

# Sales Reach Record \$1 Billion Outlook Optimistic For 1978

## Ontario Pollution Abatement Plan Costs \$44 Million

**THUNDER BAY** — A \$44 million five year pollution abatement program has been co-ordinated by Abitibi Paper company Ltd. and Ontario government for provincial mills, T. J. Bell, chairman of the board, announced here in late November.

Mr. Bell told an employee safety meeting that \$28 million will be spent in Thunder Bay including construction of a \$26 million thermal chemical mechanical pulping (TCMP) operation at Thunder Bay division mill. The remaining \$2 million will go toward removal of suspended solids at the three Lakehead mills.

The expenditure in Thunder Bay is part of a province-wide pollution abatement campaign ordered by the Ontario government. Company and government officials have worked to develop a total pollution abatement program since last spring, Mr. Bell explained.

"The economic and employment situation of the mills as well as environmental needs were uppermost considerations in shaping the program," Mr. Bell said.

Both Thunder Bay and Fort William newsprint mills, are meeting government objectives of 50 parts per million of suspended solids in effluent, the chairman said. At Abitibi Provincial Paper mill, suspended solid effluent is near the target, but improvement is still needed, he said.

"By far the most important item in the program is for reduction of biological oxygen demand (BOD) pollution being discharged into Lake Superior," Mr. Bell told employees.



In recognition of their leadership which resulted in record sales for Abitibi Corporation, U.S. building products division, salesmen presented engraved trays to: Charles F. Buckland, president, centre left, and Blaine W. Evans, vice president marketing, centre right. Making the presentation were D.H. Flynn, sales manager east, left, and B.J. Ising, sales manager west, right.

## Prefinished Siding From Sturgeon Falls Selling On United States Market

**STURGEON FALLS** — A move that is expected to bolster the economy of this north-central Ontario community and provide extended production in the hardboard operation at Abitibi Forest Products plant, has been announced by Charles F. Buckland, president, Abitibi U.S. building products division.

Prefinished lap siding produced at the Sturgeon Falls plant and previously available only on the Canadian market, will now be sold in the north east and Great Lakes' regions of the United States.

In his announcement, Mr. Buckland indicated that shipments to U.S. could approach 10 million square feet of prefinished siding in 1978.

"Our company has been a citizen of this Ontario community for many years," Mr. Buckland said, "and it has been of great concern to us that this plant has not been operating at its full potential.

"For sometime now, we have been exploring every possible avenue in an effort to create a more productive environment for our Sturgeon Falls mill. Introduction of this product to the U.S. market is expected to assist us in this endeavour," Mr. Buckland explained at a December company sales meeting in Detroit.

"This could mean a much better level of production for the 200 hardboard mill employees," the divisional president said.

The Sturgeon Falls operation includes both a hardboard plant and a corrugating mill, employing approximately 400 people. Thirty-four building products' salesmen in Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, Pennsylvania, Virginia, Kentucky, Ohio, Indiana, Michigan, Illinois, Missouri, Iowa, Wisconsin, Minnesota, Delaware, Maryland and New Jersey, introduced the lap siding to wholesale and retail markets in early January.

Shipments of prefinished siding to the U.S. market started in late December. Initially, two railway cars went to the company's Toledo warehouse from where distribution will be made to the consumer markets.

The siding will continue to be marketed throughout Canada by Canadian Forest Building Product Materials (CANFOR), a British Columbia based company which has 30 warehouses across the country.

Although the Sturgeon Falls plant has been producing exterior siding for a number of years, announcement of its availability in U.S. market was coupled with introduction of a new improved finish for the product. Years of testing at Abitibi's Sheridan Park Research Centre, near Toronto, has resulted in a technological break-through surface coating of the siding. This new patented technique is called "Fusion Finish" process whereby a new surface treatment is fused to the hardboard. This provides a durable finish guaranteed to retain its color and protection for years.

The company has offered a 10 year limited guarantee against blistering, peeling or checking of original factory finish. There is a 25 year guarantee against hail damage.

"This is the best guarantee on exterior siding on the U.S. market today," M.L. (Marty) Buchanan, product manager told the Detroit sales meeting.

"This new line of superb quality exterior siding will compliment our product lines on the United States market," he told company salesmen.

The Sturgeon Falls product will be offered in two finishes — smooth surface and embossed. In smooth surface, there are four colors — white, sage green, ivory and yellow and in embossed finishes, colors are timber-moss and russet.

**TORONTO** — A record \$1 billion in sales last year and an optimistic outlook for 1978 highlighted year-end reports from senior company officials.

Sales in excess of \$1 billion were achieved by Abitibi Paper Company Ltd. in 1977, T. J. Bell, chairman of the board, said in a year-end statement. It was a record and a major milestone in the company's history. The new sales achievement represented a 14 per cent increase over 1976.

Earnings also showed improvement, Mr. Bell added, as a result of increased sales and the depressed value of the Canadian dollar. Forty per cent of earnings were the result of the lower valued dollar, he explained.

Abitibi Corporation, U.S. building products division with \$100 million in sales set a new record. Inter-City Papers also had a record year.

The momentum achieved in 1977 is expected to carry over to this year according to a survey carried out by ABITIBI-PRICE with senior management of the parent company and subsidiary divisions.

"We look forward to 1978 with enthusiasm," Mr. Bell said in his forecast for this year. While we will continue to face weak markets for kraft pulp and Canadian board products, we can forecast some improvement in operating rates for newsprint. Many areas of the company which have been problems in the past, are either eliminated or they are back on track", he added.

"We are estimating that the Canadian dollar will remain in the 92-93 cent U.S. range and this will go a long way towards overcoming the competitive disadvantages we have by comparison with U.S. forest products industry," he said. "Our challenge is to strengthen our competitive position before the Canadian dollar regains parity with the U.S. dollar," he emphasized.

Mr. Bell said the company faced a large capital program in 1978 worth \$65 million to upgrade facilities and to keep the company competitive. He said \$19 million of the total capital budget will be spent on environmental improvements.

### NEWSPRINT

Both C. H. Rosier, president and chief operating officer, Abitibi, and C.R. Tittmore, president and chief executive officer, The Price Company, forecasted increased newsprint production.

Mr. Rosier predicted that 300,000 tons of additional newsprint will be shipped to United States markets this year.

"This will increase average operating rates at Canadian mills to more than 90 per cent," the Abitibi president said in his forecast.

"Abitibi and Price mills are expected to have less down time," Mr. Tittmore added. However, he cautioned that the company faced a challenge to restore confidence in service and product reliability and quality.

## Cucamonga Now Rancho Cucamonga

**RANCHO CUCAMONGA** — No longer is Abitibi's California building products plant, located in Cucamonga, a place name made famous by comedian Jack Benny.

The plant won't be moving, just the place name changes. The community was part of a county government system until it was incorporated as a city in mid December. The new name is Rancho Cucamonga, one of America's newest cities near Los Angeles.

## Inside

### Commitment To The Future

In an address to Gravure Research Institute, George Arellano, president, commercial division, Abitibi-Price Sales Corporation, outlined the company's emphasis on future production.

### Staff Facilities

Abitibi Provincial Paper in Thunder Bay has upgraded staff facilities. SEE

### Why Metric ?

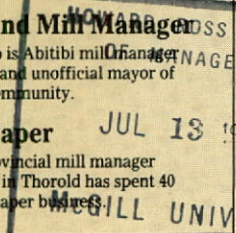
The company is going metric. Why?

### Mayor And Mill Manager

Don Munro is Abitibi mill manager at Pine Falls and unofficial mayor of the unique community.

### Lot Of Paper

Abitibi Provincial mill manager Dick Holmes in Thorold has spent 40 years in the paper business.





# Annual Report for the year ended December 31, 1977

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## ABITIBI PAPER COMPANY LTD.

Head Office: Toronto-Dominion Centre,  
Toronto, Canada M5K 1B3

The Annual Meeting of Shareholders will be held in the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Tuesday, April 18, 1978 at 10:30 a.m. Toronto time.

On peut obtenir ce rapport annuel en français sur demande.

## "Communication on Paper" at Abitibi

Communication, particularly communication on paper is absolutely essential to the fast-paced world in which we live. Paper in communication is an everyday tool of commerce, industry, banking and government. Paper in the usual sense and in some very sophisticated forms plays a vital role in the "business" of communication. In Abitibi's world of printed communication, paper or paper derivatives are used in a myriad of forms at the dozens of Abitibi mills and plants dotting the continent from California to Newfoundland. The editorial pages of our 1977 Annual

Report illustrate many of the "paper-carrying vehicles" and forms used by Abitibi in communicating with individuals, customers, the business and financial world and the public at large; including the educational and public relations fields.

## COVER

"Abitibi-Price", our excellent employee newspaper is an outstanding example of our annual report theme "Communication on Paper"; directed to Abitibi and its thousands of loyal employees.

## Abitibi Paper raises dividend

Abitibi Paper Co. Ltd. of Toronto yesterday declared a quarterly dividend of 15 cents a share on its common stock, payable Aug. 1 to shareholders of record July 1. This represents a 30-per-cent increase over the previous rate of 10 cents quarterly.

Commenting on the boost in payout, T. J. O'Brien, president and chief executive officer, said that the increase reflected the company's strong performance in the first half of the year.

## Hembo

Hembo Canada Ltd. said it will make a cash offer for all outstanding shares of the company.

The offer, which is being made by Hembo's parent company, Hembo Inc., is being made at a price of \$1.25 per share.

## 1

It will be made in full when matters have been settled. Hembo Inc. has been sitting in the court since the time of the takeover at the time of the takeover.

## 16

The Ontario Office of the Registrar of Companies has been notified of the takeover.

