

# Serious challenge presented by problems at K-C mill

(The following is the first part of a speech given by Kimberly-Clark chairman of the Board and Chief Executive Officer Darwin E. Smith at a public meeting in Terrace Bay on May 3.)

At the 1986 Kimberly-Clark Annual Stockholders' meeting on April 17, I commented on this year's annual report which disclosed the company's considerable investment in Canada and illustrated that it was totally out of proportion to the income from that investment. Here is exactly what I said:

"The principal cause of this disparity is our operations in Terrace Bay and Longlac, Ont. Broadly summarized, manufacturing costs, especially those relating to wood, are too high and revenues are too low.

"While pulp prices are firming, we foresee little probability that they will be high enough in relation to costs to produce a rate of return which might be reasonably expected to justify the massive commitment of capital required to sustain operations in this part of Canada.

"In the past, we have tended to tolerate this disparity. We have done so

because of the important need for fiber produced by Kimberly-Clark of Canada for operations in the United States. However, this is changing very rapidly, and we see a decided decrease in Kimberly-Clark's needs for such fiber.

"This presents a serious challenge. If not properly faced and resolved, it will cause significant problems and heartache for all concerned--a situation which we sincerely hope can be avoided. As soon as possible, we plan to evaluate all reasonable alternate solutions to the problems."

What I did not do at the stockholder's meeting was to provide the dimensions of how Kimberly-Clark's Longlac/Terrace Bay operations detract from the company's overall results in Canada.

As fellow Kimberly-Clarkers who are deeply affected by and who are in a position to dramatically affect the future of our operation in this part of the world, you are entitled to know the financial dimensions of this problem.

These results have not heretofore been publicly disclosed. I do so now because a human dimension is involved and because I have faith in the

people here...

: as much faith I had in 1974 when I recommended that we commit one quarter of a billion dollars to expanding in this part of Ontario;

: as much faith as I had in 1975 when, through cooperative efforts, we were able to cause the Terrace Bay mill and related woodlands to remain operating while most of the Canadian pulp and paper industry was shut down by a prolonged strike;

: as much faith as I had in 1977 when it was clear that the expansion project would require more capital funds because of design and other engineering failures;

: as much faith as I had in May 1979 when, just a few days after the expanded mill finally reached its design capacity of 1,135

tons per day, the No. 3 recovery boiler was extensively damaged and the mill was shut down for an extended period;

: as much faith as I had in the early 1980's when significant contributions were made to such charitable purposes as the community center in Longlac, the Nakina recreation complex, and others over the years at Terrace Bay;

: as much faith as I had in October 1981 when I stood in the smoking ruins of the mill and wondered what to do in the aftermath of the disastrous fire, and whether to permit the cutting of wood during the rebuild period;

: as much faith as I had in the 1982 to 1984 period when, against the advice of some of my associates, I insisted that we make the investments required to

produce hardwood pulp;

...And that faith, I assure you, remains regardless of the recent public utterances of a few ill-informed outsiders who seem to be much more anxious to fan the flames of nationalism or liberalism rather than to seek viable solutions to the economic problems of this part of the country which are so important to all of you, and to me.

Now let's get down to business and, as I said a moment ago, look at the financial dimensions of the problem. The numbers I am about to give you are all in Canadian currency.

Approximately 10 years ago, at the end of 1976, the book value of our assets in this part of the world totaled about \$187 million. At the end of 1985, the total was about \$403 million--an

increase of \$216 million or 116 percent.

In 1976, the profits from our operations here were slightly more than \$10 million. In 1985, the loss from our operations here was slightly more than \$17 million. And this loss was before charging any of the interest paid to finance the massive increase in investment in the new mill and related woodlands facilities.

Let's look at it from a cumulative point of view. Beginning in 1978 when the new mill effectively started up, and ending in 1985, the total operating losses from our operations here have amounted to about \$78 million. During the same period of time, the average assets have amounted to \$423 million.

Instead of investing here, if the company had

taken that \$423 million and put it into 10 percent Canadian Treasury Bills, it could have made \$42.3 million per year for eight years, which, on a compound basis, would have totaled \$484 million. Instead, we lost \$78 million--a negative difference of over half a billion dollars.

Here is another way to look at it. Each of you are aware of what your job with Kimberly-Clark meant to you in 1985. But perhaps you did not know that, during 1985, the job of each employee in Terrace Bay and Longlac was backed with an investment of approximately \$215,000 in assets, and during the year the company's loss per employee was approximately \$9,170.

(The second part of the speech will appear in next week's issue of the News.)

## Banquet held

The Terrace Bay Minor Hockey Association held its annual Awards Banquet on April 27, with individual trophies and medals presented to a number of outstanding players, ranging from the Novice division all the way to the Midgets.

