Abitibi-Price

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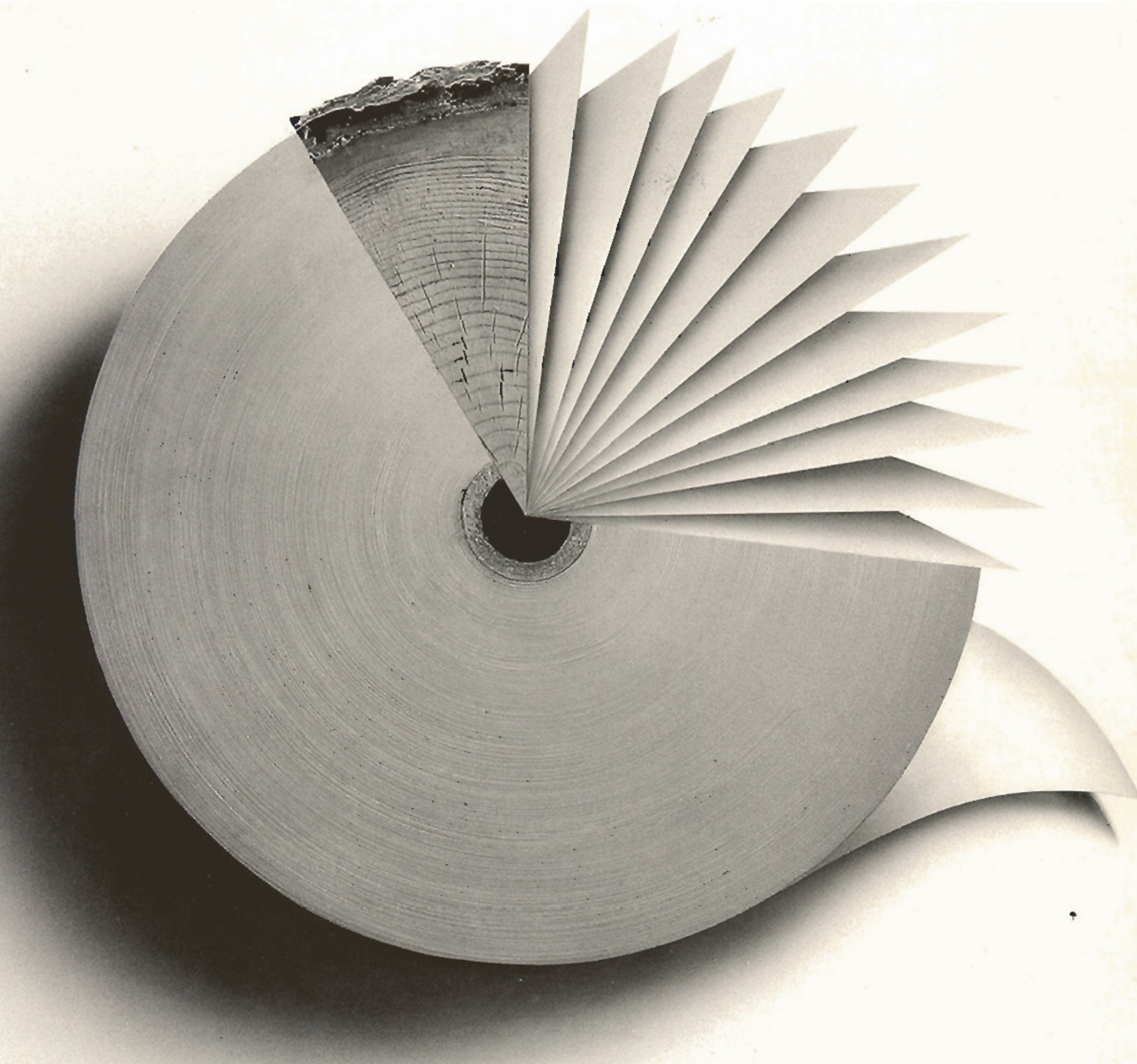
# 1984 Annual Report



# Abitibi-Price Inc.

Annual Report for the year ended
December 31, 1984

Abitibi-Price, the world's largest producer of newsprint, is an integrated Canadian forest products company with 1984 sales of more than $2 billion and manufacturing operations in both Canada and the United States. In addition to newsprint, the Company produces groundwood papers, fine papers, kraft pulp, building products and lumber. The Company also has paper converting operations and a major distribution network for printing papers, industrial paper products and information processing supplies.

Abitibi-Price has maintained its profitability throughout the difficult economic environment that has existed for forest products companies in recent years. At the same time, the Company has pressed on with modernization and quality improvement programs, investing about $1 billion during the past five years.

Abitibi-Price recognizes that it can best meet and balance its responsibilities to customers, shareholders, employees, and society by achieving the highest possible standards in product quality, customer service, return on investment, and the safety and development of its people.

Common shares of the Company are listed on the Toronto, Montreal and Vancouver stock exchanges and traded under the ticker symbol A.

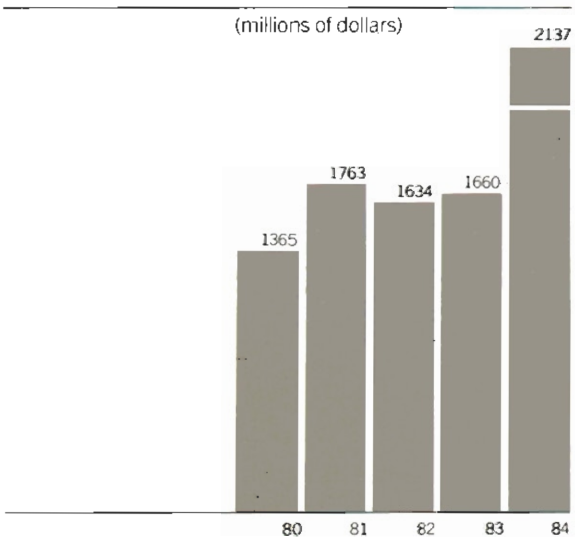
On peut obtenir ce rapport annuel en français sur demande.

**Contents**

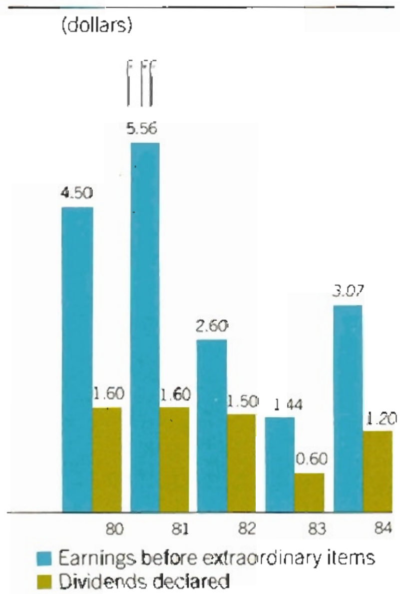
# Financial Highlights

| | 1984 | 1983 |
|---|---|---|
| (millions of dollars) | | |
| Net sales | **$2,137** | $1,660 |
| Earnings before extraordinary items | **72** | 38 |
| Net earnings | **70** | 38 |
| Capital expenditures | **126** | 165 |
| Working capital | **410** | 384 |
| Common shareholders' equity | **806** | 748 |
| Per Common Share: | | |
| Earnings before extraordinary items | **$ 3.07** | $ 1.44 |
| Net earnings | **2.97** | 1.44 |
| Dividends declared | **1.20** | .60 |
| Common shareholders' equity | **37.81** | 36.06 |
| Return on average capital employed | **6.8%** | 3.6% |
| Return on average common shareholders' equity | **8.3%** | 4.1% |
| Ratio of long-term debt to total equity | **.46** | .46 |

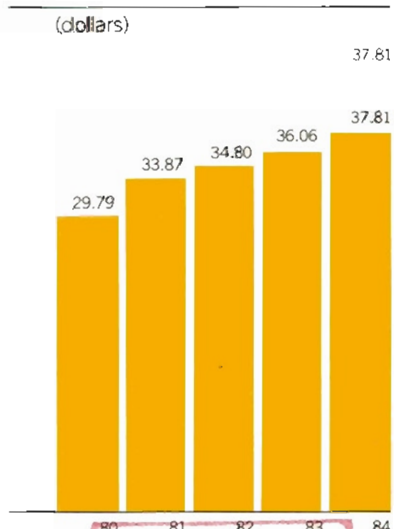
**Net Sales**




**Earnings and Dividends per Common Share**




**Common Shareholders' Equity per Share**



# Report of the Directors

Buoyant demand for most of our products during 1984 resulted in improved performances from the Company's three operating groups–Core Business, Diversified Businesses, and U.S. Building Products. Earnings before extraordinary items increased 90 percent, reflecting a recovery from the cyclical low experienced in 1983. For the first time, sales exceeded $2 billion.

Among the factors contributing to the Company's earnings improvement were increased newsprint volume, continued cost containment, and better contributions from our fine papers manufacturing and groundwood papers operations. The further strengthening of the U.S. dollar against the Canadian dollar added considerably to the profitability of sales made in U.S. dollars. Earnings also reflected the benefits of recent major capital projects.

## Capital Expenditures

Capital expenditures in 1984 were $126 million and included the installation of a bisulphite chemi-mechanical pulping facility at the Chandler, Quebec, newsprint mill, the conversion of additional newsprint machines to twin-wire configuration, and a 25 percent expansion of hardboard siding capacity at Roaring River, North Carolina.

## Divestitures

During the year, the groundwood papers mill at Sault Ste. Marie, Ontario, and the sawmill at White River, Ontario, were sold, resulting in an extraordinary loss of $2 million. The Company also completed the previously announced sale of the kraft products operation at Jonquière, Quebec.

## Acquisitions

In 1984, the Diversified Businesses Group penetrated the U.S. paper distribution market with the acquisition of Whitaker Carpenter Paper Company, the largest independent printing paper distributor in the Chicago area. This company operates as part of Inter City Papers Limited.

In February of 1985, the Company negotiated the purchase of CIP Daxion Inc., a wholly-owned subsidiary of CIP Inc. CIP Daxion is a nationwide distributor of paper and packaging products, with 1984 sales of $111 million. This operation will become part of the Inter City Papers group and will complement the industrial papers distribution operations of its Price Wilson division.

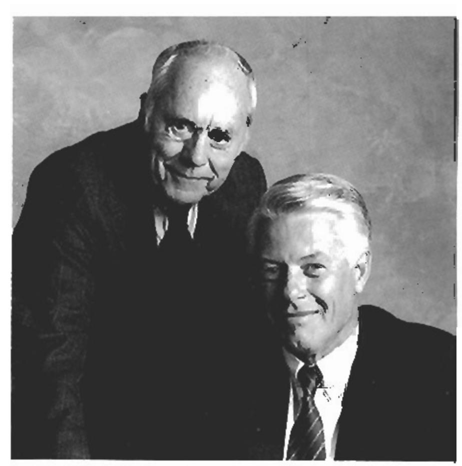
## Financial Position

Abitibi-Price remains comfortably within the guidelines that we have established to ensure financial stability. These guidelines are consistent with the requirements for an A rating from the bond rating services in Canada, a rating we have enjoyed for the past four years.

Long-term debt maturities of $8 million were refinanced during 1984 as they became due, and a further $49 million will likely be refinanced in 1985. Cash flow is expected to be sufficient to meet our current operating and capital needs without requiring any significant increase in long-term debt.

## Dividends

Your Directors follow a policy of returning to the Shareholders a significant percentage of earnings, always in keeping with good financial planning. Our financial position enabled us to declare and pay dividends of $1.20 per share in 1984. In July, the quarterly dividend was increased to 40 cents per share, an annual rate of $1.60.