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## Projected changes to line

By WAYNE CHEVRELA TOFF  
Ottawa and Montreal Reporters

OTTAWA — Economic growth in Canada during the next two decades will be limited by demographic changes already taking place, according to a confidential federal Finance Department document.

The document, handed to private ministers of finance last week and labelled a "discussion draft," outlines how the slowdown in the growth of population and the labor force in Canada between now and 1986 will cause a slowing in the potential growth of the gross national product (which equals gross national income) and also GNP per capita.

The paper also forecasts a decline during the period in the "cyclically adjusted" unemployment rate as the proportion of youth in the labor force declines.

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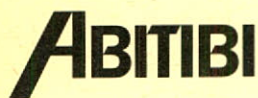
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## Highlights

(thousands of dollars except per share calculations)

	1977	1976
Sales, less delivery expenses . . . . .	\$1,045,504	\$880,351
Depreciation and depletion . . . . .	\$ 43,963	\$ 41,942
Income taxes . . . . .	\$ 29,363	\$ 13,483
Mining income . . . . .	\$ 3,283	\$ 3,844
Earnings before extraordinary items . . . . .	\$ 37,908	\$ 13,024
Per common share . . . . .	\$ 1.83	\$ .47
Net earnings . . . . .	\$ 36,221	\$ 13,024
Per common share . . . . .	\$ 1.74	\$ .47
Dividends declared—preferred shares . . . . .	\$ 4,366	\$ 4,584
—common shares . . . . .	\$ 6,446	\$ 2,172
—per common share . . . . .	\$ .35	\$ .12
Additions to fixed assets . . . . .	\$ 43,580	\$ 54,371
Working capital . . . . .	\$ 259,836	\$224,562
Long-term debt . . . . .	\$ 242,512	\$243,168
Common shareholders' equity . . . . .	\$ 292,424	\$262,192
Per common share . . . . .	\$ 15.77	\$ 14.49
Number of common shareholders . . . . .	21,240	22,184



## Report of the Directors

Consolidated sales for the first time in your company's history exceeded one billion dollars, \$1,045,504,000—a milestone.

Earnings before extraordinary items were \$37.9 million, not a record but a substantial improvement over the past 2 years.

By quarters these earnings were:

First	— \$ 3.5 million or 13¢ per share
Second	— \$ 6.9 million or 32¢ per share
Third	— \$11.2 million or 55¢ per share
Fourth	— \$16.3 million or 83¢ per share

and the trend is most significant. Operating rates in our newsprint operations were low in the first quarter but improved rapidly during the year. This reflected not only an upswing in demand, particularly in the United States but also our improved sales participation in all markets.

It is important to realize that the changing exchange value of the Canadian dollar contributed \$16.6 million or 46% of our net earnings for the year.

In the past I have made many references to the difficulties we face in the Canadian forest industry compared to similar operations in the United States, our principal market. These include higher wage rates, higher wood costs, higher transportation costs and higher costs of construction, capital and taxes. The major problem is to redress these cost disadvantages before there is any significant increase in the value of our dollar. Hopefully, we will have time.

Environmental problems have been of great concern to us. Because of our uncompetitive position in the newsprint mills vis-a-vis U.S. producers, and resultant lack of earnings, we have found it difficult to finance the huge expenditures required to completely clean up the processes which use sulphite pulp. We have been researching for some time thermal mechanical pulping (TMP) and thermal chemical



mechanical pulp (TCMP). At Grand Falls, Price this year completed our first major conversion to refiner mechanical pulp which will permit a material reduction in the use of sulphite pulp. This plant was designed so that either thermal or thermal chemical processes can be added. Two further mills are in the planning stage for conversion and another will effect a substitute for its present sulphite mill. This new technology will go a long way towards reduction in the oxygen demand of the effluent which is the remaining serious pollution problem at our mills.

During the course of the year we have been working diligently at all mill locations to improve communications with employees. We have several objectives.

Safety is a major concern. It is the first item on the agenda of our directors' meetings, management meetings and mill meetings. Our attention to this problem is showing results.

We believe that a more intimate knowledge of our business and the various economies we serve, and compete with, will lead to better employee relations.

Obviously, at the heart of better communications are skilled supervisors and we have established training programs to upgrade our first line of contact on the management side.

Coincident with this we have embarked on a program to raise the level of the work environment, both inside and out, at all our mill locations. Although this will take some time to complete, we are making good progress.

During the year we eliminated several unprofitable operations that had no reasonable expectation of a turn-around. These include the sawmill at Hudson, Ontario and a warehousing company in the United States which was part of the Price Wilson group. The terminal losses are apparent in the extraordinary items appearing on the earnings statement.

A new sales and operating division

was formed in 1977—the Uncoated Groundwood Papers Division, supplying rotogravure, offset, directory and other specialty papers, with sales offices in New York and Toronto and operating mills at Kenogami and Sault Ste. Marie. We now constitute one of the largest suppliers of groundwood papers to the fast growing U.S. market and are very hopeful of a good future for this venture. At this point we feel confident that these mills will run full during 1978.

The U.S. building materials company—Abitibi Corporation—performed extremely well throughout 1977 and we expect a further improvement in its results in the future. We are very proud of our position in this market for panelling, exterior siding, sheathing and mouldings as innovation and development of new products are the backbone of our acceptance.

We paid the following dividends during the year:

August 1	—	10¢
November 1	—	10¢

and we are hopeful that business conditions will allow us to continue on a quarterly basis at not less than the rate of our last dividend declared, 15¢ payable February 1, 1978.

For 1978 we anticipate improved operating rates for our newsprint mills. To offset increased costs we have announced a price increase of \$15 which will bring the selling price to \$320 per ton for U.S. shipments to take effect April 1, 1978. The U.S. market has shown excellent growth during 1977 and this trend is expected to continue through 1978.

The outlook for our fine papers is brighter than it has been for the past two years during which period we experienced serious losses. The exchange rate is assisting this domestic Canadian business in its competitive position with U.S. producers. Sales volume is increasing and we are getting some price relief to offset increased costs.

In our lumber operations, with the elimination of start-up costs at White

River and the operating loss at Hudson, we expect to show a profit in 1978.

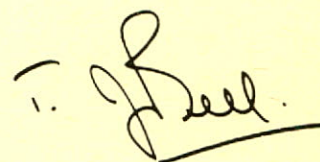
As an exporting industry, and this particularly applies to your company, we face serious problems. This requires understanding of our problems on the part of our employees, our shareholders and the public. We must as a company be more vocal in public and, because of a rather hostile atmosphere to big business, it is our responsibility to tell our story frankly.

The public is responding and becoming more reasonable in its expectations of what our governments, institutions and industry can provide. When we come to a dialogue on the possibility of, for example, indexed pensions for everyone, we must first of all be knowledgeable about the cost and, second, who pays the cost. It is quite conceivable that when the cost is properly analyzed, the public will realize that we may have indexed pensions, but no jobs.

We must, as your management, take an increasing role in presenting our views to you as shareholders, to our employees and to the public at large. This industry is the backbone of the Canadian economy. We have no worry about credibility if we present our views fairly, consistently and conscientiously. This must be the role of a large national company with many thousands of employees and whose results contribute so greatly to our country's economic viability.

I would like to commend all our family of Abitibi and Price employees for their dedication, support and hard work during 1977.

On behalf of the Board,



Chairman and Chief Executive Officer  
Toronto, February 16, 1978



## Financial Review

Earnings in 1977 were bonused dramatically by the weakness of the Canadian dollar in comparison with the United States dollar. Using par as the base this situation contributed \$16.6 million to net earnings in 1977 after provision for income taxes and minority interests. In 1976 there was a net charge against earnings of \$1.7 million resulting in a swing of \$18.3 million when comparing the two years.

Under current operating levels it is estimated that each one cent change in exchange rates between the U.S. and Canadian dollar affects annual after-tax earnings by approximately 12¢ per common share. This calculation is based primarily on the value of exported Canadian products and does not reflect the impact of exchange rates on domestic Canadian operations.

In 1977 The Price Company Limited divested itself of National Distribution Services Inc., an unprofitable warehousing subsidiary, and planned to divest itself of the business of a 50% owned distribution company. Accordingly, provision has been made for terminal losses totalling \$3.3 million. In addition, Abitibi has sold the assets of Abitibi Lumber (Hudson) Ltd., an unprofitable sawmill, and has taken up a terminal loss of \$0.5 million. Tax credits of \$1 million resulting from the application of prior years' losses of subsidiary companies also have been taken into account. The effect of the foregoing, after a reduction of \$1.1 million for applicable minority shareholders' interests, is a net extraordinary loss of \$1.7 million.

Current assets at December 31, 1977 were 2.8 times current liabilities. Working capital amounted to \$259.8 million. Net cash resources at the year end were \$21.8 million, an increase of \$17.5 million over 1976.

Capital expenditures in 1977 totalled \$43.6 million and were made up of \$21.6 million for Abitibi and \$22 million for Price. Planned capital expenditures for 1978 are \$67 million. This comprises \$35 million for Abitibi and \$32 million for Price.

There was no financing entered into in 1977. Although long-term debt of \$11.5 million was retired during the year, the balance sheet only shows a decrease of \$0.7 million from 1976 due to U.S. long-term debt being converted into Canadian funds at the exchange rates in effect at the end of each year. As explained under Note 1(b) of the financial statements, the unrealized loss on translation of long-term debt payable in U.S. funds has been deferred on the balance sheet. The total of Series A and B preferred shares outstanding at the end of 1977 was \$44.8 million, a reduction of \$2.2 million from the previous year.

