

C



# ABITIBI PRICE

Annual Report 1979

HOWARD ROSS LIBRARY  
OF MANAGEMENT  
JUN 4 1981  
MCGILL UNIVERSITY

# **ABITIBI-PRICE** Annual Report for the year ended December 31, 1979

## **Abitibi-Price Is . . .**

A natural resource based company, Abitibi-Price is a major employer of more than 16,000 people in Canada and nearly 2,000 in the United States.

Abitibi-Price is the world's largest manufacturer of newsprint. In total, the Company manufactures over 3 million tons of paper, pulp and wood products annually at mill locations across Canada and in the United States. Sales span the globe.

## **Financial Position**

Reflecting increased sales and earnings, Abitibi-Price's financial position strengthened significantly in 1979. Working capital increased by \$38 million. Net cash resources were \$71 million at the end of the year. The book value per common share was \$22.80.

## **Capital Spending**

During 1979, \$148 million was invested in modernization and quality improvement, and to enhance the environment surrounding mills. Through 1984, over \$1 billion will be dedicated to continuing these programs in support of the strategic plans of each of the Company's business units.

Abitibi-Price Inc.

Head Office: Toronto-Dominion Centre,  
Toronto, Canada M5K 1B3

## **The Annual Meeting**

To be held in Commerce Hall, Concourse Level, Commerce Court West, Toronto, Canada on Monday, April 14, 1980 at 10:30 a.m. Toronto time.

We encourage you to attend. If you are not able to, we ask you to sign your proxy and return it to the Registrar.

*On peut obtenir ce rapport annuel en français sur demande.*

## **Contents**

Highlights	1
Report of the Directors	2
Financial Review	4
Financial Statements	6
Five Year Review	15
Primary Production	15
Operations Review	
Newsprint	16
Uncoated Groundwood Papers	18
Fine Papers	19
Kraft Pulp and Paperboard	20
Converting and Distribution	21
U.S. Building Products	22
Lumber	23
Woodlands	24
Mineral Interests	25
Research and Development	25
Personnel/Industrial Relations	25
Products, Plants and Sales Offices	26
Directors and Officers	28

## Highlights

(thousands of dollars)

	1979	1978
Net sales . . . . .	\$1,470,910	\$1,292,762
Mining income (loss) . . . . .	2,368	(1,450)
Equity interest in earnings of Mattabi Mines Limited . . . . .	8,723	3,280
Depreciation and depletion . . . . .	49,441	48,307
Income taxes . . . . .	68,046	63,738
Earnings before extraordinary items . . . . .	114,104	78,650
Per common share . . . . .	\$ 5.62	\$ 3.98
Net earnings . . . . .	115,118	78,345
Per common share . . . . .	\$ 5.67	\$ 3.96
Dividends declared—preferred shares . . . . .	9,147	4,703
—common shares . . . . .	28,039	17,680
—per common share . . . . .	\$ 1.50	\$ .95
Additions to fixed assets . . . . .	148,100	59,163
Working Capital . . . . .	339,121	300,673
Long-term debt . . . . .	237,726	241,165
Book value of common shares . . . . .	426,320	348,388
Per common share . . . . .	\$ 22.80	\$ 18.66

## Distribution of Common Shares

December 31, 1979

	Shareholders		Shares (000's)	
	No.	%	No.	%
Alberta	551	2.94	201	1.07
British Columbia	1,655	8.85	3,004	16.06
Manitoba	584	3.12	1,251	6.69
New Brunswick	341	1.82	90	0.48
Newfoundland	47	0.25	13	0.07
Nova Scotia	484	2.59	213	1.14
Ontario	9,866	52.72	7,703	41.19
Prince Edward Island	56	0.30	16	0.09
Quebec	3,427	18.31	4,987	26.67
Saskatchewan	218	1.17	52	0.28
Total Canadian	17,229	92.07	17,530	93.74
U.S.A.	1,303	6.96	1,018	5.44
Foreign	181	.97	153	0.82
TOTAL	18,713	100.00	18,701	100.00

## Common Share Market Information

1979	High	Low	Close	Shares Outstanding (000's)	Shares Traded (000's)	Dividends Paid
First quarter	\$19½	\$17¼	\$18½	18,681	1,947	\$0.40
Second quarter	19½	16¾	19	18,687	1,828	0.35
Third quarter	21½	17¾	19½	18,701	2,330	0.35
Fourth quarter	20½	16¾	19½	18,701	1,435	0.40
Year	21½	16¾	19½	18,701	7,540	1.50
1978	20¼	10½	19¾	18,668	8,889	0.70

Common shares and options on common shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

Valuation Day (Dec. 22, 1971) share prices:

Common	\$ 7.25
7½% Cumulative Redeemable Preferred, Series A	\$49.50

## Report of the Directors

Sales, earnings and dividends of Abitibi-Price Inc. reached record levels in 1979. However, it should be recognized that there are two external factors which significantly influenced the year's results. First, the Canadian dollar remained weak throughout 1979 and the resulting premium on U.S. funds accounted for 47% of the year's net earnings. Second, the high rate of inflation enhanced reported earnings mainly because depreciation is based on the historical cost of capital assets, and the amount written off provides insufficient funds for replacement of the assets.

The majority of our business units operated in very strong markets resulting in a particularly profitable year. Even with the newsprint mills running at capacity, we were unable to satisfy the increased demand of our customers. Excellent market conditions also prevailed for uncoated groundwood papers and for fine papers. The converting and distribution subsidiaries surpassed the outstanding results achieved last year. Income from mining interests exceeded expectations.

While most of the units performed well, there were some disappointments. The pulp mill at Smooth Rock Falls, Ontario, suffered from lengthy recovery boiler problems, lumber performance was adversely affected by a strike at the sawmill in L'Ascension, Quebec, and earnings of the building products division in

the U.S. were depressed by deteriorating market conditions and an extended strike at the Alpena, Michigan plant. Despite continuing weakness in the markets for lumber and building products, we expect improved profit contributions from this group of products.

Last year's Annual Report noted that the combination of capacity operations and favourable exchange rates would provide the necessary funds to undertake additional capital expenditures. These conditions continued through 1979 and we intend to use the cash thus generated to make your Company more efficient and better prepared to meet future competition. Financing the necessary expenditures has been further assisted by a new long term borrowing arranged during the year and by support programs of the provincial and federal governments.

One of the principles of strategic planning in Abitibi-Price is that available resources should be used to achieve specific objectives and be directed to those operations where the Company is strong and can expect a good return for its efforts. This led to a staged withdrawal during 1979 from some activities that offered below average long term potential. Disposition of our packaging plants, Canadian building products operation, a plywood converting plant in California and a sawmill in British Columbia was carried out according to this plan and we believe the action was construc-

Members of the  
†Policy Committee  
°Administration Committee



†W. J. Johnston, J. G. Davis, C. F. Buckland,  
B. K. Koken



†W. W. Hall, K. L. Macdonald, T. N. McLenaghan



tive for the Company. The sale of these properties generated immediate cash inflows. More important, however, was the curtailment of further significant investment in these activities, allowing funds to be channelled into areas where they will be used to greater advantage.

The strategic plan must remain flexible to adjust to changing circumstances and new opportunities. We are convinced that the present plan is effective, soundly aggressive and in the best long term interests of shareholders, customers and employees. It envisions capital expenditures over the next five years totalling more than one billion dollars, of which we will spend \$220 million in 1980. This represents an increase of \$72 million over capital expenditures made in 1979, and is well in excess of the amount spent in any previous year.

Of the five-year capital program, over 70% is earmarked for newsprint and, except for the additional tonnage from the Stephenville conversion, is mainly to improve quality and to reduce costs. This is consistent with the intention to concentrate our efforts in the newsprint industry. Increased productivity, better quality and lower costs are also fundamental goals for other areas. The plan does include \$180 million for environmental projects necessary to bring the Company into compliance with all presently known requirements. In addition, \$30 million will be spent to generate

energy internally by using residues as fuel wherever economically feasible. For the smaller business units, limited funds will be available for expansion and acquisitions.

In assessing the prospects for 1980, we recognize that external influences can have a significant impact on the Company. In addition, the fact that most of our labour contracts expire during the year adds a degree of uncertainty to the outlook. However, we make short term assumptions based on the best available information and plan our operations accordingly. We anticipate that markets for newsprint and other papers will hold up throughout 1980 and be particularly strong in the early part of the year. Improved operations at our pulp mills should yield better earnings from this product. Soft markets for lumber and building products will likely depress sales and earnings in this segment until late in the year. Mining income in 1980 is not expected to reach the high level achieved in 1979, however, it should continue to be an important factor and we hope that the expanded exploration program will provide opportunities for increased earnings in the future.

Following last year's Annual Meeting, Robert C. Gimlin was appointed Chief Executive Officer, and the senior executive organization was restructured into two smaller groups, the Policy Com-

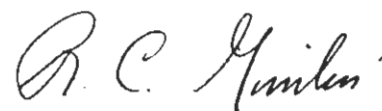
mittee and the Administration Committee (pictured below).

A great deal of effort on the part of all employees is essential to the Company's continuing success. Your Company's major resource is the loyalty and skills of its people. This fact is clearly recognized and appreciated by the Board on behalf of the shareholders.

On behalf of the Board,



Chairman of the Board



President and Chief Executive Officer

Toronto,  
February 14, 1980



\*†C. H. Rosier, C. R. Tittermore, R. C. Gimlin, J. I. McGibbon



\*M. D. Thompson, A. A. Labrèque



D. O. Gray, M. D. S. Kellow, E. L. Neal

## Financial Review

Record levels of sales, earnings and dividends were attained in 1979. Sales of \$1,470.9 million reflect an increase of 14% over \$1,292.8 million the previous year. Earnings before extraordinary items were \$114.1 million or \$5.62 per common share, compared with \$78.6 million or \$3.98 per share in 1978. After extraordinary items, 1979 net earnings were \$115.1 million, as against \$78.3 million the preceding year. Common share dividends declared in 1979 amounted to \$1.50 per share, which compares with the previous record dividend rate of \$0.95 established in 1978.

Excluding extraordinary items, 1979's rate of return on average capital employed was 14.3% compared to 13.2% the previous year, while the return on average common shareholders' equity increased to 27.1% from 23.1% in 1978.

1979's earnings and the related increase in funds provided from operations resulted in a significant strengthening of the Company's financial position. Working capital increased by \$38.4 million to \$339.1 million and the Company's net cash resources were \$70.9 million at the end of the year, compared to \$52.3 million a year earlier. The foregoing took place against capital expenditures of \$148.1 million, an increase of \$88.9 million over the preceding year's \$59.2 million.

On average, in 1979 the Canadian dollar was weaker against the U.S. dollar than it was in 1978 and the premium on U.S. funds contributed \$54.4 million or 47% of 1979 earnings, compared to \$41.4 million or 53% the previous year. Sales, costs and expenses which are made or incurred in foreign currencies are translated to their Canadian funds equivalent at the exchange rate prevailing at the time of the transaction and, as a result, most of the gain resulting from the U.S. dollar premium is included in the appropriate categories on the earnings statement. However, the effect of fluctuations in the exchange rate between the time of the initial transaction and its subsequent settlement (receipt or payment) or its translation to Canadian funds equivalent on the balance sheet date is reported separately on the earnings statement as a foreign exchange gain or loss.

At current business levels, each one cent change in the U.S. exchange rate over a full year's operations would affect earnings by an estimated 20¢ per common share.

During the year the Company negotiated a new 10.15% sinking fund debentures issue of U.S. \$135 million with a group of private lenders. \$12,650,000 of this amount was received in December 1979 and the balance in mid-February 1980. The proceeds from the issue, together with internally generated funds, will be used to finance the capital expenditures program mentioned in the Report of the Directors.

At the end of the year Abitibi-Price owned 99.5% of the outstanding common shares of The Price Company Limited. The Company's right to use Section 48 of The Quebec Companies Act to acquire Price's remaining common shares is currently before the Quebec courts.

