UNION CARBIDE CANADA LIMITED

ANNUAL REPORT 1983

UNION CARBIDE

Directors

Douglas F.S. Coate
Vice-President, Secretary and General Counsel
Union Carbide Canada Limited, Toronto

†*Jacques de Billy, Q.C.
Senior Partner, Messrs. Gagnon, de Billy, Cantin, Martin, Beaudoin & Lesage, Quebec City

•*John S. Dewar
Retired Chairman
Union Carbide Canada Limited, Toronto

Alexander I. Hainey
Senior Vice-President
Union Carbide Canada Limited, Toronto

•†*Robert D. Kennedy
Executive Vice-President
Union Carbide Corporation, Danbury, Ct.

•W. Norman Kissick
Chairman and Chief Executive Officer
Union Carbide Canada Limited, Toronto

†*J. Wallace Madill
Chief Executive Officer
Alberta Wheat Pool, Calgary

•†*The Hon. Ian D. Sinclair, O.C., Q.C.
Senator
Chairman, Canadian Pacific Enterprises Limited, Toronto

†*J. Clayton Stephenson
Executive Vice-President and Chief Financial Officer
Union Carbide Corporation, Danbury, Ct.

†*James C. Thackray
Chairman and Chief Executive Officer
Bell Canada, Toronto

†*Richard M. Thomson
Chairman and Chief Executive Officer
The Toronto-Dominion Bank, Toronto

*Audit Committee
†Compensation Committee
•Executive Committee

Executive Officers

W. Norman Kissick
Chairman and Chief Executive Officer

Ralph C. Addison
Senior Vice-President

Alexander I. Hainey
Senior Vice-President

Bob G. Perry
Senior Vice-President

Robert H. Rastorp
Senior Vice-President

Douglas F.S. Coate
Vice-President, Secretary and General Counsel

Vernon V. Garlick
Vice-President and Treasurer

George A. Kelly
Controller

Vice-Presidents and General Managers

David R. Barclay
Battery Products

Robert J. Brema
Home and Automotive Products

Dennis C. Champ
Chemicals

J. Robert Frank
Food Casings

George N. Henderson
Metals

André G. Lapalme
Hydrocarbons

Thomas R. Pezzack
Films

William D.E. Phillips
Polyethylene

Steven J. Roschuk
Carbon Products

Neil F. Weaver
Gas Products

Functional Unit Directors

James P. Gracie, M.D.
Health, Safety and Environmental Affairs

George T. Harrap
Distribution

James M. Neelands
Computing and Telecommunications

Stewart N. Playford
Purchasing and Materials Services

Robert A. Seath
Corporate Communications

Charles W. van Winsen
Human Resources

About Union Carbide Canada

Union Carbide Canada Limited is a diversified manufacturing company with core businesses in plastics and chemicals; gases, metals and carbon; and consumer and related products.

It is 25 per cent Canadian owned, its common shares being held by approximately 3,200 shareholders.

The remaining 75 per cent of the common equity is owned by Union Carbide Corporation, of Danbury, Connecticut.

The Annual Meeting of Shareholders will be held at 10.30 a.m. on Tuesday, April 24, 1984, at the Royal York Hotel, Toronto.

Sur demande, il nous fera plaisir de vous envoyer l'édition française de ce rapport.

To Our Shareholders

An intensive focus on cost containment and productivity improvement has helped Union Carbide Canada Limited achieve a significant recovery from the 1981-82 recession. Although the lingering effects of the recession made 1983 another challenging year, considerable progress was made in charting a return to traditional profitability.

The Company is primarily a supplier of products to other manufacturers for further upgrading into a wide range of industrial goods which means its performance customarily lags economic trends. As the economy resumed growth during the year, financial results showed steady improvement and profits were recorded in each of the last two quarters. However, performance continued to be seriously restrained by the high taxation of oil-based petrochemical raw materials and by the low level of steel production. The steel industry, which represents a major market for the Company, operated at only 60 per cent of capacity in 1983.

Sales for the year at $687 million were one per cent below 1982. Even with this static sales revenue, however, the 1982 net loss of $17.9 million, or $1.20 per common share, was reduced to $1.4 million, or 29 cents per common share.

Cost control was a major contributor to the improvement as corporate administrative expense was pared by 13 per cent and total overhead was reduced by eight per cent.

The 1983 results took into account a gain of $10 million from the effect of a financial assistance program provided by the governments of Canada and Quebec in recognition of the special position of Pétromont, the primary petrochemical limited partnership in Montreal. Pétromont will repay the assistance out of future earnings. The one-third equity interest Union Carbide Canada held in Pétromont in 1983 was increased to 50 per cent subsequent to the year-end with the withdrawal of Gulf Canada Limited from the venture.

By business area, Plastics and Chemicals reduced its operating loss by two thirds on marginally lower sales; Gases, Metals and Carbon recorded a comparable operating profit to the previous year on one per cent less sales; and Consumer and Related registered a healthy gain in operating profit on slightly higher sales.

To Our Shareholders

The petrochemical business in Canada, and indeed the world, has undergone a radical transformation in the aftermath of the energy crises of the 1970's and subsequent energy policy responses by governments. This restructuring of the industry offers a unique opportunity for Canada to capitalize on its relatively abundant hydrocarbon resources and its competitive strengths, compared to other energy-rich countries that are just beginning to establish petrochemical operations. There appears to be a growing appreciation that this industry is a key building block which is essential to Canada's economic vitality. The industry has been exhaustively studied in recent years and a Petrochemical Industry Task Force, made up of management and labour representatives, has just completed another in-depth analysis of the industry's needs.

