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ABITIBI-PRICE

1987 ANNUAL REPORT

Abitibi-Price Inc.

Annual Report for the year ended December 31, 1987

ABITIBI-PRICE

Abitibi-Price Inc. is a major Canadian forest products company with manufacturing operations in Canada and the United States. It is the world's leading producer of newsprint and a significant market participant in other forest products and related businesses. These include the manufacture of groundwood specialty papers, coated papers, building products, envelopes, industrial papers and other products for home, school and office use. The Company is also a major distributor of printing papers, office products and industrial paper and related products.

Headquartered in Toronto, Ontario, the Company employs over 16,000 people and serves customers around the world. It operates 34 manufacturing facilities and over 80 sales and distribution centres.

At the end of 1987, there were approximately 16,000 registered Abitibi-Price shareholders. The Company's common shares are listed on the Toronto, Montreal and Vancouver Stock Exchanges under the symbol A and on the New York Stock Exchange under the symbol ABY.

On peut obtenir le présent rapport annuel en français sur demande.

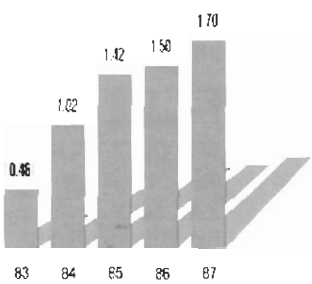
Contents

Financial Highlights

(millions of Canadian dollars)	*1987*	*1986*
Net sales	**$2,988**	$2,764
Operating profit	**271**	246
Earnings before extraordinary items	**126**	110
Net earnings	**126**	107
Capital expenditures	**257**	263
Working capital	**622**	459
Common shareholders' equity	**1,089**	1,017
Per common share		
Earnings before extraordinary items	**$ 1.70**	$ 1.50
Net earnings	**1.70**	1.46
Dividends declared	**.70**	.60
Dividends paid	**.60**	.60
Common shareholders' equity	**15.72**	14.69
Return on average common shareholders' equity	**11.2%**	11.0%
Long-term debt/long-term debt plus shareholders' equity	**33.1%**	27.3%

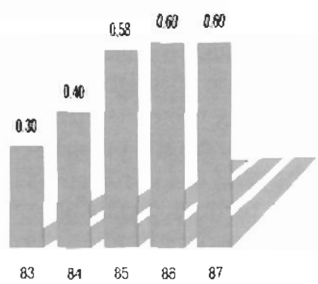
Earnings Per Common Share Before Extraordinary Items

(dollars)



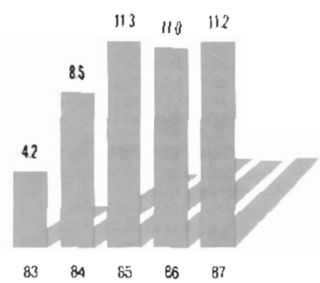
Dividends Paid Per Common Share

(dollars)



Return on Average Common Shareholders' Equity

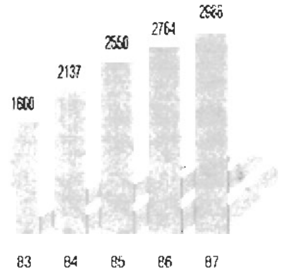
(percent)



Report of the Directors

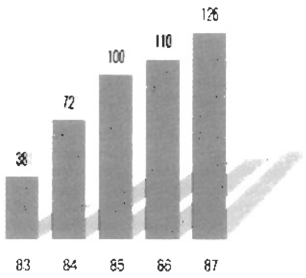
Net Sales

(millions of dollars)



Earnings Before Extraordinary Items

(millions of dollars)



The Year in Brief
Strong performances in the Newsprint and Diversified Groups helped the Company achieve a 14 percent improvement in earnings before extraordinary items. Sales increased eight percent to reach a new high, despite the adverse effect of changes in the exchange rate between Canada and the United States.

There were a number of highlights in 1987: the Company launched production of North America's highest quality clay-filled supercalendered paper; major labour agreements were renewed for a three-year term; the Company's common shares were listed on the New York Stock Exchange; the number of shareholders rose significantly; and, at year-end, the dividend rate was increased.

Markets and Operations
Several factors contributed to the earnings increase. Newsprint markets and prices continued to strengthen during 1987. Performance improvements were also posted by the distribution, converting and building products operations.

Major capital projects completed during the year, and particularly the introduction of a technologically advanced groundwood papers product, have strengthened the Company's competitive position for the future. The demands of this ambitious program, however, resulted in some production downtime and higher-than-expected costs in 1987. Other factors also acted to restrain earnings growth in 1987, including significant increases in purchased kraft pulp costs, a higher effective income tax rate and the decline, in Canadian terms, of the value of the U.S. dollar, which affects about half of the Company's sales.

Gulf Reorganization
At mid-year, the Company's former majority shareholder, Gulf Canada Corporation, completed a Plan of Arrangement which included the distribution of Gulf's 83 percent interest in Abitibi-Price to Gulf Canada's shareholders. The share distribution had the effect of increasing the number of registered Abitibi-Price shareholders from 3,000 to approximately 16,000, and simultaneously raising the "public float". The Company's majority shareholder is again Olympia & York Developments Limited.

New York Stock Exchange Listing
The increase in market liquidity arising from Gulf's share distribution aided the Company in listing its common shares on the New York Stock Exchange, effective July 1, 1987. This move makes the Company's shares more readily available to investors, enhances access to capital and complements Abitibi-Price's expanding business activities in the United States.

Financing
In September, the Company raised U.S. $150 million via a seven-year floating rate term loan arranged through an international banking syndicate. The proceeds were used to reduce short-term debt and augment working capital.

Dividends
During 1987, shareholders received dividends of 60 cents per common share. In December, the directors raised the quarterly dividend from 15 cents to 25 cents per share, effective with the dividend paid in January of 1988.

Capital Expenditures
A total of $257 million was spent on capital projects in 1987. Of this amount, $92 million was allocated to the modernization of existing production facilities and $86 million to increasing production capacity of higher value products.

Labour Agreements
About 63 percent of the Company's 16,000 employees are unionized, with the majority of these employed in the primary mills and woodlands operations. In 1987, agreements with unions in the primary mills were renewed for a three-year term. The settlements, covering approximately 8,700 employees, are viewed as fair and equitable and serving the best interests of all parties.

Changes in Directors and Officers
In April, Bernd K. Koken, president and chief executive officer, was elected chairman of the board, replacing the retiring chairman, Robert C. Gimlin. Mr. Gimlin, a former chief executive officer of Abitibi-Price, continues to serve as a director of the Company.

At the 1987 annual meeting, Dr. Pierre A. Rinfret was welcomed to the board of directors. Dr. Rinfret is a leading economic advisor and a director of several major North American corporations. At the same time, Howard W. Blauvelt and Kenneth R. Thomson, two directors who had rendered long and valuable service to the board, did not stand for reelection. Their contribution will be missed.

During the year, the Company's various businesses, formerly managed under two operating groups, were reorganized into three groups—Newsprint, Printing Papers and Diversified. Within each group, some further reorganization was undertaken to promote greater efficiency or to capitalize on available synergies.

Outlook
The sudden deterioration of world financial markets that occurred in October of 1987 has only increased the uncertainty that accompanies any attempt to forecast the future. Most observers agree, however, that newsprint markets should remain buoyant throughout 1988 and into 1989. If the economy moves towards recession during the year, there should be relatively little impact on newsprint and only a small effect on printing papers. Other operations, particularly building products and converted products, would be more sensitive to a general economic downturn.

On balance, the Company expects good earnings growth in 1988. The major area of concern continues to be the value of the Canadian dollar versus other currencies, particularly that of the United States.

Confidence in the future rests, above all, on the Company's employees, whose skill and dedication remain the greatest strength of Abitibi-Price.

On behalf of the board of directors,

Bernd K. Koken
Chairman, President and Chief Executive Officer

Toronto, February 15, 1988

Bernd K. Koken

J. Kenneth Stevens	J. Gordon Maw	Bernd K. Koken
Senior Vice-President, Administration	Vice-President, Finance	Chairman and Chief Executive Officer

A Profile of Abitibi-Price

When Abitibi Power and Paper Company Limited was founded by Frank Harris Anson in 1914, it operated a single newsprint mill. Today its successor, now called Abitibi-Price Inc. to reflect the acquisition of The Price Company Limited in 1974, not only produces more newsprint than any other company in the world, but occupies significant market positions in other forest products and related businesses.

Details of the Company's various business segments will be found in the operations review sections of this report, as well as in the segmented information statement on page 27 and the table of products and markets on page 38. This profile is intended to provide a brief overview of the Company and the priorities that guide it in its pursuit of maximum customer satisfaction and shareholder value.

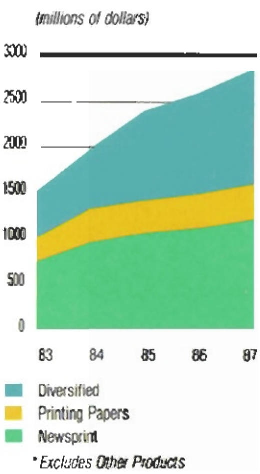
Formerly structured in two groups, Core and Diversified, the Company's businesses are now divided into three groups—Newsprint, Printing Papers and Diversified.

The Newsprint Group is the Company's largest business segment and forms the cornerstone of its operations. Paper from Abitibi-Price's newsprint mills in Canada and the United States is shipped to customers in North America and around the world in volumes exceeding the total newsprint production of major paper producing countries such as Sweden or Finland. Despite inevitable cyclic periods of oversupply, it has contributed more to the Company's earnings than all other products combined and over the long term has provided shareholders with very satisfactory returns on equity.

The Printing Papers Group is made up of two divisions, Groundwood Papers and Provincial Papers, which manufacture specialty papers with a high value-added component. These papers require different skills and technology to manufacture, and are sold in fast-growing markets characterized by rising standards of quality. To take advantage of the opportunities presented by these products and markets, the Company has invested heavily in converting and modernizing older facilities.

The Diversified Group operates a number of dynamic businesses through four divisions—Distribution, Office Products, Converted Products and Building Products. Most business units in these divisions are market leaders with track records of fast growth. They have relatively low fixed capital requirements, and bring to the Company a growing stream of earnings with a consistency that

*Net Sales By Group**



K. Linn Macdonald
Executive Vice-President, Newsprint Group

Ronald Y. Oberlander
Executive Vice-President, Diversified Group

John G. Davis
Executive Vice-President, Printing Papers Group

counterbalances the more cyclical paper manufacturing businesses.

In combination, the Company's three operating groups yield a more reliable earnings stream than any single business could produce. Shareholders benefit from this in two ways. First, a steady flow of earnings supports a steady flow of dividends. Second, reliable cash flows enable the Company to take advantage of growth opportunities as they arise, thereby increasing share value.

