C

ABITIBI-PRICE

1988

ANNUAL REPORT

An integrated Canadian forest products company—and one of the largest industrial companies in Canada—Abitibi-Price Inc. is among the world's largest producers of both newsprint and uncoated groundwood papers and a major converter and distributor of papers and other forest products.

Headquartered in Toronto, Ontario, the Company employs over 16,000 people, operates 32 manufacturing facilities and over 100 sales and distribution centres, serving customers around the world.

Through its three operating Groups—Newsprint, Printing Papers and Diversified—the Company manufactures and distributes newsprint to 30 countries, as well as groundwood papers, coated papers, building products, lumber, industrial paper products, information processing supplies, envelopes, and other home, school and office supplies.

In building its businesses to enhance shareholder value, Abitibi-Price is guided by five fundamental business priorities—market leadership, quality of products and services, cost efficiency, technological leadership and the development of a highly trained, well-motivated work force.

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.

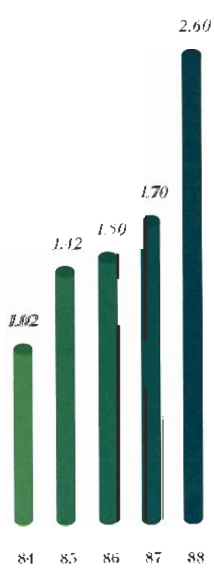
(Cover)
As people around the world focus on news and information printed on Abitibi-Price paper, we focus on the future—planting trees, using advanced technology to plan distribution efficiencies and develop new markets, and researching new processes and products to meet our customers' changing needs.

CONTENTS

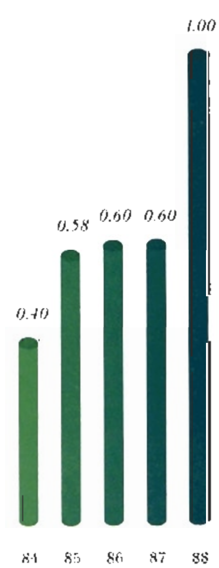
On peut obtenir le présent rapport annuel en français sur demande.

	1988	1987
(millions of Canadian dollars)		
Net sales	$3,305	$2,988
Operating profit	370	271
Earnings before extraordinary items	188	126
Net earnings	191	126
Capital expenditures	204	257
Working capital	554	622
Common shareholders' equity	1,212	1,098
Per common share		
Earnings before extraordinary items	$2.60	$ 1.70
Net earnings	2.64	1.70
Dividends declared	1.00	.70
Dividends paid	1.00	.60
Common shareholders' equity	17.50	15.86
Return on average common shareholders' equity	15.6%	11.1%
Long-term debt/long-term debt plus shareholders' equity	26.9%	32.9%

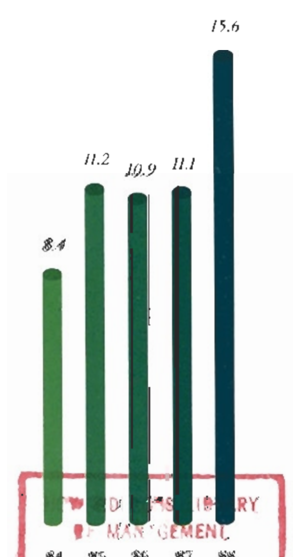
Earnings Per Common Share Before Extraordinary Items
(dollars)



Dividends Paid Per Common Share
(dollars)

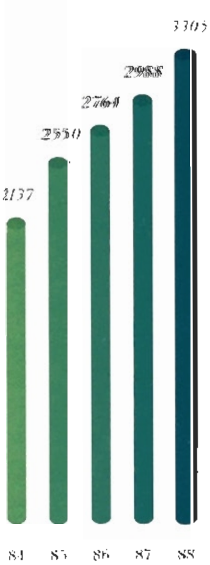


Return On Average Common Shareholders' Equity
(percent)



Bernd K. Koken

Net Sales
(millions of dollars)



In addition to achieving the highest earnings in its history, Abitibi-Price continued to build for the future in 1988 with ongoing improvements to operations, steady development of markets and new strategic investments in acquisitions and joint ventures.

Sales and earnings before extraordinary items climbed by 11% and 50%, respectively, over 1987 to reach record levels as the Newsprint, Printing Papers and Diversified Groups all made gains. These results were particularly significant as they were achieved despite a further decline in the Canadian value of the U.S. dollar.

Markets and Operations With markets for almost all of our products showing sustained strength in 1988, most of the Company's businesses reported solid improvements.

With global supply and demand pretty well in balance, the Newsprint Group's mills, operating at available capacity, produced record high volumes. A slight softening in the United States newsprint consumption, which began in the second quarter, was offset by more buoyant conditions in offshore markets.

The groundwood and coated paper mills of the Printing Papers Group also operated at capacity. Production was in marked contrast to 1987 when groundwood papers output was reduced by a major mill conversion project at Jonquière, Quebec. With increased volume, higher prices and an upgraded product mix, a significant improvement in operating profit was achieved.

Buoyed by acquisitions and increased volume in its distribution, office products and converted products divisions, the Diversified Group achieved record levels of sales and operating profit in 1988. Only the building products division softened somewhat, reflecting slower housing activity in the United States.

Investment Activities In addition to our ongoing and extensive capital expenditure program of $204 million, the Company made some significant investments in 1988, launching two joint ventures and completing six acquisitions.

Pursuing our objective of expanding share in targeted markets, the Newsprint Group is participating in two new joint venture newsprint mills – in Alabama, to serve the growing market of the southern United States, and in Venezuela, to take advantage of lower production costs in a net importing market. Alabama River Newsprint Company, in which Abitibi-Price is a 50% partner, is building a 220,000 tonne facility scheduled to begin operations in the second half of 1990. Pulpa y Papel Orinoco, SA, in which we hold a 24.5% interest, will operate a 200,000 tonne mill which is expected to come on stream in 1992.

The Diversified Group expanded its operations and market coverage with four paper distribution acquisitions (three in the United States and one in Canada) and two office products acquisitions in the United States. The significant acquisition of Datarex Systems Inc. of Orchard Park, New York, an information processing products distributor, enabled the Group to double its participation in an important growth business.

Further expansion of the scope of the Diversified Group occurred with the acquisition of a 19.9% interest in Spicers Paper Limited of Australia – a leading paper distribution and converting company serving the Pacific Rim.

Dividends Shareholders received four quarterly dividends of 25 cents per share during 1988 – an increase of 67% over the prior year.

Odd Lot Program Favourable reaction greeted the Company's odd lot program which was introduced to accommodate the large number of odd lots resulting from the 1987 Gulf Canada Corporation plan of arrangement. This program enabled a shareholder owning 99 or fewer Abitibi-Price common shares to sell his or her shares free of brokerage commission, while also allowing shareholders in Canada commission-free purchase of shares sufficient to bring a holding to a full board lot of 100 shares. When the program was completed in December, one-half of the eligible shareholders had taken part, and the Company was particularly pleased by a high level of participation on the buy side.

Directors We note with sadness the passing in 1988 of General Lauris Norstad, who made a significant contribution to the Company over the years as a Director and, more recently, as an Honorary Director.

Outlook Both the Printing Papers and Diversified Groups are well positioned for further growth in 1989, even if economic growth moderates somewhat in North America. A good balance of supply and demand exists in groundwood and coated papers markets, and Diversified's distribution, office products and converting businesses will benefit from anticipated normal growth together with the impact of 1988 acquisitions.

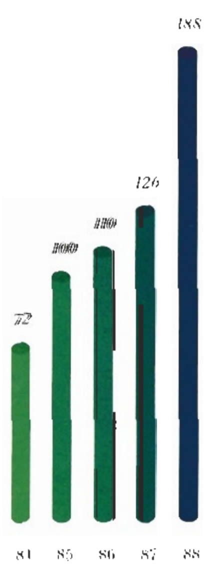
Our newsprint mill operations should continue at a fairly high level of capacity even though additional industry tonnage will be coming on stream later in the year. The anticipated shift away from balance in supply and demand is putting some downward pressure on transaction prices in major markets.

In the year ahead, given the less bullish outlook for newsprint and a continuation of a weak U.S. dollar against the Canadian dollar, we do not expect to reach the record level of earnings achieved in 1988. But we do expect the exceptional efforts of all of our employees to continue, building the strength, stability and long-term value of the Company as we keep our focus firmly on the future.

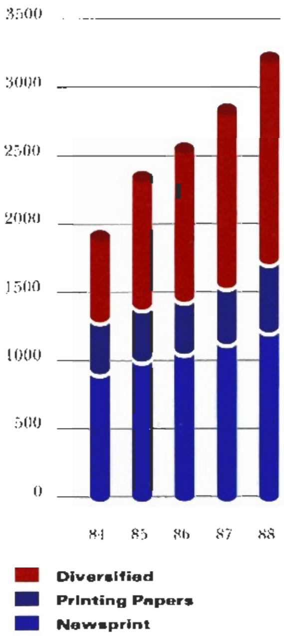
On behalf of the Board of Directors,

Bernd K. Koken
Chairman, President and
Chief Executive Officer
Toronto, February 20, 1989

Earnings Before
Extraordinary Items
(millions of dollars)



Net Sales
By Group
(millions of dollars)



In the year just passed, we harvested trees that had been growing for decades. At the same time, we planted more trees – over 20 million of them – that will be growing in the new century. In the life of the forest, 1988 was just part of the continuum.

Planning for the future is absolutely fundamental at Abitibi-Price – not just for the forests under our care, but for every aspect of our business. Our Company does not, as a general principle, sacrifice long-term viability for short-term gains in earnings or share prices.

The record financial performance of 1988 was not achieved during that year alone; it was the cumulative achievement of years of effort by forward-looking management and employees. Our efforts in 1988, in turn, will contribute to the growth and success of the Company in future years.

While results have fluctuated over the years with changing business cycles, the value of the Company has grown steadily as we have become a world leader in our many fields. Over time, this approach has served shareholders well.

With its long-term perspective, the Company has always recognized the importance of cultivating positive relationships with employees, customers, the communities and, indeed, the environment in which we operate while expanding the scope of operations and building shareholder value.

For employees, the Company has developed progressive initiatives to foster a healthy, stimulating and rewarding working environment.

For customers, we are continuing our efforts to be the best suppliers in the business through consistently high levels of product quality, security of supply, and ongoing improvements to service.

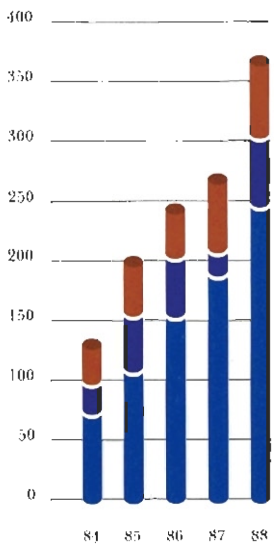
For society, Abitibi-Price has worked enthusiastically to be a good corporate citizen, through ethical business practices, support of our communities and their people, protection of the environment and careful management of the natural resources entrusted to our care.

Numerous programs are in place for enhancing the Company's relationship with each of these stakeholder groups. But we recognize that the best means of meeting our responsibilities in these areas is through continued growth and business success. Our success makes a contribution to each of the groups, which in turn further strengthens our prospects – just as our careful cultivation and nurturing helps the forest grow, which in turn enables us to maintain our growth.

