corporation's history and was some 50% above the level of spending in fiscal 1979.

Approximately $24 million, or over 70%, of these capital expenditures were made in Canada.

For fiscal 1981, worldwide capital expenditures may reach $70 million, including the Swift Textiles expansion project of $32 million.

Long term debt

Total long term debt was $119 million at year end, a net increase of $26.1 million from last year.

During the year the Corporation purchased $1 460 000 of its Series A and $286 000 of its Series B debentures. At June 30, 1980 $2 328 000 of the Series A and $1 148 000 of the Series B debentures were held in anticipation of future sinking fund requirements.

In fiscal 1980 $4 178 000 of the 5¾% Convertible debentures were exchanged for Common shares bringing the amount of these debentures outstanding to $2 031 000 at June 30, 1980. The Convertible debentures may be exchanged on the basis of 90 Common shares for each $1 000 debenture until October 1982.

Shareholders' equity

There were 8 990 517 Common shares outstanding at year end and an average of 8 864 000 outstanding during the fiscal year. The shares issued included 376 020 issued in exchange for Convertible debentures and 34 271 shares issued to employees under the Employee Share Purchase Plan.

Financing activity

As noted earlier, long term debt increased by $26.1 million. Two major financings accounted for the bulk of the increase. The first was a term loan of $17.8 million arranged with United States banks through a U.S. subsidiary of the Corporation to aid in the financing of the acquisition of Linn-Corriher. Additional debt, in the amount of $9.4 million, was obtained by an increase in an existing term loan agreement to provide funds for general corporate purposes. Both of these loans are payable in U.S. dollars.

In March 1980 it was announced that a preliminary prospectus had been filed in connection with a proposed issue of common shares. In the weeks which followed the financial markets became extremely volatile, reacting to record interest rates and developments in the international and domestic political arenas. Because of these unfavourable conditions, the decision was made to withdraw the preliminary prospectus.

Dividend Reinvestment and Share Purchase Plan

Shortly after the end of the fiscal year, the Board of Directors approved the introduction of a Dividend Reinvestment and Share Purchase Plan. The Plan will allow shareholders to acquire additional Common shares of the Corporation through the reinvestment of quarterly cash dividends at a 5% discount from market price. The Plan will also permit shareholders to buy shares with cash payments of up to $1 500 per quarter.

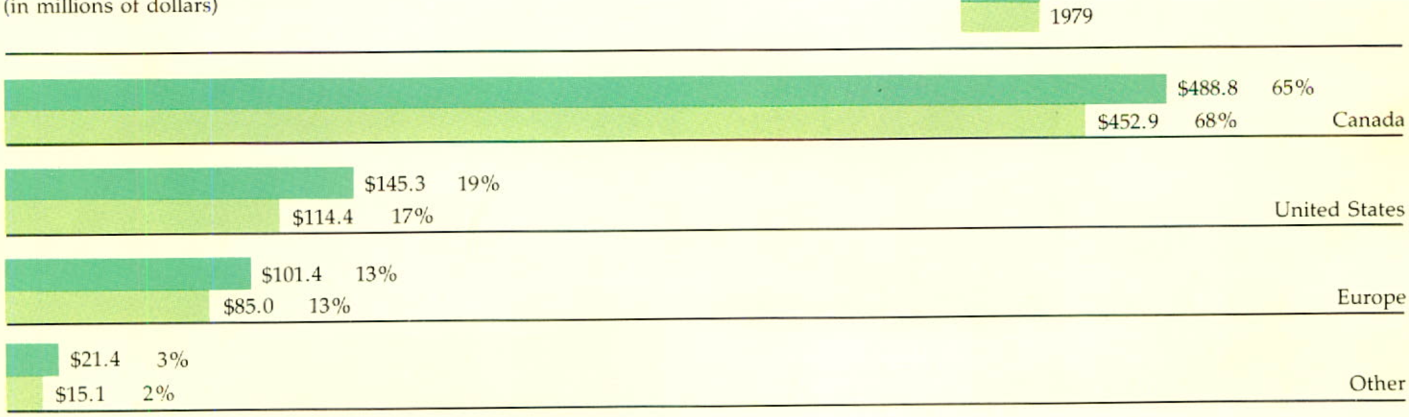
Segmented information

Note 11 to the Financial Statements provides information on the Corporation's activities in various geographic areas for fiscal 1979 and 1980. The note indicates that in fiscal 1980 income from operations was as follows: Canada, $61.2 million; United States, $15.9 million; Europe and other areas, $9.1 million. These are before allowance for interest expense, income taxes and the costs associated with the reorganization of the interlining business in the United States.