The consolidated balance sheet at December 31, 1977 sets out the minority shareholders' interest in Price of \$110.4 million. This is made up of the following figures:

The Price Company Limited	
Preferred share equity	\$ 3,750,000
Common share equity	
—42.0%	93,020,000
Price subsidiary companies,	
principally Gaspesia	
Pulp and Paper Com-	
pany Ltd. in which	
The New York Times	
has a 49% interest	13,647,000
	<u>\$110,417,000</u>

Amendments to the Federal Income Tax Act passed in December 1977 provide for a tax deductible allowance in 1977 and subsequent years amounting to 3% of the value of specified inventories held at the beginning of each year. Another

amendment provides for an increase and a time extension in the 5% investment tax credit applicable in respect of qualified capital investments in Canada. The 5% credit is now available for qualified investments made before July 1, 1980 but for such investments made in specified geographical areas, the credit has been increased to 7½% or 10% depending on the area. The majority of Abitibi's capital investments in Canada will qualify for the 7½% tax credit. In 1977 the benefit of these tax measures amounted to \$2.8 million.

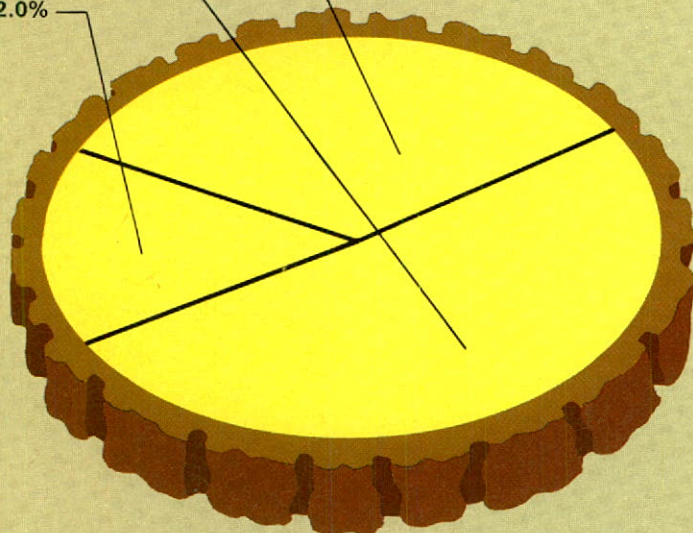
Further federal tax changes were introduced at the same time and provide significant amendments in respect of the tax treatment of unexpired losses of Canadian subsidiary companies. Effective with dissolutions or amalgamations commenced after March 31, 1977, these losses may be utilized by the parent or successor company, as the case may be, in the years following the commencement of dissolution or amalgamation proceedings. Abitibi has instituted the necessary steps for three subsidiary companies which will make available to it the related tax losses commencing in 1978.

It is recognized that historic accounting is inadequate for measuring financial performance in an inflationary environment. Accounting bodies and government agencies throughout the world are attempting to develop a system of accounting which will reflect the impact of inflation. However, a generally acceptable accounting procedure has not yet evolved in Canada. Consequently Abitibi considers it premature at this time to provide figures in accordance with any of the various methods proposed to date although it is apparent that the provision for depreciation is inadequate to provide for the replacement of fixed assets.



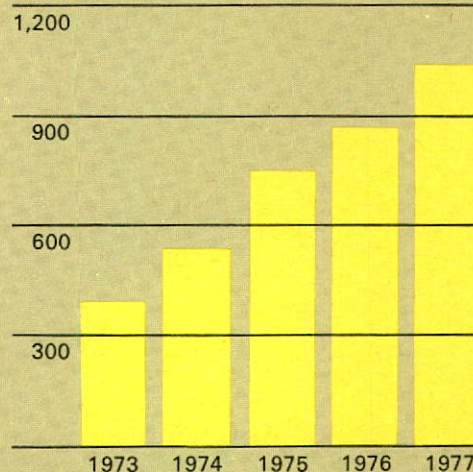
### Net Sales by Market—1977

Canada 37.2%  
U.S.A. 50.8%  
Other 12.0%



### Net Sales

(millions of dollars)



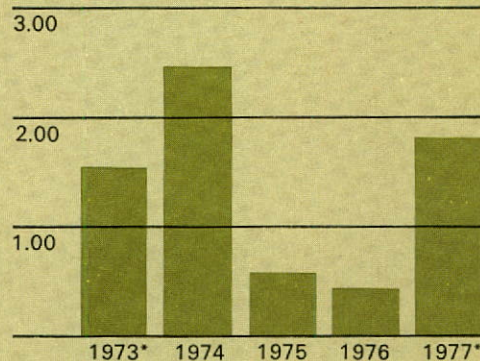
### Net Sales by Product

(thousands of dollars)

	1977	1976
Newsprint and uncoated groundwood papers	\$ 568,643	\$479,869
Fine papers, including merchant and converting operations	173,659	140,867
Paperboard, kraft paper and packaging	66,095	64,478
Pulp	12,738	12,294
Lumber	60,850	43,120
Building products	116,525	93,344
Converted and resale products of Price Wilson	46,994	46,379
	\$1,045,504	\$880,351

### Earnings Per Common Share

(dollars)



\*before extraordinary items

### Net Sales and Earnings by Quarters

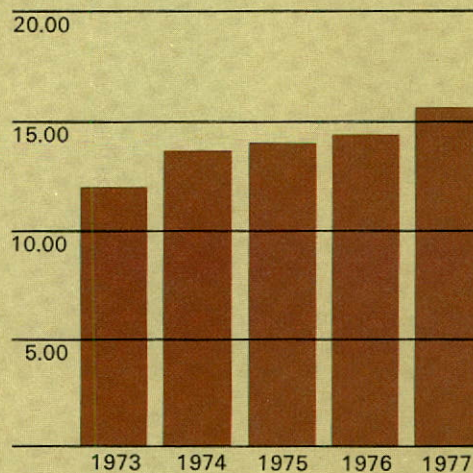
(thousands of dollars)

	Net Sales		Earnings	
	1977	1976	1977	1976
1st quarter	\$ 233,157	\$156,048	\$ 3,486	\$(8,014)
2nd quarter	255,704	241,584	6,844	6,707
3rd quarter	271,114	235,987	11,242*	5,098
4th quarter	285,529	246,732	16,336*	9,233
	\$1,045,504	\$880,351	\$37,908*	\$13,024

\*before extraordinary items

### Equity Per Common Share

(dollars)





**Consolidated Net Earnings**

(thousands of dollars except per share calculations)

	Year Ended December 31	
	1977	1976
Sales, less delivery expenses . . . . .	\$1,045,504	\$880,351
Other income (note 2) . . . . .	5,712	4,439
	<u>1,051,216</u>	<u>884,790</u>
Cost of sales . . . . .	830,264	728,139
Selling, general and research expenses . . . . .	79,169	64,830
Depreciation and depletion . . . . .	43,963	41,942
Interest and expense on long-term debt . . . . .	22,742	22,308
Other interest . . . . .	1,114	2,724
Income taxes . . . . .	29,363	13,483
	<u>44,601</u>	<u>11,364</u>
Interest in earnings of non-mining companies accounted for on the equity basis (note 5) . . . . .	1,647	1,503
Mining income (note 3) . . . . .	3,283	3,844
	<u>49,531</u>	<u>16,711</u>
Minority shareholders' interest. . . . .	11,623	3,687
Earnings before extraordinary items. . . . .	37,908	13,024
Extraordinary items (note 6) . . . . .	1,687	—
Net earnings . . . . .	<u>\$ 36,221</u>	<u>\$ 13,024</u>
Per common share		
Earnings before extraordinary items . . . . .	\$ 1.83	\$ .47
Net earnings. . . . .	1.74	.47

**Consolidated Retained Earnings**

(thousands of dollars)

	Year Ended December 31	
	1977	1976
Retained earnings at beginning of year . . . . .	\$ 212,191	\$205,923
Net earnings . . . . .	<u>\$ 36,221</u>	<u>\$ 13,024</u>
	248,412	218,947
Dividends declared—preferred shares . . . . .	4,366	4,584
—common shares . . . . .	6,446	2,172
Retained earnings at end of year. . . . .	<u>\$ 237,600</u>	<u>\$212,191</u>



**Changes in Consolidated Financial Position**

(thousands of dollars)

Year Ended  
December 31

1977

1976

**Financial Resources Provided By:**

Earnings before extraordinary items . . . . .	\$ 37,908	\$ 13,024
Charges (credits) to earnings not affecting working capital:		
Depreciation and depletion . . . . .	43,963	41,942
Deferred income taxes . . . . .	6,063	7,946
Interest in earnings of companies accounted for on the equity basis—		
Mattabi Mines Limited . . . . .	(3,421)	(4,155)
Other . . . . .	(1,647)	(1,503)
Minority shareholders' interest . . . . .	11,623	3,687
Other—net . . . . .	69	(658)
Funds from operations . . . . .	94,558	60,283
Dividends from Mattabi Mines Limited . . . . .	6,000	5,200
Issue of common shares . . . . .	4,823	—
Disposals of fixed assets . . . . .	4,114	1,692
Decrease in receivables not currently due . . . . .	1,793	1,476
Decrease in investments . . . . .	7	2,187
Issue of long-term debt . . . . .	—	1,513
	111,295	72,351

**Financial Resources Used For:**

Additions to fixed assets . . . . .	43,580	54,371
Reduction of long-term debt . . . . .	11,526	12,740
Dividends:		
Shareholders of the Company . . . . .	10,812	6,756
Minority shareholders of subsidiary companies . . . . .	1,640	765
Additional investment in—		
The Price Company Limited . . . . .	4,823	—
Equity-interest company . . . . .	50	950
Retirement of preferred shares . . . . .	2,183	2,197
Other items—net . . . . .	1,407	(967)
	76,021	76,812
Increase (Decrease) in Working Capital . . . . .	35,274	(4,461)
Working Capital at Beginning of Year . . . . .	224,562	229,023
Working Capital at End of Year . . . . .	\$259,836	\$224,562