As we approach the beginning of the twenty-first century, new realities are shaping the future. From our perspective, the most important of these realities is the emergence of a global marketplace, where success rests on nothing less than world-class competitiveness. For many years, Abitibi-Price has sold in the global marketplace and, more recently, has established business locations beyond the boundaries of North America.

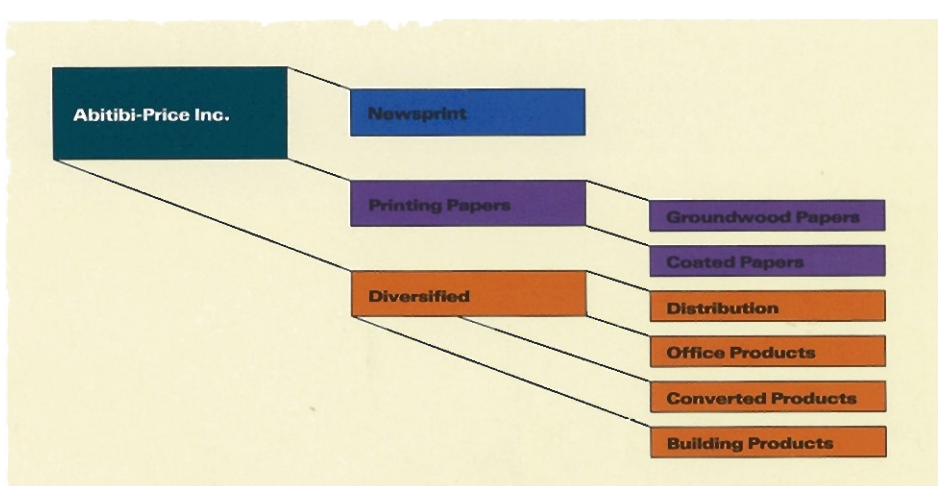
In preparing for our future in an increasingly globalized economic environment, we will continue to look for opportunities offshore and in North America that will help us maximize our effectiveness in serving the global market. To fulfill our commitment to the future, we will look for growth where the opportunities lie.

Operating Profit By Group
(millions of dollars)



We were very heartened that our major markets – Canada and the U.S. – played an important role in the trade liberalization critical to globalization of the marketplace last year, with the acceptance of the free trade agreement. While Abitibi-Price is not a direct beneficiary of the agreement – in fact, some of our businesses may be somewhat disadvantaged in the short term – we believe the initiative will help stimulate economic growth on this continent. That, in turn, will provide new opportunities for Abitibi-Price. And by focusing on the future, we intend to be ready for them.

Each of the Company's Groups has been preparing for the future in its own way. Although the reports that follow emphasize the results and activities of the past year, we ask you to bear our long-term perspective in mind as you review them. Last year's results are already part of our history. But last year's achievements – like the planting of 20 million trees – are part of our future.



"The Newsprint Group aims to continue growing — profitably — with its customers and markets around the world. To this end, new mills will be located close to customers, in net importing regions – or in locations where special circumstances enable us to produce newsprint at a very low cost.

"We will build on our position as a competitive provider of quality products and services through ongoing development of technology and personnel, continued modernization of existing mills, and a value-added sales approach to strengthen our position in difficult markets."

K. Linn Macdonald
Executive Vice-President,
Newsprint Group

Abitibi-Price builds on its position as one of the world's largest newsprint producers with the implementation of proven silvicultural techniques to nurture our forest resources, and sophisticated computer systems that help our customers improve their inventory control, pressroom management and product quality.

Abitibi-Price maintained its position as one of the world's largest newsprint producers in 1988 as the Newsprint Group made record shipments to customers throughout North America and in 28 other countries.

While operating 18 paper machines at available capacity, we continued with the capital expenditure program which has kept the Company at the leading edge of newsprint technology. We also became partners in two new joint ventures which will strengthen our world leadership position in the years to come.

Markets and Operations Newsprint markets in 1988 were strong in North America and even stronger offshore. Although market growth slowed somewhat in the latter half of the year in the United States—reflecting flat newspaper advertising linage despite continued growth in GNP and consumer spending—the Group's sales volume increased over 1987.

Driven by strong demand, prices increased in most markets. These higher prices, combined with higher volumes, resulted in revenues of $1,258 million, up by 7% over 1987, and operating profit of $250 million, an increase of 28%. The Group's strong performance offset the continued weakening of the U.S. dollar against the Canadian dollar, which had a negative impact on earnings.

Capital Expenditures To maintain our competitive position, increase efficiencies and meet the changing needs of customers, we continued our capital expenditure program in 1988, investing $111 million to update our Canadian newsprint and related woodlands operations.

Major projects designed to improve quality and increase productivity included the installation of new headboxes at Stephenville, Newfoundland, and Alma, Quebec, and a new automated grinder loading system at Chandler, Quebec. We also took a substantial step forward in our efforts to communicate electronically with customers on inventories and shipments with a new computerized wrapline control system at Iroquois Falls, Ontario—the prototype of systems for all Abitibi-Price newsprint and groundwood paper mills.

Investments were by no means limited to existing facilities in 1988. We acted on our strategy of establishing mills in locations promising opportunities for the future by becoming partners in joint ventures in Alabama and Venezuela.

In the United States, we established a joint venture with Parsons & Whittemore, Incorporated—a company that already owned a kraft pulp mill at Claiborne, Alabama. The new mill will be adjacent to the existing operation, providing synergies that will enable the new venture to be a low-cost producer of quality newsprint. Strategically located in the growing southern United States market, the new mill is now under construction and should be completed by the third quarter of 1990 at a total cost of U.S. $409 million.

In our first major project offshore, we agreed to participate in Pulpa y Papel Orinoco, SA, a new venture to build a mill in Venezuela—a net importing country—in partnership with the Government of Venezuela, Venezuelan newspaper publishers, and Bowater Incorporated. Now in the design stage, the facility—which has the potential to be the lowest cost producer of newsprint in the world—should be completed by the end of 1992.

These new ventures will further enable the Newsprint Group to grow with its customers, upgrade quality, and reduce the average cost of production.

Newsprint Group
Net Sales
(millions of dollars)

At our Chandler, Quebec, newsprint mill, operator Jean-Guy Turcotte controls the technologically-advanced automated grinder loading system installed in 1988 to enhance efficiency, safety and productivity.

Outlook Following two years of favourable business conditions, the outlook for 1989 is for slower growth—both in GNP and in newsprint consumption in North America and Europe.

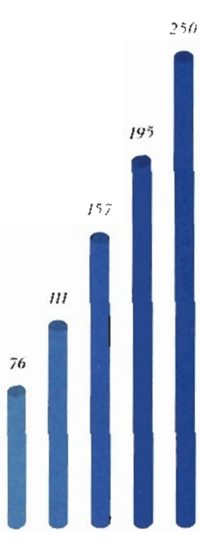
While newsprint demand will expand only modestly over 1988, new capacity will be coming on stream in North America—with two new machines in the southern United States and three on the west coast. We therefore expect supply to exceed demand with a slight reduction in industry operating rates in the second half of the year. Anticipation of excess supply has already created pricing pressures.

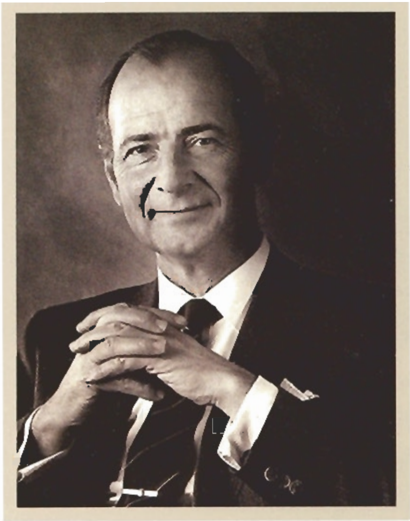
Given the market outlook—and the conversion of one newsprint machine to the production of directory paper in early 1989—we expect the Group's sales and operating profits to decline.

However, the Group will continue to move forward with plans for the future as we work to reduce costs and improve quality. Improvements to facilities and equipment will include rebuilding a machine with a new press section and twin wire installation in Chandler, Quebec, and an expansion of the pulping system in Grand Falls, Newfoundland. Roll quality improvements will be made to two newsprint machines and a new automated grinder loading system will be implemented in Thunder Bay, Ontario.

With these projects, and the new joint ventures, Abitibi-Price will remain at the forefront of the newsprint industry, strongly positioned for future growth.

Newsprint Group Operating Profit
(millions of dollars)





"A cornerstone of Printing Papers' strategy in recent years has been to produce higher value-added printing grades aimed for specific market niches where we can offer the highest product quality and the best customer service. To this end, we have successfully converted former newsprint facilities and upgraded a number of other paper machines.

"As we gear up for the future in an increasingly globalized marketplace, we plan to continue with conversions, while ensuring that all the Group's facilities and operations are internationally competitive."

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

From the commercial printer reviewing press sheets printed on our Jenson Gloss paper stock, to the consumer reading books, magazines and telephone directories, customers demand high quality—a hallmark of the coated and groundwood product lines made by our Printing Papers Group.

With solid markets for the uncoated specialty papers of our Groundwood Papers division and the high quality coated papers of our Provincial Papers division, the Printing Papers Group re-established its growth trends in 1988 – setting new sales and profit records while working to enhance our international competitiveness.

Group sales climbed by 20% to $494 million in 1988 and operating profit rose by 212% to $57 million, reflecting overall Group improvements and the completion of the 1987 Jonquière, Quebec mill conversion.

GROUNDWOOD PAPERS With the Jonquière conversion project complete, the division's three mills in Quebec operated at high levels of capacity in 1988, producing record volumes of specialty grades used for advertising inserts and flyers, business forms, magazines, catalogues and telephone directories.

In addition to these established markets, our new publication quality supercalendered paper, now produced at the Jonquière mill, enjoyed a successful first full year and further improvements in quality and operating efficiencies are expected in 1989.

Markets & Operations A balanced supply/demand environment, high operating rates and improved prices on all grades led to a 23% increase in sales to $343 million, and a 276% rise in operating profit to $44 million in 1988.

Demand for the division's key groundwood paper grades was strong, particularly in supercalendered grades, and over a quarter of a million tonnes of new North American capacity was easily absorbed by the market. With a solid reputation for leading the industry in quality, groundwood business forms papers from our mill in Beaupré, Quebec, and directory papers from our facility in Alma, Quebec, also met with high demand.

Despite the improved results in 1988, the division's profit growth was held back by escalating costs for purchased kraft pulp and by the weakening of the U.S. dollar against the Canadian dollar, affecting almost 80% of the division's sales.

Capital Expenditures Capital expenditures in our Groundwood Papers division amounted to $43 million. We continued our program of adding value by converting a paper machine from newsprint to directory papers at Alma, Quebec, our largest project of 1988. This conversion was completed early in 1989.

Outlook The pace of growth of advertising in newspaper inserts, yellow page directories, and direct mail experienced in recent years is expected to ease slightly but still remain positive in 1989. On the supply side, capacity will increase, but not sufficiently to upset the current supply/demand balance.

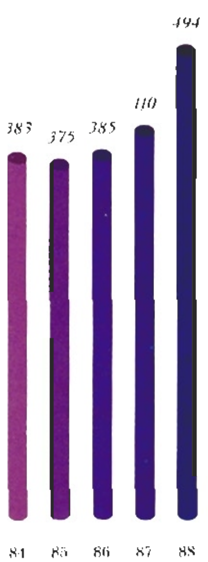
We therefore expect the division to operate at full or near full capacity in the year ahead, continuing the solid performance of 1988.