Share price, dividends and return to shareholders

During the two-year period ended June 30, 1980 the market value and trading volume of the Corporation's shares on the Montréal and Toronto stock exchanges were as shown on the next page. Also shown are the quarterly dividends paid.

Geographical distribution of sales
(in millions of dollars)



Year ended June 30, 1980

	High	Low	Shares traded	Dividend paid
July-September	$14.50	$13.00	639 300	$0.22
October-December	14.50	12.00	432 000	0.22
January-March	16.50	13.00	787 700	0.25
April-June	14.75	12.00	671 600	0.25
			2 530 600	$0.94

Year ended June 30, 1979

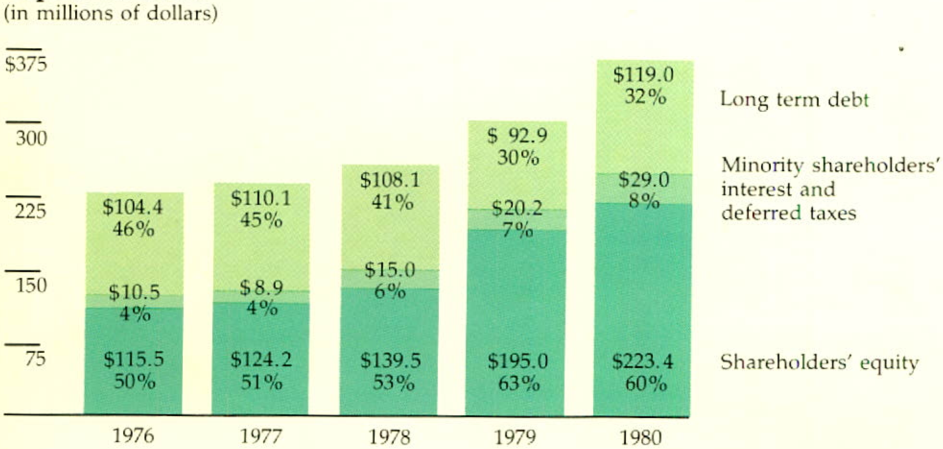
	High	Low	Shares traded	Dividend paid
July-September	$12.75	$10.75	885 300	$0.17
October-December	13.00	10.25	441 600	0.17
January-March	15.13	11.38	707 400	0.17
April-June	14.88	13.38	592 200	0.22
			2 626 500	$0.73

The dividend rate per Common share was increased to $0.25 per quarter from $0.22 per quarter effective with the dividend declared in February 1980. This marked the third consecutive year in which the dividend had been increased. The annual dividend is now $1.00 per share and the Corporation has now paid a dividend on its Common shares for 73 consecutive years.

The increases which have taken place in the dividend in recent years brought the payout to $0.94 in 1980.

Ten years earlier, in 1970, the dividend rate was $0.20 per share. If a shareholder had invested $1 000 in Dominion Textile Common shares on June 30, 1970, and reinvested all dividends received in additional shares, the value of his investment at June 30, 1980, would have been $7 305, which represents a compound annual return of [illegible] per year over the full ten-year period.