**Consolidated Balance Sheet**

(thousands of dollars)

	December 31	
	1977	1976
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash and short-term investments . . . . .	\$ 29,178	\$ 20,693
Accounts receivable . . . . .	166,322	136,575
Income taxes recoverable . . . . .	1,300	4,640
Inventories (note 7) . . . . .	201,228	188,814
Prepaid expenses . . . . .	4,867	4,772
	<u>402,895</u>	<u>355,494</u>
<b>Fixed Assets:</b>		
Properties, plant and equipment . . . . .	808,133	788,786
Logging equipment and development . . . . .	47,918	44,990
Woodlands and mining and water power rights . . . . .	43,499	43,472
	<u>899,550</u>	<u>877,248</u>
Less—accumulated depreciation and depletion . . . . .	423,320	387,811
	<u>476,230</u>	<u>489,437</u>
<b>Other Assets:</b>		
Equity interests		
Mattabi Mines Limited (note 4) . . . . .	14,981	17,560
Other companies (note 5) . . . . .	5,708	4,326
Receivables not currently due . . . . .	3,538	5,331
Investments (note 8) . . . . .	5,236	5,243
Cost of shares of acquired companies in excess of values attributed to underlying net assets, less accumulated amortization . . . . .	20,129	20,289
Unamortized discount and expense on long-term debt . . . . .	1,524	1,684
	<u>51,116</u>	<u>54,433</u>
	<u>\$930,241</u>	<u>\$899,364</u>

The financial statements have been  
approved by the Board:

T. J. Bell, Director

C. H. Rosier, Director



LIABILITIES	December 31	
	1977	1976
<b>Current Liabilities:</b>		
Bank indebtedness . . . . .	\$ 7,411	\$ 16,347
Accounts payable and accrued liabilities . . . . .	104,870	95,104
Income and other taxes payable . . . . .	17,230	8,452
Dividends payable . . . . .	3,276	—
Long-term debt due within one year (note 9) . . . . .	10,272	11,029
	<u>143,059</u>	<u>130,932</u>
 Long-Term Debt (note 9) . . . . .	 242,512	 243,168
 Unrealized Gain (Loss) on Translation of Long-Term Debt Payable in U.S. Funds (note 1(b)) . . . . .	 (6,210)	 4,660
 Deferred Income Taxes . . . . .	 103,224	 99,725
 Minority Shareholders' Interest . . . . .	 110,417	 111,671
 <b>SHAREHOLDERS' EQUITY</b>		
<b>Preferred Shares (note 10)</b>		
Authorized: 1,000,000 shares par value \$50 issuable in series (1,000,000 shares issued; 103,710 shares redeemed)		
Outstanding: 176,290 7½% Cumulative Redeemable Preferred Shares, Series A (1976—180,310 shares) . . . . .	8,815	9,016
720,000 10% Cumulative Redeemable Preferred Shares, Series B (1976—760,000 shares) . . . . .	36,000	38,000
 <b>Common Shares (note 11)</b>		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 18,547,076 shares (1976—18,098,123 shares) . . . . .	54,824	50,001
 Retained Earnings . . . . .	 237,600	 212,191
	<u>337,239</u>	<u>309,208</u>
	<u>\$930,241</u>	<u>\$899,364</u>



## Notes to Consolidated Financial Statements

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### 1. Summary of Significant Accounting Policies

#### (a) Principles of Consolidation

The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and all companies in which it holds more than a 50% interest. Investments in companies in which Abitibi holds a major interest, but not more than 50%, are included in the consolidated financial statements in accordance with the equity method of accounting.

The cost of shares of acquired companies in excess of values attributed to underlying net assets is recorded as an asset on the consolidated balance sheet. The excess for companies acquired prior to 1974 is not being amortized, while the excess in respect of subsequent acquisitions is amortized on a straight-line basis over an appropriate period not in excess of 40 years.

#### (b) Translation of Foreign Currencies

Balances and transactions in other currencies have been translated into Canadian dollars as follows:

Fixed assets, investments and deferred income taxes at historical rates of exchange;

Other assets and liabilities at rates in effect at December 31;

Items included in net earnings at rates prevailing during the year, except depreciation and depletion which are on the same basis as the related fixed assets.

The Accounting Research Committee of the Canadian Institute of Chartered Accountants has recently issued an exposure draft on the subject of translation of foreign currency transactions and foreign currency financial statements. Recommendations as to required Canadian accounting practice are expected sometime in 1978. Pending an official pronouncement from the C.I.C.A., the unrealized loss on translation of long-term debt payable in United States funds has been deferred on the balance sheet. Realization of this loss is dependent on the exchange rate in effect when the debt is retired.

#### (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 substantially at cost. 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. Timber limits are depleted on the unit-of-production basis to the extent of amounts allowable for income tax purposes.

#### (e) Discount and Expense on Long-Term Debt

Discount and expense on long-term debt is amortized over the terms of the related obligations.

#### (f) Research and Development

Research and development expenditures are written off when incurred, except for expenditures on physical facilities which are capitalized and depreciated on a straight-line basis over their estimated useful lives.

#### (g) Pension Costs

Current service pension costs are funded and charged to earnings as they accrue. Past service costs are funded and charged to earnings at rates which, based on actuarial reports, will provide for full funding by December 31, 1990.

#### (h) 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 tax purposes, are reflected as Deferred Income Taxes in the financial statements. Tax benefits relating to current losses are not included in earnings unless recovery is virtually certain. When tax benefits not previously recognized are realized they are included in earnings as an extraordinary item.

#### (i) Earnings Per Common Share

Earnings per common share calculations are based on the average number of shares outstanding during the year and are computed after allowing for dividends declared on preferred shares.



**2. Other Income**

	1977	1976
Interest and miscellaneous income . . . . .	\$ 4,401,000	\$ 2,854,000
Gain on current maturities of long-term debt . . . . .	241,000	1,329,000
Net gain on disposals of investments and fixed assets . . . . .	1,070,000	256,000
	<u>\$ 5,712,000</u>	<u>\$ 4,439,000</u>

**3. Mining Income**

	1977	1976
Equity in earnings of Mattabi Mines Limited . . . . .	\$ 3,421,000	\$ 4,155,000
Mining loss of The Price Company Limited . . . . .	(138,000)	(311,000)
	<u>\$ 3,283,000</u>	<u>\$ 3,844,000</u>

**4. Equity Interest—Mattabi Mines Limited**

Abitibi owns 40% of the common shares of Mattabi Mines Limited and its investment is carried at the nominal cost of \$3 plus its interest in undistributed earnings in accordance with the equity method of accounting.

The following is a condensed summary of the financial position of Mattabi as shown by its audited financial statements at December 31:

Assets	1977	1976
Current assets . . . . .	\$23,149,000	\$25,578,000
Property, plant and equipment, at cost less accumulated depreciation . . . . .	19,235,000	21,741,000
Mining properties and rights, at cost less amortization . . . . .	1,875,000	2,250,000
Other assets, primarily pre-production and deferred development expenditures at cost less amounts written off . . . . .	5,088,000	4,732,000
	<u>\$49,347,000</u>	<u>\$54,301,000</u>
Liabilities and shareholders' equity		
Current liabilities . . . . .	\$ 5,796,000	\$ 5,598,000
Deferred taxes . . . . .	4,226,000	2,555,000
Capital stock . . . . .	2,625,000	2,625,000
Retained earnings . . . . .	36,700,000	43,523,000
	<u>\$49,347,000</u>	<u>\$54,301,000</u>
Net earnings . . . . .	<u>\$ 8,177,000</u>	<u>\$10,012,000</u>
Abitibi's equity in Mattabi (adjusted for amortization of mining properties and rights)		
Equity at beginning of year . . . . .	\$17,560,000	\$18,605,000
Equity in earnings . . . . .	3,421,000	4,155,000
	20,981,000	22,760,000
Dividends received . . . . .	6,000,000	5,200,000
Equity at end of year . . . . .	<u>\$14,981,000</u>	<u>\$17,560,000</u>

**5. Equity Interest—Other Companies**

	1977	1976
Equity at beginning of year . . . . .	\$ 4,326,000	\$ 1,883,000
Additional investment . . . . .	50,000	950,000
Equity in earnings . . . . .	1,647,000	1,503,000
	6,023,000	4,336,000
Dividend received . . . . .	15,000	10,000
	6,008,000	4,326,000
Provision for loss on investment . . . . .	300,000	—
Equity at end of year . . . . .	<u>\$ 5,708,000</u>	<u>\$ 4,326,000</u>



## 6. Extraordinary Items

Loss on sale of assets and business of Abitibi Lumber (Hudson) Ltd., net of income tax recovery of \$2,193,000 . . . . .	\$ 509,000	
Loss on disposal of investment in National Distribution Services, Inc., a U.S.A. warehousing subsidiary of Price Wilson Limited . . . . .	3,000,000	
Provision for loss on Price Wilson investment in equity-interest distribution company . . . . .	300,000	
	<u>\$ 3,809,000</u>	
Income tax reductions realized on application of prior years' losses . . . . .	997,000	
	<u>2,812,000</u>	
Minority shareholders' interest . . . . .	1,125,000	
	<u>\$ 1,687,000</u>	

## 7. Inventories

	1977	1976
Finished products and work in process . . . . .	\$ 62,598,000	\$ 58,319,000
Pulpwood, sawlogs and expenditures on current logging operations . . . . .	89,165,000	84,921,000
Materials and operating supplies . . . . .	49,465,000	45,574,000
	<u>\$201,228,000</u>	<u>\$188,814,000</u>