COATED PAPERS Record production levels and important productivity gains added up to a very good year for the Provincial Papers division, which produces grades ranging from premium coated papers to magazine coated stock at our Thunder Bay, Ontario mill and Georgetown, Ontario converting facility.

Markets & Operations Demand for coated papers intensified in 1988, allowing prices to rise, which in turn allowed the division to recoup margins reduced by the escalating price of purchased kraft pulp.

Operating at available capacity, the division produced 144,300 tonnes in 1988

Printing Papers Group Net Sales
(millions of dollars)



Technical service representative Dale Swindon (right) discusses the printability of WSDP, our new high-quality supercalendered paper, with Don Fleming, vice president, division director of R.R. Donnelley's Lakeside Press in Dwight, Illinois.

compared to 142,000 tonnes in 1987. Approximately 3,500 tonnes were lost through downtime caused by capital projects.

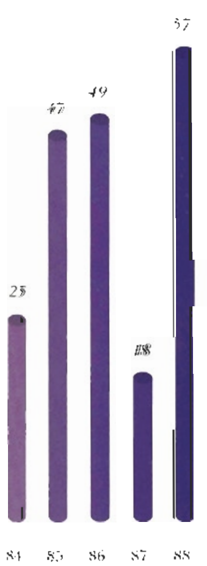
Higher volumes and prices increased sales by 15% to $151 million, as profits doubled to reach $13.4 million. Exports to the United States represented 20% of sales.

Capital Expenditures Capital expenditures of $20 million were largely aimed at boosting Provincial's quality to the top tier of our industry as we strive to sharpen our competitive edge for a free trade environment.

Technological upgrades to our paper machines brought measurable quality improvements to various grades, while allowing for higher volumes, increased flexibility and improvements to the product mix. At the same time, supercalender operations were enhanced with the latest computer technology.

Outlook A slowdown in the North American economy will ease the current tightness in the coated paper market, but demand is expected to remain strong for most of 1989 and we expect Provincial to operate at full capacity after capital investment downtime for a paper machine speedup.

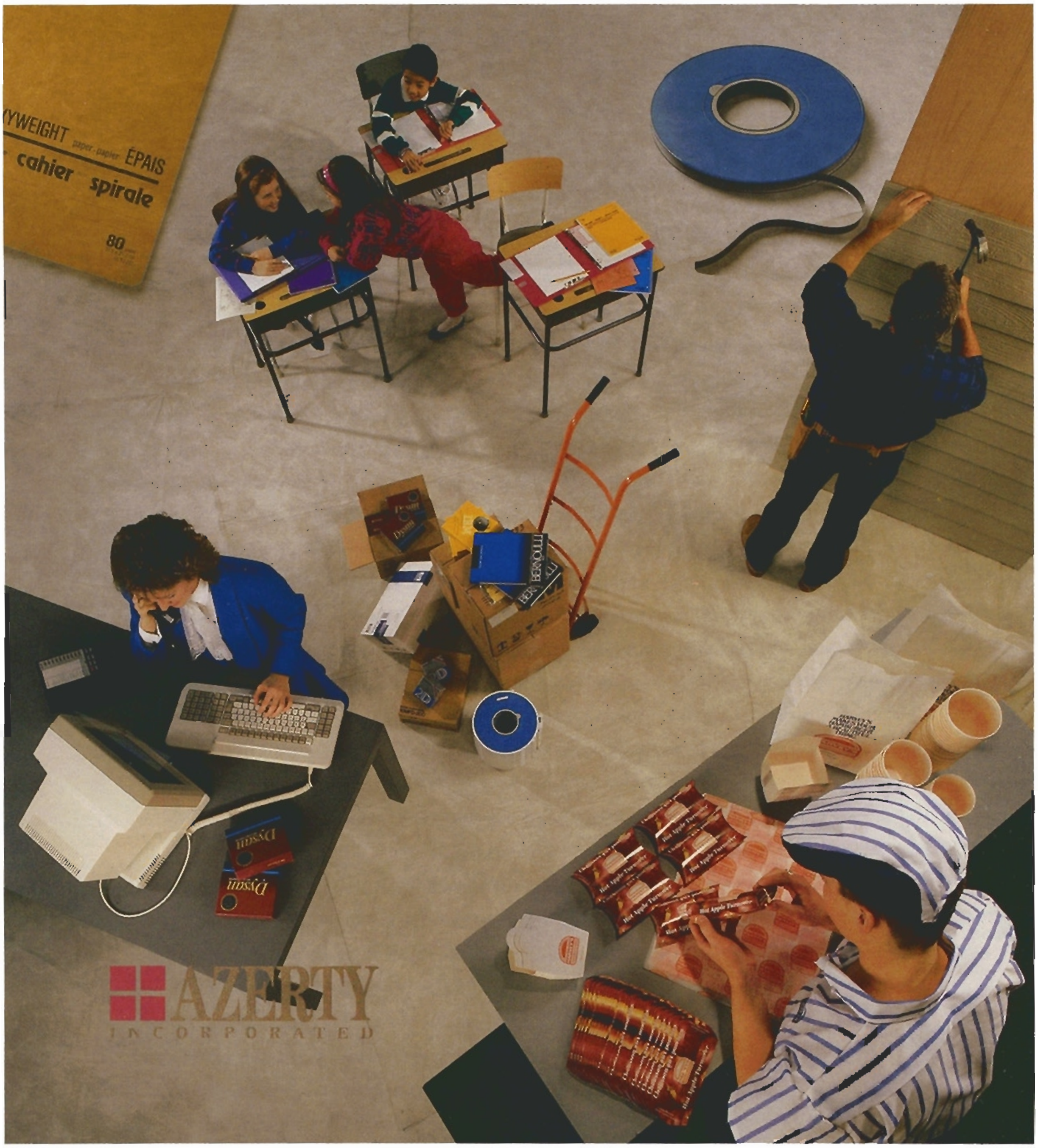
Printing Papers Group Operating Profit
(millions of dollars)



"Since the Diversified Group was formed, our mandate has been to pursue rapid, profitable growth in non-cyclical, low capital-intensive industries. We have done this successfully, and we intend to keep on doing it through internal development and acquisitions.

"As we pursue this course in the future, our major challenge will be to balance the rapid growth of our operations with solid growth in profitability and a healthy return on investment. In other words, we must control expansion without curtailing it. We are confident that we will meet this challenge as we continue to fulfil our mandate."

Ronald Y. Oberlander
Executive Vice-President,
Diversified Group



The Diversified Group focuses on growth opportunities to become a major player in North American markets for our paper and packaging merchant operations–office products, including the expanding information processing supplies market–converted products, such as school supplies–and building products.

Growth and profitability trends continued to head upwards for the Diversified Group in 1988 as healthy markets for the Distribution, Office Products, and Converted Products divisions and a good response to softer markets by the Building Products division led to record operating profit of $63 million, up 17% from the $54 million earned in 1987, before the addition of $6 million in non-recurring credits. Sales for the year climbed by 14% to $1.5 billion.

While expanding operations substantially with six North American acquisitions and a strategic investment in Australia during the year, we placed a high priority on developing support services – including business development, human resources, and finance – to ensure that we can manage our growth effectively.

Distribution Operating in two distinct industries – printing papers distribution, and packaging and single-service products distribution – the division posted excellent results in 1988. Barber-Ellis Fine Papers, Inter City Papers, Whitaker Carpenter Marquette and Price Daxion all improved on their strong 1987 performances to achieve record sales and profits.

In addition to providing a good return on investment, the division made significant progress towards achieving its long-term growth strategies. To this end, we acquired three regional printing paper merchants in the United States, as well as a Canadian distributor of industrial products to the foodservice industry.

We also improved the efficiency of printing papers distribution by rationalizing the activities of Barber-Ellis and Inter City to eliminate business overlap in selected locations.

Finally, we reviewed and began upgrading management information systems to accommodate further expansion while enhancing service to customers.

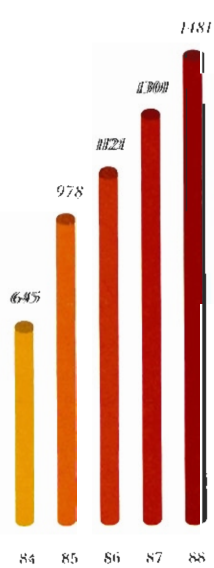
Office Products Growth has been the byword for the Office Products division since it was formed in 1987 with three business units – Azerty and Compu-Redi, North American distributors of information processing products, and Jaffe Stationers, a Florida-based chain of retail office products outlets.

Azerty and its affiliate, Compu-Redi, boosted sales by 82% in 1988 while setting the stage for further rapid growth with the acquisition of Datarex Systems Inc., creating the largest specialty wholesaler of information processing supplies in the United States. With this merger, we have become the market leader in a growth industry.

Jaffe's also pursued an aggressive expansion program as six new stores were opened during the year, for a total of 10 supermarket-style outlets offering a broad variety of office products to small and medium-sized businesses and individual consumers. While this concept is still being evaluated, market acceptance has been positive, and we expect solid improvements in sales and performance as the new stores realize their potential.

Converted Products Record sales by Hilroy, Innova Envelope, and Price Wilson sparked a 36% gain in the profits of the division in 1988 as we successfully completed initiatives announced the previous year. These included the start-up of high speed equipment designed to improve productivity, reduce costs and accommodate specialized products; and the rationalization of product lines to boost efficiencies and margins. Current markets are solid: growth in the envelope industry continues to exceed GNP growth; our position as the lowest-cost producer in the school supplies market ensures continued profitability in this mature industry; and demand for most of the

Diversified Group
Net Sales
(millions of dollars)



Top-notch service, clean trucks and courteous drivers backed by an efficient, effective distribution network have helped make Inter City Papers and Barber-Ellis Fine Papers Canada's largest fine paper merchant operations.

industrial products manufactured by Price Wilson continues to grow significantly faster than the economy.

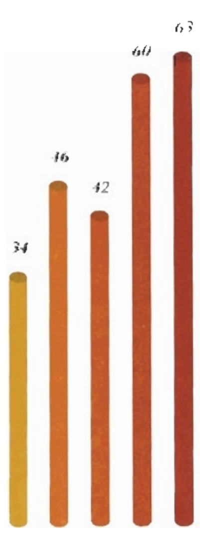
Building Products During a year of declining housing starts and a soft repair and remodeling market in the United States, the division responded well to the changing environment by increasing its market share in the hardboard and siding businesses, maintaining market share in the moulding and millwork segments and establishing initial export distribution to four overseas markets. As a result, although sales declined, the division performed better than the industry average.

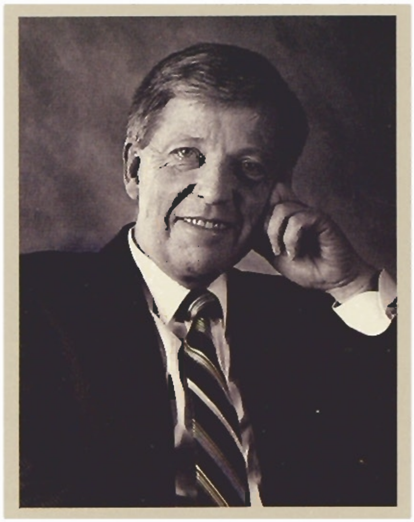
Profits declined from 1987 as the division faced softer markets and major increases in raw material costs, caused by world-wide shortages of styrene and linseed oil. To help offset the declines, major cost reduction programs were successfully implemented in all product lines.

