ABITIBI-PRICE

1989 ANNUAL REPORT

"

In a capital intensive company like Abitibi-Price, *changes feel like lightning*. To manage them we first had to learn how to change ourselves. Change how we think. All of us. Top to bottom.

"

BERND K. KOKEN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

ABITIBI-PRICE

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

Headquartered in Toronto, Ontario, the Company employs over 15,000 people, operates over 30 manufacturing facilities and over 100 sales and distribution centres, serving customers around the world.

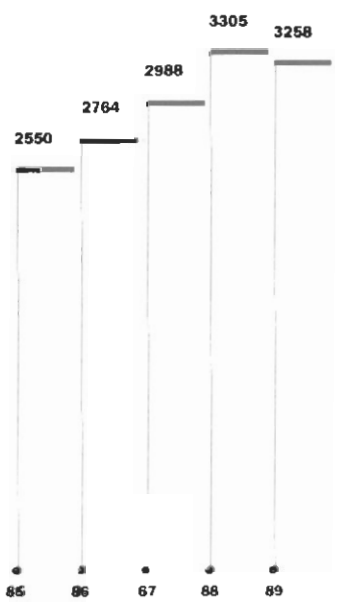
Through its two operating groups – Paper and Diversified – the Company manufactures and distributes newsprint to 32 countries, as well as groundwood papers, coated papers, building products, lumber, industrial paper products, information processing supplies, envelopes and other home, school and office supplies.

The Company's common shares are listed on the Toronto, Montreal and Vancouver stock exchanges under the symbol A, and on the New York Stock Exchange under the symbol ABY.

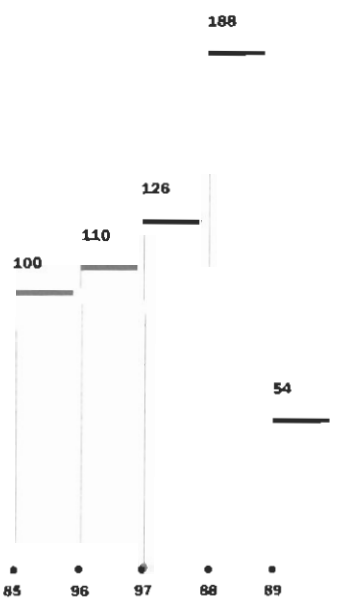
Contents

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

Net Sales
(millions of dollars)



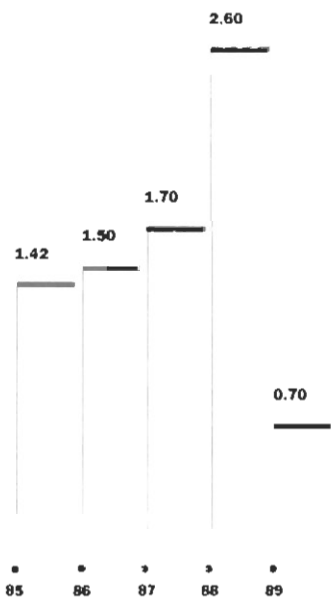
Earnings Before Extraordinary Items
(millions of dollars)



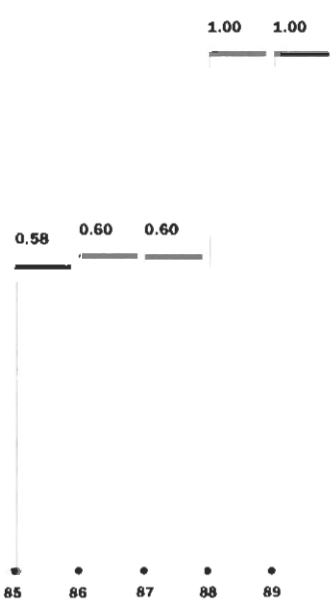
FINANCIAL HIGHLIGHTS

(millions of Canadian dollars)	1989	1988
Net sales	$ 3,258	$ 3,305
Operating profit	158	370
Earnings before extraordinary item	54	188
Net earnings	54	191
Capital expenditures	260	204
Working capital	328	554
Common shareholders' equity	1,200	1,212
Per common share		
Earnings before extraordinary item	$ 0.70	$ 2.60
Net earnings	0.70	2.64
Dividends declared	0.875	1.00
Dividends paid	1.00	1.00
Common shareholders' equity	17.32	17.50
Return on average common shareholders' equity	4.0%	15.6%
Long-term debt/long-term debt plus shareholders' equity	26.1%	26.9%

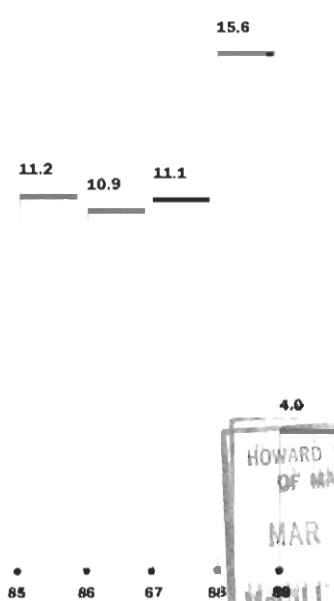
Earnings Per Common Share Before Extraordinary Items
(dollars)



Dividends Paid Per Common Share
(dollars)



Return On Average Common Shareholders' Equity
(percent)



BY ALL MEASURES, 1989 WAS A TOUGH AND CHALLENGING YEAR for Abitibi-Price. Tough, because of a sharp drop in earnings and the many difficult decisions that we made in response. Challenging, because we searched for new opportunities and directions that will lead the Company through the decade and into the next century.

Bernd K. Koken, Chairman and Chief Executive Officer, and Ronald Y. Oberlander, President and Chief Operating Officer

Following six years of steady gains in sales and earnings – which culminated in the best year in the Company's history in 1988 – the results of 1989 were particularly disappointing. While sales remained level, profit margins were lower in almost all of our businesses.

Two of the main factors affecting 1989 operating performance were the decline in newsprint prices, which were squeezed between flat demand and increased supply, and a Canadian dollar that appeared over-valued compared to the currencies of Canada's international competitors. The strong dollar reduced our export earnings while making us more vulnerable to competitive pricing of imports in our domestic market.

In addition to the historical cyclicality of our core newsprint business, we have entered a new era of global competition and the dynamics of business for virtually every industry have changed.

To meet these new realities, we have launched an aggressive program to challenge every employee of Abitibi-Price to find better ways of doing things to strengthen our competitive position. This process has meant looking at the Company in a new light – questioning the viability of every one of our businesses and every one of our strategies.

We are committed to this process for the long term. Although it may be some time before the benefits become visible, we firmly believe that we are on the right track.

Some of the immediate responses to this period of self-examination were particularly tough ones: we have taken a restructuring charge against 1989 earnings of $31.2 million to provide for an announced newsprint machine closure, the expense of associated employee terminations and the write-off of a self-insulating siding operation in our Building Products division, as we work to reduce costs and improve productivity. The result was a

71.7% decline of net earnings from 1988 to $54.2 million. Without this charge, earnings would have been $75.2 million.

Also, we halved our dividend to better reflect our profit position and to maintain our ability to make investments required for the future.

On a positive note, we streamlined senior management and prepared for the future with a reorganization designed to ensure strong leadership over the long term. Ron Oberlander – formerly head of the Diversified Group – has been appointed President and Chief Operating Officer. Ken Stevens will head the Diversified Group, and Linn Macdonald will lead the new Paper Group – a group which now combines our newsprint and printing papers businesses.

There were a number of positive developments during the year which should open up solid new long-term opportunities:

- In response to a growing public concern over the volume of old newspapers in the waste system, we announced the conversion of part of our newsprint mill in Augusta, Georgia, to recycled fibre and are studying a similar opportunity in Ontario;
- We are studying and pursuing a joint venture to build a recycled-fibre newsprint mill at Gartcosh, Scotland – a move which would give us a solid foothold in the European economic community;
- We signed a protocol with the USSR to study the development of a pulp and paper operation near Leningrad – a significant foray into a totally new and under-supplied market for Abitibi-Price.

Looking ahead, we see little sign that profits will rebound in 1990. But we believe that we will make further strides in improving our competitive position. As we face new challenges, we are heartened by the commitment of our dedicated employees, by the quality of our operations and businesses, and by the stability of our financial position. While we may shift strategies and take new directions, those strengths will remain fundamental to the success of Abitibi-Price.

On behalf of the Board of Directors,

Bernd K. Koken

Chairman and Chief Executive Officer

Toronto, February 19, 1990

DAWN IN THE FOREST.
A NEW BEGINNING FROM WHERE IT ALL BEGINS.
IT ALSO SIGNALS A NEW BEGINNING FOR US AT ABITIBI-PRICE.

“

Our number one priority was very simple:
managing change.
But not just change itself...
it's the extraordinary rate of change we've had
to manage. Look at recycling.
It wasn't even an issue last year. Now it's a priority.
In a capital intensive company like ours,
changes like recycling feel like lightning.
To manage them we had to learn how to change
ourselves. To change how we think.
So we could be faster off the mark... more flexible.
Like grabbing a good idea when it turns up.
Like providing a system that welcomes ideas.
Even if they fail?
There's only one thing anyone in this company should say
about an idea that fails: good try.
And please, try again.
You bet. Look, we're not all the way there yet,
but it's working. We got some fresh ideas
and we turned them into sound, aggressive strategies.
I'd like the people directly responsible for those
strategies to justify them. Right here, in this report.
On the principle that if you're responsible for it,
you stand up for it.
That's the spirit.

”

A conversation between Bernd Koken, Chairman and CEO
and Eileen Mercier, Vice-President, Corporate Development

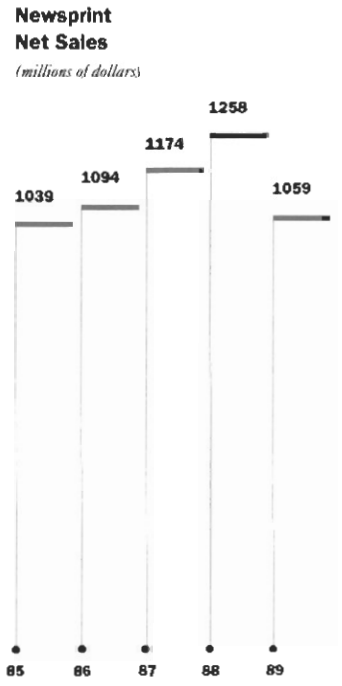
THE MARKET CONDITIONS OF PRICING PRESSURES AND FOREIGN exchange factors reduced newsprint sales and lowered our profits in 1989.

As we look ahead, we believe these market pressures will continue for the next year or so and that we are unlikely to see any rebound in sales and income in 1990. But while we cannot make an impact on external factors, we can make an impact – and a positive one – on areas within our control.

We can make an impact on our own operating performance – our productivity, product quality, and cost effectiveness. We can also control our marketing strategies, and capital expenditure and expansion programs.

In 1989, our people made solid progress in identifying areas for potential improvements, adapting strategies to respond to the new realities of the marketplace, and setting the stage for increased profitability over the longer term.

Initiatives taken during the year led to the implementation of a wide range of operating improvements: reduced use of chemicals, increased yield of pulping processes, greater use of off-peak power, positive changes in logging and road construction methods, machine efficiency improvements, and a reduction in the use of costly kraft pulp. To this list, we can add several important capital projects which were completed in 1989 – a new grinder loading facility and modernization of our No.1 newsprint machine at Chandler, Quebec, and a new TMP reject refiner at Grand Falls, Newfoundland.