In all three groups, the Company envisions growth through expansion, acquisition, or a combination of both, with the objective of maximizing the value of the Company to its investors. In pursuit of this objective, the Company is guided by a set of basic business priorities.

The first of these priorities is market leadership. All of the Company's existing businesses are already major participants in their respective markets or—as in the case of the Office Products Division—are making rapid progress towards that position. All potential acquisitions are evaluated in terms of how they will contribute to this objective.

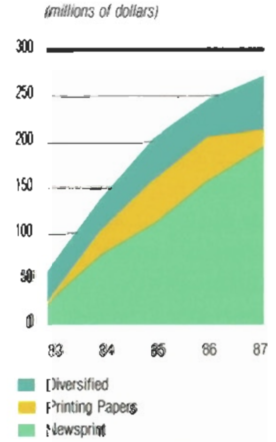
A second priority concerns the quality of products and services. Leading market positions cannot be attained or maintained unless high standards are met. Accordingly, the Company will participate only in businesses where it can provide top quality products and services which offer customers real added value.

Cost control is a third priority directly linked to the previous two. Because the Company's paper manufacturing businesses operate in internationally competitive environments, they must hold their market positions in the face of currency movements and price pressure from low-cost producers around the world. The continuing need for cost reduction is one of the principal motivations for recent large investments in upgrading and modernizing facilities.

A fourth priority is the need to continually exploit advances and innovations in technology. Taking the lead in applications of new technology to processes, products and services is the Company's best assurance of maintaining a competitive edge in quality, cost and market position.

A fifth, and ultimate, priority concerns people. Even the best resources and most advanced facilities will not deliver satisfactory results unless they are planned, managed and operated by well-trained, well-motivated personnel. Consequently, the Company places strong emphasis on the training and development of its employees, and on the creation and maintenance of working environments that encourage and reward high standards of performance.

Operating Profit By Group *

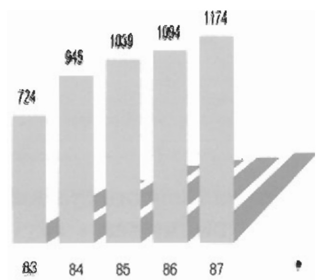


* Excludes Other Products

Newsprint Group

Newsprint Group Net Sales

(millions of dollars)



Newsprint is produced on 18 machines located at eight mills in Canada and one in the United States. While the group's production is predominantly standard 30 lb. newsprint, it also includes grades that vary in colour, caliper and basis weight to meet specialized customer requirements.

Markets & Operations

In 1987, North American demand for newsprint expanded 3.6 percent, somewhat greater than the 1986 rate of growth and well ahead of increases in the world's supply of this product. Prices increased in most world markets.

The Company's newsprint revenues rose seven percent to $1.2 billion while operating earnings increased 24 percent to $195 million. The rise in profits reflected the benefit of higher prices, but was lower than expected because of the adverse impact of the large decline in the value of the U.S. dollar, which affects about 80 percent of the Company's newsprint sales. While the average list price of newsprint in the United States increased 8.5 percent to $590 in 1987 from $544 in 1986, the average value of the U.S. dollar fell 4.6 percent. In certain offshore markets, however, the group benefited from improved currency relationships.

Newsprint mills produced 1.8 million tonnes in 1987, augmented by an additional 25,000 tonnes available under a marketing arrangement. The group's 96 percent operating rate reflected some downtime associated with capital projects.

During the year, the overall customer profile was strengthened to achieve a better balance of customer size, growth rate and geographical location. The Company's marketing program owes part of its success to the special programs and services it has developed to provide customers with added value.

One such enhancement is ABITROL, a computerized inventory management system developed by Abitibi-Price and now installed in a number of pressrooms in the United States and Canada. During 1987, the Company continued to develop enhancements to this system and its related software products, ABISCAN and ABISTOK.

Capital Expenditures

Capital expenditures for newsprint operations and related woodlands totaled $153 million in 1987. An extensive two-year, $53 million project was completed at one of the mills in Thunder Bay, Ontario. The wet end sections of the mill's two paper machines were replaced to achieve a substantial improvement in product quality while revisions to the woodroom increased pulp quality and reduced cost.

In Chandler, Quebec, a twin wire former was installed on the No. 2 machine at a cost of $13 million. In 1988, when the No. 1 machine at this mill is modernized with a twin wire, Abitibi-Price will have reached a milestone in its pursuit of quality. At that time, virtually all of the Company's standard newsprint will be produced on twin wire machines.

Modern equipment and advanced technology contribute to Abitibi-Price's world-leading position in newsprint. But above all, the Company's competitive edge derives from the skill of employees like Gilles Boudreault of the Alma mill.

In 1988, the Chandler mill will commence a major $42 million project to upgrade the No. 1 paper machine and woodroom facilities. The project, to be completed in 1989, will increase the machine's annual capacity by about 25,000 tonnes.

At Stephenville, Newfoundland, the installation of a new headbox and filter will be completed during 1988 at a cost of $9 million, to improve product quality and reduce fibre loss.

Also in 1988, the first of a new generation of wrap-line computer control systems will be installed at Iroquois Falls, Ontario. In the next two years, these systems will be installed in wrapping room operations at all the Company's paper mills, providing improved information for mill inventory control and a new level of customer service.

The Newsprint Group's ongoing capital improvement program is carried out in tandem with its research and development activities. These efforts are directed towards product and process improvements in anticipation of tomorrow's demands for a product that is brighter, smoother, cleaner and adaptable to a variety of emerging printing processes.

Outlook

Strong demand, buoyed by elections in the United States and the Olympic games in Canada and Korea, should continue throughout 1988. Any move towards recession should have relatively little impact on 1988's results, since newsprint demand tends to be maintained for several months after the onset of economic declines.

While a number of planned increases in newsprint capacity have been announced, the added tonnage will not come on stream until the latter part of 1989, and more likely 1990. Thus, with supply and demand now in balance, and little new capacity entering the market in the short term, conditions should be healthy in 1988.

Sales and technical services representatives like Debbi-Lyn Coffua and Paul Corboy (centre) are the key to making it easy to do business with Abitibi-Price. Adding value and services to Abitibi-Price products helps build long-term relationships with customers like David Tolzmann, purchasing director of The Baltimore Sun.

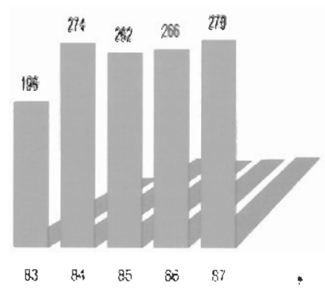
Printing Papers Group

The Printing Papers Group extends the Company's range of products beyond newsprint to the uncoated specialty papers made by the Groundwood Papers Division and the highest quality coated papers manufactured by the Provincial Papers Division.

The group recorded 1987 sales of $410 million and operating profit of $18 million. Results were disappointing, reflecting not only the adverse impact of the dollar exchange and rapidly escalating pulp costs, but also operating difficulties in one of the groundwood papers mills. On the positive side, the successful transition to a new technology, albeit difficult, has set the stage for the resumption of satisfactory performance in 1988.

Groundwood Papers Net Sales

(millions of dollars)



Groundwood Papers

The division's products, manufactured at three mills in the Province of Quebec, include the specialty grades used in telephone directories and catalogues, business forms, advertising inserts and flyers. Amongst these is the newest addition of clay-filled supercalendered papers, SC-A grade, a highly finished uncoated paper designed for the high quality printing being used in magazines, inserts and flyers.

Markets and Operations

The division's 1987 sales of $279 million and operating profit of $12 million compare with $266 million and $37 million, respectively, in 1986.

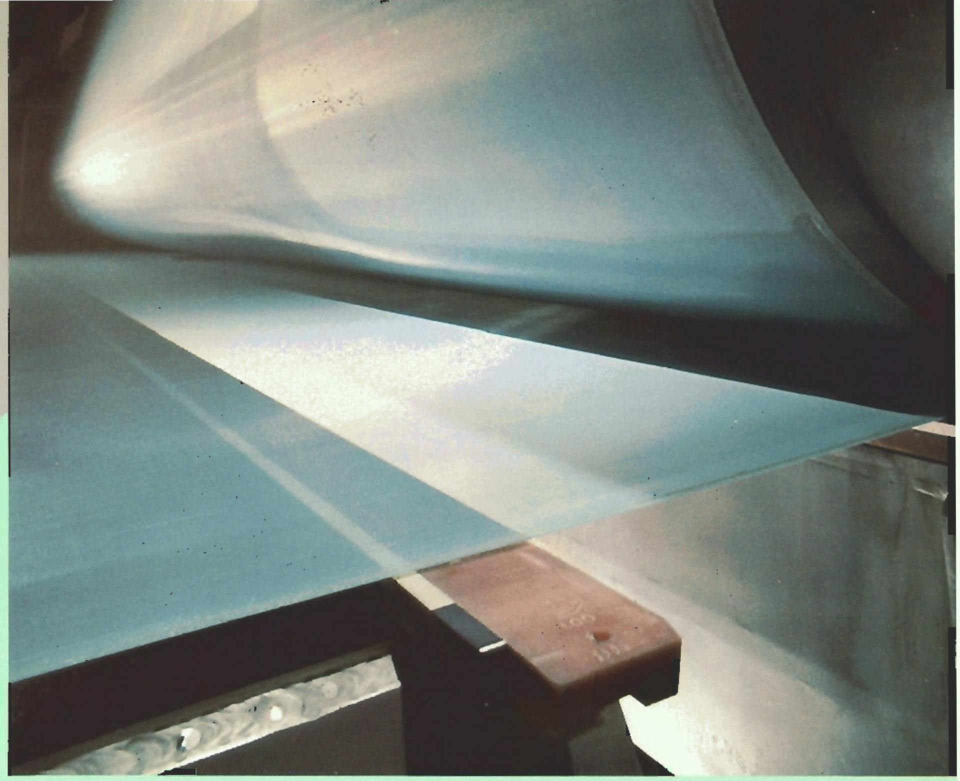
Demand for the Company's key groundwood grades has been growing at rates between five and ten percent. However, oversupply conditions for these products and the competing lightweight coated grades kept pressure on prices until the second half of 1987 when improving market conditions were reflected in firming prices.

Although low pricing was a factor in the division's results, the machine downtime required for a major conversion and the subsequent learning curve resulted in lost volume of about 20,000 tonnes. Profits were also eroded by the lower value of the U.S. dollar, which affects over 80 percent of the division's sales, and by rising costs for purchased kraft pulp.

Capital Expenditures

Capital expenditures for the division and its related woodlands reached $73 million in 1987. The largest project completed during the year was the conversion of the No. 7 paper machine at the Kénogami mill in Jonquière to the production of clay-filled supercalendered paper. The project, which spanned a three-year period, cost $135 million. Prior to the conversion, this machine had been making lower quality groundwood grades.