**Robert C. Gimlin *(left)*, Chairman and Chief Executive Officer**

**Bernd K. Koken, President and Chief Operating Officer**

### Union Negotiations

Labour agreements covering more than 11,000 employees in the primary mills, woodlands divisions, sawmills, and converting and distribution operations, were successfully negotiated. The agreements reached were realistic and, to the extent possible, satisfied the objectives of the bargaining partners.

### Our Employees

The successful implementation of plans and projects can only be accomplished through people–a well-motivated team that works closely together. In the past year, our employees continued to demonstrate their commitment to our goal of being "the best". The Directors wish to acknowledge this vital contribution and express their appreciation.

### Outlook

A number of important modernization projects are included in our plans for the next few years. However, with the achievement of our strategic planning goals during the past five years (see special report on page 16), we are now able to intensify our efforts to develop products and markets with high growth and profit potential through a combination of internal growth and, where suitable, acquisition.

Capital expenditures in 1985, projected at $225 million, include installation of an off-machine coater at the fine papers mill in Thunder Bay, Ontario, additional conversions to twin-wire configuration, and the first phases of rebuilding a newsprint machine at Grand Falls, Newfoundland. In addition, work will begin on a major $138 million project in which the groundwood papers mill at Jonquière, Quebec, will be further upgraded to produce supercalendered paper and, concurrently, one of the newsprint machines at Alma, Quebec, will be converted to the production of groundwood papers.

Earnings from all three groups are expected to increase due to higher sales volumes, better cost/price relationships, and the benefits resulting from capital projects previously completed.

One area of concern is the continuing strength of the Canadian dollar in relation to overseas currencies. This, combined with past devaluations by the Scandinavian countries, has eroded profit margins on newsprint sales to European markets and has resulted in increased competition in the Company's other major markets.

On balance, however, the outlook is favourable. The North American economies are expected to perform in a positive fashion during 1985, providing further growth for most of our key products. As a result, earnings for the year as a whole should be considerably higher than in 1984.

On behalf of the board of directors,

R C Gimlin

Robert C. Gimlin
Chairman and Chief Executive Officer

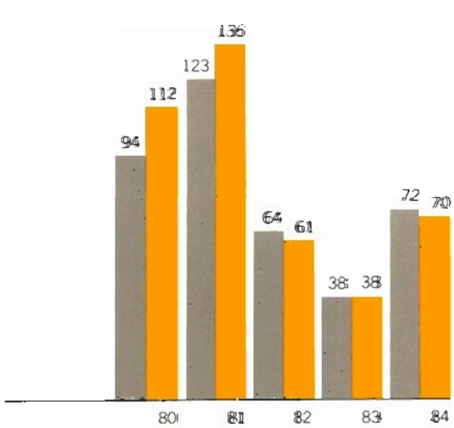
BKKoken

Bernd K. Koken
President and Chief Operating Officer

Toronto
February 18, 1985

**Earnings**

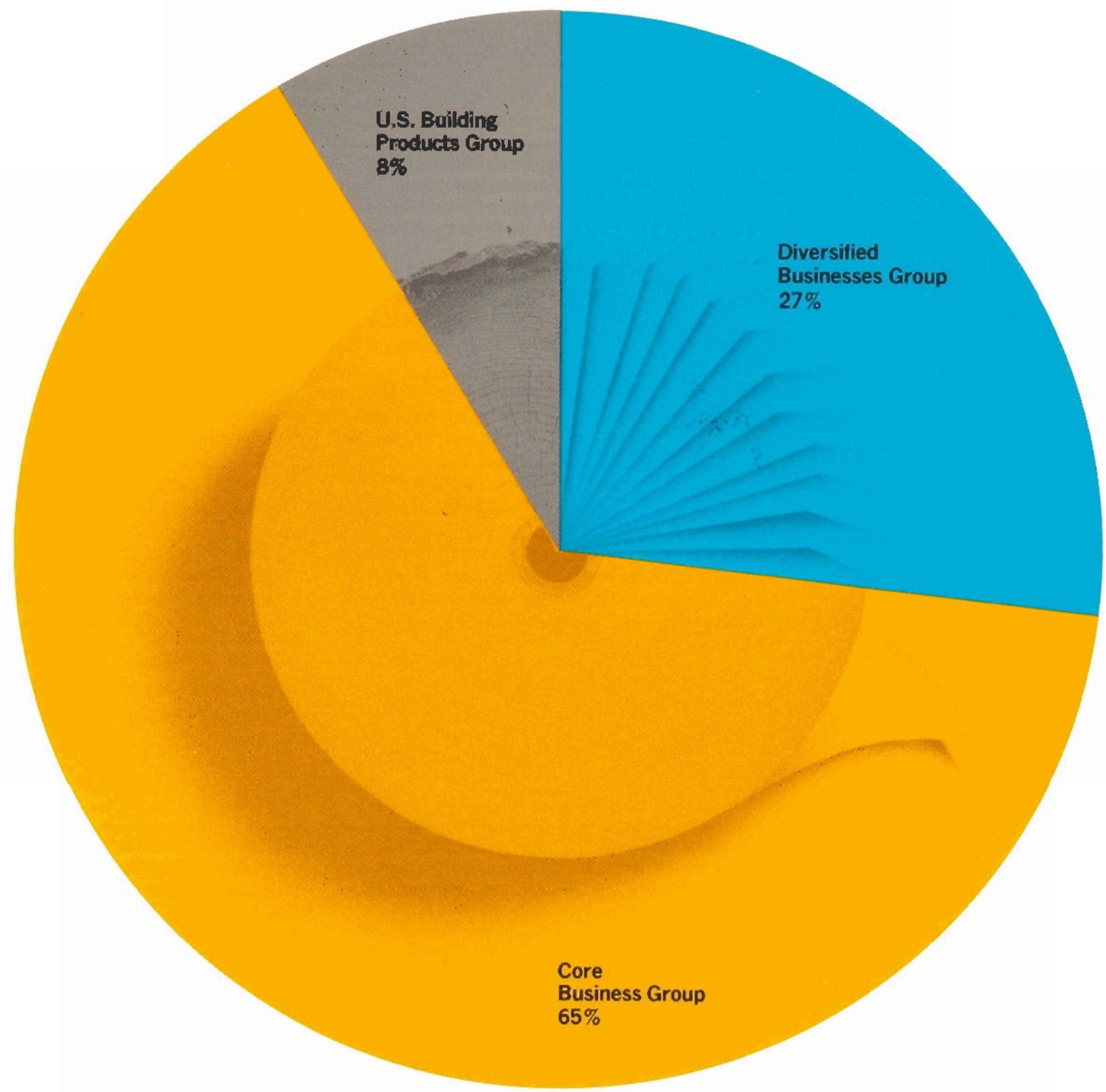
(millions of dollars)



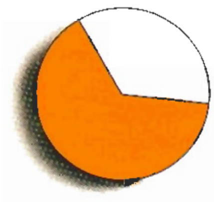
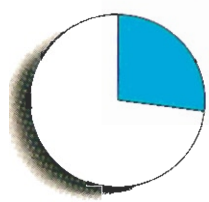
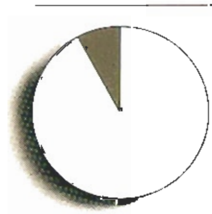

Earnings before extraordinary items
■ Net earnings

**Net Sales**
**by Business Group**

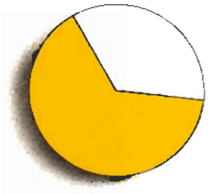
(percent)



# Locations, Products and Markets

| Group | Division or Segment | Plants | Sales Companies and Offices |
|---|---|---|---|
| **Core Business**<br> | **Newsprint** | Pine Falls, Man.; Thunder Bay (2 mills) and Iroquois Falls, Ont.; Alma and Chandler, Que.; Grand Falls and Stephenville, Nfld.; Augusta, GA | *Abitibi-Price Inc.*<br>Toronto, Ont.; Montreal, Que.<br>*Abitibi-Price Sales Corporation*<br>New York, NY; Des Plaines, IL; Atlanta, GA; Detroit, MI; Dallas, TX<br>*Abitibi-Price Sales Company Limited*<br>London, England |
| | **Groundwood Papers** | Beaupré and Jonquière, Que. | |
| | **Kraft Pulp** | Smooth Rock Falls, Ont. | *Abitibi-Price Inc.*<br>Toronto, Ont.; Montreal, Que. |
| | **Lumber** | Smooth Rock Falls, Ont.; Falardeau and L'Ascension, Que. | *Abitibi-Price Lumber Sales*<br>Toronto, Ont. |
| **Diversified Businesses**<br> | **Provincial Papers** | Thunder Bay and Georgetown, Ont. | *Provincial Papers*<br>Thunder Bay and Toronto, Ont.; Montreal, Que. |
| | **Inter City Papers Limited**<br>*Printing Papers Division* | | *Inter City Papers Limited*<br>Ottawa, Toronto and London, Ont.; Halifax, N.S.; Winnipeg, Man.; Vancouver, B.C.<br>*Lauzier, Little Inc.*<br>Montreal and Quebec, Que.<br>*Whitaker Carpenter Paper Company*<br>Chicago, IL; Detroit, MI; Nashville, TN; Appleton and Milwaukee, WI<br>*Azerty*<br>Buffalo, NY |
| | *Industrial Products Division* | | *Inter City Papers Limited*<br>*Price Wilson and Plastic Packaging Divisions*<br>Moncton, N.B.; Quebec and Montreal, Que.; Ottawa, Toronto and London, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver and Victoria, B.C.<br>*Lawrence Newfoundland Division*<br>St. John's, Nfld. |
| | *Converted Products Division* | Lachute, Que. | *Price Wilson, Inc.*<br>Montreal, Que. |
| | **Hilroy** | Toronto, Ont.; Vancouver, B.C.; Joliette, Que. | *Hilroy*<br>Toronto, Ont.; Montreal, Que.; Vancouver, B.C. |
| | **Canada Envelope** | Toronto, Ont.; Montreal, Que.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C. | *Canada Envelope*<br>Halifax, N.S.; Montreal, Que.; Toronto, Ottawa and London, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C. |
| **U.S. Building Products**<br> | **Hardboard Products** | Alpena, MI; Toledo, OH | *Abitibi-Price Corporation*<br>Troy, MI |
| | **Hardboard Siding Products** | Roaring River, NC | |
| | **Plastic Products** | Middlebury, IN | |