Outlook The Diversified Group is poised for further profitable growth in 1989.

Although an economic downturn might create short-term downward pressures on Distribution division earnings, the division is expected to maintain strong returns while it continues to expand into high-growth product lines. Sales and performance for the Office Products division as a whole should show ongoing improvement as its businesses develop further. Market prospects for the Converted Products division point to improving profits. For Building Products, the impact of the cost reduction programs will help offset a soft housing market, enabling the division to maintain the current level of returns.

Diversified Group Operating Profit
(millions of dollars)





"While it does not appear as an asset on the balance sheet, timely, accurate and relevant information has always been a valuable resource. In this rapidly changing area, aggressive management of the information resource provides opportunities to achieve competitive advantages in cost, quality and service.

"Our goal, quite simply, is to find ways to make all of the Company's operations more efficient and profitable — while helping them prepare for future growth."

J. Kenneth Stevens
Senior Vice-President,
Administration

Management of information resources at Abitibi-Price is dedicated to maximizing the efficiency of production and distribution operations and helping sales and manufacturing to better serve our customers. These tasks are not restricted to computer professionals, but involve all the staff specialists who operate under the collective heading of "Administration."

Providing more useful information has involved projects ranging from managing a sophisticated manufacturing allocation system to the supervision of an employee personal computer purchasing plan. The former enables us to match customer requirements more exactly with mill capabilities, greatly improving service while reducing distribution costs. With the latter, we are developing a workforce that is completely comfortable with the computer and welcomes the assistance it can offer. We have worked with our mills to install a new purchasing and stores system which provides better information for managing inventories and controlling costs. Building on this information base, one of our mills is pioneering a new maintenance planning system which other mills will eventually utilize.

Several other projects are under way that will benefit our customers.

A new computerized wrapline system is being installed at Iroquois Falls, Ontario, which will improve mill scheduling, finishing and shipping operations, indirectly providing customers with more accurate information on the status of their orders during production. Once orders are shipped, direct computer linkage with our carriers tracks rail car location from the mill to arrival at the customer's site.

Abitrol, an Abitibi-Price software package, has been developed to assist our customers in managing their own inventories. This system is now in use in pressrooms in the United States, Canada, the United Kingdom and the Caribbean. We have also supplied third-party warehouses, where we hold inventory, with company-developed computer software to provide better inventory management, thereby improving service to our customers.

Each technological breakthrough and improvement in the usefulness and timeliness of information uncovers additional opportunities to improve service to the Company's customers and to improve our own profits and cash flow. Our challenge for the future is to continue to attract, train and motivate people with the skill and enthusiasm to grasp these opportunities, and enhance the leadership position of Abitibi-Price.

At the Provincial Papers mill at Thunder Bay, Ontario, receiving clerk Ilidio Melo uses a new computerized purchasing and stores inventory system. An aggressive systems approach to information management is making our operations increasingly efficient and profitable.

"As we focus on the future, we must always remember that our overall objective is to enhance the value of the Company. In order to achieve that objective, we have to manage profitably all of the resources under our care. We must also be able to demonstrate that the decisions we make about our future directions contribute to that objective.

"Since a company with an avowed objective of growth must fund its activities from external sources from time to time, we must continue to observe the kind of financial and management discipline that will maintain and strengthen Abitibi-Price's position in the capital markets of the world."

J. Gordon Maw
Senior Vice-President,
Finance

Operations Sales for the year 1988 reached a record level at $3.3 billion, up from sales of $3.0 billion in 1987 and $2.8 billion in 1986.

At the same time, a new record was achieved in the year's net earnings of $191.1 million or $2.64 per common share, which compared with net earnings of $125.7 million or $1.70 per share in 1987 and $107.3 million or $1.46 per share in 1986. Net earnings for 1988 included an extraordinary gain of $2.9 million resulting from the sale of land in South Carolina, U.S.A., while 1986 net earnings included a net extraordinary loss of $2.8 million which was attributable to 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.

The increase in earnings was principally attributable to higher operating profit which increased to $370.1 million from $271.4 million in 1987 and $245.7 million in 1986. Over half of the Company's sales are made in U.S. funds and the improvement in operating profit occurred despite the fact that the average value of the U.S. dollar, expressed in Canadian funds, dropped to $1.231 in 1988 from $1.326 in 1987 and $1.390 in 1986.

Newsprint sales in 1988 climbed to $1.3 billion from $1.2 billion in 1987 and $1.1 billion in 1986. At the same time, operating profit rose to $250.1 million from $194.9 million and $157.1 million in 1987 and 1986, respectively. As a percentage of sales, 1988 operating profit was 20%, up from 17% in 1987 and 14% in 1986. The improvement over the three-year period was principally due to price increases in most markets, higher shipments and to the benefits realized from capital expenditures on the modernization of production facilities. These positive factors more than offset the negative effect of the declining value of the U.S. dollar.

As a result of new newsprint capacity coming on stream in North America during 1989, and with consumption increasing only modestly, it is expected that supply will exceed demand and that there will be a slight reduction in industry operating rates in the second half of the year. This situation, and the attendant pricing pressures, together with the conversion of a newsprint machine to the production of directory paper at the beginning of the year, is expected to result in a reduction in the Company's newsprint sales and operating profit in 1989.

Sales of groundwood papers increased to $343 million from $279 million in 1987 and $266 million in 1986, while operating profit improved to $44.0 million from $11.7 million and $37.3 million in 1987 and 1986, respectively. Operating profit through the period was affected by both the decline in value of the U.S. dollar and the escalating cost of kraft pulp. In 1988, however, these negative factors were more than offset by favourable market conditions, which permitted near-capacity operations and improved prices, and by the first full year's sales of clay-filled supercalendered paper. This new grade of higher-value groundwood paper was a major cause of the fall-off in operating profit from 1986 to 1987 as an extended startup in 1987, with lost production and temporarily higher costs, followed the conversion of a groundwood papers machine at Jonquière, Quebec to produce the new grade.

While industry capacity to produce groundwood papers will increase somewhat in 1989, it should not upset the current supply/demand balance and it is expected that the Company will operate at full, or near full, capacity in that year.

Coated papers sales in 1988 totalled $151 million, up from $131 million in 1987 and $119 million in 1986. At the same time, operating profit increased to $13.4 million from $6.7 million in 1987 and $11.9 million in 1986. The improvement in 1988 was attributable to higher demand for the Company's grades of paper which resulted in record production levels and higher prices. The decline in 1987 operating profit was due to competitive pricing pressure in the first half of that year and to the increasing cost of kraft pulp.

A slowdown in the growth of the North American economy should ease the tight supply situation in the coated papers market in 1989. However, for most of the year, demand is expected to remain sufficiently strong to support capacity operations at the Company's coated papers mill after allowing for downtime relating to capital projects.

Sales of the distribution, office products and converted products sector climbed to $1.3 billion from $1.1 billion in 1987 and $0.9 billion in 1986, while operating profit increased to $51.9 million from $43.3 million and $32.6 million in 1987 and 1986, respectively. The improvement in sales and operating profit over the three-year period reflected the expansion of business in this sector, including new businesses acquired in the latter part of 1988 (as referred to in Note 3 to the accompanying financial statements). In addition, converted products operations in 1988 benefited from the installation of new high-speed equipment to improve productivity and reduce costs.

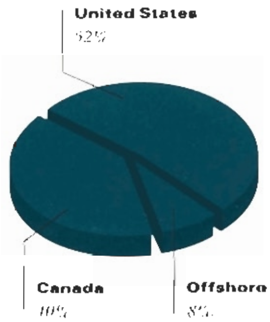
The outlook for the distribution, office products and converted products sector is for further profitable growth in 1989.

Sales of building products in 1988 were $198 million, compared with $222 million in 1987 and $188 million in 1986, while operating profit of $11.4 million compared with $16.3 million in 1987 and $9.0 million in 1986. The fall-off in results from 1987 to 1988 reflected the decline in the value of the U.S. dollar, lower housing starts, the softening of the home repair and remodelling market and major increases in certain raw material costs. The impact on operating profit was partially offset by the positive effects of major cost reduction programs introduced during the year. The improvement in 1987 results over 1986 was principally due to increased business, particularly in the repair and remodelling market, which more than offset the effect of the drop in the value of the U.S. dollar.

The soft housing market is expected to continue into 1989, with its effect on building products offset to some extent by the benefits obtained from the cost reduction programs which were initiated in 1988.

Interest expense charged to earnings in 1988 totaled $51.4 million, compared with $41.9 million in 1987 and $37.1 million in 1986. Despite the positive effect of the lower U.S. exchange rate on interest payable in U.S. funds, interest expense increased through the period because of reductions in the amount of interest which was capitalized and increases in the average amount of long-term debt outstanding. Capitalized interest decreased to $6.1 million in 1988 from $9.0 million in 1987 and $12.5 million in 1986.

Net Sales By Market
(percent)



Other income, net of expense, amounted to $16.4 million in 1988, up from $11.3 million in 1987 and $4.0 million in 1986. The improvement over the three-year period was principally due to increases in interest earned on short-term investments and to reductions in foreign exchange losses. Because of the continuing decline in the value of the U.S. dollar, midway through 1987 the Company initiated a policy of hedging its U.S. funds accounts receivable, which substantially reduced exchange losses that otherwise would have been incurred between the time of sale to the customer and the time of payment by the customer.

The effective income tax rate was 41.2% in 1988, compared with 44.3% in 1987 and 43.2% in 1986. The reduction in 1988 was principally due to lower tax rates introduced with tax reform, while the increase from 1986 to 1987 was mainly attributable to a shift in earnings mix between different tax-rate jurisdictions.

Financial Position and Liquidity Over the three years 1986 to 1988 the Company's net cash position increased by $23.1 million, from $14.4 million at the beginning of 1986 to $37.5 million at December 31, 1988, as cash derived from operations, new financings and other sources exceeded the major outlays on capital projects, debt repayments, investment in new businesses and dividends paid to shareholders.

In 1986, the Company realized $134.1 million, after underwriters' fees and expenses net of income taxes, from the issue of 5 million Common Shares and 2.5 million Common Share Purchase Warrants. In 1987, it borrowed U.S. $150 million in the form of a syndicated seven-year floating rate term loan, realizing Cdn.$197.2 million. In both cases, the proceeds were used to reduce short-term indebtedness and augment working capital. Also in 1987, a 51%-owned subsidiary, Gaspesia Pulp and Paper Company Ltd., borrowed U.S.$25 million, realizing Cdn.$32.6 million, with respect to the financing of its capital program.

Long-term debt repayments over the three-year period totalled $142.6 million, which included $60.2 million in 1988 for the redemption of the U.S. $ 50 million of Series I Debentures. These Debentures, which were originally issued in 1981 and normally would have matured in 1991, carried an interest rate of 15 ¾% and in December 1988 the Company exercised its option to redeem them at a 1% premium.

In the latter part of 1988, the Company negotiated amendments to its Trust Indenture in order to update it to current practices. In exchange for the elimination of incremental debt issuance tests, the floating charge on assets and certain other covenants, the Company agreed to increase interest rates on the Series F, G and H Sinking Fund Debentures by ½ of 1%, with effect from December 19, 1988.

Capital expenditures, which are primarily directed towards productivity and quality improvements and the manufacture of higher-value products, totalled $203.8 million in 1988, compared with $256.6 million in 1987 and $263.0 million in 1986. Capital expenditures for 1989 are estimated to be in the area of $300 million, to be funded by existing cash resources, cash flow from operations and an expected moderate amount of new debt financing.