As a result of this conversion, the Company is now producing the highest quality supercalendered paper in North America, meeting both customer expectations and internal quality objectives. Nonetheless, the introduction of an entirely new technology was more demanding in terms of time and training than originally anticipated.



North America's highest quality clay-filled supercalendered paper is now being manufactured by a newly-converted paper machine at Abitibi-Price's Kénogami mill in Jonquière. Supervisor Gérald Ouellette oversees the critical supercalendering process, while tester Claude Duval checks the quality of the results in the mill's laboratory.

Other major capital projects included the installation of a heat recovery system in the Beaupré pulping operation and chip handling equipment at the same location. At Alma, about $14 million was spent to upgrade the No. 10 machine in preparation for its conversion from newsprint to groundwood papers at the end of 1988.

Outlook

Recently added capacity in North America and Europe for supercalendered and lightweight coated papers appears to have been absorbed by the marketplace. Demand remains strong for these products as it does for all other grades of groundwood and coated papers. New capacity is limited and, despite the uncertain economic future and its impact on advertising, this strength is expected to last through most of 1988.

Coated Papers

The Provincial Papers Division produces grades ranging from magazine stock to premium coated papers at its mill in Thunder Bay, Ontario, and operates a cast coating facility at Georgetown, Ontario.

Markets and Operations

The division operated at capacity, producing 142,000 tonnes in 1987 compared with 132,000 tonnes in 1986. Sales of $131 million and operating profit of $7 million compare with prior year levels of $119 million and $12 million, respectively. Exports to the United States represented 19 percent of sales.

Demand for coated papers in 1987 was characterized by a slow start, with some oversupply holding selling prices down while costs of the principal raw material, kraft pulp, were escalating rapidly. Demand then strengthened and by the last quarter there was little excess supply and prices had begun to improve.

The sharp drop in profits was attributable mainly to the 40 percent escalation in the average cost of purchased kraft pulp, without commensurate increases in the division's prices. Operations, however, performed very well with record output, improved productivity, reduced waste and a higher value product mix.

Capital Expenditures

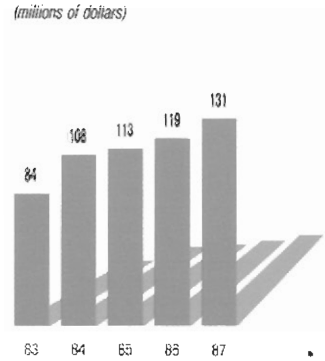
Capital expenditures of $6 million included upgrades to supercalendering, coating and pulping equipment, as well as computerized control systems. Virtually all of the division's capital improvements are aimed at increasing its ability to supply higher value grades while taking advantage of opportunities to reduce costs. During 1988, the No. 8 machine will be upgraded at a cost of $30 million to increase its capacity for high end coated grades.

Outlook

Healthy demand for all coated grades and a reasonably good supply/demand balance should contribute to the restoration of profit margins in 1988. The degree of margin recovery will depend, however, on the degree of further escalation in the cost of kraft pulp.

Coated Papers Net Sales

(millions of dollars)



Provincial Papers' Thunder Bay mill is producing more higher-value products as a result of major investments in new processes and technology. One example is the new infra-red dryer, used to produce an even moisture profile across the width of the sheet, shown above under the watchful eyes of tour foreman Angus MacDonald. At left, Wayne Logan (foreground) and Peter Tracz oversee operations at the paper machine's wet end.

Diversified Group

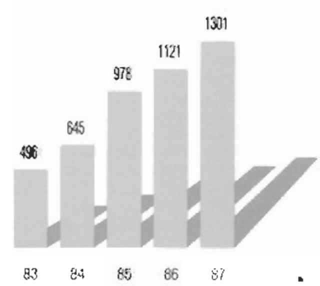
The Diversified Group operates in Canada and the United States through four separate and autonomous divisions: Distribution, Office Products, Converted Products and Building Products.

In 1987, with generally good markets for its products and growing benefits from recent acquisitions, the group's sales increased 16 percent to $1.3 billion while operating profit rose 43 percent to $60 million. Operating profits included non-recurring credits of approximately $6 million consisting largely of sales tax rebates.

In addition to recording excellent performance gains, the group made significant headway in consolidating operations and organizing for the future. While there are additional gains to be made, these operations are now well positioned for further growth through expansion or acquisition.

Diversified Group
Net Sales

(millions of dollars)



Distribution

The Distribution Division posted the group's largest dollar increase in sales and earnings in 1987. Through its three merchant businesses—Inter City Papers, Barber-Ellis Fine Papers and Whitaker Carpenter Paper Company—the division distributes printing papers to commercial printers and publishers. The fourth unit, Price Daxion, distributes packaging materials and single-service items destined largely for the growing food-service industry. All operations are expected to turn in another solid performance in 1988, although this outlook would be moderated by any significant economic downturn.

Inter City and Barber-Ellis have a long-standing record of performance improvement and occupy leading positions in their Canadian markets. In 1987, these units focused on innovations in customer service, cost control, and expanding their markets in growth products.

Whitaker Carpenter, the U.S. merchant operation, had a turnaround year in 1987, benefiting from strong sales growth and returns from prior-year investments in facilities and computerized systems.

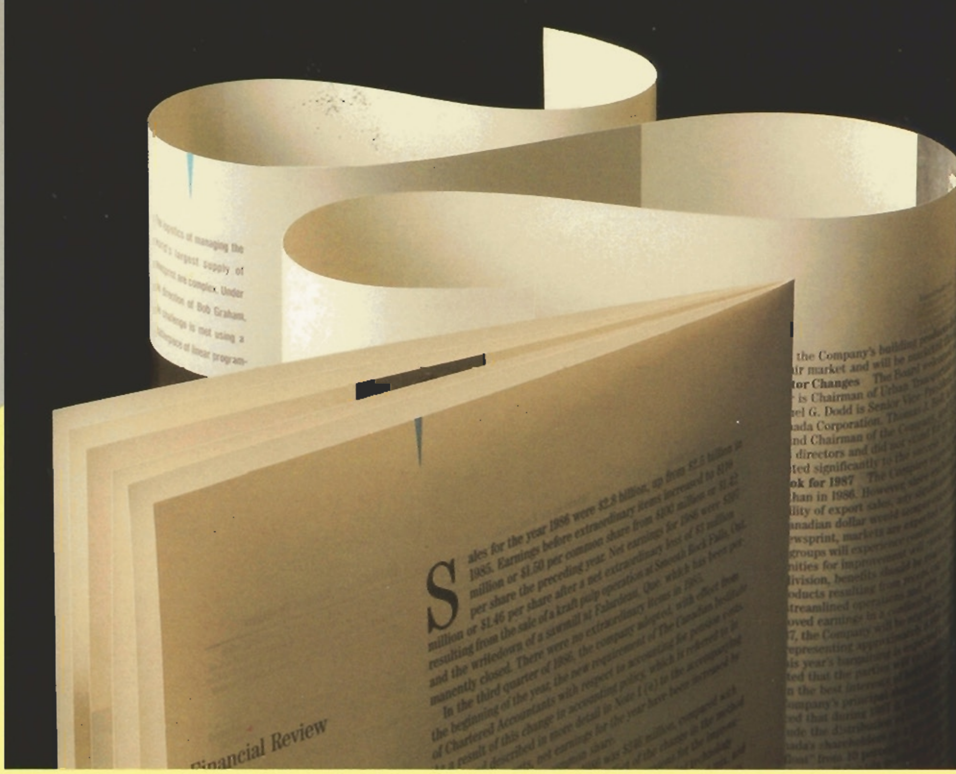
Price Daxion's 1987 results were enhanced by reduced costs following the merging of operations in 1986. This division is now upgrading computer and support systems to strengthen customer service.

Office Products

Formerly part of the Distribution Division, Office Products is now managed as a distinct division, encompassing two separate business units that have demonstrated impressive growth potential—information processing products and retail office products.

Information processing products, distributed in Canada and the United States by Azerty and its affiliate Compu-Redi, have shown rapid sales growth in all markets. Aided by centralized order routing technology and strategically located warehouses, Azerty's objective of providing 24-hour delivery in 90 percent of the U.S. market is fast becoming a reality.

Jaffe Stationers is a Florida-based chain of retail office products stores serving small and medium-sized businesses and individual consumers. In 1988, Jaffe will continue to test and refine its store concepts to evaluate their suitability for expansion into other markets.



A commitment to excel has made the Distribution Division businesses leaders in their markets for printing papers and industrial products. Office Products, the smallest and newest division in the Diversified Group, is also the fastest growing.

Converted Products

The Converted Products Division's operations are carried out through three business units: Innova Envelope, Hilroy and Price Wilson. In 1987, modest increases in revenues were accompanied by larger profit gains as these units benefited from the previous year's rationalization of operations and price improvement in some product lines.

In 1988, markets are expected to remain relatively stable for most areas of converted products with real growth running between one and four percent, depending on the product line. The division's capital program will be directed towards increased capacity, new products and cost reduction at all three business units.

Innova, Canada's largest envelope manufacturer, achieved significant earnings improvement in 1987. Markets for envelopes were strong, particularly in Ontario, and the division was a major beneficiary of cost-saving from merger activities completed in 1986.

Hilroy's earnings were only slightly lower than in 1986, despite weaker demand for school and stationery products. In 1987, as part of Hilroy's program to increase operating efficiency, one plant was closed and the product lines at two other plants were rationalized.

Price Wilson recorded substantially higher earnings as its industrial paper manufacturing plant operated at capacity in response to growing demand for its industrial towelling, bags and folding cartons.

Building Products

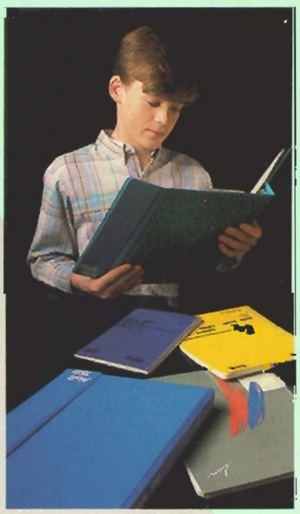
The Building Products Division's sales increased 18 percent in 1987 while earnings rose 81 percent. Major contributors to this performance were increased market share in all product lines, excellent cost control, and the benefits of a full year's contribution from the Flair-Fold operation acquired in late 1986.

Siding sales increased over 1986, despite a decline in U.S. housing starts to 1.64 million units from 1.81 million units. Sales volume will likely be maintained in 1988 as a result of relatively strong demand for single-family homes, although price erosion is likely in the face of expected lower industry operating rates. Field tests of a new concept in hardboard siding, Thermolock, will be completed during 1988.

Higher sales of moulding in 1987 reflected continued strength in the repair and renovation market which more than offset the effect of uncontrollable increases in raw material costs.

Hardboard paneling shipments rose on the strength of continued growth in the markets for tileboard and designer paneling. In 1988, the division expects to benefit from a continuation of these trends and new product introductions.