We are optimistic that the Federal Government will react promptly to the task force recommendations, providing a more positive framework for growth.

Meanwhile, Union Carbide Canada is pressing ahead with its own plans to create a more efficient company that can react effectively to a new economic order of vigorous competition and less robust expansion. Our immediate goal is to sustain and improve on the productivity gains won at such high cost as a result of Canada's severest recession in half a century.

At mid-year, J. S. Dewar retired as Chairman and Chief Executive Officer, concluding a remarkable 40-year career devoted to Union Carbide Canada's expansion. Mr. Dewar provided exceptional leadership for the past 18 years and we are most pleased that he will continue as a member of the Board of Directors.

We express special thanks to our employees for the extra effort and ingenuity they applied during a trying period of transition. We are fortunate to have a workforce that contributed so capably to 1983's achievements.

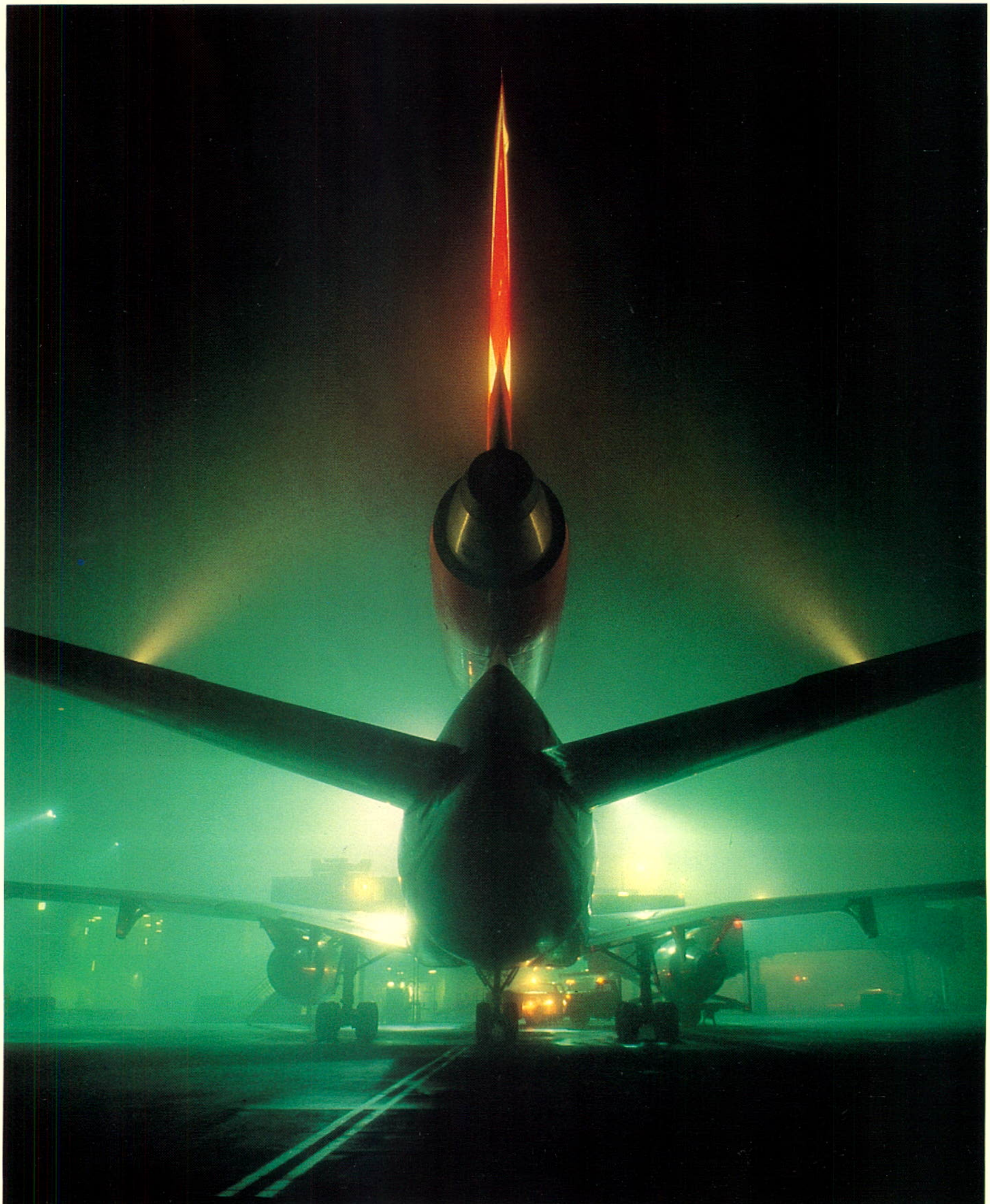
Chairman and
Chief Executive Officer

The aviation industry is a major user of Union Carbide Canada's largest volume chemical family, glycols. They are the base ingredients of de-icing fluid that is sprayed throughout the winter months on a range of aircraft, from larger airliners like this one to executive and military planes.