Capital structure
(in millions of dollars)



Dominion Textile Inc.
and Subsidiary Companies

Consolidated Statement of Income

for the year
ended June 30

	1980	1979
	(in thousands of dollars)	
Sales	**$756 944**	$667 417
Operating costs	**670 709**	606 940
Income from operations	**86 235**	60 477
Interest expense	**21 750**	18 555
Income from operations after interest — Note 1	**64 485**	41 922
Share in net income of associated companies	**1 732**	1 233
Other income — Note 2	**33**	944
Income before income taxes	**66 250**	44 099
Income taxes	**26 938**	18 397
	39 312	25 702
Gain (loss) on translation of foreign currencies	**(1 715)**	790
Minority interest	**(2 651)**	(1 075)
Net income for the year	**34 946**	25 417
Preferred dividends	**2 532**	119
Net income applicable to Common shares	**$ 32 414**	$ 25 298
Per Common share, after preferred dividends	**$ 3.66**	$ 3.02
Per Common share, fully diluted	**$ 3.55**	$ 2.80

Dominion Textile Inc.
and Subsidiary Companies

Consolidated Statement of Financial Position

as at June 30

	1980	1979
	(in thousands of dollars)	
Current assets		
Cash and term deposits	**$ 14 369**	$ 7 947
Accounts receivable	**129 333**	114 949
Inventories — Note 3	**213 544**	178 454
Prepaid expenses	**3 625**	4 273
	360 871	305 623
Deduct:		
Current liabilities		
Short term borrowings — Note 4	**66 412**	42 065
Accounts payable and accrued liabilities	**75 056**	65 339
Dividends payable	**2 893**	1 889
Income and other taxes	**13 322**	15 808
Long term debt due within one year	**12 590**	9 721
	170 273	134 822
Working capital	**190 598**	170 801
Investments and advances — Note 5	**18 482**	11 933
Land, buildings and equipment — Note 6	**159 172**	124 237
Other assets	**3 221**	1 116
Funds invested	**$371 473**	$308 087
Financed by:		
Long term debt — Note 7	**$119 044**	$ 92 920
Deferred income taxes	**20 956**	13 784
Minority shareholders' interest in subsidiary companies	**8 025**	6 388
Shareholders' equity		
Capital stock — Note 9	**96 185**	91 808
Retained earnings	**127 263**	103 187
	223 448	194 995
	$371 473	$308 087

On behalf of the Board:

Director

Director

Dominion Textile Inc.
and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

for the year ended June 30

	1980	1979
	(in thousands of dollars)	
Source of funds		
Net income for the year	**$ 34 946**	$ 25 417
Depreciation	**14 321**	12 623
Deferred income taxes	**7 229**	4 495
Share in net income of associated companies in excess of dividends received	**(887)**	(691)
Other non-cash items	**2 194**	—
Funds generated from operations	**57 803**	41 844
Working capital of acquired subsidiary	**5 700**	—
Proceeds on sale of fixed assets	**2 075**	1 186
Increase in long term debt	**54 180**	477
Issue of Second Preferred shares	**—**	30 000
Issue of Common shares	**4 598**	6 303
Minority interests' share in net income of subsidiaries, net of dividends paid	**1 637**	632
Realization of tax benefit	**2 701**	410
	128 694	80 852
Use of funds		
Investment in an acquired subsidiary — Note 10	**25 424**	—
Investment in associated companies	**5 825**	331
Additions to fixed assets	**33 449**	22 213
Debentures converted to Common shares	**4 178**	6 282
Repayment of long term debt	**28 889**	9 334
Dividends	**10 870**	6 239
Other items — net	**262**	191
	108 897	44 590
Increase in working capital	**$ 19 797**	$ 36 262

Dominion Textile Inc.
and Subsidiary Companies

Consolidated Statement of Retained Earnings

for the year
ended June 30

	1980	1979
	(in thousands of dollars)	
Retained earnings at beginning of year	**$103 187**	$116 390
Capitalization of retained earnings — Note 9 (e)	**—**	32 381
	103 187	84 009
Net income for the year	**34 946**	25 417
	138 133	109 426
Deduct:		
Dividends —		
Cumulative First Preferred	**16**	24
Second Preferred — Series A	**1 202**	95
Second Preferred — Series B	**1 314**	—
Common		
$0.94 per share in 1980, $0.73 in 1979	**8 338**	6 120
	10 870	6 239
Retained earnings at end of year	**$127 263**	$103 187

Auditors' Report

The Shareholders,
Dominion Textile Inc.