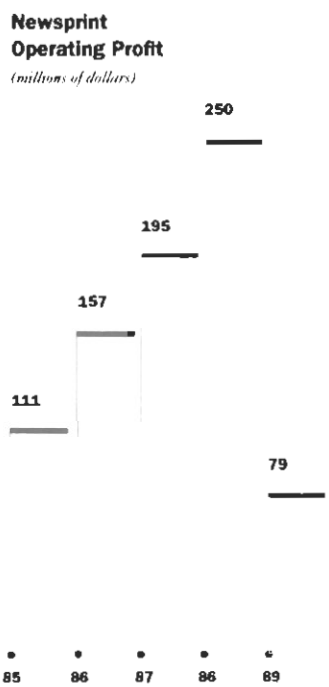
These improvements, which are making us more cost efficient and more competitive, are helping to offset further erosion of our profit margins, and we will continue to seek out and act on such initiatives in the year ahead.

Our strategies were scrutinized carefully in 1989, and we believe they are sound. On the one hand, we will reduce capacity and downsize operations as required in areas of declining demand. On the other hand, we will proceed with new projects that make sense in terms of proximity to key markets, and in terms of our ability to take advantage of local conditions to become low cost producers and market leaders.

Thus, we are proceeding with confidence with our Alabama River Newsprint joint venture – which remains on schedule and on budget, and which should come on stream as planned in 1990.

While we expect overall newsprint demand to remain flat over the near term, there is one area of increasing demand: the market for recycled products is growing – propelled by consumer environmental movements and by new legislation which calls for increased use of recycled products in a number of the jurisdictions we serve. We are planning significant investments to enter this market – with the joint venture that is under study in Scotland, our intentions to use recycled fibre in Ontario, and our new deinking facility at Augusta, Georgia, which should be operational by the end of this year.

While profits will not bounce back in the near term, the new Paper Group will continue with its newsprint strategy in the year ahead – to seek out operating improvements in an effort to enhance performance while building for a healthy and successful future.

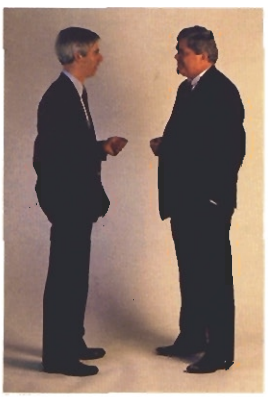


THE EMERGENCE OF RECYCLING
HELPS US TO SEE OUR CUSTOMERS' NEEDS IN A NEW LIGHT
AND REDEFINE OUR PRODUCTS.

"

We were astonished how quickly the recycling
of newsprint grew from a murmur to a major issue.
No more astonished than us.
When I asked you – when? – in the summer of '89,
what Abitibi was going to do about giving us recycled paper,
you said you were well aware of the pressure.
You had to be deaf and blind not to know
recycling was here to stay.
Too many states like Florida and Connecticut already
had legislation in place.
Then you told me Washington itself had tabled
legislation proposing to tax virgin newsprint by 1992.
The District of Columbia is typical of cities that rushed
to keep newspapers out of landfills.
They have trouble selling what they now collect.
So they've turned the pressure on us.
Which meant if we wanted to keep our market share
with good customers like you, we had to move.
We've been pleased how quickly you're managing.
Recycled newsprint from your Augusta mill
by late this year. That's very helpful.
It's a start.

"



A conversation between Boisfeuilliet Jones, Jr.,
Vice President and Counsel, The Washington Post,
and Ed Sparks, Manager, Secondary Fibre Procurement, Abitibi-Price

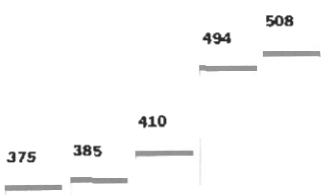
WHILE WE MANAGED TO INCREASE OVERALL PRODUCTION AND sales of printing papers in 1989, our results were negatively affected by the same factors that have beset newsprint – oversupply, pricing pressures and the strength of the Canadian dollar. Added to those problems were production difficulties and low efficiency levels at Jonquière, Quebec, and a deteriorating sales mix at the Provincial Papers division, our coated papers mill in Thunder Bay, Ontario.

We have been responding to the changing environment by repositioning our printing papers business to focus on high quality and specialty niches. In our pursuit of these goals, 1989 represented a year of considerable achievement.

In our assessment of the business environment for our industry, we see continued softening of demand for the lower value grades of groundwood papers, essentially because of newsprint oversupply. The Groundwood Papers division continues to shift away from these lower value grades.

Demand remains strong for high quality directory papers, forms papers and our supercalendered grades – including our trademark Kenogami WSOP product, for which high quality targets were attained in 1989.

Printing Papers
Net Sales
(millions of dollars)



At Alma, Quebec, we converted a second newsprint machine to have the capacity to produce 58,000 tonnes of high quality directory papers at a cost of $42 million. The start-up was successful, demand is good, and we anticipate operating at full production levels in the year ahead.

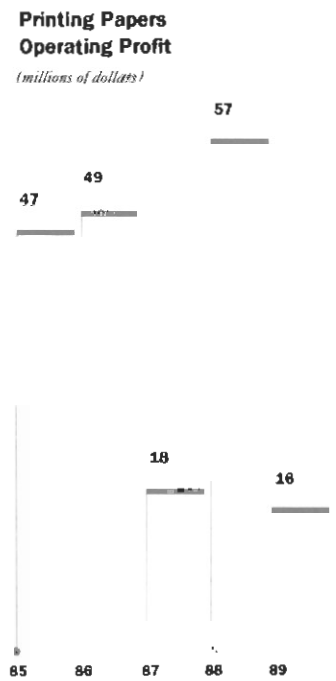
In addition, we took an important step forward in our environmental improvement program by adding a new $8 million clarifier at Beaupré, Quebec.

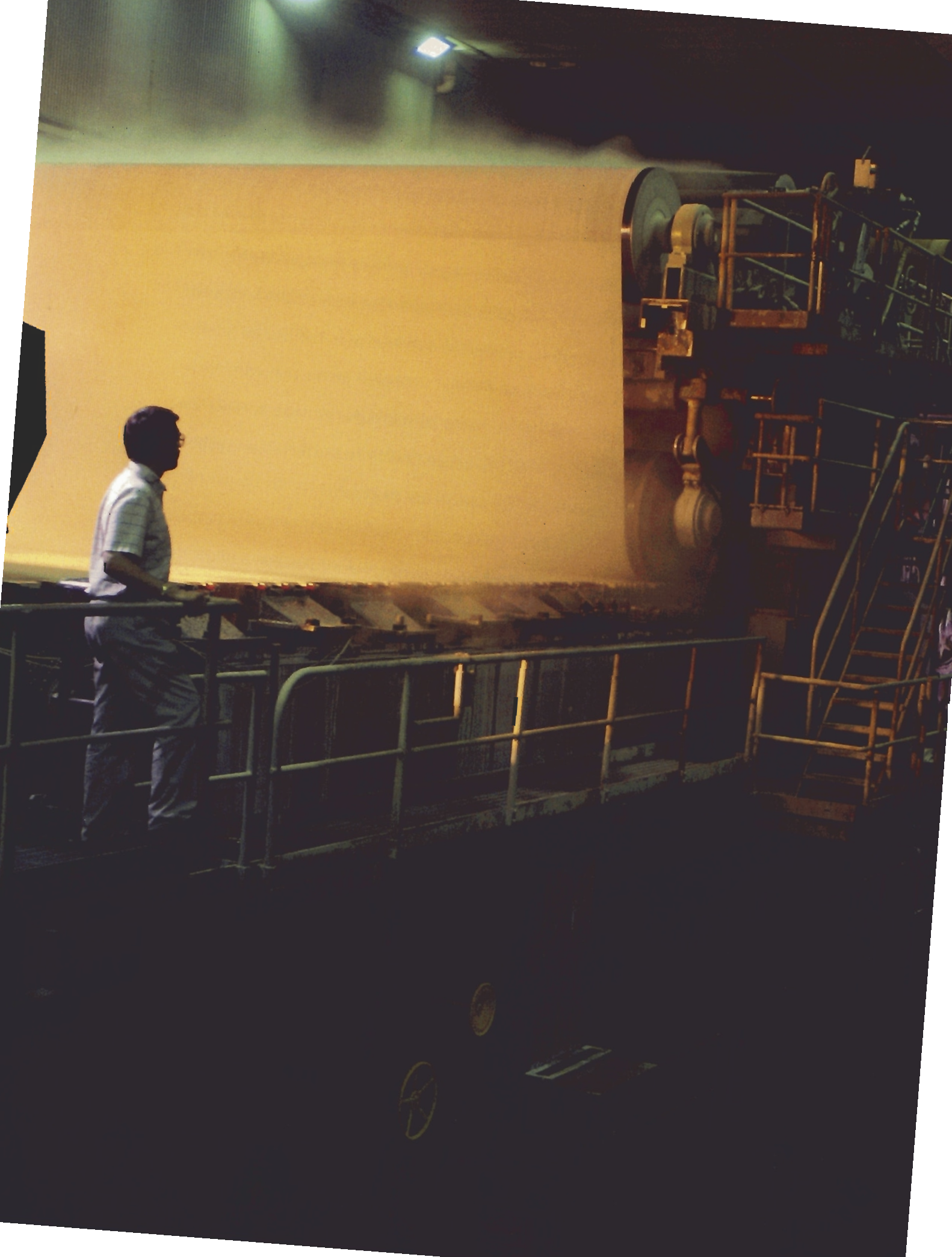
At Provincial Papers we rebuilt the No. 8 paper machine and one off-machine coater at a cost of $37 million, with the result of an addition of 20,000 tons of capacity, and a quantum leap in quality capability for the years ahead.

The Provincial Papers division's performance should improve considerably because of increased capacity, a new ability to produce at top North American quality levels, the addition of five new products, and efforts to improve distribution in the United States.

All of our printing papers mills will benefit from improved production efficiencies achieved during 1989 and planned for 1990. Based on the major projects at Alma and Provincial, we believe that we can renew the upward profitability trend for printing papers, even though we do not expect pricing to improve in the short term.

By repositioning product lines to quality niches and adapting our distribution policies accordingly, we are enhancing our competitiveness in the North American market and ensuring continued viability in the free trade environment. We believe these strategies will propel our printing papers business and improve our prospects through the nineties.





THE WET END OF OUR GIANT PAPER MACHINE AT AUGUSTA, GEORGIA.
SOON TO BE ROLLING OUT RECYCLED NEWSPRINT
AT 3800 FEET PER MINUTE.

“

We're on the line down here, that's for sure.
Committed to getting a recycling process up and running
in just over a year.
Look, we've always worked together well.
We've got an efficiency record that brought our man hours
per tonne down to one point eight.
That's all going to help.
It's going to take all the efficiency and teamwork
we've got and then some. We're looking at
a six-part process: re-pulping, re-screening, cleaning,
removing the ink, re-screening again, then de-watering.
We're looking at $27 million worth of work.
Talk about a value driver.
We said we'd do it. We promised an ability to recycle up to
25% of secondary fibre by the end of the year.
You know, they're all watching what we do here.
Head office. The whole industry.
We're talking November.
Do you doubt it?
Not for a minute.