## 8. Investments, at cost

	1977	1976
Bonds, debentures and notes . . . . .	\$ 1,059,000	\$ 1,500,000
Townsite mortgages and advances . . . . .	1,902,000	2,276,000
Other . . . . .	2,275,000	1,467,000
	<u>\$ 5,236,000</u>	<u>\$ 5,243,000</u>

## 9. Long-Term Debt

	1977	1976
Abitibi Paper Company Ltd.:		
First Mortgage Sinking Funds Bonds—		
6¼% Series C maturing 1977 . . . . .	\$ —	\$ 1,297,000
Sinking Fund Debentures—		
5¼% Series A maturing 1985 . . . . .	11,952,000	11,853,000
7¼% Series B maturing 1987 . . . . .	10,494,000	11,241,000
9¾% Series D maturing 1990 . . . . .	12,749,000	13,500,000
10½% Series E maturing 1995 . . . . .	42,500,000	42,500,000
11% Series F maturing 1995 . . . . .	14,500,000	14,500,000
11¾% Series G maturing 1995 . . . . .	65,640,000	60,528,000
Abitibi Corporation and subsidiary companies:		
Revolving Bank Credit, maximum interest 5% above lender's prime rate . . . . .	8,752,000	8,070,000
Instalment Note bearing interest at 3% above lender's prime rate maturing 1981 . . . . .	3,282,000	3,783,000
5½% Instalment Notes maturing 1984 . . . . .	7,330,000	7,465,000
5½% Instalment Note maturing 1986 . . . . .	9,846,000	10,088,000
7% Instalment Notes maturing 1988 . . . . .	14,222,000	14,123,000
5¼% Instalment Note maturing 1991 . . . . .	3,209,000	3,107,000
Miscellaneous Notes . . . . .	4,212,000	4,928,000



**9. Long-Term Debt** (continued)

The Price Company Limited and subsidiary companies:

	1977	1976
Sinking Fund Debentures—		
5¾% Series A maturing 1982 . . . . .	8,700,000	9,900,000
6¾% Series B maturing 1987 . . . . .	19,600,000	20,900,000
5½% Sinking Fund Notes maturing 1985 . . . . .	9,736,000	10,098,000
6% Subordinated Sinking Fund Notes maturing 1986 . . . . .	4,551,000	4,681,000
Sundry indebtedness . . . . .	1,509,000	1,635,000
	<u>252,784,000</u>	<u>254,197,000</u>
Less: Amount due within one year . . . . .	10,272,000	11,029,000
	<u>\$242,512,000</u>	<u>\$243,168,000</u>

Sinking fund and instalment payment obligations for 1978 amount to \$11,772,000 of which \$1,500,000 has been discharged by prior purchase and retirement. Principal repayment obligations for the years 1979 to 1982 are estimated to be \$11,800,000, \$13,200,000, \$16,700,000 and \$16,700,000, respectively. Long-term debt payable in U.S. dollars included above aggregated \$130,469,000 U.S. at December 31, 1977 (1976—\$137,515,000 U.S.).

Abitibi Paper Company Ltd. has effectively guaranteed payment of certain outstanding long-term debt of Abitibi Corporation and subsidiary companies amounting to \$30,700,000 U.S. at December 31, 1977.

**10. Preferred Shares**

The Series A shares are redeemable at the option of Abitibi at \$52 per share from June 1, 1978 to May 31, 1983 and thereafter at \$51 per share. During 1977, 4,020 Preferred Shares, Series A with a par value of \$201,000 (1976—4,920 shares with a par value of \$246,000) were purchased and cancelled pursuant to the conditions attaching to this series.

The Series B shares are redeemable at par through the operation of a cumulative sinking fund at the rate of 40,000 shares annually. The Series B shares are otherwise redeemable at \$52.50 per share up to June 15, 1981 and at declining prices thereafter. During 1977, 40,000 Preferred Shares, Series B with a par value of \$2,000,000 were redeemed pursuant to the conditions attaching to this series.

**11. Common Shares**

Of the authorized and unissued common shares, 780,012 shares are reserved under the Key Employees' Stock Option Plan and options are outstanding on 773,153 shares at prices equal to market value at date of grant, ranging from \$7.3125 to \$12.625 per share, of which options in respect of 518,687 shares are held by senior officers of Abitibi. Options are for terms of up to ten years and are exercisable mostly in instalments upon fulfillment of service conditions.

The Plan was amended in 1973 to provide for the use of a market growth formula at date of exercise for all subsequent options and to permit this as an alternative for options then outstanding. In accordance with this formula, the market growth amount is determined by multiplying the number of shares with respect to which the option is exercised by the excess of market value per share at date of exercise over market value at date of grant. Shares to this value are issued in consideration of the relinquishment by the optionee of his option right to the remaining shares in the calculation of the market growth amount and the payment of one cent per share issued.

There were 267 shares issued in 1977 (1976—754) under the terms of the Plan.

In August 1977, 448,686 shares were issued as consideration for the purchase of an equal number of common shares of The Price Company Limited. The Abitibi shares were valued at \$10.75 each, which represented their quoted market price at the time of the transaction. At December 31, 1977 Abitibi held 58% of Price's outstanding common shares.

**12. Income Taxes**

Non-capital tax losses not yet utilized and available for application against taxable income which may be earned in future years aggregate approximately \$8,700,000 and expire \$100,000 in 1978, \$500,000 in 1979, \$4,800,000 in 1980, \$3,000,000 in 1981 and \$300,000 in 1982. A major part of these tax benefits is expected to be realized in 1978 as a result of 1977 tax legislation which permits a company to utilize the tax losses of a subsidiary following wind-up of the subsidiary.



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### **13. Capital Projects**

An estimated \$21.5 million will be required to complete approved capital projects.

### **14. Lease Obligations**

Abitibi and its subsidiaries are committed under leases, principally for office and warehouse premises and woods equipment, for varying terms expiring up to 1999. The aggregate rental payments required for the 12 months ending December 31, 1978 under leases having an unexpired term of more than one year at December 31, 1977 are \$6,300,000, of which \$2,600,000 is attributable to leases having an unexpired term of more than five years.

### **15. Unfunded Pension Benefits**

The most recent independent actuarial estimates indicate that the single-sum liability for unfunded past service pension benefits not provided for in the accounts at December 31, 1977 is approximately \$34 million and that, at the current rate of Company contributions, the pension plans will be fully funded by December 31, 1990.

### **16. Anti-Inflation Program**

Abitibi and its Canadian subsidiaries are subject to controls on prices, profits, compensation and dividends under the federal government's anti-inflation program and have complied with such program.

### **17. Other Statutory Information**

(a) Remuneration in 1977 of Abitibi's 16 directors and 39 officers, including past officers, determined in accordance with the Canada Corporations Act, amounted to \$66,000 and \$2,503,000, respectively. Four officers of Abitibi served also as directors.

(b) Loans outstanding with officers relating to the purchase of residences amounted to \$318,000 at December 31, 1977.

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## **Auditors' Report**

To the Shareholders of ABITIBI PAPER COMPANY LTD.:

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. as at December 31, 1977 and the consolidated statements of net earnings, 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. We have relied on the reports of other independent accountants who have examined the financial statements of Mattabi Mines Limited and Boise-Price Southern Newsprint Corporation, partly-owned companies accounted for by the equity method.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 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.

**PRICE WATERHOUSE & CO.**  
Chartered Accountants

Toronto, February 16, 1978



## Five Year Review

(thousands of dollars except per share calculations)

	1977	1976	1975	1974	1973
<b>Sales and Earnings:</b>					
Sales, less delivery expenses . . . . .	\$1,045,504	\$880,351	\$764,384	\$551,893	\$403,536
Depreciation and depletion . . . . .	43,963	41,942	42,071	21,243	17,732
Interest expense . . . . .	23,856	25,032	22,505	9,398	7,926
Income taxes . . . . .	29,363	13,483	15,141	30,099	15,030
Mining income . . . . .	3,283	3,844	5,307	10,257	11,755
Minority shareholders' interest . . . . .	11,623	3,687	7,428	1,295	—
Earnings before extraordinary items . . . . .	37,908	13,024	13,985	45,880	30,552
Per common share . . . . .	\$ 1.83	\$ .47	\$ .63	\$ 2.50	\$ 1.66
Extraordinary items . . . . .	1,687	—	—	—	670
Net earnings . . . . .	36,221	13,024	13,985	45,880	29,882
Per common share . . . . .	\$ 1.74	\$ .47	\$ .63	\$ 2.50	\$ 1.62
<b>Dividends Declared:</b>					
Preferred shares . . . . .	\$ 4,366	\$ 4,584	\$ 2,622	\$ 718	\$ 730
Common shares . . . . .	6,446	2,172	7,239	11,763	4,954
Per common share . . . . .	\$ .35	\$ .12	\$ .40	\$ .65	\$ .275
<b>Additions to Fixed Assets</b> . . . . .	\$ 43,580	\$ 54,371	\$ 71,041	\$ 35,460	\$ 22,147
<b>Financial Position:</b>					
Working capital . . . . .	\$ 259,836	\$224,562	\$229,023	\$ 87,948	\$ 94,582
Net fixed assets . . . . .	476,230	489,437	478,205	452,985	228,811
Long-term debt . . . . .	242,512	243,168	255,522	139,163	97,592
Deferred income taxes . . . . .	103,224	99,725	91,299	80,940	33,592
Minority shareholders' interest . . . . .	110,417	111,671	108,090	110,795	—
Preferred shares . . . . .	44,815	47,016	49,261	9,469	9,712
Common shareholders' equity . . . . .	292,424	262,192	255,924	252,890	219,431
Per common share . . . . .	\$ 15.77	\$ 14.49	\$ 14.14	\$ 13.97	\$ 12.13