Flair-Fold's bi-fold doors, shutters and shelving products had record sales in 1987, benefiting primarily from a greatly expanded customer base. This trend will continue into 1988, producing further sales growth for this newest member of the Building Products Division.



Improved market access led to substantial sales growth for bi-fold doors, the newest operation of the Building Products Division, which also produces mouldings, siding, paneling, shutters and shelving. The Converted Products Division is a market-leading supplier of envelopes, containers and other supplies for commercial, home and school use – including Hilroy notebooks for students like Graham Bridel.

Resource Management

Forest management activities are carried out within the framework of Abitibi-Price's Forest Management Policy, which not only addresses today's fibre requirements, but sets out the Company's long-term commitment to responsible resource management and environmental protection.

Harvesting

As demand for higher quality products grows, woodlands operations are increasingly challenged to provide wood that is not only at minimum cost, but also of the optimum blend of species, age, freshness and cleanliness. Meeting this challenge requires the use of modern harvesting methods and close integration of planning activities between mill and woodlands operations.

In 1987, woodlands operations supplied 5.5 million cubic metres of wood to Abitibi-Price mills. About half of this was harvested from Company operations with the balance being purchased in the form of chips or pulpwood. Capital expenditures of $12 million were made for harvesting equipment, roads and other facilities. Achievements included excellent progress in further mechanizing harvesting operations. Harvesting of woodlands near Iroquois Falls, Ontario, and in the Saguenay-Lac St. Jean region of Quebec is now fully mechanized.

Renewal

Forest renewal expenditures in 1987 increased 15 percent to $10 million. Almost 19 million seedlings were planted, bringing the number of trees planted since 1980 to 90 million. Tree planting is but one renewal activity. To achieve maximum regeneration, the Company combines planting with special harvesting techniques, site preparation, seeding and spacing.

Management

Of the 29,214 square miles of timberland controlled by the Company, 95 percent is Crown land. The Company manages these forests under long-term agreements with the Provinces of Ontario, Manitoba and Newfoundland. In the Province of Quebec, legislation which came into force in 1987 revoked all existing government forest concessions, including those covering over 7,000 square miles previously managed by the Company. The new legislation provides for the negotiation of renewable agreements guaranteeing a supply of sufficient wood fibre to meet the needs of the Company's mills. At the same time, responsibility for reforestation will be transferred from the Province to the Company.

Careful forest resource management is a crucial part of the Company's overall strategy for success in both today's markets and those of the future. Forest management strategies are based on the rationale of maximizing current cost effectiveness, ensuring the protection of the existing forest, and establishing and enhancing the growth of the new forest. Efforts are not limited to fibre production, but deal with the entire field of resource management, including the preservation of wildlife and its habitat.

Using a powerful computerized mapping and interactive data base system, forestry systems analyst Volker Kromm links operational and planning data to specific field locations – one of many ways advanced technology is improving resource management today, and the quality of forest resources tomorrow.

Technical Glossary

Coated papers: grades of paper to which a coating has been applied, whether on the paper machine or as a subsequent process.
Furnish: a blend of different types of pulps and additives which are provided to the paper machine for making paper.
Hardboard: various products that result from forming wood pulps under pressure into thicknesses considerably greater than paper and which have varying degrees of structural rigidity. Examples include wall paneling and exterior siding.
Industrial paper products: a general term to indicate papers manufactured for uses other than commercial printing. Examples include bags, folding cartons, packaging supplies and labels.
Information processing products: as used by the Company the term includes floppy disks, ribbons, processing print wheels, file and storage accessories, computer care products, and some peripherals.
Limits: leased or owned forest lands, usually described in terms of acres, square miles or hectares.
MFBM: thousand feet board measure (one thousand square feet one inch thick).
MSF: thousand square feet.
Newsprint: a printing paper whose major use is in newspapers. It is made largely from groundwood or mechanical pulp reinforced to varying degrees with chemical pulp.
Operating rate: the relationship (ratio) of actual production compared to the capacity of a machine or a mill.
Printing papers: a general term to describe those grades of paper used by the printing trades including job, book, magazine and newspaper printers.
Pulp: the generic term describing the cellulose fibres and lignin derived from wood. Pulp can result from a variety of pulping processes including cooking, refining and grinding. Pulp can be either in a wet or dry state. Types of pulp include:
Chemical pulp—obtained by cooking wood in solutions of various chemicals. The principal chemical processes are sulphite and sulphate (kraft).
Groundwood pulp—produced mechanically by grinding a log with a stone or metal disk.
Other variations—various combinations of grinding, heat, chemicals and pressure are being used by the Company to produce the following types of pulp:
TMP —thermo-mechanical pulp.
SCMP —sulphonated chemi-mechanical pulp.
BCMP —bisulphite chemi-mechanical pulp.
TCMP —thermo chemi-mechanical pulp.
Pulpwood: logs which are used for making pulp as opposed to those used for lumber (sawlogs).
Supercalender: a machine which imparts a high gloss to paper for demanding printing applications by running it through a stack of steel and fibre rolls subsequent to the papermaking process.
Tonne: 1.1023 tons (1 ton equals 2,000 pounds).
Twin wire: traditional newsprint machines have a single surface, or wire, below the pulp as it is formed into paper. The addition of a second forming wire, often referred to as a "top wire", results in improved sheet appearance and printability.
Uncoated groundwood papers: quality of uncoated paper that is higher than newsprint but lower than fine paper in terms of brightness, surface smoothness and opacity. It is made largely from groundwood or mechanical pulp, but it also contains varying proportions of chemical pulp and fillers.
Wet end: the part of the paper machine on which the paper is formed comprising the headbox, which holds the liquid pulp, and the wire or wires.

Financial Review

Operations

Sales of $3.0 billion in 1987 were up from $2.8 billion in 1986 and $2.5 billion in 1985.

Net earnings for the year were $125.7 million or $1.70 per common share, compared with earnings of $107.3 million or $1.46 per share in 1986 and $100.2 million or $1.42 per share in 1985. Earnings in 1986 included a net extraordinary loss of $2.8 million resulting from the closure of a sawmill at Falardeau, Quebec and the sale of a kraft pulp operation at Smooth Rock Falls, Ontario. There were no extraordinary items in 1987 and 1985.

The increase in 1987 earnings was primarily due to an improvement in operating profit which, in spite of a decline in the average value of the U.S. dollar, increased 10% to $271.4 million from $245.7 million in 1986 and $204.0 million in 1985. With over half of the Company's sales made in U.S. funds, a change in the U.S. exchange rate can have a significant effect on results, and from 1986 to 1987 the average value of the U.S. dollar expressed in Canadian funds dropped by 5 percent, from $1.390 to $1.326.

Despite the loss of some newsprint capacity due to machine downtime caused by capital projects and the conversion of a machine to groundwood papers at the end of 1986, newsprint sales increased to $1.2 billion in 1987 from $1.1 billion in 1986 and $1.0 billion in 1985. At the same time, operating profit of $195 million in 1987 was up from $157 million and $111 million in 1986 and 1985, respectively. As a percentage of sales, operating profit improved to 17% in the latest year from 14% in 1986 and 11% in 1985. This was primarily due to price increases, which more than offset the decline in the value of the U.S. dollar in 1987, and to cost containment programs and productivity gains resulting from capital expenditures on equipment modernization.

While groundwood papers sales increased to $279 million from $266 million in 1986 and $262 million in 1985, operating profit declined to $12 million from $37 million and $36 million in 1986 and 1985. The falloff in operating profit was primarily due to lost production and temporarily higher costs resulting from an extended startup of a groundwood papers machine at Jonquière, Quebec which was converted to the production of higher-value clay-filled supercalendered paper. In addition, the lower value of the U.S. dollar in 1987, pricing pressures caused by competing lightweight coated grades early in the year and the rising cost of purchased kraft pulp had a negative impact on operating profit.

At $131 million, 1987 sales of coated papers were up from $119 million in 1986 and $113 million in 1985. However, as a result of competitive pricing pressures in the first half of the year and the increasing cost of kraft pulp, operating profit for 1987 fell to $7 million from $12 million in 1986 and $11 million in 1985.

Sales of the converted products and distribution sector climbed to $1.1 billion from $0.9 billion and $0.8 billion in 1986 and 1985, respectively. At the same time, operating profit increased to $43 million in 1987 from approximately $33 million in each of the preceding two years. The increases in sales and operating profit reflected the effects of expansion in these businesses, partially through acquisitions, and savings resulting from their reorganization and rationalization.

Building products sales increased to $222 million in 1987 from $188 million in 1986 and $193 million in 1985, while operating profit of $16 million in 1987 was up from $9 million and $13 million in 1986 and 1985, respectively. The improvement in 1987 reflected increased business, particularly in the home repair and alterations market, and benefits obtained from emphasis on cost containment.

Interest expense charged against earnings totalled $41.9 million in 1987, compared with $37.1 million in 1986 and $46.6 million in 1985. Despite the favourable effect of the lower U.S. exchange rate on interest payable in U.S. funds, interest expense increased in 1987 because of new borrowings and a $3.5 million reduction in the amount of interest which was capitalized. In 1986, the reduction in interest expense was due to a decrease in long-term debt and to a $6.6 million increase in the amount of interest which was capitalized.

Other income, net of expense, increased to $11.3 million in 1987 from $4.0 million in 1986 as a result of higher interest income and a reduction in foreign exchange loss. From 1985 to 1986, other income decreased from $20.0 million to $4.0 million because of a foreign exchange loss in 1986 as compared to a gain in 1985 and because of lower gains from disposals of fixed assets and investments.

The effective income tax rate in 1987 was 44.3%, compared with 43.2% in 1986 and 39.1% in 1985. The increase in the 1987 tax rate was principally due to a shift in earnings mix between different tax-rate jurisdictions. In 1986, the increase was caused by a reduction in capital gains which are taxed at a lower rate than regular income and by federal budget changes which eliminated the inventory allowance early in 1986 and which introduced a five percent surtax that applied to the full year 1986 but to only part of 1985.

Four quarterly common share dividends were paid in each of the three years, totalling 60 cents per share in 1987 and in 1986 and 58 cents in 1985. Dividends declared during the three years totalled 70 cents in 1987, 60 cents in 1986 and 73 cents in 1985. Because of a timing change in dividend declaration dates, five dividends were declared in 1985. In December 1987, the quarterly dividend rate was raised from 15 cents to 25 cents, effective with the dividend paid in January 1988.

Financial Position and Liquidity

The Company's net cash position increased to $184.8 million at December 31, 1987 from $37.1 million at the beginning of 1985 as cash derived from operations during the three years and from new financings in 1986 and 1987 was considerably in excess of the Company's major cash outlays consisting of expenditures on capital projects and dividends paid to shareholders.

In 1986, the Company issued 5 million Common Shares and 2.5 million Common Share Purchase Warrants, realizing $134.1 million after underwriters' fees and expenses, net of income taxes. In 1987, it borrowed U.S. $150 million in the form of a syndicated seven-year floating rate term loan, realizing Cdn. $197 million. In both cases, the proceeds were used to reduce short-term indebtedness and augment working capital.