”

A conversation between John Weaver, General Mill Manager
and Allen DeLaigle, Machine Tender,
both of Augusta Newsprint, Augusta, Georgia, USA

THE OPERATING PHILOSOPHY OF THE DIVERSIFIED GROUP IS to become a top performer in each of its business segments (we like to say "the best") and subsequently grow to become a significant player ("the biggest"). Since its formation, the Group has maintained a healthy mix of strong internal growth and an aggressive acquisition program.

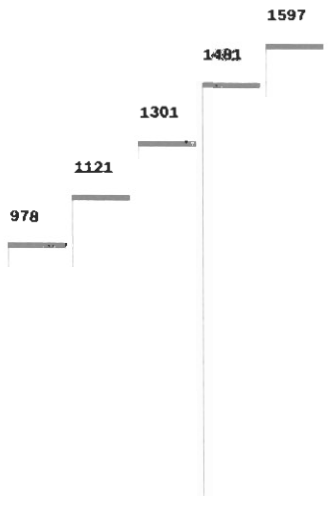
Part of the Group's strategy is growth through acquisitions that have synergies with our existing businesses. This growth is followed by periods of consolidation, where earnings growth will surpass sales growth, but more importantly management will develop new capabilities, given our new size, to utilize during the next acquisition phase. During the 1989 consolidation phase, when all four divisions operated in difficult markets, we achieved respectable sales growth and maintained the record profit levels reached in 1988.

Distribution Our Distribution division reduced expenses, improved asset management and strengthened its management structure. Improved warehouse layouts enhanced distribution capabilities and efficiencies, as did systems refinements.

Externally, the division improved its sources and sales in the United States and launched a "Performance Quality" program to boost productivity and customer service.

In 1989 sales increased over 1988, but profit margins were under pressure and earnings declined. While difficult markets continue, the above initiatives are expected to help earnings improve in 1990.

Diversified Group
Net Sales
(millions of dollars)



Office Products Organization changes designed to strengthen future performance characterized the division in 1989.

Our distributors of information processing products, Azerty and Axidata, significantly increased sales, but at a slower pace than in previous years. Earnings were enhanced because of the efficiencies of reduced manpower, fewer distribution centres, rationalized product lines and improved sales and marketing programs.

Although the Jaffe Stores project to create and implement a supermarket approach to the retailing of office products continued, our prospects for Jaffe's to become a top performer were not positive and we are considering the possible sale of the business.

Converted Products All three business units in this division made operating improvements and placed greater emphasis on the production of recycled products. A new paper towel-making machine at Price Wilson greatly increased capacity and set the stage for penetration of the United States market. Hilroy improved efficiency with sophisticated software that integrates activities from order receipt to shipment. Innova successfully streamlined its administration and staffing requirements.

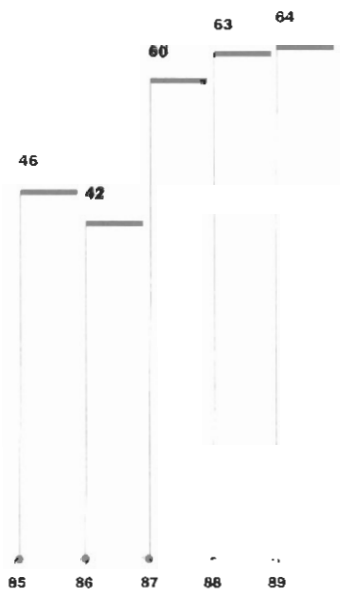
Both sales and earnings of the Converted Products division were higher in 1989. This trend is expected to continue in 1990.

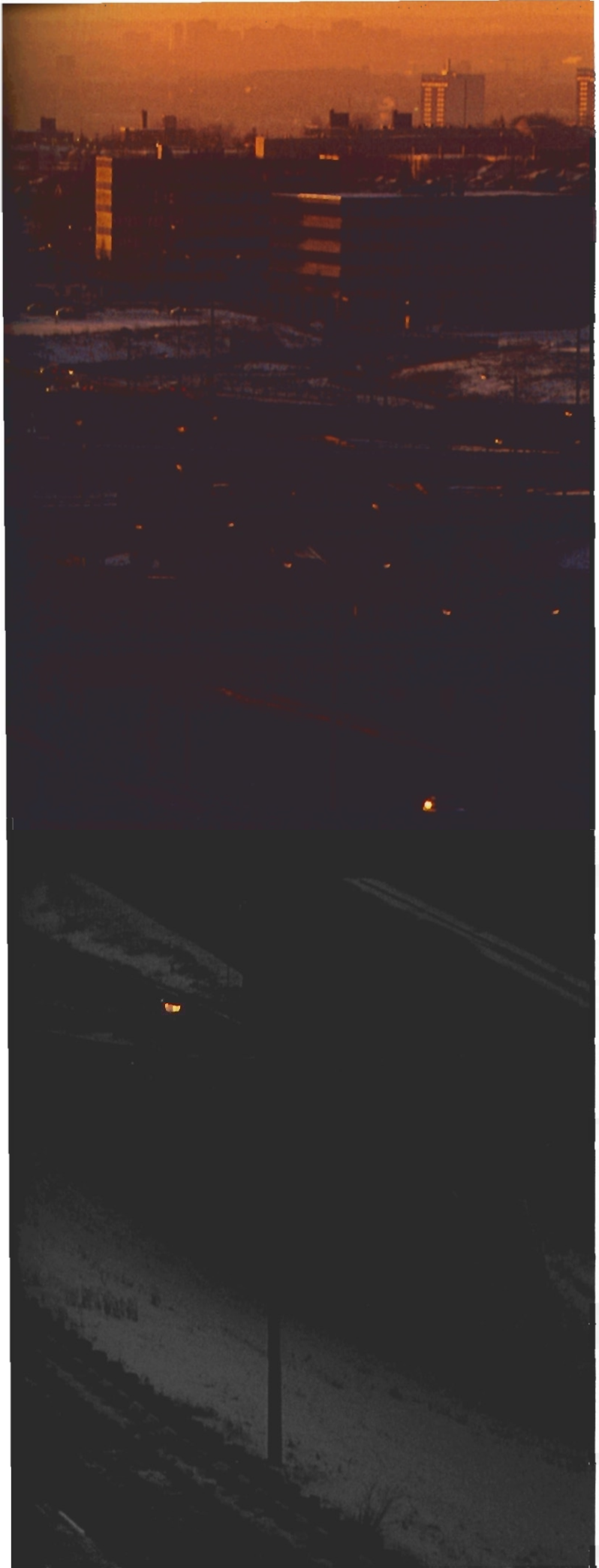
Building Products Although sales were flat, amid declining housing starts and a soft repair and remodelling market, the division was able to increase its market share in its paneling, millwork and siding businesses. In addition, each business unit was restructured, profit centres were established, and product lines were concentrated to position the division for future growth and expansion opportunities while controlling costs.

Building Products stands apart from the other business units in the Company with its focus on the construction industry. For this reason, we thought it possible that this business unit might have a better future as part of an organization with a similar focus. Accordingly, the division was offered for sale during 1989. However, the offers received did not match the value we believe the business can generate in our own hands.

In 1990, we will manage this business independently from the Diversified Group and expect sales and earnings to increase.

Diversified Group Operating Profit
(millions of dollars)





AS SUCCESSFUL, SERVICE-MINDED MERCHANTS,
WE BRING INNOVATION AND ORDER TO
OUR NETWORK OF SUPPLIERS AND CUSTOMERS.

"

First off, we had to be careful of complacency.
You mean why bother changing if we're doing so well?
Sure. But we're the link between our suppliers and customers. And our market analysis confirmed that some of them could get badly squeezed in the 90s. Too much fat in the channel. Too much cash tied up.
We need to help them to be more competitive.
Not just for their sake. For our own.
We've been leaders long enough to know there's only one sure way through the 90s. Keep your eye on your customer's bottom line. If he's okay, you're okay. If he's not, look out.
We can do that by continuing to play the true merchant's role. For instance, we can minimize inventory duplications in the channel.
We could certainly manage our assets better. I mean everybody's ... ours, our customers' and our suppliers'. And to help pull it all together, we could have computers plugged right into both their back doors.
Stuff like that.
Plus a little something we'll keep under wraps for now.
Our quantum leap.
Our quantum leap.

"

A conversation between Henry Hildebrand, President, Distribution Division II, (Diversified Group),
and Domenic Rubino, Vice-President, Barber-Ellis Fine Papers

OF ALL THE EXTRAORDINARY PHENOMENA THAT TRANSFORMED our world in the eighties, the upsurge in public awareness of environmental issues drove a particularly powerful message home to us at Abitibi-Price.

Contrary to popular belief – which has singled out the forest products industry as a major environmental villain – our industry has a pretty good environmental record. The wastes and effluents that actually leave our mills are largely natural and biodegradable. And so, of course, are our products, which can also be recycled. Furthermore, our resource is renewable, and Canadian forest management practices are sound.

OUR POLICY:

1/ ensure that all health and environmental hazards associated with our operations are identified, assessed and minimized;

But while the industry record is quite positive – and while our Company has every reason to be proud of our efforts over the years – we know that we can do even better. And every employee has a responsibility to do so – a responsibility to our shareholders, customers, and the communities we serve.

So, in 1989, we took two significant new steps to meet this responsibility.

First, we underlined our commitment to sustainable development and environmental management by developing a strong and far reaching environmental policy for Abitibi-Price – a policy which extends to all our activities and all our employees. This policy is intended to frame all of our operating activities and strategic decisions with an increasing sensitivity to the environmental considerations.

2/ apply effective environmental procedures in all of our activities and ensure compliance with all environmental laws and regulations;

And second, we put the policy to work by forming a senior management committee to review all aspects of our operations, communicate our goals, and establish and monitor new treatment standards at all our mills – in consultation with local management and employees, as each mill is responsible for its own environmental programs.

As we work internally on environmental improvements, we are also working externally – we have indicated to governments at all levels our commitment and willingness to work with them as they develop sound policies for sustainable development in Canada.

3/ work cooperatively with governments at all levels, with industry associations and with others toward the development of natural resource management and environmental protection strategies that are scientifically and economically sound;

While taking a leadership position with our environmental policy during the year, we also plan to make major moves into recycling, with the venture we are studying in Scotland and the new deinking facilities that we are studying in Ontario and building in Georgia. In addition, we are reviewing other mills for possible conversion.

Recycled products represent a new and growing market, so it certainly makes good business sense to enter and serve that market. But recycling represents a substantial investment, and it may be some years before we begin to see a significant financial return.

4/ support the research, development and implementation of technologies which will reduce the environmental impact of our activities;

The increased cost of enhanced effluent treatment goes straight to the bottom line, and we may never see a return on our investments in this area. Indeed, increased focus on this area may curtail expansion plans over the next few years, as the economic feasibility of every new investment must be vigorously assessed in light of these costs.

But those are the realities and the costs of doing business in our industry today. And they are the realities of our role as a responsible corporate citizen. We fully recognize that the Company's long-term health and viability is tied directly to the health and viability of the communities it serves, and of the forests. We are prepared to pay the price.

5/ communicate our environmental policies and programs to all employees and other interested parties.

REGARDLESS OF WHERE EMPLOYEES LIVE AND WORK,
WE STRIVE TO PRESERVE
THE SAFE, CLEAN ENVIRONMENT WE ALL CHERISH.

“

Papa, what is Abitibi-Price doing about the environment?

I don't know everything, but here at Beaupré we have installed scrubbers which have cut smokestack emissions a great deal.

When you were a kid, you could swim in the St. Lawrence River.

Yes.

Will I ever swim there?