## Primary Production

### Abitibi

		Newsprint and Uncoated Groundwood Papers	Fine and Printing Papers	Building Boards	Paper- boards	Market Pulp	Lumber
		Tons	Tons	Msf	Tons	Tons	Mfbm
<b>Capacity</b>	<b>1977</b>	1,205,000	170,000	952,000	81,000	113,000	145,000
<b>Production</b>	<b>1977</b>	1,048,000	157,000	904,000	60,000	105,000	93,000
	<b>1976</b>	984,000	113,000	854,000	58,000	93,000	72,000
	<b>1975</b>	804,000	77,000	733,000	30,000	46,000	63,000
	<b>1974</b>	1,251,000	183,000	738,000	77,000	120,000	79,000
	<b>1973</b>	1,216,000	172,000	735,000	81,000	110,000	38,000

### Price

		Newsprint and Uncoated Groundwood Papers	Kraft Paper	Paper- boards	Lumber
		Tons	Tons	Tons	Mfbm
<b>Capacity</b>	<b>1977</b>	1,078,000	50,000	75,000	265,000
<b>Production</b>	<b>1977</b>	877,000	43,000	61,000	219,000
	<b>1976</b>	938,000	41,000	53,000	196,000
	<b>1975</b>	873,000	31,000	53,000	66,000
	<b>1974</b>	1,037,000	52,000	63,000	158,000
	<b>1973</b>	993,000	37,000	41,000	193,000

- Capacity figures indicate effective annual output and generally are somewhat less than rated capacities due to allowances for items such as maintenance downtime.
- Approximately 90% of newsprint and uncoated groundwood papers capacity at present is devoted to the production of newsprint. There is no clear demarcation between these products. Equipment which can produce uncoated groundwood papers also can produce newsprint.
- A significant portion of Abitibi's market pulp production (about 60% in 1977) is consumed in the manufacture of primary paper products at other Abitibi mills. Price also sells a small amount of market pulp which is residual capacity not required for kraft paper and paperboard operations.
- Building board production is expressed on an equivalent thickness basis.



## Newsprint and Uncoated Groundwood Papers

Ample newsprint was available to all markets throughout 1977. Increased advertising lineage, some modest improvement in circulation, together with the growing popularity of newspaper inserts—a trend we believe will continue—combined to increase U.S. newsprint consumption by 6.4% over 1976. Overseas demand on Canada also held up even though considerable surplus capacity existed in some areas. Shipments by the Canadian industry totalled 9 million tons, up about 3.4% over 1976.

Production of newsprint and groundwood papers by Abitibi-Price mills in 1977 was 1.9 million tons. Operating

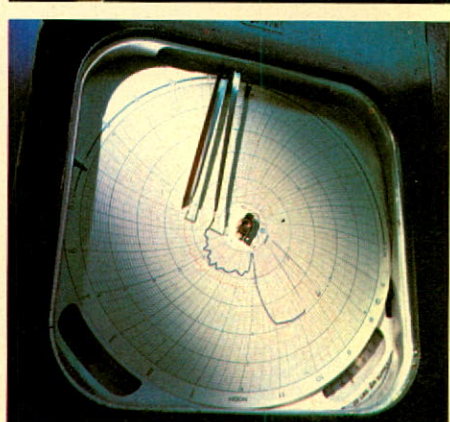
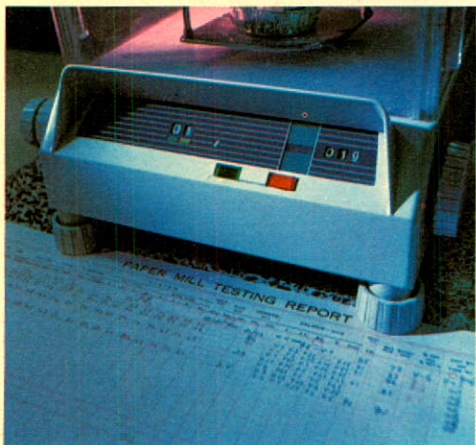
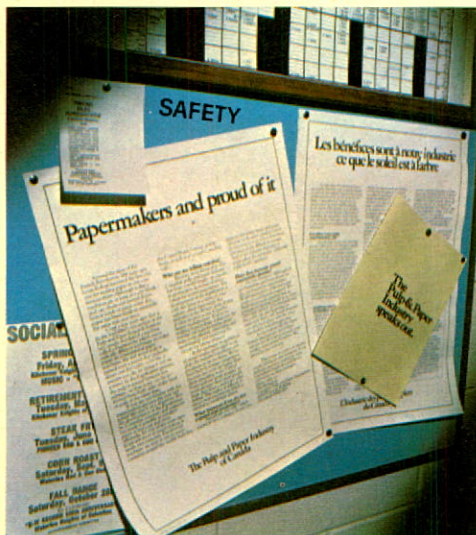
rates after declining in the first quarter were successively higher as the year progressed and approached effective capacity in the fourth quarter. Over the entire year, our mills operated at about 84% of capacity.

There was a higher level of newsprint consumption experienced towards the end of 1977 as well as a reduction in inventories, particularly those held by U.S. publishers to which group we sell over 60% of our output. This situation together with a growth pattern projected for North America and a forecasted stable overseas demand all point to an improved sales outlook for Abitibi-Price newsprint in 1978. A price increase of \$15 per ton in the United States was announced by Abitibi to become effective on April 1, 1978.

Throughout the year, we continued to emphasize the upgrading of our newsprint facilities in order to improve both quality and operating efficiencies. This will aid in our cost reduction objective of being able to compete effectively with all other manufacturing countries.

During 1977, a separate division for uncoated groundwood papers was established, reflecting the growing importance of these products to Abitibi-Price. Toward the end of the year, a \$32 million expenditure for total conversion over a three year period of Price's Kenogami "News" mill to uncoated groundwood papers was given conceptual approval. On completion of this project and in combination with Abitibi's Sault Ste. Marie uncoated groundwood paper

Employees: From posters to production graphs one thing is vital to Abitibi employees—*Communication on Paper*





mill, Abitibi-Price will be a leading supplier to North American and offshore users of rotogravure, offset, directory and other specialty papers.

As the year progressed, a major dedication to improving groundwood paper quality began to result in better market penetration. Sales volume increased to the point where both mills were sold out by the last quarter compared to taking some short-time operation earlier. Profits have improved and the outlook for 1978 is encouraging.

## Pulp

Abitibi both purchases and sells bleached kraft pulp. In 1977, total consumption of kraft pulp in Abitibi mills was 137,000 tons while production at Smooth Rock Falls was 105,000 tons. Thus the company was a small net purchaser.

Huge world inventories and capacity well in excess of demand have contributed to a highly competitive market. During the second half of 1977 the U.S. price for bleached kraft pulp fell \$70 to the \$300 per ton level at the end of the year.

In view of the poor market conditions the Smooth Rock Falls division is expected to incur a loss in its 1978 operations but divisions purchasing kraft pulp will benefit from lower costs.

## Fine Papers

This has not been a good year in the Canadian fine paper industry. Growth in overall consumption was slow and the volume sold by domestic mills continued to be affected by imports. The low value of the Canadian dollar has provided some brake on imported tonnages but these still account for almost a fifth of the Canadian market. The supply/demand situation is projected to come into closer balance over the next three years; capacity increases appear to be modest and traditionally, usage of these papers has kept pace with overall growth in the economy.

It is becoming increasingly necessary however, to discuss Abitibi Provincial's business in the context of two distinct fields which currently have quite different market outlooks. The Thorold division is primarily a producer of

white, uncoated printing and writing papers. These grades are in free supply and Canadian and U.S. mills have been operating at about 85% of capacity. Business is extremely competitive and price levels, while improving, are not attractive. Given the growth in GNP that is projected for the U.S., there should be steady improvement in both output and profitability during 1978.

The other part of our business centres around the Thunder Bay division and consists of a wide range of coated papers, from magazine and catalogue grades containing large amounts of groundwood, to the best quality high gloss sheets for deluxe printing use. These grades are in much tighter supply and projected capacity growth would indicate that they are likely to remain so in the immediate future. The Thunder Bay division is almost entirely devoted to the production of coated papers, and while its level of performance and output has been anything but satisfactory in the past year, the mill is now turning out product much more efficiently and is poised to take advantage of this increasingly active market.

The Georgetown mill, a much smaller operation, is concentrating on various converting coated specialties and is finding an expanding market niche.

The Canadian fine paper industry is currently operating with the assistance of a devalued Canadian dollar and tariff protection of 12½%. The lower-valued Canadian dollar can be fleeting and hopefully the current GATT negotiations will not excessively affect the competitive position. Abitibi Provincial Paper is using this period to refine its grade mix, increase its productivity and strive to improve its competitiveness. It is expected that the division will produce and sell higher volume in 1978 and that the overall performance will show considerable improvement over 1977.

## Hilroy Ltd.

Although sales showed an increase for the year, earnings were sharply lower due to highly competitive pricing in the school stationery and commercial stationery markets. Recognizing these conditions, objectives were aimed towards increasing our share of specific markets and improving productivity.

