# *Up into the* PROFIT ZONE

1994 Annual Report

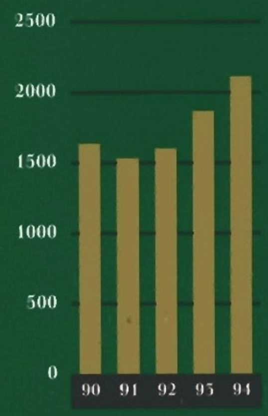
Abitibi-Price Inc. —
We are a Canadian-based forest products company, which manufactures newsprint and value-added papers at ten mills in North America and markets these products around the world. We are also a distributor of office products in North America and Europe.

## Financial Highlights

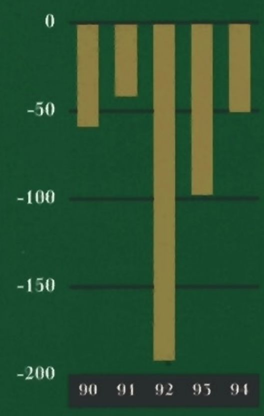
| (millions of dollars) | 1994 | 1993 |
|---|---|---|
| Net sales | $ 2,111 | $ 1,869 |
| Operating profit (loss) from continuing operations | 26 | (40) |
| Loss for the year | (55) | (111) |
| Capital expenditures | 72 | 39 |
| Working capital | 224 | 146 |
| Common shareholders' equity | 838 | 724 |
| Per common share | | |
| Net loss | (0.66) | (1.56) |
| Dividends declared | – | 0.125 |
| Dividends paid | – | 0.25 |
| Common shareholders' equity | 9.93 | 10.08 |

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

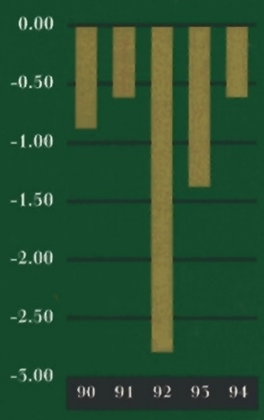
Net Sales
*(millions of dollars)*




Loss From Continuing Operations
*(millions of dollars)*




Loss From Continuing Operations Per Common Share
*(dollars)*



# IT'S OVER.
# *Our losses are behind us.*

THE BUSINESS CYCLE IN OUR INDUSTRY HAS FINALLY TURNED UPWARD. In fact, since December of 1994, the turnaround has been remarkable. After the long and deep downturn—when prices fell much further than anyone had ever anticipated—demand and pricing have rebounded more quickly than expected. As I write this, our markets are buoyant—and because of the improvements we have made to costs and efficiency, we will see an immediate, positive and sizable impact in 1995, when the real benefits of pricing improvements kick in.

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Having achieved steady improvements in operating results throughout 1994, culminating with a net profit for the fourth quarter, we have every reason to look forward to the upside of the cycle.

## Financial progress in 1994

Our return to profitability in the fourth quarter was significant because pricing improvements for the full year were not nearly as great as expected. Prices in U.S. dollars actually dropped in the early part of 1994 and didn't catch up to depressed 1993 levels until the third quarter, moving ahead only at the end of the year. In fact, the average transaction price for newsprint in 1994 was up by only 2% over the 1993 average—and was a full 25% below that of 1988, before the downturn.

Although prices are still below 1988 levels, we ended the year up 34% from the trough in prices early last year. And with further announced increases, we will be 65% ahead of the trough in the year ahead—but still lagging 1988 in real terms, when taking inflation into consideration.

## Becoming the finest—with internal improvements

A major contributor to getting back to profitability was the reduction in our cost base over the last five years. And as promised in last year's annual report, we focused on our priorities and maintained momentum in internal improvements. This led to solid results from better performance achieved in productivity, efficiency, and costs:

- **manufacturing cost savings**, excluding higher raw material costs, improved by $18 million in 1994—and we are more than $100 million ahead of 1990 on an annualized basis.
- **productivity**—as measured by tonnes per employee—improved by 10% in 1994 to 380 tonnes—and is up 60% from 1991.
- **efficiency**—gains of 3% in 1993 and a further 2% in 1994 have brought us to within a hairsbreadth of the lead among Canadian multi-mill newsprint manufacturers. Our efficiency gains have had the impact of adding over 100,000 tonnes to our capacity—with little or no capital cost.
- **value-added grades**—during the year, we've added to our lines of specialty papers at Iroquois Falls, and at Beaupré focused on marketing our higher-margin grades—making more profitable and effective use of smaller machines in niche markets where they are highly competitive.

So we have entered the new business cycle on a much stronger basis—as prices are trending up, and even though some of our raw material costs may increase, our internal, controllable costs per tonne are low and will become lower through strategic capital investment.

**OUR FOCUS IS INTENSIFYING, BECAUSE WE AIM TO ENSURE WE HAVE THE RIGHT ASSET MIX AS OUR CORNERSTONE TO FUTURE GROWTH.**

## Building a cornerstone for growth

In setting our sights on being the finest, we have been working to improve our asset base. In 1991, we sold our interest in Spicers Paper of Australia, Innova Envelope and the U.S. business of Barber-Ellis Fine Papers. In 1992, we sold our large paper and industrial products distribution business, and our U.S. Building Products division—and shut down the previously idled Thunder Bay newsprint mill. In 1993, we sold the Provincial Papers coated paper mill to its management team. And in 1994, we traded four assets:

- we sold the remaining two entities in our converted products division—Hilroy and Price Wilson;

*"We have every reason to be confident as we move forward."*

*Ron Oberlander*, PRESIDENT AND CEO

- we sold the Pine Falls, Manitoba newsprint mill to its employees;
- and we made an acquisition by assuming 49% interest in the Gaspesia Pulp and Paper Company mill at Chandler, Quebec from our former partner. This was a unique opportunity, which added 130,000 tonnes of newsprint capacity—just as prices began to rebound.

Our focus is intensifying, because we aim to ensure we have the right asset mix as our cornerstone to future growth. And we've been looking at each and every mill with an eye to determining whether each one meets our long-term criteria.

In determining our "cornerstone" assets, we have established three basic, but very stringent, criteria:

- the mill must be a low-cost producer—that is, in the lowest quartile of costs of our worldwide industry;
- over any ten-year period, operations must be able to generate positive cash flow—more than enough to cover capital expenditures and the cost of capital required to maintain operations and to get them to the lowest cost quartile;
- the mill must have markets that fit in with our long-term strategy—either in terms of geographic markets, or niche markets for value-added products.

Half of our mills are already identified as cornerstone— and we are proceeding with capital spending programs to enhance these mills and lower their cost base further. We have also been pinpointing what needs to be done at the remaining mills, but not all will ultimately be part of our asset mix if they don't fit our long-term strategy.

But all our mills are more competitive than they were five years ago, all are more productive, all are now contributing positively to cash flow, and all now stand alone as viable businesses. We are well on our way to having a cornerstone for growth that is the finest in our industry.

## Looking ahead—with confidence

Confidence of investors in Abitibi-Price was clear from the response to our equity issue in April—and to stock price improvements through the year. We recognize that this vote of confidence was based as much on the turnaround in the business cycle and the prospects for our industry as on the specific prospects for Abitibi-Price. We aim to repay your confidence by creating value for you, our shareholders, and by spending your money wisely.

We have every reason to be confident as we move forward—and not just because our markets are so buoyant right now.

We have confidence in our employees. The transformation of this company through the brutal downturn is largely due to their tremendous efforts, but also to their growing commitment to apply the company values in every decision and project they initiate.

And I believe you should share my confidence in your management team. These are the people who steered this company through the recent downturn, so well that we are entering 1995 financially stronger, more efficient, more cost competitive and with more opportunities to create shareholder value.

We are confident in our Board of Directors, which has provided wise counsel and support through very difficult times. While Lise Lachapelle resigned from the Board to take up her important new position as President of the Canadian Pulp and Paper Association, we welcomed three highly-qualified new Directors: André Caillé, President and Chief Executive Officer of Gaz Métropolitain, and a former Deputy Minister of the Environment in the Province of Quebec; Richard Drouin, Chairman and Chief Executive Officer of Hydro-Québec; and Claudette Mackay-Lassonde, President of Firelight Investments Ltd., and a former Assistant Deputy Minister in the Ontario public service.

We have confidence in our financial strength. Our balance sheet has emerged from the recession in good shape, and our debt/equity ratio improved further during 1994 with our successful equity issue and the cash generated from operations. We were also successful in assisting our U.S. joint ventures in the refinancing of their debt. So we are entering the upside of the cycle on very solid ground.

Finally, we are confident that we have the right vision—and we remain focused on that goal. While generating substantial profits in 1995, we won't sit back and rest on our laurels. We are committed to continue our strong emphasis on cost reductions. This is a crucial part of our goal to close the gap to our becoming the finest.

Having managed—and improved the company dramatically—through five years of losses, we are more than ready to rise to the challenge of managing at a profit.

RONALD Y. OBERLANDER
*President and Chief Executive Officer*
February 28, 1995

# Our Mill Business Units

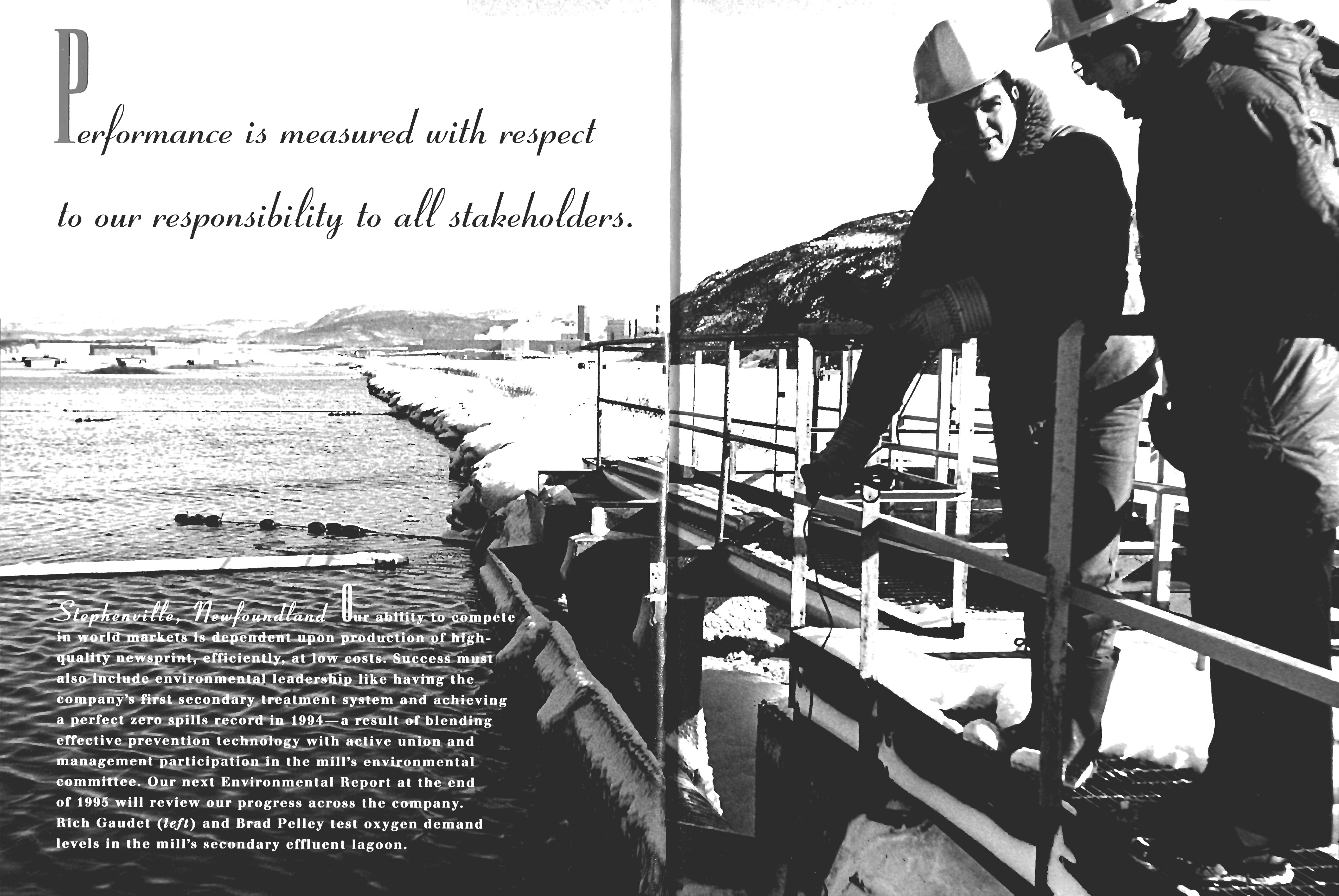
| Mill Business Units | 1995 Capacity *(000s tonnes)* | Number of Machines | 1994 Cost Improvement (Increase) *($/tonne)* | 1994 Efficiency Improvement *(%)* | ISO Quality Certification | General Notes |
|---|---|---|---|---|---|---|
| Alabama River Newsprint Company<br>*Claiborne, Alabama* | 239 | 1 | 7* | (1.5) | 9002 | Joint venture with Parsons & Whittemore, Incorporated (50%); recycled content over 20% |
| Alma<br>– newsprint<br>– value-added papers<br>*Alma, Quebec* | <br>141<br>115 | <br>1<br>2 | <br>(10)<br>(27) | <br>(1.0)<br>2.4 | <br>9003 | Standard newsprint; directory and catalogue papers with recycled content |
| Augusta Newsprint Company<br>*Augusta, Georgia* | 402 | 2 | – | 1.9 | | Joint venture with The Thomson Corporation (50%); recycling at 40% |
| Beaupré<br>*Beaupré, Quebec* | 166 | 2 | 31 | 7.9 | 9003 | Forms, cold and heatset offsets for publishers, retailers and printers |
| Fort William<br>*Thunder Bay, Ontario* | 150 | 1 | 28 | 0.7 | 9003 | Standard newsprint with recycled content |
| Gaspesia Pulp and Paper Company<br>*Chandler, Quebec* | 262 | 2 | 14 | 1.9 | 9003 | Standard newsprint for domestic and offshore customers |
| International<br>*Grand Falls &*<br>*Stephenville,*<br>*Newfoundland* | <br>215<br>187 | <br>2<br>1 | <br>9<br>7 | <br>2.2<br>1.7 | <br>**<br>9003 | Standard, specialty and coloured newsprint for offshore markets |
| Iroquois Falls<br>– newsprint<br>– specialty papers<br>*Iroquois Falls, Ontario* | <br>204<br>113 | <br>1<br>2 | <br>20<br>(10) | <br>1.0<br>(1.0) | <br>** | Standard newsprint and specialty papers including non-printing grades |
| Kénogami<br>*Jonquière, Quebec* | 230 | 4 | 38 | 4.0 | 9003 | Supercalendered and soft-nip papers for offset and rotogravure printing |

* The cost improvement at this mill is expressed in United States dollars.
** These mills are currently working on ISO 9003 quality certification.


