



**ABITIBI**

Annual Report 1970

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# Annual Report for the year ended December 31, 1970

## ABITIBI PAPER COMPANY LTD.

Head Office: Toronto-Dominion Centre, Toronto 111, Canada

### Comparative Summary

	1970	1969
Net sales.....	\$ 283,947,000	\$ 287,000,000
Depreciation and depletion.....	\$ 16,023,000	\$ 16,076,000
Taxes on income.....	\$ 4,630,000	\$ 12,307,000
Net earnings from operations.....	\$ 5,032,000	\$ 12,141,000
Extraordinary loss at May 31, 1970 on balances receivable in other currencies.....	\$ 455,000	\$ —
Net earnings for the year.....	\$ 4,577,000	\$ 12,141,000
Dividends declared on preferred shares.....	\$ 750,000	\$ 750,000
<i>Net earnings per common share:</i>		
<i>from operations.....</i>	23.9¢	63.8¢
<i>for the year.....</i>	21.4¢	63.8¢
Dividends declared on common shares.....	\$ 5,006,000	\$ 6,430,000
<i>Per common share.....</i>	28¢	36¢
Invested in capital assets.....	\$ 17,343,000	\$ 24,712,000
Working capital.....	\$ 77,118,000	\$ 64,505,000
Long term debt, net of current portion.....	\$ 118,370,000	\$ 109,552,000
Shareholders' equity—common shares.....	\$ 183,774,000	\$ 184,695,000
Number of shareholders—common shares...	34,196	35,324

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The Annual Meeting of Shareholders will be held at the Cinema Theatre, Toronto-Dominion Centre, Toronto, Canada, on Thursday, April 15, 1971 at 10:30 a.m. Toronto time.

## Directors

Thomas J. Bell,  
*President and Chief Executive Officer,  
Abitibi Paper Company Ltd., Toronto, Canada*

Bertram D. Coleman,  
*Chairman,  
Drexel Firestone Incorporated,  
New York, U.S.A.*

James M. Cox, Jr.,  
*Chairman of the Board,  
Cox Enterprises Inc., Dayton, Ohio, U.S.A.*

C. Antoine Geoffrion, Q.C.,  
*Geoffrion & Prud'homme, Montreal, Canada*

Allan Graydon, Q.C.,  
*Blake, Cassels & Graydon, Toronto, Canada*

Charles L. Gundy,  
*Chairman, Wood Gundy Securities Limited,  
Toronto, Canada*

Leonard G. Lumbers,  
*Chairman of the Board,  
Noranda Manufacturing Ltd., Toronto, Canada*

T. Rodgie McLagan,  
*Chairman of the Executive Committee,  
Canada Steamship Lines Limited,  
Montreal, Canada*

General Lauris Norstad,  
*Chairman of the Board,  
Owens-Corning Fiberglas Corporation,  
Toledo, Ohio, U.S.A.*

Theodore O. Peterson,  
*Chairman of the Board,  
Investors Mutual of Canada Ltd.,  
Winnipeg, Canada*

Robert H. Reid,  
*President,  
London Life Insurance Company,  
London, Canada*

Paul E. Roberts,  
*Chairman of the Board,  
Abitibi Paper Company Ltd., Toronto, Canada*

C. Harry Rosier,  
*Executive Vice-President,  
Abitibi Paper Company Ltd., Toronto, Canada*

Kenneth R. Thomson,  
*Chairman of the Board and President,  
Thomson Newspapers Limited, Toronto, Canada*