We have examined the consolidated statement of financial position of Dominion Textile Inc. as at June 30, 1980 and the consolidated statements of income, 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 June 30, 1980 and the results of its operations and the changes in 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
August 5, 1980

Accounting Policies

June 30, 1980

The Corporation follows generally accepted accounting principles, the most significant of which are as follows:

PRINCIPLES OF CONSOLIDATION
The consolidated financial statements include the accounts of Dominion Textile Inc. and all its subsidiary companies, with provision for the interest of minority shareholders. All material inter-company items are eliminated.

The acquisitions of all subsidiary companies are accounted for on a purchase basis. The assets and liabilities (adjusted to appropriate carrying values) of the companies acquired have been consolidated with those of the Corporation. The adjustment to carrying values is amortized over the economic life of the applicable assets, except as noted below.

As at May 31, 1975 DHJ Industries Inc., a subsidiary of the Corporation, had a balance of unrealized future tax benefit arising from loss carry-forwards incurred prior to acquisition, which was available to reduce future income taxes otherwise payable. The Corporation applied this credit, when realized, to amortize the adjustment to carrying values of DHJ Industries Inc. For the year ended May 31, 1980 an amount of $2 701 000 was so applied which completed this amortization.

FOREIGN EXCHANGE
Current assets and liabilities in foreign currencies are converted at the exchange rates prevailing at the statement of financial position dates. Fixed assets and long term liabilities are converted at rates prevailing at the dates of acquisition. Income and expenses in foreign currencies are converted at the actual exchange rates prevailing at the dates of transactions or at average exchange rates for the year.

INVENTORY VALUATION
Materials and supplies in inventories are valued at the lower of average cost and net realizable value. The cost of work in process and finished goods inventories includes raw materials, direct labour and certain manufacturing overhead expenses. Adequate provision is made for slow-moving and obsolete inventories.

MARKETABLE SECURITIES
Marketable securities are valued at average cost and when they are sold, the resulting gain or loss is included in Other income.

INVESTMENT IN ASSOCIATED COMPANIES
The investment in associated companies is carried at the Corporation's equity therein and the Corporation's share of the net income or loss of such companies is recorded in the period in which it is incurred.

FIXED ASSETS AND DEPRECIATION
Fixed assets are stated at historical cost. Depreciation is provided on a straight-line basis at varying rates which amortize the cost of the assets over their economic life. For the most part buildings are amortized over 25 years and machinery and equipment over 10 to 15 years.

When fixed assets are sold or scrapped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in Other income.

INCOME TAXES
The Corporation provides for income taxes based on income reported in the financial statements. The amount of income taxes actually payable for the year may differ from the total income tax provisions as a result of timing differences between the recognition of expense for accounting and for income tax purposes. The tax effect of these differences is reflected in the accounts as deferred income taxes.

PENSION PLANS
The Corporation and its subsidiaries have a number of pension plans, both of a contributory and non-contributory nature. All pension plans are trusteed and are being funded. The current service cost portion of these plans is absorbed in the period in which the service that gives rise to the entitlement is rendered. The unfunded past service pension liability is estimated to be $6 476 000 as at June 30, 1980 ($6 138 000 at June 30, 1979) and is being amortized over a period not longer than determined by actuarial estimates and government regulations.

Pension payments made to retired employees who are not covered by these plans are charged to operations when paid.

NET INCOME PER COMMON SHARE
Net income per Common share is calculated using the weighted average number of Common shares outstanding during the fiscal year, after deducting dividends on Preferred shares. The average number of Common shares outstanding for 1980 and 1979 was 8 864 454 and 8 383 494 respectively.

Net income per Common share on a fully diluted basis is calculated assuming that all of the Corporation's 5¾% Convertible debentures had been converted at the beginning of the fiscal year and the net income had been adjusted by the appropriate after-tax interest expense.