The Year at a Glance

	1983	1982	1983	1982
	(thousands of dollars)		(per common share)	
Sales	**$ 686,978**	$ 691,330		
Net income (loss)	**(1,439)**	(17,907)		
Earnings (loss) for common shareholders	**(5,891)**	(24,073)	**$ (0.29)**	$ (1.20)
Dividends on common shares	**2,503**	6,003	**0.13**	0.30
Funds from operations	**23,477**	(3,766)	**1.17**	(0.19)
Fixed asset additions	**55,921**	67,609		
Prentiss glycol plant	**–**	50,962		
Total assets	**904,091**	938,295		
Common shareholders' equity	**340,186**	348,580	**16.93**	17.35
Return on sales	**(0.9%)**	(3.5%)		
Return on invested capital*	**(0.9%)**	(3.7%)		
Return on common shareholders' equity*	**(1.7%)**	(6.6%)		

*Based on average of beginning and end of year figures. Invested capital includes short-term debt, long-term debt and shareholders' equity.



Operations Review

Plastics and Chemicals

Union Carbide Canada manufactures polyethylene, the most widely used plastic, at plants in the south-western Ontario community of Moore Township and in Montreal East, Quebec. More than 20 different groups of chemicals also are produced at Montreal East.

Sales of Plastics and Chemicals experienced a two per cent decline to $255.7 million in 1983. While domestic volume improved 14 per cent, exports plummeted 55 per cent as the government-regulated cost of oil-based raw materials made competing in offshore markets more difficult. Uncompetitive feedstock costs remain the fundamental problem of the Canadian petrochemical industry.

An improving trend in supply/demand balances allowed for some upward movement in prices for the first time in more than two years. By year-end, prices for most grades of polyethylene resin had almost recovered to the levels of early 1981 after dropping as much as 30 per cent in the interim. The price recovery, combined with aggressive cost curtailment, contributed to a substantial reduction in Plastics and Chemicals' operating loss to $10.6 million from the $33 million loss of the previous year.

Despite new competition, Union Carbide Canada's Moore Township facility remains the only plant in Canada producing the complete range of polyethylene resins. This capability led to the successful introduction in 1983 of a series of blended resins which allow end-products to be made at thinner gauges and less cost, often with improved performance properties.

In 1984, further polyethylene sales gains are anticipated as domestic markets continue to strengthen and additional progress is expected to be made in returning to an operating profit.

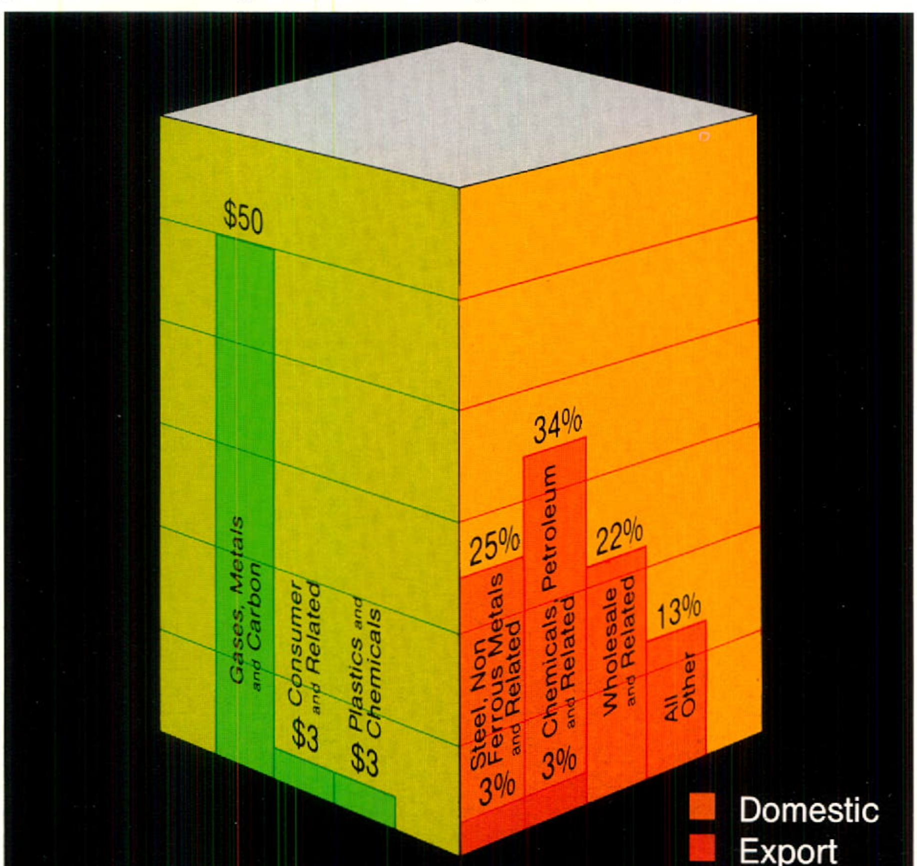
Demand for ethylene oxide and ethylene glycol, the two major chemicals produced by Union Carbide Canada, remained weak, although some improvement occurred in the polyester fibre industry. An over-supplied marketplace negatively affected selling prices.

A new hydraulic fluid was successfully introduced during the year for use in mining equipment. The fluid is more fire resistant than conventional hydraulic fluids.

Moderate growth in chemicals' sales is foreseen for 1984 with the pick-up in demand occurring primarily in the polyester, automotive and coatings markets.