| Products and Services | Markets or End Uses | Abitibi-Price Market Position |
| --- | --- | --- |
| Standard grade newsprint made from 75% mechanical pulp and 25% chemical pulp, weighing between 40 and 48.8 grams per square metre of surface and measuring 58 on the brightness scale. | Primarily daily newspapers; also used for various commercial printing purposes, including free-standing inserts distributed through newspapers and direct mail. | The world's largest newsprint producer, with 13% of North American capacity and 7% of world capacity; most production is shipped to the U.S. and Canada, with the balance reaching over 30 other countries. |
| Uncoated groundwood papers, produced in a wide range of grades, are cleaner, brighter and smoother than newsprint; basis weights range from 37.4 to 97.6 grams per square metre and brightness ratings are between 60 and 70. | Used for business forms, weekend newspaper supplements, magazines, advertising inserts and flyers, telephone and other directories, catalogues and paperback books. | The largest manufacturer of uncoated groundwood papers in North America, with 11% of total capacity; most production is sold to commercial printers in Canada and the U. S. |
| Softwood kraft market pulp is produced at one mill. | Market pulp is sold to other producers for use in a wide variety of printing papers, packaging and tissue products. | Share of market pulp sales is relatively insignificant; on balance, the Company purchases slightly more market pulp than it sells. |
| In addition to softwood lumber produced at its own mills, the Company sells the output of three sawmills and a waferboard plant owned by others. | Lumber sales are to wholesale distributors, retail chains, buying groups and mass merchandisers. | A minor factor in the North American lumber industry; most sales are made to U.S. customers. |
| Manufacturers a wide range of coated fine papers. | Publication printers, commercial printers and paper converters. | Canada's largest producer of premium coated papers. |
| Distributes a wide selection of commercial printing papers, business papers (including copier paper), and information processing supplies. | More than 2,000 deliveries are made in Canada each day to a wide variety of markets, including office users and the graphic arts industry. | Inter City is the largest paper merchant in Canada. It also has the number one market position in most of the individual Canadian markets it serves. |
| Distributes more than 1,200 products, including bags, folding cartons, packaging supplies, plastic and foam containers and other disposable items, foil, closures, labels, and cleaning and institutional paper supplies. | Users include restaurants, fast food chains, airlines, hospitals and other institutions; the division is also a significant supplier of plastic packaging products and equipment. | |
| Manufactures and distributes a wide range of products including plain and printed paper bags, folding cartons and impact cushioned bags. | Supplies the foodservice industry, supermarkets, retail stores, the fish processing industry and agricultural end users. | |
| Manufactures and distributes a variety of paper and paper-related products for school, home and office. | Supplies the office market and retail distribution outlets. | Holds the number one position in most areas of the market for its products. |
| Manufactures all types of envelopes, including courier envelopes, computer diskette pouches and cash dispersal envelopes for automated teller machines. | Primarily supplies the office market. | The third largest envelope manufacturer in Canada. |
| Manufactures ¼" prefinished and ⅛" decorative panels with various surface treatments, including woodgrain designs and decorative plastic finishes; industrial hardboard is also made. | All products serve the new construction, and repair and renovation markets, primarily for residential, commercial and light industrial applications. | The number one producer of ⅛" decorative hardboard panelling and the second largest producer of ¼" prefinished hardboard panelling. |
| Primed and prefinished lap and panel siding. | Sales are made to wholesalers and mass merchandisers. | Second largest producer of hardboard siding in the U.S., serving markets East of the Rockies. |
| Prefinished extruded plastic mouldings and industrial products. | | Number one supplier of these products to dealers and retailers in the U.S. |



# Core Business Group

The Core Business Group performed well during 1984, achieving a 28 percent increase in sales in response to improved economic conditions and an increase in the premium on the U.S. dollar. Higher levels of demand for newsprint, groundwood papers and kraft pulp led to a firming of prices and better capacity utilization rates. The sole negative influence came from lumber.

## Newsprint

Economic growth, coupled with increased advertising lineage, led to a strong 8.1 percent increase in U.S. newsprint consumption from the previous year. Combined with a 10.3 percent increase in Canada, total North American consumption was 8.2 percent higher than in 1983. Through gains in market share, however, Abitibi-Price's shipments to North American markets exceeded this growth rate.

The Company's newsprint production of 1,721,000 tonnes was up 18 percent over 1983 production of 1,461,000 tonnes. With a further 64,000 tonnes provided under an exclusive marketing agreement, a total of 1,785,000 tonnes was available in 1984.

While healthy increases in demand resulted in improved worldwide operating rates, considerable excess capacity persists and only limited progress was possible in raising prices to restore pre-recession margins. The U.S. posted price increased to $535 per tonne at midyear after remaining at or below $500 since September 1981. A further increase to U.S. $570 was announced by Abitibi-Price in September. The effective date, originally January 1, 1985, was subsequently delayed until April 1, 1985.

Offshore markets showed varying degrees of growth during 1984, reflecting the condition of regional economies, and prices improved only marginally late in the year. In markets where sales are made in local currencies, net returns in Canadian dollars actually declined due to a strengthening of the Canadian dollar against those currencies.

Higher operating rates and improved efficiencies allowed the Company to hold production costs close to 1983 levels despite increases in energy and labour rates.

The bulk of expenditures in the 1984 capital program were directed to improvements in product quality, cost reduction and environmental compliance. The largest projects were the conversion of machines at Pine Falls, Manitoba, and Thunder Bay, Ontario, to twin-wire configuration (improving sheet formation, appearance, printability and uniformity) and the installation of a bisulphite chemi-mechanical pulping process at the mill in Chandler, Quebec, to replace a less efficient system and to bring the mill into environmental compliance.

The new machines at Iroquois Falls, Ontario, and Augusta, Georgia, which began production in 1983, achieved planned 1984 output levels and are progressing well toward maximum output.

## Groundwood Papers

Markets for Abitibi-Price's wide range of groundwood paper grades showed excellent growth during the year, allowing the Company's mills to run full, producing 374,000 tonnes versus 321,000 tonnes in 1983. The strongest markets were for computer printout paper, directory paper and heatset offset printing papers for newspaper inserts and advertising flyers. The more favourable supply/demand balance during the year resulted in improved price levels.

The Jonquière, Quebec, mill operated at capacity and at satisfactory levels of efficiency. The startup of the mill at Beaupré, Quebec, recently converted from newsprint to groundwood papers, encountered some difficulties and normal production levels were not attained until the fourth quarter.

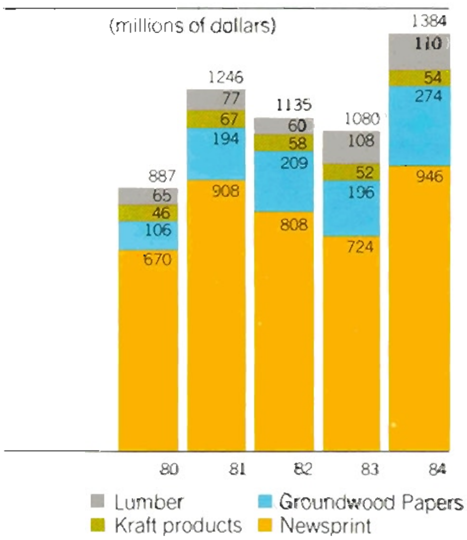
The sale of an older groundwood papers mill at Sault Ste. Marie, Ontario, and the conversion of the Beaupré mill,

**K. Linn Macdonald, Group Vice-President *(left)*, is responsible for newsprint and groundwood papers manufacturing, lumber and pulp divisions, woodlands, capital projects, and research and development.**

**John G. Davis, Group Vice-President, is responsible for worldwide sales and marketing of newsprint and groundwood papers.**

Newspriit manufactured by Abitibi-Price in Canada and the United States reaches customers around the world through the Company's international sales organization.


Core Business Group
Net Sales



as well as upgrading of the product mix at the Jonquière facility, all combine to give Abitibi-Price a substantial improvement in both the quality and the cost of the groundwood papers it produces.

**Kraft Pulp**
All of the Company's pulping facilities are integrated with paper mills except for the mill at Smooth Rock Falls, Ontario, which produces market kraft pulp. Since, in total, Abitibi-Price's North American operations consume slightly more kraft pulp than the Company produces, it is relatively unaffected by fluctuations in market pulp prices.

In 1984, the Smooth Rock Falls mill produced 103,000 tonnes of pulp, the highest level since 1974. Combined with effective cost containment, this enabled the mill to make a much improved contribution to the Group's overall results.

A small amount of kraft pulp and paperboard from the kraft products mill at Jonquière, Quebec, prior to its sale early in 1984, brought total kraft production to 115,000 tonnes.

**Lumber**
Although U.S. housing starts were 1.74 million units in 1984, record levels of lumber production in North America resulted in considerable excess supply on the market. Lumber prices were unacceptably low and the Company's sawmills experienced a loss.

In line with the Company's desire to minimize exposure to the volatile lumber market, its last non-integrated sawmill, located at White River, Ontario, was sold in 1984. Late in the year, lumber operations at Falardeau, Quebec, were suspended pending an improvement in market conditions.

Abitibi-Price's lumber operations produced 181 million board feet in 1984, the same volume as in the preceding year. In addition to the output of its own mills, the Company sells the production of three sawmills and one waferboard plant owned by other companies in Ontario. Sales of products from these other mills represented about 65 percent of the total sales of lumber and waferboard in 1984.

**Woodlands**
Abitibi-Price's woodlands operations manage over 11 million hectares (25 million acres) of forest lands under Company jurisdiction. In 1984, they supplied Company mills with approximately 6.8 million cubic metres of wood, about half of which was harvested from the Company's limits and the balance purchased from third parties.

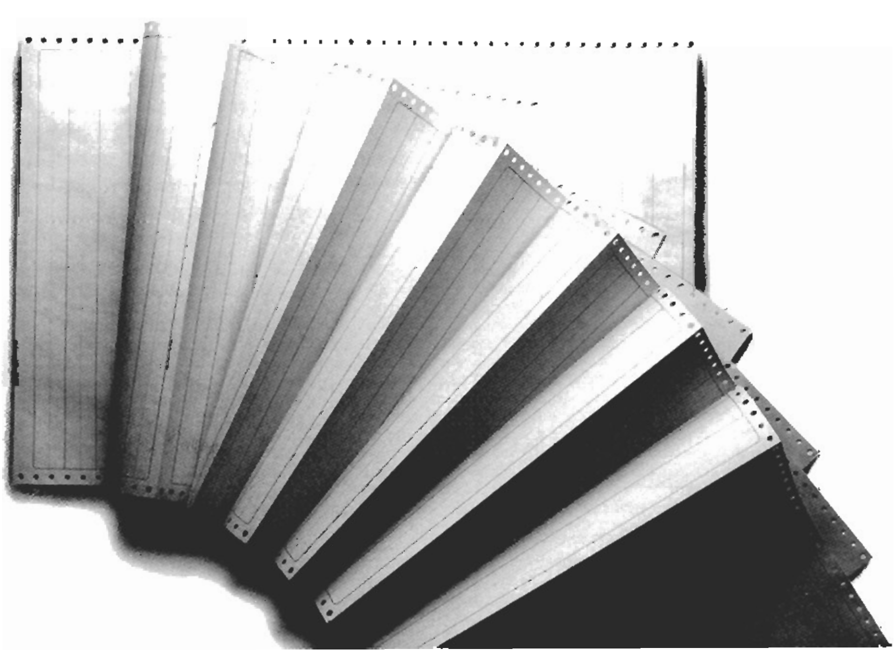
Protection of the Company's fibre base from loss due to insects and fire is an important component of responsible forest management. In 1984, emphasis was once again placed on control of the spruce budworm as well as active involvement in forest fire suppression.

Forest renewal programs under agreements with the provincial governments of Ontario, Manitoba and Newfoundland are proceeding successfully and will be ongoing in 1985. These programs, which include tree planting and other forms of regeneration, will ensure a sustained fibre yield from our forest resources.

**Outlook**
Newsprint consumption in 1985 is expected to increase by about two percent in North America, resulting in operating rates slightly higher than those of 1984. Nonetheless, the stiff competition that exists in most markets will likely continue.

Newsprint profit margins should improve for the Company in 1985 as a result of increased penetration in more attractive markets and through continuing careful control of costs.

The market for groundwood papers is expected to continue to grow and capacity operations are forecast. With the



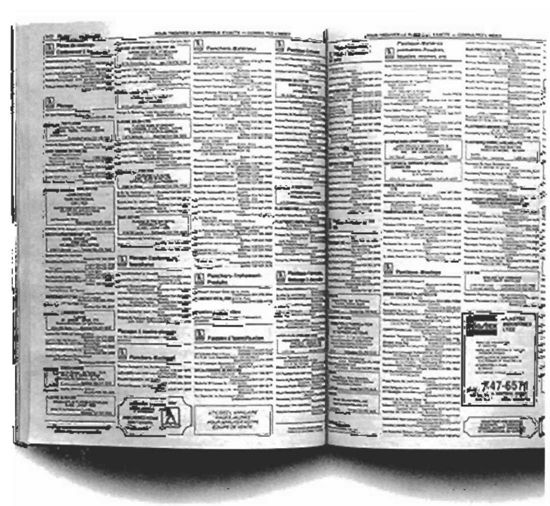
Beaupré mill now out of the start-up phase, increased tonnage will be available, leading to significantly higher earnings during 1985.