*Groundwood paper with 40% recycled content—teamwork and training contribute to a quick response to customers, and to lower costs.*

*Alma, Quebec:* **Moving with velocity has its benefits. We responded early to the specified needs of our directory paper customers, by building an on-site recycling pulping facility in less than nine months. The quick response, lower-than-expected capital cost and high quality are the work of very dedicated employees within a world-class organization—that combines flexibility, training and a skills-based compensation package to make an effective work team, including operator Roger Gobeil (*left*) and coordinator Robert Voisine.**

# Performance is measured with respect to our responsibility to all stakeholders.



*Stephenville, Newfoundland* Our ability to compete in world markets is dependent upon production of high-quality newsprint, efficiently, at low costs. Success must also include environmental leadership like having the company's first secondary treatment system and achieving a perfect zero spills record in 1994—a result of blending effective prevention technology with active union and management participation in the mill's environmental committee. Our next Environmental Report at the end of 1995 will review our progress across the company. Rich Gaudet (*left*) and Brad Pelley test oxygen demand levels in the mill's secondary effluent lagoon.


*Iroquois Falls, Ontario* We're working to develop the most profitable product mix at all our mills. At Iroquois Falls, we complement our world-class #8 newsprint machine with the use of the mill's two smaller machines that have very competitive capabilities for these difficult-to-make technical grades. Creating opportunities in niche markets with …derable growth potential results from both new applications … inspiration of people like (*from left to right*) … Denault and Dick Dietrich.

## *Introducing higher-value technical specialty papers into our product mix is boosting profitability*

# *Managing* THE UPSIDE OF THE CYCLE

AT THE END OF 1994, WE ENTERED THE PROFIT ZONE—THE UPSIDE OF THE CYCLE. However, if the last down cycle was different than anyone had seen before, why should we expect the upside of the cycle to repeat the past?

There are many indications that this cycle will be different:

Many of the companies in this industry have new top management teams who have only managed businesses during tough times. This may influence their strategies and investment philosophies. Tighter environmental regulations and the availability and cost of fibre are making investment decisions somewhat more complicated. And the increased use of electronic media is threatening traditional uses for newsprint. And, history suggests that we should continue to expect pricing volatility, but only the law of supply and demand will determine that.

Spending money wisely remains our most difficult challenge. When times were tough, it was easy to do; we didn't have much money to spend. But that's changing, and we are determined to proceed in a disciplined fashion. Our challenge is to manage the upside of the cycle so that we can weather the next downturn, profitably—whenever it occurs—and build long-term value for shareholders.

To this end, we have established a number of priorities—to become the finest—and move ahead with growth opportunities.

## Spending wisely

To maximize profitability while becoming a low-cost producer we will focus on capital project management. We have identified significant investment opportunities to upgrade our key mills, but we intend to continue the disciplined approach to spending that has become part of our culture.

While prices are rising, so too are input costs. We believe we can further contain manufacturing costs by more effective management of our fibre resources, one of our primary cost components, and by developing more bulk purchasing power within our decentralized organization.

Through our consistency program we intend to generate additional savings of $25 million by the end of 1996, for a total of $40 million of annual cost reductions by making further improvements to productivity and efficiency—improvements which require no investment capital. In addition, we expect to achieve savings from systems reorganizations in sales, supply and maintenance management that are in excess of $20 million.

## Development of long-term markets

Long-term markets are essential to the success of our cornerstone initiative. We aim to continue to be a major supplier to the mature markets of North America and Europe, but to increase our presence in some of the more attractive offshore markets.

To promote and preserve long-term relationships we will commit significant resources to product research and development. We are determined to identify and nurture new market niches with higher value products, such as specialty papers.

As each of our operations has an objective to be their customers' number one supplier, we will also continue to focus on the identification and fulfilment of customer needs and improved communication through the selling effectiveness initiative.

By 1996, we project having a substantial cash pool—thanks to increased profitability and asset sales. Our plan is to resume paying dividends, as soon as conditions allow us to do so. And our plan is to create value by investing that cash in strategic opportunities to build on the cornerstone of our finest assets.

OUR CHALLENGE IS TO MANAGE THE UPSIDE OF THE CYCLE SO THAT WE CAN WEATHER THE NEXT DOWNTURN, PROFITABLY—WHENEVER IT OCCURS—AND BUILD LONG-TERM VALUE FOR SHAREHOLDERS.

## Growth initiatives

But we are not looking to build capacity—something that has always been a herd reaction in our industry in other expansion periods, and which we believe invariably leads to the type of supply-demand imbalance that proved so devastating over the past five years. While we may acquire capacity or incrementally expand existing facilities if attractive opportunities arise, building new capacity is not in our game plan. The economics do not point to adequate returns over the life of these high-level investments.

We are determined to have a significant cash reserve when we enter the next downturn—a cushion which will allow us to operate effectively and to capitalize on opportunities which may be too costly during the upside of the cycle. And we want to manage growth through wise spending—investing along the lines of the criteria we have established for our cornerstone: long-term value, positive cash and solid return on investment through a business cycle.

As we consider our future, we want to better understand how Abitibi-Price fits within your investment criteria, and how we can best create value for you. We intend to explore all strategic alternatives to enhance shareholder value.

To date, we have established management teams to seek out and review opportunities in the following areas:

- North American growth opportunities in our core business—where we see a strategic fit with our cornerstone asset base;
- International growth opportunities—again in our core business—with a view to building on our position as a successful global marketer, and to establishing a position in growth markets.
- New businesses—our primary focus has been on our core business—but our future growth need not be limited to that. Given the changes occurring in our industry on a global basis, we intend to develop the competency to assess unique opportunities in complementary businesses which will build long-term value.

We aim to manage the upside of the cycle to ensure we build value through the downside. We're soaring into the profit zone now—and we plan to stay there.

**AS WE CONSIDER OUR FUTURE, WE INTEND TO EXPLORE ALL STRATEGIC ALTERNATIVES TO ENHANCE SHAREHOLDER VALUE.**

# Management's Discussion and Analysis of Financial Condition and Results of Operations

*for the year ended December 31, 1994*

## Overview

### First Quarterly Net Profit in 5 Years

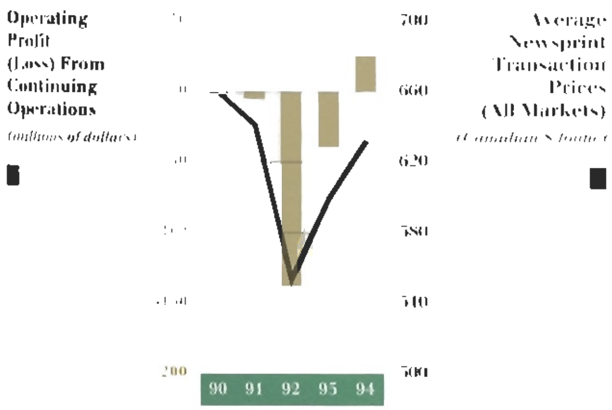
Favourable exchange rates, rising prices, higher volumes, a lower debt-equity ratio and reduced costs combined to produce a fourth quarter profit from continuing operations of $10 million or 12¢ per common share and a net profit attributable to common shareholders of $6 million (1993 – $40 million loss) or 8¢ profit per common share (1993 – 53¢ loss per common share). This $46 million turnaround marks our first quarterly net profit since the third quarter of 1989.

### Reduced Loss to Common Shareholders by $56 million

In 1994, the net loss attributable to common shareholders was $56 million or 66¢ per common share—a $56 million improvement from 1993's loss of $112 million or $1.36 per common share. The turnaround from 1993 resulted from significantly improved volume, higher newsprint prices and exchange rates coupled with reduced costs. The result was higher operating profits from continuing operations.

### Tax Agreement Results in $17 Million More Tax Recoveries

In December 1994, taxation authorities in Canada and the United States agreed to change their allocation of the Company's taxable income. This increased our income tax recoveries and reduced our net loss for the nine months ended September 30, 1994 by $6 million and in 1993 by $11 million. We have restated our 1993 and 1994 financial statements for this change.




### Improved Manufacturing Efficiency

In 1994, we continued with the cost reduction and restructuring programs started in 1990. Both contributed significantly to the lower operating costs required to keep Abitibi-Price cost competitive. Cost reduction and increased manufacturing efficiency have allowed us to maintain stable production costs, despite significantly higher prices for kraft pulp and old newspapers in 1994 compared with 1993. These cost reductions, together with our focus on the core paper-making business, have solidly positioned Abitibi-Price to profit from recent price increases and higher paper demand worldwide.

### Restructured to Lower Costs

Restructuring programs aimed at enhancing our global competitiveness resulted in unusual charges to income at our mills in Grand Falls, Newfoundland of $5 million and at Jonquière, Quebec of $5 million. These costs were primarily for employee severances. The benefits of these programs were not realized in 1994, but have positioned the Company to improve operating profits in 1995 and beyond.

### Refinanced our Newsprint Joint Ventures

In the fourth quarter of 1994, we successfully refinanced our two newsprint joint ventures in the United States. This has placed these mills on a solid economic footing so they can benefit from the recent upswing in the newsprint economic cycle.

### Sold Non-Core Assets

In 1994, we made further progress on our program to sell assets that do not fit our goal of providing superior long-term returns to our shareholders. In September, we sold our Pine Falls, Manitoba mill, for $13 million in cash and $25 million in debentures. Our two remaining converted products divisions were also sold in 1994 -- Price Wilson for $4 million in cash and $15 million in debentures in June, and Hilroy for $16 million cash in November. These sales helped sharpen the focus on our core paper business.

### Acquired Gaspesia Pulp & Paper Company

In late December, Abitibi-Price increased its ownership in the Gaspesia Pulp & Paper Company (Gaspesia) from 51% to 100%. The company incurred associated transaction costs of $2 million. This 262,000 tonne newsprint mill located in Chandler, Quebec, is well located to serve international markets. The mill will continue to implement programs that give it the potential to become a lower-cost producer.

Prior to the acquisition, Abitibi-Price accounted for its then 51% ownership interest in Gaspesia using the equity method. At December 31, 1994, Gaspesia was a wholly-owned subsidiary and accordingly the Company's financial statements include 100% of the mill's assets and liabilities. This change had no impact on 1994's reported net earnings, because net income is the same under either consolidation or equity accounting. The balance sheet impact of fully consolidating Gaspesia is shown here:

### Gaspesia Consolidation

| *(millions of dollars)* | Before Gaspesia Consolidation | Impact of Gaspesia Consolidation | After Gaspesia Consolidation |
|---|---|---|---|
| Current assets | $ 589 | $ 16 | $ 605 |
| Fixed assets | 836 | 70 | 906 |
| Investments in newsprint joint ventures | 150 | (55) | 95 |
| Deferred pension cost | 95 | 5 | 100 |
| Other assets | 115 | | 115 |
| Total assets | $ 1,785 | $ 36 | $ 1,821 |
| Bank loan | $ – | $ 32 | $ 32 |
| Other liabilities | 786 | 4 | 790 |
| Convertible subordinated debentures and shareholders' equity | 999 | | 999 |
| Total liabilities and shareholders' equity | $ 1,785 | $ 36 | $ 1,821 |
| Loss for the year | $ (55) | $ – | $ (55) |

### Issued Common Shares

On April 18, 1994, the Company issued ten million common shares at $17.55 per share. The net proceeds of $167 million are being used for general corporate purposes, including our environmental compliance and capital expenditure programs designed to reduce our manufacturing costs. We believe these expenditures will increase the Company's long-term profitability and enhance shareholder value.

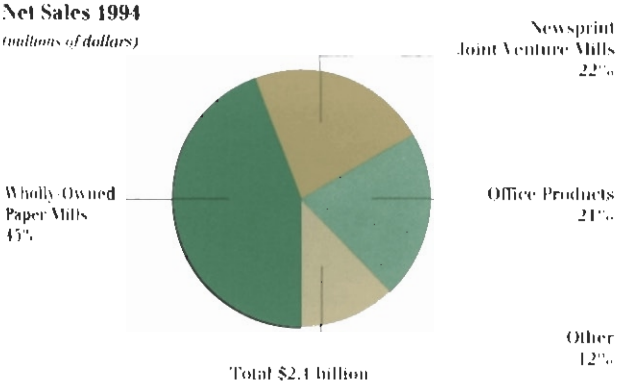
## *Operating Profit from Continuing Operations*

Operating profit from continuing operations was $26 million in 1994, a $66 million improvement from 1993's loss of $40 million.

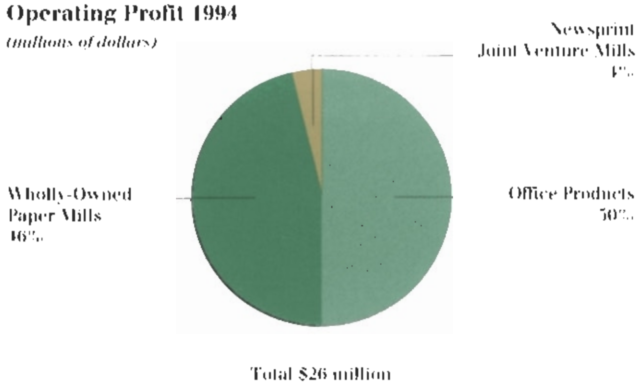
### Sales Up 13%

Sales were up 13% in the year to $2.11 billion, from 1993 sales of $1.87 billion. The increase is attributable to favourable exchange rates on sales in United States dollars, improved newsprint prices, higher newsprint sales volumes and increased sales by our office products division.

**Net Sales 1994**
*(millions of dollars)*




**Operating Profit 1994**
*(millions of dollars)*




### Selling and Administrative Expenses Reduced 8%

Selling and administrative expenses were reduced by $8 million in 1994. These savings came from reduced corporate overhead expenses resulting from decentralization of the core activities of the Company which took place in the last half of 1993 and first half of 1994.

### Core Paper Business Operating Profit up $65 Million

The largest contributor to improved operating profit was the Company's core business. Newsprint and value-added papers 1994 operating profit was $13 million compared with 1993's loss of $52 million—a $65 million improvement in 1994.

### Operating Profit in Office Products & Other Business Divisious Flat

Office Products divisional operating profit was unchanged in 1994 at $13 million. The benefits of higher sales and exchange rates were offset by lower margins caused by stronger competition. Increased demand for brokered lumber and panel board products boosted operating profit from other segments by $1 million.

## *Newsprint & Value-Added Papers*

### Operating Profit Improvement

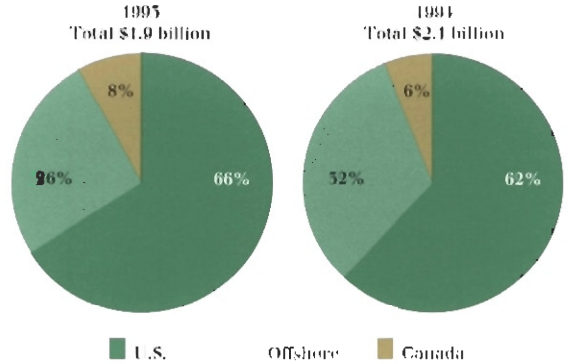
In 1994 the Company had an operating profit in its newsprint and value-added papers division of $13 million compared with a loss of $52 million in 1993. This $65 million operating profit improvement in the Company's paper business was due to stronger markets for newsprint and value-added papers, and the efficiency of its manufacturing operations. This table lists the keys factors.