Fixed Asset Additions
(in millions of dollars)

Sales by Markets
(per cent of sales)



Union Carbide Canada's LINDE oxygen is used to start a controlled underground fire that thins out hard-to-retrieve oil and helps it flow to the surface in this experimental project in Alberta. The process is called fireflooding and it could eventually surpass steelmaking as the largest application for oxygen in Canada.


LINDE
LINDE
UNION CARBIDE

Operations Review

Gases Metals and Carbon

Gases, Metals and Carbon recorded a one per cent decline in sales to $252.5 million as the consumer-led recovery generated little benefit in 1983 for the steel and other industrial markets served by this segment of Union Carbide Canada's operations. Operating profit was $28 million, against 1982's $27.7 million.

Industrial and specialty gases and welding and cutting equipment are manufactured and marketed under the LINDE trade name for use in steelmaking, refining, chemical production, metalworking, food processing, and enhanced oil and gas recovery. High-technology stream separation systems are supplied to chemical plants and refineries. MEDIGAS medical gases and related equipment are sold to hospitals and research facilities and for home health care.

This breadth of products and services, together with an emphasis on serving the high-growth sectors of established markets, caused a moderate increase in gases sales. However, sales of welding and cutting equipment and stream separation systems declined in line with the reduction in capital spending in Canada.

Volume gains in excess of economic growth are projected for 1984, consistent with the expanding recovery of industrial markets. Improvements in pricing and productivity should enhance profit margins. Additional earnings growth will result from the start-up in the first half of the year of new air separation facilities at Prentiss, Alberta, and Sarnia, Ontario. Both plants were essentially complete at year-end. The $50 million Prentiss operation will supply gaseous oxygen and nitrogen to Union Carbide Corporation's adjacent ethylene glycol facility and other Western Canadian customers while the $4.5 million Sarnia plant will satisfy the growing demands of customers supplied by Union Carbide Canada's Chemical Valley pipeline nitrogen system.

Metals' operations involve the manufacture of ferroalloys at plants in Beauharnois and Chicoutimi, Quebec. Sales improved over 1982 as a result of market share gains and customer inventory adjustments. However, the prolonged weakness of North American ferroalloy markets was further aggravated by increased offerings of offshore materials, frequently from Third World producers enjoying government subsidies.

Union Carbide Canada's principal products made from carbon are graphite electrodes which are manufactured at Welland, Ontario, and used to carry power into electric arc steel furnaces. Other carbon and graphite products are supplied to the iron, ferroalloy, aluminum and artificial abrasive industries.

Graphite electrode sales were held to a marginal increase by the efforts of steelmakers to lower costs by cutting inventories and reducing electrode consumption per tonne of steel produced.

With a projected increase in steel output, higher demand is expected to increase sales in 1984 despite intensified competition.

The PRESTONE II family of car care products, which includes the leading brand of anti-freeze, now has two additions that reflect the increasing trend to do-it-yourself automobile maintenance: Super Stop Leak is added to the cooling system to correct or prevent leaks and Rad Flush is for cooling systems that require a thorough cleaning.

Operations Review

Consumer and Related

Sales of Consumer and Related products increased by two per cent to $178.8 million, with operating profit rising to $7.3 million from $4 million in 1982.

Expanded sales of ENERGIZER and EVEREADY batteries, manufactured at Walkerton, Ontario, reflected the upswing in consumer spending. Prices also improved, though below the inflation rate. The EVEREADY line of lighting products was revitalized during the year with new packaging and the introduction of a halogen lantern that provides extra bright light. Continued growth in battery sales is anticipated in line with growing consumer confidence.

The performance of GLAD home products, which are produced at Orangeville, Ontario, and Cowansville, Quebec, was inhibited by strong price competition and higher raw material costs. A newly-developed odour suppressant was added to GLAD Kitchen Catchers and received encouraging consumer acceptance. Sales of GLAD products are expected to resume their normal growth level in 1984 as higher polyethylene costs are passed through to the retail level.

A surge of new car sales softened the 1983 demand for replacement anti-freeze and increased competition from regional brands, manufactured from lower-priced U.S. ethylene glycol, held selling prices for PRESTONE II and custom-branded products below the already-depressed level of the previous year. Pricing pressures are expected to ease in 1984. New car care products introduced in 1983 should also contribute to sales and profitability.

Sales of film products, which are made at Lindsay, Ontario, and Cowansville for packaging, construction sheeting and shrink wrap applications, achieved marginal gains in the face of continuing industry over-capacity and aggressive competition for volume. Volume and price increases are projected to enhance 1984's results which should benefit as well from the improvements of a rationalization program implemented in late 1983.

Food casings, manufactured by the Company at Lindsay, are supplied to the processed meat industry which is undergoing a period of rationalization. A marginal sales increase was achieved, principally through higher selling prices, and a similar performance is expected in 1984, although little growth is foreseen in processed meat consumption.

Tough new GLAD garbage bags with Super G, a special blend of polyethylene resins produced by Union Carbide's proprietary UNIPCL process and conventional resins, provide increased strength and stretch qualities and are more resistant to perforation – benefits that allow the bags to hold even more without splitting.

Financial Review

Net working capital decreased from $213 million at the beginning of 1983 to $153 million at year-end, reducing the current ratio (total current assets: total current liabilities) from 2.7:1 to 2.1:1.

Fixed asset additions amounted to $56 million, down from 1982's $68 million. A further decline will be experienced in 1984 as capital spending is limited to projects considered strategically essential. No significant new investments were made during the year.