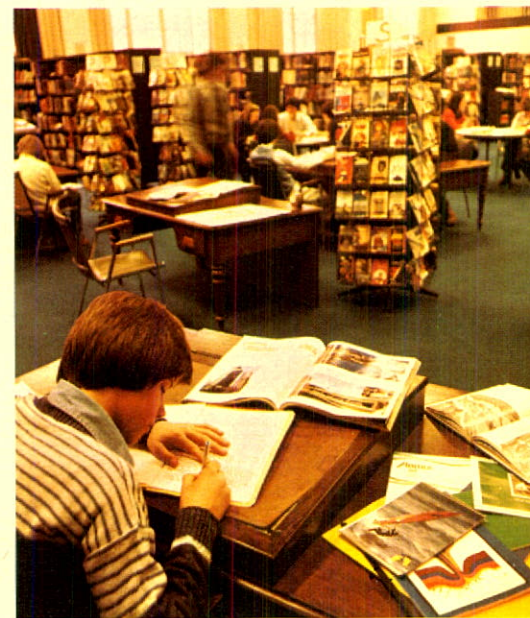
As a result substantial gains were made. These programs, together with improving market conditions and new products, are expected to bring us back to a satisfactory level of profitability in 1978.

## Canada Envelope Company

1977 was a good year for the company with records set in sales and earnings. We entered the year with an order backlog and this was well maintained throughout most of the year. Gains were made in the share of virtually each market area and we enjoyed a year almost free of postal strikes. These were major factors contributing to the return to more acceptable levels of profit. Backlogs remain good and we look ahead to 1978 with continued confidence for further improvements.

## Inter City Papers Ltd. and Hillier Paper Limited

Sales and earnings of our paper merchant operations exceeded all previous records. Market share was held or expanded in all operating areas and business remained strong during most of the year. Productivity improved considerably as a result of the successful installation of a new computerized order handling system. The outlook for 1978 is for continued improvement although at a much slower rate.





## Paperboard, Kraft Paper and Packaging

Canadian domestic shipments of kraft paper and paperboard were at about the same levels in 1977 as in 1976. Competition in kraft papers was severe due to oversupply and a susceptibility to imports, with the result that downtime was incurred and further erosion of profit margins took place. Although domestic paperboard consumption did not grow in 1977, Price's market share increased, enabling a higher production level than last year. Production of kraft paper and paperboard in 1977 of 104,000 tons was 10,000 tons higher than in the previous year. A somewhat better market for paperboard combined with mill improvements provides an improved outlook for this product in 1978.

1977 was a disappointing year for the Sturgeon Falls corrugating medium operations as both sales and earnings were well below expectations. This situation was the result of weak demand for shipping containers which also led to intensely competitive conditions. In addition, one of our major customers encountered a strike at four container plants which considerably reduced our shipments of corrugating medium in the second half. In 1978, market conditions for corrugating medium are expected to improve.

The corrugated container market was quite erratic last year. Lacklustre demand was general across Canada and industry shipments in our market area, Ontario and Quebec, were only

Education: Colourful booklets, charts, text books and magazine articles are all used by Abitibi to—*Communicate on Paper*





equal to the 1976 level. In addition, price attrition was severe in 1977 and some containers were sold at 1975 prices. Our container plants did not run at capacity in 1977 and volume and earnings declined from the prior year. For 1978 we anticipate fuller operations and improved earnings.

## Building Products

### United States

With housing starts at the highest level since 1973, and an active repair and remodelling market, record 1977 sales exceeded \$100 million representing a 16% increase. Earnings improved by 22% even though margins on interior panelling remained depressed due to intense competition.

U.S. housing starts in 1977 totalled nearly 2 million units, a 29% improvement over the 1976 level. Sales of our exterior products manufactured at Roaring River, North Carolina and Blountstown, Florida were at record levels.

There was significant upward cost pressure again in 1977. We successfully constrained costs however, through productivity gains and vigorous cost reduction programs at all plants. In addition we benefitted from our active energy conservation program.

The introduction of 29 new products in 1977 made a significant contribution to increased sales. Some were introduced in late December to get sales off to a good start in 1978. Research and development expenditures will be increased again to assure that our customers continue to receive a steady flow of attractive new products. By striving for leadership in design and quality of panelling products we are confident that the division will continue on its path of profitable growth in 1978.

### Canada

1977 was an unsatisfactory year for the hardboard siding plant at Sturgeon Falls. The outlook for 1978 looks considerably brighter. Forecasters have estimated 1978 housing starts at from 240,000 to 260,000 units, a slight

improvement over the 1977 rate. To assure a higher level of production in 1978, arrangements have been made to sell a substantial amount of prefinished siding in the United States market through our U.S. building products division.

## Lumber

The 1977 lumber market was much improved over the previous year due to the increase in housing starts and the upward trend in other uses for softwood lumber.

The high lumber demand led to major price swings during the year. From a low level in the first half of the year, prices rose rapidly in the third quarter to record highs. Dealer resistance then occurred and prices dropped just as quickly as they rose, losing most of the gains that had been realized. Towards year end, some strengthening of the market again took place.

The unprofitable Hudson sawmill was closed at mid-May and subsequently sold to outside interests.

A particular highlight of the year was the start-up of the new sawmill located at White River, Ontario. This operation, rated at 70 million board feet per year incurred substantial start-up costs, but is gradually increasing production as equipment and process problems are solved and as crews are trained.

Price's Skeena sawmill in British Columbia operated throughout the year and recorded the highest earnings year in its history and indications are that this level will be maintained in 1978. The Peribonca sawmill in its second year of operation contributed quite satisfactorily to company earnings.

For 1978, we anticipate a market approaching on average that of 1977 in both demand and price.

## Price Wilson Limited

Price Wilson's consolidated net loss for the year amounted to \$6.3 million compared with a loss of \$2.9 million in 1976.

The current year's results include terminal losses of \$3 million and \$300,000 respectively on the divestment of National Distribution Services, Inc. and the planned divestment in early 1978 of an unprofitable Canadian joint-venture company. Another small unprofitable Canadian division, Maintenance Systems was also disposed of during the year. Operating losses of National Distribution Services amounted to \$1.7 million in 1977. These dispositions and numerous other positive changes in controls, procedures and techniques should result in considerable improvement in 1978.

The company will now be able to concentrate fully on its primary business, the manufacture and distribution of industrial paper products for the fast food, industrial and retail markets. While this business is not buoyant and is highly competitive, our objective is to turn the company into a profitable position during the last half of 1978.

## Woodlands

Continued efforts to increase productivity with existing logging methods, more emphasis on equipment maintenance, and a 17% increase in the volume of fibre delivered to mills have all helped to hold wood costs within 4% of 1976.

Tests of new logging machines and methods continued during the year at various locations with some encouraging results.

The silvicultural program on company freehold lands at Thunder Bay is continuing with encouraging results. The 1976 plantation has maintained a 90% survival rate to the end of 1977 and has achieved a maximum height of 36" in the two growing seasons. This is somewhat greater than anticipated. Three hundred thousand container seedlings were raised in the greenhouses for 1978 spring planting. In Newfoundland intensification of co-operative silviculture programs continued. A total of 1,888 acres were thinned to optimum spacing.



## Mineral Interests

Operations at the Mattabi base metal mine near Ignace, Ontario continued at capacity through 1977. The mill treated 1,033,133 tons of ore grading 8.4% zinc, 1.01% copper, 0.84% lead and 3.54 oz. silver per ton. Grades were slightly better than in 1976 and recoveries also were improved.

Mattabi is 40% owned by Abitibi and 60% by Mattagami Lake Mines.

Mattabi's earnings for the year 1977 were less than in 1976 due to lower metal prices and higher operating costs. Abitibi's 40% interest in these earnings was \$3.4 million compared with \$4.2 million in 1976. Dividends received by Abitibi in 1977 amounted to \$6.0 million.



Customers: Instruction and fact books, paper wrappers, fine paper promotions and labels are Abitibi messages—*Communicated on Paper*





Ore reserves at year end were 5,100,000 tons, grading 7.19% zinc, 0.58% copper, 0.74% lead and 2.77 oz. silver per ton. The property also contains 1 million tons of sub-grade ore which may be mined when metal prices rise.

Exploration is also being conducted on wholly-owned properties of Abitibi in Northern Ontario. Targets located by airborne surveys in 1976 were followed up in 1977 with ground geophysics and geological mapping. Several interesting targets will be drilled in 1978.

The mine at Buchans, Newfoundland operated at near capacity levels as in prior years. Production was 28,916 tons of zinc concentrates, 17,466 tons of lead concentrates and 4,045 tons of copper concentrates.

Reserves in the mines presently being worked at Buchans may be exhausted by 1980. Accordingly the pace of exploration was increased in 1977 with the object of finding new ore bodies in the area to extend the life of this operation. Exploration activities in 1978 will continue to be devoted mainly to the Buchans area in Newfoundland. Some additional work will be carried out in other areas including New Brunswick and Quebec.

## Environmental Control

Environmental activity by Abitibi-Price in 1977 consisted of completing three major and several minor projects which were started in 1976 and of planning long-range programs that will entail a total expenditure on environmentally related items of \$44 million in Ontario by 1982 and a similar amount in the other Provinces and States in which Abitibi-Price mills are located.

The refuse-burning boilers at Smooth Rock Falls and Chandler are in operation and are burning all of the mill refuse. Construction of a system is under way at Smooth Rock Falls to retrieve the refuse from neighbouring sawmills. The refiner groundwood plant at Grand Falls was completed in 1977 and the oxygen demand of the mill discharge has been considerably reduced because of the lower requirement for chemical sulphite pulp.

Abitibi was challenged in court in July 1977 for alleged breaches of the

Environmental Protection Act and the Ontario Water Resources Act at Iroquois Falls. The case was decided in our favour but an appeal has been made by the Ministry. It is scheduled to be re-heard in March 1978.