Following approval obtained at a Special General Meeting of Shareholders held on October 15, the Company was continued under the Canada Business Corporations Act and its name was changed to Abitibi-Price Inc. In addition, the structure of the Company's share capital was changed to permit the issue of unlimited numbers of Preferred Shares, Common Shares and Class A Shares and the directors were given the right to provide common shareholders with the option of receiving stock dividends with possible attendant income tax advantages.

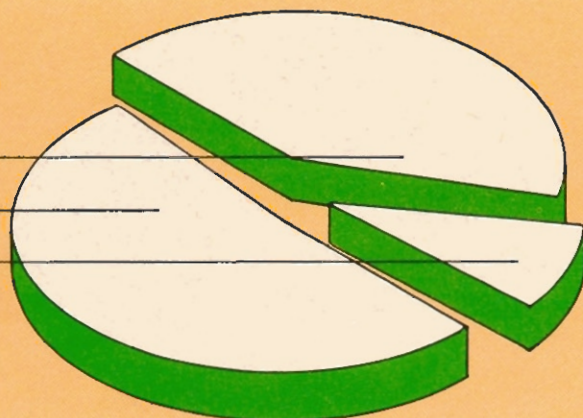
The extraordinary credit of \$1 million appearing on the earnings statement reflects the net gain relating to the disposition of the Company's sawmill operation in British Columbia, its building products and packaging operations in Canada and three small building products plants in the U.S.

Until a generally accepted method of accounting for inflation becomes applicable, Abitibi-Price continues to report its financial results on the conventional historical basis. However, it must be recognized that during a time of inflation this overstates real profits, and depreciation based on the historical cost of capital assets is inadequate to provide for their replacement.



## Net Sales by Market—1979

Canada	38.2%
U.S.A.	52.6%
Other	9.2%



## Net Sales by Product

(thousands of dollars)

	1979	1978
Newsprint	\$ 676,680	\$ 614,101
Uncoated groundwood papers	152,069	103,797
Fine papers, including merchant and converting operations	332,938	268,183
Paperboard, kraft paper and pulp	53,855	47,076
Packaging	33,468	33,901
Total Pulp and Paper	1,249,010	1,067,058
Building products	119,751	130,910
Lumber	102,149	94,794
Total Building Products and Lumber	221,900	225,704
Total All Products	\$1,470,910	\$1,292,762

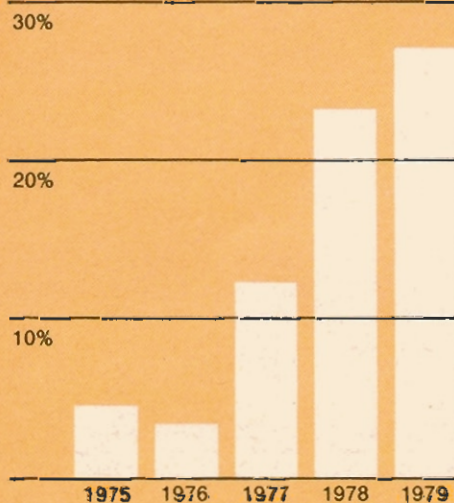
## Net Sales and Earnings by Quarter

(thousands of dollars)

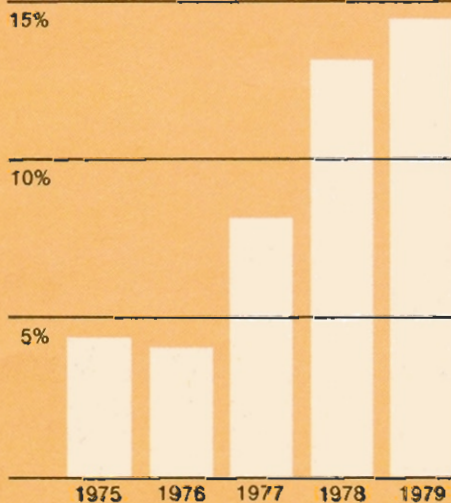
	Net Sales		Earnings*	
	1979	1978	1979	1978
1st quarter	\$ 354,010	\$ 289,355	\$ 21,996	\$14,766
2nd quarter	374,851	330,408	33,269	17,104
3rd quarter	368,090	333,173	27,253	22,459
4th quarter	373,959	339,826	31,586	24,321
	\$1,470,910	\$1,292,762	\$114,104	\$78,650

\*before extraordinary items

## Return on Average Common Shareholders' Equity (%)

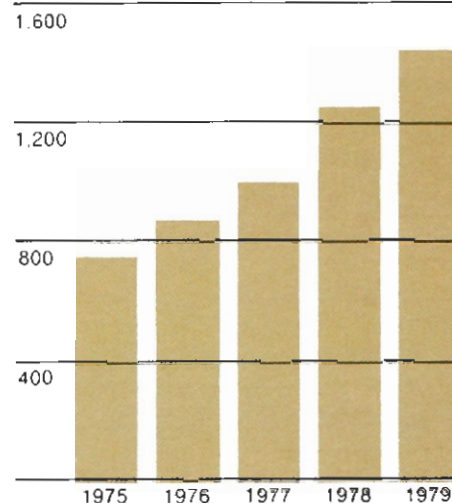


## Return on Average Capital Employed (%)



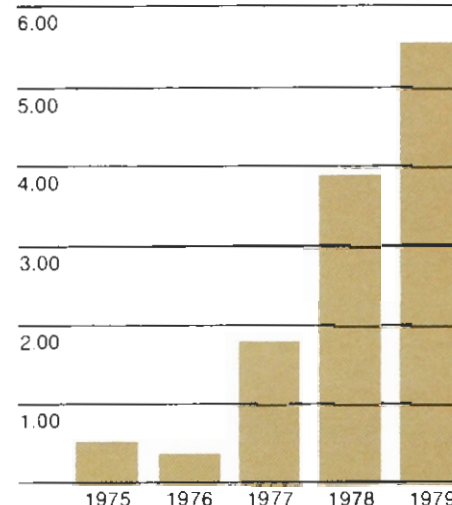
## Net Sales

(millions of dollars)



## Earnings Per Common Share\*

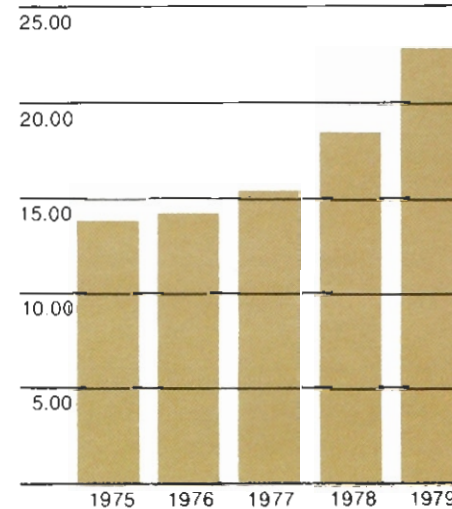
(dollars)



\*before extraordinary items

## Book Value Per Common Share

(dollars)



**Consolidated Net Earnings**

(thousands of dollars)

	Year Ended December 31	
	1979	1978
		(Note 12)
Net sales . . . . .	\$1,470,910	\$1,292,762
Mining income (loss) . . . . .	2,368	(1,450)
Foreign exchange gain (loss) . . . . .	(3,027)	7,789
Interest and other income . . . . .	12,245	5,103
	<u>1,482,496</u>	<u>1,304,204</u>
Cost of sales . . . . .	1,138,379	993,627
Selling, administrative and research expenses . . . . .	93,433	83,224
Depreciation and depletion . . . . .	49,441	48,307
Interest and expense on long-term debt . . . . .	22,678	23,173
Other interest . . . . .	795	645
Income taxes . . . . .	68,046	63,738
	<u>1,372,772</u>	<u>1,212,714</u>
	109,724	91,490
Interest in earnings of companies accounted for on the equity basis—		
Mattabi Mines Limited . . . . .	8,723	3,280
Other companies . . . . .	1,363	2,184
	<u>119,810</u>	<u>96,954</u>
Minority shareholders' interest . . . . .	5,706	18,304
Earnings before extraordinary items . . . . .	114,104	78,650
Extraordinary items (note 3) . . . . .	1,014	(305)
Net earnings . . . . .	<u>\$ 115,118</u>	<u>\$ 78,345</u>
Per common share:		
Earnings before extraordinary items . . . . .	\$ 5.62	\$ 3.98
Net earnings . . . . .	5.67	3.96

**Consolidated Retained Earnings**

(thousands of dollars)

	Year Ended December 31	
	1979	1978
Retained earnings at beginning of year . . . . .	\$ 293,562	\$ 237,600
Net earnings . . . . .	115,118	78,345
	<u>408,680</u>	<u>315,945</u>
Dividends declared—preferred shares . . . . .	9,147	4,703
—common shares (note 8) . . . . .	28,039	17,680
Retained earnings at end of year . . . . .	<u>\$ 371,494</u>	<u>\$ 293,562</u>



**Changes in Consolidated Financial Position**

(thousands of dollars)

	Year Ended December 31	
	1979	1978
<b>Financial Resources Provided By:</b>		
Earnings before extraordinary items	\$114,104	\$ 78,650
Charges (credits) to earnings not affecting working capital—		
Depreciation and depletion	49,441	48,307
Deferred income taxes	4,085	3,385
Earnings from equity interests in excess of dividends received	(74)	(664)
Minority shareholders' interest	5,706	18,304
Reduction in deferred income	(1,061)	—
Other—net	(616)	(58)
Funds from operations	171,585	147,924
Extraordinary items—		
Sales and writedown of operating units, net of working capital	22,941	(3,312)
Utilization of prior years' tax losses	—	3,967
Deferred income	35,318	23,355
Issue of preferred shares	102,500	—
Redemption of preferred shares of a subsidiary company issued in 1978	(75,000)	75,000
Redemption of convertible promissory notes issued in 1978	(27,500)	27,500
Issue of long-term debt	14,702	—
Disposals of fixed assets	3,878	1,792
Decrease (increase) in investments	795	(90)
Decrease in receivables not currently due	497	121
Issue of common shares	—	2
	<u>249,716</u>	<u>276,259</u>
<b>Financial Resources Used For:</b>		
Additions to fixed assets	148,100	59,163
Dividends—		
Preferred and common shareholders	37,186	22,383
Minority shareholders of subsidiary companies	2,109	4,945
Reduction of long-term debt, net of unrealized exchange loss	15,347	11,976
Acquisitions of subsidiary companies' shares, net of working capital acquired—		
The Price Company Limited	2,032	95,520
Labrador Linerboard Limited	—	40,900
Retirement of preferred shares	2,208	2,097
Discount and expense on issue of long-term debt	689	—
Other items—net	3,597	(1,562)
	<u>211,268</u>	<u>235,422</u>
Increase in Working Capital	38,448	40,837
Working Capital at Beginning of Year	300,673	259,836
Working Capital at End of Year	<u>\$339,121</u>	<u>\$300,673</u>

**Consolidated Balance Sheet**

(thousands of dollars)

**ASSETS**

December 31

1979 1978

**Current Assets:**

Cash and short-term investments . . . . .	\$ 76,454	\$ 57,733
Accounts receivable . . . . .	217,309	199,726
Inventories (note 4) . . . . .	229,223	222,064
Prepaid expenses . . . . .	7,595	5,586
	<u>530,581</u>	<u>485,109</u>

**Fixed Assets:**

Properties, plant and equipment . . . . .	959,576	883,056
Logging equipment and development . . . . .	67,201	60,135
Woodlands and mining and water power rights . . . . .	42,413	44,601
	<u>1,069,190</u>	<u>987,792</u>
Less—accumulated depreciation and depletion . . . . .	480,488	468,381
	<u>588,702</u>	<u>519,411</u>

**Other Assets:**

Equity interests—		
Mattabi Mines Limited . . . . .	12,184	13,461
Other companies . . . . .	9,196	7,845
Receivables not currently due . . . . .	2,920	3,417
Investments (note 5) . . . . .	4,138	4,933
Cost of shares of acquired companies in excess of values attributed to underlying net assets, less accumulated amortization . . . . .	20,031	20,080
Unamortized discount and expense on long-term debt . . . . .	1,902	1,368
Unrealized loss on translation of long-term debt payable in U.S. funds (note 1(b)) . . . . .	14,045	16,839
	<u>64,416</u>	<u>67,943</u>