John A. Tory, Q.C.,  
*Tory, Tory, DesLauriers & Binnington,  
Toronto, Canada*

## HONORARY DIRECTORS

Douglas W. Ambridge, *Honorary Chairman*

Harry J. Carmichael

Joseph P. Ripley

The Rt. Hon. Lord Thomson of Fleet

## Officers

Thomas J. Bell,  
*President and Chief Executive Officer*

Paul E. Roberts,  
*Chairman of the Board*

C. Harry Rosier,  
*Executive Vice-President*

George M. Brain,  
*Senior Vice-President—Fine Papers Group*

Robert E. E. Costello,  
*Senior Vice-President—Operations*

J. Elliot Cottrelle,  
*Senior Vice-President—Sales  
(Newsprint and Pulp)*

Robert C. Gimlin,  
*Senior Vice-President—  
Board Products Group*

W. Stanley Rothwell, F.C.A.,  
*Senior Vice-President—Finance*

E. Edward Grainger,  
*Vice-President—Woodlands*

John E. Haire,  
*Vice-President—Corporate Development*

T. Newman McLenaghan,  
*Vice-President—Manufacturing  
(Newsprint and Pulp)*

James B. Papoc,  
*Vice-President—Research and Engineering*

James Flintoft, Q.C.,  
*Secretary*

Roy Curtis, C.A.,  
*Comptroller*

William H. S. Pote,  
*Treasurer*

Michael D. Thompson,  
*Assistant Secretary*

R. Allan Thompson, C.A.,  
*Assistant Treasurer*

Robert A. Cook,  
*Assistant Treasurer*

## Transfer Agents & Registrars

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

First National City Bank,  
*New York, U.S.A. (Transfer Agent)*

Bankers Trust Company,  
*New York, U.S.A. (Registrar)*

## Auditors

Price Waterhouse & Co.,  
*Toronto, Canada*



## Report of the Directors

The forest products industry experienced one of its most difficult years since the last world war. Inflationary influences caused manufacturing and distribution costs to increase beyond expectations. Because of the economic downturn in principal markets and the intensity of competitive pressures, the inflation that occurred in costs was not offset in selling prices and there was serious erosion of profit margins. Proceeds from export sales were materially reduced during the last seven months as a consequence of the freeing of the Canadian dollar at the end of May.

Net sales by Abitibi were \$284,000,000 compared with \$287,000,000 in 1969, a decrease of 1%. Sales to Canadian customers accounted for 43% of total volume and sales in other markets provided 57%.

A comparison of net sales by principal product groups with those of the prior year is as under:

	1970	1969
Newsprint, pulp and groundwood specialty papers . . . . .	\$ 149,360,000	\$ 155,269,000
Fine papers, including merchant and converting operations . . . . .	74,618,000	69,680,000
Board products and corrugated containers . . .	59,969,000	62,051,000
	<u>\$ 283,947,000</u>	<u>\$ 287,000,000</u>

Net earnings from operations declined to \$5,032,124 compared with \$12,141,082 in 1969. Further, as a result of the freeing of the Canadian dollar from exchange control, it was necessary to adjust net balances receivable in U.S. and other currencies at May 31, 1970 to the actual or estimated yields on the subsequent conversion to Canadian funds. The after-tax loss of \$455,000 from this extraordinary adjustment, shown as a separate item on the statement of Consolidated Net Earnings, reduced net earnings for the year to \$4,577,124. After providing for dividends on preferred shares, net earnings for the year were 21.4¢ per common share compared with 63.8¢ in 1969.

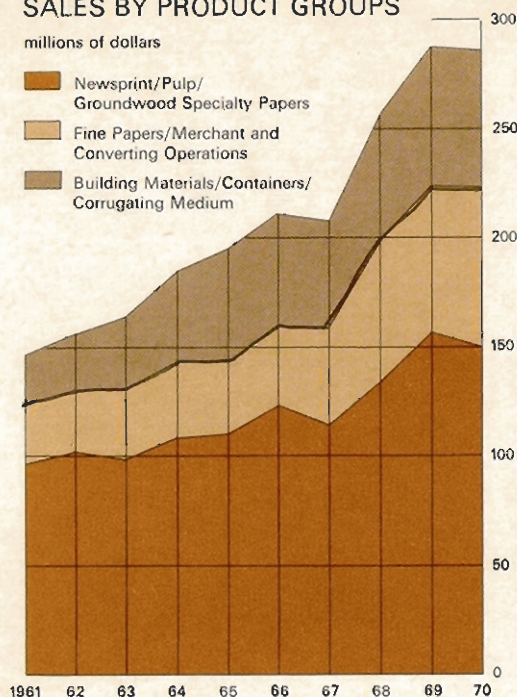
There was considerable variation in net earnings by quarters. The first quarter, which was unaffected by the freeing of the Canadian dollar, proved to be the best quarter of the year. The third quarter, in which we had a loss, was hit by the dollar problem, sharply rising costs and reduced volume. In the final quarter we had a profit which was increased by favourable year-end adjustments.