We think so and to help, a clarifier is installed here to treat the effluent solids in the water we use.

What good is that?

It does two things. It takes waste from our water. Then the recovered solids are burned in our boiler, saving energy. With the new waste water treatment plants in Quebec City and everyone trying – even you and your friends – we can swim there again.

How much money has been spent by the company?

Last year, we spent over $9 million right here.

Then you believe Abitibi-Price is doing its part?

I could not work in a place that wasn't.

”

A conversation between Valéry Lessard, a 14-year-old student, *and her father, Yves Lessard, an electrician at our Beaupre, Quebec, mill.*

Operations Sales of $3.3 billion for the year 1989 were approximately the same as 1988 and compare with $3.0 billion in 1987. However, net earnings of $54.2 million or 70 cents per common share reflected a major drop from $191.1 million or $2.64 per share in 1988 and $125.7 million or $1.70 per share in 1987. Earnings for 1989 include a restructuring charge of $31.2 million which is referred to below. Without this charge, after-tax earnings for the year would have been $75.2 million or $1.00 per common share. Net earnings for 1988 included an extraordinary gain of $2.9 million resulting from the sale of land in South Carolina, U.S.A. There were no extraordinary items in 1989 or 1987.

The restructuring charge consisted of the write-off of an old newsprint machine at Grand Falls, Newfoundland which is to be permanently withdrawn from production in early 1990, a provision for employee termination costs relating to that closure, plus the write-off of the assets of a discontinued self-insulating hardboard siding operarion at the Company's building products plant in Alpena, Michigan.

Apart from the restructuring charge, principal causes of the drop in 1989 earnings were significant declines in operating profits from newsprint, groundwood papers and coated papers. Common to the first two business segments in particular was the effect of the ongoing decline in the Canadian value of the U.S. dollar which, despite the degree of protection provided by the Company's hedging program, has continued to have a negative impact on earnings. In 1989, the U.S. dollar averaged Cdn. $1.184, down 4% from $1.231 in 1988 and down 11% from $1.326 in 1987.

Newsprint sales in 1989 totalled $1.1 billion, compared with $1.3 billion in 1988 and $1.2 billion in 1987. Operating profit showed a major decline to $78.9 million in 1989 from $250.1 million and $194.9 million in 1988 and 1987, respectively. In addition to the effect of rhe lower value of the U.S. dollar, the drop in 1989 sales and operating profit from 1988 reflected the reduction in sales volume and price discounting which have resulted from new capacity coming on the market while demand has remained flat. From 1987 to 1988, newsprint sales and operating profit improved because of higher shipments, price increases in most markets and the benefits realized from capital invested in the modernization of production facilities.

It is expected that the unfavourable supply/demand situation, with the attendant pricing pressures, will continue and the Company is not expecting any improvement in sales in 1990. However, in the manufacturing area, which is within the Company's control, steps were taken during 1989 to introduce a wide range of improvements which will lead to increases in productivity, product quality and cost effectiveness. These include the reduced use of chemicals and costly kraft pulp, an increase in the yield of the pulping operations, and capital expenditures to modernize machinery and processes.

The Alabama River Newsprint joint venture, which is referred to in Note 2 to the financial statements, is on budget and construction is expected to be completed in 1990 as scheduled.

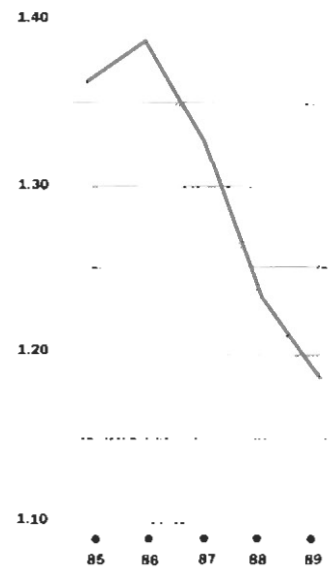
In recognition of growing environmental concerns and the thrust towards the use of recycled products, the Company has announced definite steps in the area of recycled newsprint. It has already announced the installation of a deinking facility at its joint venture newsprint mill in Augusta, Georgia, which should be in operation by the end of 1990; it is studying the use of recycled wood fibre at a mill in Ontario; and it is studying the feasibility of a partnership to produce newsprint from recycled paper at a mill to be built in Scotland.

Sales of groundwood papers increased to $363 million in 1989 from $343 million in 1988 and $279 million in 1987, while operating profit of $23.3 million for the year compared with $44.0 million and $11.7 million in 1988 and 1987, respectively. The increase in 1989 groundwood papers sales was essentially due to an increase in capacity which became available at the beginning of the year with the conversion of a newsprint machine to the production of directory paper at the Alma, Quebec, mill. However, operating profit showed a significant drop in 1989 for the same reasons as newsprint – over-supply with pricing pressures, plus the decline in the Canadian value of the U.S. dollar. In addition, the Company suffered production problems and low efficiency levels at its Jonquière, Quebec, mill. The improvement in groundwood papers sales and operating profit from 1987 to 1988 was primarily the result of favourable market conditions which permitted near-capacity operations and improved prices. In addition, 1988 represented the first full year's sales of the Company's new clay-filled supercalendered paper. These positive factors more than offset the negative effect of the decline in the value of the U.S. dollar from 1987 to 1988.

The outlook for groundwood papers in 1990 is mixed. A continued softening of demand for the lower value grades is expected because of the oversupply of newsprint. However, demand should remain strong for high quality directory papers, forms papers and supercalendered grades, and the Company is expected to benefit from repositioning itself to place the emphasis on these grades as well as from actions taken during 1989 to improve production efficiencies.

Average Exchange Rates

($U.S. in Canadian dollars)



At $145 million, sales of coated papers in 1989 compared with $151 million in 1988 and $131 million in 1987. At the same time, however, 1989 showed an operating loss of $7.6 million, as against operating profits of $13.4 million and $6.7 million in 1988 and 1987, respectively. The drop in sales and the operating loss in 1989 were due to a weakening of Canadian demand, increased competition

from outside Canada, and the loss of production during the rebuild of a paper machine and an off-machine coater at the mill in Thunder Bay, Ontario. The improvement in coated papers' 1988 results over 1987 was attributable to increased demand for the Company's grades of paper, which resulted in record production levels and higher prices.

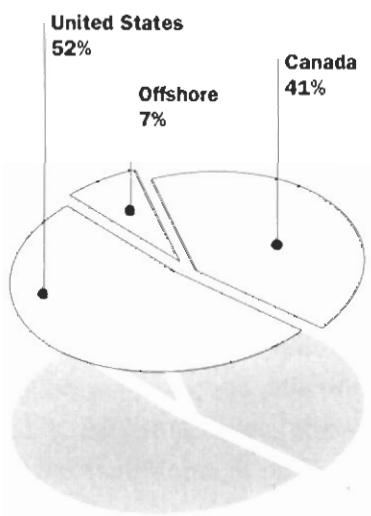
Although it is not anticipated that prices for present grades of coated papers will improve during 1990, it is expected that the increased production from the rebuild of the Thunder Bay paper machine plus the introduction of new grades will return the operation to profitability.

Sales of the distribution, office products and converted products segment of the Company's operations climbed to $1.4 billion in 1989 from $1.3 billion in 1988 and $1.1 billion in 1987, while 1989 operating profit of $49.3 million compared with $51.9 million in 1988 and $43.3 million in 1987. The increase in sales in 1989 reflected the full year's inclusion of the results of six businesses that were acquired in the last half of 1988. However, operating profit declined because of competitive pressures which forced a reduction in prices and profit margins in the distribution sector. The improvement in sales and operating profit from 1987 to 1988 reflected the acquisitions of the new businesses referred to above and the installation of new high-speed equipment to improve productivity and reduce costs in the converted products sector.

The outlook for the operation of the Company's distribution, office products and converted products segment in 1990 is one of increased profitability flowing from programs involving reorganization and rationalization, as well as from new equipment installations.

During 1989, the Company announced its intention to seek a buyer for its U.S. building products division, but subsequently announced that it would keep the operation as offers from potential buyers did not meet certain conditions and did not reflect the true value of the business. Sales of $193 million in 1989 compared with $198 million in 1988 and $222 million in 1987, while operating profit was $14.4 million, versus $11.4 million and $16.3 million in 1988 and 1987, respectively. Although housing starts in the U.S. market declined through the period from 1987 to 1989 and accounted for a major part of the fall-off in operating profit in 1988, in the period from 1988 to 1989 operating profit rose because the effect of reduced housing starts was more than offset by the results of a successful program to contain costs and reduce overheads. It is expected that the effects of this program will lead to improved operating performance in 1990.

Net Sales By Market
(percent)



Interest expense charged to earnings in 1989 was $44.1 million, compared with $51.4 million in 1988 and $41.9 million in 1987. Interest through the period benefitted from the favourable effect of the declining U.S. exchange rate on that part of interest which was payable in U.S. funds. This, plus an increase in the amount of interest which was capitalized, explains the drop in the amount of interest charged to earnings from 1988 to 1989. However, from 1987 to 1988, the favourable effect of the lower U.S. exchange rate was more than offset by a reduction in the amount of interest which was capitalized and by higher interest charges associated with an increase in the average amount of long-term debt outstanding. Capitalized interest in 1989 was $9.6 million, compared with $6.1 million in 1988 and $9.0 million in 1987.

Other income, net of expense, amounted to $15.8 million in 1989, compared with $16.4 million in 1988 and $11.3 million in 1987. The decrease from 1988 to 1989 was attributable to lower interest earned on short-term investments as the amount of surplus funds temporarily placed in such investments was reduced to zero during the year. The effect of this was partially offset by interest received in the settlement of an insurance claim relating to the flooding of a powerhouse and dam serving the newsprint mill at Grand Falls, Newfoundland, and by a reduction in foreign exchange losses as a result of the Company's hedging program. The increase in other income from 1987 to 1988 was principally due to interest earned on a larger amount of surplus funds temporarily placed in short-term investments.

The effective tax rate in 1989 was 45% compared with 41% in 1988 and 44% in 1987. The increase in the 1989 rate was primarily due to the effect of the lower U.S. tax rate on loss operations in that country, while the reduction from 1987 to 1988 was mainly attributable to lower tax rates introduced with tax reform.

Financial position and liquidity. Over the three-year period from 1987 to 1989, the Company's cash position declined by $43.0 million, from $11.8 million at the beginning of 1987 to a deficit of $31.2 million at December 31, 1989, as cash derived from operations, new financings and other sources was exceeded by expenditures on capital projects, long-term debt repayments, the retirement of the Series A and C preferred shares, investments in new businesses and shareholder dividends.

In 1987, the Company borrowed U.S. $150 million in the form of a syndicated seven-year floating rate term loan, realizing Cdn. $197.2 million which was used to reduce short-term indebtedness and augment working capital. In that same year, a 51%-owned subsidiary, Gaspesia Pulp and Paper Company Ltd., borrowed U.S. $25 million in the form of a floating rate revolving loan, realizing Cdn. $32.6 million, which was used to finance its capital program.

In 1988, the Company redeemed its U.S. $50 million Series I Debentures at a cost of Cdn. $60.2 million; and in 1989, Gaspesia repaid its 1987 loan at a Canadian funds cost of $29.6 million and borrowed U.S. $24.5 million from another source under more favourable conditions, realizing Cdn. $28.9 million.