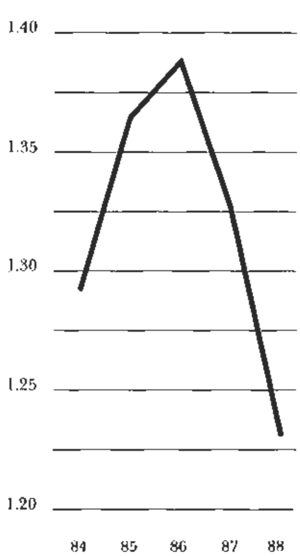
During 1988, the Company invested $30.6 million in a new newsprint joint venture partnership at Claiborne, Alabama. Details of this investment are given in Note 2, which reflects the value of the investment converted to Canadian funds at the year-end exchange rate. Also, $118.7 million was invested in other businesses, as referred to in Note 3.

Four quarterly common dividends were paid in each of the three years, totalling $1 per share in 1988 and 60 cents per share in each of 1987 and 1986. Dividends declared during the period totalled $1 in 1988, 70 cents in 1987 and 60 cents in 1986. At the time of the fourth quarter dividend declaration in December 1987, the quarterly rate was raised from 15 cents to 25 cents, effective with the payment made in January 1988.

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 $235 million of such lines of credit with several banks, $228 million remained unused and available at the end of 1988.

United States GAAP Reconciliation The Company's financial statements have been prepared in accordance with generally accepted accounting principles in Canada and conform in all material respects with those in the United States, except as noted in Note 16 to the financial statements.

Average Exchange Rates
$1 U.S. in Canadian Dollars



CONSOLIDATED EARNINGS

Year ended December 31 *(millions of Canadian dollars)*	**1988**	1987	1986
Net sales	**$ 3,304.5**	$ 2,988.0	$ 2,763.5
Cost of sales	**2,566.2**	2,385.1	2,226.0
Selling and administrative expenses	**257.8**	234.1	203.1
Depreciation and depletion	**110.4**	97.4	88.7
	2,934.4	2,716.6	2,517.8
Operating profit	**370.1**	271.4	245.7
Interest expense—long-term (note 12)	**(50.5)**	(39.3)	(35.1)
—short-term	**(0.9)**	(2.6)	(2.0)
Other income and expense—net (note 4)	**16.4**	11.3	4.0
	335.1	240.8	212.6
Income taxes (note 5)	**137.9**	106.7	91.9
	197.2	134.1	120.7
Minority interest	**9.0**	8.4	10.6
Earnings before extraordinary items	**188.2**	125.7	110.1
Extraordinary items (note 7)	**2.9**	—	(2.8)
Net earnings	**191.1**	125.7	107.3
Dividends on preferred shares	**7.8**	8.1	8.7
Net earnings attributable to common shareholders	**$ 183.3**	$ 117.6	$ 98.6
Per Common Share:			
Earnings before extraordinary items	**$ 2.60**	$ 1.70	$ 1.50
Net earnings	**2.64**	1.70	1.46
Dividends declared	**1.00**	.70	.60
Weighted average number of common shares outstanding (millions)	**69.3**	69.2	67.7

CONSOLIDATED RETAINED EARNINGS

Year ended December 31 *(millions of Canadian dollars)*	**1988**	1987	1986
Retained earnings at beginning of year	**$ 836.2**	$ 768.9	$ 715.2
Net earnings	**191.1**	125.7	107.3
	1,027.3	894.6	822.5
Amalgamation adjustment	**—**	(1.8)	—
Expenses of common share issue, net of income taxes of $2.9 million	—	—	(3.4)
Dividends declared—			
Preferred shares	**(7.8)**	(8.1)	(8.7)
Common shares	**(69.3)**	(48.5)	(41.5)
Retained earnings at end of year	**$ 950.2**	$ 836.2	$ 768.9

Year ended December 31 (millions of Canadian dollars)	1988	1987	1986
Operating Activities			
Earnings before extraordinary items	**$ 188.2**	$ 125.7	$ 110.1
Depreciation and depletion	**110.4**	97.4	88.7
Deferred pension cost	**(6.8)**	(12.3)	(16.6)
Deferred income taxes	**105.6**	46.3	37.4
Minority interest	**9.0**	8.4	10.6
Other	**(12.7)**	(2.7)	(1.7)
	393.7	262.8	228.5
Change in operating working capital (note 8)	**(30.8)**	(16.4)	(77.7)
	362.9	246.4	150.8
Financing Activities			
Issue of long-term debt	**–**	229.8	1.2
Repayment of long-term debt	**(95.6)**	(28.6)	(18.4)
Issue of common shares, after expenses net of income taxes	**0.3**	0.3	134.1
Retirement of preferred shares	**(5.6)**	(1.8)	(1.3)
Repayment of note payable	**–**	–	(14.4)
Other	**0.7**	(0.1)	0.1
	(100.2)	199.6	101.3
Investment Activities			
Acquisitions (note 3)	**(82.9)**	–	(9.4)
Bank indebtedness of acquired businesses	**(1.2)**	–	–
Notes payable issued as partial consideration	**14.9**	–	–
	(69.2)	–	(9.4)
Investment in newsprint joint venture, net of note payable of $18.4 million (note 2)	**(12.2)**	–	–
Investment in equity interest (note 3)	**(35.8)**	–	–
Additions to fixed assets	**(203.8)**	(256.6)	(263.0)
Government capital grants and investment tax credits	**8.5**	24.3	32.8
Sale of kraft pulp operation, less note receivable of $15.0 million	**–**	–	30.1
Other	**(8.3)**	8.9	10.9
	(320.8)	(223.4)	(198.6)
Dividends Paid			
Preferred shareholders	**(7.7)**	(8.0)	(8.7)
Common shareholders	**(69.3)**	(41.6)	(40.8)
Minority shareholder of a subsidiary company	**(12.2)**	–	(6.6)
	(89.2)	(49.6)	(56.1)
Cash – Increase (decrease)	**(147.3)**	173.0	(2.6)
– Beginning of year	**184.8**	11.8	14.4
– End of year	**$ 37.5**	$ 184.8	$ 11.8

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

December 31 (millions of Canadian dollars)	1988	1987
ASSETS		
Current assets		
Cash and short-term investments	$ 44.6	$ 196.5
Accounts receivable (note 9)	424.2	429.2
Inventories (note 10)	415.4	372.7
Prepaid expenses	26.3	15.6
	910.5	1,014.0
Fixed assets		
Property, plant and equipment	2,236.4	2,084.7
Logging equipment and development	99.4	90.9
Timber limits and water power rights	25.7	26.5
	2,361.5	2,202.1
Less—accumulated depreciation and depletion	932.9	844.0
	1,428.6	1,358.1
Other assets		
Interests in newsprint joint ventures (note 2)	96.1	55.9
Deferred pension cost	45.7	31.7
Goodwill	63.4	21.3
Long-term receivables, investments and other assets	86.3	51.3
	291.5	160.2
	$ 2,630.6	$ 2,532.3

The financial statements have been approved by the Board:

R.C. Gimlin

Director

Director

December 31 *(millions of Canadian dollars)*	1988	1987
LIABILITIES		
Current liabilities		
Bank loans	$ 7.1	$ 11.7
Accounts payable and accrued liabilities (note 11)	284.7	324.5
Income taxes payable	15.6	12.1
Dividends payable	18.6	18.6
Long-term debt due within one year (note 12)	30.5	24.8
	356.5	391.7
Long-term debt (note 12)	488.8	597.2
Unrealized gain (loss) on translation of long-term debt payable in U.S. funds (note 1 b)	2.6	(26.9)
Deferred income taxes	412.8	318.1
Minority interest	42.1	33.1
SHAREHOLDERS' EQUITY		
Stated capital (note 13)		
Preferred Shares –		
Series A – 126,760 shares (1987 – 130,360 shares)	6.3	6.5
Series C – 1,500,000 shares	75.0	75.0
Series F – 2,964,419 shares (1987 – 3,433,233 shares)	34.1	39.5
Common Shares – 69,265,550 shares (1987 – 69,246,611 shares)	262.2	261.9
Retained earnings	950.2	836.2
	1,327.8	1,219.1
	$ 2,630.6	$ 2,532.3

Year ended December 31 (millions of Canadian dollars)	Sales To Customers	Inter-Segment Sales	Segment Sales	Depreciation And Depletion	Operating Profit	Additions To Fixed Assets	Total Assets
1988							
Business Segments							
Newsprint	$1,257.6	$ 2.0	$1,259.6	$ 61.3	$250.1	$110.6	$1,172.2
Groundwood papers	343.1	0.3	343.4	24.5	44.0	42.9	509.1
Coated papers	150.6	35.8	186.4	5.3	13.4	20.2	122.1
Distribution, Office products and Converted products	1,282.8	0.7	1,283.5	8.2	51.9	20.4	497.5
Building products	198.3	–	198.3	9.0	11.4	5.4	164.6
Other	72.1	–	72.1	2.1	(0.7)	0.9	21.6
Eliminations		(38.8)	(38.8)				
	$3,304.5	$ –	$3,304.5	$110.4	$370.1	200.4	2,487.1
Corporate						3.4	143.5
						$203.8	$2,630.6
Geographic Segments							
Canada			$2,550.1		$347.1		$2,099.8
U.S.A.			754.4		23.0		387.3
			$3,304.5		$370.1		2,487.1
Corporate							143.5
							$2,630.6
1987							
Business Segments							
Newsprint	$1,174.4	$ 1.3	$1,175.7	$ 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	0.8	1,079.7	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		(39.9)	(39.9)				
	$2,988.0	$ –	$2,988.0	$ 97.4	$271.4	252.7	2,245.5
Corporate						3.9	286.8
						$256.6	$2,532.3
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							286.8
							$2,532.3
1986							
Business Segments							
Newsprint	$1,093.7	$ 1.1	$1,094.8	$ 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	0.8	933.9	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	1.7	165.6	6.5	(2.2)	3.8	29.4
Eliminations		(32.3)	(32.3)				
	$2,763.5	$ –	$2,763.5	$ 88.7	$245.7	261.9	2,062.7
Corporate						1.1	113.9
						$263.0	$2,176.6
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							113.9
							$2,176.6

NOTES:

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

(2) Canadian operations include sales to the U.S. market of $957.8 million (1987 – $890.0 million, 1986 – $847.7 million) and other export sales of $270.6 million (1987 – $243.1 million, 1986 – $217.2 million).

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 and in companies in which Abitibi-Price does not have more than a 50% interest but in which it can exercise significant influence are included in the financial statements in accordance with the equity method of accounting.

Goodwill, which represents the excess of the cost of acquired businesses over the values attributed to the underlying 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 into Canadian funds at year-end exchange rates and the resulting unrealized exchange 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 into Canadian funds at year-end exchange rates, non-monetary assets are translated at historical rates, and transactions included in earnings are translated at rates prevailing during the year, with the exception of depreciation which is translated at historical rates. Exchange gains or losses on translation are included in earnings, with the exception of gains or losses arising on the translation of long-term debt payable in U.S. funds. Such gains or losses which relate to debt that 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 earnings 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 assets 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 differences between the recognition of income and expenses for accounting and for tax purposes, are reflected as deferred income taxes on the balance sheet.