## SALES BY PRODUCT GROUPS

millions of dollars

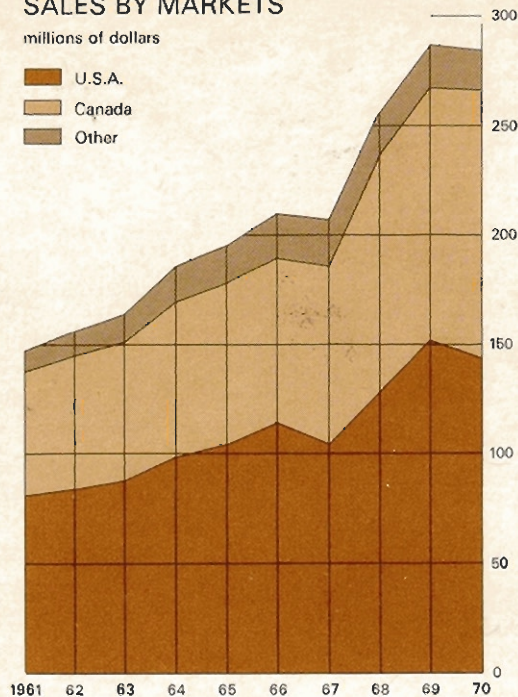
- Newsprint/Pulp/  
Groundwood Specialty Papers
- Fine Papers/Merchant and  
Converting Operations
- Building Materials/Containers/  
Corrugating Medium



## SALES BY MARKETS

millions of dollars

- U.S.A.
- Canada
- Other



In retrospect, it is clear that we had three major problems, cost inflation, the higher value of the Canadian dollar and depressed markets due to general economic conditions in Canada and the United States. To combat these problems we have taken and are taking many steps to reduce manufacturing and overhead costs and to improve volume. However, as a company oriented primarily to world markets, we find it most difficult to export our cost inflation or the effect of government policies that materially reduce profitability.

### Financial

In the early part of the year we issued \$15,000,000 9¾% Sinking Fund Debentures, Series D, in Canadian funds. Proceeds of this issue were used to repay bank loans and to improve our working capital resources. Net working capital at the close of 1970 amounted to \$77,118,000 in comparison with \$64,505,000 at the close of 1969, an improvement of \$12,613,000.