Union Carbide Canada has a $300 million bank line of credit, of which half is a committed, five-year revolving facility. Under this facility, long-term debt decreased during the year from $100 million to $81 million. The latter amount included $60 million of borrowing under a commercial paper program which was successfully instituted late in the year. The Company also has $152 million of long-term debt at fixed rates of interest.

In the fourth quarter, a common share dividend of 12.5 cents per share was paid to enable Union Carbide Canada to retain its status as an eligible investment for certain institutions. Over the past five years, the dividend payout has averaged 33 per cent of earnings for common shareholders. The book value per common share at year-end was $16.93, compared with $17.35 in 1982.

Although the 1983 loss produced negative returns on sales, invested capital and shareholders' equity, during the five-year period 1979-83, return on sales averaged 3.3 per cent, return on invested capital five per cent and return on shareholders' equity 8.4 per cent.

Management Report

The 1983 Annual Report of Union Carbide Canada Limited, and the financial statements included therein, were prepared by management and approved by the Board of Directors. The Audit Committee of the Board is responsible for reviewing and monitoring the Company's accounting and reporting practices, audit plans and findings and internal controls.

The 1983 consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles appropriate in the circumstances. The Company's auditors, Thorne Riddell, are responsible for auditing and reporting on these statements.

All information in the 1983 Annual Report is consistent with the financial statements included therein.

Auditors' Report

To the Shareholders of Union Carbide Canada Limited

We have examined the consolidated balance sheet of Union Carbide Canada Limited as at December 31, 1983 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Thorne Riddell
Chartered Accountants

Toronto, Canada
January 24, 1984

Consolidated Statement of Income and Retained Earnings

	Year ended December 31 1983	1982
	(thousands of dollars)	
Sales	**$ 686,978**	$ 691,330
Cost of sales	**569,891**	598,747
Selling, general and administrative expenses	**71,116**	75,651
Depreciation	**40,921**	36,964
Interest	**30,000**	28,986
Interest capitalized during construction	**(4,011)**	(4,966)
	707,917	735,382
	(20,939)	(44,052)
Investment and other income	**3,056**	5,672
Equity in earnings (loss) of investments	**2,098**	(1,840)
Income (loss) before income taxes	**(15,785)**	(40,220)
Income taxes (recovery)	**(14,346)**	(22,313)
Net income (loss)	**(1,439)**	(17,907)
Retained earnings at beginning of year	**287,625**	317,701
	286,186	299,794
Dividends – preferred	**4,452**	6,166
– common	**2,503**	6,003
	6,955	12,169
Retained earnings at end of year	**$ 279,231**	$ 287,625
Earnings (loss) per common share (in dollars)	**$ (0.29)**	$ (1.20)

The notes on pages 13 to 17 are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

	Year ended December 31 1983	1982
	(thousands of dollars)	
Working capital derived from		
Operations		
Net income (loss)	**$ (1,439)**	$ (17,907)
Items not affecting working capital		
Depreciation	**40,921**	36,964
Deferred income taxes	**(14,346)**	(22,313)
Decrease (increase) of equity in investments	**(1,250)**	2,704
Gain on disposal of capital assets	**(409)**	(3,214)
Funds from operations	**23,477**	(3,766)
Increase in long-term debt	**—**	149,904
Proceeds on disposal of capital assets	**5,670**	80,013
Other	**520**	394
	29,667	226,545
Working capital applied to		
Fixed assets	**55,921**	67,609
Prentiss glycol plant	**—**	50,962
Dividends	**6,955**	12,169
Reduction in long-term debt	**24,798**	5,250
Investments	**2,030**	25,244
	89,704	161,234
Increase (decrease) in working capital	**(60,037)**	65,311
Working capital at beginning of year	**212,587**	147,276
Working capital at end of year	**$ 152,550**	$ 212,587

The notes on pages 13 to 17 are an integral part of this statement

Consolidated Balance Sheet

	December 31 1983	1982
	(thousands of dollars)	
Assets		
Current assets		
Accounts receivable	**$ 130,415**	$ 163,742
Inventories	**162,936**	176,133
	293,351	339,875
Fixed assets	**502,095**	487,164
Investments	**108,645**	111,256
	$ 904,091	$ 938,295
Liabilities		
Current liabilities		
Accounts payable	**$ 119,371**	$ 121,567
Short-term debt	**16,270**	–
Current portion of long-term debt	**1,700**	1,800
Taxes payable	**3,460**	3,921
	140,801	127,288
Long-term debt	**232,606**	257,404
Deferred income taxes	**130,498**	145,023
	503,905	529,715
Shareholders' equity		
Capital stock	**120,955**	120,955
Retained earnings	**279,231**	287,625
	400,186	408,580
	$ 904,091	$ 938,295

Approved by the Directors
Signed: "W.N. Kissick", Director
"J. de Billy", Director

The notes on pages 13 to 17 are an integral part of this statement.

Notes to the Consolidated Financial Statements (tabular amounts in thousands of dollars)

1. Summary of Significant Accounting Policies

Principles of consolidation	The financial statements of significant subsidiaries are consolidated with those of the Company. Investments owned 25 to 50 per cent and non-significant subsidiaries are accounted for by the equity method. Other investments are carried at cost.
Inventories	Inventory values do not include depreciation of fixed assets and are stated at the lower of average cost and net realizable value.
Fixed assets and depreciation	Fixed assets are carried at cost, which includes interest capitalized during construction on major projects. They are depreciated on the straight-line method over their estimated useful service lives after they become operative. This results in a composite depreciation rate of 6%.
Income taxes	Investment tax credits are included in income in the year they are claimed for tax purposes as a reduction in the current income tax provision.