**Summary of Newsprint & Value-Added Papers Operating Profit Improvement in 1994 vs 1993**

| *(millions of dollars)* | Newsprint Paper Markets: North America | Newsprint Paper Markets: International | Value-Added Paper Markets | Paper Manufacturing Operations | Total |
|---|---|---|---|---|---|
| Weaker Canadian dollar | $ 23 | $ 11 | $ 11 | $ – | $ 45 |
| Higher (reduced) volume | (24) | 26 | 14 | – | 16 |
| Improved efficiency | – | – | – | 10 | 10 |
| Strengthened (weakened) prices | 14 | (5) | – | – | 9 |
| Lower overhead costs | – | – | – | 8 | 8 |
| Higher kraft pulp prices | – | – | – | (13) | (13) |
| Increased pension & other costs | – | – | – | (10) | (10) |
| | $ 13 | $ 32 | $ 25 | $ (5) | $ 65 |

ABITIBI-PRICE

Newsprint Net Sales by Market




NEWSPRINT

Abitibi-Price is one of the world's largest newsprint manufacturers. We supply about 10.5% of all North American newsprint consumed and we account for 19.6% of all North American newsprint exports. Our share of the world newsprint market is 5.8%.

Our customers are primarily daily newspaper companies; their demand for newsprint is determined mainly by newspaper circulation, print advertising volume and economic growth.

In 1994, we sold about 68% (1993 – 74%) of our newsprint in North America, and 32% (1993 – 26%) to international markets.

### North American Newsprint Market

Operating profit contributions from North American newsprint markets increased $13 million from 1993 due to:

| *(millions)* | |
|---|---|
| Weaker Canadian dollar | $ 23 |
| Reduced volume | (24) |
| Strengthened prices | 14 |
| | $ 13 |

### Weaker Canadian Dollar

Our principal market for newsprint is the United States. Our American customers purchased over 1.18 million tonnes of our newsprint in 1994; Canadian customers bought 119,000 tonnes. North American markets represent 68% of our newsprint sales; the United States market takes about 92% of that. In 1994, the average value of the Canadian dollar declined from 1993's U.S.$0.775 to U.S.$0.732. As the United States dollar strengthened, the value of Abitibi-Price sales expressed in Canadian funds also rose and increased operating profit by $23 million.

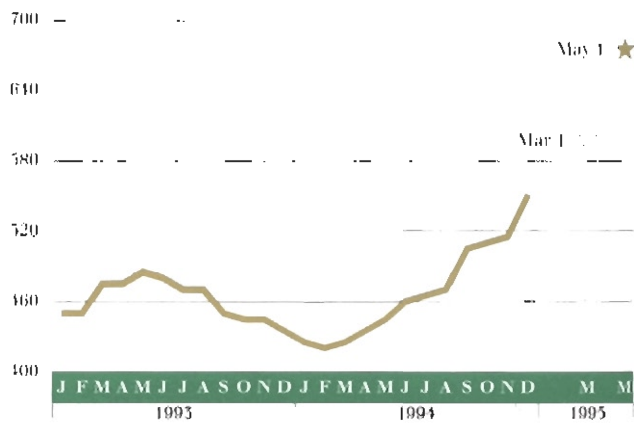
### Reduced Volume

Our North American sales volume decreased by 4% from 1993. The lower North American sales volume was mostly attributable to two factors. First, we sold our Pine Falls, Manitoba mill in September. Second, 1993 saw an inventory build-up by newspaper publishers that was not repeated in 1994. In addition, we consciously exported more of our newsprint production to international markets in 1994 than we did in 1993. The primary reason for this shift was our belief that the long-term demand growth in newsprint lies in international markets. This lower North American sales volume reduced our operating profit by $24 million.

### Strengthened Prices

In 1994, a strengthened North American economy increased print advertising volumes, causing newsprint consumption by United States daily newspapers to rise by 4.9% over 1993. Increased classified and display advertising driven by rising employment levels and

Eastern U.S. Newsprint Prices
*(U.S. dollars/tonne)*




★ Price increases announced by Abitibi-Price for 1995
*Source: Miller Freeman*

higher retail sales more than offset a modest decline in daily newspaper circulation. Publishers could no longer service this increased demand from their inventories as they had done in 1993. In 1994 publishers and newsprint producers reduced newsprint inventories from 1993 levels by over 220,000 tonnes.

In North America, three factors worked to reduce the supply of newsprint available to that market. First, manufacturers took downtime to reduce oversupply. Second, international demand grew and Canadian producers sold 10% more newsprint internationally. Third, no new newsprint mills came on stream in North America during 1994.

A slow first quarter saw newsprint net selling prices, in United States dollars, 6% lower than in the first quarter of 1993. As demand strengthened, the Company lowered the discounts on its newsprint list price by 7% on March 1, 1994 and a further 6% on August 15, 1994—restoring net selling prices to average 1993 transaction price levels. A full quarter impact of the August 15th discount reduction and a further 7% discount reduction on December 1, 1994 helped Abitibi-Price post a $10 million or 12¢ per common share profit from continuing operations during the fourth quarter of 1994.

The impact of these price increases was to raise our 1994 average realized North American net selling prices by U.S.$10 per tonne from 1993. This boosted our newsprint operating profit by $14 million.

### International Newsprint Market

Our international newsprint markets contributed $32 million more to operating profit than they did in 1993 due to:

*(millions)*

| | |
|---|---|
| Increased international volume | $ 26 |
| Weaker Canadian dollar | 11 |
| Weaker prices | (5) |
| | $ 32 |

### Increased International Sales

We sold approximately 619,000 tonnes of newsprint outside North America in 1994. This was up 23% from 1993, mostly because of higher exports during the first three quarters of the year to Asian, Latin American, and Middle Eastern markets.

In the fourth quarter, exports returned to 1993 levels as North American demand and prices grew stronger. The overall increase in our international sales volume improved operating profit by $26 million.

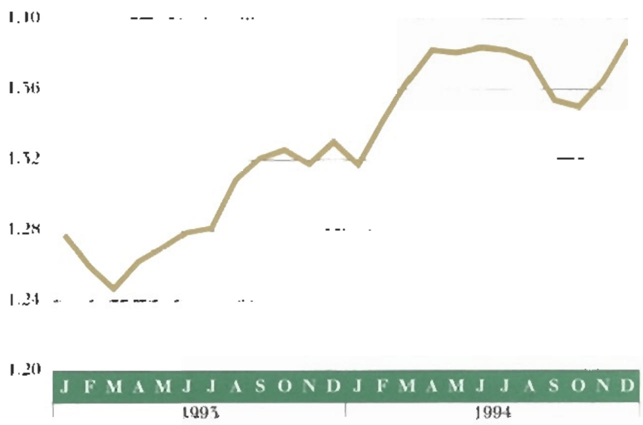
### Weaker Canadian Dollar

Internationally, Abitibi-Price sells to Europe and Japan in local currencies, while selling to Asia, South America and the rest of the world in United States dollars. The Canadian dollar weakened against every major currency in the year, for example:

Average Annual Value of Local Currency

| *(expressed in Canadian dollars)* | 1994 | 1993 | % Reduction in value of the Cdn $ |
|---|---|---|---|
| Customer Currencies: | | | |
| Japanese Yen | $ 0.0134 | $ 0.0117 | 13% |
| British Pound | 2.0928 | 1.9377 | 8% |
| French Franc | 0.2468 | 0.2279 | 8% |
| German Deutschemark | 0.8443 | 0.7806 | 8% |
| United States Dollar | 1.3657 | 1.2901 | 6% |

**Average Monthly Value of U.S. Dollar Expressed in Canadian Dollars**
*(Dollars)*



Another positive aspect of 1994 was the fact that our non-Canadian competitors' currencies all grew stronger against the Canadian dollar, making Canadian newsprint more competitive worldwide.

Average Annual Value of Local Currency

| *(expressed in Canadian dollars)* | 1994 | 1993 | % Reduction in value of the Cdn $ |
|---|---|---|---|
| Competitor Currencies: | | | |
| Finnish Mark | $ 0.2630 | $ 0.2261 | 16% |
| Swedish Kronar | 0.1775 | 0.1661 | 7% |
| United States Dollar | 1.3657 | 1.2901 | 6% |

This weakening of the Canadian dollar against major currencies raised operating profit on international newsprint sales by $11 million in 1994 compared with 1993.

### Weakened International Selling Prices

Higher shipments of newsprint outside North America was an industry-wide trend early in 1994. The effect was reduced spot prices for newsprint in foreign markets compared with 1993, resulting in lower realized net selling prices.

As demand increased in the fourth quarter of 1994, we realized 4% higher international selling prices expressed in United States dollars than in 1993. However, this did not offset the lower selling prices of the first three quarters. The net impact of lower average selling prices was a $5 million reduction in operating profit.

## VALUE-ADDED PAPERS MARKET

Value-added papers are brighter, glossier and smoother than newsprint resulting in improved printing qualities. The types we make are uncoated groundwood grades used by commercial printers, converters, advertisers and publishers to produce advertising inserts, books, telephone directories, business forms, magazines and catalogues. Our primary value-added papers are clay-filled supercalendered papers (SCA), high-brightness, machine-finished grades (MF) and directory paper.

### Operating Profit

In the value-added papers market, $25 million more was contributed to operating profit than in 1993. This was attributable to:

| *(millions)* | |
|---|---|
| Higher sales volumes | $ 14 |
| Weaker Canadian dollar | 11 |
| | $ 25 |

### Higher Sales Volume

Value-added paper sales in 1994 were 487,000 tonnes, up 10% over 1993. This increase is due to higher demand for all our value-added papers and compares favourably with the industry's average increase of 5%. Volume was primarily driven by the retail market's increased use of advertising inserts and catalogues. The improved sales volume raised our operating profit by $14 million.

### Rising Prices

As with the newsprint market, the first quarter of 1994 saw lower prices for value-added papers than in 1993. However, by the fourth quarter, price increases for SCA and MF grades had been implemented and by the end of the year our value-added paper prices were up 10 – 15% from December 1993. Directory papers were an exception as December 1994 directory paper prices were lower than in December 1993. These higher prices restored our 1994 average selling prices to 1993 levels.

### Weaker Canadian Dollar

Over 80% of our value-added products are sold in the United States. As with newsprint, the stronger United States dollar improved operating profit by $11 million in 1994.

## Paper Manufacturing Operations

**In 1994 paper manufacturing operations contributed $5 million less to operating profit than in 1993 primarily due to:**

*(millions)*

| | |
|---|---|
| Improved manufacturing efficiency | $ 10 |
| Lower overhead costs | 8 |
| Rising kraft pulp prices | (13) |
| Miscellaneous increased production costs | (2) |
| | 3 |
| Increased pension costs | (8) |
| | $ (5) |

### Improved Manufacturing Efficiency

Our mills' performance continued to improve in 1994. As can be seen in the chart below, improved manufacturing efficiencies and increased operating rates contributed 126,000 tonnes of additional production in 1994. Improved manufacturing efficiencies added 54,000 tonnes of production, while higher operating rates contributed 72,000 tonnes of additional production.

### Primary Production*

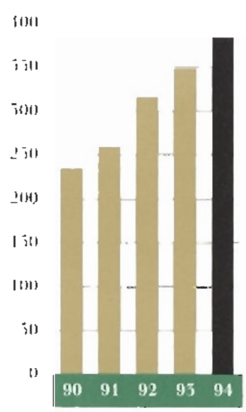
| *(thousands of tonnes)* | Newsprint | Value-Added Papers | Total | Average Production Efficiency |
|---|---|---|---|---|
| 1994 | 1,936** | 184 | 2,120 | 85% |
| 1993 | 1,856 | 438 | 2,294 | 85% |
| 1992 | 1,777 | 413 | 2,190 | 80% |
| 1991 | 1,613 | 407 | 2,020 | 79% |

* These figures include 100% of Gaspesia's production and 100% of the production of our newsprint joint ventures in Alabama and Georgia.

** 1994 figures include 32,000 tonnes of production of the Pine Falls mill for the period September 1 to December 31, 1994. The Company sold the Pine Falls mill on September 1, 1994. We have included this capacity in our 1994 newsprint production figures to make them more directly comparable with those of the prior years.

**Productivity Improvement**
*(tonnes per employee)*

*The productivity achievements in the company's core business reflect significant operational improvements and efficiency gains, as well as reductions in the number of employees.*

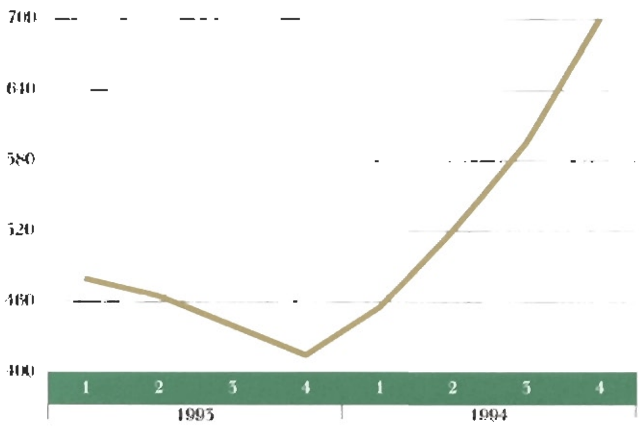



In 1994, our mill business units increased their operating rate to 97% from 94% in 1993. This enabled the Company to achieve 1994 sales volumes of 2.4 million tonnes, up 4% over 1993. Increased efficiency lowered our manufacturing cost per tonne and increased operating profit by $10 million.

### Lower Overhead Costs

In 1994, we continued to get a return for the corporate restructuring initiatives we launched in 1990. Restructuring in 1993 reduced corporate overhead and resulted in a more decentralized company which allowed us to serve our customers more effectively. As a result, selling and administrative expenses were $8 million lower in 1994 than in 1993.

**Bleached Softwood Kraft Pulp Quarterly Prices**
*(U.S. dollars/tonne)*




In 1994, Abitibi-Price used approximately 83,000 tonnes of kraft pulp at its wholly-owned mills.

*Source: Miller Freeman*

## Rising Kraft Pulp Prices

Kraft is refined pulp that when added to groundwood pulp makes paper stronger. In 1994, Company-owned mills used approximately 83,000 tonnes of kraft to produce various paper grades, principally value-added papers. Kraft prices rose dramatically in 1994 to average U.S.$543 per tonne up from 1993's average of U.S.$457, a 19% increase.

Until net selling prices strengthened in the second half of 1994, the Company was unable to pass on the higher kraft costs to customers. Accordingly, these higher costs reduced operating profit in 1994 by $13 million.

## Increased Pension Costs

In 1994 the Company improved pension benefits for current and retired employees. The improved benefits resulted from amendments made to pension plans pursuant to the collective bargaining agreement that the Company reached with its unionized employees in 1993. This lowered operating profit by $8 million in 1994.

# NEWSPRINT JOINT VENTURES

## Ownership

Abitibi-Price manages its three newsprint joint ventures, and purchases and sells 100% of their production. At December 31, the Company had ownership interests in:

| | 1994 | 1993 |
|---|---|---|
| Gaspesia Pulp & Paper Company | 100% | 51% |
| Augusta Newsprint Company | 50% | 50% |
| Alabama River Newsprint Company | 50% | 50% |

## Strategic Review

In 1994 we initiated a strategic review of the Company's investment in newsprint joint ventures. This review was completed in the fourth quarter.