2. NEWSPRINT JOINT VENTURES

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

	1988	1987	1986
		($ millions)	
Revenue	**$ 118.3**	$ 112.1	$ 105.1
Expenses	**102.8**	106.0	102.4
Earnings	**$ 15.5**	$ 6.1	$ 2.7
Assets	**$ 179.1**	$ 199.3	$ 215.1
Liabilities	**112.8**	143.4	162.0
Net assets	**$ 66.3**	$ 55.9	$ 53.1

The Company's share of the joint venture's earnings is included in "Cost of sales".

Liabilities above include $101.4 million (1987—$133.1 million; 1986—$150.9 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.

Alabama River Newsprint Company During the year, the Company formed a joint venture partnership, Alabama River Newsprint Company, with Parsons & Whittemore, Incorporated of New York, as equal partners, to build and operate a newsprint mill at Claiborne, Alabama with an anuual capacity of 220,000 tonnes. Financing for tbe project, without recourse to the partners, has been arranged in the form of a U.S. $337 million syndicated floating rate revolving/term loan. The total investment in the project is estimated at U.S. $409 million, including construction expenditures of U.S. $342 million. Construction commenced in 1988 and is expected to be completed in the second half of 1990. Under a marketing agreement, the partnership's newsprint production will be sold through a wholly-owned subsidiary of Abitibi-Price Inc. Abitibi-Price's investment in the joint venture at December 31, 1988 was $29.8 million, of wbich $17.9 million was represented by a note payable.

Pulpa y Papel Orinoco, S.A. In October 1988, a Venezuelan corporation, Pulpa y Papel Orinoco, S.A., was formed to construct a newsprint mill in that country under a joint venture arrangement that includes Abitibi-Price and Bowater Incorporated of Darien, Connecticut, each with a 24.5% interest, the Venezuelan Government with 36%, and a group of Venezuelan newspaper publishers with 15%. The completion of engineering specifications and financing arrangements is expected to take several months, with construction of the 200,000 tonnes per annum mill expected to begin in late 1989.

3. ACQUISITIONS

In August 1988, Abitibi-Price acquired all of the outstanding shares of Datarex Systems Inc. of Orchard Park, New York, a distributor of information processing products, for a cash consideration of $51.1 million. The acquisition has been accounted for by the purchase method and has been included in the consolidated financial statements from September 1, 1988.

Also, during 1988, the Company purchased the assets of five businesses involved in the distribution of office and paper products for a total cost of $31.8 million, comprising cash of $16.9 million and notes payable of $14.9 million.

These acquisitions are summarized as follows:

	Datarex	Other Businesses ($ millions)	Total
Net assets acquired at fair value:			
Bank indebtedness	$ (1.2)	$ –	$ (1.2)
Other working capital	21.8	19.9	41.7
Fixed assets	3.7	1.7	5.4
Goodwill	35.4	10.2	45.6
Long-term debt	(9.1)	–	(9.1)
Deferred income taxes	0.5	–	0.5
Total cost	$ 51.1	$ 31.8	$ 82.9

Goodwill, which represents the excess of the cost of the Company's investment over the values attributed to the underlying net assets acquired, is being amortized on a straight-line basis over 20 years.

In October 1988, Abitibi-Price acquired a 19.9% equity interest in the ordinary shares of Spicers Paper Limited of Sydney, Australia, one of that country's leading paper distribution and converting businesses with operations in New Zealand, Singapore and the U.S. West Coast, in addition to Australia. The total cost of the investment, which is being accounted for by the equity method, was $35.8 million, and the amount by which this exceeded the $26.8 million book value of the acquired shares is being amortized on a straight-line basis over 20 years. The investment in Spicers is included in "Long-term receivables, investments and other assets" on the balance sheet.

4. OTHER INCOME AND EXPENSE

	1988	1987 ($ millions)	1986
Interest	**$ 17.3**	$ 11.2	$ 6.3
Foreign exchange loss	**(2.7)**	(2.3)	(4.5)
Other	**1.8**	2.4	2.2
	$ 16.4	$ 11.3	$ 4.0

5. INCOME TAXES

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

	1988	1987 ($ millions)	1986
Earnings before income taxes, minority interest and extraordinary items	**$ 335.1**	$ 240.8	$ 212.6
Income taxes	**137.9**	106.7	91.9
Effective income tax rate	**41.2%**	44.3%	43.2%
Made up of:			
Combined basic Canadian federal/provincial income tax rates	**43.9%**	48.1%	47.3%
Increase (decrease) resulting from –			
Manufacturing and processing allowances	**(3.3)**	(4.2)	(4.2)
Capital gains and other reduced rate transactions	**(0.1)**	(0.2)	(1.6)
Other	**0.7**	0.6	1.7
Effective income tax rate	**41.2%**	44.3%	43.2%

6. CONSOLIDATED EARNINGS INFORMATION

	1988	1987 ($ millions)	1986
Maintenance and repairs	**$ 152.5**	$ 147.3	$ 153.4
Taxes other than payroll and income taxes	**37.3**	36.8	32.7
Pension expense (credit) – Company and government plans	**12.5**	7.6	(1.0)
Operating lease rentals	**43.3**	39.5	38.9

7. EXTRAORDINARY ITEMS

	1988	1987 ($ millions)	1986
Gain on sale of land in South Carolina, U.S.A., after income taxes of $2.0 million	**$ 2.9**	$ –	$ –
Gain on sale of kraft pulp operation at Smooth Rock Falls, Ont., after income taxes of $2.3 million	**–**	–	0.8
Loss on closure of sawmill at Falardeau, Que., after income tax credit of $2.1 million	**–**	–	(3.6)
	$ 2.9	$ –	$ (2.8)

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8. CHANGE IN OPERATING WORKING CAPITAL

	1988	1987 ($ millions)	1986
Cash used for changes in operating working capital components:			
Decrease (increase) in current assets:			
Accounts receivable	**$ 5.0**	$ (30.7)	$ (44.2)
Inventories	**(42.7)**	(15.2)	(4.1)
Prepaid expenses	**(10.7)**	(1.3)	(5.1)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities, excluding dividend payable to a minority shareholder of a subsidiary company	**(27.6)**	23.7	(14.0)
Income taxes payable	**3.5**	7.1	(15.0)
	(72.5)	(16.4)	(82.4)
Operating working capital acquired with purchase of subsidiary companies and other businesses	**41.7**	–	14.0
Operating working capital included in sale of kraft pulp operation	**–**	–	(9.3)
Change in operating working capital	**$ (30.8)**	$ (16.4)	$ (77.7)

9. ACCOUNTS RECEIVABLE

At December 31, 1988, the allowance for doubtful accounts receivable was $12.9 million (1987–$10.6 million).

10. INVENTORIES

	1988	1987
	($ millions)	
Finished products and work in process	**$ 233.1**	$ 197.4
Pulpwood, sawlogs and expenditures on current logging operations	**105.5**	103.9
Materials and operating supplies	**76.8**	71.4
	$ 415.4	$ 372.7

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	1988	1987
	($ millions)	
Trade accounts payable	**$ 161.7**	$ 173.1
Accrued vacation pay	**42.7**	40.9
Accrued salaries, wages and benefits	**35.5**	32.3
Other	**44.8**	78.2
	$ 284.7	$ 324.5

12. LONG-TERM DEBT

	1988	1987
	($ millions)	
Abitibi-Price Inc.:		
Sinking Fund Debentures–		
9¾% Series D	**$ –**	$ 6.0
11½% Series F, maturing 1995	**8.3**	9.1
11⅞% Series G, maturing 1993 (U.S. $20 million)	**23.9**	31.2
10.65% Series H, maturing 2000 (U.S. $102.2 million)	**121.8**	144.1
15¾% Debentures Series I	**–**	65.0
Floating Rate Term Loan, maturing 1994 (U.S. $150 million) (a)	**178.9**	194.9
Abitibi-Price Refinance Inc.:		
Floating Rate Cumulative/Term Loan, maturing 1993 (U.S. $96.4 million) (b)	**115.0**	125.3
Gaspesia Pulp and Paper Company Ltd.:		
Floating Rate Revolving Loan, maturing 1992 (U.S. $25 million) (c)	**29.8**	32.5
Abitibi-Price Corporation		
7⅝% Instalment Notes	**–**	3.9
Other indebtedness	**41.6**	10.0
	519.3	622.0
Less: Amount due within one year	**30.5**	24.8
	$ 488.8	$ 597.2

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

(b) Interest is at rates approximating U.S. base rate 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.

(c) Gaspesia Pulp and Paper Company Ltd. may borrow from a bank on a revolving basis up to U.S. $25 million to December 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.

During 1988, the Company negotiated amendments to its Trust Indenture, eliminating the incremental debt issuance tests, the floating charge on the Company's assets and certain other covenants in order to update it to current practice. As part of the negotiations, the Company agreed to increase the coupon rates on the Series F, G and H Sinking Fund Debentures by ½ of 1%, with effect from December 19, 1988.

Sinking fund and other long-term debt repayment obligations for the years 1990 to 1993 are estimated to be $35.7 million, $17.3 million, $47.1 million and $131.9 million, respectively.

All outstanding sinking fund debentures are currently redeemable at the option of the Company.

At December 31, 1988 the Company had $228.8 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, 1988, interest of $6.1 million has been capitalized on major capital additions (1987—$9.0 million; 1986—$12.5 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.

Common Shares

	Number of common shares	$ millions
Outstanding at January 1, 1986	64,200,874	$ 122.2
Issued under public offering—1986	5,000,000	137.5
Issued under terms of the Key Executive and Management Personnel Stock Option Plan		
1986	10,240	0.1
1987	35,497	0.3
1988	18,939	0.3
Amalgamation adjnstment—1987	—	1.8
Outstanding at December 31, 1988	69,265,550	$ 262.2

At December 31, 1988, 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 have been exercised.

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 1988, 3,600 shares with a book value of $0.2 million were purchased at a cost of $0.2 million and cancelled (1987—4,840 shares with a book value of $0.3 million at a cost of $0.2 million; 1986—1,900 shares with a book value of $0.1 million at a cost of $0.1 million).

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 divideud rate of 9% per annum.

$0.94 Cumulative Redeemable Retractable Preferred Shares Series F—The Series F shares, which were issued 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 1988, 468,814 shares were retracted at $11.50 per share (1987—132,611 shares 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 $160.2 million. Minimum payments under these leases are as follows:

	($ millions)
1989	$ 35.4
1990	28.9
1991	21.1
1992	15.4
1993	11.9
Remaining years	47.5
	$160.2

15. PENSION PLANS

The Company's pension plans, covering most employees, are primarily contributory, defined benefit plans that provide pension benefits based on length of service and final average earnings. The Company has an obligation to ensure that there are sufficient funds in these plans to pay the benefits earned and, although the Company's contributions vary from year to year, they are made in accordance with the annual contribution requirements of regulatory authorities. Pension contributions are generally invested in balanced funds with outside managers and at December 31, 1988 approximately 44% of the assets were held in equity securities, with the remainder in fixed income securities.