The financial statements have been  
approved by the Board:

T. J. Bell, Director

R. C. Gimlin, Director

<u>\$1,183,699</u>	<u>\$1,072,463</u>
--------------------	--------------------

LIABILITIES	December 31	
	1979	1978
<b>Current Liabilities:</b>		
Bank indebtedness .....	\$ 5,534	\$ 5,446
Accounts payable and accrued liabilities .....	153,257	131,415
Income and other taxes payable .....	15,750	18,602
Dividends payable (note 8) .....	8,916	8,082
Long-term debt due within one year (note 6) .....	8,003	10,891
Promissory notes .....	—	10,000
	<u>191,460</u>	<u>184,436</u>
 Convertible Promissory Notes (note 8) .....	 —	 27,500
Deferred Income (note 7) .....	57,612	23,355
Long-Term Debt (note 6) .....	237,726	241,165
Deferred Income Taxes .....	103,117	106,628
Minority Shareholders' Interest .....	24,465	23,276
 <b>SHAREHOLDERS' EQUITY</b>		
Preferred Shares Issued by a Subsidiary Company (note 8) .....	—	75,000
<b>Stated Capital (note 8):</b>		
Preferred shares—		
Series A— 169,990 shares (1978—174,290 shares) .....	8,499	8,715
Series B— 640,000 shares (1978—680,000 shares) .....	32,000	34,000
Series C—1,500,000 shares .....	75,000	—
Series D— 550,000 shares .....	27,500	—
Class A shares .....	—	—
Common shares—18,701,030 shares (1978—18,668,244 shares) .....	54,826	54,826
Retained Earnings .....	<u>371,494</u>	<u>293,562</u>
	569,319	466,103
	<u><u>\$1,183,699</u></u>	<u><u>\$1,072,463</u></u>



## Notes to Consolidated Financial Statements

---

### 1. Summary of Significant Accounting Policies

#### (a) Principles of Consolidation

The financial statements consolidate the accounts of Abitibi-Price Inc. and all companies in which it holds more than a 50% interest. Investments in companies in which Abitibi-Price holds a major interest, but not more than 50%, are included in the financial statements in accordance with the equity method of accounting.

The cost of shares of acquired companies in excess of values attributed to underlying net assets is recorded as an asset on the balance sheet. The excess for companies acquired prior to 1974 is not being amortized, while the excess in respect of subsequent acquisitions is amortized on a straight-line basis over an appropriate period not in excess of 40 years.

#### (b) Translation of Foreign Currencies

Balances and transactions in foreign currencies are translated into Canadian dollars as follows:

Fixed assets, investments and deferred income taxes at historical rates of exchange;

Other assets and liabilities at rates in effect at December 31;

Items included in net earnings at rates prevailing during the year, except depreciation and depletion which are on the same basis as the related fixed assets.

The unrealized gain or loss on translation of long-term debt payable in United States funds is deferred on the balance sheet. The amount of such gain or loss ultimately realized is dependent on the exchange rate in effect when the debt is retired.

Foreign exchange gains or losses, which result from changes in exchange rates between the dates when sales, costs or expenses in foreign currencies are transacted and the dates when foreign currencies are converted to Canadian funds or foreign currency working capital items are translated to their Canadian funds equivalent, are disclosed separately on the earnings statement.

#### (c) Inventories

Inventories of finished products, work in process and materials and operating supplies are valued at the lower of average cost and net realizable value. Inventories of pulpwood and sawlogs are valued at average cost.

#### (d) Fixed Assets and Depreciation

Fixed assets are recorded at cost and depreciation is provided at rates considered adequate to amortize the cost over the productive lives of the assets. The principal asset category is primary production equipment which is depreciated over 20 years on a straight-line basis. Timber limits are depleted on the unit-of-production basis to the extent of amounts allowable for income tax purposes.

#### (e) Discount and Expense on Long-Term Debt

Discount and expense on long-term debt is amortized over the terms of the related obligations.

#### (f) Pension Costs

Current service pension costs are charged to earnings and funded as they accrue. Past service costs are charged to earnings and funded at rates which, based on independent actuarial estimates, will fully provide for the obligations over periods not longer than those permitted by the various regulatory bodies.

#### (g) Income Taxes

Earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result from timing differences between the recognition of income and expenses for accounting and for tax purposes, are reflected as deferred income taxes in the financial statements.

When losses are incurred, no provision is made for the related tax benefit unless recovery is virtually certain. When tax benefits not previously recognized are realized they are included in earnings as an extraordinary item.

Investment tax credits are accounted for using the "flow-through" method which recognizes the tax benefit in the year the eligible capital expenditures are made, except for the deferment of the tax benefit applicable to the Stephenville newsprint mill conversion as described in note 7.

#### (h) Earnings Per Common Share

Earnings per common share calculations are based on the average number of shares outstanding during the year and are computed after allowing for dividends on preferred shares.

## 2. Segmented Information (\$ millions)

BUSINESS SEGMENTS	Pulp and Paper		Building Products and Lumber		Mining		Consolidated	
	1979	1978	1979	1978	1979	1978	1979	1978
Net sales	\$1,249	\$1,067	\$ 222	\$ 226			\$1,471	\$1,293
Operating profit (loss) before depreciation and depletion	\$ 255	\$ 213	\$ 17	\$ 30	\$ 2	\$ (1)	\$ 274	\$ 242
Depreciation and depletion	(37)	(36)	(12)	(12)	—	—	(49)	(48)
Equity earnings—net of taxes	1	2	—	—	9	3	10	5
Operating profit	\$ 219	\$ 179	\$ 5	\$ 18	\$ 11	\$ 2	235	199
Foreign exchange gain (loss)							(3)	8
Interest and other income							12	5
General corporate expenses							(33)	(27)
Interest and long-term debt expense							(23)	(24)
Income taxes							(68)	(64)
Minority shareholders' interest							(6)	(18)
Earnings before extraordinary items							\$ 114	\$ 79
Identifiable assets	\$ 852	\$ 758	\$ 192	\$ 210	\$ 18	\$ 19	\$1,062	\$ 987
General corporate assets							122	85
Total assets							\$1,184	\$1,072
Additions to fixed assets	\$ 120	\$ 41	\$ 28	\$ 18			\$ 148	\$ 59

Notes: (1) The directors of the Company have determined the foregoing segments as appropriately reflecting the classes of business in which the Company is involved.

(2) Inter-segment sales have not been reflected as they are not material.

## GEOGRAPHIC SEGMENTS

	Canada		U.S.A.		Consolidated	
	1979	1978	1979	1978	1979	1978
Net sales	\$1,270	\$1,095	\$ 201	\$ 198	\$1,471	\$1,293
Operating profit	\$ 226	\$ 179	\$ 9	\$ 20	235	199
Foreign exchange gain (loss)					(3)	8
Interest and other income					12	5
General corporate expenses					(33)	(27)
Interest and long-term debt expense					(23)	(24)
Income taxes					(68)	(64)
Minority shareholders' interest					(6)	(18)
Earnings before extraordinary items					\$ 114	\$ 79
Identifiable assets	\$ 919	\$ 846	\$ 143	\$ 141	\$1,062	\$ 987
General corporate assets					122	85
Total assets					\$1,184	\$1,072

Notes: (1) Geographic segments reflect the location of the Company's production facilities.

(2) Canadian operations include sales to the U.S. market of \$573 million (1978—\$481 million) and other export sales of \$135 million (1978—\$127 million).

**3. Extraordinary Items**

	1979	1978
Gain on sale of Price-Skeena Forest Products Ltd. completed in January 1980, net of income taxes of \$933,000	\$ 4,459,000	\$ —
Loss on sale of assets and business of the Company's Canadian building products and packaging operations, net of income taxes of \$1,000,000	(1,300,000)	—
Provision for net loss relating to the sale or planned shutdown of three small U.S. building products plants, net of income taxes of \$2,942,000	(2,145,000)	—
Writedown of Price Wilson Limited net assets to approximate market value	—	(3,000,000)
Income tax reductions realized on utilization of losses incurred in prior years by subsidiary companies, net of minority interest of \$1,272,000	—	2,695,000
	<u>\$ 1,014,000</u>	<u>\$ (305,000)</u>

**4. Inventories**

	1979	1978
Finished products and work in process	\$ 61,476,000	\$ 66,221,000
Pulpwood, sawlogs and expenditures on current logging operations	108,969,000	102,630,000
Materials and operating supplies	58,778,000	53,213,000
	<u>\$229,223,000</u>	<u>\$222,064,000</u>

**5. Investments, at cost**

	1979	1978
Bonds, debentures and notes	\$ 300,000	\$ 1,058,000
Townsite mortgages and advances	1,793,000	1,860,000
Other	2,045,000	2,015,000
	<u>\$ 4,138,000</u>	<u>\$ 4,933,000</u>

**6. Long-Term Debt**

	1979	1978
Abitibi-Price Inc.:		
Sinking Fund Debentures—		
5¼% Series A, maturing 1985	\$ 10,820,000	\$ 11,977,000
7¼% Series B, maturing 1987	8,168,000	9,492,000
9¾% Series D, maturing 1990	10,399,000	11,940,000
10½% Series E, maturing 1995	40,950,000	42,500,000
11% Series F, maturing 1995	13,180,000	14,210,000
11¾% Series G, maturing 1995	69,996,000	71,148,000
10.15% Series H, maturing 2000	14,758,000	—
Abitibi-Price Corporation and subsidiary companies:		
Revolving Bank Credit bearing interest at lender's prime rate	9,333,000	9,486,000
Instalment Note bearing interest at % above lender's prime rate, maturing 1981	1,750,000	2,668,000
5½% Instalment Notes, maturing 1984	6,183,000	7,115,000
5½% Instalment Note, maturing 1986	8,166,000	9,486,000
7¾% Instalment Notes, maturing 1988	12,833,000	14,230,000
5¼% Instalment Note, maturing 1991	3,054,000	3,297,000
Other notes	2,251,000	3,723,000
The Price Company Limited and subsidiary companies:		
Sinking Fund Debentures—		
5¾% Series A, maturing 1982	5,800,000	7,500,000
6¾% Series B, maturing 1987	15,700,000	18,300,000
5½% Sinking Fund Notes, maturing 1985	7,793,000	9,237,000
6% Sinking Fund Notes, maturing 1986	3,733,000	4,364,000
Other indebtedness	862,000	1,383,000
	<u>245,729,000</u>	<u>252,056,000</u>
Less: Amount due within one year	8,003,000	10,891,000
	<u>\$237,726,000</u>	<u>\$241,165,000</u>



During 1979 the Company arranged for the issue of U.S. \$135,000,000 of 10.15% Series H Debentures, of which U.S. \$12,650,000 was received in December 1979, with the balance of U.S. \$122,350,000 to be received in February 1980.

Long-term debt payable in U.S. dollars included above aggregated U.S. \$129,153,000 at December 31, 1979 (1978—U.S. \$123,740,000).

Sinking fund and instalment payment obligations for 1980 amount to \$13,013,000, of which \$5,010,000 has been discharged by prior purchase and retirement. Principal repayment obligations for the years 1981 to 1984 are estimated to be \$17,400,000, \$21,700,000, \$18,600,000 and \$20,700,000, respectively. The holders of the Series E Debentures have the right to elect prepayment on March 1, 1985.

Abitibi-Price Inc. has effectively guaranteed payment of certain outstanding long-term debt of Abitibi-Price Corporation and subsidiary companies amounting to U.S. \$25,800,000 at December 31, 1979. As security for its guarantee of the 7% Instalment Notes, of which U.S. \$11,000,000 were outstanding at December 31, 1979, Abitibi-Price Inc. issued and pledged 7% Series C Debentures in the authorized principal amount of U.S. \$17,000,000.