The principal results were the acquisition of an additional 49% of Gaspesia Pulp & Paper Company by Abitibi-Price and the refinancings of the Alabama River Newsprint Company and the Augusta Newsprint Company. Management at each of these mills are continuing their focus on cost reduction and improved operating efficiency.

There are no current plans to sell these ventures. We believe that with the cooperation of employees, local governments, management and suppliers, these mills can continue to provide rewarding benefits to our shareholders, employees and the communities in which they operate. Our objective is to put together a plan to ensure these benefits are realized. Management is committed that each of these ventures will be net cash contributors at the bottom of the next newsprint cycle. Failure to demonstrate the ability to achieve this goal will result in the sale of any of our newsprint joint venture investments.

### Loss from Newsprint Joint Ventures

The major portion of the loss from newsprint joint ventures arises from interest on their debt. Abitibi-Price's share of these interest costs was $34 million (1993 - $30 million). Profit from these ventures, before interest expense and income taxes, was $1 million in 1994 compared with a loss of $8 million in 1993—a $9 million improvement. Stronger pricing and higher sales volumes were the main reasons for the reduction in operating loss.

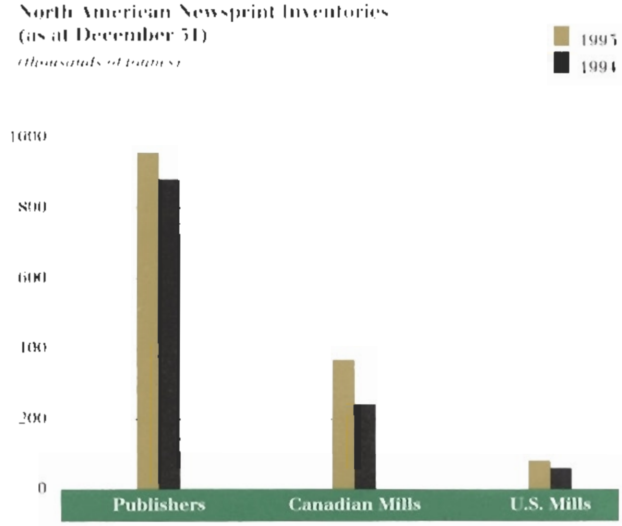
### Newsprint and Value-Added Papers Outlook

Analysts tell us that the worldwide economic recovery will continue to increase the demand for newsprint and value-added paper products in 1995. Worldwide newsprint demand is projected to grow by 3.5% in 1995, or 1 million tonnes, while worldwide capacity is projected to grow by 2%, or 750,000 tonnes. The result, in a world already concerned about adequate supplies of newsprint, could be upward pressure on prices and a tighter supply of paper.

Likewise, the value-added papers market is projected to see a continuation of the tightness seen in the fourth quarter of 1994 when shipments by United States manufacturers of uncoated groundwood papers were 104% of capacity. In 1995, market analysts are projecting a 7.7% increase in demand for SCA paper, 2.5% higher demand for MF paper and a 2% increase in directory paper demand. The result should be continued upward pressure on prices both in North American and international markets.

Evidence of this upward pressure on prices are the following transaction price increases that we have announced:

**North American Newsprint Inventories**
**(as at December 31)**
*(thousands of tonnes)*




*Source: Canadian Pulp and Paper Association*

| Paper Grade | Effective Date | Price Increase Per Tonne* |
|---|---|---|
| Value-Added Papers: | | |
| SCA grades | February 1, 1995 | U.S.$75 – U.S.$105 |
| Machine-finished grades | February 1, 1995 | U.S.$90 |
| Directory grades | March 1, 1995 | U.S.$90 – U.S.$110 |
| Machine-finished grades | March 1, 1995 | U.S.$50 – U.S.$150 |
| SCA grades | April 1, 1995 | U.S.$72 |
| Newsprint: | | |
| Standard newsprint | March 1, 1995 | U.S.$52 |
| Standard newsprint | May 1, 1995 | U.S.$75 |

* Prices quoted are ranges for various grades of paper.

The fourth quarter of 1994 saw much stronger newsprint prices in international markets. In addition, major European markets saw January 1995 price increases averaging 15% - 20%. Market analysts believe prices could rise even further in 1995.

We expect our newsprint cost per tonne to remain relatively unchanged with productivity improvements offsetting the higher costs of kraft and old newspapers. Costs for value-added papers are expected to rise because of the higher proportion of kraft usage compared to newsprint.

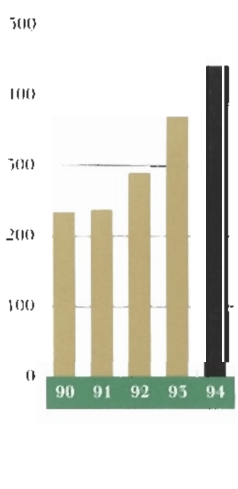
We believe the combination of higher selling prices and stable production costs will position us to return to full-year profitability in 1995 for the first time since 1989.

## *Office Products*

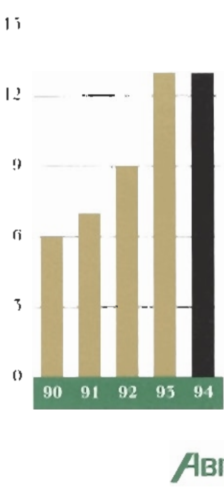
### Nature of Business

Our office products division is a specialty wholesale distributor of information processing supplies in North America and Western Europe. The business supplies such resellers as computer and office products dealers. Our products include name brand printer toner, ribbons, magnetic media such as tapes and diskettes, optical discs, and peripheral products such as fax machines, printers and modems. The division also distributes such traditional products as pens and pencils.

**Office Products Sales**
*(millions of dollars)*




**Office Products Operating Profit**
*(millions of dollars)*




### Operating Profit

Operating profit in the office products division was $13 million, unchanged from 1993 due to:

*(millions)*

| | |
|---|---|
| Higher sales volume | $ 5 |
| Lower gross margins | (4) |
| Market development costs | (1) |
| | $ – |

### Sales up 19%

Sales by the division were up 19% from 1993 levels. Prices were reduced in 1994 as manufacturers lowered selling prices in an attempt to retain market share. These lower prices reduced our gross margins and dropped 1994 operating profit by $4 million. The office products division continued to make strong inroads in its markets in the United States, Canada and Europe. The higher sales volume increased operating profit by $5 million.

### Developing New Markets

In 1994, the division continued to develop its sales distribution network in Western Europe. The division is in the initial development stage in Europe and management believes this market offers significant growth potential. Further expansion will continue in 1995 with the start-up of a new office products subsidiary in Mexico. Additional sales and administration costs were incurred in 1994 compared with 1993 to service these markets. These costs lowered operating profit by $1 million.

### Outlook for 1995

With planned expansion in both Mexico and Western Europe, we expect a continuation of the growth in sales experienced in 1994. Further economic strengthening in the division's major markets should also lead to increased sales and operating profit in 1995.

## Interest Expense

Interest expense incurred on long-term debt and the $150 million convertible subordinated debentures was $40 million in 1994, virtually unchanged from 1993's expense of $39 million despite changes in the composition of debt over the last two years. Successful refinancings in 1993 lowered the Company's weighted average interest rate in 1994 and offset the effect of 6% higher foreign exchange costs on interest payable in United States dollars.

## Unusual Items

Unusual items in 1994 were $29 million and consisted primarily of a $21 million loss on the sale of our Pine Falls mill in September. The other $8 million of unusual items represents the costs of restructuring programs at Grand Falls and Jonquière which were designed to reduce costs and increase the competitiveness of these mills. In 1993, the charge for unusual items was $22 million for the cost of various restructuring programs. The largest portion of 1993's restructuring programs related to decentralizing the management of the Company's core activities.

## Other Income and Expense, Net

In 1994, other net expenses were $4 million—$5 million less than in 1993. This improvement is mainly attributable to increased interest income on the Company's invested cash which grew from $158 million in 1993 to $250 million at December 31, 1994.

## Income Tax Recoveries

The effective income tax recovery rates were 36% in 1994 and 34% in 1993. The higher 1994 income tax recovery rate was caused by an increase in the proportion of the Company's losses being incurred in the United States in 1994 than in 1993.

## Discontinued Operations

During the year, we made further progress toward completion of our plan to divest non-core businesses. In June, the Price Wilson division was sold to Perkins Paper Ltd. of Montreal; in November, the Hilroy division was sold to The Mead Corporation. The Company took a $5 million after-tax charge to earnings on the sale of Hilroy in the fourth quarter. In addition, $1 million was charged to the loss on sale of discontinued operations for the interest costs of carrying these businesses prior to their sale.

With the sale of the converted products businesses, there were no assets on the balance sheet at December 31, 1994 related to discontinued operations (1993 – $40 million).

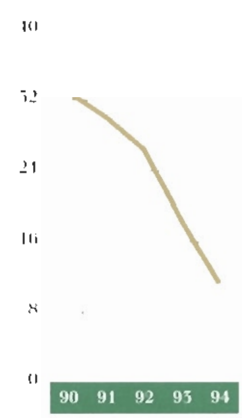
## Financial Position and Liquidity

### Capital Structure

The capital structure of the Company improved during the year as the debt remained virtually unchanged at $329 million while shareholders' equity increased by $108 million.

The increase in shareholders' equity is primarily attributable to the issue of 10 million common shares in April and the exercise of 131,558 stock options which together yielded net proceeds of $169 million, offset by 1994's net loss of $55 million, preferred share dividends of $1 million and preferred share redemptions of $6 million.

**Net Debt to Net Debt Plus Convertible Debentures and Shareholders' Equity**
*(percentage)*




*Net debt comprises long term debt, the current portion of long term debt and bank indebtedness, less cash and short term investments.*

In 1994 Abitibi-Price repaid $16 million in long-term debt. However, the strengthened United States dollar raised the Canadian dollar value of our long-term debt by approximately $21 million. The net result was an increase in the Canadian dollar value of our long-term debt by approximately $5 million.

These factors led to an improvement in the net debt to net-debt-plus-equity ratio to 11%, compared with 1993's ratio of 18%. Equity includes the $150 million convertible debentures since it is our present intention to repay those debentures with common shares in March of 1996.

### Future Outlook

In 1995, we will continue investing in the environment with approximately $106 million in capital spending. In addition, several projects are planned to improve the performance of our core paper mills which are currently estimated to cost $158 million in 1995.

The Company will use the $250 million in cash it had at December 31, 1994 to fund these new expenditures and to pay down liabilities. Our forecasts show that 1995 will continue to generate positive cash flow from operations after capital expenditures.

In summary, we expect the Company's financial liquidity to improve in 1995.

## *Cash Flow*

### Cash Increases by $112 million

Despite sustaining a $55 million book loss, the Company generated $112 million of cash in 1994, to end the year with $250 million. The cash increase was attributable to $42 million generated by continuing operations, $127 million provided by financing activities, reduced by $49 million paid to fund investing activities, $7 million used by discontinued operations and $1 million paid for preferred share dividends.

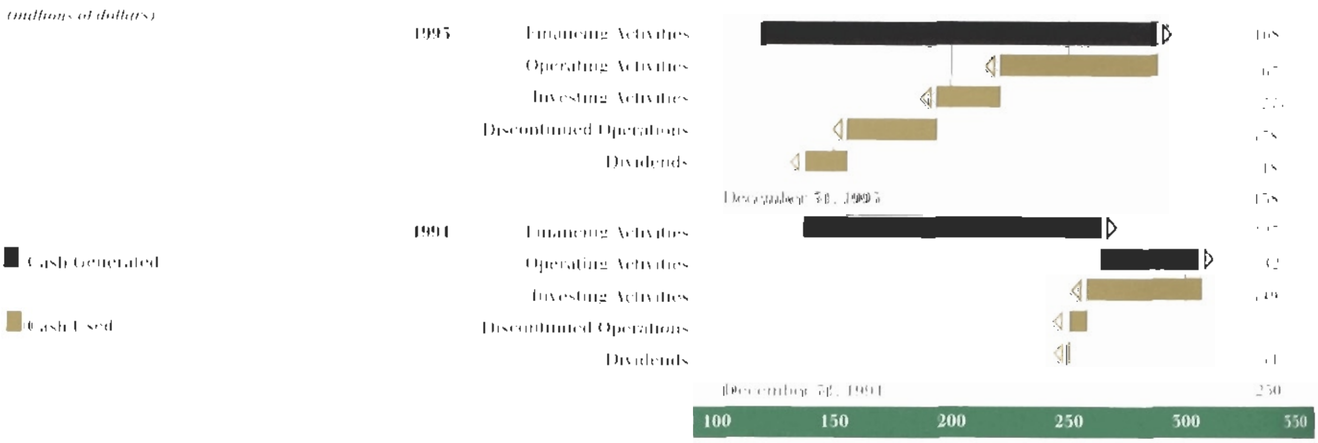
### $109 million Increase in Cash From Continuing Operating Activities

1994 saw a dramatic improvement in cash provided by continuing operating activities. The cash generated from operations in 1994 was $42 million, a significant improvement from the $67 million of cash that was used by operations in 1993.

### Investing in a Cleaner Environment

In 1994, Abitibi-Price spent $72 million on environmental assets – primarily for secondary effluent treatment plants at our Canadian mills and a de-inking plant at our Alma, Quebec mill. These investments reflect our commitment to the communities where we operate and our customers. We expect to comply with all federal and provincial environmental regulations before these compliance deadlines come into effect during the fourth quarter of 1995.

**Changes in Consolidated Cash Position**
*(millions of dollars)*



## Adjustment to Prior Periods' Financial Statements

In December 1994, taxation authorities in Canada and the United States reached agreement on what portions of the Company's prior years' income would be taxed in each country.

Since 1992, the Company has not recorded the tax benefits of its United States losses. The 1994 agreement, between the taxation authorities, shifted taxable income from Canada to the United States enabling the Company to record a $17 million tax benefit from losses on its United States operations.

The Company has restated its financial statements for this change for 1993 and for the nine months ended September 30, 1994. This revision increased income tax recoveries and reduced the loss from continuing operations, loss for the year and loss attributable to common shareholders by $6 million (7¢ per common share) for the nine months ended September 30, 1994, and by $11 million (15¢ per common share) in 1993. In addition, at September 30, 1994, retained earnings were increased and deferred income taxes were reduced by $17 million (1993 – $11 million).

## Accounting Policy Change in 1995

In 1994, the Canadian Institute of Chartered Accountants allowed companies the option of reporting their investments in joint ventures using either the equity or proportionate consolidation method.

As in prior years we have accounted for our investments in newsprint joint ventures using the equity method of accounting. We believe proportionate consolidation of the joint ventures' debts is not appropriate because the debts are without recourse to Abitibi-Price. As such, the Company's risk in these ventures is limited to the extent of its net investments.

In 1995, the Company will conform to new Canadian generally accepted accounting recommendations which will require these ventures to be proportionately consolidated. The joint ventures' debts will continue to be without recourse to Abitibi-Price.