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

	1988	1987
	($ millions)	
Market value of assets	$ 771.1	$ 734.7
Actuarial present value of accumulated plan benefits based on current service and compensation levels		
Vested	523.4	519.5
Non-vested	5.2	7.2
	528.6	526.7
Adjustment for projected service and compensation levels	127.8	136.0
	656.4	662.7
Excess of market value of assets over projected benefit obligations	$ 114.7	$ 72.0
Consisting of:		
Unrecognized gain (loss)	$ 7.5	$ (27.1)
Prior service cost not yet recognized in periodic pension expense	(58.4)	(63.9)
Balance of unrecognized net assets existing at January 1, 1986	119.9	131.3
Deferred pension cost recognized on the balance sheet	45.7	31.7
	$ 114.7	$ 72.0

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

	1988	1987	1986
		($ millions)	
Service cost—benefits earned during the year for both defined benefit and defined contribution plans	$ 16.4	$ 18.7	$ 17.0
Interest cost on projected benefit obligations	55.9	50.6	48.1
Actual return on plan assets	(73.9)	(63.9)	(62.5)
Net impact of plan settlements included in extraordinary items	–	–	(2.5)
Net total of other components	1.8	(9.0)	(11.5)
Net pension cost (credit)	$ 0.2	$ (3.6)	$(11.4)

Pension benefit obligations were based on an assumed discount rate of 9.0% (1987–8.5%) and an assumed compensation rate increase of 6.0% (1987–6.0%). The assumed long-term rate of return on pension plan assets was 9.0% (1987–8.5%).

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 exchange 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 and included in earnings in the same years as the income stream. If such gains or losses had been included in earnings as they occurred, as required under U.S. GAAP, the effect would have been:

	1988	1987	1986
		($ millions)	
Net earnings, as reported under Canadian GAAP	**$ 191.1**	$ 125.7	$ 107.3
Unrealized gain on translation of long-term debt payable in U.S. funds, net of income taxes	**21.2**	11.7	3.8
Net earnings, as adjusted to U.S. GAAP	**$ 212.3**	$ 137.4	$ 111.1
Per Common Share:			
Net earnings, as reported	**$ 2.64**	$ 1.70	$ 1.46
Adjustment	**.31**	.17	.05
Net earnings, as adjusted	**$ 2.95**	$ 1.87	$ 1.51

(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 ou 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 1989, has not been determined.

(b) 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 and at December 31, 1988, $109.1 million of these shares were outstanding (1987—$114.5 million).

17. COMPARATIVE FIGURES

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

MANAGEMENT'S REPORT

The consolidated financial statements and all other information in the Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and inclnde some amounts which are based on best estimates and jndgments. Financial information provided elsewhere in the Annnal Report is consistent with that shown in the financial statements.

The integrity of the financial statements is supported by an extensive and comprehensive system of internal acconnting controls and internal audits, the latter being coordinated with reviews and examinations performed by the shareholders' auditors in the conrse of satisfying themselves as to the reliability and objectivity of the financial statements.

The shareholders' and internal auditors have free and independent access to the Audit Committee which is comprised of six non-management members of the Board of Directors. The Audit Committee, which meets regularly through the year with members of financial management and the shareholders' and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

The accompanying consolidated financial statements have been examined by the shareholders' auditors, Price Waterhouse, whose report follows.

AUDITORS' REPORT

To the Shareholders of Abitibi-Price Inc.:

We have examined the consolidated balance sheets of Abitibi-Price Inc. as at December 31, 1988 and December 31, 1987 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, 1988. 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, 1988 and December 31, 1987 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, 1988 in accordance with generally accepted accounting principles applied on a consistent basis.

Price Waterhouse

Chartered Accountants
February 13, 1989
Toronto, Ontario

(unaudited) *(millions of dollars, except per share amounts)*	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1988					
Net sales	$800.0	$835.5	$813.4	$855.6	$3,304.5
Operating profit	89.4	103.8	87.6	89.3	370.1
Earnings before extraordinary items	44.1	54.4	44.5	45.2	188.2
Net earnings	44.1	54.4	44.5	48.1	191.1
Per common share:					
Earnings before extraordinary items	$ .61	$ .76	$ .61	$ .62	$ 2.60
Net earnings	.61	.76	.61	.66	2.64
Dividends declared	.25	.25	.25	.25	1.00
Dividends paid	.25	.25	.25	.25	1.00
Price range per common share					
Toronto Stock Exchange					
High	$28.00	$23.13	$22.88	$20.88	
Low	22.38	19.13	19.75	18.50	
*New York Stock Exchange *(U.S. dollars)*					
High	21.75	19.00	19.00	17.13	
Low	18.25	15.38	16.13	15.38	
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	

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

	1988	1987	1986	1985
Sales and earnings *($ millions)*				
Net sales	**$3,304.5**	$2,988.0	$2,763.5	$2,549.8
Cost of sales	**2,566.2**	2,385.1	2,226.0	2,075.3
Selling and administrative expenses	**257.8**	234.1	203.1	188.4
Depreciation and depletion	**110.4**	97.4	88.7	82.1
Operating profit	**370.1**	271.4	245.7	204.0
Interest expense – long-term	**50.5**	39.3	35.1	43.6
– short-term	**0.9**	2.6	2.0	3.0
Other income and expense	**16.4**	11.3	4.0	20.0
Income taxes	**137.9**	106.7	91.9	69.4
Minority interest	**9.0**	8.4	10.6	7.8
Earnings before extraordinary items	**188.2**	125.7	110.1	100.2
Extraordinary items	**2.9**	–	(2.8)	–
Net earnings	**191.1**	125.7	107.3	100.2
Dividends declared *($ millions)*				
Preferred shares	**$ 7.8**	$ 8.1	$ 8.7	$ 9.3
Common shares *(2)*	**69.3**	48.5	41.5	47.0
Capital expenditures *($ millions)*	**$ 203.8**	$ 256.6	$ 263.0	$ 202.4
Financial position *($ millions)*				
Working capital	**$ 554.0**	$ 622.3	$ 459.0	$ 373.0
Fixed assets, net	**1,428.6**	1,358.1	1,232.6	1,132.0
Long-term debt	**488.8**	597.2	428.9	455.7
Deferred income taxes	**412.8**	318.1	273.5	236.9
Minority interest	**42.1**	33.1	36.9	26.3
Preferred shares	**115.4**	121.0	122.8	124.1
Common shareholders' equity	**1,212.4**	1,098.1	1,028.6	837.4
Per common share *(1)*				
Earnings before extraordinary items	**$ 2.60**	$ 1.70	$ 1.50	$ 1.42
Net earnings	**2.64**	1.70	1.46	1.42
Dividends declared *(2)*	**1.00**	.70	.60	.73
Dividends paid *(2)*	**1.00**	.60	.60	.58
Common shareholders' equity	**17.50**	15.86	14.86	13.04
Return on average common shareholders' equity	**15.6%**	11.1%	10.9%	11.2%
Long-term debt/long-term debt plus shareholders' equity	**26.9%**	32.9%	27.1%	32.2%
Number of employees *(year end)*	**16,200**	16,000	16,200	15,500

NOTES

(1) Figures for the years 1978 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 1978 to 1988, but because of changes in dividend declaration dates, three dividends were declared in 1983 and five in 1985.

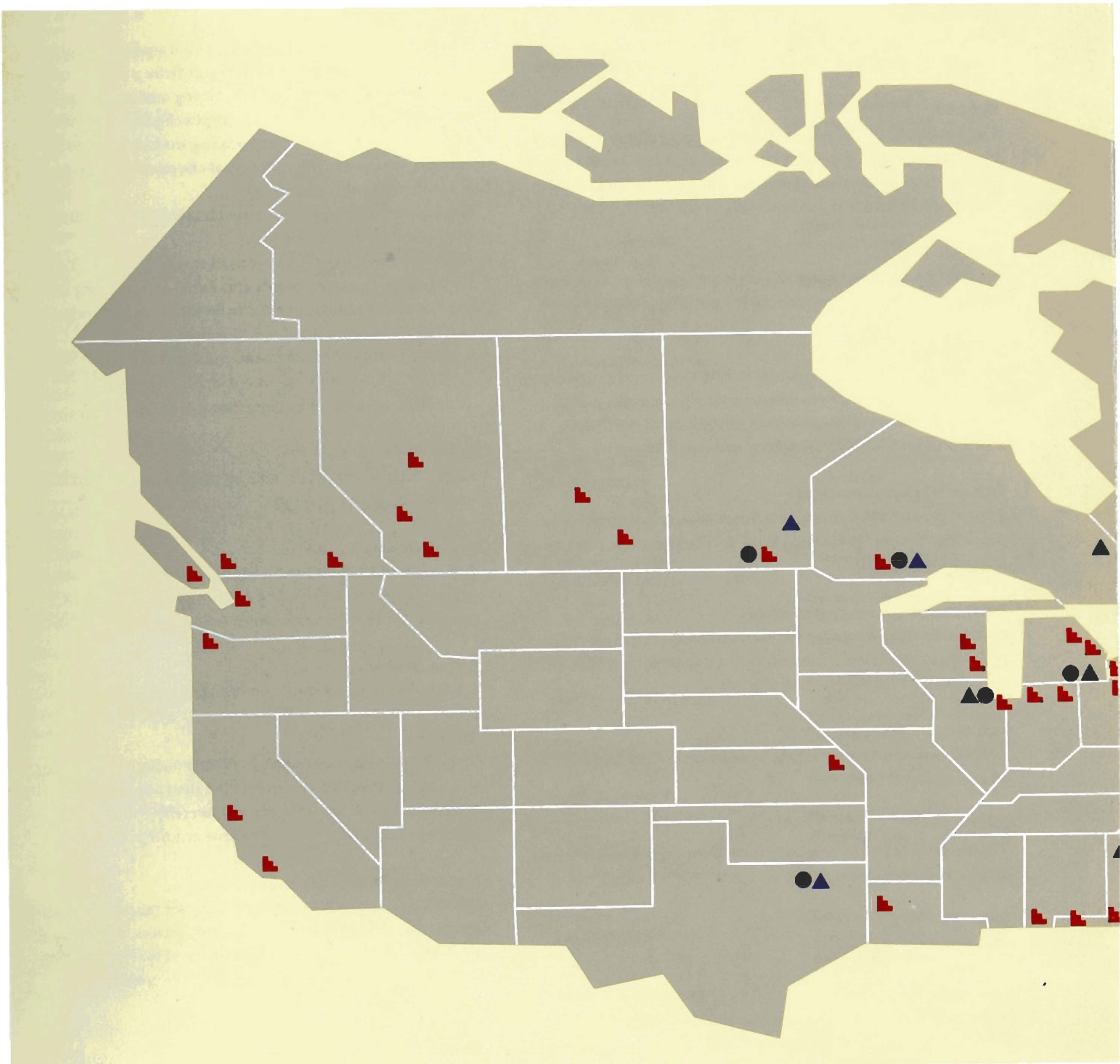
1984	1983	1982	1981	1980	1979	1978
$2,137.2	$1,660.2	$1,634.3	$1,763.4	$1,364.7	$1,470.9	$1,292.8
1,794.0	1,439.7	1,352.4	1,356.3	1,076.5	1,134.3	993.6
132.9	114.8	121.8	117.8	98.8	93.4	83.2
76.8	68.6	70.1	61.7	53.3	49.5	48.3
133.5	37.1	90.0	227.6	136.1	193.7	167.7
40.4	18.9	25.2	28.2	25.7	20.0	23.2
1.2	0.8	1.4	–	.3	.8	.6
19.0	25.0	29.0	19.0	40.9	32.1	16.8
30.2	0.7	22.4	87.2	51.9	80.5	63.7
8.4	3.7	6.1	7.8	4.8	5.7	18.3
72.3	38.0	63.9	123.4	94.3	118.8	78.7
(2.2)	–	(2.6)	12.3	18.0	33.6	23.0
70.1	38.0	61.3	135.7	112.3	152.4	101.7
$ 8.0	$ 7.4	$ 10.8	$ 10.0	$ 9.8	$ 9.1	$ 4.7
25.0	12.4	31.1	33.1	30.1	28.0	17.7
$ 126.3	$ 165.3	$ 187.9	$ 207.0	$ 231.0	$ 153.5	$ 59.2
$ 409.5	$ 384.2	$ 437.3	$ 461.4	$ 414.3	$ 339.1	$ 300.7
1,010.3	993.6	917.9	837.1	730.0	594.1	519.4
419.9	395.1	385.8	388.9	360.7	237.7	241.2
209.3	191.8	187.6	174.7	127.9	105.4	106.6
25.1	19.5	19.5	16.6	18.1	24.5	23.3
104.2	113.8	122.7	130.8	139.9	143.0	117.7
792.5	739.4	721.1	701.5	560.4	487.0	371.7
$ 1.02	$ .48	$ .87	$ 1.85	$ 1.50	$ 1.96	$ 1.33
.99	.48	.82	2.05	1.82	2.56	1.74
.40	.20	.50	.53	.53	.50	.32
.40	.30	.50	.53	.53	.50	.23
12.40	11.89	11.60	11.29	9.93	8.68	6.64
8.4%	4.2%	7.5%	18.0%	16.1%	25.5%	21.5%
31.9%	31.7%	31.4%	31.8%	34.0%	27.4%	33.0%
14,800	15,100	14,600	17,800	17,300	18,300	19,900