## **7. Deferred Income**

On acquisition of Labrador Linerboard Limited from the Province of Newfoundland in 1978, Abitibi-Price acquired approximately \$205,000,000 of unused capital cost allowances which exceeded the \$40,900,000 of the purchase price allocated to the cost of the Stephenville mill by \$164,100,000. The tax benefits realized on this excess and on the investment tax credits resulting from subsequent capital expenditures to convert the linerboard mill to a newsprint mill are treated as deferred income, to be utilized to offset preproduction and start-up costs, with the balance to be transferred to earnings over the productive life of the new newsprint mill. At December 31, 1979 such deferred income amounted to \$57,612,000.

## **8. Continuance and Stated Capital**

A Certificate of Continuance was obtained on October 15, 1979, continuing the Company under the Canada Business Corporations Act. The Articles of Continuance changed the Company's name from Abitibi Paper Company Ltd.—Compagnie de Papier Abitibi Ltée to Abitibi-Price Inc. and authorized the Company to issue (i) an unlimited number of Preferred Shares issuable in series, (ii) an unlimited number of Common Shares and (iii) an unlimited number of Class A Shares.

In addition, the Articles of Continuance permit the directors of the Company to give common shareholders the right to elect to receive all or part of any dividends in the form of stock dividends of either Common Shares or Class A Shares in lieu of cash dividends. Stock dividends payable in the form of Common Shares shall comprise the number of Common Shares which has a value, as determined by the board of directors, that is substantially equal to the cash dividend otherwise payable, with cash to be paid for any fractional share interest. Stock dividends payable in the form of Class A Shares shall have a value per share equal to the cash dividend declared at the time and shall be redeemed by the Company within 15 days of issue.

### **7½% Cumulative Redeemable Preferred Shares Series A—**

The Series A shares, which were issued at \$50 per share, are redeemable at \$52 per share on or before May 31, 1983 and at \$51 per share thereafter. During 1979, 4,300 shares with a book value of \$216,000 (1978—2,000 shares with a book value of \$100,000) were purchased at a cost of \$208,000 and cancelled.

### **10% Cumulative Redeemable Preferred Shares Series B—**

The Series B shares, which were issued at \$50 per share, are required to be redeemed at \$50 per share through the operation of a cumulative sinking fund at the rate of 40,000 shares annually. The shares are otherwise redeemable at \$52.50 per share after June 14, 1980 to and including June 15, 1981, at prices declining annually from that date to and including June 15, 1985 and at \$50 per share thereafter. During 1979, 40,000 shares with a book value of \$2,000,000 were redeemed and cancelled.

### **Floating Rate Preferred Shares Series C—**

On November 21, 1979 the Company issued 1,500,000 Series C shares at \$50 per share in substitution for \$75,000,000 of preferred shares having similar terms which were issued in 1978 by a wholly-owned subsidiary of the Company. The shares provide for a dividend payable at a floating rate of one-half the average prime rate of the five largest Canadian chartered banks plus 1%, with a maximum dividend rate of 9% per annum. The shares are redeemable by the Company at \$50 per share after January 1, 1981 and they are retractable at the option of the holders at \$50 per share after December 31, 1989.

---

### Preferred Shares Series D—

On December 31, 1979 the Company issued 550,000 Series D shares to the Province of Newfoundland to replace \$27,500,000 of convertible promissory notes issued in December 1978 in connection with the Company's purchase from the Province of all the outstanding shares of Labrador Linerboard Limited. No dividend is payable in respect of these shares. One-quarter of the number of shares originally issued are required to be redeemed at \$50 per share on December 31 in each of the four years 1981 to 1984.

### Common Shares and Class A Shares—

During 1979, 32,786 Common Shares were issued under the terms of the Key Employees' Stock Option Plan and at the end of the year options were outstanding on 494,932 shares at prices equal to market value at date of grant, ranging from \$9.9375 to \$18.5625 per share. Options are for terms of up to ten years and are exercisable mostly in instalments upon fulfilment of service conditions. A market growth formula is used in determining the number of shares to be issued when an option is exercised. The market growth amount is calculated by multiplying the number of shares subject to the exercise of an option by the increase in the market value per share from date of grant to date of exercise. Shares to this amount are issued in consideration of the relinquishment by the optionee of his option right to the remaining shares in the market growth calculation and the payment of one cent per share issued.

Under elections made by common shareholders relating to the December 17, 1979 dividend declaration of 40¢ per share, the Company is committed on February 1, 1980 to issue 7,056 Common Shares with a value of \$138,000 and Class A Shares with a value of \$77,000. The Class A Shares are to be redeemed on issue at 40¢ per share.

## 9. Capital Projects

Estimated expenditures of \$148 million will be required to complete approved capital projects.

## 10. Unfunded Pension Benefits

Estimates recently received from independent actuaries indicate that at December 31, 1979 the present value of the unfunded liability for past service pension benefits not provided for in the accounts was approximately \$36 million.

## 11. Other Statutory Information

(a) The aggregate direct remuneration paid by the Company and its subsidiaries to the directors and senior officers of the Company during the year ended December 31, 1979, determined in accordance with the Québec Securities Act, was \$125,000 and \$2,561,000, respectively.

(b) Loans outstanding with officers relating to the purchase of residences amounted to \$371,000 at December 31, 1979.

## 12. Reclassification

Certain 1978 figures have been reclassified in order to be consistent with the current method of presentation. These reclassifications do not affect previously reported net earnings. Foreign exchange gains or losses are now separately disclosed and mining income and exploration expenses have been reclassified to correspond with the basis of presentation adopted for segmented information in note 2.

---

## Auditors' Report

### To the Shareholders of ABITIBI-PRICE INC.:

We have examined the consolidated balance sheet of Abitibi-Price Inc. as at December 31, 1979 and the consolidated statements of net 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. We have relied on the reports of other independent accountants who have examined the financial statements of two partly-owned companies accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of Abitibi-Price Inc. as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, February 14, 1980

PRICE WATERHOUSE & CO.  
Chartered Accountants

## Five-Year Review

(thousands of dollars)

	1979	1978	1977	1976	1975
<b>Sales and Earnings:</b>					
Net sales	\$1,470,910	\$1,292,762	\$1,036,314	\$877,191	\$760,936
Mining income (loss)	2,368	(1,450)	(660)	(872)	1,552
Equity interest in earnings of					
Mattabi Mines Limited	8,723	3,280	3,421	4,155	4,307
Depreciation and depletion	49,441	48,307	43,963	41,942	42,071
Interest expense	23,473	23,818	23,856	25,032	22,505
Income taxes	68,046	63,738	29,363	13,420	16,278
Minority shareholders' interest	5,706	18,304	11,623	3,687	7,428
Earnings before extraordinary items	114,104	78,650	37,908	13,024	13,985
Per common share	\$ 5.62	\$ 3.98	\$ 1.83	\$ .47	\$ .63
Extraordinary items	1,014	(305)	(1,687)	—	—
Net earnings	115,118	78,345	36,221	13,024	13,985
Per common share	\$ 5.67	\$ 3.96	\$ 1.74	\$ .47	\$ .63
<b>Dividends Declared:</b>					
Preferred shares	\$ 9,147	\$ 4,703	\$ 4,366	\$ 4,584	\$ 2,622
Common shares	28,039	17,680	6,446	2,172	7,239
Per common share	\$ 1.50	\$ .95	\$ .35	\$ .12	\$ .40
<b>Additions to Fixed Assets</b>	<b>\$ 148,100</b>	<b>\$ 59,163</b>	<b>\$ 43,580</b>	<b>\$ 54,371</b>	<b>\$ 71,041</b>
<b>Financial Position:</b>					
Working Capital	\$ 339,121	\$ 300,673	\$ 259,836	\$224,562	\$229,023
Net fixed assets	588,702	519,411	476,230	489,437	478,205
Long-term debt	237,726	241,165	242,512	243,168	255,522
Deferred income taxes	103,117	106,628	103,224	99,725	91,299
Minority shareholders' interest	24,465	23,276	110,417	111,671	108,090
Preferred shares	142,999	117,715	44,815	47,016	49,261
Book value of common shares	426,320	348,388	292,424	262,192	255,924
Per common share	\$ 22.80	\$ 18.66	\$ 15.77	\$ 14.49	\$ 14.14

## Primary Production

	Newsprint	Uncoated Groundwood Papers	Fine Papers	Paperboard Kraft Paper and Market Pulp	Building Boards	Lumber
	Tons	Tons	Tons	Tons	Msf	Mfbm
<b>Capacity 1979</b>	1,961,000	370,000	205,000	307,000	977,000	441,000
<b>Production 1979</b>	1,961,000	370,000	202,000	247,000	848,000	360,000
<b>1978</b>	1,962,000	292,000	181,000	297,000	935,000	356,000
<b>1977</b>	1,694,000	231,000	157,000	271,000	904,000	324,000
<b>1976</b>	1,711,000	211,000	113,000	247,000	854,000	272,000
<b>1975</b>	1,548,000	129,000	77,000	162,000	733,000	130,000

- (a) Capacity figures indicate effective annual output and generally are somewhat less than rated capacities due to allowances for items such as maintenance downtime.
- (b) A significant portion of market pulp production is consumed in the manufacture of primary paper products at other Abitibi-Price mills.
- (c) Building board production is expressed on an equivalent thickness basis.



## Newsprint

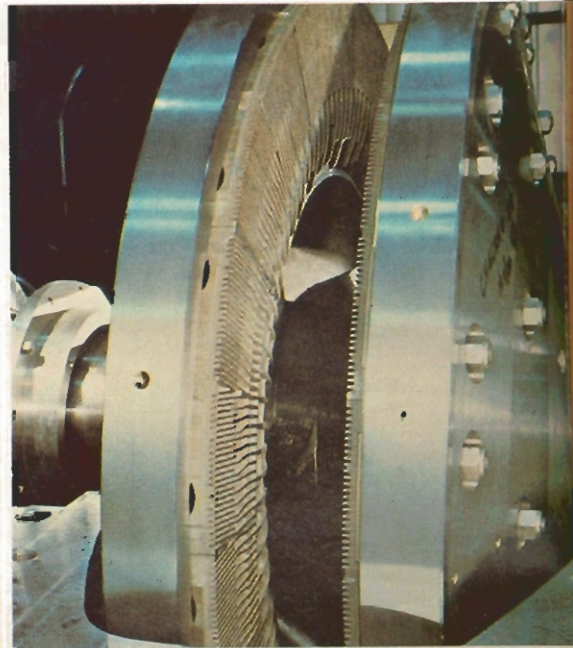
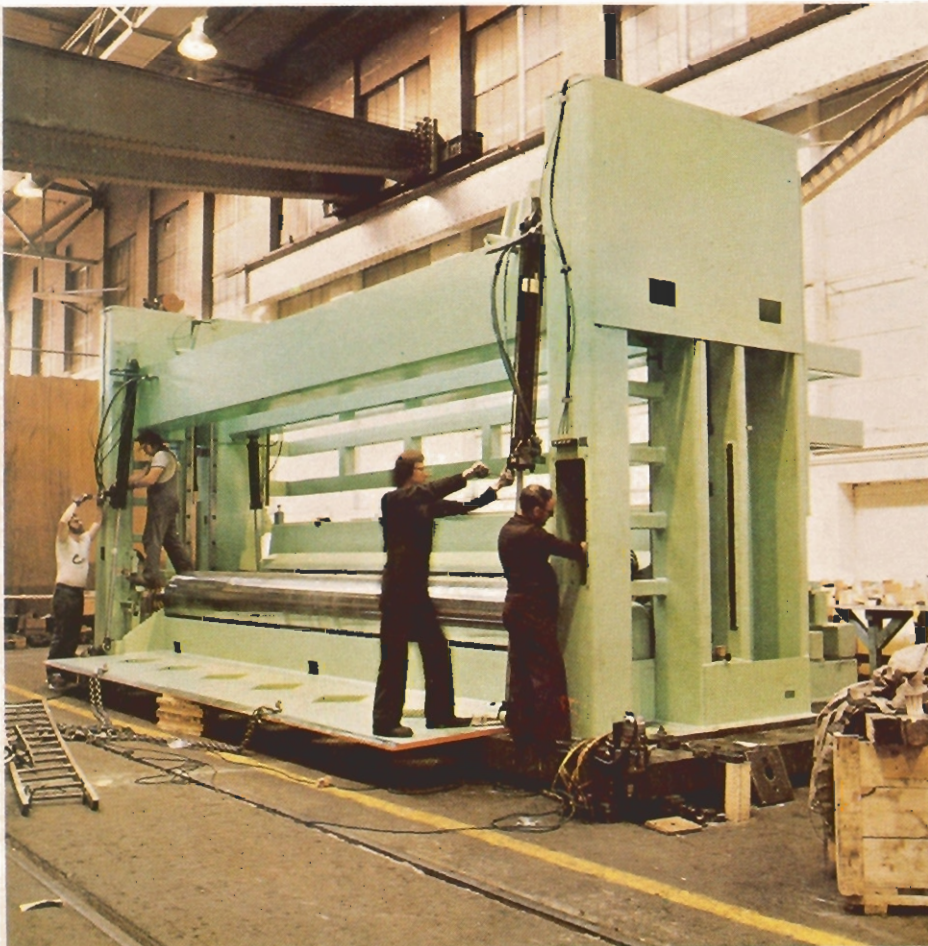
The unprecedented level of demand for newsprint, particularly in North America, continued to exceed the industry's production capability. This situation was further aggravated by strikes at some U.S. and Canadian mills with the result that inventories both at mills and at customers' warehouses were significantly reduced to unsatisfactory levels. Thus, 1979 was the second year in which the market's demand on the Canadian industry went unsatisfied.