Had the Company proportionately consolidated its investments in newsprint joint ventures at December 31, 1994, the financial statements would be as shown below:

**Pro-Forma Consolidated Balance Sheet as at December 31, 1994**

| *(millions of dollars)* | Equity Accounting of Joint Ventures as Reported | Increase (Decrease) | Joint Ventures as Proportionately Consolidated |
|---|---|---|---|
| Current assets | $ 605 | $ 41 | $ 646 |
| Fixed assets | 906 | 407 | 1,313 |
| Investments in newsprint joint ventures | 95 | (95) | – |
| Deferred pension cost | 100 | (5) | 95 |
| Investments and other assets | 115 | 20 | 135 |
| Total assets | $ 1,821 | $ 368 | $ 2,189 |
| Current liabilities | $ 381 | $ 31 | $ 412 |
| Long-term debt | 329 | 337 | 666 |
| Deferred income taxes | 112 | – | 112 |
| Convertible subordinated debentures and shareholders' equity | 999 | – | 999 |
| Total liabilities and shareholders' equity | $ 1,821 | $ 368 | $ 2,189 |

| **Pro-Forma Consolidated Earnings Statement – selected items For the year ended December 31, 1994** *(millions of dollars)* | Equity Accounting of Joint Ventures as Reported | Increase (Decrease) | Joint Ventures as Proportionately Consolidated |
|---|---|---|---|
| Net sales | $ 2,111 | $ – | $ 2,111 |
| Operating profit from continuing operations | 26 | 1 | 27 |
| Loss from newsprint joint ventures, before income taxes | (33) | 33 | – |
| Interest expense, long-term | (40) | (34) | (74) |
| Unusual items & other income and expense, net | (33) | – | (33) |
| Loss from continuing operations, before income taxes | (80) | – | (80) |
| Loss for the year | $ (55) | $ – | $ (55) |

# *Risks and Opportunities*

**Risk: Management of Exchange Risk**

Approximately 90% of the Company's revenues but less than 20% of its operating expenses are in United States dollars. As a result, we have a potential exchange rate exposure to movements in the value of the Canadian dollar expressed in United States funds. In 1994, for every 1¢ drop in the value of the Canadian dollar expressed in United States dollars, the Company gained approximately $11 million. In 1995, with proportionate consolidation of our newsprint joint ventures, the full year impact of 100% of Gaspesia's earnings, and higher budgeted sales volumes and prices, the impact of a 1¢ change in the exchange rate on our reported net income will increase to $16 million.

The Company's exchange rate exposure is recognized by management as a major determinant of its long-run profitability. Accordingly, we have an established exchange rate management program in place to protect against rapid appreciation in the value of the Canadian dollar.

At December 31, 1994, the Company had entered into currency options totalling U.S.$543 million. These options protect us against the United States dollar value of the Canadian dollar rising above an average of U.S.$0.75 during 1995. In the event of a weakened Canadian dollar, we would be obligated to buy Canadian dollars at rates which average U.S.$0.69 in 1995. In 1994, the Canadian dollar averaged U.S.$0.73 down from U.S.$0.78 in 1993.

It should be noted that our principal markets are outside Canada, and exposure from exchange rate risks cannot be eliminated. Although we believe we are effectively insuring against this risk, exchange rate risk cannot be removed in the long run.

**Opportunity: 1994 Labour Negotiations on the West Coast**

Although not in the best interests of the industry nor its customers, a labour strike in the West Coast paper industry remains a concern for 1995. This strike does not directly affect Abitibi-Price which is an East Coast paper manufacturer. Abitibi-Price customers should not see supply disruptions since the Company and its unionized employees are operating under long-term collective bargaining agreements which extend to 1998 and 1999. In the short run, a labour disruption reduces the available paper supply and could raise paper prices. We believe that in the long run this labour dispute would not significantly affect our operations or markets.

**Risk: Old Paper Machines Being Returned to Service**

With strengthening demand and prices in North America, the potential exists for paper machines that had been decommissioned, converted to other grades or moth-balled in recent years to be put back into service to reap short-term profits. This would lead to an increased supply of newsprint and could result in some moderation of the current tight paper market.

**Risk: Reducing Exports in 1995**

The fourth quarter of 1994 saw significant increases in paper prices in North America. More have been announced for 1995. This came at a time when most North American paper manufacturers had turned their attention to international markets, sales to which increased by 10% in 1994 compared with 1993. The possibility exists that as prices strengthen in North America, manufacturers may reduce export shipments and thereby increase the supply of paper in North America.

We do not think this strategy is in our best interests and we will continue to focus on developing long-term international markets in 1995. We believe that future consumption growth in the industry will come primarily from international markets, caused by rising world literacy rates and continued growth in the economies of newly democratic countries.

**Risk: Environmental Compliance**

As we reported in our 1993 annual report, the Company must comply with new environmental regulations in the province of Quebec by October 1, 1995 and in the rest of Canada by December 31, 1995.

In 1994, we made significant progress towards meeting these deadlines. We anticipate being in compliance in advance of the compliance dates. During the year, construction began on secondary effluent treatment plants at the seven Canadian mills which require them.

The estimated cost to complete these projects and to comply with current environmental regulations is $148 million, of which $42 million had been spent by the end of 1994.

**Opportunity: Developing Environmental Products**

In our search for more effective environmental processes, the Company is developing environmental products that will have general application to businesses in and outside of our industry. These technologies are continuing to be refined by our environmental development division, Abitibi Environmental Technologies, which to date has invested $6 million to develop these processes. These development costs are included in Investments and Other Assets on our balance sheet.

In addition, Abitibi-Price Technologies, our research division, is continuing to look for ways to make our paper manufacturing processes cleaner and more cost-effective.

**Risk: Old Newspaper and Magazine Price Increases**

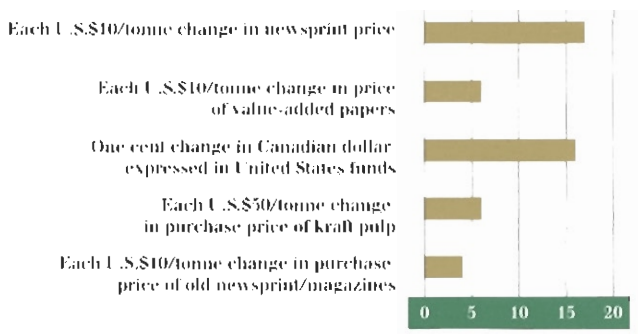
In recent years, paper manufacturers have increased the recycled content of products that they manufacture. As a consequence, demand and prices for old newspapers and magazines have also risen.

With the completion of a de-inking plant at our Alma mill we will now consume approximately 283,000 tonnes of recycled newspapers and magazines in 1995. This higher usage of recycled papers will increase our exposure to old newspaper and magazine price increases.

# Operating Profit Sensitivities

Based on our 1995 budget the Company's operating profit, with proportionate consolidation, will be impacted by the following sensitivities:

**Operating Profit Sensitivity**
*(millions of dollars)*




*Sensitivity to price changes of value-added papers is based on an average $10/tonne change for all of these grades.*

# Outlook for 1995

We believe that in 1995 Abitibi-Price will return to full-year profitability for the first time since 1989. Our cost reduction programs and commitment to being the finest paper manufacturer in the world solidly positions Abitibi-Price and our shareholders to profit from:

- Recent North American and international paper price increases;
- Increased worldwide newsprint demand while supply remains flat;
- Our increased focus on, and a higher 1995 demand for, value-added papers;
- Focused development of our international markets;
- Favourable exchange rates and sustained worldwide economic growth;
- A decentralized management team committed to enhancing shareholder value and responding to our customers' needs;
- Continuously improving efficiencies that reduce our production costs; and
- Cost savings from restructuring initiated in 1994 combined with a drive to become the finest groundwood paper company in the world.

## 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 include some amounts which are based on best estimates and judgements. Financial information provided elsewhere in the Annual 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 accounting controls and internal audits, the latter being coordinated with reviews and examinations performed by the shareholders' auditors in the course 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 three non-management members of the Board of Directors. The Audit Committee, which meets regularly throughout 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.

Ronald Y. Oberlander

Eileen A. Mercier

February 17, 1995
Toronto, Ontario

## Auditors' Report

*To the Shareholders of Abitibi-Price Inc.*

We have audited the consolidated balance sheets of Abitibi-Price Inc. as at December 31, 1994 and 1993 and the consolidated statements of earnings, retained earnings and changes in cash position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and 1993 and the results of its operations and the changes in its cash position for the years then ended in accordance with Canadian generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

February 17, 1995
Toronto, Ontario

## CONSOLIDATED EARNINGS

| Year ended December 31 *(millions of Canadian dollars)* | 1994 | Restated *(note 2)* 1993 |
|---|---|---|
| Net sales | $ 2,111 | $ 1,869 |
| Cost of sales | 1,913 | 1,727 |
| Selling and administrative expenses | 91 | 99 |
| Depreciation and depletion | 81 | 83 |
| | 2,085 | 1,909 |
| Operating profit (loss) from continuing operations | 26 | (40) |
| Loss from newsprint joint ventures, before income taxes *(note 3)* | (33) | (38) |
| Interest expense – long-term *(note 4)* | (40) | (39) |
| – short-term | – | (1) |
| Unusual items *(note 5)* | (29) | (22) |
| Other income and expense, net *(note 6)* | (4) | (9) |
| Loss from continuing operations before income taxes | (80) | (149) |
| Recovery of income taxes *(note 7)* | 29 | 51 |
| Loss from continuing operations | (51) | (98) |
| Loss on disposal of discontinued operations, net of income tax recoveries of $2 and $7, respectively *(note 8)* | (4) | (13) |
| **Loss for the year** | (55) | (111) |
| Dividends on preferred shares | (1) | (1) |
| Loss attributable to common shareholders | $ (56) | $ (112) |
| **Per common share:** | | |
| Loss from continuing operations | $ (0.62) | $ (1.38) |
| Loss for the year | (0.66) | (1.56) |
| Dividends | – | 0.125 |
| Weighted average number of common shares outstanding *(millions)* | 84.4 | 71.8 |

## CONSOLIDATED RETAINED EARNINGS

| Year ended December 31 *(millions of Canadian dollars)* | 1994 | Restated *(note 2)* 1993 |
|---|---|---|
| Retained earnings, beginning of year | $ 359 | $ 483 |
| Loss for the year | (55) | (111) |
| | 304 | 372 |
| Expenses of common share issues, net of income tax recoveries of $2 in each year | (5) | (3) |
| Dividends declared | | |
| Preferred shares | (1) | (1) |
| Common shares | – | (9) |
| Retained earnings, end of year | $ 298 | $ 359 |

# Consolidated Balance Sheet

| December 31 *(millions of Canadian dollars)* | 1994 | Restated *(note 2)* 1993 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and deposits | $ 250 | $ 138 |
| Accounts receivable *(note 9)* | 178 | 149 |
| Inventories *(note 10)* | 167 | 157 |
| Prepaid expenses | 10 | 13 |
| | 605 | 457 |
| **Fixed assets** *(note 11)* | 906 | 865 |
| **Other assets** | | |
| Investment in newsprint joint ventures *(note 3)* | 95 | 175 |
| Investments and other assets *(note 12)* | 87 | 28 |
| Deferred pension cost | 100 | 83 |
| Goodwill | 28 | 28 |
| Net assets held for divestiture *(note 8)* | – | 40 |
| | 310 | 354 |
| | $ 1,821 | $ 1,676 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Bank loan *(note 13)* | $ 32 | $ – |
| Accounts payable and accrued liabilities | 337 | 298 |
| Long-term debt due within one year *(note 4)* | 12 | 13 |
| | 381 | 311 |
| **Long-term debt** *(note 4)* | 329 | 324 |
| Deferred income taxes | 112 | 150 |
| **Convertible Subordinated Debentures and Shareholders' Equity** | | |
| Convertible subordinated debentures *(note 14)* | 150 | 150 |
| **Shareholders' equity** | | |
| Capital stock *(note 15)* | | |
| Preferred shares – 977,008 shares (1993 – 1,494,988 shares) | 11 | 17 |
| Common shares – 87,414,790 shares (1993 – 77,283,232 shares) | 540 | 365 |
| Retained earnings | 298 | 359 |
| | 849 | 741 |
| | $ 1,821 | $ 1,676 |

Approved by the Board of Directors:

Director　　　　Director

ABITIBI-PRICE

## Changes in Consolidated Cash Position

| Year ended December 31 *(millions of Canadian dollars)* | 1994 | Restated *(note 2)* 1993 |
|---|---|---|
| **Operating activities** | | |
| Loss for the year from continuing operations | $ (51) | $ (98) |
| Depreciation and depletion | 81 | 83 |
| Unusual items | 27 | 10 |
| Loss from newsprint joint ventures, before income taxes | 33 | 38 |
| Recovery of deferred income taxes | (32) | (51) |
| Other | 10 | 2 |
| | 68 | (16) |
| Changes in the non-cash working capital components of continuing operations *(note 16)* | (26) | (51) |
| Cash generated by (used in) continuing operating activities | 42 | (67) |
| **Financing activities** | | |
| Issue of common shares, net of expenses | 169 | 98 |
| Repayment of long-term debt | (16) | (334) |
| Retirement of preferred shares | (6) | (2) |
| Pension funding | (20) | (4) |
| Issue of convertible subordinated debentures | – | 150 |
| Issue of long-term debt | – | 266 |
| Debt issue costs | – | (6) |
| Cash generated by financing activities | 127 | 168 |
| **Investing activities** | | |
| Additions to fixed assets, net of a $20 (1993 – $nil) increase in related accounts payable | (72) | (39) |
| Proceeds from sales of discontinued operations and operating divisions, net of $40 of debentures received from the purchasers in 1994 | 33 | 2 |
| Acquisition of Gaspesia Pulp & Paper Company *(note 3)* | (2) | – |
| Decrease (increase) in investments and other assets | (13) | 23 |
| Investments in newsprint joint ventures | – | (19) |
| Other | 5 | 6 |
| Cash used in investing activities | (49) | (27) |
| **Dividends paid** | | |
| Preferred shareholders | (1) | (1) |
| Common shareholders | – | (17) |
| Cash used to pay dividends | (1) | (18) |
| **Cash generated by continuing operations** | 119 | 56 |
| **Cash used in discontinued operations** | (7) | (38) |
| **Increase in cash during the year** | 112 | 18 |
| **Cash and deposits, beginning of year** | 138 | 120 |
| **Cash and deposits, end of year** | $ 250 | $ 138 |

# Consolidated Segmented Information

| Year ended December 31 *(millions of Canadian dollars)* | Net Sales | Depreciation and Amortization | Operating *Profit* (Loss) | Unusual Items | [4] Fixed Asset Additions | *Total* Assets |
|---|---|---|---|---|---|---|
| **1994** | | | | | | |
| Business Segments | | | | | | |
| Newsprint and value-added papers: | | | | | | |
| Wholly owned mills | $ 958 | | | | | |
| Newsprint joint venture mills [1] | 474 | | | | | |
| *Newsprint and value-added papers* | $ 1,412 | $ 78 | $ 13 | $ 29 | $ 90 | $ 1,336 |
| Office products | 443 | 1 | 13 | – | 1 | 139 |
| Corporate and other | 256 | 2 | – | – | 1 | 346 |
| Continuing operations | $ 2,111 | $ 81 | $ 26 | $ 29 | $ 92 | $ 1,821 |
| Geographic Segments | | | | | | |
| Canada [3] | $ 1,378 | | $ 15 | | | $ 1,543 |
| U.S.A. | 733 | | 11 | | | 278 |
| *Continuing operations* | $ 2,111 | | $ 26 | | | $ 1,821 |
| **1993** | | | | | | |
| Business Segments | | | | | | |
| Newsprint and value-added papers: | | | | | | |
| Wholly owned mills | $ 859 | | | | | |
| Newsprint joint venture mills [1] | 424 | | | | | |
| *Newsprint and value-added papers* | $ 1,283 | $ 80 | $ (52) | $ (22) | $ 36 | $ 1,352 |
| Office products | 371 | 1 | 13 | – | 2 | 125 |
| Corporate and other | 215 | 2 | (1) | – | 1 | 179 |
| Continuing operations | $ 1,869 | $ 83 | $ (40) | $ (22) | $ 39 | $ 1,656 |
| Discontinued operations | 82 | | | | | 40 |
| | $ 1,951 | | | | | $ 1,676 |
| Geographic Segments | | | | | | |
| Canada [3] | $ 1,222 | | $ (52) | | | $ 1,367 |
| U.S.A. | 647 | | 12 | | | 269 |
| Continuing operations | $ 1,869 | | $ (40) | | | $ 1,656 |

Notes:

[1] The Company sells all of the production of its newsprint joint ventures to customers for which it earns an average gross profit of approximately 2%. This gross profit has been included in operating profit from newsprint and value-added papers.