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

The Company's capital expenditures are primarily directed toward improvements in productivity and quality and the manufacture of higher-value products. In 1989, capital expenditures totalled $260.1 million, compared with $203.8 million in 1988 and $256.6 million in 1987. Capital expenditures in 1990 are expected to approximate $150 million, which will be financed by cash flow from operations and additional borrowing. The Company's capital expenditures program is designed with a degree of flexibility so that it can be tailored to fit the funds available.

Four quarterly common share dividends were paid in each of the three years, totalling $1 per share in 1989 and 1988 and 60 cents per share in 1987. Dividends declared during the period totalled 87.5 cents in 1989, $1 in 1988 and 70 cents in 1987. Differences between dividends paid and dividends declared for the years 1989 and 1987 are due to the fact that the dividend declared in the fourth quarter of a year is paid in the first quarter of the year following. At the time of the fourth quarter dividend declaration in December 1989, the quarterly dividend rate was reduced from 25 cents to 12.5 cents, effective with the payment made in January 1990; and when the fourth quarter dividend was declared in December 1987, for payment in January 1988, the quarterly rate was raised from 15 cents to 25 cents.

While the Company's cash requirements have been met mainly by funds generated from operations and, when necessary, from new long-term financings, for liquidity purposes the company has a policy of maintaining sufficient bank lines of credit to cover temporary extra demands for cash. Out of a total of $255 million of such lines of credit with several banks, $242.7 million remained unused at the end of 1989. Under a commercial paper program which the Company had arranged during the last half of 1989, it can issue short-term promissory notes up to a principal value of $200 million. At December 31, 1989, the amount of such notes outstanding totalled $124.1 million.

United States GAAP Reconciliation The Company's financial statements have been prepared in accordance with generally accepted accounting principles in Canada and conform in all material respects with those in the United States, except as noted in Note 18 to the financial statements.

CONSOLIDATED EARNINGS

Year ended December 31 *(millions of Canadian dollars)*	1989	1988	1987
Net sales	$ 3,257.7	$ 3,304.5	$ 2,988.0
Cost of sales	2,706.5	2,566.2	2,385.1
Selling and administrative expenses	275.0	257.8	234.1
Depreciation and depletion	118.1	110.4	97.4
	3,099.6	2,934.4	2,716.6
Operating profit	158.1	370.1	271.4
Interest expense – long-term (note 14)	(37.4)	(50.5)	(39.3)
– short-term	(6.7)	(0.9)	(2.6)
Restructuring costs (note 4)	(31.2)	–	–
Other income and expense – net (note 5)	15.8	16.4	11.3
	98.6	335.1	240.8
Income taxes (note 6)	44.7	137.9	106.7
	53.9	197.2	134.1
Minority interest	0.3	(9.0)	(8.4)
Earnings before extraordinary item	54.2	188.2	125.7
Extraordinary item (note 8)	–	2.9	–
Net earnings	54.2	191.1	125.7
Provision for dividends on preferred shares	5.7	7.8	8.1
Net earnings available to common shareholders	$ 48.5	$ 183.3	$ 117.6
Per Common Share:			
Earnings before extraordinary item	$ 0.70	$ 2.60	$ 1.70
Net earnings	0.70	2.64	1.70
Dividends declared	0.875	1.00	0.70
Weighted average number of common shares outstanding *(millions)*	69.3	69.3	69.2

CONSOLIDATED RETAINED EARNINGS

Year ended December 31 *(millions of Canadian dollars)*	1989	1988	1987
Retained earnings at beginning of year	$ 950.2	$ 836.2	$ 768.9
Net earnings	54.2	191.1	125.7
	1,004.4	1,027.3	894.6
Amalgamation adjustment	–	–	(1.8)
Dividends declared –			
Preferred shares	(5.7)	(7.8)	(8.1)
Common shares	(60.6)	(69.3)	(48.5)
Retained earnings at end of year	$ 938.1	$ 950.2	$ 836.2

CONSOLIDATED BALANCE SHEET

December 31 *(millions of Canadian dollars)*	1989	1988
ASSETS		
Current assets		
Cash and short-term investments	$ –	$ 44.6
Accounts receivable (note 10)	383.2	424.2
Inventories (note 11)	433.1	415.4
Prepaid expenses	27.6	26.3
	843.9	910.5
Fixed assets		
Property, plant and equipment	2,424.6	2,236.4
Logging equipment and development	102.4	99.4
Timber limits and water power rights	25.7	25.7
	2,552.7	2,361.5
Less – accumulated depreciation and depletion	1,017.0	932.9
	1,535.7	1,428.6
Other assets		
Interests in newsprint joint ventures (note 2)	100.6	96.1
Deferred pension cost	63.7	45.7
Goodwill	58.7	63.4
Long-term receivables, investments and other assets	58.5	86.3
	281.5	291.5
	$ 2,661.1	$ 2,630.6

The financial statements have been approved by the Board:

Director

Director

December 31 *(millions of Canadian dollars)*	1989	1988
LIABILITIES		
Current liabilities		
Bank indebtedness	$ 31.2	$ 7.1
Notes payable (note 12)	124.1	–
Accounts payable and accrued liabilities (note 13)	307.5	284.7
Income taxes payable	10.9	15.6
Dividends payable	9.3	18.6
Long-term debt due within one year (note 14)	33.3	30.5
	516.3	356.5
Long-term debt (note 14)	435.4	488.8
Unrealized gain on translation of long-term debt payable in U.S. funds	2.2	2.6
Deferred income taxes	434.0	412.8
Minority interest	41.8	42.1
SHAREHOLDERS' EQUITY		
Stated capital (note 15)		
Preferred Shares –		
Series A – nil shares		
(1988 – 126,760 shares)	–	6.3
Series C – nil shares		
(1988 – 1,500,000 shares)	–	75.0
Series F – 2,706,450 shares		
(1988 – 2,964,419 shares)	31.1	34.1
Common Shares – 69,266,738 shares		
(1988 – 69,265,550 shares)	262.2	262.2
Retained earnings	938.1	950.2
	1,231.4	1,327.8
	$ 2,661.1	$ 2,630.6

CHANGES IN CONSOLIDATED CASH POSITION

Year ended December 31 *(millions of Canadian dollars)*	1989	1988	1987
Operating Activities			
Earnings before extraordinary item	$ 54.2	$ 188.2	$ 125.7
Depreciation and depletion	118.1	110.4	97.4
Restructuring costs (note 4)	23.2	–	–
Deferred pension cost	(10.5)	(6.8)	(12.3)
Goodwill	3.5	2.0	1.8
Deferred income taxes	26.8	105.6	46.3
Minority interest	(0.3)	9.0	8.4
Other	(0.1)	(14.7)	(4.5)
	214.9	393.7	262.8
Change in operating working capital (note 9)	40.1	(30.8)	(16.4)
	255.0	362.9	246.4
Financing Activities			
Issue of notes payable – net	124.1	–	–
Issue of long-term debt	29.3	–	229.8
Repayment of long-term debt	(66.1)	(95.6)	(28.6)
Retirement of preferred shares	(84.4)	(5.6)	(1.8)
Other	0.4	1.0	0.2
	3.3	(100.2)	199.6
Investment Activities			
Acquisitions	–	(82.9)	–
Bank indebtedness of acquired businesses	–	(1.2)	–
Consideration represented by loans payable	–	14.9	–
	–	(69.2)	–
Investment in newsprint joint ventures	(3.3)	(12.2)	–
Investment in equity interest	–	(35.8)	–
Additions to fixed assets	(260.1)	(203.8)	(256.6)
Government capital grants and investment tax credits	1.1	8.5	24.3
Decrease in long-term receivables	13.2	3.0	4.4
Other	(2.2)	(11.3)	4.5
	(251.3)	(320.8)	(223.4)
Dividends Paid			
Preferred shareholders	(6.4)	(7.7)	(8.0)
Common shareholders	(69.3)	(69.3)	(41.6)
Minority shareholder of a subsidiary company	–	(12.2)	–
	(75.7)	(89.2)	(49.6)
Cash – (Decrease) increase	(68.7)	(147.3)	173.0
– Beginning of year	37.5	184.8	11.8
– End of year	$ (31.2)	$ 37.5	$ 184.8

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

Year ended December 31 *(millions of Canadian dollars)*	Sales To Customers	Inter-Segment Sales	Segment Sales	Depreciation And Depletion	Operating Profit	Additions To Fixed Assets	Total Assets
1989 **BUSINESS SEGMENTS**							
Newsprint	$ 1,058.9	$ 1.1	$ 1,060.0	$ 62.8	$ 78.9	$ 130.3	$ 1,201.8
Groundwood papers	362.9	0.9	363.8	28.1	23.3	52.8	570.8
Coated papers	144.6	26.1	170.7	6.7	(7.6)	35.1	165.5
Distribution, Office products and Converted products	1,404.1	0.9	1,405.0	10.1	49.3	31.7	488.1
Building products	192.8	–	192.8	8.2	14.4	6.3	144.6
Other	94.4	–	94.4	2.2	(0.2)	0.6	21.9
Eliminations		(29.0)	(29.0)				
	$ 3,257.7	$ –	$ 3,257.7	$ 118.1	$ 158.1	256.8	2,592.7
Corporate						3.3	68.4
						$ 260.1	$ 2,661.1
GEOGRAPHIC SEGMENTS							
Canada			$ 2,456.5		$ 147.7		$ 2,157.9
U.S.A.			801.2		10.4		434.8
			$ 3,257.7		$ 158.1		2,592.7
Corporate							68.4
							$ 2,661.1
1988 **BUSINESS SEGMENTS**							
Newsprint	$ 1,257.6	$ 2.0	$ 1,259.6	$ 61.3	$ 250.1	$ 110.6	$ 1,172.2
Groundwood papers	343.1	0.3	343.4	24.5	44.0	42.9	509.1
Coated papers	150.6	35.8	186.4	5.3	13.4	20.2	122.1
Distribution, Office products and Converted products	1,282.8	0.7	1,283.5	8.2	51.9	20.4	497.5
Building products	198.3	–	198.3	9.0	11.4	5.4	164.6
Other	72.1	–	72.1	2.1	(0.7)	0.9	21.6
Eliminations		(38.8)	(38.8)				
	$ 3,304.5	$ –	$ 3,304.5	$ 110.4	$ 370.1	200.4	2,487.1
Corporate						3.4	143.5
						$ 203.8	$ 2,630.6
GEOGRAPHIC SEGMENTS							
Canada			$ 2,550.1		$ 347.1		$ 2,099.8
U.S.A.			754.4		23.0		387.3
			$ 3,304.5		$ 370.1		2,487.1
Corporate							143.5
							$ 2,630.6
1987 **BUSINESS SEGMENTS**							
Newsprint	$ 1,174.4	$ 1.3	$ 1,175.7	$ 54.0	$ 194.9	$ 153.1	$ 1,142.3
Groundwood papers	278.8	0.2	279.0	19.8	11.7	72.9	465.4
Coated papers	131.3	37.6	168.9	5.1	6.7	5.6	101.3
Distribution, Office products and Converted products	1,078.9	0.8	1,079.7	7.2	43.3	14.4	336.5
Building products	221.6	–	221.6	9.2	16.3	6.1	180.9
Other	103.0	–	103.0	2.1	(1.5)	0.6	19.1
Eliminations		(39.9)	(39.9)				
	$ 2,988.0	$ –	$ 2,988.0	$ 97.4	$ 271.4	252.7	2,245.5
Corporate						3.9	286.8
						$ 256.6	$ 2,532.3
GEOGRAPHIC SEGMENTS							
Canada			$ 2,297.9		$ 248.0		$ 1,945.2
U.S.A.			690.1		23.4		300.3
			$ 2,988.0		$ 271.4		2,245.5
Corporate							286.8
							$ 2,532.3

Notes: (1) Geographic segments reflect the location of the source of the product sold.