2. Supplementary Balance Sheet Detail

		December 31	
		1983	1982
Inventories	Raw materials and supplies	**$ 44,647**	$ 45,888
	Work in process	**50,452**	50,284
	Finished goods	**67,837**	79,961
		162,936	176,133
Fixed assets	Land	**8,283**	8,277
	Buildings	**118,290**	112,818
	Machinery and equipment	**696,755**	648,946
	Gross fixed assets	**823,328**	770,041
	Accumulated depreciation	**321,233**	282,877
	Net fixed assets	**502,095**	487,164
Long-term debt	Unsecured debentures		
	9¾% due May 1, 1986	**19,343**	21,000
	16% due January 15, 1989	**50,000**	50,000
	8⅜% due May 1, 1992	**19,750**	20,500
	10¾% due June 15, 1995	**63,000**	66,000
	Revolving bank loan	**80,513**	99,904
		232,606	257,404

The Company has a $300,000,000 credit facility with certain Canadian chartered banks under which it may borrow up to $150,000,000 as an operating loan and $150,000,000 as a long-term revolving loan. The revolving bank loan is available to replace commercial paper and bankers' acceptances as they come due. At year-end, the interest rates varied from 9.775% to 10.59% including fees and commissions.

The revolving bank loan is convertible to a term loan on September 1, 1988 or earlier at the Company's option whereupon the interest rate becomes prime plus ¼% and the principal becomes repayable in equal quarterly instalments to maturity on September 1, 1996.

Maturities and sinking fund requirements for the next five years are: 1984 – $1,700,000; 1985 – $5,093,000; 1986 – $21,750,000; 1987 – $3,750,000; 1988 – $6,266,000

	Interest on long-term debt	**29,937**	24,066

Notes to the Consolidated Financial Statements (tabular amounts in thousands of dollars)

Capital Stock

Authorized
Preferred — 6,000,000 shares issuable in series
Common — unlimited
Issued

	Shares	Amount
Preferred Series A	**2,400,000**	**$ 60,000**
Common	**20,088,536**	**60,955**
		120,955

The preferred shares Series A are redeemable at the option of the Company and are retractable at the option of the holder on June 1, 1987, in each case at a price of $25 per share plus any unpaid dividends. They have a cumulative preferential floating rate dividend which is adjusted and payable quarterly at a rate which is applied to $25 and is equal to the sum of 1¼% plus one half of commercial bank prime interest rate.

3. Investments

	1983	1982
Investments, at equity	**$ 34,903**	$ 32,976
Petrosar Limited, at cost	**68,674**	68,674
Other investments, at cost	**2,340**	6,039
Other assets	**2,728**	3,567
	108,645	111,256

The Company has a 20% common share interest in Petrosar Limited which had a loss of $31,047,000 in 1983 (net income of $21,285,000 in1982) before the provision for Class "A" preference share dividends of $21,620,000 ($34,004,000 in 1982).

Petrosar Limited has $300,000,000 of Class "A" preference shares outstanding which carry the right to a cumulative preferential floating rate dividend, otherwise rank ahead of all other classes of shares and are retractable in the amount of $120,000,000 in 1984 and $60,000,000 annually thereafter. The Company is committed to advance 30.4% of any funds necessary to make up any deficiency in meeting the financial obligations of Petrosar to pay dividends on and redeem these shares. In addition, the Company has guaranteed 30.4% of a $100,000,000 Petrosar bank term loan which is repayable at $5,000,000 per quarter commencing March 31, 1985. Union Carbide Corporation has agreed to advance to the Company 33.2% of any funds the Company is required to pay under these commitments. In 1982, under these commitments, the Company subscribed for $30,400,000 of Petrosar Class "B" preference shares of which Union Carbide Corporation was allocated $10,092,800. During 1983, the Company advanced no additional funds to Petrosar.

Notes to the Consolidated Financial Statements (tabular amounts in thousands of dollars)

4. Income Taxes

The Company requires no provision for current taxes but recognizes the future tax benefit of losses incurred to the extent of deferred income taxes which have been accumulated at an average tax rate of 44.2%. This benefit is shown as a recovery of income taxes.

The following reconciles the Company's expected income tax recovery to the actual recovery:

	1983	1982
Income (loss) before income taxes	**$ (15,785)**	$ (40,220)
Expected income taxes (recovery) at 44.2%	**(6,977)**	(17,777)
Decrease (increase) in income taxes (recovery) resulting from:		
Share of government financial assistance to Pétromont	**(4,420)**	–
Inventory allowance	**(2,309)**	(2,530)
Non-taxable portion of capital gains	**(177)**	(2,022)
Other	**(463)**	16
Actual income taxes (recovery)	**(14,346)**	(22,313)

5. Related Party Transactions

	1983	1982
Balances with related parties		
Accounts receivable from	**$ 33,033**	$ 52,562
Accounts payable to	**23,377**	28,204

	Union Carbide Corporation and Affiliates		Investments accounted for by equity method	
	1983	1982	**1983**	1982
Sales to	**$ 16,298**	$ 14,876	**$ 39,878**	$ 33,614
Purchases from	**80,115**	80,722	**85,220**	94,675
Royalties paid to	**8,667**	9,556	**–**	–
Interest paid to	**–**	12,487	**–**	–
Interest received from	**–**	5,869	**–**	–

Settlements with related parties are made on terms similar to those made with non-related parties.