Notes to Consolidated Financial Statements

June 30, 1980

Note 1 — Income from operations after interest

	1980	1979
	(in thousands of dollars)	
Income from operations after interest includes provision for the following:		
Depreciation	**$ 14 321**	$ 12 623
Remuneration of directors and officers	**2 014**	2 180
Interest on long term debt	**10 104**	9 328
Interest on other borrowings	**11 646**	9 227

Note 2 — Other income

Income from marketable securities and other investments	**$ 265**	$ 246
Gain on sale of marketable securities	**708**	216
Gain (loss) on disposition of fixed assets, net	**(1 502)**	263
Royalties, commissions and other items, net	**562**	219
	$ 33	$ 944

Note 3 — Inventories

The major inventory classifications are as follows:		
Raw materials	**$ 70 230**	$ 47 649
Work-in-process, including grey fabric in bales for further processing	**64 843**	56 982
Finished goods	**66 792**	62 907
Supplies	**11 679**	10 916
	$213 544	$178 454

Note 4 — Short term borrowings

Bank borrowings of $23 655 000 by subsidiary companies are secured by assignment of accounts receivable and inventories.

Note 5 — Investments and advances

	1980	1979
	(in thousands of dollars)	
Marketable securities — at average cost (market value 1980 — $5 203 000; 1979 — $4 862 000)	**$ 3 197**	$ 3 380
Investment in associated companies valued at equity	**14 509**	7 768
Other investments and advances — at cost	**776**	785
	$ 18 482	$ 11 933

Note 6 — Land, buildings and equipment — at cost

Land and buildings	**$113 651**	$102 669
Machinery and equipment	**276 555**	241 908
	390 206	344 577
Less: Accumulated depreciation	**231 034**	220 340
	$159 172	$124 237

Note 7 — Long term debt	1980	1979
	(in thousands of dollars)	
Parent Corporation		
Secured		
Sinking fund debentures — Note 7 (a)		
Series A maturing March 31, 1988 at 5⅝% interest	**$ 19 112**	$ 20 572
Series B maturing April 15, 1990 at 6¾% interest	**7 977**	8 263
Series D maturing July 15, 1989 at 10½% interest	**11 100**	12 000
Term notes — secured by Series C Collateral debenture — Note 7 (a)		
Due 1981 to 1983 at 7% interest (payable in U.S. dollars)	**4 060**	4 186
Due 1981 at a Canadian bank's prime rate plus ¾%	**122**	1 061
Term note		
Due 1981, interest free	**1 293**	1 793
Unsecured		
Convertible debentures — Note 7 (b)		
Due October 12, 1992 at 5¾% interest	**2 031**	6 209
Term notes		
Due 1982 to 1987 — Note 7 (c), (payable in U.S. dollars)	**17 231**	7 863
Due 1981 to 1984 at 9½% interest	**1 350**	1 650
Subsidiaries (payable in U.S. dollars)		
Secured		
Term notes payable to banks and insurance companies — Note 7 (d)	**—**	21 763
Term notes — Notes 7 (d) and 7 (e)		
Due 1981 to 1986 at U.S. banks' prime rates plus ½% interest	**20 858**	—
Term notes		
Due 1981 to 1983 at a U.S. bank's prime rate plus ½% interest	**3 524**	3 224
Due 1981 to 1983 at 13% interest — Note 7 (f)	**7 892**	—
Other loans and mortgages	**3 099**	4 337
Unsecured		
Term note		
Due 1983 to 1990 at the London inter-bank offered rate plus ½% to 1% interest	**17 756**	—
Term notes — Note 7 (e)		
Due 1981 to 1982 at a U.S. bank's prime rate plus 1% interest	**632**	—
Due 1982 to 1993 at 10% interest	**3 196**	—
Due 1982 to 1993 at 10¼% interest	**1 480**	—
Capitalized lease obligations		
Due 1981 to 1987 at an average of 9% interest	**5 969**	7 508
Other liabilities	**2 952**	2 212
Total long term debt — Note 7 (g)	**131 634**	102 641
Deduct: Amounts due within one year	**12 590**	9 721
	$119 044	$ 92 920

(a) Sinking fund and Collateral debentures are secured by a floating charge on all the assets (except real and immovable properties) of the Corporation. The Corporation has purchased $2 328 000 Series A and $1 148 000 Series B in anticipation of sinking fund requirements.

(b) Debentures are convertible at the holders' option before October 12, 1982 into 90 Common shares for each $1 000 of aggregate principal amount of debentures.

(c) The interest rate fluctuates with changes in the lender's New York prime rate or the London inter-bank offered rate at the Corporation's option. The average interest rate in effect at June 30, 1980 was 13.7%.