U.S. consumption, constrained by supply, rose 3% to over 11 million tons. Consumption in Canada moved ahead 4%. Offshore shipments from the Canadian industry declined 7% due entirely to production limitations, not diminished demand. Canadian production was 1.2% below that of 1978 because of labour disruptions.

During 1979, Abitibi-Price newsprint mills ran at 100% of capacity, producing 1,961,000 tons. Thus, in spite of the conversion of a Kénogami newsprint machine to uncoated groundwood papers, newsprint production was sustained at the 1978 level through improved efficiencies.

Concentration on maximum production to supply customer demand made difficult the achievement of process modifications and improvements. Nonetheless, progress was made in most mills on a variety of major programs, including new paper machine headboxes and drives at Pine Falls, computer control systems at Beupré, Alma and Augusta, and stock quality improvements at Iroquois Falls, Fort William, Chandler and Grand Falls.

These programs support the major strategic thrust of the Company's newsprint business—to modernize existing mills to continue to improve quality in keeping with the more rigid requirements of world-wide markets; to markedly improve cost competitiveness; and to meet commitments to environmental improvements. Reducing energy consumption and cost is also of paramount importance. Projects related to these objectives are currently under way or planned, including new calender stacks at Pine Falls, a new headbox at Fort William, additional computer controls at Iroquois Falls and Thunder Bay, clarifiers at Thunder Bay and Fort William, and a new



The new newsprint machines being built for Stephenville and Iroquois Falls mills are key expenditures in our capital program.

- High-speed winders capable of speeds up to 8500 ft. per minute, like the one shown (left) are critical segments of the new newsprint machines
- Double revolving disc refiners driven by 10,000 h.p. motors will manufacture thermo-mechanical pulp at Stephenville.



pulping plant to displace sulphite pulp at Fort William.

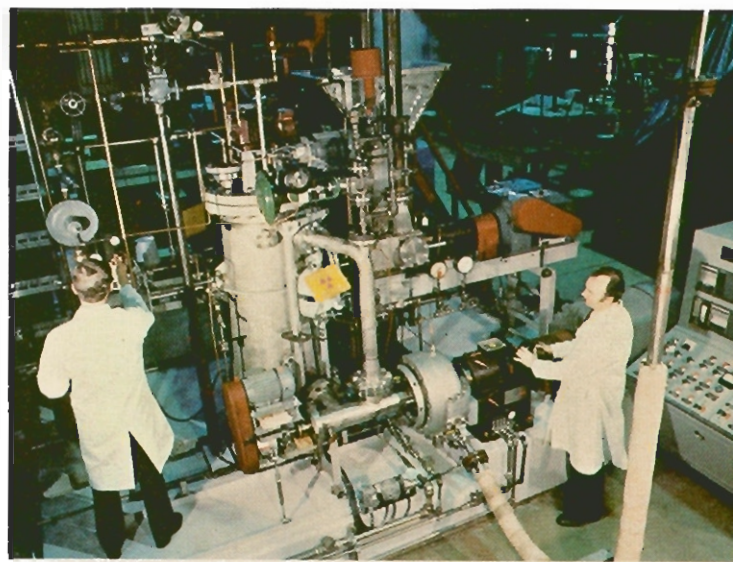
There will be a small incremental increase in capacity from the modernization program. A major increase will result when the new 500 ton per day newsprint mill comes on stream in late 1980 at Stephenville. This project, begun at the end of 1978 when Abitibi-Price purchased the closed Labrador Liner-board mill from the Newfoundland government, revolves around a completely new TMP pulping facility, and major changes and additions to the paper machine which include a twin-wire former, a rebuilt press section and a new winder. All aspects of design will ensure the capability to provide a quality product, and the tidewater location will guarantee excellent service to both offshore and North American markets.

As a significant part of the newsprint strategic plan, the Company has announced a major project to ensure the continuing viability of the Iroquois Falls mill as a cost competitive producer of quality newsprint. A modern twin-wire

paper machine will be installed, as will a new wrapping line to handle the entire mill output, a new roll grinder, stock preparation and storage systems. The new 540 ton per day machine will replace four existing machines originally installed between 1916 and 1925, and it will produce paper suited to the requirements of today's high speed printing presses. Orders are placed for principal equipment, construction will start in the spring of 1980, and production will begin after mid-1982.

### Outlook

The Canadian newsprint industry is expected to operate close to capacity in 1980. An economic recession in the first half of the year is forecasted to reduce consumption, but, because newspapers will be rebuilding their seriously depleted inventories, demand should remain relatively firm. Looking further ahead, a total of 10 new machines have been announced for start-up in 1980 through 1984 in North America which will probably increase capacity faster than the anticipated growth in demand.



- At Stephenville, (left) the paper machine room is being readied to house the 500 ton per day paper machine.
- An integral part of a successful company is research. At Sheridan Park, Abitibi-Price scientists develop and refine new mechanical pulping techniques by manufacturing pulp under laboratory conditions.



## Uncoated Groundwood Papers

In its second full year as a separate business unit, Abitibi-Price's uncoated groundwood papers continued to make significant progress. Substantial gains were achieved in production, with both the Sault Ste. Marie and Kénogami mills running at 100% of capacity and producing 370,000 tons, 26% more than in 1978. Sales and earnings performances showed major advances as well.

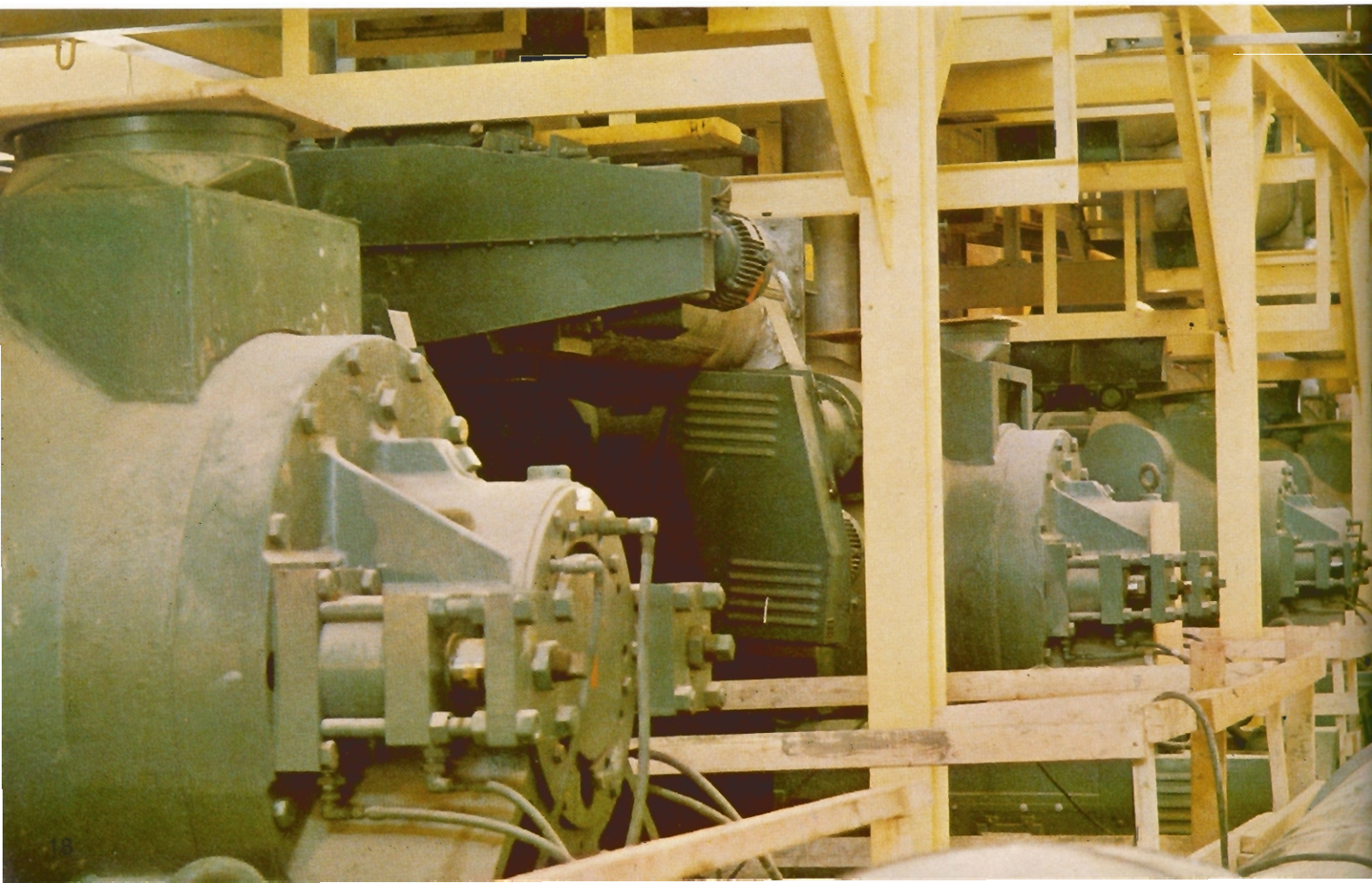
Demand for all product lines exceeded the Company's, and indeed the industry's ability to produce. This tight supply situation, coupled with a short supply of newsprint, resulted in many commercial printers having to shift to higher, more expensive grades of paper. This was an interruption in the trend away from high-priced paper towards the more economical alternative provided by the developing family of uncoated groundwood sheets. Progressing emphasis on these grades will resume as capacity adjustments are made, thereby benefiting the Company and the market alike, and sustaining a healthy environment for this business.

In 1979, the group's programs of market selection and penetration, product development and quality improvement proceeded as planned. The strategies in this regard have been carefully prepared. They serve as the focal point for the further activities of this business unit as it continues to gather momentum and North American printers look to Abitibi-Price as a primary source for rotogravure, offset, lightweight directory and business forms papers.

The \$32 million capital program at Kénogami for conversion to TCMP pulp is completed. A successful start-up is anticipated which, along with other further adjustments, will contribute positively to earnings and quality performance. Moreover, early in 1980 the last Kénogami machine, which previously produced kraft paper, will be converted. This will increase total capacity to over 400,000 tons, making the Company one of North America's largest producers of uncoated groundwood papers.

The outlook for 1980 is for full operation at both mills and continued growth in earnings.

- Huge refiners are the heart of the new thermo-chemical-mechanical pulping installation now in production at Kénogami





## Fine Papers

Strong order backlogs and seven-day operations were among the highlights of 1979 for the Fine Papers Division, thus the gains in volume and earnings recorded for 1978 were, for the most part, sustained. Record earnings were achieved at the Port Arthur and Georgetown mills, however, equipment failures resulted in depressed earnings at Thorold. There were dramatic cost increases in 1979, particularly for wood-pulp which rose nearly 20% during the year.