(2) Canadian operations include sales to the U.S. market of $889.9 million (1988 – $957.8 million, 1987 – $890.0 million) and other export sales of $230.1 million (1988 – $270.6 million, 1987 – $243.1 million).

1 Summary of significant accounting policies

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

(a) Principles of consolidation The financial statements consolidate the accounts of Abitibi-Price Inc. and all companies in which it holds more than a 50% interest. Investments in joint ventures and in companies in which Abitibi-Price does not have more than a 50% interest but in which it can exercise significant influence are included in the financial statements in accordance with the equity method of accounting.

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

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

Monetary assets and liabilities of domestic companies and integrated foreign subsidiaries which are denominated in foreign funds are translated into Canadian funds at year-end exchange rates, non-monetary assets are translated at historical rates, and transactions included in earnings are translated at rates prevailing during the year, with the exception of depreciation which is translated at historical rates. Exchange gains or losses on translation are included in earnings, with the exception of gains or losses arising on the translation of long-term debt payable in U.S. funds. Such gains or losses which relate to debt that hedges the net investment in self-sustaining U.S. subsidiaries are included in shareholders' equity, while the balance, which relates to debt that is hedged by a future income stream denominated in U.S. funds, is deferred and included in earnings in the same years as the income stream.

(c) Inventories Inventories of finished products, work in process and materials and operating supplies are valued at the lower of average cost and net realizable value. Inventories of pulpwood and sawlogs are valued at average cost.

(d) Fixed assets and depreciation Fixed assets are recorded at cost, which includes capitalized interest and preproduction and start-up costs. Investment tax credits and grants received under government programs relating to capital expenditures are credited to fixed assets.

Depreciation is provided at rates considered adequate to amortize the cost over the productive lives of the assets. The principal asset category is primary production equipment which is depreciated over 20 years on a straight-line basis.

(e) Pension costs Earnings are charged with the cost of benefits earned by employees as services are rendered. The cost reflects management's best estimates of the pension plans' expected investment yields, wage and salary escalation, mortality of members, terminations and the ages at which members will retire. Adjustments arising from pension plan amendments, experience gains and losses and changes in assumptions are amortized to earnings over the estimated average remaining service lives of the members.

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

(f) Income taxes Earnings are charged with income taxes relating to reported profits. Differences between such taxes and taxes currently payable, which result from timing differences between the recognition of income and expenses for accounting and for tax purposes, are reflected as deferred income taxes on the balance sheet.

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

($ millions)	1989	1988	1987
Revenue	$ 107.1	$ 118.3	$ 112.1
Expenses	103.0	102.8	106.0
Earnings	$ 4.1	$ 15.5	$ 6.1
Assets	$ 175.8	$ 179.1	$ 199.3
Liabilities	107.5	112.8	143.4
Net assets	$ 68.3	$ 66.3	$ 55.9

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

Liabilities above include $90.5 million (1988 – $101.4 million; 1987 – $133.1 million) of long-term borrowings which are without recourse to the Company or its co-venturer.

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

Alabama River Newsprint Company During 1988, the Company formed a joint venture partnership, Alabama River Newsprint Company, with Parsons & Whittemore, Incorporated of New York, as equal partners, to build and operate a newsprint mill at Claiborne, Alabama with an annual capacity of 220,000 tonnes. Financing for the project, without recourse to the partners, has been arranged in the form of a U.S. $337 million loan, of which U.S. $159 million was outstanding at December 31, 1989. The total investment in the project is estimated at U.S. $409 million, including construction expenditures of U.S. $342 million. Construction commenced in 1988 and is expected to be completed in 1990. Under a marketing agreement, the partnership's newsprint production will be sold through a wholly-owned sales subsidiary of Abitibi-Price Inc. Abitibi-Price's investment in the joint venture at December 31, 1989 was $30.7 million (1988 – $29.8 million), of which $15.6 million (1988 – $17.9 million) was represented by a note payable.

Pulpa y Papel Orinoco, S. A. In 1988, a Venezuelan corporation, Pulpa y Papel Orinoco, S. A., was formed to construct a newsprint mill in that country under a joint venture arrangement that includes Abitibi-Price and Bowater Incorporated of Darien, Connecticut, each with a 24.5% interest, the Venezuelan Government with 36%, and a group of Venezuelan newspaper publishers with 15%. Work has not commenced on the Venezuelan project and it is too soon after recent events in that country to estimate a completion date. Abitibi-Price's investment in the joint venture at December 31, 1989 was $1.6 million.

3 Acquisitions

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

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

These 1988 acquisitions are summarized as follows:

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

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

In October 1988, Abitibi-Price acquired a 19.9% equity interest in Spicers Paper Limited, one of Australia's leading paper distributors and converters, which also has operations in New Zealand, Singapore and the U.S. West Coast. The total cost of the investment, which is being accounted for by the equity method, was $35.8 million, and the amount by which this exceeded the $26.8 million book value of the acquired shares is being amortized on a straight-line basis over 20 years. The investment in Spicers is included in "Long-term receivables, investments and other assets" on the balance sheet and the Company's share of Spicers' earnings is included in "Other income and expense".

4 Restructuring costs

Restructuring costs of $31.2 million in 1989 consist of:

($ millions)	
Write-off of a newsprint machine at Grand Falls, Newfoundland, which is to be permanently withdrawn from production in early 1990	$ 14.1
Provision for related employee termination costs at that time	8.0
	22.1
Write-off of the assets of the self-insulating hardboard siding operation at the Alpena, Michigan building products plant	9.1
	$ 31.2

5 Other income and expense

($ millions)	1989	1988	1987
Interest	$ 6.2	$ 17.3	$ 11.2
Interest on insurance claim	6.8	–	–
Spicers Paper Limited – equity income	1.9	0.5	–
Foreign exchange gain (loss)	0.5	(2.7)	(2.3)
Other	0.4	1.3	2.4
	$ 15.8	$ 16.4	$ 11.3

6 Income taxes

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

($ millions)	1989	1988	1987
Earnings before income taxes, minority interest and extraordinary item	$ 98.6	$ 335.1	$ 240.8
Income taxes	44.7	137.9	106.7
Effective income tax rate	45.3%	41.2%	44.3%
Made up of:			
Combined basic Canadian federal/provincial income tax rates	40.7%	43.9%	48.1%
Increase (decrease) resulting from –			
Manufacturing and processing allowances	(1.7)	(3.3)	(4.2)
Foreign taxes	3.8	0.4	0.4
Other	2.5	0.2	–
Effective income tax rate	45.3%	41.2%	44.3%

7 Consolidated earnings information

($ millions)	1989	1988	1987
Maintenance and repairs	$ 159.5	$ 152.5	$ 147.3
Taxes other than payroll and income taxes	46.7	37.3	36.8
Pension expense – Company and government plans	9.0	12.5	7.6
Operating lease rentals	47.4	43.3	39.5

8 Extraordinary item

The extraordinary gain of $2.9 million reported for the year 1988 resulted from a sale of land in South Carolina, U.S.A. after income taxes of $2.0 million.

9 Change in operating working capital

($ millions)	1989	1988	1987
Cash used for changes in operating working capital components:			
Decrease (increase) in current assers:			
Accounts receivable	$ 41.0	$ 5.0	$ (30.7)
Inventories	(17.7)	(42.7)	(15.2)
Prepaid expenses	(1.3)	(10.7)	(1.3)
Increase (decrease) in current liabilities:			
Accounts payable and accrued liabilities, excluding dividend payable to a minority shareholder of a subsidiary company	22.8	(27.6)	23.7
Income taxes payable	(4.7)	3.5	7.1
	40.1	(72.5)	(16.4)
Operating working capital acquired with the purchase of a subsidiary company and other businesses	–	41.7	–
Change in operating working capital	$ 40.1	$ (30.8)	$ (16.4)

10 Accounts receivable

At December 31, 1989, the allowance for doubtful accounts receivable was $14.4 million (1988 – $12.9 million).

11 Inventories

($ millions)	1989	1988
Finished products and work in process	$ 237.8	$ 233.1
Pulpwood, sawlogs and expenditures on current logging operations	110.5	105.5
Materials and operating supplies	84.8	76.8
	$ 433.1	$ 415.4

12 Notes payable and bank lines of credit

Under a commercial paper program arranged in 1989, the Company can issue short-term promissory notes in U.S. currency up to a principal value of equivalent Cdn. $200 million. At December 31, 1989, the values of such notes outstanding was Cdn. $124.1 million. Interest on these notes, which is on a floating rate basis, was 8.65% on the notes outstanding of U.S. $107.1 million at the year-end.

At December 31, 1989 the company had $242.7 million in unused bank lines of credit. Any borrowings under these lines of credit would bear interest at the prevailing market rates.

13 Accounts payable and accrued liabilities

($ millions)	**1989**	1988
Trade accounts payable	**$ 176.4**	$ 161.7
Accrued vacation pay	**43.8**	42.7
Accrued salaries, wages and benefits	**31.0**	35.5
Accrued restructuring costs	**8.0**	–
Other	**48.3**	44.8
	$ 307.5	$ 284.7

14 Long-term debt

($ millions)	**1989**	1988
Abitibi-Price Inc.:		
Sinking Fund Debentures –		
11½% Series F, maturing 1995	**$ 7.4**	$ 8.3
11⅞% Series G, maturing 1992 (U.S. $12 million)	**13.9**	23.9
10.65% Series H, maturing 2000 (U.S. $93.5 million)	**108.3**	121.8
Floating Rate Term Loan, maturing 1994 (U.S. $150 million) (a)	**173.8**	178.9
Abitibi-Price Refinance Inc.:		
Floating Rate Cumulative/Term Loan, maturing 1993 (U.S. $96.4 million) (b)	**111.7**	115.0
Gaspesia Pulp and Paper Company Ltd.:		
Floating Rate Revolving Loan, maturing 1996 (U.S. $24.5 million) (c)	**28.4**	–
Floating Rate Revolving Loan, maturing 1992	–	29.8
Other indebtedness	**25.2**	41.6
	468.7	519.3
Less: Amount due within one year	**33.3**	30.5
	$ 435.4	$ 488.8

(a) Interest is at a rate approximating LIBOR. The loan is secured by an Abitibi-Price Inc. Series L Debenture. The Company has entered into interest rate exchange agreements, covering the period to 1994, for a principal amount of U.S. $100 million at an average fixed interest rate of 8.88%.

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

(c) Gaspesia Pulp and Paper Company Ltd. may borrow on a revolving basis up to U.S. $29.4 million to December 31, 1996, with the balance of the loan becoming due on that date. Interest is at rates approximating LIBOR or U.S. base rate.

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

Sinking fund and other long-term debt repayment obligations for the years 1991 to 1994 are estimated to be $16.9 million, $16.8 million, $123.6 million and $185.2 million, respectively.

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

During the year ended December 31, 1989, interest of $9.6 million was capitalized on major capital additions (1988 – $6.1 million; 1987 – $9.0 million).

15 Stated capital

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

Common Shares	Number of common shares	$ millions
Outstanding at January 1, 1987	69,211,114	$ 259.8
Issued under terms of the Key Executive and Management Personnel Stock Oprion Plan		
1987	35,497	0.3
1988	18,939	0.3
1989	1,188	–
Amalgamation adjustment – 1987	–	1.8
Outstanding at December 31, 1989	69,266,738	$ 262.2

At December 31, 1989, 2½ million common share purchase warrants were outstanding. Each warrant entitles the holder to purchase, on or prior to June 15, 1990, one common share for $30. No warrants have been exercised.