PRIMARY PRODUCTION

(figure in thousands)	**Newsprint*** *(tonnes)*	**Groundwood Papers** *(tonnes)*	**Kraft Products** *(tonnes)*	**Lumber** *(mfbm)*	**Coated Papers** *(tonnes)*	**Hardboard** *(msf-equivalent)*
Production						
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
1988	**1,900**	**407**	**–**	**52**	**144**	**1,032**
Capacity–1989	**1,889**	**447**	**–**	**105**	**155**	**1,267**

**Newsprint figures include the total production of the 50%-owned joint venture at Augusta, Georgia.*

GROUP	DIVISION	LOCATIONS
Newsprint		Mills: Grand Falls and Stephenville, Nfld.; Alma and Chandler, Que.; Iroquois Falls and Thunder Bay (2), Ont.; Pine Falls, Man.; Augusta, GA Offices: ***Abitibi-Price Inc.*** Toronto, Ont.; Montreal, Que. ***Abitibi-Price Sales Corporation*** Atlanta, GA; Des Plaines, IL; Detroit, MI; New York, NY; Dallas, TX ***Abitibi-Price Sales Company Limited*** London, England
Printing Papers	Groundwood Papers	Mills: Alma, Beaupré and Jonquière, Que. Offices: Same as for Newsprint
	Coated Papers	Mills: ***Provincial Papers*** Thunder Bay and Georgetown, Ont. Offices: ***Provincial Papers*** Montreal, Que.; Thunder Bay and Toronto, Ont.; Winnipeg, Man.
Diversified		Offices: ***Abitibi-Price Inc.*** Toronto, Ont.
	Distribution	***Barber-Ellis Fine Papers*** Hamilton, Kitchener, London, Toronto and Windsor, Ont.; Winnipeg, Man.; Regina and Saskatoon, Sask.; Calgary and Edmonton, Alta.; Vancouver, B.C. ***G & G Paper*** Portland, OR ***Kaplan Paper*** Portland, OR; Seattle, WA ***Paper Shoppes*** Downsview, Hamilton, London, Markham, Mississauga, Scarborough(2) and Toronto, Ont.; Calgary, Alta.; New Westminster and Vancouver, B.C.; ***(Le marché de l'imprimeur)*** Chomedey-Laval and Montreal (3), Que. ***Inter City Papers*** St. John's, Nfld.; Dartmouth, N.S.; Saint John, N.B.; Montreal, Que.; London, Ottawa and Toronto, Ont.; Winnipeg, Man.; Vancouver, B.C. ***Lauzier Little*** Montreal, Que. ***Papiers Inter-Cité*** Montreal and Québec, Que. ***Whyte Hooke Papers*** Toronto, Ont. ***Whitaker Carpenter Marquette*** Chicago, IL; Detroit, MI; Appleton and Milwaukee, WI ***Price Doxion*** St. John's, Nfld.; Halifax, N.S.; Moncton, N.B.; Montreal (2), Québec and Sherbrooke, Que.; London, Ottawa, Thunder Bay and Toronto, Ont.; Winnipeg, Man.; Regina and Saskatoon, Sask.; Calgary, Edmonton and Lethbridge, Alta.; Vancouver, Vernon and Victoria, B.C.
	Office Products	***Jaffe Stationers*** Mobile, AL; Coral Gables, Fort Lauderdale, Miami, North Miami, Pensacola, Plantation, Sarasota, Sunrise and Talahassee, FL ***Azerty*** Commerce and Fremont, CA; Brookfield, CT; South Bend, IN; Shreveport, LA; Buffalo, NY; Richmond, VA; Montreal, Que.; Toronto, Ont. ***Compu-Redi*** Montreal and Québec, Que.; Ottawa and Toronto, Ont.
	Converted Products	***Innova Envelope*** Dartmouth, N.S.; Montreal, Que.; Brantford, Markham and Rexdale, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C.; ***Benchmark*** Geneva, NY ***Hilroy*** Joliette and Montreal, Que.; Toronto, Ont. ***Price Wilson*** Lachute and Montreal, Que.
	Building Products	***Abitibi-Price Corporation*** Troy, MI; Farmingdale, NY
	Hardboard Siding	Roaring River, NC
	Hardboard Paneling	Alpena, MI; Toledo, OH
	Plastic Mouldings	Middlebury, IN
	Millwork Products	Hiawatha, KS; Lumberton, NC
Other Products	Lumber	***Abitibi-Price Lumber Sales*** Toronto, Ont. (Mill: L'Ascension, Que.)
	Pulp Sales	***Abitibi-Price Inc.*** Montreal, Que.



LEGEND

Newsprint Group

Printing Papers Group

Diversified Group

Other Products

PRODUCTS

One of the world's largest producers of newsprint used for daily newspapers, commercial printing, and inserts for the United States and Canadian markets and 28 other countries.

A leading producer of uncoated groundwood papers – principally directory and supercalendered grades for use in magazines, inserts, flyers, telephone and other directories, catalogues and paperback books. Most of the production is sold to commercial printers in Canada and the United States.
Canada's largest producer of premium coated papers sold to publication printers, commercial printers, paper merchants and converters.

Canada's largest fine paper merchant operations distribute a wide selection of domestic and imported printing papers, business papers, graphic art supplies and office stationery products to a wide variety of markets, including commercial printers, quick-copy businesses and offices.

One of the largest fine paper merchants serving the United States Midwest.

Canada's largest industrial products merchant distributing many products including paper bags, folding cartons, plastic packaging products and other disposable items to users such as restaurants, fast-food chains, airlines, manufacturers and hospitals.

Sells office products, office furniture and equipment to small businesses and retailers in selected markets.

The largest distributor of information processing products in North America, supplying the business market with information processing products such as diskettes, printer accessories, file and storage accessories, computer care products and peripherals.

The largest manufacturer and distributor of envelopes in Canada, directly and indirectly supplying all types of envelopes, including computer diskette pouches, courier envelopes, photo bags, and envelopes for automated teller machines.

A leading manufacturer and distributor of a variety of paper products for school, home and office.

Manufactures and distributes industrial towels, plain and printed paper bags, folding cartons and impact-cushioned bags for the foodservice industry and retailers primarily through industrial paper merchants.

Marketing east of the Rockies, is the second largest producer of hardboard siding in the U.S.

The largest U.S. producer of decorative paneling and second largest U.S. producer of prefinished paneling.

The number one supplier of prefinished extruded plastic mouldings to retailers in the U.S.

One of two national suppliers in the U.S. of interior wood bi-fold doors, shutters, shelving and allied millwork to the home centre industry.

Random length softwood lumber is sold as part of a marketing agreement for selected lumber producers.

A limited amount of pulp produced at our former mill in Smooth Rock Falls, Ont. is sold to paper, packaging and tissue producers.

Coated papers
Grades of paper to which a coating has been applied, whether on the paper machine or as a subsequent process.

Dry end
The final part of the paper machine where water is removed by evaporation as the sheet passes around the steam-heated dryers. The paper then passes through steel rolls to be smoothed before it is cut into rolls or sheets.

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
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, print wheels, file and storage accessories, computer care products and some peripherals.

Limits
Leased or owned forest lands, usually described in terms of 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 logs on a stone or metal disk.
Other variations – combinations of wood chip refining on metal disks, 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 (metric)
1.1023 short tons (1 short 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 forming fabric(s).

WSOP
A trademark for web sized offset paper which is high-quality clay-filled supercalendered printing paper known for its reduced show-through, improved ink holdout and smoothness.

DIRECTORS AND OFFICERS

DIRECTORS

Marcel Bélanger, O.C.
(Age 68) (2)
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Québec, Quebec

Robert J. Butler
(Age 66) (3,5)
Business Consultant and Chairman
Urban Transportation Development Corporation Ltd.
Toronto, Ontario

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C. Edward Medland
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Olympia & York Developments Limited
Toronto, Ontario

Paul Reichmann
(Age 58) (1)
Senior Executive Vice-President and Secretary
Olympia & York Developments Limited
Toronto, Ontario

Ralph Reichmann
(Age 55)
Executive Vice-President and Treasurer
Olympia & York Developments Limited
Toronto, Ontario

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(Age 65) (4)
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(Age 62) (2)
Partner
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Toronto, Ontario

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David A. Ward, Q.C.
(Age 57)
Partner
Davies, Ward & Beck
Toronto, Ontario

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

OFFICERS

Chairman, President and Chief Executive Officer

Bernd K. Koken

Executive Vice-Presidents

John G. Davis
Printing Papers Group

K. Linn Macdonald
Newsprint Group

Ronald Y. Oberlander
Diversified Group

Senior Vice-Presidents

J. Gordon Maw
Finance

J. Kenneth Stevens
Administration

Vice-Presidents

J. Fitzgerald Allison
Industrial Relations

T. Maitland Devine
Operations (Ontario/Manitoba)

Fernand H. Duquette
Engineering

William W. Hall

Eileen A. Mercier
Corporate Development

M. Thomas Neill
Research and Development

Sharon A. Paul
Corporate and Public Affairs

Michael D. Thompson
General Counsel and Secretary

Allan Vatcher
Operations (Atlantic Region)

H. Colin Warner
Controller

Treasurer

James A. Hone

OTHER OFFICERS

Bernard Conway
Assistant Treasurer

Peter A. Cooper
Assistant Treasurer

David A. Cuthbertson
Assistant Secretary

Jean E. Gebbie
Assistant Secretary

Donald J. McMullan
Assistant Treasurer

PRINCIPAL SALES DIVISIONS AND SUBSIDIARIES

Abitibi-Price Sales Corporation

(Newsprint and Groundwood Paper Sales)

George R. Arellano
President
Commercial Division

David L. Loretto
President
International Division

C. Donald Martin
President
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
Office Products Division

John V. Olsen
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 17, 1989 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 1988 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
Price Waterhouse
Toronto, Canada

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

Design
Tudhope Associates Inc.

Photography
Studio: Ron Baxter Smith
Location: Peter Christopher

Printing
Arthurs-Jones Lithographing Ltd.

Paper manufactured by Provincial Papers
Cover: Kromekote* CIS 12 pt.
Text: Jenson Gloss 200M

*Kromekote is a registered trademark of Champion International Corporation

ABITIBI-PRICE

Printed in Canada