(d) DHJ Industries Inc. has received commitment letters from two banks for loans of $20 858 000. The loans offset the existing outstanding debt to banks and insurance companies.

(e) The provisions of the agreements for these obligations require, among other things, that certain subsidiaries (i) maintain working capital and net worth above specified minimum levels, (ii) maintain the ratio of debt to net worth within prescribed limits and (iii) limit the payment of dividends to the Parent Corporation.

These loans are secured by a charge on the shares of certain subsidiaries.

The loans can be prepaid at any time at the Corporation's option without penalty.

(f) Balance of sale owing to former shareholders of Linn-Corriher Corporation, secured by the shares of the acquired subsidiary.

Note 7 — Long term debt
(continued)

(g) After allowing for pre-payments, the aggregate annual payments required on long term debt for years ending June 30 are:

	(in thousands of dollars)
1981	$ 12 590
1982	13 495
1983	17 825
1984	13 551
1985	12 108
1986-1994	62 065
	$131 634

Note 8 — Leases

As at June 30, 1980 the future annual minimum payments for building and equipment leases that have initial non-cancellable terms in excess of one year are as follows:

	(in thousands of dollars)
1981	$ 3 452
1982	1 947
1983	1 638
1984	1 436
1985	1 127
1986-2003	10 950
	$ 20 550

Note 9 — Capital stock

	1980	1979
	(in thousands of dollars)	
Cumulative First Preferred — Note 9 (a)		
Authorized — 4 306 shares		
Outstanding — 1 147 shares (1979 — 3 360 shares)	**$ 115**	$ 336
Second Preferred — Note 9 (b)		
Authorized — 3 000 000 shares aggregate value not to exceed $30 000 000		
Issued — 1 200 000 shares for $25.00 each		
Series A — 600 000 shares	**15 000**	15 000
Series B — 600 000 shares	**15 000**	15 000
Common — Notes 9 (c), (d) and (e)		
Authorized — unlimited shares		
Issued — 8 990 517 shares (1979 — 8 580 226 shares)	**66 070**	61 472
	$ 96 185	$ 91 808

(a) Cumulative First Preferred shares are entitled to a fixed yearly dividend of $7.00 per share.

(b) Second Preferred shares — Series A are entitled to a cumulative dividend of $2.00 per share per annum.

Second Preferred shares — Series B are entitled to a cumulative floating rate dividend equal to one-half of a Canadian bank's prime rate plus 1.55% calculated and adjusted quarterly.

The Second Preferred shares are redeemable, in whole or in part, at the option of the Corporation after April 30, 1984, for Series A and after June 30, 1984, for Series B, at prices declining from $26.00 each to $25.00 each on and after April 30, 1990.

The Corporation has agreed to offer to purchase 120 000 Second Preferred shares, Series A per annum commencing January 1, 1993 and 120 000 Second Preferred shares, Series B per annum commencing July 1, 1997.

(c) During the year 376 020 Common shares were issued on conversion of $4 178 000 of 5¾% Convertible debentures, increasing the capital stock by an equal amount. There remain 182 790 Common shares reserved for the possible conversion of these debentures at any time before October 12, 1982.

(d) Under the employee share purchase plan, 34 271 shares were issued for an aggregate consideration of $419 538.

(e) On September 20, 1978, under provisions of the Canadian and Québec Income Tax Acts, the Corporation capitalized $32 381 000 out of retained earnings, transferring this amount to the capital stock account and electing that the resulting deemed dividend be considered to be paid out of "1971 capital surplus on hand". The aggregate shareholders' equity remained unchanged.

(f) The deeds of trust and mortgage relating to the Series A, Series B, Series C and Series D debentures contain certain restrictions, customarily found in deeds of this type, pertaining to the amount of long term debt which may be issued, the declaration or payment of dividends and the reduction of capital. At June 30, 1980 the amount of shareholders' equity not restricted under the terms of the deeds was $119 752 000.