Programs have been assembled in separate consultation with regulatory agencies in Newfoundland, Quebec, Ontario, Michigan and Manitoba. The agencies operate under different guidelines and all are subject to pressure from the public, the appropriate Federal agencies and in the case of Michigan and Ontario, from the International Joint Commission for Inland Waters.

The company has the obvious problem of establishing priorities for available financial resources. The first priority must be the need to make plant improvements that will increase productivity, preserve jobs and provide a solid base for future operations. With a heavy demand for such projects it is difficult to accept orders from government agencies which force precedence for unproductive capital projects that provide marginal improvements to the environment. The company wishes to co-operate with these agencies to achieve their objectives. Our problem is usually a question of timing and financial resources.

## Research

Production of mechanical pulp or "groundwood" by refiners rather than grinders is growing rapidly and has other benefits besides environmental control. During the past year the Grand Falls division converted almost entirely to the production of refiner mechanical pulp. The performance of its newsprint was carefully monitored in pressroom trials as the percentage of this new pulp increased. Good performance in runability and printability was demonstrated.

A similar process, but including steps of thermal and chemical treatment, received extensive pilot plant study as well as commercial trials. Pulp produced in this manner is of excellent quality, approaching that of chemical pulp in strength. At the same time it retains the desirable yield, opacity and printability characteristics of stone groundwood.

Rapid emergence of the new DiLitho process for printing newspapers required careful study of paper properties needed for best results. This was one facet of an enlarged program on printability and service to customers on printing problems. A similar customer-oriented approach is characteristic of work on coated papers, wallpaper and specialty grades.

Several new instrumentation techniques for the papermaking operation continued in direct studies at the operating divisions. These are aimed at solving operating problems and gaining new insights into papermaking for improvement of quality and economics.

Surface stability and weatherability is a prime requisite for Abitibi's exterior siding. A specially developed resinized treatment which penetrates individual fibres and complements Abitibi's patented overlay process reached full commercial production in 1977 to provide the user with a durable and long-lasting product.





## Personnel

We have placed increased emphasis on effective communications throughout the company. Our goal is to equip every supervisor and manager with the skills that will enable them to communicate effectively, under all circumstances. We are particularly determined to provide the means for dialogue between the supervisor and the supervised at every level of the organization.

Safety received continuing attention throughout the year with varying degrees of success. The newsprint mills improved their record along with some subsidiary companies. However, other operations failed to achieve their safety objectives. Our goal is to make Abitibi the safest company in the industry.

While not a major year in terms of labour negotiations, important

agreements were negotiated with the Newfoundland and Manitoba woodworkers. A contract was signed at the Alma, Quebec mill after an 80-day strike and at the Kenogami mill with no interruption in operations.

Contracts were negotiated at our U.S.A. operations in Alpena, Michigan; Augusta, Georgia and Rancho Cucamonga, California.

The major mill union agreements in Ontario, Quebec, Newfoundland and Manitoba expire in the second quarter of 1978, and the Woodlands' agreements in Ontario and Quebec expire in the third quarter of 1978. We believe that all parties concerned realize that security of jobs and income are dependent upon our ability to produce competitively with other countries, particularly the U.S. With this realization it is anticipated that reasonable settlements will be made.



Financial: Abitibi's message to the financial world via annual reports, financial statements, dividend cheques, financial news and magazines is *Communicated on Paper*





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**H. Colin Warner**  
Corporate Controller

**Douglas J. Butler**  
Assistant Secretary

**Robert A. Cook**  
Assistant Treasurer

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

**Citibank N.A.**  
New York, U.S.A. (Transfer Agent  
and Registrar)

### Auditors

**Price Waterhouse & Co.**  
Toronto, Canada



**"Communication on Paper" at Abitibi**

On the underside of this fold you will find an editorial commentary on the many ways and the many types of paper and its derivatives illustrated in everyday use by Abitibi, its employees and customers, and in the areas of education and finance.



## **17 Employees: From posters to production graphs one thing is vital to Abitibi employees—*Communication on Paper***

Through the medium of our monthly company newspaper, "Abitibi-Price", Abitibi employees and their families are continuously informed about activities of the company, its plants, products and people. The plant bulletin boards are seen, read and acted on every day; featuring industry news, safety messages, information of many kinds—all communicated on paper.

## **19 Education: Colourful booklets, charts, text books and magazine articles are all used by Abitibi to—*Communicate on Paper***

Students at all levels read and learn about the pulp and paper industry through the 'eyes' of Abitibi. Detailed information on Abitibi and the paper industry is found in economic geography textbooks in constant use at both the elementary and secondary school levels.

Abitibi's educational publications are available to interested groups and individuals. In addition stories of Abitibi products and activities often appear in paper industry publications and popular magazines.

## **21 Customers: Instruction and fact books, paper wrappers, fine paper promotions and labels are the Abitibi messages—*Communicated on Paper***

While the flat ends of rolls of newsprint boldly identify the source as Abitibi-Price, additional labelling communicates key information about that roll to the shipper and customer alike.

Popular size packs of precision-cut bond paper are clearly identified as Abitibi before packing in corrugated containers, also identified as products of our fine paper company, Abitibi Provincial Paper. In a paper merchant's display room, Abitibi Provincial's direct mail and sample books communicate to the customer specific uses and advantages of Abitibi's fine paper grades. Our building products division develops displays for customers and industry shows that offer literature communicating the quality, application and attractiveness of Abitibi's interior and exterior panel products.

## **23 Financial: Abitibi's message to the financial world via annual reports, financial statements, dividend cheques, financial news and magazines is *Communicated on Paper***

In the financial community our own annual statement, quarterly reports, meeting notices, newspaper stories, magazine articles and advertisements are carefully read and evaluated by financial and business analysts who digest and act on the current and future business position communicated on paper by Abitibi. Into the homes of Abitibi's many shareholders come the Abitibi-identified envelopes containing annual and quarterly reports, circulars and dividend cheques, communicating and demonstrating the soundness of their investment in Abitibi.



## Abitibi and Price Products, Sales Offices and Plants

Products	Sales and Service	Manufactured at
Newsprint and Uncoated Groundwood Papers	<b>Abitibi-Price Sales Ltd.</b> Toronto, Ont.; Montreal, Que.  <b>Abitibi-Price Sales Corporation</b> New York, N.Y.; Des Plaines, Ill.; Atlanta, Ga.; Troy, Mich.; Buenos Aires, Arg.  <b>Abitibi-Price Sales Company Limited</b> London, England	Pine Falls, Man.; Thunder Bay, (2 mills), Sault Ste. Marie and Iroquois Falls, Ont.; Beaupré, Alma, Jonquière and Chandler, Que.; Grand Falls, Nfld.; Augusta, Ga.; DeRidder, La.
Kraft Pulp	<b>Abitibi Paper Company Ltd.</b> Toronto, Ont.	Smooth Rock Falls, Ont.
Paperboard Kraft Paper	<b>Price Kraft and Paperboard Corporation</b> Montreal, Que.; Don Mills, Ont.	Jonquière, Que.
Corrugating Medium	<b>Abitibi Corrugating Medium</b> Rexdale, Ont.	Sturgeon Falls, Ont.
Hardboard Woodgrain Hardboard Hardboard Siding Prefinished Plywood Panels Prefinished Mouldings Insulating Sheathing	<b>Abitibi Corporation Building Products Division</b> Atlanta, Ga.; Arlington, Tex.; Troy, Mich.; Barrington, Ill.; Devon, Pa.; Hudson, Ohio; Memphis, Tenn.; Shawnee Mission, Kans.; Middlebury, Ind.; Avon, Conn.; Boundbrook, N.J.	Alpena, Mich.; Blountstown, Fla.; Chicago, Ill.; Rancho Cucamonga, Calif.; Middlebury, Ind.; Roaring River, N.C.
Hardboard Siding	<b>Abitibi Building Products Division</b> Rexdale, Ont.	Sturgeon Falls, Ont.
Lumber Ties Poles Treating Services	<b>Abitibi-Price Lumber Ltd.</b> Toronto and Thunder Bay, Ont.; Vancouver, B.C.	Terrace, B.C.; Thunder Bay, Smooth Rock Falls and White River, Ont.; Falardeau, L'Ascension and Price, Que.
Corrugated Containers	<b>Abitibi Containers</b> Rexdale and Pembroke, Ont.; Montreal, Que.	Rexdale and Pembroke, Ont.
Fine and Printing Papers	<b>Abitibi Provincial Paper</b> Toronto, Ont.; Montreal, Que.	Thorold, Thunder Bay and Georgetown, Ont.
School, Home and Office Supplies	<b>Hilroy Ltd.</b> Toronto, Ont.; Montreal, Que.; Vancouver, B.C.  <b>Canadian Stationery Ltd.</b> Montreal, Que.	Toronto, Ont.; Vancouver, B.C.   Joliette, Que.
Envelopes	<b>Canada Envelope Company</b> Stellarton and Halifax, N.S.; Montreal, Que.; Toronto, Ottawa and London, Ont.; Winnipeg, Man.; Calgary and Edmonton, Alta.; Vancouver, B.C.	Stellarton, N.S.; Montreal, Que.; Toronto, Ont.; Winnipeg, Man.; Calgary, Alta.; Vancouver, B.C.
Paper Merchants	<b>Inter City Papers Ltd.</b> Inter City Papers Ottawa, Mississauga and London, Ont. Lauzier, Little Inc. Montreal and Quebec City, Que.; Halifax, N.S.  <b>Hillier Paper Limited</b> Winnipeg, Man.	
Converted Paper Products— bags, towels, folding cartons and wrapping paper	<b>Price Wilson Limited</b> —major centres across Canada	Lachute, Que.
Resale Products, warehousing and distribution services	<b>Price Wilson Limited</b> —major centres across Canada	





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