[2] Geographic segments reflect the source location of the product sold.

[3] Continuing Canadian operations include sales to the United States market of $894 million (1993 – $804 million) and export sales to other countries of $278 million (1993 – $215 million).

[4] In 1994, fixed asset additions were $92 million (1993 – $39 million). At December 31, 1994 the Company had $20 million (1993 – $nil) more accounts payable related to fixed assets than in the prior year. *In 1994, cash payments for the purchase of fixed assets were $72 million* (1993 – $39 million).

ABITIBI-PRICE

December 31, 1994 and 1993 *(tabular amounts in millions of Canadian dollars)*

## 1. Summary of significant accounting policies

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

**(a) Basis of presentation**
These financial statements consolidate the accounts of Abitibi-Price Inc. and all of its subsidiary companies.

**(b) Translation of foreign currencies**
The assets and liabilities of self-sustaining foreign subsidiaries and joint ventures are translated into Canadian funds at year-end exchange rates and the resulting unrealized exchange gains or losses are included in shareholders' equity. The revenues and expenses of these operations are translated at exchange rates prevailing during the year.

Monetary assets and liabilities of domestic companies and integrated foreign subsidiaries denominated in foreign funds are translated at year-end exchange rates. Non-monetary assets are translated at historical rates and revenues and expenses are translated at rates prevailing during the year, except for depreciation which is translated using historical rates. Exchange gains or losses on translation are included in earnings, except those which arise on the translation of long-term debt payable in U.S. funds. Gains or losses on debt that hedges the net investment in self-sustaining U.S. subsidiaries and foreign newsprint joint ventures are included in shareholders' equity. Any debt, hedged by a future U.S. dollar income stream, is deferred and included in earnings in the same years as the income stream.

The Company currently manages its foreign exchange exposure on future sales through the use of options and forward contracts. Resulting gains and losses are included in earnings when realized.

**(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. Pulpwood inventory is valued at average cost.

**(d) Fixed assets and depreciation**
Fixed assets are recorded at cost, which includes capitalized interest and preproduction costs. Investment tax credits and government capital grants received reduce the cost of the related fixed assets.

Depreciation is provided at rates which amortize the fixed asset cost over the productive life of the asset. The principal fixed asset category is production equipment which is depreciated over 20 years on a straight-line basis.

**(e) Environmental costs**
Environmental capital expenditures that will continue to benefit the Company and its environment in the future are recorded at cost and capitalized as part of fixed assets. Depreciation is charged to income over the estimated future benefit period of the related technology. Environmental expenditures that do not benefit the Company in future periods are expensed as incurred.

**(f) Investments**
Investments in newsprint joint ventures are accounted for by the equity method. Other long-term investments are recorded at the lower of cost and net realizable value.

Starting in the first quarter of 1995, the Company will be required to consolidate proportionately its investments in newsprint joint ventures under Canadian generally accepted accounting principles. Under either the equity or consolidation methods of accounting the net loss for the year and shareholders' equity remain the same.

**(g) Pension costs**
Earnings are charged with the cost of benefits earned by employees as employee 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.

Differences between pension cost (determined on an accounting basis) and the funding of pension costs (as required by regulatory authorities) give rise to timing differences in the recognition of pension expense. These differences appear on the balance sheet as deferred pension costs.

Costs associated with post-retirement benefits are expensed when paid by the Company.

**(h) Goodwill**
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.

**(i) Income taxes**
Deferred income taxes result primarily from differences in the timing of recognition of income and expenses for accounting and for tax purposes.

**(j) Research and development costs**
Research costs are expensed as incurred. Development costs for technically and commercially feasible products and processes which management intends to produce and market are deferred until commercial use begins. At that time, these costs are charged to income over the estimated commercial life of the product or process.

## 2. Adjustment to prior periods' financial statements

In December 1994, taxation authorities in Canada and the United States reached agreement on what portions of the Company's prior years' income would be taxed in each country. As a result of this agreement, the Company has restated its financial statements for 1993 and for the 9 months ended September 30, 1994. The revised statements record $17 million of tax benefits for losses in the United States that were not previously recognized.

The restatement's impact was to increase income tax recoveries and reduce the loss from continuing operations, loss for the year and loss attributable to common shareholders by $6 million (7¢ per common share) for the nine months ended September 30, 1994 and by $11 million (15¢ per common share) in 1993. In addition, at September 30, 1994, retained earnings were increased and deferred income taxes reduced by $17 million (1993 – $11 million).

## 3. Investments in newsprint joint ventures

The Company's newsprint operations include investments in joint venture partnerships which are accounted for by the equity method. The Company's equity interests in these partnerships are: Augusta Newsprint Company ("Augusta") – 50%, and Alabama River Newsprint Company and Alabama River Recycling Company ("Alabama") – 50%. At December 31, 1993, the Company had a 51% interest in Gaspesia Pulp & Paper Company ("Gaspesia") which became a wholly-owned subsidiary in 1994. The Company buys as principal and re-sells all of the joint ventures' newsprint production under marketing agreements.

Summarized earnings statements and balance sheets of the Company's proportionate combined interest in the joint ventures are as follows:

**Proportionate earnings statements**

| | 1994 | 1993 |
|---|---|---|
| Net sales | $ 250 | $ 215 |
| Cost of sales and expenses | 249 | (223) |
| Operating profit (loss), before interest and income taxes | 1 | (8) |
| Interest expense | (34) | (30) |
| Loss from newsprint joint ventures, before income taxes | $ (33) | $ (38) |

**Proportionate balance sheets**

| | 1994 | 1993 |
|---|---|---|
| Current assets (a) | $ 58 | $ 54 |
| Fixed assets | 407 | 463 |
| Other assets | 15 | 17 |
| Current liabilities | (48) | (58) |
| Long-term debt (b) | (337) | (301) |
| Investments in newsprint joint ventures | $ 95 | $ 175 |

(a) The joint ventures have accounts receivable from the Company of $34 million in 1994 (1993 – $40 million). The consolidated financial statements include corresponding amounts in accounts payable and accrued liabilities. The proportionate balance sheets shown above include $17 million (1993 – $20 million) of these receivables in current assets.

December 31, 1994 and 1993 (tabular amounts in millions of Canadian dollars)

(b) Long-term borrowings at Augusta and Alabama are without recourse to Abitibi-Price Inc.

(c) On December 16, 1994, the Company purchased an additional 49% interest in Gaspesia, a newsprint mill with annual capacity of 262,000 tonnes located in Chandler, Quebec. Prior to this acquisition, Gaspesia was operated as a joint venture and accounted for using the equity method. The revenues, expenses, assets and liabilities of Gaspesia have been fully consolidated in these financial statements subsequent to the purchase date. The $33 million (1993 – $38 million) loss from newsprint joint ventures, before income taxes, includes the results of the Gaspesia joint venture for the period prior to the purchase date.

This acquisition has been accounted for using the purchase method of accounting and the acquisition costs have been allocated as follows:

| | |
|---|---|
| Current assets | $ 8 |
| Fixed assets | 9 |
| Deferred pension cost | 3 |
| Bank loan | (16) |
| Other current liabilities | (2) |
| Acquisition costs | $ 2 |

## 4. LONG-TERM DEBT

| | 1994 | 1993 |
|---|---|---|
| Abitibi-Price Inc. | | |
| 7.92% notes, maturing in 2005 (U.S.$200 million; 1993 – U.S.$200 million) | $ 280 | $ 264 |
| Sinking fund debentures | | |
| 10.65% Series H, maturing in 2000 (U.S.$41 million; 1993 – U.S.$50 million) | 57 | 66 |
| Other | 4 | 7 |
| | 341 | 337 |
| Less: Amount due within one year | (12) | (13) |
| | $ 329 | $ 324 |

Sinking fund and other long-term debt repayment obligations for the years 1996 to 1999 are $12 million, $43 million, $43 million, and $40 million, respectively. The outstanding sinking fund debentures and notes are currently redeemable at the option of the Company.

## 5. UNUSUAL ITEMS

| | 1994 | 1993 |
|---|---|---|
| Loss on sale of Pine Falls, Manitoba mill | $ 21 | $ – |
| Cost of employee restructuring programs | 8 | 18 |
| Thunder Bay, Ontario mill closure costs | – | 4 |
| | $ 29 | $ 22 |

## 6. OTHER INCOME AND EXPENSE, NET

| | 1994 | 1993 |
|---|---|---|
| Interest income | $ 11 | $ 2 |
| Discount on sale of accounts receivable | (5) | (4) |
| Foreign exchange loss on working capital | (2) | (6) |
| Other | (8) | (1) |
| | $ (4) | $ (9) |

## 7. RECOVERY OF INCOME TAXES

The Company's recovery of income taxes and the effective income tax rate pertaining to continuing operations are as follows:

| | 1994 | Restated *(note 2)* 1993 |
|---|---|---|
| Loss from continuing operations before income taxes | $ (80) | $ (149) |
| Recovery of income taxes | $ 29 | $ 51 |
| Effective income tax recovery rate | 36% | 34% |
| Made up of: | | |
| Combined basic Canadian federal – provincial income tax rate | 40% | 40% |
| Effect of: | | |
| Manufacturing and processing tax deduction | (5) | (4) |
| Large corporations tax | (3) | (2) |
| Tax rate differentials | 5 | 2 |
| Losses not tax affected | (2) | (3) |
| Other | 1 | 1 |
| Effective income tax recovery rate | 36% | 34% |

At December 31, 1994, the Company and its subsidiaries had approximately $356 million in tax loss carry-forwards available to reduce taxable income in future years and which expire between 1998 and 2009. The potential future benefit associated with approximately $22 million of these losses has not been recorded in these financial statements.

## 8. Discontinued operations

The losses recorded on the sales of non-core businesses, net of income tax recoveries of $2 million (1993 – $7 million), are as follows:

| | 1994 | 1993 |
|---|---|---|
| Converted products | $ (4) | $ (10) |
| Coated papers | – | (3) |
| Loss on disposal of discontinued operations | $ (4) | $ (13) |

On December 31, 1993, the Company reclassified its converted products businesses to discontinued operations. The coated papers business was reclassified to discontinued operations in the third quarter of 1992 and sold in 1993. The Company sold its Price Wilson and Hilroy converted products businesses on June 10, 1994 and November 30, 1994, respectively. The loss on sale of discontinued operations included allocated interest expense of $1 million (1993 – $1 million).

In 1993 the net assets relating to discontinued businesses in the amount of $40 million were classified on the balance sheet as net assets held for divestiture. Accounts payable and accrued liabilities at December 31, 1994 of $337 million (1993 – $298 million) included $21 million (1993 – $23 million) of obligations relating to discontinued operations.

## 9. Accounts receivable

Under agreements with certain banks, the Company, on an ongoing basis, sells accounts receivable to two of its wholly-owned subsidiary companies. Those companies then sell qualified receivables, with minimal recourse, to the banks. The Company acts as a service agent for these banks and administers the collection of the accounts receivable. At December 31, 1994, these banks owned $124 million (1993 – $90 million) of such receivables.

## 10. Inventories

| | 1994 | 1993 |
|---|---|---|
| Finished products and work in process | $ 80 | $ 83 |
| Materials and operating supplies | 51 | 42 |
| Pulpwood and costs of current logging operations | 36 | 32 |
| | $ 167 | $ 157 |

## 11. Fixed assets

| | 1994 | | | 1993 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation | Net Book Value | Cost | Accumulated depreciation | Net Book Value |
| Property, plant and equipment | $ 1,851 | $ (972) | $ 879 | $ 1,730 | $ (896) | $ 834 |
| Logging equipment and development | 90 | (70) | 20 | 95 | (73) | 22 |
| Timber limits and water power rights | 20 | (13) | 7 | 22 | (13) | 9 |
| | $ 1,961 | $ (1,055) | $ 906 | $ 1,847 | $ (982) | $ 865 |

During the year, $1 million (1993 – $1 million) of interest was capitalized to fixed assets.

December 31, 1994 and 1993 (tabular amounts in millions of Canadian dollars)

## 12. INVESTMENTS AND OTHER ASSETS

| | 1994 | 1993 |
|---|---|---|
| Pine Falls Paper Company Limited Subordinated debenture maturing in 2004, bearing 10% simple interest to 2000, 17% semi-annual compound interest payable thereafter | $ 26 | $ – |
| Perkins Paper Ltd. Convertible, redeemable, subordinated debenture bearing interest at 6% per annum, maturing in 1999 | 14 | – |
| Unrealized loss on translation of long-term debt payable in U.S. funds | 13 | 6 |
| Unamortized discount on long-term debt and convertible subordinated debentures | 6 | 7 |
| Development costs | 6 | 4 |
| Other | 22 | 11 |
| | $ 87 | $ 28 |

## 13. BANK LOAN

The loan of $32 million is a demand loan facility at the Company's Gaspesia subsidiary. At December 31, 1994, the Company also has committed operating lines of credit with a number of banks in the aggregate amount of $355 million which are renewable at the option of the banks annually. Borrowings under bank lines of credit bear interest at prevailing market rates.

## 14. CONVERTIBLE SUBORDINATED DEBENTURES

The 7.85% convertible subordinated debentures, issued on March 4, 1993 in the principal amount of $150 million, are due on March 1, 2003. The debentures are convertible into 66.67 common shares of the Company for each $1,000 debenture at the option of the holder. The debentures are also redeemable by the Company on or after March 1, 1996 under certain conditions and may, at the Company's option, be converted into common shares on redemption or at maturity. Since it has the option and it is the Company's present intention to repay the debentures with common shares, subject to all necessary approvals, these debentures have been classified under the combined caption "Convertible Subordinated Debentures and Shareholders' Equity".