Investments carried at equity include a one-third interest in Pétromont and company, limited, an ethylene producer located near Montreal, Quebec. During 1983, Pétromont received financial assistance from the Government of Canada and the Province of Quebec in the amount of $30,000,000 to offset the operating losses resulting primarily from uncompetitive raw material costs. A further $20,000,000 of financial assistance is available to offset operating losses in 1984.

The Company benefitted in 1983 to the extent of $10,000,000, being its share of the reduction in Pétromont's operating losses. It also benefitted from more competitive ethylene purchase costs.

In February 1984, agreements took effect which provide for the withdrawal of one partner and the increase of the Company's interest in Pétromont to 50 per cent.

During 1982, the Company sold the assets of the glycol plant under construction at Prentiss, Alberta, to a wholly-owned subsidiary of Union Carbide Corporation for $145,262,000, resulting in a gain of $2,466,000.

6. Commitments

In 1981, the Company granted an option for the purchase of the inventories and plants of its metals business at Beauharnois and Chicoutimi, Quebec. The option expires on December 31, 1987. In the month following the expiry of the option, the Company may require the option holder to purchase these assets. The sale transaction will be subject to allowance under the Foreign Investment Review Act. The transaction is not expected to significantly affect the financial performance of the Company.

During the year, discussions took place between the Company and the option holder related to exercising the option before the expiry date. No earlier date has been set at this time.

7. Employee Retirement Program

The Company charges to operations annually current service costs and a portion of past service costs of the employee retirement program. Pension expense is calculated as a percentage of annual payroll costs. Experience gains will be applied to maintain the percentage while experience losses will be added to the unfunded liability. Total pension expense for the year was $3,591,000 ($7,380,000 in 1982). The unfunded liability is the excess of the actuarial liability over the actuarial value of plan assets. The unfunded liability at January 1, 1983 of $5,291,000 ($16,072,000 in 1982) is being amortized and funded over a period of 15 years.

Notes to the Consolidated Financial Statements (tabular amounts in thousands of dollars)

8. Segmented Information

The Company has three major business segments: (1) Plastics and Chemicals, (2) Gases, Metals and Carbon and (3) Consumer and Related. Inter-segment sales, which are primarily from Plastics and Chemicals to Consumer and Related, are accounted for at prices comparable to open market prices for similar products and services.

	1983	1982
Sales		
Plastics and Chemicals	**$ 309,201**	$ 308,057
Gases, Metals and Carbon	**256,916**	261,306
Consumer and Related	**179,122**	176,041
Less inter-segment sales	**(58,261)**	(54,074)
Total sales	**686,978**	691,330
Export sales	**42,663**	76,270
Operating profit (loss)		
Plastics and Chemicals	**(10,575)**	(32,954)
Gases, Metals and Carbon	**28,027**	27,698
Consumer and Related	**7,265**	4,046
	24,717	(1,210)
General corporate expense	**(16,611)**	(13,685)
Interest, net of capitalized interest	**(25,989)**	(23,485)
Equity in earnings (loss) of investments	**2,098**	(1,840)
Income taxes	**14,346**	22,313
Net income (loss)	**(1,439)**	(17,907)
Assets		
Plastics and Chemicals	**395,290**	458,997
Gases, Metals and Carbon	**330,540**	310,108
Consumer and Related	**103,580**	102,911
Corporate	**74,681**	66,279
	904,091	938,295

Fixed assets	Additions*		Depreciation	
	1983	1982	**1983**	1982
Plastics and Chemicals	**$ 2,576**	$ 13,960	**$ 17,901**	$ 15,794
Gases, Metals and Carbon	**45,901**	40,692	**17,803**	16,880
Consumer and Related	**3,136**	9,365	**3,664**	3,298
Corporate	**4,308**	3,592	**1,553**	992
	55,921	67,609	**40,921**	36,964

*Excludes Prentiss glycol plant additions in 1982.

Supplementary Information on the Effects of Changing Prices (unaudited) (tabular amounts in thousands of dollars)

This information is prepared in accordance with the Canadian Institute of Chartered Accountants' recommendations which require that historical cost information be restated on an estimated current cost basis. The information is experimental and involves subjective evaluations and therefore should not be considered precise or comparable to that of other companies.

Statement of Income on a Current Cost Basis

Historical Cost		**Current Cost**	
1983	Year ended December 31	**1983**	1982*
$ 686,978	Sales	**$ 686,978**	$ 731,262
569,891	Cost of sales	**573,303**	654,333
71,116	Selling, general and administrative expenses	**71,116**	80,021
40,921	Depreciation	**66,505**	67,005
30,000	Interest	**30,000**	30,660
(4,011)	Interest capitalized during construction	**(4,011)**	(5,253)
(3,056)	Investment and other income	**(3,056)**	(6,000)
(2,098)	Equity in (earnings) loss of investments	**(2,098)**	1,946
702,763		**731,759**	822,712
(15,785)	Income (loss) before income taxes	**(44,781)**	(91,450)
(14,346)	Income taxes (recovery)	**(14,346)**	(23,602)
(1,439)	Income (loss) on a current cost basis	**(30,435)**	(67,848)
	Gain in general purchasing power from holding net monetary liabilities	**12,957**	20,549

*1982 comparative amounts have been restated in average 1983 dollars.