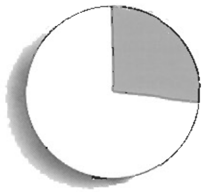
Although a lower contribution from the kraft pulp operation is expected due to declining market prices, this will not have any overall negative impact on the Company since it is a net buyer of pulp. Results from lumber operations will likely continue at about the same level.

Capital expenditures for the Core Business Group will be increased during 1985. In newsprint, emphasis will be on quality improvement and cost reduction. Work will begin on rebuilding a newsprint machine at Grand Falls, Newfoundland. Other major projects include additional conversions to twin-wire configuration.

The groundwood papers mill at Jonquière will be upgraded to produce a clay-filled supercalendered paper and, concurrently, one machine at the Alma newsprint mill in Quebec will be converted to the production of lightweight catalogue and directory paper. The project, with an estimated cost of $138 million, will be completed within the next two years.

**Groundwood papers are used in a wide variety of end products including inserts for newspapers, weekend supplements, magazines, telephone directories, computer printout paper and other business forms.**



# Diversified Businesses Group

An important contributor to the Company's results, this group operates within its own strategic plan, developed to provide its businesses with the strength and flexibility to react quickly to changing markets and new product development. The underlying goal is that each operation be the best in its field and a significant market participant.

The Group turned in an excellent performance during 1984, as earnings more than doubled from the previous year and sales were up 39 percent.

## Provincial Papers

The most significant improvement was the turnaround at Provincial Papers which moved strongly into the black in 1984. Production increased to 121,000 tonnes from 114,000 tonnes in 1983.

Although aided by stronger markets and prices for fine papers, the turnaround was achieved primarily because Provincial has adopted a more aggressive marketing strategy. Significant cost savings were also achieved with the support and involvement of employees.

Provincial's strategy is to maximize returns by upgrading its product mix to the highest value-added papers that the Thunder Bay mill is capable of producing at top quality standards. This will be accomplished through further investments in capital equipment, as well as product and market development. Provincial is currently installing additional coating capacity, converting the mill from the present 80 percent coated production to 100 percent by late 1985.

## Inter City Papers Limited

Inter City, the largest distributor of printing and industrial papers in Canada, had record earnings, with market share gains in the commercial printing and foodservice industries. Aggressive sales efforts in the office supplies market, especially in computer-related products, also produced encouraging results.

In 1984, Inter City entered the U.S. paper distribution market with the acquisition of Whitaker Carpenter Paper Company, the largest independent operation of its type in the Chicago area. Inter City is also becoming active in rapid growth markets such as information processing supplies and plastic packaging.

After year end, a further acquisition was completed with the purchase of CIP Daxion Inc. from CIP Inc. CIP Daxion, with 1984 sales of $111 million, is an industrial papers distribution operation, supplying paper and packaging products to hospitals, hotels, restaurants and other service industries. It will complement the Price Wilson division of Inter City and will reinforce its nationwide distribution network for industrial papers and related products.

## Hilroy

Hilroy is number one in most of its markets as a Canadian manufacturer and distributor of paper-related school and office products. It has the most productive plant facilities of its type in Canada and enjoys strong brand name recognition and a solid reputation for quality.

In 1984, while holding sales about even, Hilroy had lower earnings, primarily due to price competition from imports. However, the division is taking steps to aggressively defend its market share and earnings position.

## Canada Envelope

At Canada Envelope, a major reorganization resulted in better profit margins toward year end and a slight improvement in operating earnings over 1983. Further gains in earnings are expected during 1985 due to new product introductions and cost containment programs.

Product development includes courier envelopes, cash dispersal envelopes for use with bank automated teller machines, and computer diskette pouches.

## Outlook

Further strong financial performances are expected during 1985 from Provincial and Inter City. A tight supply of coated papers is likely to continue most of the year, allowing Provincial good margins on its sales. Inter City's new product initiatives and the benefits of recent acquisitions should provide continuing high levels of growth.

A relatively strong improvement in earnings is also expected from Canada Envelope and Hilroy. Canada Envelope's market position should be enhanced by adding new products and services, while Hilroy will concentrate on product development related to the business and home markets.

**Ronald Y. Oberlander, Group Vice-President, is responsible for the Diversified Businesses Group.**

1 The exceptional distribution network operated by Inter City Papers Limited provides a wide variety of printing papers for the graphic arts industry, information processing supplies, industrial paper products, as well as paper and related products for the foodservice industry.

2 The high-quality papers manufactured by Provincial Papers comprise a complete line of coated papers specially designed for sheet-fed and web offset presses.

3 Converted products from Hilroy, Canada Envelope, and Inter City's converting plant at Lachute, Quebec, come in many forms and reach consumers across Canada.

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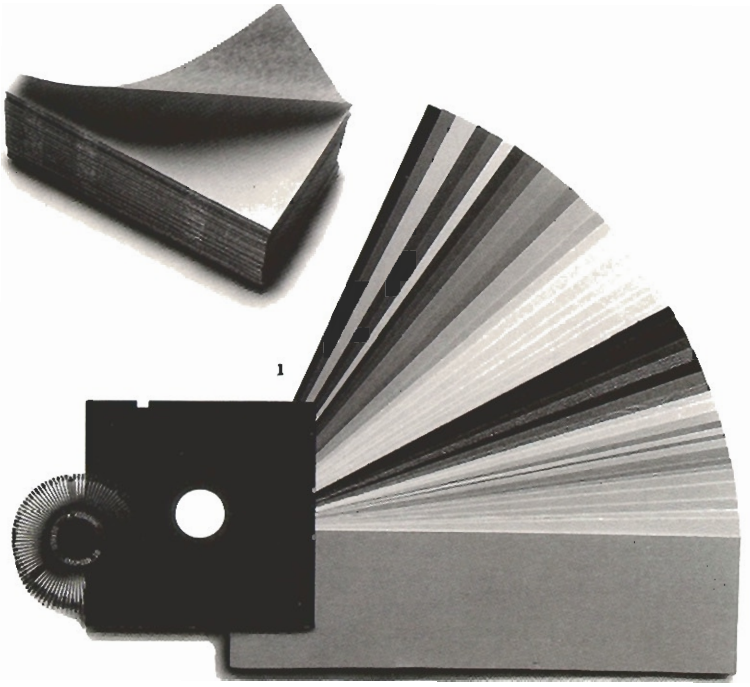

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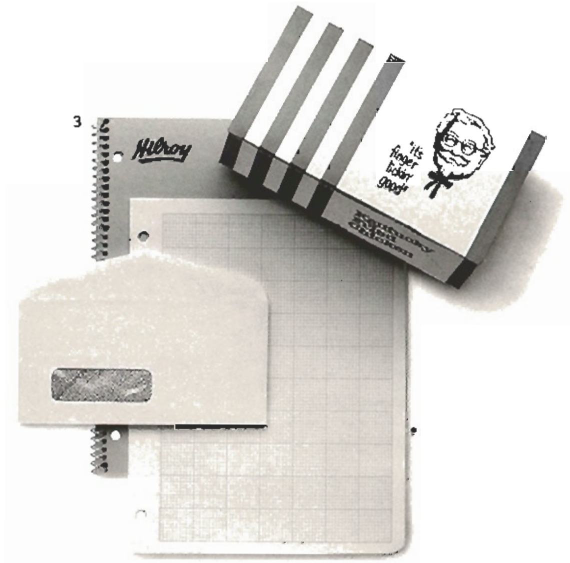
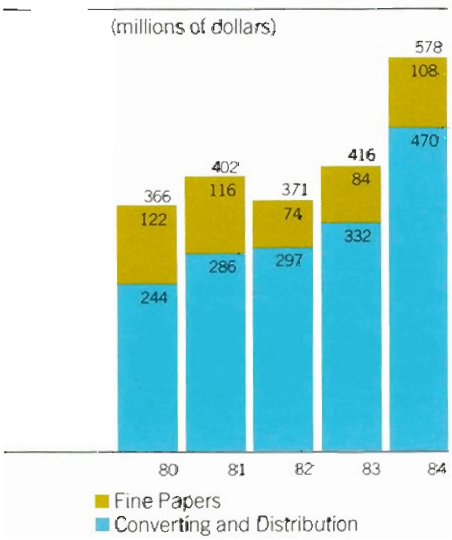
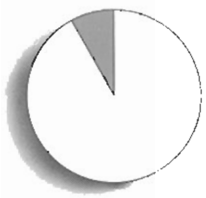



Diversified Businesses Group
Net Sales





# U.S. Building Products Group

The U.S. Building Products Group generated record sales and earnings in 1984. While the level of U.S. housing starts, at 1.74 million units, was an important factor, results also reflect the lasting benefits of operating efficiencies introduced during the depressed housing market of the early 1980s.

At that time, the Group had to be creative in order to survive. Through a combination of cost control at plants, overhead reductions, and the introduction of new products with higher profit margins, the level of housing starts required for break-even operations was reduced from 1.5 million units to one million units.

## Hardboard Products

Demand in the repair and renovation market was strong during the year, but industry sales of traditional prefinished woodgrained interior wall panelling did not reflect this increased demand. Despite flat sales, however, hardboard products made a record contribution to the Group's earnings. An important factor was the new Glaztile™ line of moisture-resistant hardboard panelling with the appearance of ceramic tile. Acceptance in the marketplace for this product has been excellent. Also adding to earnings were very effective cost containment programs.

## Hardboard Siding Products

With housing starts in 1984 up slightly from 1983 levels, there was good demand for the siding products made at the Roaring River, North Carolina, plant. However, intense competition resulted in lower selling prices and the profit contribution from siding sales was lower than in the preceding year.

## Plastic Products

The principal product manufactured at the Middlebury, Indiana, plant is prefinished plastic mouldings which combine ease of installation with durability and attractive appearance. During 1984, the Group's market share for these products increased significantly and this translated into record earnings for this product line.

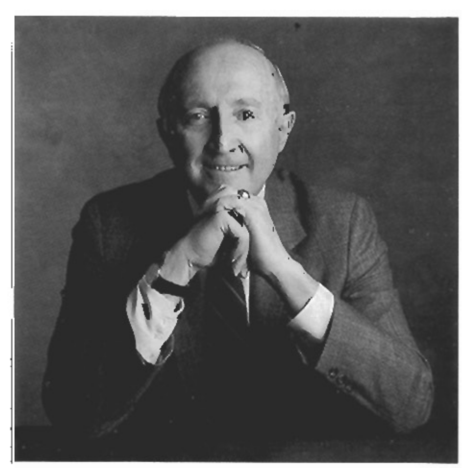
## Capital Expenditures

The most significant capital investment by the Group in 1984 involved a 25 percent expansion at the hardboard siding plant in Roaring River, North Carolina, which increased annual capacity to 200 million square feet (700 million square feet on a ⅛" equivalent basis). A new finishing line was also added as part of the project, allowing the plant to begin manufacturing prefinished lap siding. Completed in December, the U.S. $8 million project will assist in improving market share and earnings by providing a broader line of prefinished siding products.