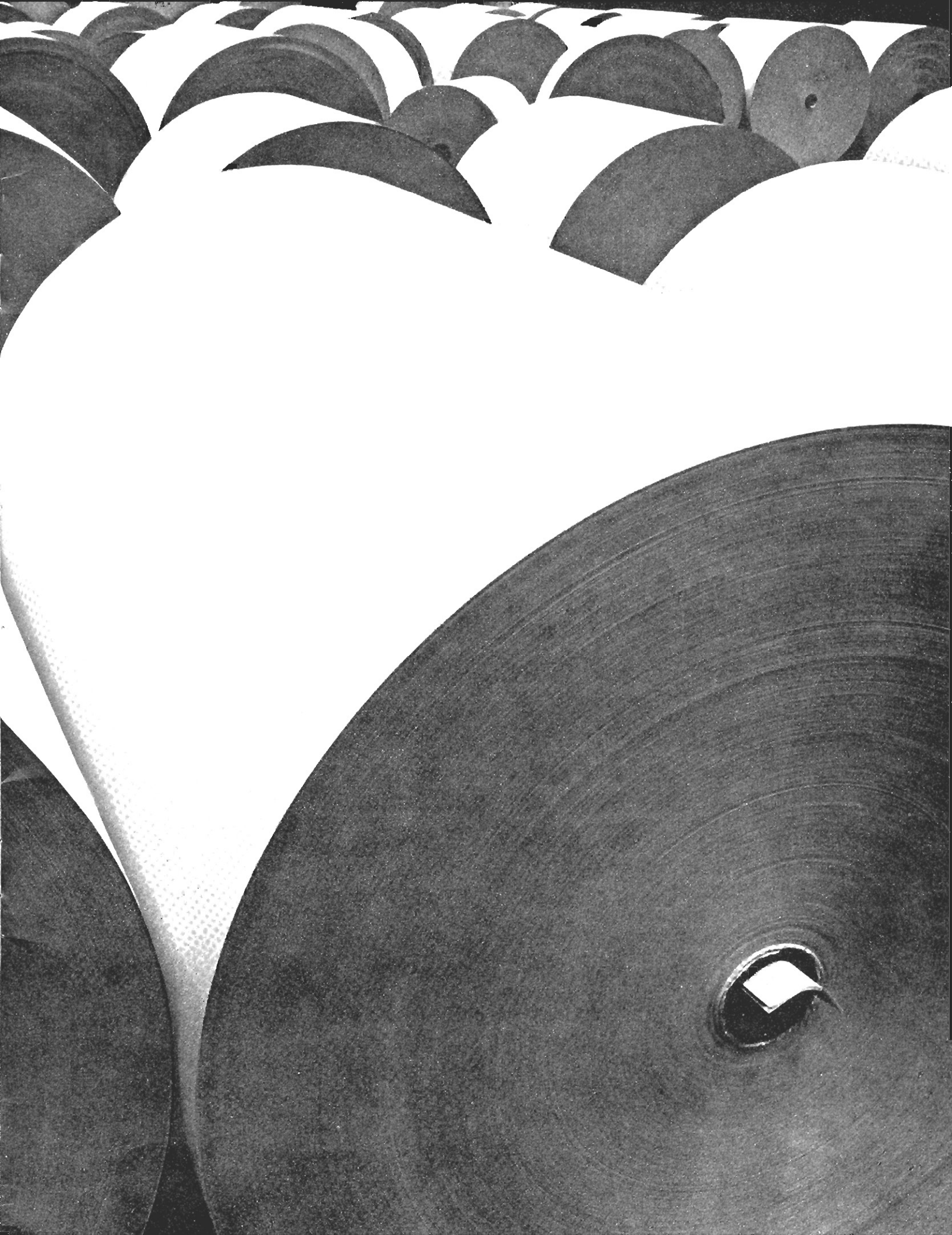
In past years, for balance sheet presentation in Canadian dollars, it was our practice to translate long term debt payable in U.S. funds at the exchange rate in effect at the date the debt was incurred. A continuation of this practice in

1970 would have resulted in a large overstatement of our long term debt at the existing rate of exchange. For this reason, we have translated such debt at the year-end rate. Additionally, deferred taxes of U.S. subsidiary companies have been translated at the year-end rate in place of the former historical rate. As an offset to these credits, there is a shrinkage in the Canadian dollar value of the working capital of U.S. subsidiary companies. The net credit balance of \$5,154,000 resulting from the foregoing is carried forward on the Consolidated Balance Sheet as "Unrealized Gain on Translation of Foreign Currencies". For comparative purposes, the 1969 balance sheet has been similarly adjusted.

### Dividend on Common Shares

It became unmistakably clear in the third quarter that net earnings would be far below those of 1969 and would be insufficient to maintain the dividend on common shares at 9¢ per share per quarter or 36¢ per annum. After thorough consideration, the directors reduced the dividend on common shares to a basis of 5¢ per share per quarter. Dividends paid on January 1, April 1 and July 1 were at the rate of 9¢ per quarter and the dividend paid on October 1 was at the reduced rate.

*Roll after roll of newsprint from seven strategically located mills provides the major portion of Abitibi's product mix. During 1970, newsprint was shipped to customers in Canada, the United States and over 30 other countries.*





*The fine and printing papers of Abitibi Provincial Paper Ltd. are used extensively in the packaging of many grocery and household items that pass by the check-out counter of a supermarket. The development of new paper grades and their promotion by direct mail, media advertisement, and at trade shows support the programs of our sales force.*



### Mattabi Mines Limited

Mattabi Mines Limited was incorporated late in the year to take title to the mineral lands containing the commercial orebody located on Abitibi freehold lands about 130 miles northwest of Thunder Bay, Ontario. In accordance with the exploration agreement, this company is to be owned 60% by Mattagami Lake Mines Limited and 40% by Abitibi.