The discounted Canadian dollar and continued high U.S. demand discouraged imports from that country which, combined with strong Canadian demand, created an environment wherein pricing adjustments were adequate to recover cost escalations.

Another highlight of 1979 was the completion of the Tokyo Round of tariff negotiations within the GATT. The Canadian fine paper industry will be facing deep cuts in its tariff protection as a result. This development served to confirm the Fine Papers Division's strategy of concen-

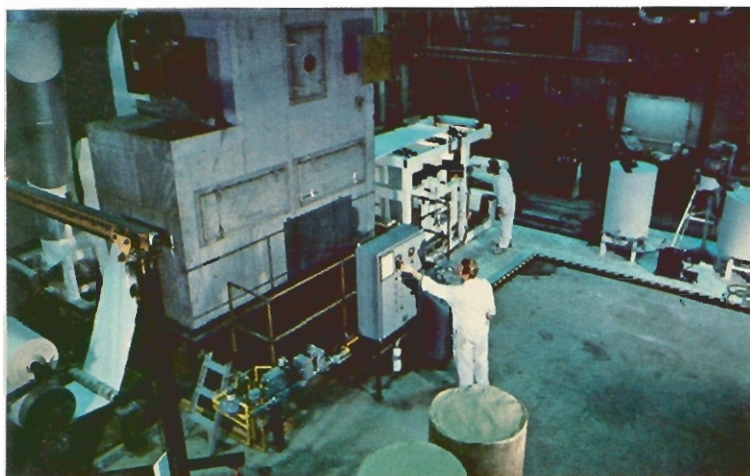
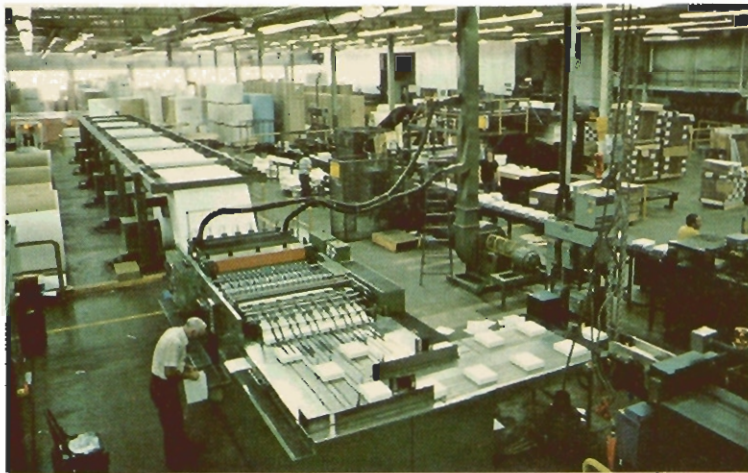
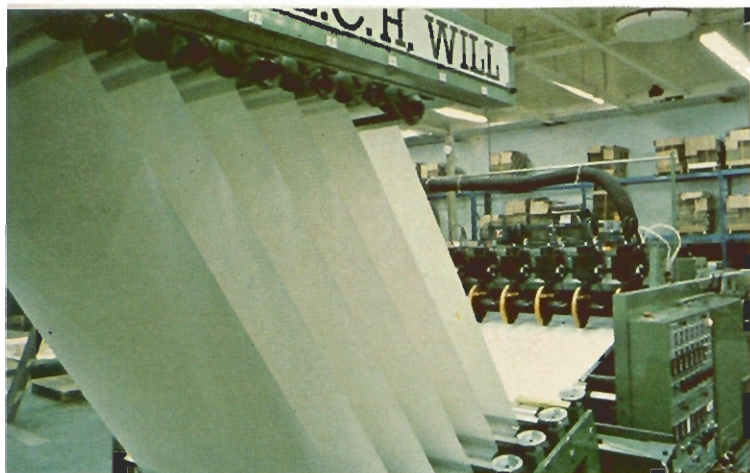
tration on grades and markets in which the Company has inherent advantages and the potential to be competitive internationally. This strategy was fine-tuned in 1979 and a \$45 million capital program evolved for the process modifications required for its implementation over the 1980-84 period. The result will be mill equipment that is updated and adapted for the quality and cost efficiencies needed to attain specialized product standards which will be competitive with the best North American producers.

The program began in 1979 with \$13 million of expenditures. The most significant investments were made at the Thorold mill where a high speed cut stock production line came on stream in November, a major paper machine rebuild was begun for completion in mid-1980, and an off-machine coater was purchased for 1981 installation. 1980 will see the program continuing in a substantial way at the Thorold and Port Arthur mills.

Also in 1979 there was progress in the sales and marketing shifts that must be accomplished in a timely way to optimize

production of the eventual planned product mix. These efforts will continue in 1980 and will complement the timing of equipment changes.

Except for downtime planned for equipment modification, 1980 should provide good levels of operations and earnings by the Fine Papers Division.



- As part of the Fine Papers Division strategy that emphasizes specialty grades, a new high-speed cut stock line is in operation at Thorold. (Top)
- Our Sheridan Park Research Centre has designed and built this commercial-size laboratory coater to aid in furthering the Company's leadership in paper coating technology



## Kraft Pulp and Paperboard

Kraft pulp demand was strong and selling prices rose dramatically, so 1979 should have been a landmark year for the Smooth Rock Falls pulp mill. However, such was not the case as a series of costly recovery boiler failures put this operation in a loss position. By year-end all repairs had been effected and the mill returned to normal production levels.

Capacity operations, supported by continuing firm demand and pricing, are expected to result in a dramatic turnaround in kraft pulp operations in 1980. A further significant contribution will arise from the increased pulping capacity at the Jonquière mill resulting from the grade change from kraft paper to groundwood papers. This additional pulp will be sold to our own facilities as well as market customers.

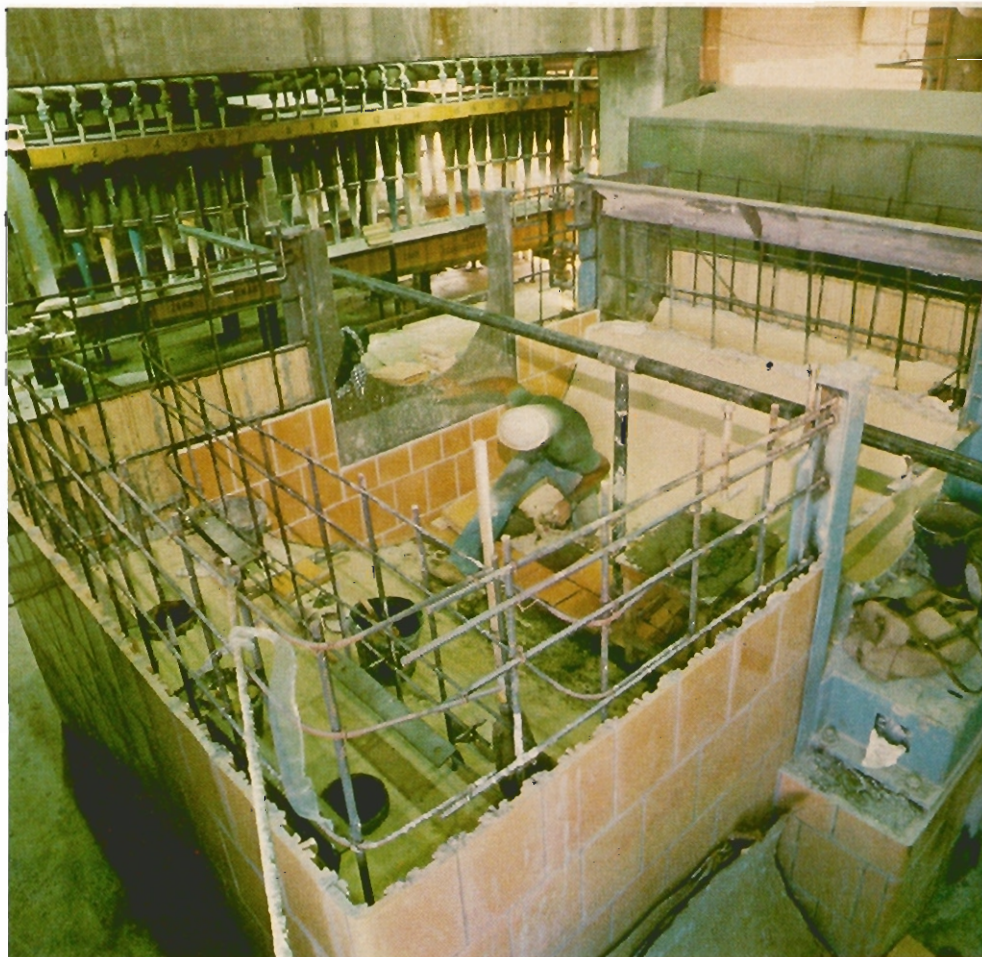
Abitibi-Price's kraft pulp strategy is to satisfy the requirements of the Company's paper mills within reasonable proximity to the pulp mills; then, through trades and exchanges in the open market, to satisfy the Company's further requirements, thereby optimizing freight charges. This, plus a policy of serving a

limited number of market customers, strikes a healthy balance between internal and external sales.

Paperboard and kraft paper operations at Jonquière and Kénogami showed continuing improvements in 1979 and a strong demand for these products resulted in increased earnings.

With the cessation of kraft paper production in 1980, the focus will be on paperboard and a strategy of continuing to enhance product mix in favour of the most profitable grades. Also during 1979, critical inefficiencies were identified in the Jonquière mill and a program is under way for their resolution. Success in these areas will not only improve earnings from this business, but will provide the base for Abitibi-Price's continuing key role in the Canadian folding carton industry.

The capital program for this business unit amounts to some \$30 million through 1984. Pollution abatement projects will require 55% of this total, with the remainder being dedicated to modernization.



- The Jonquière, Quebec mill's bleach plant addition will supply high quality semi-bleached kraft pulp for groundwood paper grades.
- One of the several pulp washers is pictured (right) at the installation stage.



## Converting and Distribution

This group of three wholly-owned subsidiaries made significant gains in 1979.

### Inter City Papers Limited and Subsidiaries

This paper merchant subsidiary again established sales and earnings records, which included major contributions in both categories by its Price Wilson Division. Thus the track record of high growth was sustained through achieving major advances in chosen market and product areas.

The synergistic consolidation of Price Wilson proceeded with the integration of its head office functions into Inter City's Montreal headquarters and Mississauga office. The successful merger of these two merchant chains—one dealing with printing and business papers, the other with industrial papers—has provided a structure and organization which will be able to perpetuate this subsidiary's identified growth strategy. More than \$10 million for investments and working capital will be applied through 1984 to support growth.

In spite of a flat economic outlook, modest gains are forecast for 1980.

### Hilroy Ltd. and Subsidiary

Papeterie Canadienne was the major contributor to Hilroy's improved performance in 1979. This subsidiary benefited from productivity gains and an effective reorganization.

As Canada's largest stationery manufacturer with a major share of the school supply market, Hilroy's strategy recognizes declining student enrolments and calls for major gains in other selected markets. Quality, service and cost competitiveness are areas of greatest concentration and during 1979-1980 nearly \$2 million is being spent on improved productivity and efficiency in support of these goals.