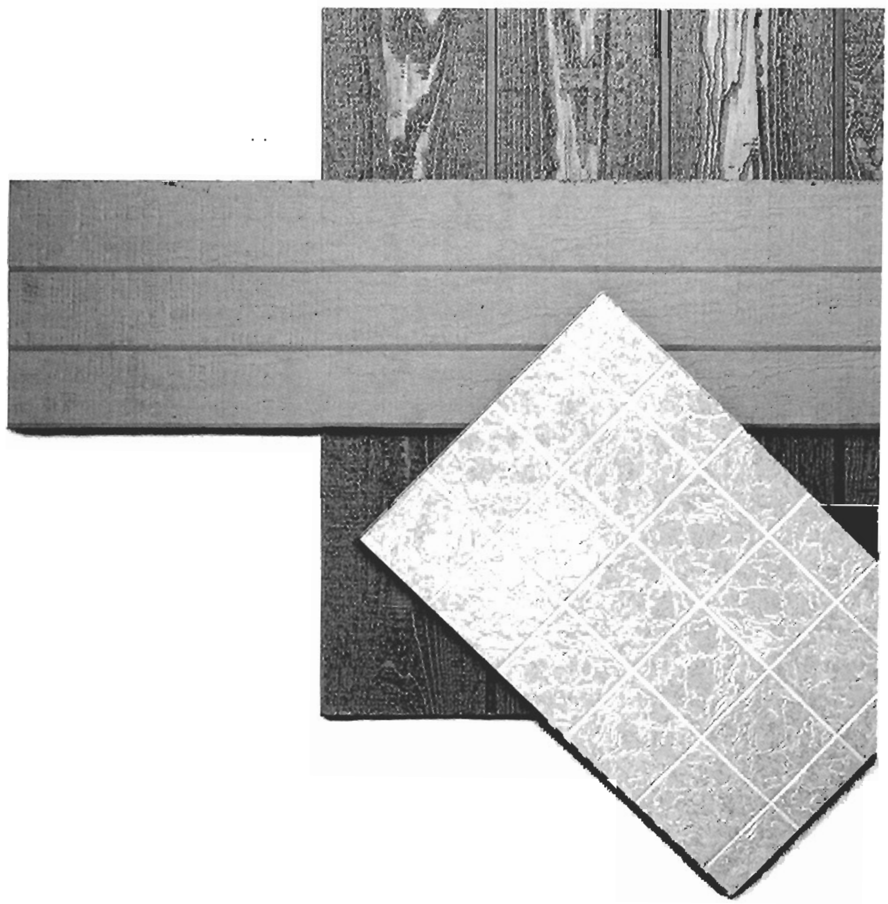
## Outlook

The outlook for 1985 is promising, despite expectations for a slightly lower level of housing starts. With new product introductions, continued cost containment and improved market share in its various product areas, as well as the announced closure of some siding capacity by competitors, the U.S. Building Products Group is planning for its third consecutive year of increased earnings.

**Charles F. Buckland, Group Vice-President, is responsible for the U.S. Building Products Group.**

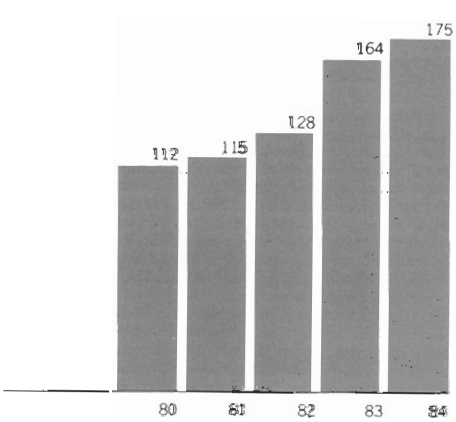


Products for the home construction industry, such as extruded plastic mouldings, Glaztile® decorative panelling, and hardboard siding, are manufactured by the U.S. Building Products Group.



**U.S. Building Products Group Net Sales**

(millions of dollars)



# Strategic Plan

During the recent deep recession, Abitibi-Price was able to remain profitable and financially stronger than most of the Canadian forest products industry. Much of the credit for this rests with the implementation of the strategic plan, formulated in 1979, which established the Company's direction for the five-year cycle that has just come to a close. This report summarizes for the Shareholders the Company's achievements in the context of its planning objectives in three major areas–modernization, rationalization and expansion.

## Modernization

A major objective was to commit our capital and energies to improving quality and cost-competitiveness in the Company's key businesses–the businesses in which the Company was a major participant by virtue of its size and expertise and to which it was committed for the long term.

Foremost among these is newsprint. As the world's largest producer of newsprint, Abitibi-Price is committed to ensuring that its product meets the changing quality requirements of its customers. In 1979, the Company had 24 fourdrinier newsprint machines, none of which had the twin-wire formers that have become so important in producing the high quality paper demanded by modern printing techniques. Today there are 19 machines, three of which are new world-class twin-wires. Eight other machines have been or are being fitted with top-wire formers, which essentially give them twin-wire configuration and performance. Over the same period, annual capacity has increased by about 200,000 tonnes, or 12 percent.

The Company is also a significant factor in the rapidly expanding groundwood papers market, as the largest producer of these grades in North America. To solidify our position in this high-growth market, the newsprint mill at Beaupré, Quebec, was converted to a modern groundwood papers mill at a cost of $106 million. As the mill approaches full production, quality and productivity advantages are being realized.

Other significant capital improvements have been made throughout our mills and plants, including the installation of new pulping processes and computerized control systems on our paper machines. This program has resulted in major cost reductions and energy savings, while providing significant improvements in quality and productivity.

## Rationalization

To ensure that every expenditure of capital and effort contributed to growth and profitability, it was important to dispose of operations that were unprofitable or had limited future potential within the Company's strategic direction. Fifteen divestitures and closures since 1979 have eliminated virtually all incompatible operations. Among these were all the Company's non-integrated sawmills, greatly reducing exposure to the volatility of the lumber market.

## Expansion

While modernization was the top priority, it was also an objective to identify and pursue opportunities for profitable expansion either internally or through acquisition. During the five-year period, the capacity at the Augusta, Georgia, newsprint mill was more than doubled in a joint venture partnership with Thomson Newspapers Limited; extruded plastic moulding capacity at Middlebury, Indiana, was doubled; hardboard siding capacity at Roaring River, North Carolina, was also doubled in a two-stage expansion project; and a new newsprint mill was established at Stephenville, Newfoundland, by converting a former linerboard mill we acquired.

At the same time, the paper and related product distribution businesses

**J. Ian McGibbon, Group Vice-President, is responsible for corporate planning and development, industrial relations, personnel, corporate communications, and mineral resources.**

have broadened their product lines and increased market penetration, doubling sales over the last five years. In 1983, Inter City Papers started up its Azerty operation in Buffalo, N.Y., to distribute information processing supplies. In 1984, initial entry into the U.S. paper distribution market was achieved by the acquisition of Whitaker Carpenter Paper Company, the largest independent paper distributor in the Chicago area.

To achieve these objectives, the Company anticipated a total investment of $1 billion during the five years. Including the $126 million spent during 1984, capital expenditures for the last five years total $918 million. With our $166 million share of the amount invested in the Augusta joint venture, we are well over the $1 billion mark–without sacrificing balance sheet strength.

We have monitored the plan on an ongoing basis to ensure its responsiveness to changing conditions and opportunities. In our most recent review, we affirmed that our fundamental direction remains sound, although understandably the emphasis is changing. As we move forward into 1985 and beyond, divestitures will not play a major part in our plans since most of the necessary changes have been made. Modernization projects will continue as required, but the largest portion of our investments will be concentrated on developing areas with high growth and profit potential.

Consistent with this objective, we intend to enrich and increase the mix of higher value-added printing papers in our Core Business Group, and to accelerate growth in our Diversified Businesses and U.S. Building Products Groups through internal expansion and suitable acquisitions.

A number of initiatives are already under way or provided for. These include plans to upgrade or replace the remaining eight newsprint machines that have not yet been upgraded; the modernization of the Jonquière, Quebec, groundwood papers mill and the introduction of some grades of groundwood papers at the Alma, Quebec, mill; the move to 100 percent coated paper production by Provincial Papers; and the recent acquisitions by the Diversified Businesses Group.

By the end of the next five-year period, we expect not only that all of our businesses will occupy the most profitable market positions available to them, but that more of a balance will exist between the contributions from our primary forest products operations and our diversified and U.S. building products businesses.

The turnaround in the North American economy, higher operating rates, price improvements, cost restraints and the further strengthening of the U.S. dollar against the Canadian dollar, all contributed to higher sales and earnings in 1984.

At $2,137.2 million, 1984 sales reflected a 29 percent improvement over 1983 sales of $1,660.2 million. Earnings before extraordinary items increased 90 percent to $72.3 million, or $3.07 per common share, from $38 million or $1.44 per share in 1983. After an extraordinary loss of $2.2 million resulting from the sale of the groundwood papers mill at Sault Ste. Marie, Ontario, and the sawmill at White River, Ontario, net earnings for the year 1984 were $70.1 million or $2.97 per share. There were no extraordinary items in 1983.

Excluding extraordinary items, the rate of return on average capital employed increased to 6.8 percent in 1984 from 3.6 percent in 1983 and the return on average common shareholders' equity rose to 8.3 percent from 4.1 percent.

With over half of the Company's sales made in U.S. funds, earnings are very sensitive to changes in the relationship between the Canadian and U.S. dollars. From 1983 to 1984, the average value of the U.S. dollar increased six cents against the Canadian dollar and this, net of the effect of a weakening in the local currencies in which the Company sells newsprint to the European market, contributed approximately $23 million, or $1.10 per common share, to the improvement in 1984 earnings.

As a percentage of before-tax earnings, income taxes increased to 27.2 percent in 1984 from 1.7 percent in 1983. This was largely due to the improvement in earnings and the fact that investment tax credits do not fluctuate with the level of earnings.

Common share dividends declared during 1984 totalled $1.20 per share, consisting of two quarterly dividends of 20 cents followed by two dividends of 40 cents. This compares with three dividends of 20 cents, totalling 60 cents per share, declared in 1983. Common shareholders elected to receive a significant portion of their 1984 dividends in the form of stock dividends, which accounts for practically all of the increase in common shares outstanding, from 20.7 million at the end of 1983 to 21.3 million at the end of 1984. The first quarterly common share dividend for 1985 was declared in January at the rate of 40 cents.

Capital expenditures for the year 1984 totalled $126.3 million, excluding expenditures relating to the Augusta, Georgia, newsprint mill of the joint venture partnership which is accounted for by the equity method. Most of the 1984 expenditures were directed toward the Company's program of modernization and improvement in product quality. Comparable expenditures for the year 1983 amounted to $165.3 million and included the completion of construction of two major projects–the new newsprint machine at Iroquois Falls, Ontario, and the conversion of the Beaupré, Quebec, mill from newsprint to groundwood papers.

With the completion of the start-up period for these major projects, the Company has started charging earnings with depreciation and with interest which

**J. Kenneth Stevens, Senior Vice-President, Finance, is responsible for all financial functions as well as information systems and investor relations.**

previously was capitalized. Similarly, since the completion of the start-up period for the new newsprint machine at Augusta, Georgia, joint venture income has been charged with depreciation and interest.

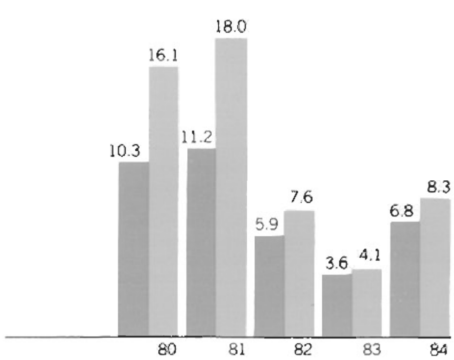
Of the U.S. $70 million cumulative term loan arranged with several banks in 1983, U.S. $7.1 million was drawn down during 1984 to refinance certain sinking fund and other long-term debt repayment obligations. A $100 million revolving term loan, which had been arranged in 1982 and against which only a nominal $1,000 had been drawn down, was cancelled by the Company in 1984.

In the month of December, the Series D and E Preferred Shares which remained outstanding were redeemed.