## 15. CAPITAL STOCK

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

On April 18, 1994, the Company issued 10 million common shares at a cash price of $17.35 each with total net proceeds of $167 million. On September 8, 1993, the Company issued 8 million common shares at a cash price of $12.75 each with total net proceeds of $98 million.

At December 31, 1994 the Company had 2,219,240 (1993 – 1,905,800) management stock options outstanding that are exercisable at prices between $12.25 and $19.375 and which expire between 1995 and 2004. Of these stock options, 78% can be exercised in 1995, 12% in 1996 and the remaining 10% in 1997 or subsequent years. During 1994, 131,558 common shares were issued on exercise of stock options for net proceeds of $2 million.

The $0.94 Cumulative Redeemable Retractable Preferred Shares Series F, which were issued at $11.50 per share, are redeemable by the Company at $11.50 per share and are retractable at $11.50 per share at the option of the holder on January 1 in each year. In 1994, 517,980 shares were retracted (1993 – 202,201 shares).

The payment of a cash dividend on the Company's common stock is restricted under the 7.92% notes and bank line of credit agreements. Dividends on common stock are allowed under certain conditions, subject to the Company generating sufficient net income.

## 16. Changes in the non-cash working capital components of continuing operations

| | 1994 | 1993 |
|---|---|---|
| Cash generated (used) by changes in non-cash working capital components: | | |
| Decrease (increase) in current assets: | | |
| Accounts receivable | $ (29) | $ (37) |
| Inventories | (10) | 7 |
| Prepaid expenses | 3 | – |
| Increase (decrease) in current liabilities: | | |
| Bank loan | 32 | – |
| Accounts payable and accrued liabilities, net of an increase in liabilities on fixed asset additions of $20 (1993 – $ nil) | 19 | (34) |
| | 15 | (84) |
| Changes in non-cash working capital not pertaining to operating activities of continuing operations: | | |
| Acquisition of Gaspesia | (20) | – |
| Sale of Pine Falls, Manitoba mill | (19) | – |
| Discontinued business operations and other | (2) | 33 |
| Changes in the non-cash working capital components of continuing operations | $ (26) | $ (51) |

## 17. 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.

The following table displays the funded status, on an accounting basis, of the Company's pension plans:

| | 1994 | 1993 |
|---|---|---|
| Market value of assets | $ 763 | $ 825 |
| Actuarial present value of accumulated plan benefits based on current service and compensation levels: | | |
| Vested | 686 | 668 |
| Non-vested | 11 | 9 |
| | 697 | 677 |
| Excess of market value of assets over accumulated benefit obligations | $ 66 | $ 148 |

In 1994, pension plan assets were increased by Company and employee contributions of $31 million and were reduced by benefit payments and plan expenses of $76 million and pension plan investment losses of $17 million.

On a going concern basis, using assumptions required by regulatory authorities, the pension plans had an aggregate unfunded liability of approximately $10 million (1993 – $10 million) at the time of the latest actuarial valuation reports.

## 18. Foreign currency hedging

At December 31, 1994, the Company had options of U.S. $543 million, maturing from January to December 1995. These options protect the Company in 1995 against the United States dollar value of the Canadian dollar rising above an average of U.S. $0.73 and which, in the event of a weakening Canadian dollar, obligate the Company to buy Canadian dollars at rates which average U.S. $0.69.

## 19. Environmental compliance

The Company is required to meet various deadlines for compliance with environmental legislation in a number of jurisdictions. The deadlines for compliance are October 1, 1995 for mills located in Quebec and December 31, 1995 for mills in the rest of Canada. The Company anticipates being in compliance with these regulations before these deadlines take effect.

The Company's cost of complying with federal and provincial effluent discharge regulations is currently estimated to be $148 million of which $42 million has been spent by the end of 1994 and has been capitalized to fixed assets.

December 31, 1994 and 1993 (tabular amounts in millions of Canadian dollars)

## 20. LEASE COMMITMENTS

The Company has operating lease agreements for the rental of property, equipment and the charter of cargo vessels. The minimum annual rental payments under these leases are as follows:

| | |
|---|---|
| 1995 | $ 16 |
| 1996 | 10 |
| 1997 | 3 |
| 1998 | 2 |
| 1999 | 1 |
| Remaining years | 3 |
| | $ 35 |

## 21. 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:

(i) Unrealized exchange gains or losses arising on translation of long-term debt payable in U.S. funds 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. Under U.S. GAAP, such gains or losses would be included in earnings as they occur. Realized gains and losses relating to forward exchange contracts which hedge future anticipated sales are included in earnings at the time of the sales. Under U.S. GAAP, unrealized gains and losses on contracts entered into prior to obtaining firm sales commitments would be included in earnings.

(ii) The Company provides health and life insurance benefits to its retirees. The Company's cost of providing these benefits is expensed when paid. Under U.S. GAAP, and assuming immediate recognition of the unfunded transition obligation in 1993, the unfunded and unrecognized service and interest costs and the unfunded transition obligation would be charged to income. Subsequent to 1993, earnings are charged with the cost of benefits earned by employees as services are rendered.

(iii) The Company follows the deferral method of accounting for income taxes. Under U.S. GAAP, the asset and liability method is used. The Company adopted Statement of Financial Accounting Standards No. 109 ("FAS 109") on a prospective basis in 1993 resulting in an increase in earnings and a reduction in the deferred tax liability of approximately $24 million.

(iv) Under U.S. GAAP the full impact of the tax agreement referred to in Note 2 would be recorded in 1994 and the 1993 financial statements would not be restated.

If treated in accordance with U.S. GAAP, the effect of these differences would be:

| | 1994 | Restated *(note 2)* 1993 |
|---|---|---|
| Loss from continuing operations, reported under Canadian GAAP | $ 51 | $ 98 |
| Prior period adjustment under Canadian GAAP | (11) | 11 |
| Unrealized (gain) loss on translation of long-term debt payable in U.S. funds | 7 | (1) |
| Reduction of post retirement benefits expense (FAS 106) | (1) | (1) |
| Reduction of income tax expense (FAS 109) | (14) | (2) |
| Loss from continuing operations under U.S. GAAP | 32 | 105 |
| Change in accounting policies: | | |
| Employee post-retirement benefits expense, net of income taxes (FAS 106) | – | 14 |
| Adoption of FAS 109 – Income taxes | – | (22) |
| | 32 | 97 |
| Loss from discontinued operations under Canadian and U.S. GAAP | 4 | 13 |
| Loss for the year under U.S. GAAP | $ 36 | $ 110 |
| Dividends on preferred shares | 1 | 1 |
| Loss attributable to common shareholders under U.S. GAAP | 37 | 111 |
| **Per Common Share:** | | |
| Loss from continuing operations under Canadian GAAP | $ 0.62 | $ 1.38 |
| Adjustments to conform to U.S. GAAP | (0.23) | 0.10 |
| Loss from continuing operations under U.S. GAAP | $ 0.39 | $ 1.48 |
| Loss under Canadian GAAP | $ 0.66 | $ 1.56 |
| Adjustments to conform to U.S. GAAP | (0.22) | (0.01) |
| Loss under U.S. GAAP | $ 0.44 | $ 1.55 |

## QUARTERLY FINANCIAL INFORMATION

| (unaudited) (*millions of dollars, except per share amounts*) | 1st* Quarter | 2nd* Quarter | 3rd* Quarter | 4th Quarter | 1994* Total |
|---|---|---|---|---|---|
| **1994** | | | | | |
| Net sales | $ 471 | $ 519 | $ 553 | $ 568 | $ 2,111 |
| Operating profit (loss) from continuing operations | (11) | 3 | 9 | 25 | 26 |
| Unusual items | (22) | (5) | – | (2) | (29) |
| Profit (loss) from continuing operations | (40) | (16) | (5) | 10 | (51) |
| Loss from discontinued operations | – | – | – | (4) | (4) |
| Profit (loss) for the period | (40) | (16) | (5) | 6 | (55) |
| Per common share: | | | | | |
| Profit (loss) from continuing operations | $ (0.52) | $ (0.18) | $ (0.04) | $ 0.12 | $ (0.62) |
| Profit (loss) for the period | (0.52) | (0.18) | (0.04) | 0.08 | (0.66) |
| Dividends declared | – | – | – | – | – |
| Dividends paid | – | – | – | – | – |
| Price range per common share | | | | | |
| Toronto Stock Exchange | | | | | |
| High | $ 17.00 | $ 17.25 | $ 20.63 | $ 20.25 | |
| Low | 15.25 | 15.63 | 16.25 | 16.50 | |
| New York Stock Exchange (*U.S. Dollars*) | | | | | |
| High | $ 13.75 | $ 13.13 | $ 15.25 | $ 15.13 | |
| Low | 11.38 | 11.50 | 11.75 | 12.00 | |
| Weighted average number of common shares outstanding (*millions*) | 77.3 | 81.4 | 83.4 | 84.4 | 84.4 |

| (*millions of dollars, except per share amounts*) | 1st* Quarter | 2nd* Quarter | 3rd* Quarter | 4th* Quarter | 1993* Total |
|---|---|---|---|---|---|
| **1993** | | | | | |
| Net sales | $ 455 | $ 462 | $ 466 | $ 486 | $ 1,869 |
| Operating profit (loss) from continuing operations | (23) | (11) | 4 | (10) | (40) |
| Unusual items | – | (1) | (16) | (5) | (22) |
| Loss from continuing operations | (26) | (19) | (23) | (30) | (98) |
| Loss from discontinued operations | (1) | – | (2) | (10) | (13) |
| Loss for the period | (27) | (19) | (25) | (40) | (111) |
| Per common share: | | | | | |
| Loss from continuing operations | $ (0.39) | $ (0.27) | $ (0.33) | $ (0.39) | $ (1.38) |
| Loss for the period | (0.40) | (0.28) | (0.35) | (0.53) | (1.56) |
| Dividends declared | 0.125 | – | – | – | 0.125 |
| Dividends paid | 0.125 | 0.125 | – | – | 0.25 |
| Price range per common share | | | | | |
| Toronto Stock Exchange | | | | | |
| High | $ 16.00 | $ 16.00 | $ 13.88 | $ 15.88 | |
| Low | 12.75 | 13.25 | 10.75 | 10.88 | |
| New York Stock Exchange (*U.S. Dollars*) | | | | | |
| High | $ 12.63 | $ 12.63 | $ 10.63 | $ 11.88 | |
| Low | 10.25 | 10.50 | 8.25 | 8.25 | |
| Weighted average number of common shares outstanding (*millions*) | 69.3 | 69.3 | 70.0 | 71.8 | 71.8 |

* Financial results for the year ended 1993 and the first three quarters of 1994 have been restated to reflect the impact of an agreement reached in December of 1994 between taxation authorities in Canada and the United States that changed the allocation of the Company's taxable income between those countries. This change had a cumulative earnings impact of $17 million, $11 million of which reduced the Company's 1993 loss and $6 million of which reduced the loss for the first three quarters of 1994.

ABITIBI-PRICE

# Eleven-Year Financial Review [1]

| (unaudited)<br>Year ended December 31 | 1994 | 1993 | 1992 |
|---|---|---|---|
| **Sales and Earnings** *($ millions)* | | | |
| Net sales | $ 2,111 | $ 1,869 | $ 1,601 |
| Cost of sales | 1,913 | 1,727 | 1,557 |
| Selling and administrative expenses | 91 | 99 | 95 |
| Depreciation and depletion | 81 | 83 | 87 |
| Operating profit (loss) from continuing operations | 26 | (40) | (138) |
| Income (loss) from newsprint joint ventures, before income taxes | (33) | (38) | (50) |
| Interest expense – long-term | 40 | 39 | 29 |
| – short-term | – | 1 | 3 |
| Unusual items | 29 | 22 | 65 |
| Other income and expense, net | (4) | (9) | (11) |
| Earnings (loss) from continuing operations, before income taxes and extraordinary items | (80) | (149) | (296) |
| Recovery of (provision for) income taxes | 29 | 51 | 104 |
| Earnings (loss) from continuing operations, before extraordinary items | (51) | (98) | (192) |
| Earnings (loss) from discontinued operations, net of taxes | (4) | (13) | (27) |
| Extraordinary items | – | – | – |
| Net earnings (loss) for the year | (55) | (111) | (219) |
| **Dividends Declared** *($ millions)* | | | |
| Preferred shares | $ 1 | $ 1 | $ 2 |
| Common shares [2] | – | 9 | 35 |
| **Capital Expenditures from Continuing Operations** *($ millions)* | $ 72 | $ 39 | $ 21 |
| **Financial Position** *($ millions)* | | | |
| Working capital, excluding net assets held for divestiture | $ 224 | $ 146 | $ 45 |
| Net assets held for divestiture | – | 40 | 54 |
| Fixed assets, net | 906 | 865 | 917 |
| Long-term debt | 329 | 324 | 383 |
| Deferred income taxes | 112 | 150 | 213 |
| Preferred shares | 11 | 17 | 20 |
| Common shareholders' equity | 838 | 724 | 745 |
| **Per Common Share** [1] | | | |
| Earnings (loss) from continuing operations, before extraordinary items | $ (0.62) | $ (1.38) | $ (2.79) |
| Net earnings (loss) for the year | (0.66) | (1.56) | (3.19) |
| Dividends declared [2] | – | 0.125 | 0.50 |
| Dividends paid [2] | – | 0.25 | 0.50 |
| Common shareholders' equity | 9.93 | 10.08 | 10.75 |
| Return on average common shareholders' equity | – | – | – |
| Long-term debt/long-term debt plus shareholders' equity | 28% | 30% | 33% |
| Number of employees at December 31 | 6,381 | 7,470 | 8,630 |

Notes:

[1] 1993 and 1994 figures have been restated to record the impact of a prior period adjustment caused by a change in the allocation between countries of the Company's taxable income and losses.