Capital expenditures, which emphasized productivity and quality improvements and the manufacture of higher value products, were $256.6 million in 1987, compared with $263.0 million and $202.4 million in 1986 and 1985, respectively. Against these expenditures, the Company received investment tax credits and government grants under the federal/provincial paper mill modernization program which totalled $24.3 million in 1987, $32.8 million in 1986 and $28.6 million in 1985.

The Company's cash requirements have been met mainly by funds generated from operations, augmented from time to time with new long-term financings. For liquidity purposes, however, the Company has a policy of maintaining sufficient bank lines of credit to cover temporary extra demands for cash. Out of a total of $183 million of such lines of demand credit facilities with several banks, approximately $171 million remained unused and available at December 31, 1987.

Long-term debt expressed as a percentage of long-term debt plus shareholders' equity was 33% at the end of 1987, compared with 32% at the beginning of 1985.

Consolidated Earnings

Year ended December 31 *(millions of Canadian dollars)*	*1987*	*1986*	*1985*
Net sales	**$2,988.0**	$2,763.5	$2,549.8
Cost of sales	**2,385.1**	2,226.0	2,075.3
Selling and administrative expenses	**234.1**	203.1	188.4
Depreciation and depletion	**97.4**	88.7	82.1
	2,716.6	2,517.8	2,345.8
Operating profit	**271.4**	245.7	204.0
Interest expense—long-term *(note 12)*	**(39.3)**	(35.1)	(43.6)
—short-term	**(2.6)**	(2.0)	(3.0)
Other income and expense—net *(note 4)*	**11.3**	4.0	20.0
	240.8	212.6	177.4
Income taxes *(note 6)*	**106.7**	91.9	69.4
	134.1	120.7	108.0
Minority interest	**8.4**	10.6	7.8
Earnings before extraordinary items	**125.7**	110.1	100.2
Extraordinary items *(note 7)*	**—**	(2.8)	—
Net earnings	**$ 125.7**	$ 107.3	$ 100.2
Per Common Share:			
Earnings before extraordinary items	**$ 1.70**	$ 1.50	$ 1.42
Net earnings	**1.70**	1.46	1.42

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Consolidated Retained Earnings

Year ended December 31 *(millions of Canadian dollars)*	*1987*	*1986*	*1985*
Retained earnings at beginning of year	**$ 768.9**	$ 715.2	$ 671.3
Net earnings	**125.7**	107.3	100.2
	894.6	822.5	771.5
Amalgamation adjustment *(note 13)*	**(1.8)**	—	—
Expenses of common share issue, net of income taxes of $2.9 million	**—**	(3.4)	—
Dividends declared—			
Preferred shares	**(8.1)**	(8.7)	(9.3)
Common shares	**(48.5)**	(41.5)	(47.0)
Retained earnings at end of year	**$ 836.2**	$ 768.9	$ 715.2

Consolidated Balance Sheet

December 31 *(millions of Canadian dollars)*	*1987*	*1986*
Assets		
Current assets		
Cash and short-term investments	**$ 196.5**	$ 17.1
Accounts receivable *(note 9)*	**429.2**	398.5
Inventories *(note 10)*	**372.7**	357.5
Prepaid expenses	**15.6**	14.3
	1,014.0	787.4
Fixed assets		
Property, plant and equipment	**2,084.7**	1,879.9
Logging equipment and development	**90.9**	88.5
Timber limits and water power rights	**26.5**	26.6
	2,202.1	1,995.0
Less—accumulated depreciation and depletion	**844.0**	762.4
	1,358.1	1,232.6
Other assets		
Equity interests in joint ventures—		
Newsprint *(note 3)*	**55.9**	53.1
Mining	**5.1**	6.8
Deferred pension cost	**31.7**	19.1
Long-term receivables and other assets	**46.2**	54.1
Goodwill	**21.3**	23.5
Unrealized loss on translation of long-term debt payable in U.S. funds *(note 1(b))*	**17.3**	30.4
	177.5	187.0
	$2,549.6	$2,207.0

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The financial statements have been approved by the Board:

R.C. Gimlin

Director

Director

December 31 *(millions of Canadian dollars)*	*1987*	*1986*
Liabilities		
Current liabilities		
Bank loans	**$ 11.7**	$ 5.3
Accounts payable and accrued liabilities *(note 11)*	**324.5**	288.6
Income taxes payable	**12.1**	5.0
Dividends payable	**18.6**	11.6
Long-term debt due within one year *(note 12)*	**24.8**	17.9
	391.7	328.4
Deferred income taxes	**318.1**	273.5
Long-term debt *(note 12)*	**597.2**	428.9
Minority interest	**33.1**	36.9
Shareholders' Equity		
Stated capital *(note 13)*		
Preferred Shares—		
Series A—130,360 shares (1986—135,200 shares)	**6.5**	6.8
Series C—1,500,000 shares	**75.0**	75.0
Series F—3,433,233 shares (1986—3,565,844 shares)	**39.5**	41.0
Common Shares—69,246,611 shares (1986—69,211,114 shares)	**261.9**	259.8
Retained earnings	**836.2**	768.9
Foreign currency translation adjustment *(note 1(b))*	**(9.6)**	(12.2)
	1,209.5	1,139.3
	$2,549.6	$2,207.0

Changes in Consolidated Cash Position

Year ended December 31 *(millions of Canadian dollars)*	*1987*	*1986*	*1985*
Operating Activities			
Earnings before extraordinary items	**$ 125.7**	$ 110.1	$ 100.2
Depreciation and depletion	**97.4**	88.7	82.1
Deferred pension cost	**(12.3)**	(16.6)	–
Deferred income taxes	**46.3**	37.4	24.8
Minority interest	**8.4**	10.6	7.8
Other	**(2.7)**	(1.7)	4.6
	262.8	228.5	219.5
Change in operating working capital *(note 8)*	**(16.4)**	(77.7)	42.9
	246.4	150.8	262.4
Financing Activities			
Issue of long-term debt	**229.8**	1.2	11.2
Repayment of long-term debt	**(28.6)**	(18.4)	(12.9)
Issue of common shares, after expenses net of income taxes	**0.3**	134.1	0.8
Retirement of preferred shares	**(1.8)**	(1.3)	(22.4)
Repayment of note payable	–	(14.4)	–
Other	**(0.1)**	0.1	0.4
	199.6	101.3	(22.9)
Investment Activities			
Additions to fixed assets	**(256.6)**	(263.0)	(202.4)
Government capital grants and investment tax credits	**24.3**	32.8	28.6
Disposals of fixed assets	**3.6**	4.7	5.6
Decrease (increase) in long-term receivables	**4.4**	8.1	(8.9)
Sale of kraft pulp operation, less note receivable of $15.0 million	–	30.1	–
Contribution to newsprint joint venture	–	–	(12.2)
Acquisition of subsidiary companies	–	(9.4)	(29.7)
Other	**0.9**	(1.9)	3.5
	(223.4)	(198.6)	(215.5)
Dividends Paid			
Preferred shareholders	**(8.0)**	(8.7)	(9.4)
Common shareholders	**(41.6)**	(40.8)	(37.3)
Minority shareholder of a subsidiary company	–	(6.6)	–
	(49.6)	(56.1)	(46.7)
Cash–Increase (decrease)	**173.0**	(2.6)	(22.7)
–Beginning of year	**11.8**	14.4	37.1
–End of year	**$ 184.8**	$ 11.8	$ 14.4

Cash comprises cash and short-term investments, less bank loans.

ABITIBI-PRICE

Segmented Information

	(millions of Canadian dollars)	Sales to Customers	Inter-segment Sales	Segment Sales	Depreciation and Depletion	Operating Profit	Additions to Fixed Assets	Total Assets
1987	**Business Segments**							
	Newsprint	$1,174.4	$ 1.6	$1,176.0	$54.0	$194.9	$153.1	$1,142.3
	Groundwood papers	278.8	0.2	279.0	19.8	11.7	72.9	465.4
	Coated papers	131.3	37.6	168.9	5.1	6.7	5.6	101.3
	Distribution, Office products and Converted products	1,078.9	7.2	1,086.1	7.2	43.3	14.4	336.5
	Building products	221.6	—	221.6	9.2	16.3	6.1	180.9
	Other	103.0	—	103.0	2.1	(1.5)	0.6	19.1
	Eliminations		(46.6)	(46.6)				
		$2,988.0	$ —	$2,988.0	$97.4	$271.4	252.7	2,245.5
	Corporate						3.9	304.1
							$256.6	$2,549.6
	Geographic Segments							
	Canada			$2,297.9		$248.0		$1,945.2
	U.S.A.			690.1		23.4		300.3
				$2,988.0		$271.4		2,245.5
	Corporate							304.1
								$2,549.6
1986	**Business Segments**							
	Newsprint	$1,093.7	$ 1.2	$1,094.9	$49.3	$157.1	$143.8	$1,104.1
	Groundwood papers	265.7	0.2	265.9	13.0	37.3	84.0	346.1
	Coated papers	119.1	28.5	147.6	4.8	11.9	9.9	101.9
	Distribution, Office products and Converted products	933.1	5.3	938.4	6.7	32.6	9.3	291.7
	Building products	188.0	—	188.0	8.4	9.0	11.1	189.5
	Other	163.9	2.1	166.0	6.5	(2.2)	3.8	29.4
	Eliminations		(37.3)	(37.3)				
		$2,763.5	$ —	$2,763.5	$88.7	$245.7	261.9	2,062.7
	Corporate						1.1	144.3
							$263.0	$2,207.0
	Geographic Segments							
	Canada			$2,153.1		$234.2		$1,763.8
	U.S.A.			610.4		11.5		298.9
				$2,763.5		$245.7		2,062.7
	Corporate							144.3
								$2,207.0
1985	**Business Segments**							
	Newsprint	$1,039.3	$ 1.5	$1,040.8	$46.7	$111.0	$ 93.2	$1,016.9
	Groundwood papers	262.2	—	262.2	10.6	36.0	56.1	272.2
	Coated papers	112.9	24.2	137.1	4.1	10.9	25.3	80.7
	Distribution, Office products and Converted products	785.7	6.4	792.1	5.5	33.3	6.2	272.2
	Building products	192.6	—	192.6	8.2	13.1	17.0	166.0
	Other	157.1	6.3	163.4	7.0	(0.3)	3.4	89.4
	Eliminations		(38.4)	(38.4)				
		$2,549.8	$ —	$2,549.8	$82.1	$204.0	201.2	1,897.4
	Corporate						1.2	145.6
							$202.4	$2,043.0
	Geographic Segments							
	Canada			$1,986.4		$189.1		$1,626.8
	U.S.A.			563.4		14.9		270.6
				$2,549.8		$204.0		1,897.4
	Corporate							145.6
								$2,043.0

NOTES:

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

(2) Canadian operations include sales to the U.S. market of $890.0 million (1986—$847.7 million, 1985—$830.7 million) and other export sales of $243.1 million (1986—$217.2 million, 1985—$189.9 million).