At the end of the year, the Company's working capital ratio was 2.6:1, compared to 2.7:1 in 1983, and its debt/equity ratio of 0.46:1 was the same as the preceding year.

**Return on Capital and Common Equity**

(percent)




| **Net Sales by Product** (millions of dollars) | **1984** | 1983 |
|---|---|---|
| Newsprint | **$ 946.4** | $ 724.3 |
| Groundwood papers | **274.3** | 195.8 |
| Kraft products | **53.8** | 51.9 |
| Lumber | **109.7** | 108.4 |
| **Total Core Business Group** | **1,384.2** | 1,080.4 |
| Fine papers | **108.4** | 83.7 |
| Converting and distribution | **469.8** | 331.7 |
| **Total Diversified Businesses Group** | **578.2** | 415.4 |
| **U.S. Building Products Group** | **174.8** | 164.4 |
| **Total all products** | **$2,137.2** | $1,660.2 |

| **Net Sales by Quarter** (millions of dollars) | **1984** | 1983 |
|---|---|---|
| 1st Quarter | **$ 470.8** | $ 387.3 |
| 2nd Quarter | **586.6** | 447.8 |
| 3rd Quarter | **546.3** | 398.7 |
| 4th Quarter | **533.5** | 426.4 |
| | **$2,137.2** | $1,660.2 |

| **Earnings before Extraordinary Items by Quarter** | **1984** | | 1983 | |
|---|---|---|---|---|
| | $ Millions | Per Share | $ Millions | Per Share |
| 1st Quarter | **$10.4** | **$ .40** | $ 2.0 | $(.01) |
| 2nd Quarter | **23.0** | **1.02** | 11.9 | .47 |
| 3rd Quarter | **15.3** | **.63** | 9.0 | .34 |
| 4th Quarter | **23.6** | **1.02** | 15.1 | .64 |
| | **$72.3** | **$3.07** | $38.0 | $1.44 |

| **Capital Employed at December 31** | **1984** | | 1983 | |
|---|---|---|---|---|
| | $ Millions | Percent | $ Millions | Percent |
| Common shareholders' equity | **$ 805.7** | **51.5** | $ 747.7 | 50.9 |
| Preferred shareholders' equity | **104.2** | **6.7** | 113.8 | 7.8 |
| Total shareholders' equity | **909.9** | **58.2** | 861.5 | 58.7 |
| Long-term debt | **419.9** | **26.8** | 395.1 | 26.9 |
| Deferred income taxes | **209.3** | **13.4** | 191.8 | 13.1 |
| Minority interest | **25.1** | **1.6** | 19.5 | 1.3 |
| Total capital employed | **$1,564.2** | **100.0** | $1,467.9 | 100.0 |

# Consolidated Earnings

| Year ended December 31 (thousands of dollars) | 1984 | 1983 |
|---|---|---|
| Net sales | **$2,137,169** | $1,660,180 |
| Joint ventures–newsprint (note 3) | **(5,289)** | 1,917 |
| –mining | **(1,639)** | (729) |
| Interest and other income | **22,943** | 27,216 |
| | **2,153,184** | 1,688,584 |
| Cost of sales | **1,788,676** | 1,441,569 |
| Selling and administrative expenses | **132,930** | 114,795 |
| Depreciation and depletion | **76,825** | 68,602 |
| Exploration costs | **2,267** | 1,497 |
| Interest on long-term debt (note 7) | **40,396** | 18,903 |
| Other interest | **1,229** | 837 |
| | **2,042,323** | 1,646,203 |
| | **110,861** | 42,381 |
| Income taxes (note 4) | **30,182** | 705 |
| | **80,679** | 41,676 |
| Minority interest | **8,353** | 3,663 |
| Earnings before extraordinary items | **72,326** | 38,013 |
| Extraordinary items (note 5) | **(2,188)** | – |
| Net earnings | **$ 70,138** | $ 38,013 |
| Per Common Share: | | |
| Earnings before extraordinary items | **$ 3.07** | $ 1.44 |
| Net earnings | **2.97** | 1.44 |

# Consolidated Retained Earnings

| Year ended December 31 (thousands of dollars) | 1984 | 1983 |
|---|---|---|
| Retained earnings at beginning of year | **$ 634,196** | $ 616,045 |
| Net earnings | **70,138** | 38,013 |
| | **704,334** | 654,058 |
| Dividends declared– | | |
| Preferred Shares | **(8,053)** | (7,424) |
| Common Shares | **(25,003)** | (12,438) |
| Retained earnings at end of year | **$ 671,278** | $ 634,196 |

# Changes in Consolidated Financial Position

| Year ended December 31 (thousands of dollars) | 1984 | 1983 |
|---|---|---|
| **Financial resources provided by** | | |
| Earnings before extraordinary items | **$ 72,326** | $ 38,013 |
| Depreciation and depletion | **76,825** | 68,602 |
| Deferred income taxes | **16,896** | 3,697 |
| Losses (earnings) of joint ventures after dividends | **7,171** | (522) |
| Minority interest | **8,353** | 3,663 |
| Other | **(2,753)** | (3,374) |
| Funds from operations | **178,818** | 110,079 |
| Extraordinary items– | | |
| Sale of operating units, less working capital of $4,555,000 | **19,723** | – |
| Less: Notes and preferred shares received as partial consideration | **(7,400)** | – |
| Net increase in long-term debt | **4,744** | 5,882 |
| Government capital grants | **11,969** | 19,542 |
| Disposals of fixed assets | **4,812** | 10,897 |
| Other | **1,567** | 2,093 |
| | **214,233** | 148,493 |
| **Financial resources used for** | | |
| Additions to fixed assets | **126,253** | 165,256 |
| Contribution to newsprint joint venture | **11,538** | 3,737 |
| Dividends declared– | | |
| Preferred shareholders | **8,053** | 7,424 |
| Common shareholders | **25,003** | 12,438 |
| Less: Paid in form of Common Shares | **(15,700)** | (96) |
| Minority shareholder of a subsidiary company | **2,826** | 3,646 |
| Acquisition of a subsidiary company, less working capital of $4,137,000 | **5,065** | – |
| Increase in long-term receivables | **16,309** | 437 |
| Retirement of preferred shares | **9,620** | 8,674 |
| | **188,967** | 201,516 |
| **Increase (decrease) in working capital** | **25,266** | (53,023) |
| **Working capital at beginning of year** | **384,256** | 437,279 |
| **Working capital at end of year** | **$409,522** | $384,256 |

# Consolidated Balance Sheet

| December 31<br>(thousands of dollars) | 1984 | 1983 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and short-term investments | **$ 41,228** | $ 50,462 |
| Accounts receivable | **292,347** | 260,081 |
| Inventories (note 6) | **326,750** | 298,463 |
| Prepaid expenses | **6,660** | 7,751 |
| | **666,985** | 616,757 |
| **Fixed assets** | | |
| Property, plant and equipment | **1,546,822** | 1,512,565 |
| Logging equipment and development | **89,979** | 93,270 |
| Timber limits and mineral and water power rights | **31,411** | 32,999 |
| | **1,668,212** | 1,638,834 |
| Less–accumulated depreciation and depletion | **657,941** | 645,259 |
| | **1,010,271** | 993,575 |
| **Other assets** | | |
| Equity interests in joint ventures– | | |
| Newsprint (note 3) | **39,981** | 31,480 |
| Mining | **10,834** | 12,716 |
| Unrealized loss on translation of long-term debt payable in U.S. funds (note 1(b)) | **46,661** | 27,425 |
| Investments at cost, long-term receivables and other assets | **46,927** | 18,465 |
| | **144,403** | 90,086 |
| | **$1,821,659** | $1,700,418 |

The financial statements have been approved by the Board:

Director

Director

| | 1984 | 1983 |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank loans | $ 4,049 | $ 6,210 |
| Accounts payable and accrued liabilities | 234,395 | 216,361 |
| Income and other taxes payable | 12,983 | 4,072 |
| Dividends payable | 1,437 | 1,229 |
| Long-term debt due within one year (note 7) | 4,599 | 4,629 |
| | 257,463 | 232,501 |
| **Long-term debt** (note 7) | 419,944 | 395,102 |
| **Deferred income taxes** | 209,331 | 191,762 |
| **Minority interest** | 25,056 | 19,529 |
| **Shareholders' equity** | | |
| **Stated capital** (note 8) | | |
| Preferred Shares– | | |
| Series A– 144,300 shares (1983–148,000 shares) | 7,215 | 7,400 |
| Series B– 440,000 shares (1983–480,000 shares) | 22,000 | 24,000 |
| Series C–1,500,000 shares | 75,000 | 75,000 |
| Series D– – shares (1983–137,500 shares) | – | 6,875 |
| Series E– – shares (1983– 22,790 shares) | – | 570 |
| Class A Shares | – | – |
| Common Shares–21,310,129 shares (1983–20,733,315 shares) | 121,239 | 105,161 |
| **Retained earnings** | 671,278 | 634,196 |
| **Deferred foreign currency translation gain** (note 1(b)) | 13,133 | 8,322 |
| | 909,865 | 861,524 |
| | $1,821,659 | $1,700,418 |

# 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 joint ventures are included in the financial statements in accordance with the equity method of accounting.

*(b) Translation of foreign currencies*
The assets and liabilities of self-sustaining foreign subsidiaries and affiliates are translated to Canadian funds at year-end exchange rates and the resulting unrealized exchange gains or losses are deferred in shareholders' equity. The earnings statements of such operations are translated at exchange rates prevailing during the year.

Monetary assets and liabilities of domestic companies and integrated foreign subsidiaries which are denominated in foreign funds are translated to Canadian funds at year-end exchange rates, non-monetary assets are translated at historical rates, and transactions included in earnings are translated at rates prevailing during the year with the exception of depreciation which is translated at historical rates. Exchange gains or losses are included in earnings with the exception of the unrealized gain or loss on translation of long-term debt payable in U.S. funds which is deferred and is hedged by an income stream denominated in U.S. funds.

*(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, which includes capitalized interest and preproduction and start-up costs. Grants received under government programs relating to capital expenditures are credited to fixed assets.

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.

*(e) Pension costs*
Current service pension costs are charged to earnings and funded as they accrue. Past service costs are charged to earnings and funded over periods not longer than those permitted by the various regulatory bodies.

*(f) 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.

Investment tax credits are accounted for using the "flow-through" method which recognizes the tax benefit in the year in which the eligible capital expenditures are made. In July 1984, The Canadian Institute of Chartered Accountants recommended that, effective in 1985, investment tax credits be amortized over the period during which the related assets are to be depreciated for accounting purposes.