Esso Medals and Crests were distributed to the Most Valuable Player (MVP), Most Improved Player (MIP), and Most Sportsmanlike Player (MSP) on each team.

As well, MVP and MIP individual trophies were presented. In the Novice class, these went to Jason Moon (MVP) and John Lalonde (MIP).

Dallas Davis was the MVP for the Atoms this year, while teammate Russell Andrews went home with the MIP trophy.

In the Pee Wee division, Trevor Mikus got the MVP trophy, while Jason Bourguignon was recognized as that team's MIP.

Yves Jean, who also received the Most Valuable Goaltender trophy, was named the MVP for the Terrace Bay / Schreiber Midget Commodores team while Jamie Figliomeni was voted as the MIP.

Midget coach John MacKenzie was the Coach of the Year in the TBMHA.

Terry Morris of CBQ Radio, who was the evening's Master of Ceremonies, played a tape for the banquet guests of an interview he had conducted earlier that week with Terrace Bay native Charlie

Simmer, who now plays for the Boston Bruins in the National Hockey League.

Morris asked Simmer a number of questions originally submitted by some of the players in the TBMHA. Trevor Mikus, 13, asked Simmer if joining a Triple A hockey team would help him to get on a college team or even the NHL later on.

Simmer replied that "you have to learn the proper skills at the proper level...you don't want to leave home too early, but sooner or later you may have to move. Only the player knows when the time is right."

He added that as far as his Stanley Cup predictions go, he doesn't think the Montreal Canadiens will win the coveted trophy this year as "they don't have the defence."

Simmer noted that he scored his 300th NHL career goal near the end of this year's season, and he was very proud of that particular accomplishment.

"I didn't even think I'd score 100 goals in the NHL," he explained. He added that he may be back to Terrace Bay this July "to show all the Northern boys how to fish."

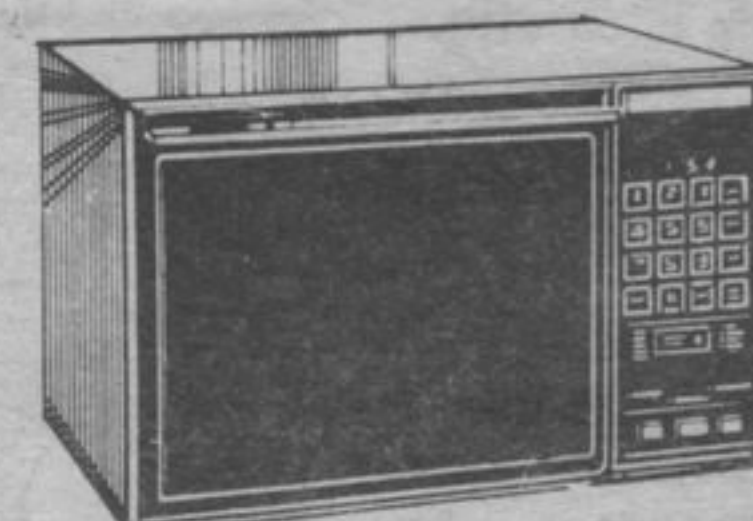
Later in the evening, Jim and Faye Figliomeni were presented in absentia with a plaque of appreciation.

Present at the banquet was Lake Nipigon MPP Gilles Pouliot as well as Esso representative Bob Adamo.

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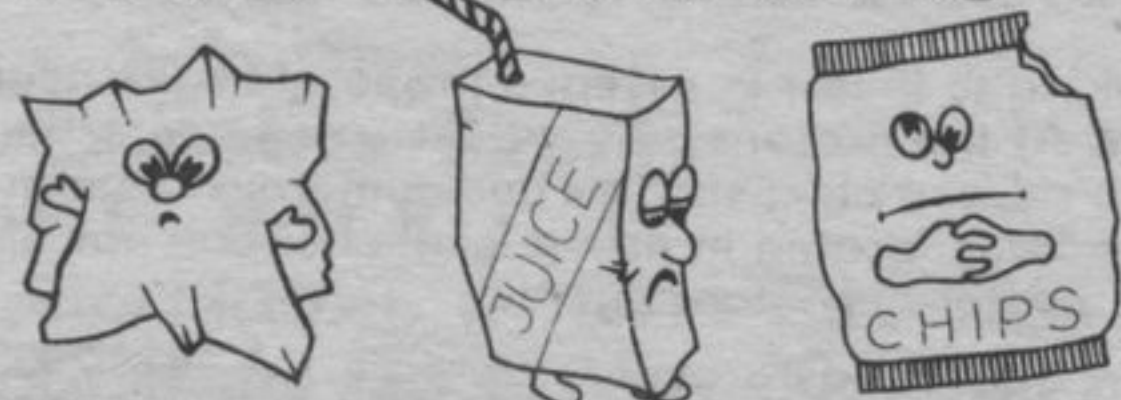
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