(3) Operating profits of the various business segments for 1986 have been increased as follows to reflect the adoption on a prospective basis of the change in the method of accounting for pension costs referred to in note 2 to the financial statements: Newsprint—$18.2 million, Groundwood papers—$5.1 million, Coated papers—$1.7 million, Distribution, Office products and Converted products—$1.6 million, Building products—$0.7 million and Other—$1.2 million.

ABITIBI-PRICE

1. Summary of significant accounting policies

The consolidated financial statements are expressed in Canadian dollars and are prepared in accordance with accounting principles generally accepted in Canada.

(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.

Goodwill, which represents the excess of the cost of shares of acquired companies over the values attributed to underlyiug net assets, is amortized over periods not exceeding 40 years.

(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 exchauge gains or losses are included 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 prevailiug during the year with the exception of depreciation which is translated at historical rates. Exchange gains or losses on translation are included in earnings with the exception of the gains or losses arising on the translation of long-term debt payable in U.S. funds. Such gains or losses which relate to debt which hedges the net investment in self-sustaining U.S. subsidiaries are included in shareholders' equity, while the balance, which relates to debt that is hedged by a future income stream denominated in U.S. funds, is deferred and included in earniugs in the same years as the income stream.

(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 asssets and depreciation
Fixed assets are recorded at cost, which includes capitalized interest and preproduction and start-up costs. Investment tax credits and 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
Earnings are charged with the cost of benefits earned by employees as services are rendered. The cost reflects management's best estimates of the pension plans' expected investment yields, wage and salary escalation, mortality of members, terminations and the ages at which members will retire. Adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

The difference between amounts included in earnings and Company contributions to the pension plans appears on the balance sheet as deferred pension cost.

(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 differeuces between the recognition of income and expenses for accounting and for tax purposes, are reflected as deferred income taxes on the balance sheet.

2. Change in accounting for pension costs

In 1986, the Company adopted, on a prospective basis, the new standard of The Canadian Institute of Chartered Accountants with respect to accounting for pension costs and obligations, as described in note 1(e). Previously, current service pension costs were charged to earnings and funded as they accrued and past service costs were charged to earnings and funded over periods not longer than those permitted by the various regulatory authorities.

As a result of this change, net earnings for 1986 were increased by approximately $17 million or $0.25 per common share.

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:

	1987	*1986 ($ millions)*	*1985*
Revenue	**$112.1**	$105.1	$ 95.5
Expenses	**106.0**	102.4	98.6
Earnings (loss)	**$ 6.1**	$ 2.7	$ (3.1)
Assets	**$199.3**	$215.1	$219.7
Liabilities	**143.4**	162.0	168.4
Net assets	**$ 55.9**	$ 53.1	$ 51.3

The Company's share of the joint venture's earnings (loss) is included in cost of sales.

Liabilities include $133.1 million (1986—$150.9 million, 1985—$157.8 million) of long-term borrowings which are without recourse to the Company or its co-venturer.

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

4. Foreign exchange

Other income and expense includes a foreign exchange loss of $2.3 million in 1987 (1986—$4.5 million loss, 1985—$7.5 million gain).

5. Consolidated earnings information

	1987	*1986 ($ millions)*	*1985*
Maintenance and repairs	**$147.3**	$153.4	$143.6
Taxes other than payroll and income taxes	**36.8**	32.7	32.8
Pension expense (credit)—Company and government plans	**7.6**	(1.0)	30.1
Operating lease rentals	**39.5**	38.9	33.0

6. Income taxes

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

	1987	*1986 ($ millions)*	*1985*
Earnings before income taxes, minority interest and extraordinary items	**$240.8**	$212.6	$177.4
Income taxes	**106.7**	91.9	69.4
Effective income tax rate	**44.3%**	43.2%	39.1%
Made up of:			
Combined basic Canadian federal/provincial income tax rates	**48.1%**	47.3%	46.0%
Increase (decrease) resulting from—			
Manufacturing and processing allowances	**(4.2)**	(4.2)	(4.0)
Inventory allowances	**—**	(0.3)	(1.6)
Capital gains and other reduced rate transactions	**(0.2)**	(1.6)	(2.6)
Other	**0.6**	2.0	1.3
Effective income tax rate	**44.3%**	43.2%	39.1%

7. Extraordinary items

Extraordinary items in 1986 consisted of a loss of $3.6 million (after an income tax credit of $2.1 million) from the closure of a sawmill at Falardeau, Que. and a gain of $0.8 million (after income taxes of $2.3 million) on the sale of a kraft pulp operation at Smooth Rock Falls, Ont.

8. Change in operating working capital

	1987	*1986* *($ millions)*	*1985*
Cash provided by (used for) changes in operating working capital components:			
Increase in current assets:			
Accounts receivable	**$(30.7)**	$(44.2)	$(62.0)
Inventories	**(15.2)**	(4.1)	(26.6)
Prepaid expenses	**(1.3)**	(5.1)	(2.5)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities, exclnding dividend payable to a minority shareholder of a subsidiary company	**23.7**	(14.0)	68.2
Income taxes payable	**7.1**	(15.0)	7.0
	(16.4)	(82.4)	(15.9)
Operating working capital included in sale of kraft pulp operation	**—**	(9.3)	—
Operating working capital acquired with purchase of subsidiary companies	**—**	14.0	58.8
Change in operating working capital	**$(16.4)**	$(77.7)	$ 42.9

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9. Accounts receivable

At December 31, 1987, the allowance for doubtful accounts receivable was $10.6 million (1986—$10.7 million).

10. Inventories

	1987	*($ millions)*	*1986*
Finished prodncts and work in process	**$197.4**		$179.6
Pulpwood, sawlogs and expenditures on current logging operations	**103.9**		110.5
Materials and operating supplies	**71.4**		67.4
	$372.7		$357.5

11. Accounts payable and accrued liabilities

	1987	*($ millions)*	*1986*
Trade accounts payable	**$173.1**		$168.5
Accrued vacation pay	**40.9**		38.8
Accrued salaries, wages and benefits	**32.3**		31.5
Other	**78.2**		49.8
	$324.5		$288.6

12. Long-term debt

	1987	($ millions)	1986
Abitibi-Price Inc.:			
Sinking Fund Debentures (secured)—			
7¼% Series B, matured 1987	**$ —**		$ 4.5
9¾% Series D, maturing 1990	**6.0**		6.8
11% Series F, maturing 1995	**9.1**		10.0
11⅜% Series G, maturing 1993 (U.S. $24 million)	**31.2**		44.2
10.15% Series H, maturing 2000 (U.S. $110.9 million)	**144.1**		174.4
15¾% Debentures Series I, maturing 1991 (secured) (U.S. $50 million)	**65.0**		69.0
Floating Rate Term Loan, maturing 1994 (secured) (U.S. $150 million) *(a)*	**194.9**		—
Abitibi-Price Refinance Inc.:			
Floating Rate Cumulative/Term Loan, maturing 1993 (U.S. $96.4 million) *(b)*	**125.3**		93.1
The Price Company Limited:			
6¾% Sinking Fund Debentures Series B, matured 1987	**—**		7.9
Gaspesia Pulp and Paper Company Ltd.:			
Floating Rate Revolving Loan, maturing 1992 (U.S. $25 million) *(c)*	**32.5**		—
Abitibi-Price Corporation:			
7⅜% Instalment Notes, maturing 1988 (U.S. $3 milliou) *(d)*	**3.9**		5.5
Other indebtedness	**10.0**		31.4
	622.0		446.8
Less: Amount due within one year	**24.8**		17.9
	$597.2		$428.9

(a) Interest is at a rate approximating LIBOR. The loan is secured by an Abitibi-Price Inc. Series L Debenture (secured).

(b) Interest is at rates approximating U.S. base rate, U.S. dollar bankers' acceptances or LIBOR for U.S. funds borrowings and at rates approximating EuroCanadian rate or Canadian bank prime for Canadian funds borrowings. The loan is secured by an Abitibi-Price Inc. Series K Debenture (secured).

(c) Gaspesia Pulp and Paper Company Ltd. may borrow from a bank on a revolving basis up to U.S. $25 million to Decemher 31, 1992, with the balance of the loan becoming due on that date. Interest is at rates approximating LIBOR, U.S. prime or the bank's cost of funds.

(d) Abitibi-Price Corporation's 7⅜% Instalment Notes are secured by Abitibi-Price Inc. 7⅜% Series C Debentures (secured).

Sinking fund and other long-term debt repayment obligations for the years 1989 to 1992 are estimated to be $20.6 million, $22.6 million, $82.7 million and $50.3 million, respectively.

All outstanding sinking fund debentures are currently redeemable at the option of the Company. The 15¾% Debentures Series I will become redeemable at the option of the Company after December 15, 1988.

At December 31, 1987, the Company had $171 million in unused bank lines of credit. Any borrowings under these lines of credit would bear interest at the prevailing market rates.

During the year ended December 31, 1987, interest of $9.0 million has been capitalized on major capital additions (1986—$12.5 million, 1985—$5.9 million).

13. Stated capital

The Company is governed by the Canada Business Corporations Act and is authorized to issue an unlimited number of preferred shares and common shares.

At the annual meeting on April 27, 1987, the shareholders approved the cancellation of all authorized Class A shares. There were no Class A shares outstanding at that date.

Common Shares	*Number of common shares*	*$ millions*
Outstanding at January 1, 1985	63,930,387	$121.3
Issued under public offering		
1985	—	—
1986	5,000,000	137.5
1987	—	—
Issued under stock dividend elections by common shareholders		
1985	8,155	0.1
1986	—	—
1987	—	—
Issued under terms of the Key Executive and Management Personnel Stock Option Plan		
1985	262,332	0.8
1986	10,240	0.1
1987	35,497	0.3
Amalgamation adjustment	—	1.8
Outstanding at December 31, 1987	69,246,611	$261.9

At December 31, 1987, 2½ million common share purchase warrants were outstanding. Each warrant entitles the holder to purchase, on or prior to June 15, 1990, one common share for $30. No warrants were exercised during the year.

At a special meeting of shareholders on June 18, 1987, approval was given to an amalgamation, effective July 1, 1987, which had no effect on the earnings and financial position of the Company other than an adjustment of $1.8 million between common shares and retained earnings.

The Company has filed notice of a Normal Course Issuer Bid which would permit the purchase of up to two million of its common shares on the open market through the facilities of certain public stock exchanges, during the twelve-month period commencing November 9, 1987. No shares were purchased in 1987.

7½% Cumulative Redeemable Preferred Shares Series A—
The Series A shares, which were issued at $50 per share, are redeemable by the Company at $51 per share. During 1987, 4,840 shares with a book value of $0.3 million were purchased at a cost of $0.2 million and cancelled (1986—1,900 shares with a book value of $0.1 million at a cost of $0.1 million, 1985—7,200 shares with a book value of $0.4 million at a cost of $0.3 million).