## 2 Segmented Information (millions of dollars)

| Business Segments | Pulp and Paper | | Building Products and Lumber | | Consolidated | |
|---|---|---|---|---|---|---|
| | **1984** | 1983 | **1984** | 1983 | **1984** | 1983 |
| Net sales | | | | | | |
| Newsprint | **$ 946.4** | $ 724.3 | **$** | $ | **$** | $ |
| Groundwood papers | **274.3** | 195.8 | | | | |
| Kraft products | **53.8** | 51.9 | | | | |
| Lumber | | | **109.7** | 108.4 | | |
| Fine papers | **108.4** | 83.7 | | | | |
| Converting and distribution | **469.8** | 331.7 | | | | |
| Building products | | | **174.8** | 164.4 | | |
| Total sales | **$1,852.7** | $1,387.4 | **$ 284.5** | $ 272.8 | **$2,137.2** | $1,660.2 |
| Operating profit before depreciation and depletion | **$ 226.7** | $ 118.7 | **$ 25.3** | $ 26.7 | **$ 252.0** | $ 145.4 |
| Depreciation and depletion | **(64.3)** | (55.0) | **(12.5)** | (13.6) | **(76.8)** | (68.6) |
| Operating profit | **$ 162.4** | $ 63.7 | **$ 12.8** | $ 13.1 | **175.2** | 76.8 |
| Mining and exploration | | | | | **(3.9)** | (2.2) |
| Interest and other income | | | | | **22.9** | 27.2 |
| General corporate expenses | | | | | **(41.7)** | (39.7) |
| Interest expense | | | | | **(41.6)** | (19.7) |
| Income taxes | | | | | **(30.2)** | (.7) |
| Minority interest | | | | | **(8.4)** | (3.7) |
| Earnings before extraordinary items | | | | | **$ 72.3** | $ 38.0 |
| Total assets–identifiable | **$1,441.2** | $1,337.1 | **$ 223.6** | $ 223.4 | **$1,664.8** | $1,560.5 |
| –general | | | | | **156.9** | 139.9 |
| –total | | | | | **$1,821.7** | $1,700.4 |
| Additions to fixed assets–identifiable | **$ 106.0** | $ 158.2 | **$ 17.1** | $ 6.0 | **$ 123.1** | $ 164.2 |
| –general | | | | | **3.2** | 1.1 |
| –total | | | | | **$ 126.3** | $ 165.3 |

| Geographic Segments | Canada | | U.S.A. | | Consolidated | |
|---|---|---|---|---|---|---|
| | **1984** | 1983 | **1984** | 1983 | **1984** | 1983 |
| Net sales | **$1,676.7** | $1,391.4 | **$ 460.5** | $ 268.8 | **$2,137.2** | $1,660.2 |
| Operating profit | **$ 154.0** | $ 57.8 | **$ 21.2** | $ 19.0 | **$ 175.2** | $ 76.8 |
| Total assets–identifiable | **$1,427.1** | $1,364.3 | **$ 237.7** | $ 196.2 | **$1,664.8** | $1,560.5 |
| –general | | | | | **$ 156.9** | $ 139.9 |
| –total | | | | | **$1,821.7** | $1,700.4 |

Notes:

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

(2) Canadian operations include sales to the U.S. market of $786.6 million (1983–$624.6 million) and other export sales of $185.1 million (1983–$146.4 million).

## 3 Newsprint joint venture

The Company's 50% share of the earnings (loss) and net assets of the joint venture newsprint operation at Augusta, Georgia, is as follows:

| | 1984 ($000's) | 1983 ($000's) |
|---|---|---|
| Revenue | **$ 81,663** | $ 38,647 |
| Expenses | **86,952** | 36,730 |
| Earnings (loss) | **$ (5,289)** | $ 1,917 |
| Assets | **$208,916** | $193,646 |
| Liabilities | **168,935** | 162,166 |
| Net assets | **$ 39,981** | $ 31,480 |

Liabilities include $157,821,000 (1983–$152,168,000) representing 50% of long-term borrowings, without recourse to the partners, which were arranged to finance the installation of a second newsprint machine and related facilities at the Augusta mill.

Under a marketing agreement, the joint venture's newsprint production is sold through a wholly-owned sales subsidiary of Abitibi-Price Inc.

## 4 Income taxes

The Company's effective income tax rate is as follows:

| | 1984 ($000's) | 1983 ($000's) |
|---|---|---|
| Earnings before income taxes, minority interest and extraordinary items | **$110,861** | $ 42,381 |
| Income taxes | **30,182** | 705 |
| Effective income tax rate | **27.2%** | 1.7% |
| Made up of: | | |
| Combined basic Canadian federal/provincial income tax rates | **46.4%** | 43.7% |
| Increase (decrease) resulting from– | | |
| Manufacturing and processing allowances | **(4.2)** | (2.1) |
| Investment tax credits | **(7.6)** | (21.7) |
| Inventory allowances | **(2.4)** | (6.4) |
| Capital gains and other reduced rate transactions | **(4.1)** | (8.0) |
| Higher (lower) effective tax rates on earnings of foreign subsidiaries | **0.4** | (3.5) |
| Other | **(1.3)** | (0.3) |
| Effective income tax rate | **27.2%** | 1.7% |

## 5 Extraordinary items

| | 1984 ($000's) | 1983 ($000's) |
|---|---|---|
| Net loss on sales of groundwood papers mill at Sault Ste. Marie, Ont., and sawmill at White River, Ont., after income tax credit of $789,000 | **$ 2,188** | $ – |

## 6 Inventories

| | 1984 ($000's) | 1983 ($000's) |
|---|---|---|
| Finished products and work in process | **$133,198** | $101,250 |
| Pulpwood, sawlogs and expenditures on current logging operations | **131,831** | 131,683 |
| Materials and operating supplies | **61,721** | 65,530 |
| | **$326,750** | $298,463 |

## 7 Long-term debt

| | 1984 ($000's) | 1983 ($000's) |
|---|---|---|
| Abitibi-Price Inc.: | | |
| Sinking Fund Debentures (secured)– | | |
| 5¼% Series A, maturing 1985 (U.S. $5,150,000) | **$ 6,807** | $ 7,435 |
| 7¼% Series B, maturing 1987 | **5,250** | 5,926 |
| 9¾% Series D, maturing 1990 | **7,500** | 8,227 |
| 10½% Series E, maturing 1985 | **35,275** | 35,275 |
| 11% Series F, maturing 1995 | **10,878** | 11,378 |
| 11⅜% Series G, maturing 1995 (U.S. $44,000,000) | **58,155** | 59,731 |
| 10.15% Series H, maturing 2000 (U.S. $135,000,000) | **178,429** | 167,994 |
| 15¾% Debentures Series I, maturing 1991 (secured) (U.S. $50,000,000) | **66,085** | 62,220 |
| Abitibi-Price Finance Inc.: | | |
| Floating Rate Revolving/Term Loan | **-** | 1 |
| Abitibi-Price Refinance Inc.: | | |
| Floating Rate Cumulative/Term Loan (U.S. $11,611,000) | **15,346** | 5,600 |
| Abitibi-Price Corporation: | | |
| 7⅜% Instalment Notes, maturing 1988 (U.S. $6,000,000) | **7,930** | 8,711 |
| 6½% Industrial Revenue Bonds, maturing 1992 (secured) (U.S. $2,528,000) | **3,341** | 3,712 |
| The Price Company Limited: | | |
| 6¾% Sinking Fund Debentures Series B, maturing 1987 | **9,747** | 11,640 |
| Gaspesia Pulp and Paper Company Ltd.: | | |
| 5½% Sinking Fund Notes, maturing 1985 (U.S. $1,130,000) | **1,494** | 2,787 |
| 6% Sinking Fund Notes, maturing 1986 (U.S. $800,000) | **1,057** | 1,593 |
| Floating Rate Revolving Loan (U.S. $7,892,000) | **10,431** | 6,162 |
| Sundry indebtedness | **6,818** | 1,339 |
| | **424,543** | 399,731 |
| Less: Amount due within one year, less amounts to be refinanced | **4,599** | 4,629 |
| | **$419,944** | $395,102 |

Abitibi-Price Refinance Inc. has entered into a loan agreement with certain banks which enables it to borrow on a cumulative basis up to U.S. $70,000,000, or its Canadian equivalent, in order to refinance certain sinking fund and other long-term debt repayment obligations during the period ending December 31, 1986, with the balance of the loan outstanding at that date to be repaid not later than December 31, 1993. Interest is at rates approximating bank prime for Canadian funds borrowings and at rates approximating U.S. base rate, U.S. dollar bankers' acceptances or LIBOR for U.S. funds borrowings. To secure repayment of the loan, Abitibi-Price Inc. has issued and pledged a Series K Debenture (secured).

The Series E Debentures which were to mature in 1995 will now mature on March 1, 1985 as a result of holders exercising their right to elect prepayment on that date. These Debentures will be refinanced in 1985 through Abitibi-Price Refinance Inc.

Abitibi-Price Inc. has effectively guaranteed payment of outstanding long-term debt of Abitibi-Price Corporation amounting to U.S. $8,528,000 at December 31, 1984. As security for its guarantee of the 7⅜% Instalment Notes, Abitibi-Price Inc. has issued and pledged 7⅜% Series C Debentures (secured).

Gaspesia Pulp and Paper Company Ltd. has entered into a loan agreement with a bank which enables it to borrow on a revolving basis up to U.S. $25,000,000 to September 19, 1993, at which time any outstanding balance becomes due. Interest is at rates approximating U.S. prime, U.S. dollar bankers' acceptances or LIBOR.

Sinking fund and other long-term debt repayment obligations for the years 1986 to 1989 are estimated to be $3,786,000, $34,110,000, $24,448,000 and $20,186,000, respectively, after deducting amounts to be refinanced in 1986 through Abitibi-Price Refinance Inc.

During the year ended December 31, 1984, interest of $6,345,000 has been capitalized on major capital additions (1983–$24,686,000).

## 8 Stated capital

The Company is governed by the Canada Business Corporations Act and is authorized to issue an unlimited number of Preferred Shares, Common Shares and Class A Shares.

*7½% Cumulative Redeemable Preferred Shares Series A–*
The Series A shares, which were issued at $50 per share, are redeemable at $51 per share. During 1984, 3,700 shares with a book value of $185,000 were purchased at a cost of $145,000 and cancelled (1983–5,900 shares with a book value of $295,000 at a cost of $219,000).

*10% Cumulative Redeemable Preferred Shares Series B–*
The Series B shares, which were issued at $50 per share, are required to be retired at the rate of 40,000 shares annually through the operation of a cumulative sinking fund by redemption at $50 per share and/or open market purchases. The shares are otherwise redeemable at $50.50 per share to and including June 15, 1985 and at $50 per share thereafter. During 1984, the sinking fund provisions were met by the purchase of 40,000 shares with a book value of $2,000,000 at a cost of $2,022,000 (1983–the sinking fund provisions were met by the purchase of 7,313 shares in 1982 at a cost of $311,000 and the purchase of 32,687 shares in 1983 at a cost of $1,572,000).

*Floating Rate Preferred Shares Series C–*
The Series C shares, which were issued at $50 per share, are redeemable by the Company at $50 per share and they are retractable at the option of the holders at $50 per share on January 1, 1990. 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.

*Preferred Shares Series D–*
The Series D shares were issued at $50 per share. Under the terms of issue, 137,500 shares were redeemed at $50 per share on December 31, 1983 and the remaining 137,500 shares were redeemed at $50 per share on December 31, 1984. No dividend was payable in respect of these shares.

*$2.17 Convertible Preferred Shares Series E–*
The Series E shares, which were issued at $25 per share, were fully retired by the end of 1984. During the year, shareholders exercised the conversion privilege with respect to 15,170 shares with a book value of $379,000 and received 13,768 Common Shares at the conversion price of $27.50 per share with a conversion value of $378,000. In December, the remaining 7,620 shares, with a book value of $191,000, were redeemed by the Company at the redemption price of $26.25 per share for a cost of $200,000. (In 1983, 200 shares with a book value of $5,000 were converted to 181 Common Shares with a conversion value of $5,000 and 170 shares with a book value of $4,000 were purchased at a cost of $3,000 and cancelled.)

| *Common Shares and Class A Shares–* | Number of Common Shares | $000's |
|---|---|---|
| Outstanding at December 31, 1983 | 20,733,315 | $105,161 |
| Issued– | | |
| Under stock dividend elections by Common shareholders | 557,962 | 15,700 |
| Under the terms of the Key Employees' Stock Option Plan | 5,084 | – |
| On conversion of Preferred Shares Series E | 13,768 | 378 |
| Outstanding at December 31, 1984 | 21,310,129 | $121,239 |

The directors are permitted 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 unless the board of directors shall otherwise determine. 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.