When measured under the current cost method, the 1983 loss is $30,435,000 ($67,848,000 in 1982). In comparison to the historical cost results, the increased loss was due to: (a) the increase in depreciation expense when reported on the current cost basis; (b) increased cost of sales resulting from the higher replacement cost of the goods when sold as compared to the historical actual cost; and (c) the requirement that income taxes not be restated for increased operating costs calculated under the current cost method.

The gain in general purchasing power from holding net monetary liabilities amounted to $12,957,000 in 1983. This unrealized gain results because the Company's obligations will be discharged by inflation eroded dollars.

Supplementary Information on the Effects of Changing Prices (unaudited) (tabular amounts in thousands of dollars)

Other Supplementary Information

	1983
Increase in current cost inventory and fixed assets	$ 13,859
Increase in inventory and fixed assets held during the year due to general inflation	39,899
Excess of the effect of general inflation over the increase in current cost	26,040
Financing adjustment	4,666

The Company increased the current cost of its inventory and fixed assets by $13,859,000 while general inflation eroded $39,899,000 from these assets.

The financing adjustment of $4,666,000 is the estimated benefit to common shareholders from using debt to finance 33.7% of the increase in current cost of inventory and fixed assets. An alternative method of calculating this benefit is to measure it by the increase in the cost of sales and depreciation as reflected in the Statement of Income on a Current Cost Basis, which results in an amount of $9,762,000.

Schedule of Assets on a Current Cost Basis

Historical Cost		Current Cost	
1983	December 31	1983	1982*
$ 162,936	Inventory	$ 164,263	$ 187,092
502,095	Net fixed assets	723,828	755,933
340,186	Common shareholders' equity	563,245	648,092

*1982 comparative amounts have been restated in December 1983 dollars.

Current cost values presented in the supplementary information were determined as follows:

Inventory – The items in inventory were reviewed and the replacement cost at the balance sheet date estimated.

Cost of sales – The cost of sales was adjusted to reflect the estimated replacement cost of the goods when sold.

Net fixed assets – The historical costs were adjusted using price indices, calculated to reflect changes in specific costs and the effect of technology, to estimate the current cost of facilities with similar service potential.

Depreciation – Current replacement cost depreciation was calculated on the straight-line method using estimated useful lives consistent with those used in the historical cost financial statements.

Five Year Summary

For the Year (thousands of dollars)	**1983**	1982	1981	1980**	1979
Sales					
Plastics and Chemicals	**$ 255,668**	$ 260,171	$ 320,486	$ 322,800	$ 290,967
Gases, Metals and Carbon	**252,482**	255,487	333,606	294,839	236,911
Consumer and Related	**178,828**	175,672	173,214	177,185	158,041
	686,978	691,330	827,306	794,824	685,919
Net income (loss)	**(1,439)**	(17,907)	36,139	79,612	57,814
Dividends					
Preferred	**4,452**	6,166	5,939	5,109	4,232
Common	**2,503**	6,003	13,253	10,750	9,251
Net earnings (loss) reinvested	**(8,394)**	(30,076)	16,947	63,753	44,331
Funds from operations	**23,477**	(3,766)	81,307	116,395	122,436
Fixed asset additions****	**55,921**	67,609	74,132	58,913	30,074
Depreciation	**40,921**	36,964	33,084	29,168	32,032
At Year-End (thousands of dollars)					
Total assets	**904,091**	938,295	920,362	864,050	745,286
Working capital	**152,550**	212,587	147,276	228,116	192,495
Common shareholders' equity	**340,186**	348,580	378,656	361,124	296,893
Per Common Share (in dollars)*					
Earnings (loss)	**(0.29)**	(1.20)	1.50	3.72	2.68
Dividends	**0.13**	0.30	0.66	0.54	0.46
Net earnings (loss) reinvested	**(0.42)**	(1.50)	0.84	3.18	2.22
Funds from operations	**1.17**	(0.19)	4.05	5.55	5.91
Common shareholders' equity	**16.93**	17.35	18.85	18.00	14.83
Market price (Toronto Stock Exchange)					
High	**16.50**	16.00	24.00	22.00	13.63
Low	**11.75**	8.75	13.50	12.75	8.75
Financial Ratios (per cent)					
Return on sales	**(0.9)**	(3.5)	3.7	9.4	7.8
Return on invested capital***	**(0.9)**	(3.7)	5.0	13.8	10.9
Return on common shareholders' equity***	**(1.7)**	(6.6)	8.2	22.6	19.5
Common dividends as per cent of earnings	**—**	—	43.9	14.4	17.3
Other					
Number of common shareholders at year-end	**3,200**	3,600	3,700	3,800	4,200
Average number of employees	**4,189**	4,543	5,095	5,004	4,791
Wages and salaries (thousands of dollars)	**$ 133,409**	$ 133,943	$ 133,483	$ 115,187	$ 94,566

*All per-common-share figures give effect to a two-for-one subdivision of the Company's common shares, effective May 15, 1981.

**Changes in accounting policies effective January 1, 1980, favourably affected net earnings by $11.3 million ($0.57 per common share).

***Based on average of beginning and end of year figures. Invested capital includes short-term debt, long-term debt and shareholders' equity.

****Excludes Prentiss glycol plant additions of $50,962 in 1982 and $25,885 in 1981.

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