Note 10 — Acquisitions

In April 1980, a wholly owned United States subsidiary of the Corporation acquired 100% of the outstanding shares of Linn-Corriher Corporation of Landis, North Carolina for a net purchase price of $25 424 000. Details of the net purchase price, based on the assets and liabilities as at March 31, 1980 (adjusted to appropriate carrying values) are as follows:

	(in thousands of dollars)
Working capital	$ 5 700
Other assets	675
Fixed assets	24 060
	30 435
Long term debt	5 011
	$ 25 424

As the fiscal year end of Linn-Corriher Corporation is May 31, its operating results for the two months ended May 31, 1980 are included in the consolidated statement of income for the Corporation.

Note 11 — Segmented information

The Directors have determined that the Corporation operates within the textile industry in various geographic areas, which, for the 12 months ended June 30 can be segmented as follows:

(in millions of dollars)

	CANADA		UNITED STATES		EUROPE AND OTHER		ELIMINATIONS		CONSOLIDATED TOTALS	
	1980	1979	**1980**	1979	**1980**	1979	**1980**	1979	**1980**	1979
Sales to outsiders	**$528.4**	$483.4	**$140.5**	$113.4	**$ 88.0**	$ 70.6	**$ —**	$ —	**$756.9**	$667.4
Transfer among geographic locations	**.2**	.2	**85.8**	76.4	**—**	—	**(86.0)**	(76.6)	**—**	—
	$528.6	$483.6	**$226.3**	$189.8	**$ 88.0**	$ 70.6	**$ (86.0)**	$(76.6)	**$756.9**	$667.4
Income from operations	**$ 61.2**	$ 52.5	**$ 15.9**	$ 2.7	**$ 9.1**	$ 5.3			**$ 86.2**	$ 60.5
Interest expense									**21.7**	18.6
Income from operations after interest									**$ 64.5**	$ 41.9
Identifiable assets	**$381.8**	$319.9	**$ 91.4**	$ 69.8	**$ 54.0**	$ 45.4			**$527.2**	$435.1
Investment in associated companies									**14.5**	7.8
Total assets									**$541.7**	$442.9

Note 12 — Contingencies

Notes receivable discounted by foreign subsidiaries amount to approximately $5 582 000.

Ten-year Review

Results for the year (in millions of dollars)	**1980**	1979	1978	1977	1976	1975	1974	1973	1972	1971
Sales	**$756.9**	$667.4	$560.0	$498.9	$475.4	$273.4	$336.2	$257.3	$228.0	$191.4
Income from operations	**86.2**	60.5	44.0	37.2	34.1	20.1	40.6	20.2	18.3	12.8
Income before income taxes	**66.2**	44.1	31.9	25.5	22.3	12.3	33.1	15.8	14.2	8.0
Income taxes	**26.9**	18.4	12.5	10.4	8.8	5.2	14.3	7.0	7.0	3.7
Other items, net	**(4.4)**	(.3)	(1.2)	(1.8)	(3.9)	—	—	—	—	.9
Net income for the year	**34.9**	25.4	18.2	13.3	9.6	7.1	18.8	8.8	7.2	5.2
Net income applicable to Common shares	**32.4**	25.3	18.1	13.3	9.6	7.1	18.7	8.7	7.1	5.1
Interest — Long term debt	**10.1**	9.3	7.8	6.2	6.0	3.2	3.0	3.0	2.4	2.7
— Other	**11.6**	9.2	6.0	7.8	7.8	5.1	5.0	2.6	2.2	2.4
Funds generated from operations	**57.8**	41.8	37.6	28.4	25.1	21.9	34.8	24.6	22.2	16.4
Additions to fixed assets	**33.4**	22.2	19.2	22.1	18.7	21.7	17.8	24.7	11.7	6.7
Depreciation	**14.3**	12.6	13.9	13.9	14.2	12.1	12.3	11.0	10.6	10.0
Year-end position (in millions of dollars)										
Working capital	**190.6**	170.8	134.5	116.8	106.1	105.6	84.1	67.6	54.7	52.3
Land, buildings and equipment — at cost	**390.2**	344.6	326.9	313.4	304.7	294.5	246.3	230.3	201.8	186.0
Total assets	**541.7**	442.9	386.6	362.3	349.5	352.0	244.7	223.7	191.8	177.5
Long term debt	**119.0**	92.9	108.1	110.1	104.4	109.7	54.8	53.7	38.8	40.0
Shareholders' equity	**223.4**	195.0	139.5	124.2	115.5	110.5	108.3	93.6	88.3	85.8
Statistics per Common share (in dollars)										
Net income — Basic	**3.66**	3.02	2.31	1.71	1.23	.91	2.40	1.12	.92	.66
— Fully diluted	**3.55**	2.80	2.04	1.51	1.10	.83	2.10	1.03	.92	.66
Funds generated	**6.24**	4.98	4.78	3.64	3.22	2.81	4.46	3.15	2.84	2.10
Dividends	**.94**	.73	.64	.60	.60	.60	.50	.37	.30	.27
Book value	**21.50**	19.19	17.37	15.85	14.75	14.13	13.82	11.92	11.24	10.91
Market value — High	**16.50**	15.13	12.25	9.50	10.00	11.00	11.75	10.88	10.67	6.00
— Low	**12.00**	10.25	7.88	6.88	7.50	6.00	7.50	7.43	5.08	3.21
Other statistics										
Working capital ratio	**2.1**	2.3	2.1	2.0	1.9	1.9	2.1	1.9	1.9	2.0
Net income as a percentage of sales	**4.6**	3.8	3.3	2.7	2.0	2.6	5.6	3.4	3.2	2.7
Net income as a percentage of average Common shareholders' equity	**18.1**	16.7	13.8	11.2	8.5	6.5	18.7	9.7	8.3	6.2
Number of shareholders	**5 323**	5 323	5 725	5 735	6 002	6 264	6 218	6 371	5 757	6 602
Average number of Common shares outstanding (in thousands)	**8 864**	8 383	7 855	7 811	7 809	7 798	7 788	7 787	7 787	7 787
Number of employees at year end	**13 900**	13 200	12 600	12 000	13 100	10 100	12 400	12 700	11 000	10 200