Under elections made by Common shareholders relating to dividends paid during 1984, the Company issued 557,962 Common Shares with a value of $15,700,000 and Class A Shares with a value of $13,000. The Class A Shares were redeemed on issue.

## 9 Lease commitments

The Company and its subsidiaries have entered into operating leases to charter ships and lease equipment and property for various periods up to the year 2003 at rentals aggregating approximately $93,527,000. Minimum payments under these leases are as follows:

| | $000's |
|---|---|
| 1985 | $ 13,716 |
| 1986 | 13,622 |
| 1987 | 12,977 |
| 1988 | 11,834 |
| 1989 | 7,822 |
| Remaining years | 33,556 |
| | $ 93,527 |

## 10 Pension plans

The Company and its subsidiaries maintain a number of pension plans, with most employees participating in contributory plans that provide pensions based on length of service and final average earnings.

Accumulated plan benefits and plan net assets were as follows at December 31, 1984:

| | $000's |
|---|---|
| Actuarial present value of accumulated plan benefits, based on current service and compensation levels– | |
| Vested | $377,200 |
| Non-vested | 45,800 |
| | $423,000 |
| Net assets available for benefits, at market value | $538,200 |

Based on projections of employees' compensation levels to time of retirement, actuarial estimates indicate that the present value of the unfunded obligation for pension benefits relating to past service was $43 million at December 31, 1984. This balance is being funded and charged to earnings over a period not exceeding 15 years.

## 11 Subsequent event

On February 13, 1985, the Company entered into an agreement to acquire CIP Daxion Inc., a distributor of industrial paper and packaging products, for a consideration of approximately $29 million.

# Auditors' Report

**To the Shareholders of Abitibi-Price Inc.:**

We have examined the consolidated balance sheet of Abitibi-Price Inc. as at December 31, 1984 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Abitibi-Price Inc. as at December 31, 1984 and the results of its operations and 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.

Price Waterhouse

Chartered Accountants
Toronto, February 14, 1985

# Six-year Financial Review

| | 1984 | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|---|---|---|---|---|---|
| **Sales and earnings** ($ millions) | | | | | | |
| Net sales | **$2,137.2** | $1,660.2 | $1,634.3 | $1,763.4 | $1,364.7 | $1,470.9 |
| Joint ventures–newsprint | **(5.3)** | 1.9 | 2.0 | – | .4 | 2.4 |
| –mining | **(1.6)** | (.7) | (2.2) | (.4) | 18.4 | 25.3 |
| Interest and other income | **22.9** | 27.2 | 33.9 | 24.0 | 26.4 | 9.2 |
| Cost of sales | **1,788.7** | 1,441.6 | 1,354.4 | 1,356.2 | 1,076.9 | 1,136.7 |
| Selling and administrative expenses | **132.9** | 114.8 | 121.8 | 117.8 | 98.8 | 93.4 |
| Depreciation and depletion | **76.8** | 68.6 | 70.1 | 61.7 | 53.3 | 49.5 |
| Exploration costs | **2.3** | 1.5 | 2.7 | 4.6 | 3.9 | 2.4 |
| Interest on long-term debt | **40.4** | 18.9 | 25.3 | 28.2 | 25.8 | 19.9 |
| Other interest | **1.2** | .8 | 1.4 | – | .3 | .8 |
| Income taxes | **30.2** | .7 | 22.4 | 87.2 | 51.9 | 80.5 |
| Minority interest | **8.4** | 3.7 | 6.1 | 7.8 | 4.8 | 5.7 |
| Earnings before extraordinary items | **72.3** | 38.0 | 63.9 | 123.4 | 94.3 | 118.8 |
| Extraordinary items | **(2.2)** | – | (2.6) | 12.3 | 18.0 | 33.6 |
| Net earnings | **70.1** | 38.0 | 61.3 | 135.7 | 112.3 | 152.4 |
| **Dividends declared** ($ millions) | | | | | | |
| Preferred shares | **$ 8.1** | $ 7.4 | $ 10.8 | $ 10.0 | $ 9.8 | $ 9.1 |
| Common shares | **25.0** | 12.4 | 31.1 | 33.1 | 30.1 | 28.0 |
| **Capital expenditures** ($ millions) | **$ 126.3** | $ 165.3 | $ 187.9 | $ 207.0 | $ 231.0 | $ 153.5 |
| **Financial position** ($ millions) | | | | | | |
| Working capital | **$ 409.5** | $ 384.3 | $ 437.3 | $ 461.4 | $ 414.3 | $ 339.1 |
| Fixed assets, net | **1,010.3** | 993.6 | 917.9 | 837.1 | 730.0 | 594.1 |
| Long-term debt | **419.9** | 395.1 | 385.8 | 388.9 | 360.7 | 237.7 |
| Deferred income taxes | **209.3** | 191.8 | 187.6 | 174.7 | 127.9 | 105.4 |
| Minority interest | **25.1** | 19.5 | 19.5 | 16.6 | 18.1 | 24.5 |
| Preferred shares | **104.2** | 113.8 | 122.7 | 130.8 | 139.9 | 143.0 |
| Common shareholders' equity | **805.7** | 747.7 | 721.1 | 701.5 | 560.4 | 487.0 |
| **Per common share** | | | | | | |
| Earnings before extraordinary items | **$ 3.07** | $ 1.44 | $ 2.60 | $ 5.56 | $ 4.50 | $ 5.87 |
| Net earnings | **2.97** | 1.44 | 2.47 | 6.16 | 5.46 | 7.67 |
| Dividends declared | **1.20** | .60 | 1.50 | 1.60 | 1.60 | 1.50 |
| Common shareholders' equity | **37.81** | 36.06 | 34.80 | 33.87 | 29.79 | 26.04 |
| Return on average capital employed | **6.8%** | 3.6% | 5.9% | 11.2% | 10.3% | 14.4% |
| Return on average common shareholders' equity | **8.3%** | 4.1% | 7.6% | 18.0% | 16.1% | 25.5% |
| Ratio of long-term debt to total equity | **.46** | .46 | .46 | .47 | .51 | .38 |
| Number of employees (year end) | **14,793** | 15,141 | 14,641 | 17,781 | 17,287 | 18,279 |

# Primary Production

| (figures in thousands) | Newsprint* (tonnes) | Groundwood Papers (tonnes) | Kraft Products (tonnes) | Lumber (mfbm) | Fine Papers (tonnes) | Hardboard (msf–equivalent) |
|---|---|---|---|---|---|---|
| Production | | | | | | |
| 1979 | 1,779 | 336 | 224 | 360 | 183 | 983 |
| 1980 | 1,546 | 201 | 136 | 244 | 178 | 824 |
| 1981 | 1,788 | 308 | 188 | 291 | 154 | 878 |
| 1982 | 1,512 | 321 | 173 | 140 | 101 | 942 |
| 1983 | 1,461 | 321 | 173 | 181 | 114 | 1,113 |
| 1984 | 1,721 | 374 | 115 | 181 | 121 | 1,111 |
| Capacity–1985 | 1,935 | 360 | 108 | 182 | 127 | 1,249 |

*Newsprint figures include the total production of the 50%-owned joint venture at Augusta, Georgia, but exclude tonnage made available under an exclusive marketing agreement during the years following the sale of the company's 50% interest in a newsprint machine at DeRidder, Louisiana, at the end of 1980.

# Directors and Officers

## Directors

†Marcel Bélanger, O.C.
President
Gagnon et Bélanger Inc.
Quebec, Quebec

□▲Thomas J. Bell, M.C.
Director
Toronto, Ontario

•Howard W. Blauvelt
Director
Charlottesville, Virginia

□▲Edmund C. Bovey, C.M.
Director
Toronto, Ontario

□•Robert C. Gimlin
Chairman and
Chief Executive Officer
Abitibi-Price Inc.
Toronto, Ontario

□Bernd K. Koken
President and
Chief Operating Officer
Abitibi-Price Inc.
Toronto, Ontario

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Chief Executive Officer
Wood Gundy Inc.
Toronto, Ontario

□†▲Gilbert I. Newman
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Olympia & York
Developments Limited
Toronto, Ontario

□•Albert Reichmann
President
Olympia & York
Developments Limited
Toronto, Ontario

□•Paul Reichmann
Senior Executive Vice-
President and Secretary
Olympia & York
Developments Limited
Toronto, Ontario

Ralph Reichmann
Executive Vice-President
and Treasurer
Olympia & York
Developments Limited
Toronto, Ontario

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Partner
Stirling, Ryan
St. John's, Newfoundland

Kenneth R. Thomson
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Chief Executive Officer
Thomson Newspapers
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Toronto, Ontario

□•John A. Tory, Q.C.
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†Paul-Gaston Tremblay, C.M.
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Chicoutimi, Quebec

David A. Ward, Q.C.
Partner
Davies, Ward & Beck
Toronto, Ontario

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

□Executive Committee
†Audit Committee
•Human Resources and
Compensation Committee
▲Pension Fund Committee

## Officers

**Chairman and Chief Executive Officer**
Robert C. Gimlin

**President and Chief Operating Officer**
Bernd K. Koken

**Group Vice-Presidents:**

Charles F. Buckland
John G. Davis
K. Linn Macdonald
J. Ian McGibbon
Ronald Y. Oberlander

**Senior Vice-Presidents:**

T. Newman McLenaghen

J. Kenneth Stevens
*Finance*

**Vice-Presidents:**

J. Fitzgerald Allison
*Industrial Relations*

William W. Hall
*Marketing*

William J. Johnston
*Manufacturing* (Region II)

J. Gordon Maw
*Treasurer*

James A. McGregor
*Mineral Resources*

M. Thomas Neill
*Research and Development*

James B. Papoe
*Manufacturing* (Region I)

Sharon A. Paul
*Corporate Communications*

Michael D. Thompson
*General Counsel and Secretary*

H. Colin Warner
*Controller*

J. A. Warner Woodley
*Personnel*

**Other Officers:**

Douglas J. Butler
*Assistant Secretary*

Bernard Conway
*Assistant Treasurer*

Robert A. Cook•
*Assistant Treasurer*

Jean E. Gebbie
*Assistant Secretary*

Donald J. McMullan
*Assistant Treasurer*

**Annual general meeting**
The annual meeting of shareholders of Abitibi-Price Inc. will be held in Commerce Hall, Concourse Level, Commerce Court West, Toronto, Canada, on Monday, April 15, 1985 at 10:00 a.m.

**Common share information**
Common shares of the Company are listed on the Montreal, Toronto and Vancouver stock exchanges and traded under the ticker symbol A.

Valuation Day (December 22, 1971) share prices:

| | |
|---|---|
| Common | $ 7.25 |
| 7½% Cumulative redeemable preferred, Series A | $49.50 |

The Company has a dividend option plan under which shareholders may choose to receive their dividends in cash, common shares of the Company or Class A shares of the Company.

**Transfer agents and registrars**
Montreal Trust Company
Toronto, Montreal, Vancouver, Calgary, Regina, Winnipeg and Halifax, Canada

National Bank of Detroit
Detroit, U.S.A.

**Auditors**
Price Waterhouse
Toronto, Canada

**Head Office**
Abitibi-Price Inc.
Toronto-Dominion Centre
Toronto, Canada M5K 1B3

**Operating Subsidiaries and Principal Divisions**

Abitibi-Price Corporation
Charles F. Buckland, President

Abitibi-Price Lumber Sales
J.A. William Hatch, General Manager

Abitibi-Price Sales Corporation
John G. Davis, Chairman

Canada Envelope
Peter J. Bowles, President

Hilroy
Reginald A. Donaldson, President

Inter City Papers Limited
Jeff Chipman, President

La Compagnie Price Limitée
William J. Johnston, President

Provincial Papers
J. Raymond Langevin, President

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*Kromekote is manufactured by Provincial Papers under licence from Champion International Corporation

ABITIBI-PRICE