7 ½% Cumulative Redeemable Preferred Shares Series A – The balance of the Series A shares, which were issued at $50 per share, were retired in 1989 at a cost of $6.4 million (1988 – 3,600 shares with a book value of $0.2 million were purchased at a cost of $0.2 million; 1987 – 4,840 shares with a book value of $0.3 million at a cost of $0.2 million).

Floating Rate Preferred Shares Series C – The Series C shares, which were issued at $50 per share, were redeemed by the Company at $50 per share in 1989. Dividends were payable at a floating rate of one-half the average prime rate of the five largest Canadian chartered banks plus 1%, with a maximum dividend rate of 9% per annum.

$0.94 Cumulative Redeemable Retractable Preferred Shares Series F – The Series F shares, 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 1989, 257,969 shares were retracted (1988 – 468,814 shares; 1987 – 132,611 shares).

16 Lease commitments

The Company and its subsidiaries have entered into operating leases to charter ships and to lease property and equipment for various periods up to the year 2007 at rentals aggregating approximately $140.6 million. Minimum payments under these leases are as follows:

($ millions)	
1990	$ 33.6
1991	27.4
1992	17.8
1993	11.6
1994	10.2
Remaining years	40.0
	$ 140.6

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. Pension contributions are generally invested in balanced funds with outside managers and at December 31, 1989 approximately 52% of the assets were held in equity securities, with the remainder in fixed income securities.

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

($ millions)	1989	1988
Market value of assets	$ 850.5	$ 771.1
Actuarial present value of accumulated plan benefits based on current service and compensation levels		
Vested	588.6	523.4
Non-vested	3.0	5.2
	591.6	528.6
Adjustment for projected service and compensation levels	78.3	127.8
	669.9	656.4
Excess of market value of assets over projected benefit obligations	$ 180.6	$ 114.7
Consisting of:		
Unrecognized gain	$ 61.4	$ 7.5
Prior service cost not yet recognized in periodic pension expense	(53.1)	(58.4)
Balance of unrecognized net assets existing at January 1, 1986	108.6	119.9
Deferred pension cost recognized on the balance sheet	63.7	45.7
	$ 180.6	$ 114.7

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

($ millions)	1989	1988	1987
Service cost – benefits earned during the year for both defined benefit and defined contribution plans	$ 15.0	$ 16.4	$ 18.7
Interest cost on projected benefit obligations	59.1	55.9	50.6
Actual return on plan assets	(117.1)	(73.9)	(63.9)
Net total of other components	38.9	1.8	(9.0)
Net pension cost (credit)	$ (4.1)	$ 0.2	$ (3.6)

Pension benefit obligations were based on an assumed discount rate of 9.5% (1988 – 9.0%) and an assumed compensation rate increase of 6.0% (1988 – 6.0%). The assumed long-term rate of return on pension plan assets was 9.5% (1988 – 9.0%).

18 United States accounting principles

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

(a) Earnings adjustments –

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

($ millions)	**1989**	1988	1987
Net earnings, as reported under Canadian GAAP	**$ 54.2**	$ 191.1	$ 125.7
Unrealized gain on translation of long-term debt payable in U.S. funds, net of income taxes	**0.6**	21.2	11.7
Net earnings, as adjusted to U.S. GAAP	**$ 54.8**	$ 212.3	$ 137.4
Per Common Share:			
Net earnings, as reported	**$ 0.70**	$ 2.64	$ 1.70
Adjustment	**0.01**	0.31	0.17
Net earnings, as adjusted	**$ 0.71**	$ 2.95	$ 1.87

(ii) Under U.S. GAAP, the extraordinary item referred to on the earnings statement and in note 8 to the financial statements would be included in earnings before the extraordinary item.

(iii) The impact on net earnings adjusted to U.S. GAAP of Financial Accounting Standard 96 relating to income taxes, which is required to be implemented for fiscal years commencing after December 15, 1991, has not been determined.

(b) Preferred shares – Under Securities and Exchange Commission reporting requirements, preferred shares which are retractable at the option of the holders would not be reported under Shareholders' Equity, but would be reported under a separate caption entitled "Retractable Preferred Shares". The Company's Series F shares are retractable at the option of the holders and at December 31, 1989, $31.1 million of these shares were outstanding (1988 – $34.1 million for Series F and $75.0 million for Series C).

19 Comparative figures

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

MANAGEMENT'S REPORT

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

The financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and 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 six non-management members of the Board of Directors. The Audit Committee, which meets regularly through the year with members of financial management and the shareholders' and internal auditors, reviews the consolidated financial statements and recommends their approval to the Board of Directors.

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

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ABITIBI-PRICE INC.

We have examined the consolidated balance sheets of Abitibi-Price Inc. as at December 31, 1989 and December 31, 1988 and the consolidated statements of earnings, retained earnings and changes in cash position for each of the three years in the period ended December 31, 1989. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of Abitibi-Price Inc. as at December 31, 1989 and December 31, 1988 and the results of its operations and the changes in its cash position for each of the three years in the period ended December 31, 1989 in accordance with generally accepted accounting principles applied on a consistent basis.

Price Waterhouse

Chartered Accounrants
February 16, 1990
Toronto, Ontario

	(unaudited) *(millions of dollars, except per share amounts)*	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	TOTAL
1989	Net Sales	$ 810.1	$ 830.3	$ 816.4	$ 800.9	$ 3,257.7
	Operating profit	48.5	57.8	32.8	19.0	158.1
	Restructuring costs	–	–	–	(31.2)	(31.2)
	Net earnings	26.3	28.8	13.6	(14.5)	54.2
	Per common share:					
	Net earnings	$ 0.35	$ 0.39	$ 0.18	$ (0.22)	$ 0.70
	Dividends declared	0.25	0.25	0.25	0.125	0.875
	Dividends paid	0.25	0.25	0.25	0.25	1.00
	Price range per common share					
	Toronto Stock Exchange					
	High	$ 21.50	$ 20.38	$ 18.63	$ 17.13	
	Low	19.13	18.38	16.25	13.13	
	* *New York Stock Exchange (U. S. dollars)*					
	High	18.25	17.25	15.50	14.63	
	Low	15.88	15.38	13.75	11.38	
1988	Net Sales	$ 800.0	$ 835.5	$ 813.4	$ 855.6	$ 3,304.5
	Operating profit	89.4	103.8	87.6	89.3	370.1
	Earnings before extraordinary item	44.1	54.4	44.5	45.2	188.2
	Net earnings	44.1	54.4	44.5	48.1	191.1
	Per common share:					
	Earnings before extraordinary item	$ 0.61	$ 0.76	$ 0.61	$ 0.62	$ 2.60
	Net earnings	0.61	0.76	0.61	0.66	2.64
	Dividends declared	0.25	0.25	0.25	0.25	1.00
	Dividends paid	0.25	0.25	0.25	0.25	1.00
	Price range per common share					
	Toronto Stock Exchange					
	High	$ 28.00	$ 23.13	$ 22.88	$ 20.88	
	Low	22.38	19.13	19.75	18.50	
	* *New York Stock Exchange (U. S. dollars)*					
	High	21.75	19.00	19.00	17.13	
	Low	18.25	15.38	16.13	15.38	
1987	Net Sales	$ 695.7	$ 756.4	$ 749.8	$ 786.1	$ 2,988.0
	Operating profit	58.4	66.8	70.8	75.4	271.4
	Net earnings	21.9	36.2	33.0	34.6	125.7
	Per common share:					
	Net earnings	$ 0.29	$ 0.49	$ 0.45	$ 0.47	$ 1.70
	Dividends declared	0.15	0.15	0.15	0.25	0.70
	Dividends paid	0.15	0.15	0.15	0.15	0.60
	Price range per common share					
	Toronto Stock Exchange					
	High	$ 43.00	$ 40.50	$ 37.25	$ 35.75	
	Low	28.00	33.50	31.00	19.50	
	* *New York Stock Exchange (U. S. dollars)*					
	High	–	–	28.00	27.25	
	Low	–	–	23.25	15.38	

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

	1989	1988	1987	1986
Sales and earnings *($ millions)*				
Net sales	$ 3,257.7	$ 3,304.5	$ 2,988.0	$ 2,763.5
Cost of sales	2,706.5	2,566.2	2,385.1	2,226.0
Selling and administrative expenses	275.0	257.8	234.1	203.1
Depreciation and depletion	118.1	110.4	97.4	88.7
Operating profit	158.1	370.1	271.4	245.7
Interest expense – long-term	37.4	50.5	39.3	35.1
– short-term	6.7	0.9	2.6	2.0
Restructuring costs	31.2	–	–	–
Other income and expense	15.8	16.4	11.3	4.0
Income taxes	44.7	137.9	106.7	91.9
Minority interest	0.3	9.0	8.4	10.6
Earnings before extraordinary items	54.2	188.2	125.7	110.1
Extraordinary items	–	2.9	–	(2.8)
Net earnings	54.2	191.1	125.7	107.3
Dividends declared *($ millions)*				
Preferred shares	$ 5.7	$ 7.8	$ 8.1	$ 8.7
Common shares *(2)*	60.6	69.3	48.5	41.5
Capital expenditures *($ millions)*	$ 260.1	$ 203.8	$ 256.6	$ 263.0
Financial position *($ millions)*				
Working capital	$ 327.6	$ 554.0	$ 622.3	$ 459.0
Fixed assets, net	1,535.7	1,428.6	1,358.1	1,232.6
Long-term debt	435.4	488.8	597.2	428.9
Deferred income taxes	434.0	412.8	318.1	273.5
Minority interest	41.8	42.1	33.1	36.9
Preferred shares	31.1	115.4	121.0	122.8
Common shareholders' equity	1,200.3	1,212.4	1,098.1	1,028.6
Per common share *(1)*				
Earnings before extraordinary items	$ 0.70	$ 2.60	$ 1.70	$ 1.50
Net earnings	0.70	2.64	1.70	1.46
Dividends declared *(2)*	0.875	1.00	0.70	0.60
Dividends paid *(2)*	1.00	1.00	0.60	0.60
Common shareholders' equity	17.32	17.50	15.86	14.86
Return on average common shareholders' equity	4.0%	15.6%	11.1%	10.9%
Long-term debt/long-term debt plus shareholders' equity	26.1%	26.9%	32.9%	27.1%
Number of employees (year end)	15,600	16,200	16,000	16,200

Notes

(1) Figures for the years 1979 to 1984 have been restated to reflect the 3-for-1 split of common shares which became effective May 1, 1985.

(2) Four quarterly dividends were paid in each of the years 1979 to 1988, but because of changes in dividend declaration dates, three dividends were declared in 1983 and five in 1985.