10% Cumulative Redeemable Preferred Shares Series B—
The Series B shares, which were issued at $50 per share, were fully retired during 1985 at a cost equal to book value.

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 are retractable at the option of the shareholders at $50 per share on January 1, 1990. Dividends are 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.

$0.94 Cumulative Redeemable Retractable Preferred Shares Series F—
The Series F shares, of which 3,680,393 were issued in 1985 at $11.50 per share, are redeemable by the Company in whole or in part at $11.75 per share to December 31, 1989 and thereafter at $11.50 per share. The shares are retractable at $11.50 per share at the option of the holder on January 1 in each year. In 1987, 132,611 shares were retracted at $11.50 per share (1986—114,549 shares at $11.50 per share).

14. Lease commitments

The Company and its subsidiaries have entered into operating leases to charter ships and to lease property and equipment for various periods up to the year 2007 at rentals aggregating approximately $116.5 million. Minimum payments under these leases are as follows:

	($ millions)
1988	$ 24.4
1989	18.0
1990	13.1
1991	11.5
1992	10.5
Remaining years	39.0
	$116.5

15. Pension plans

The Company's pension plans, covering most employees, are principally contributory plans that provide benefits based on length of service and final average earnings. The Company has an obligation to ensure that there are sufficient funds in the plans to pay the benefits earned.

Accumulated pension plan benefits and assets were as follows at December 31, 1987:

	($ millions)
Actuarial present value of accumulated plan benefits based on projected service and compensation levels	
Vested	$640.7
Non-vested	22.0
	$662.7
Market value of assets available for benefits	$734.7

16. United States accounting principles

The financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") in Canada which, in the case of the Company, conform in all material respects with those in the United States, with the following exceptions:

(a) Earnings adjustments—
(i) Unrealized gains or losses arising on the translation of long-term debt payable in U.S. funds that is hedged by a future income stream denominated in U.S. funds are deferred. If such gains or losses had been included in earnings as they occurred, as required under U.S. GAAP, the effect would have been:

	1987	*1986* ($ millions)	*1985*
Net earnings, as reported under Canadian GAAP	**$125.7**	$107.3	$100.2
Unrealized gain (loss) on translation of long-term debt payable in U.S. funds, net of income taxes	**9.7**	2.0	(7.8)
Net earnings, as adjusted to U.S. GAAP	**$135.4**	$109.3	$ 92.4
Per Common Share:			
Net earnings, as reported	**$ 1.70**	$ 1.46	$ 1.42
Adjustment	**.14**	.03	(.12)
Net earnings, as adjusted	**$ 1.84**	$ 1.49	$ 1.30

(ii) Under U.S. GAAP, the extraordinary items referred to on the earnings statement and in note 7 to the financial statements would be included in earnings before extraordinary items.

(iii) The impact on net earnings adjusted to U.S. GAAP of the new Financial Accounting Standard ("FAS") 96 relating to income taxes, which is required to be implemented for fiscal years ending after 1988, has not been determined. However, the Company expects that the effect will be favourable.

(b) Pension plans—
FAS 87 with respect to pension costs has the same impact on net earnings of the Company as the standard of The Canadian Institute of Chartered Accountants which was adopted in 1986, as described in note 2. The following information has been prepared to satisfy the disclosure requirements of FAS 87.

Pension funds are generally invested in balanced funds with outside managers and as of December 31, 1987 approximately 45% of the assets were held in equity securities, with the remainder in fixed income securities.

The Company's funding policy is to make at least the minimum annual contributions required by regulatory authorities.

Net pension cost (credit) of Company plans included the following components:

	1987 ($ millions)	*1986*
Service cost—benefits earned during the year for both defined benefit and defined contribution plans	**$ 18.7**	$ 17.0
Interest cost on projected benefit obligations	**50.6**	48.1
Actual return on plan assets	**(63.9)**	(62.5)
Net impact of plan settlements included in extraordinary items	**—**	(2.5)
Net total of other components	**(9.0)**	(11.5)
Net pension cost (credit)	**$ (3.6)**	$(11.4)

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The following table reconciles the funded status of the pension plans with the amounts recognized on the Company's balance sheet:

	1987 ($ millions)	*1986*
Market value of assets	**$734.7**	$731.9
Actuarial present value of accumulated plan benefits based on projected service and compensation levels	**(662.7)**	(555.0)
Excess of market value of assets over projected benefit obligations at December 31	**$ 72.0**	$176.9
Consisting of:		
Unrealized (loss) gain	**$(27.1)**	$ 14.1
Prior service cost not yet recognized in periodic pension cost	**(63.9)**	—
Balance of unrecognized net assets existing at January 1, 1986	**131.3**	143.7
Deferred pension cost recognized on the balance sheet	**31.7**	19.1
	$ 72.0	$176.9

The actuarial present values of the vested and non-vested benefit obligations based on current compensation levels at December 31, 1987 were $519.5 million (1986—$463.2 million) and $7.2 million (1986—$8.2 million), respectively.

	1987	1986
Assumptions used were:		
Rate used to discount liabilities	**8.5%**	9.0%
Assumed increase in compensation	**6.0%**	6.5%
Expected long-term return on assets	**8.5%**	9.0%

(c) Preferred shares—

Under Securities and Exchange Commission reporting requirements, preferred shares which are retractable at the option of the holders would not be reported under Shareholders' Equity, but would be reported under a separate caption entitled Retractable Preferred Shares. The Company's Series C and Series F shares are retractable at the option of the holders. At December 31, 1987, the Company had $114.5 million of these shares outstanding (1986—$116.0 million).

17. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Auditors' Report

To the Shareholders of Abitibi-Price Inc.:

We have examined the consolidated balance sheets of Abitibi-Price Inc. as at December 31, 1987 and December 31, 1986 and the consolidated statements of earnings, retained earnings and changes in cash position for each of the three years in the period ended December 31, 1987. Our examinations were 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, 1987 and December 31, 1986 and the results of its operations and the changes in its cash position for each of the three years in the period ended December 31, 1987 in accordance with generally accepted accounting principles applied, except for the change, with which we concur, in the method of accounting for pension costs in 1986 as referred to in Note 2 to the consolidated financial statements, on a consistent basis.

Price Waterhouse

Chartered Accountants
Toronto, February 12, 1988

Quarterly Financial Information
(unaudited)

	(millions of dollars— except per share amounts)	*1st Quarter*	*2nd Quarter*	*3rd Quarter*	*4th Quarter*	*Total*
1987	Net sales	$695.7	$756.4	$749.8	$786.1	$2,988.0
	Operating profit	58.4	66.8	70.8	75.4	271.4
	Earnings before extraordinary items	21.9	36.2	33.0	34.6	125.7
	Net earnings	21.9	36.2	33.0	34.6	125.7
	Per common share					
	Earnings before extraordinary items	$ .29	$ .49	$ .45	$ .47	$ 1.70
	Net earnings	.29	.49	.45	.47	1.70
	Dividends declared	.15	.15	.15	.25	.70
	Dividends paid	.15	.15	.15	.15	.60
	Price range per common share					
	Toronto Stock Exchange					
	High	$43.00	$40.50	$37.25	$35.75	
	Low	28.00	33.50	31.00	19.50	
	*New York Stock Exchange (U.S. dollars)					
	High	—	—	28.00	27.25	
	Low	—	—	23.25	15.38	
1986	Net sales	$647.4	$701.7	$716.5	$697.9	$2,763.5
	Operating profit	51.2	65.3	65.2	64.0	245.7
	Earnings before extraordinary items	21.7	28.5	31.1	28.8	110.1
	Net earnings	21.7	28.5	28.8	28.3	107.3
	Per common share					
	Earnings before extraordinary items	$ .30	$ .39	$ .42	$ .39	$ 1.50
	Net earnings	.30	.39	.39	.38	1.46
	Dividends declared	.15	.15	.15	.15	.60
	Dividends paid	.15	.15	.15	.15	.60
	Price range per common share					
	Toronto Stock Exchange					
	High	$26.75	$25.75	$24.50	$28.63	
	Low	15.13	23.00	21.00	23.00	
1985	Net sales	$581.4	$662.4	$633.5	$672.5	$2,549.8
	Operating profit	45.0	51.2	48.0	59.8	204.0
	Earnings before extraordinary items	23.7	21.3	25.4	29.8	100.2
	Net earnings	23.7	21.3	25.4	29.8	100.2
	Per common share					
	Earnings before extraordinary items	$ .34	$ .29	$ .36	$ .43	$ 1.42
	Net earnings	.34	.29	.36	.43	1.42
	Dividends declared	.28	.15	.15	.15	.73
	Dividends paid	.13	.15	.15	.15	.58
	Price range per common share					
	Toronto Stock Exchange					
	High	$18.58	$20.00	$21.00	$21.00	
	Low	10.79	16.50	16.50	16.00	

**Abitibi-Price's common shares were listed on the New York Stock Exchange on July 1, 1987.*

Six-year Financial Review

	1987	*1986*	*1985*	*1984*	*1983*	*1982*
Sales and earnings *($ millions)*						
Net sales	**$2,988.0**	$2,763.5	$2,549.8	$2,137.2	$1,660.2	$1,634.3
Cost of sales	**2,385.1**	2,226.0	2,075.3	1,794.0	1,439.7	1,352.4
Selling and administrative expenses	**234.1**	203.1	188.4	132.9	114.8	121.8
Depreciation and depletion	**97.4**	88.7	82.1	76.8	68.6	70.1
Operating profit	**271.4**	245.7	204.0	133.5	37.1	90.5
Interest expense—long-term	**39.3**	35.1	43.6	40.4	18.9	25.2
—short-term	**2.6**	2.0	3.0	1.2	0.8	1.4
Other income and expense	**11.3**	4.0	20.0	19.0	25.0	29.0
Income taxes	**106.7**	91.9	69.4	30.2	0.7	22.4
Minority interest	**8.4**	10.6	7.8	8.4	3.7	6.1
Earnings before extraordinary items	**125.7**	110.1	100.2	72.3	38.0	63.9
Extraordinary items	**—**	(2.8)	—	(2.2)	—	(2.6)
Net earnings	**125.7**	107.3	100.2	70.1	38.0	61.3
Dividends declared *($ millions)*						
Preferred shares	**$ 8.1**	$ 8.7	$ 9.3	$ 8.0	$ 7.4	$ 10.8
Common shares *(2)*	**48.5**	41.5	47.0	25.0	12.4	31.1
Capital expenditures *($ millions)*	**$ 256.6**	$ 263.0	$ 202.4	$ 126.3	$ 165.3	$ 187.9
Financial position *($ millions)*						
Working capital	**$ 622.3**	$ 459.0	$ 373.0	$ 409.5	$ 384.2	$ 437.3
Fixed assets, net	**1,358.1**	1,232.6	1,132.0	1,010.3	993.6	917.9
Long-term debt	**597.2**	428.9	455.7	419.9	395.1	385.8
Deferred income taxes	**318.1**	273.5	236.9	209.3	191.8	187.6
Minority interest	**33.1**	36.9	26.3	25.1	19.5	19.5
Preferred shares	**121.0**	122.8	124.1	104.2	113.8	122.7
Common shareholders' equity	**1,088.5**	1,016.5	824.8	783.1	735.1	709.9
Per common share *(1)*						
Earnings before extraordinary items	**$ 1.70**	$ 1.50	$ 1.42	$ 1.02	$ .48	$ .87
Net earnings	**1.70**	1.46	1.42	.99	.48	.82
Dividends declared *(2)*	**.70**	.60	.73	.40	.20	.50
Dividends paid *(2)*	**.60**	.60	.58	.40	.30	.50
Common shareholders' equity	**15.72**	14.69	12.85	12.25	11.82	11.42
Return on average common shareholders' equity	**11.2%**	11.0%	11.3%	8.5%	4.2%	7.6%
Long-term debt/long-term debt plus shareholders' equity	**33.1%**	27.3%	32.4%	32.1%	31.8%	31.7%
Number of employees *(year end)*	**16,000**	16,200	15,500	14,800	15,100	14,600

NOTES:
(1) Figures for the years 1982 to 1984 have been restated to reflect the 3-for-1 split of common shares which became effective May 1, 1985.
(2) Four quarterly dividends were paid in each of the years 1982 to 1987, but because of changes in dividend declaration dates, three dividends were declared in 1983 and five in 1985.