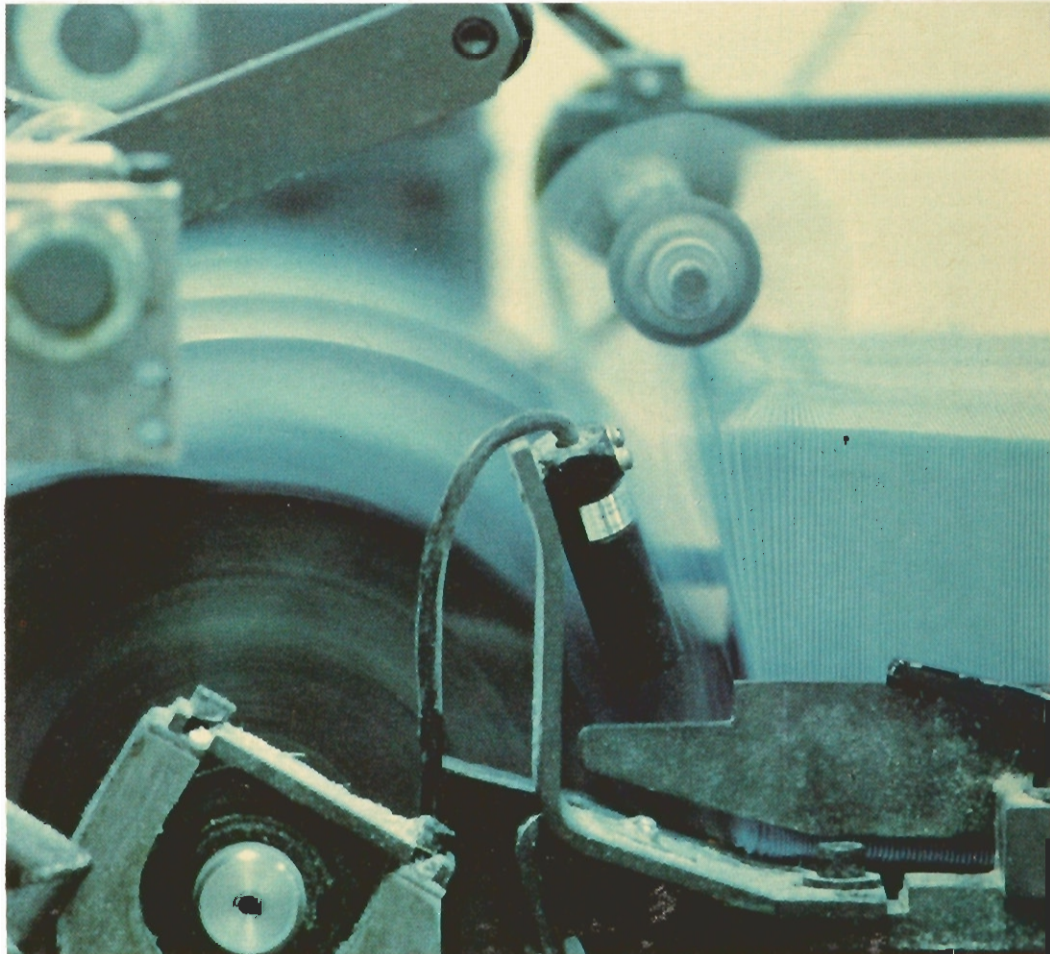
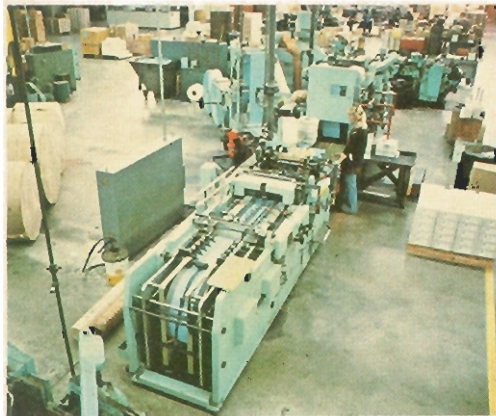
1980 will be a year of increasing challenge with raw material costs escalating rapidly on the one hand and a declining market on the other. There is optimism, however, and improved earnings are predicted.

### Canada Envelope Company

Sales and earnings were at record levels in Canada Envelope Company. All six plants in Vancouver, Calgary, Winnipeg, Toronto, Montreal and Stellarton performed well and contributed to these results through improved product mix, gains in market share as well as a substantial rise in productivity.

Concentrating on cost efficiencies, coupled with a high standard of quality and service, the company is well equipped to meet competition from both domestic and imported products. Two new web envelope machines were installed in 1979 and further investments in productivity and quality will be made in 1980.

The objective in 1980 will be to sustain the gains made despite higher raw material costs and little or no real market growth. A further slight improvement in earnings is expected.



● Two new high-productivity envelope machines were installed in 1979 by Canada Envelope. Our pictures show the installation at the Rexdale, Ont. plant



## Lumber

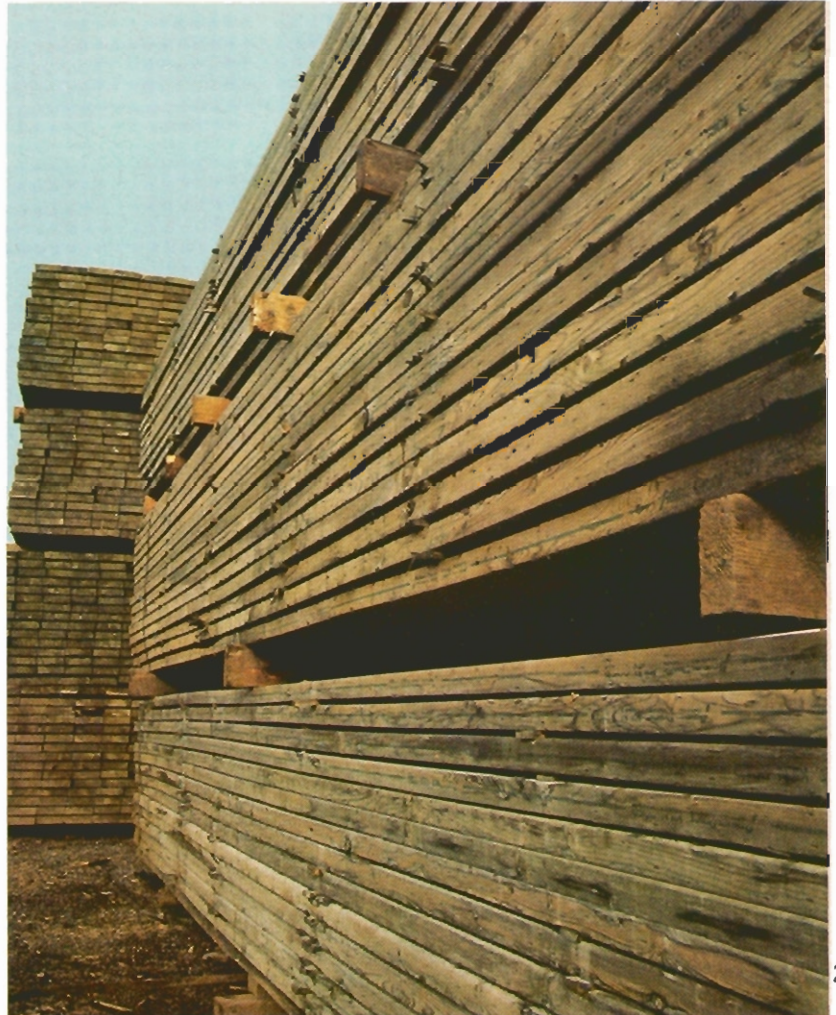
Lumber earnings about equalled those of 1978. Housing starts were below their 1978 levels, however, this was offset somewhat by more vigorous activity in the remodelling and repair and industrial markets for lumber in 1979. Prices remained firm through three quarters of the year. The advent of spiralling interest rates and diminished mortgage money availability triggered a steep decline in starts, demand and lumber prices thereafter.

Sawmill operations were satisfactory in terms of efficiency, costs and quality. The exception was at White River where staffing and mechanical problems continue to trouble the mill. Also, operations at Peribonca were disrupted by a 60-day strike.

Abitibi-Price's increased emphasis on the treated lumber market paid off in 1979, as that market continued to grow rapidly. Northern Wood Preservers made significant progress on its strategy of concentration on outdoor wood products and termination of pole production. Investments are planned for major

expansion of treating capacity, and sales promotion programs have been developed to abet this strategy for which the outlook is promising.

The outlook for 1980 is not encouraging. High interest rates are expected to prevail and this, added to the forecasted downturn in the U.S. economy, will have a negative effect on housing starts and the lumber business. Operating rates at those sawmills where production is linked to one of the Company's paper mills will be good. Overall earnings for this business unit will probably decline in 1980.



- Greater utilization of our wood resource results from integrating wood harvesting with sawmill and pulping (above) Smooth Rock Falls mill makes both lumber and pulp from the same tree.
- The Northern Wood Preservers mill in Thunder Bay is meeting a growing demand for treated lumber to use for weather-exposed applications.



## Woodlands

At the heart of any forest products company is a technically proficient, socially responsible, well managed wood harvesting function. Abitibi-Price's vast woodlands operations ran at capacity in 1979 in order to supply the high levels of production at the Company's pulp, paper and lumber mills. Wood cost escalation rates were contained at, or slightly below, the cost increases for manufacturing. However, Eastern Canadian wood costs remain non-competitive with the industry's principal competition, the U.S. South. Efforts are being made to narrow the gap.

Over the years, management of the forests for sustained yield has been a responsibility shared by government and industry to varying degrees and with varying success. During 1979, three milestone events occurred marking significant steps toward improving forest management on Company-held Crown lands. The Company entered into new agreements in principle with the governments of Newfoundland, Ontario and Manitoba. Each transfers the responsibility for sustained yield management

to the Company, thereby changing the role of government to one of a dedicated supporter and watchdog. This approach will obviate the problems of joint management, and introduce efficiencies through application of the industry's technology. Government financial support is incorporated in the agreements.

Abitibi-Price views positively federal/provincial programs of support for the high cost of building roads to gain access to timber. These roads must be designed and maintained within standards permitting safe use by the public. This plus the great distances involved have made this element one of the most critical aspects of the competitive picture. Traditionally, all expenses for access roads were borne by industry. The new programs will mean that both users of the roads, industry and the public, will share their cost.

The spruce budworm remains a serious concern in Eastern Canada. This scourge seemed to be in regression in Quebec in 1979. However, in Newfoundland the high budworm population proliferates unchecked, and surveys

taken in 1979 indicate no relief in 1980. All interested parties must be dedicated to the task of eliminating this tragic blight on one of the nation's primary resources.

- These very young seedlings growing in a greenhouse will form a part of our future forests. This is a significant factor in sustained yield forest management.





## Mineral Interests

Strong metal markets highlighted 1979 and resulted in a significant improvement in earnings from both the Mattabi Mine near Ignace, Ontario and the Buchans Mine in central Newfoundland.

The Mattabi Mine, in which the Company owns a 40% equity interest, milled 1,042,000 tons of ore which graded approximately 6.9% zinc, 0.5% copper, and 0.8% lead. Each ton contained 2.85 oz. of silver. Dividends of \$10 million were received during the year.

The Buchans Mine milled 125,000 tons of ore during 1979, which graded approximately 11.6% zinc, 1.0% copper, and 6.5% lead. Each ton contained 3.30 oz. of silver. Abitibi-Price holds a 51% participating interest in this mining venture which has contributed more than 50 years of profitable operation.

Abitibi-Price holds mineral rights to over 3,200 square miles in northern Ontario and central Newfoundland. Some of these areas are situated in geologically attractive mineralized environments. The Company is vigorously pursuing an aggressive exploration program on these and other properties.

Active consideration is being given to the commercial reclamation of barite from the accumulation of tailings at the Buchans Mine. Barite is a key component of the drilling mud used by the oil industry in its exploration activities.

Abitibi-Price's objective is to optimize the mineral potential of its holdings. Exploration expenditures in support of this objective will be increased during 1980.

## Research and Development

Activity continued to focus on the Company's targets of high quality, low cost newsprint and full scale paper machine and pressroom trials of very high yield pulps were a feature of 1979. Results were most encouraging. Kénogami has begun production of a new chemi-mechanical pulp and Fort William will utilize a variation of this furnish late in 1980. Many of the trials were concerned with determining optimum operating conditions for these processes. Also, an extremely high yield bisulphite pulp compatible with groundwood underwent a successful trial. This continuing program will utilize a new pilot plant to precisely determine energy requirements, properties of the new pulps and the compatibility of the new processes with the environment.

A major stride in fine paper R&D was a new pilot coater and dryer which, at commercial speeds, provides commercial quantities of new coated grades developed in furthering Abitibi-Price's leadership in coating technology. This aspect of R&D is a linchpin in the strategy of the Fine Papers Division.