1985	1984	1983	1982	1981	1980	1979
$ 2,549.8	$ 2,137.2	$ 1,660.2	$ 1,634.3	$ 1,763.4	$ 1,364.7	$ 1,470.9
2,075.3	1,794.0	1,439.7	1,352.4	1,356.3	1,076.5	1,134.3
188.4	132.9	114.8	121.8	117.8	98.8	93.4
82.1	76.8	68.6	70.1	61.7	53.3	49.5
204.0	133.5	37.1	90.0	227.6	136.1	193.7
43.6	40.4	18.9	25.2	28.2	25.7	20.0
3.0	1.2	0.8	1.4	–	0.3	0.8
–	–	–	–	–	–	–
20.0	19.0	25.0	29.0	19.0	40.9	32.1
69.4	30.2	0.7	22.4	87.2	51.9	80.5
7.8	8.4	3.7	6.1	7.8	4.8	5.7
100.2	72.3	38.0	63.9	123.4	94.3	118.8
–	(2.2)	–	(2.6)	12.3	18.0	33.6
100.2	70.1	38.0	61.3	135.7	112.3	152.4
$ 9.3	$ 8.0	$ 7.4	$ 10.8	$ 10.0	$ 9.8	$ 9.1
47.0	25.0	12.4	31.1	33.1	30.1	28.0
$ 202.4	$ 126.3	$ 165.3	$ 187.9	$ 207.0	$ 231.0	$ 153.5
$ 373.0	$ 409.5	$ 384.2	$ 437.3	$ 461.4	$ 414.3	$ 339.1
1,132.0	1,010.3	993.6	917.9	837.1	730.0	594.1
455.7	419.9	395.1	385.8	388.9	360.7	237.7
236.9	209.3	191.8	187.6	174.7	127.9	105.4
26.3	25.1	19.5	19.5	16.6	18.1	24.5
124.1	104.2	113.8	122.7	130.8	139.9	143.0
837.4	792.5	739.4	721.1	701.5	560.4	487.0
$ 1.42	$ 1.02	$ 0.48	$ 0.87	$ 1.85	$ 1.50	$ 1.96
1.42	0.99	0.48	0.82	2.05	1.82	2.56
0.73	0.40	0.20	0.50	0.53	0.53	0.50
0.58	0.40	0.30	0.50	0.53	0.53	0.50
13.04	12.40	11.89	11.60	11.29	9.93	8.68
11.2%	8.4%	4.2%	7.5%	18.0%	16.1%	25.5%
32.2%	31.9%	31.7%	31.4%	31.8%	34.0%	27.4%
15,500	14,800	15,100	14,600	17,800	17,300	18,300

(figures in thousands) **PRIMARY PRODUCTION**

	Newsprint* *(tonnes)*	Groundwood Papers *(tonnes)*	Kraft Products *(tonnes)*	Lumber *(mfbm)*	Coated Papers *(tonnes)*	Hardboard *(msf-equivalent)*
Production						
1984	1,721	374	115	181	121	1,111
1985	1,699	349	105	103	126	1,155
1986	1,798	350	87	83	132	1,058
1987	1,833	363	–	55	142	1,147
1988	1,900	407	–	52	144	1,032
1989	**1,791**	**416**	**–**	**52**	**140**	**1,054**
Capacity – 1990	**1,953**	**443**	**–**	**83**	**174**	**1,267**

**Newsprint figures include the total production of the 50%-owned joint ventures at Augusta, Georgia, and Claiborne, Alabama.*

DIRECTORS

Marcel Bélanger, O.C.
(Age 69) (2)
President
Gagnon et Bélanger Inc.
Québec, Quebec

Robert J. Butler
(Age 67) (3,5)
Business Consultant and Chairman
Urban Transportation Development Corporation Ltd.
Toronto, Ontario

Marshall A. Cohen, Q.C.
(Age 54) (1,3,4)
President and Chief Executive Officer
The Molson Companies Limited
Toronto, Ontario

Lionel G. Dodd
(Age 50) (2,4)
Chief Operating Officer
Olympia & York Enterprises Inc.
Toronto, Ontario

Robert C. Gimlin
(Age 69) (1,4,5)
Director
Naples, Florida

Bernd K. Koken
(Age 63) (1,3,4,6)
Chairman and Chief Executive Officer
Abitibi-Price Inc.
Toronto, Ontario

S. Keith McWalter
(Age 64) (5)
Chairman and Chief Executive Officer
Gulf Canada Resources Limited
Calgary, Alberta

C. Edward Medland
(Age 61) (2,3)
Director
Toronto, Ontario

Gilbert I. Newman
(Age 68) (1,2,4,5)
Executive Vice-President
Olympia & York Developments Limited
Toronto, Ontario

Albert Reichmann
(Age 61) (1,3,4,6)
Chairman
Olympia & York Developments Limited
Toronto, Ontario

Paul Reichmann
(Age 59) (1)
President
Olympia & York Developments Limited
Toronto, Ontario

Ralph Reichmann
(Age 56)
Executive Vice-President and Treasurer
Olympia & York Developments Limited
Toronto, Ontario

Pierre A. Rinfret
(Age 66) (4)
Chairman, President and Chief Executive Officer
Rinfret Associates, Inc.
New York, New York

Francis J. Ryan, Q.C.
(Age 63) (2)
Partner
Stirling, Ryan
St. John's, Newfoundland

John A. Tory, Q.C.
(Age 59) (1,3,4)
Deputy Chairman
The Thomson Corporation
Toronto, Ontario

Paul-Gaston Tremblay, C.M.
(Age 61) (2,5)
President
Primo-Gestion Inc.
Chicoutimi, Quebec

David A. Ward, Q.C.
(Age 58) (6)
Partner
Davies, Ward & Beck
Toronto, Ontario

(1) **Executive Committee Member**

The Executive Committee's principal responsibility is to act on behalf of the Board of Directors between regular Board meetings on matters that cannot be postponed until the Board can be assembled. These matters will usually have been addressed in advance by the Board, which will have provided direction to the Executive Committee.

(2) **Audit Committee Member**

The Audit Committee, none of the members of which are officers of the Company, 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 of Directors. 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, without management present, to review their activities and to consider the results of their audits. The Committee also recommends the appointment of the Company's external auditors to the Board of Directors.

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

The Human Resources and Compensation Committee oversees compensation arrangements for officers and managers of the Company and reviews the Company's plans and activities in the development of key management personnel.

(4) **Planning Committee Member**

The Planning Committee reviews long-term strategic plans, annual objectives, major capital projects and investment strategies as well as significant acquisitions and divestitures.

(5) **Pension Fund Committee Member**

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

(6) **Nominating Committee Member**

The Nominating Committee recommends to the Board of Directors the slate of director candidates to be proposed for election by the shareholders at the annual meeting. It also recommends candidates to fill vacancies on the Board as they occur.

PRINCIPAL OFFICERS

Chairman and Chief Executive Officer

Bernd K. Koken

President and Chief Operating Officer

Ronald Y. Oberlander

Executive Vice-Presidents

K. Linn Macdonald
Paper Group

J. Kenneth Stevens
Diversified Group

Senior Vice-President

J. Gordon Maw
Finance

J. Gordon Maw, K. Linn Macdonald and J. Kenneth Stevens

Vice-Presidents

J.Fitzgerald Allison
Industrial Relations

Marcel C. Beaudoin
Operations
(Quebec)

Jeffrey Chipman

T. Maitland Devine
Operations
(Ontario/Manitoba)

Fernand H. Duquette
Engineering

William W. Hall

Eileen A. Mercier
Corporate Development

M. Thomas Neill
Research and Development

Sharon A. Paul
Corporate and Public Affairs

Michael D. Thompson
General Counsel and Secretary

Allan Vatcher
Operations
(Atlantic Region)

H. Colin Warner
Controller

Treasurer

James A. Hone

PRINCIPAL DIVISIONS AND SUBSIDIARIES

Abitibi-Price Sales Corporation
(Newsprint and Groundwood Paper Sales)

George R. Arellano
President
Commercial Division

David L. Loretto
President
International Division

C. Donald Martin
President
North American Publishers Division

Building Products Division

John V. Olsen
President

Diversified Group

Henry Hildebrand
President
Distribution Division II

J. Raymond Langevin
President
Converted Products Division

Bruce J. McGroarty
President
Office Products Division

Yves Montmarquette
President
Distribution Division I

Provincial Papers

George T. Wild
President

PRODUCTS

	PRODUCTS	DIVISIONS	PRINCIPAL OFFICES
PAPER GROUP	Newsprint manufacture for daily newspapers, commercial printing, and inserts.	**NEWSPRINT**	Abitibi-Price Inc., Toronto, Ont. Abitibi-Price Sales Corporation, New York, NY Abitibi-Price Sales Company Limited, London, England **MILLS** Grand Falls and Stephenville, Nfld.; Alma and Chandler, Que.; Iroquois Falls and Thunder Bay (2), Ont.; Pine Falls, Man.; Augusta, GA
	Uncoated groundwood paper manufacture – principally forms, directory and supercalendered grades.	**GROUNDWOOD PAPERS**	Abitibi-Price Inc., Toronto, Ont. Abitibi-Price Sales Corporation, New York, NY Abitibi-Price Sales Company Limited, London, England **MILLS** Alma, Beaupré, and Jonquière, Que.
	Premium coated paper manufacture for publication and commercial printers, paper merchants and converters.	**COATED PAPERS**	Provincial Papers, Thunder Bay, Ont. **MILLS** Thunder Bay and Georgetown, Ont.
DIVERSIFIED GROUP			**HEAD OFFICE** Abitibi-Price Inc., Toronto, Ont.
	Fine paper merchants distributing domestic and imported printing papers, business papers, graphic art supplies and stationery products.	**DISTRIBUTION DIVISION I**	Inter City Papers, Montreal, Que. Lauzier Little Whyte Hooke Papers Whitaker Carpenter Marquette, Chicago, IL
		DISTRIBUTION DIVISION II	Barber-Ellis Fine Papers, Richmond, B.C. Kaplan Paper Paper Shoppes Le marché de l'imprimeur
	National packaging products merchant distributing special order and stock design containers and wrapping materials to the food-service, retail and industrial markets.		Price Daxion, Toronto, Ont.
	Information processing products distribution.	**OFFICE PRODUCTS**	Azerty, Buffalo, NY
			Axidata, Montreal, Que.
	Office products, office furniture and equipment sales.		Jaffe Stationers, Fort Lauderdale, FL
	Envelope manufacture and distribution.	**CONVERTED PRODUCTS**	Innova Envelope, Markham, Ont.
	Paper products manufacture and distribution for school, home, and office.		Hilroy, Toronto, Ont.
	Industrial towels, plain and printed bags and folding cartons manufacture and distribution.		Price Wilson, Montreal, Que. **MILL** Lachute, Que.
OTHER	Hardboard siding production. Decorative and prefinished paneling production. Prefinished extruded mouldings production. Interior wood bi-fold doors, shutters, shelving, and allied millwork production.	**BUILDING PRODUCTS**	Troy, MI **MILLS** Middlebury, IN; Hiawatha, KS; Alpena, MI; Lumberton and Roaring River, NC; Toledo, OH
	Random length softwood lumber sales.		Abitibi-Price Lumber Sales, Toronto, Ont. **MILL** L'Ascension, Que.
	Kraft pulp sales.		Abitibi-Price Inc., Montreal, Que.

Annual general meeting The annual meeting of shareholders of Abitibi-Price Inc. will be held at the King Edward Hotel, Vanity Fair Ballroom, Mezzanine Level, 37 King Street East, Toronto, Canada, on Monday, April 23, 1990 at 11:00 a.m.

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

Valuation Day (December 22, 1971)

Common share price: **$7.25**

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

Form 10-K A copy of the Company's 1989 Report on Form 10-K as filed with the United States Securities and Exchange Commission is available without charge by writing to the Investor Relations Department at the Head Office address.

Transfer agents and registrars

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

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

Auditors

Price Waterhouse
Toronto, Canada

Head office

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