ABITIBI-PRICE

| 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 | 1984 |
|---|---|---|---|---|---|---|---|
| $ 1,533 | $ 1,635 | $ 1,732 | $ 1,822 | $ 1,634 | $ 1,573 | $ 1,491 | $ 1,400 |
| 1,367 | 1,447 | 1,430 | 1,395 | 1,308 | 1,280 | 1,227 | 1,196 |
| 81 | 100 | 109 | 102 | 87 | 74 | 73 | 63 |
| 90 | 89 | 88 | 83 | 71 | 64 | 60 | 60 |
| (5) | (1) | 104 | 242 | 168 | 155 | 131 | 81 |
| (1) | (9) | 4 | 29 | 20 | 21 | 10 | 6 |
| 28 | 26 | 28 | 37 | 29 | 26 | 32 | 31 |
| 7 | 16 | 5 | 1 | 2 | 2 | 2 | 1 |
| 38 | 54 | 22 | – | – | – | – | – |
| 7 | 12 | 14 | 13 | 13 | 5 | 18 | 18 |
| (72) | (94) | 67 | 246 | 170 | 153 | 125 | 73 |
| 30 | 35 | (31) | (99) | (72) | (68) | (48) | (17) |
| (42) | (59) | 36 | 147 | 98 | 85 | 77 | 56 |
| (34) | 9 | 18 | 41 | 28 | 25 | 23 | 16 |
| – | – | – | 3 | – | (3) | – | (2) |
| (76) | (50) | 54 | 191 | 126 | 107 | 100 | 70 |
| $ 2 | $ 2 | $ 6 | $ 8 | $ 8 | $ 9 | $ 9 | $ 8 |
| 35 | 35 | 61 | 69 | 49 | 42 | 47 | 25 |
| $ 28 | $ 87 | $ 141 | $ 130 | $ 198 | $ 221 | $ 150 | $ 79 |
| $ 121 | $ 179 | $ 308 | $ 521 | $ 572 | $ 425 | $ 334 | $ 385 |
| 255 | 305 | 312 | 265 | 253 | 218 | 239 | 165 |
| 1,041 | 1,103 | 1,118 | 1,085 | 1,047 | 965 | 856 | 790 |
| 369 | 388 | 405 | 456 | 561 | 413 | 433 | 400 |
| 350 | 407 | 417 | 389 | 296 | 255 | 220 | 194 |
| 21 | 27 | 31 | 115 | 121 | 123 | 124 | 104 |
| 1,001 | 1,113 | 1,200 | 1,212 | 1,098 | 1,029 | 837 | 793 |
| $ (0.62) | $ (0.88) | $ 0.44 | $ 2.01 | $ 1.30 | $ 1.13 | $ 1.06 | $ 0.76 |
| (1.12) | (0.76) | 0.70 | 2.64 | 1.70 | 1.46 | 1.42 | 0.99 |
| 0.50 | 0.50 | 0.875 | 1.00 | 0.70 | 0.60 | 0.73 | 0.40 |
| 0.50 | 0.50 | 1.00 | 1.00 | 0.60 | 0.60 | 0.58 | 0.40 |
| 14.44 | 16.06 | 17.32 | 17.50 | 15.86 | 14.86 | 13.04 | 12.40 |
| – | – | 4% | 16% | 11% | 11% | 11% | 8% |
| 27% | 25% | 25% | 26% | 32% | 26% | 31% | 31% |
| 12,068 | 14,300 | 15,600 | 16,200 | 16,000 | 16,200 | 15,500 | 14,800 |

(2) Four quarterly dividends were paid in each of the years 1983 to 1992, but because of changes in dividend declaration dates, three dividends were declared in 1983 and five in 1985. Common share dividends were suspended after the first declaration in 1993.

# Directors

**André Caillé** (3, 6)
President & C.E.O.
Gaz Metropolitain Inc.
Montreal, Québec

**Richard Drouin, Q.C.** (2, 5)
Chairman and Chief Executive Officer
Hydro-Québec
Sillery, Québec

**Stanley H. Hartt, Q.C.** (1, 2)
Chairman, President & Chief Executive Officer
Camdev Corporation
Toronto, Ontario

**H. Earl Joudrie** (1, 3, 6)
Chairman
Algoma Steel Inc. and
Gulf Canada Resources Limited
Toronto, Ontario

**Bernd K. Koken** (1, 4, 5)
Chairman
Abitibi-Price Inc.
Osprey, Florida

**Claudette Mackay-Lassonde** (4, 6)
President
Firelight Investments Ltd.
Toronto, Ontario

**C. Edward Medland** (3, 4, 5)
President
Beauwood Investments Inc.
Toronto, Ontario

**Allan H. Michell** (2, 4)
Director
Montreal, Quebec

**Henry J. Nowak** (4, 6)
Attorney-at-Law / Consultant
Buffalo, New York

**Ronald Y. Oberlander** (1)
President & Chief Executive Officer
Abitibi-Price Inc.
Toronto, Ontario

**John A. Tory, Q.C.** (1, 3, 5)
Deputy Chairman
The Thomson Corporation
Toronto, Ontario

**David A. Ward, Q.C.** (2, 6)
Partner
Davies, Ward & Beck
Toronto, Ontario

**(1) Executive Committee**

The Executive Committee acts on behalf of the board of directors between regular board meetings on matters requiring Company action before the board can be assembled. These matters will usually have been addressed previously by the board, which will have provided direction to the Executive Committee. In addition, the Committee reviews long-term strategic plans, annual objectives, major capital projects and investment strategies as well as significant acquisitions and divestitures.

**(2) Audit Committee**

None of the members of the Audit Committee are officers of the Company. This Committee reviews all audited financial statements with management and the shareholders' auditors and, after satisfying itself as to the integrity of the statements, recommends their approval by the board. The Audit Committee also reviews changes in accounting policies and satisfies itself as to the effectiveness of audit programs and internal control systems and procedures. The Committee meets regularly with both internal and external auditors, with and without management, to consider the results of their audits and other activities they supervise. The Committee also recommends the appointment of the Company's external auditors to the board.

**(3) Human Resources and Compensation Committee**

The Human Resources and Compensation Committee oversees compensation and career development for the Company's officers and managers.

**(4) Pension Fund Committee**

The Pension Fund Committee advises the board with respect to all funding, administrative and policy matters relating to the Company's pension plans.

**(5) Corporate Governance Committee**

The Corporate Governance Committee recommends to the board the slate of director candidates to be proposed for election by the shareholders at the annual meeting. It recommends candidates to fill vacancies on the board as they occur and oversees all matters of corporate governance. The Corporate Governance Committee also directs all administrative matters of the various committees of the board and the effectiveness of the board and committees.

**(6) Environmental Committee**

The Environmental Committee oversees and advises the board with respect to the Company's environmental matters.

# Management and Principal Officers*

### Chairman of the Board

**Bernd K. Koken***

### President and Chief Executive Officer

**Ronald Y. Oberlander***

### Executive Vice-Presidents

**T. Maitland Devine***
**David L. Loretto***
**C. Donald Martin***
**John W. Weaver***

### Senior Vice-Presidents

**Jean-Claude Casavant***
Organizational Leadership and Innovation

**Eileen A. Mercier**

### Vice-Presidents

**William S. Brown***
Corporate Communication

**Patrick G. Crowley***
Chief Financial Officer

**Fernand H. Duquette***
Engineering and Environment

**Robert P. Kanee***

**Colin J. Keeler**
Marketing

**J. Raymond Langevin**

**William H. Sheffield**

**Jacques P. Vachon***
Legal Affairs and Secretary

**Phil Whiting**
Executive Scientist

**Brian J. Young**
Environmental Affairs

### Other Businesses

*Office Products*

**Bruce J. McGroarty**
President
Axidata, Azerty, Eurozerty

*Ediwise*

**Ijen Huang**
President

## Mill Business Unit Management Teams

### Alabama River Newsprint Company
*Claiborne, Alabama*

**Ben Cagle**
Co-Leader
**Thor Thorsteinson**
Co-Leader
**Barbara Cole**
Finance
**Russ Sirmon**
Production
**Terry Wilkerson**
Human Resources

### Alma
*Alma, Quebec*

**Breen Blaine**
Co-Leader
**Jean-Marc Simard**
Co-Leader
**Richard Guay**
Human Resources
**Claude Potvin**
Production

### Augusta Newsprint Company
*Augusta, Georgia*

**Bob Collez**
Co-Leader
**Dick Dorris**
Co-Leader
**David Pierce**
Finance
**Jim Reece**
Human Resources
**Rich Zgol**
Production

### Beaupré
*Beaupré, Quebec*

**Marcel Beaudoin***
Co-Leader
**Luc Ranger**
Co-Leader
**Richard Leblanc**
Human Resources
**Daniel Sénéchal**
Finance

### Fort William
*Thunder Bay, Ontario*

**Jon Melkerson**
Co-Leader
**Brian Stevenson**
Co-Leader
**Peter Kibzey**
Finance

### Gaspesia Pulp and Paper Company
*Chandler, Quebec*

**Allen Dea**
Co-Leader
**Eric Holzer**
Co-Leader
**Ghislain Cyr**
Production
**Daniel Gauvin**
Human Resources
**Michel Maillé**
Finance

### International
*Grand Falls & Stephenville, Newfoundland*

**Dave Kerr**
Co-Leader
**Paul Planet**
Co-Leader
**Jack Verhoeven**
Co-Leader
**Gord Oldford**
Human Resources
**Barry Perry**
Finance

### Iroquois Falls
*Iroquois Falls, Ontario*

**Joe Robb**
Co-Leader
**Bill Sheffield**
Co-Leader
**Alain Lalonde**
Finance
**Don McCroome**
Human Resources
**Roy Richardson**
Production
**Don Hopkins**
Fibre

### Kenogami
*Jonquière, Quebec*

**Alain Grandmont**
Co-Leader
**Joe Tesone**
Co-Leader
**Gaétan Guérin**
Human Resources
**Bob Haché**
Finance
**Gérald St-Pierre**
Production

## Market Securities Information

### Common Shares

Common shares of the company trade on the Toronto, Montreal, and Vancouver stock exchanges under the symbol A and on the New York Stock Exchange under the symbol ABY.

### Convertible Debentures

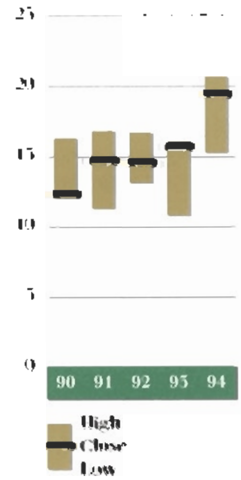
In March 1993, the company issued Convertible Debentures bearing an annual interest rate of 7.85%. These securities trade under the symbol A.D. on the Toronto and Montreal stock exchanges. On a fully diluted basis these debentures represent 10,000,000 common shares.

### Instalment Receipts

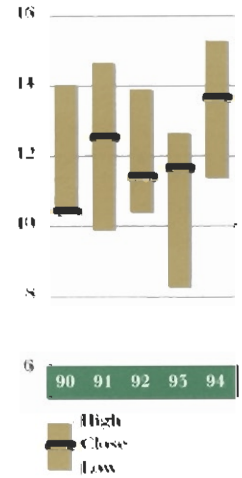
In January 1994, the company's former principal shareholder offered for sale all of its 54,554,482 Abitibi-Price common shares on an instalment basis. The first instalment of $6.25 per share was paid upon closing of the offering. The second instalment of $5.00 per share was paid on January 31, 1995. The third and final instalment of $5.00 per share is payable on or before October 31, 1995.

Prior to January 31, 1995, the instalment receipts traded under the symbol A.R on the Toronto and Montreal stock exchanges. Since that date the instalment receipts trade on those exchanges under the symbol A.I.

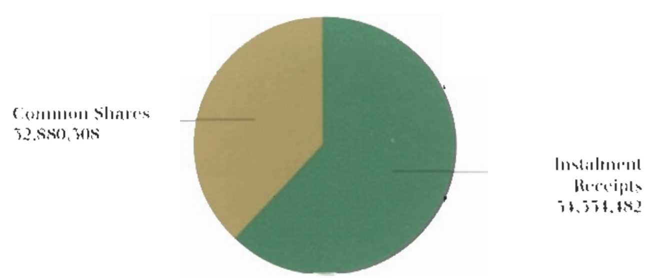
**Common Share Price**
**Toronto Stock Exchange**
*(Canadian dollars)*



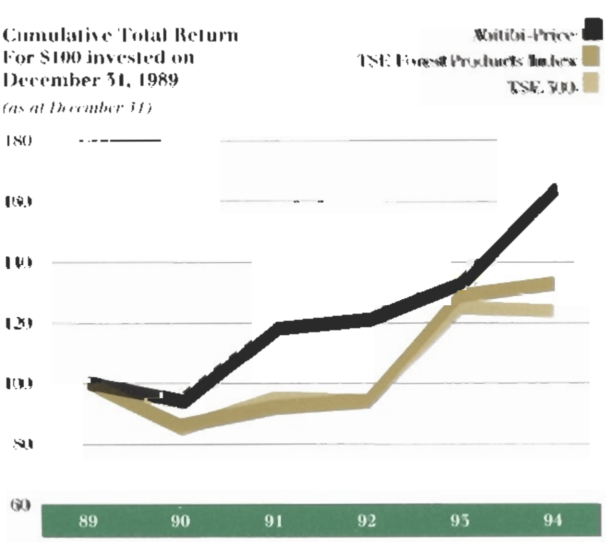

**Common Share Price**
**New York Stock Exchange**
*(U.S. dollars)*



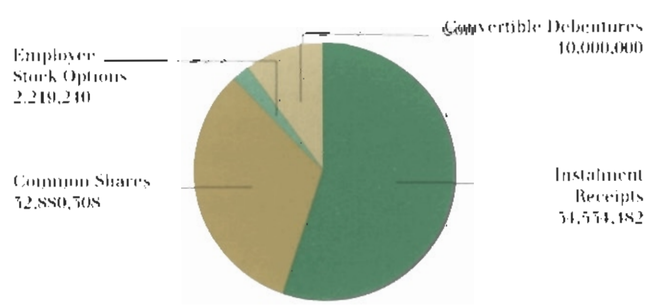

**Common Stock Portfolio (87,414,790 shares outstanding)**




**Cumulative Total Return**
**For $100 invested on**
**December 31, 1989**
*(as at December 31)*




**Common Stock Portfolio (99,634,030 shares on a fully diluted basis)**



## Annual General Meeting

The annual general meeting of shareholders of Abitibi-Price Inc. will be held at Reception Hall, Room 104, Lower Level, Metro Toronto Convention Centre, 255 Front St. West, Toronto, Canada, on Monday, April 17, 1995 at 2:00 p.m.

## Transfer Agents and Registrars

**Montreal Trust Company**

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

**Harris Trust and Savings Bank**

Chicago, U.S.A.

## Auditors

**Price Waterhouse**

Toronto, Canada

**Credits**

Design: Bryan Mills & Associates Ltd.

Photograph of R.Y. Oberlander: Deborah MacNeill

Photographs *Pages 6-11:* First Light

*Pages 6-7:* Louise Bilodeau

*Pages 8-9:* Greg Locke

*Pages: 10-11:* André Souroujon

Printing: Arthurs-Jones Lithographing Ltd.

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## Information Available Upon Request

Additional information about the affairs of the company is available at no cost by contacting the company at:

**Abitibi-Price Inc.**
Communication & Public Affairs
207 Queen's Quay West, Suite 680
Toronto, Ontario
Canada M5J 2P5

Telephone: (416) 203-4810
Facsimile: (416) 203-5090

Upon request, the company will make available copies of its annual report, annual information form, management proxy circular, interim reports and news releases.

### Environmental Report

Last April, the company published its first Environmental Report. Copies of that report are available on request. The company plans to issue its second environmental report towards the end of 1995.

### Annual Information Form (Form 10-K)

The company's Annual Information Form (AIF) is filed with securities regulators in Canada and the United States.

Under the Multi-Jurisdictional Disclosure System (MJDS) introduced in 1991, the company's AIF is filed as Form 40-F with the U.S. regulatory authority, the Securities and Exchange Commission (SEC), as an equivalent filing to the Form 10-K.

### Interim Reports (Form 10-Q)

Similarly, the company files each of its interim quarterly reports with regulatory authorities in Canada and with the SEC in the United States as Form 6-K, as an equivalent filing to Form 10-Q.

## Investor Relations Contact

Robert J. Tait
Manager, Investor Relations

Telephone: (416) 203-5089
Facsimile: (416) 203-5090

ABITIBI-PRICE

Printed in Canada