Panelboard R&D placed particular emphasis on criteria for the siding expansion at Roaring River, especially in providing systems for improved finishing at high production rates. Concurrently, substantial effort was directed to further understanding the basic fibre properties best suited to panelboard manufacture, and to the development of new panelboard products.

Study of paper machines and their components, utilizing sophisticated techniques and specialized equipment, accelerated. Precise determination of operating variations, which occur too quickly for the human eye to detect, contribute to the identification of the requirements to produce uniform high-quality paper.

## Personnel/Industrial Relations

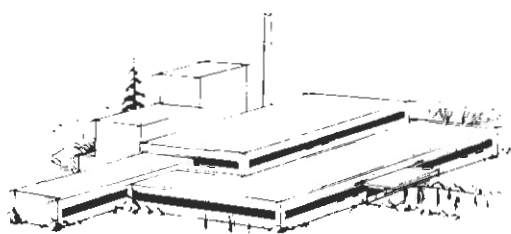
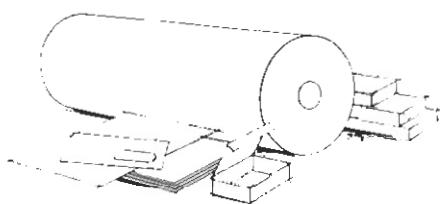
During 1979, labour agreements were reached with 12 of the Company's bargaining units without interruption of operations. However, at 6 others up to 83 days of strikes created hardships for employees and the Company alike before contracts were signed. With primary mill and woodlands union agreements expiring in 1980, the Company is entering another critical phase in its efforts to maintain long term security for its employees and shareholders in an internationally competitive arena.

Safety continued to receive top priority throughout Abitibi-Price and innovative programs generated a reduction in accident rates in several major operating groups. New initiatives will be taken during 1980 to make Abitibi-Price the safest company in its industry.

Organization and management development came under close scrutiny in 1979. Employees continued to undertake independent studies under Company auspices on their own time to assist them in achieving their career goals. At several operating locations a program was begun that accentuates problem solving and decision making at the supervisory and management levels. Evidence shows that these activities will also improve communications between employees and their supervisors. Fine tuning and expansion of the program will proceed in 1980.

All management units are involved in detailed human resource planning. The identification of individuals showing promise and potential, then determining the development needs and requirements for them to progress to greater responsibility, is key to ensuring high quality future management of the Company.

## Products, Plants and Sales Offices



### Products

### Manufactured At

### Sales Companies and Offices

Newsprint

Pine Falls, Man.; Thunder Bay (2 mills) and Ironquois Falls, Ont.; Beupré, Alma and Chandler, Que.; Grand Falls, Nfld.; Augusta, Ga.; DeRidder, La. (Stephenville, Nfld. under construction)

\*Abitibi-Price Sales Corporation  
New York, N.Y.; Des Plaines, Ill.; Atlanta, Ga.; Troy, Mich.

\*Abitibi-Price Sales Ltd.  
Toronto, Ont.; Montreal, Que.

Uncoated Groundwood Papers

Sault Ste. Marie, Ont.; Jonquière, Que.

\*Abitibi-Price Sales Company Limited  
London, England

\*Each of these companies sells both newsprint and uncoated groundwood papers.

Fine, Printing, Packaging and Business Papers, Wall Paper and Specialty Papers  
School, Home and Office Supplies

Thorold, Thunder Bay and Georgetown, Ont.

Toronto, Ont.; Vancouver, B.C.; Joliette, Que.

**Abitibi-Price Fine Papers Division**  
Toronto, Ont.; Montreal, Que.

**Hilroy Ltd.**  
Toronto, Ont.; Montreal, Que.; Vancouver, B.C.

Envelopes

Stellarton, N.S.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.

**Canada Envelope Company**  
Stellarton and Halifax, N.S.; Montreal, Que.; Toronto, Ottawa and London, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C.

Wholesale Distribution Fine Paper Products

**Inter City Papers Limited**  
Ottawa, Mississauga and London, Ont.; Halifax, N.S.; Winnipeg, Man.; Lauzier, Little Inc.  
Montreal and Quebec City, Que.

Grocery Bags, Sacks, Paper Towels and Folding Cartons

Lachute, Que.

**Price Wilson (a division of Inter City Papers)**  
Moncton, N.B.; Quebec City and Montreal, Que.; Ottawa, Toronto, London and Kitchener, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver and Victoria, B.C.

Paperboard

Jonquière, Que.

**Price Paperboard and Pulp Limited**  
Montreal, Que.; Don Mills, Ont.

Kraft Pulp

Smooth Rock Falls, Ont.; Jonquière, Que.

**Abitibi-Price Inc.**  
Toronto, Ont.

Hardboard, Woodgrain Hardboard, Decorative Hardboard  
Hardboard Siding  
Prefinished Wood and Plastic Mouldings  
Insulating Sheathing

Alpena, Mich.; Toledo, Ohio

Roaring River, N.C.  
Middlebury, Ind.

Blountstown, Fla.

\*\*Abitibi-Price Corporation--  
**Building Products Division**  
Marietta, Ga.; Arlington, Tex.; Troy, Mich.; Barrington, Ill.; Devon, Pa.; Hudson, Ohio; Memphis, Tenn.; Shawnee Mission, Kans.; Middlebury, Ind.; Avon, Conn.

\* All building products are sold at each of the above locations.

Lumber

Thunder Bay, Smooth Rock Falls and White River, Ont.; Falardeau, L'Ascension and Price, Que.

**Abitibi-Price Lumber Ltd.**  
Toronto and Thunder Bay, Ont.

Ties, Treated Wood Products and Treating Services

Thunder Bay, Ont.

Thunder Bay, Ont.

## Directors

**\*\*Marcel Bélanger, O.C.**  
President  
Gagnon et Bélanger Inc.  
Quebec City, Canada

**\*Thomas J. Bell, M.C.**  
Chairman of the Board  
Abitibi-Price Inc.  
Toronto, Canada

**Howard W. Blauvelt**  
Consultant,  
Conoco Inc.  
Greenwich, Connecticut,  
U.S.A.

**\*†Edmund C. Bovey, C.M.**  
Chairman  
Norcen Energy Resources Limited  
Toronto, Canada

**\*\*†Marsh A. Cooper**  
President  
and Chief Executive Officer  
Falconbridge Nickel Mines Limited  
Toronto, Canada

**\*Robert C. Gimlin**  
President  
and Chief Executive Officer  
Abitibi-Price Inc.  
Toronto, Canada

**Henry H. Ketcham, Jr.**  
Chairman of the Board  
West Fraser Timber Co. Ltd.  
Vancouver, Canada

**\*\*Leonard G. Lumbers**  
Chairman of the Board  
Noranda Manufacturing Ltd.  
Toronto, Canada

**\*C. Edward Medland**  
Chairman, President and Chief  
Executive Officer  
Wood Gundy Limited  
Toronto, Canada

**\*\*The Honorable John P. Robarts,  
P.C., C.C., Q.C.**  
Partner  
Stikeman, Elliott, Robarts & Bowman  
Toronto, Canada

**\*C. Harry Rosier**  
Vice-Chairman of the Board  
Abitibi-Price Inc.  
Toronto, Canada

**Francis J. Ryan, Q.C.**  
Partner  
Stirling, Ryan, Reid, Harrington,  
Andrews & Lilly  
St. John's, Newfoundland, Canada

**Kenneth R. Thomson**  
Chairman of the Board  
and Chief Executive Officer  
Thomson Newspapers Limited  
Toronto, Canada

**\*Charles R. Tittermore**  
President and Chief  
Executive Officer  
The Price Company Limited  
Quebec City, Canada

**\*†John A. Tory, Q.C.**  
President  
The Thomson Corporation Limited  
Toronto, Canada

**\*†William O. Twaits, C.C.**  
Director  
Toronto, Canada

**Honorary Director**  
**General Lauris Norstad**  
D.S.M., Silver Star, C.B.E.

The Board of Directors meets monthly in discharging its responsibilities to shareholders. In addition, there are three Committees of the Board which meet separately to address specific activities in more detail.

### **\*Executive Committee**

The Executive Committee's principal function is to act in the interim between regular Board meetings on matters that cannot be postponed until the full Board can be assembled. These matters will usually have been addressed in advance by the full Board, which will have provided direction to the Executive Committee. In 1979 there were three meetings of the Executive Committee.

### **\*\*Audit Committee**

The Audit Committee, composed solely of outside Directors, met with senior financial management three times in 1979 to approve financial statements, to monitor the effectiveness of internal audit and control procedures, and to consider the annual appointment of an independent auditor for approval by the Board and the shareholders.

### **†Officers' Compensation Committee**

This committee of outside Directors reviews the individual performance of senior executives of the Company and provides an independent judgement on management quality. It also deals with remuneration of those executives including salaries, incentive compensation and benefits. Four meetings were convened in 1979.

### **Changes in Directors**

In June 1979, General Lauris Norstad resigned as an active member of the Board and accepted an appointment as Honorary Director. General Norstad has been a loyal and conscientious Director since 1968 and has given generously of his wise counsel and guidance. The Company has benefited greatly from General Norstad's admirable personal qualities and the wealth of experience gained during his long and distinguished career.

During 1979 two new members were welcomed to the Board. Francis J. Ryan Q.C., Partner, Stirling, Ryan, Reid, Harrington, Andrews & Lilly of St. John's, Newfoundland joined in February. Henry H. Ketcham, Jr., Chairman of the Board of West Fraser Timber Co. Ltd., Vancouver, B.C. joined in June. Both of these Directors bring valuable experience and insight to the Company.

---

## Officers

**Thomas J. Bell**

Chairman of the Board

**C. Harry Rosier**

Vice-Chairman of the Board

**Robert C. Gimlin**

President and Chief Executive Officer

**Charles R. Tittermore**

Executive Vice-President

**T. Newman McLenaghan**

Senior Vice-President

**Thomas H. Birchall**

Vice-President, Fine Papers

**Charles F. Buckland**

Vice-President, Building Products

**John G. Davis**

Vice-President,  
Fine Papers and Kraft Products Group

**Dean O. Gray**

Vice-President, Industrial Relations

**William W. Hall**

Vice-President, Corporate Development

**William J. Johnston**

Vice-President, Woodlands Operations

**Mark D. S. Kellow**

Vice-President, Personnel

**Bruce W. Little**

Vice-President,  
Newsprint Manufacturing, Region 2

**K. Linn Macdonald**

Vice-President, Newsprint Operations

**J. Ian McGibbon**

Vice-President, Finance

**Frank L. Morton**

Vice-President, Engineering Services

**James B. Papoe**

Vice-President,  
Newsprint Manufacturing, Region 1

**Donald C. Parker**

Vice-President, Lumber

**Michael D. Thompson**

Secretary and General Counsel

**J. Kenneth Stevens**

Treasurer

**H. Paul Armstrong**

Assistant Vice-President, Finance

**H. Colin Warner**

Controller

**Douglas J. Butler**

Assistant Secretary

**Bernard Conway**

Assistant Treasurer

**Robert A. Cook**

Assistant Treasurer

### **Transfer Agents and Registrars**

**Montreal Trust Company**

Toronto, Montreal, Vancouver, Calgary,  
Regina, Winnipeg and Halifax, Canada

**Citibank N.A.**

New York, U.S.A.

### **Auditors**

**Price Waterhouse & Co.**

Toronto, Canada

## Changes in Officers

After many years of distinguished service with the Company, Robert D. Duncan, Vice-President Corporate Services, Eugene L. Neal, Vice-President Public Relations, and Roy Curtis, Assistant Vice-President Finance have retired.

Dean O. Gray joined the Company as Vice-President Industrial Relations to replace Edward J. Brady who will be retiring during 1980.

Lithographed in Canada

**Cover:** Kromekote® CC1S 10 pt.

**Text:** Abitibi-Price Fine Papers.

Kelmscott Smooth 160M

\*Kromekote is a registered trademark owned  
by Champion International Corporation.



ABITIBI-PRICE INC.

Head Office: Toronto-Dominion Centre,  
Toronto, Canada M5K 1B3