Primary Production

(figures in thousands)	*Newsprint* (tonnes)*	*Groundwood Papers (tonnes)*	*Kraft Products (tonnes)*	*Lumber (mfbm)*	*Coated Papers (tonnes)*	*Hardboard (msf-equivalent)*
Production						
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
1985	1,699	349	105	103	126	1,155
1986	1,798	350	87	83	132	1,058
1987	**1,833**	**363**	**—**	**55**	**142**	**1,147**
Capacity—1988	**1,938**	**399**	**—**	**107**	**144**	**1,267**

**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.*

Locations, Products and Markets

Group	Division or Segment	Plants	Sales Companies and Offices
Newsprint	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.* Toronto, Ont.; Montreal, Que. *Abitibi-Price Sales Corporation* New York, NY; Des Plaines, IL; Atlanta, GA; Detroit, MI; Dallas, TX *Abitibi-Price Sales Company Limited* London, England
Printing Papers	Groundwood Papers	Beaupré, Jonquière and Alma, Que.	
	Coated Papers	Thunder Bay and Georgetown, Ont.	*Provincial Papers* Thunder Bay and Toronto, Ont.; Montreal, Que.
Diversified	Distribution		*Inter City Papers Limited* Ottawa, Toronto and London, Ont.; Halifax, N.S.; Winnipeg, Man.; Vancouver, B.C. *Lauzier Little Inc.* Montreal and Quebec, Que. *Whyte Hooke Papers* Toronto, Ont. *Whitaker Carpenter Paper Company* Chicago, IL; Detroit, MI; Appleton and Milwaukee, WI *Barber-Ellis Fine Papers* Moncton, N.B.; Dartmouth, N.S.; St. John's, Nfld.; Montreal and Quebec, Que.; Toronto, London, Hamilton, Windsor and Kitchener, Ont.; Winnipeg, Man.; Regina and Saskatoon, Sask.; Calgary and Edmonton, Alta.; Vancouver, B.C. *Price Daxion* St. John's, Nfld.; Moncton, N.B.; Halifax, N.S.; Quebec and Montreal, Que.; Toronto, London, Ottawa and Thunder Bay, Ont.; Winnipeg, Man.; Regina and Saskatoon, Sask.; Calgary, Edmonton and Lethbridge, Alta.; Vancouver, Victoria and Vernon, B.C.
	Office Products		*Jaffe Stationers, Inc.* North Miami, Fort Lauderdale (2) and Coral Gables, FL *Azerty* Buffalo, NY; Richmond, VA; Shreveport, LA; South Bend, IN; Brookfield, CT; Commerce, CA; Toronto, Ont.; Montreal, Que. *Compu-Redi* Toronto and Ottawa, Ont.; Montreal, Que.
	Converted Products *Envelopes*	Dartmouth, N.S.; Montreal, Que.; Rexdale, Markham and Brantford, Ont.; Winnipeg, Man.; Calgary and Edmonton, Atla.; Vancouver, B.C.	*Innova Envelope* Dartmouth, N.S.; Montreal, Que.; Ottawa and Markham, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C.
	School, Office, Home Products	Toronto, Ont.; Joliette, Que.	*Hilroy* Toronto, Ont.; Montreal, Que.; Vancouver, B.C.
	Industrial Paper Products	Lachute, Que.	*Price Wilson, Inc.* Montreal, Que.
	U.S. Building Products *Hardboard Panel Products*	Alpena, MI; Toledo, OH	*Abitibi-Price Corporation* Troy, MI
	Hardboard Siding Products	Roaring River, NC; Alpena, MI	
	Plastic Products	Middlebury, IN	
	Bi-Fold Doors Shutters and Shelving	Hiawatha, KS; Lumberton, NC	
Other Products	*Lumber*	L'Ascension, Que.	*Abitibi-Price Lumber Sales* Toronto, Ont.
	Pulp Sales		*Abitibi-Price Inc.* Toronto, Ont.; Montreal, Que.

Products and Services	*Markets or End Uses*	*Abitibi-Price Market Position*
Produces standard grade newsprint from 75-95% mechanical pulp reinforced with chemical pulp, weighing between 40 and 52 grams per square metre of surface and measuring 58 on the brightness scale.	Used primarily for daily newspapers; also for various commercial printing purposes, including free-standing inserts distributed through newspapers and direct mail.	The world's largest newsprint producer, with about 13% of North American capacity and 6% of world capacity; most production is shipped to the U.S. and Canada, with the balance going to over 30 other countries.
Produces uncoated groundwood papers in basis weights from 29.3 to 97.6 grams per square metre. Principal grades are directory, supercalendered and machine finished high brightness.	Used for business forms, Sunday magazines, advertising inserts and flyers, telephone and other directories, catalogues, paperback books and general interest magazines.	A leading world producer of uncoated groundwood papers; most production is sold to commercial printers in Canada and the U.S.
Manufactures a broad range of coated printing papers in woodfree and groundwood grades.	Sold to publication printers, commercial printers, paper merchants and converters.	Canada's largest producer of premium coated papers.
Paper merchant operations distribute a wide selection of domestic and imported printing papers, business papers, graphic arts supplies and office stationery products.	Thousands of deliveries made daily to a wide variety of markets, including commercial printers, in-house printing operations, quick copy businesses and office users.	Canada's largest paper merchant companies, with the number one market position in most of the individual Canadian markets they serve.
Distributes a wide array of products including bags, folding cartons, plastic containers and other disposable items; foil, closures, labels; cleaning and institutional paper supplies; plastic packaging products and equipment.	Users include restaurants, fast food chains, airlines, food and drug manufacturers, hospitals and other institutions.	
Sells a full range of office products as well as office furniture and equipment.	Serves small businesses and retail customers.	The division operates in a highly fragmented industry. The Company's business units are in their growth stage.
Distributes information processing products including diskettes, printer accessories, file and storage accessories, computer care products, and some peripherals.	Supplies primarily the business market for computer and data processing products.	
Manufactures all types of envelopes, including courier envelopes, computer diskette pouches, photo bags and cash dispersal envelopes for automated teller machines.	Supplies primarily the office market.	Largest envelope manufacturer in Canada with the number one market position in the markets it serves.
Manufactures and distributes a variety of paper and paper-related products for school, home and office.	Supplies wholesalers, office products dealers, school boards, chain and department stores.	Holds the number one position in most areas of the market for its products.
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.	Market position varies depending on product line.
Manufactures ¼" and ⅛" hardboard panels with various surface treatments, including woodgrain designs and decorative plastic finishes; also makes industrial hardboard.	All products serve new construction and repair and renovation markets, primarily for residential, commercial and light industrial applications. Sales are made tu wholesalers and mass merchandisers.	The number one producer of ⅛" decorative hardboard paneling and the second largest producer of ¼" prefinished hardboard paneling in the U.S.
Manufactures primed and prefinished lap and panel siding.		Second largest producer of hardboard siding in the U.S., serving markets east of the Rockies.
Manufactures prefinished extruded plastic mouldings and industrial products.		Number one supplier of these products to dealers and retailers in the U.S.
Manufactures interior wood bi-fold doors, shutters, shelving and allied millwork.		One of two national suppliers to the home centre industry.
Produces random length softwood lumber; sells the output of three sawmills, a waferboard plant and a pulp mill owned by others.	Lumber sold to wholesale distributors, retail chains, buying groups and mass merchandisers. Pulp sold to producers of paper, packaging and tissue products.	A minor factor in these markets.

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Ralph Reichmann
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(2) Audit Committee
(3) Human Resources and Compensation Committee
(4) Planning Committee
(5) Pension Fund Committee

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Newsprint Group

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Research and Development

Sharon A. Paul
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Michael D. Thompson
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Treasurer

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Assistant Treasurer

David A. Cuthbertson
Assistant Secretary

Jean E. Gebbie
Assistant Secretary

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Principal Sales Divisions and Subsidiaries

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(Newsprint and Groundwood Papers Sales)

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David L. Loretto
President
International Division

C. Donald Martin
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North American Publisher Division

Provincial Papers

George T. Wild
President

Diversified Group

Jeffrey Chipman
President
Distribution Division

J. Raymond Langevin
President
Converted Products Division

Bruce J. McGroarty
President
Building Products Division

Annual general meeting
The annual meeting of shareholders of Abitibi-Price Inc. will be held at the King Edward Hotel, Vanity Fair Ballroom, Mezzanine Level, 37 King Street East, Toronto, Canada, on Monday, April 18, 1988 at 11:00 a.m.

Common share information
Common shares of the Company are listed on the Toronto, Montreal and Vancouver Stock Exchanges under the symbol A, and on the New York Stock Exchange under the symbol ABY.

Valuation Day (December 22, 1971) share prices:

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

The Valuation Day common share price does not reflect the 3-for-1 split which was effective May 1, 1985.

Form 10-K
A copy of the Company's 1987 Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge by writing to the Investor Relations Department at the Head Office address.

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
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Toronto, Canada

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Abitibi-Price Inc.
2 First Canadian Place, Suite 1300
Toronto, Canada M5X 1A9
Telephone (416) 369-6700

Design: *Vopni & Parsons Design Limited*
Printing: *Arthurs-Jones Lithographing Ltd.*
Photography: *Lorne Wolk, Philip Rostron, Paul Orenstein*
Typesetting: *M & H Typography Ltd.*

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Cover: Kromekote CCIS 12 pt.*
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