Litho Canada

Directors

Jean Béliveau, Montréal
Senior Vice-President,
Corporate Affairs
Club de Hockey Canadien, Inc.

* Thomas R. Bell, Montréal
President and
Chief Executive Officer
Dominion Textile Inc.

Alex D. Hamilton, Montréal
President and
Chief Executive Officer
Domtar Inc.

* J. Claude Hébert, D.F.C., Montréal
Business Consultant

• Roderick O. A. Hunter, Winnipeg
Company Director

Gordon H. Lennard, Calgary
President
G.H. Lennard Corporation Ltd.

Charles A. McCrae, New York
Senior Vice-President,
Corporate Planning and
Administration
Dominion Textile Inc.

• Cal N. Moisan, Montréal
President and General Manager
SPB Canada (1979) Inc.

*• Ronald H. Perowne, Montréal
Chairman of the Board
Dominion Textile Inc.

* David F. Sobey, Stellarton,
Nova Scotia
President
Sobeys Stores Limited

* Kenneth A. White, K. St.J., C.D.,
Toronto
Chairman, President and
Chief Executive Officer
Royal Trustco Limited

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

Officers

Ronald H. Perowne
Chairman of the Board

Thomas R. Bell
President and
Chief Executive Officer

Francis P. Brady, Q.C.
Senior Vice-President,
Corporate Services

Harry Braid
Vice-President, General Manager,
Consumer Products Division

Arthur P. Earle
Senior Vice-President,
Operation Services

Ilay C. Ferrier
Senior Vice-President,
Finance

William N. Gagnon
Vice-President, General Manager,
International Division

Alex R. McAslan
Vice-President, General Manager,
Industrial Products Division

Charles A. McCrae
Senior Vice-President,
Corporate Planning and Administration

William A. McVey
Vice-President, General Manager,
Apparel Fabrics Division

Robert M. Wilson
Vice-President, General Manager,
Sales Yarn Division

Clifton M. Beck
Secretary and General Counsel

Richard G. Munro
Treasurer

Stephen J. Weir
Comptroller

Laurie W. Alnwick
Assistant Treasurer

Robert B. Anderson
Assistant Comptroller

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