The established orebody consists of ore reserves of close to 13,000,000 tons grading 7.60% zinc, 0.91% copper, 0.84% lead, 3.13 oz. silver and 0.007 oz. gold per ton. Most of this orebody was found between the surface and the 500 foot horizon. The orebody has not been delimited at depth and several geophysical targets remain to be tested. Further drilling is not planned until Mattabi is able to sustain its own costs of exploration.

The mine is being developed for a planned production rate of 3,000 tons per day. A target date of July 1, 1972 has been set for commencement of operations. Development work is progressing favourably. An access road of eleven miles has been completed. Clearing of the mine site and removal of pulpwood from the operating area is under way. Contracts have been awarded for clearing 54 miles of hydro line right-of-way, the initial stripping of overburden, provision of essential services and for administration buildings.

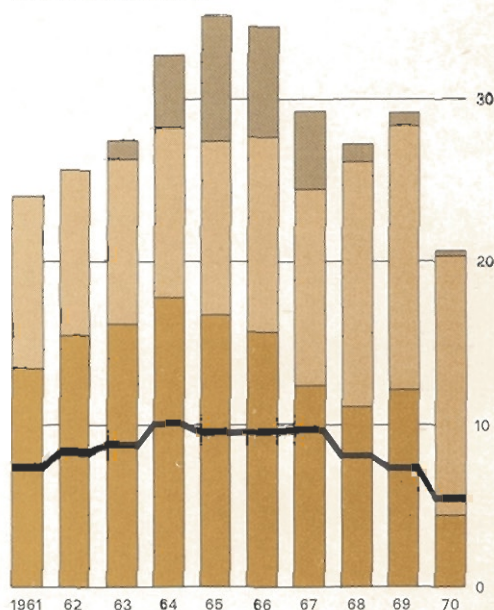
Capital requirements for fixed assets, pre-production expenses and working capital are estimated at \$42,500,000 and financing of this amount is being arranged by Mattabi Mines Limited. It is expected, with current prices of metals, that this borrowing can be repaid over a three-year period out of cash flow from operations.

More than 8,000,000 tons of the ore reserves, grading 8.90% zinc, 1.06% copper, 0.99% lead, 3.98 oz. silver and 0.008 oz. gold per ton will be mined initially by the open-pit method and later phased with extraction of the deeper ore by underground methods. Commencing in 1972, Abitibi's earnings will reflect its 40% equity in earnings of Mattabi Mines Limited.

### CASH FLOW

millions of dollars

Net Earnings  
Depreciation and Depletion  
Deferred Taxes on Income  
Dividends Declared



### **Mineral Potential**

In addition to the 40% equity in shares of Mattabi Mines Limited, we have a potential for further mineral discovery and development on our holdings of 800 square miles of forest lands northwest of Thunder Bay and 216 square miles to the north of Timmins.

Mattagami Lake Mines Limited is continuing the exploration of the 36 square mile area in which the valuable holding of Mattabi Mines Limited was found. A favourable geological formation exists on the lower portion of our Block 8, eight miles to the west, where we did some exploration including a selective drilling program. Exploration of our holding north of Timmins by experienced mining interests is continuing under the terms of an agreement entered into in 1966. This is the only exploration agreement in effect other than the agreement with Mattagami.

As of this date, we have no knowledge of any discoveries of commercial value from the above programs.

### **Newsprint and Pulp**

Consumption of newsprint in North America, our principal market, was below industry expectations showing a decline of 2% in comparison with an anticipated growth of 3%. This was due to generally slack business conditions that reflected in reduced newspaper advertising lineage which has a direct impact on the consumption of newsprint. Elsewhere in the world, consumption equalled or exceeded expectations with a growth rate greater than 4%. Production by the

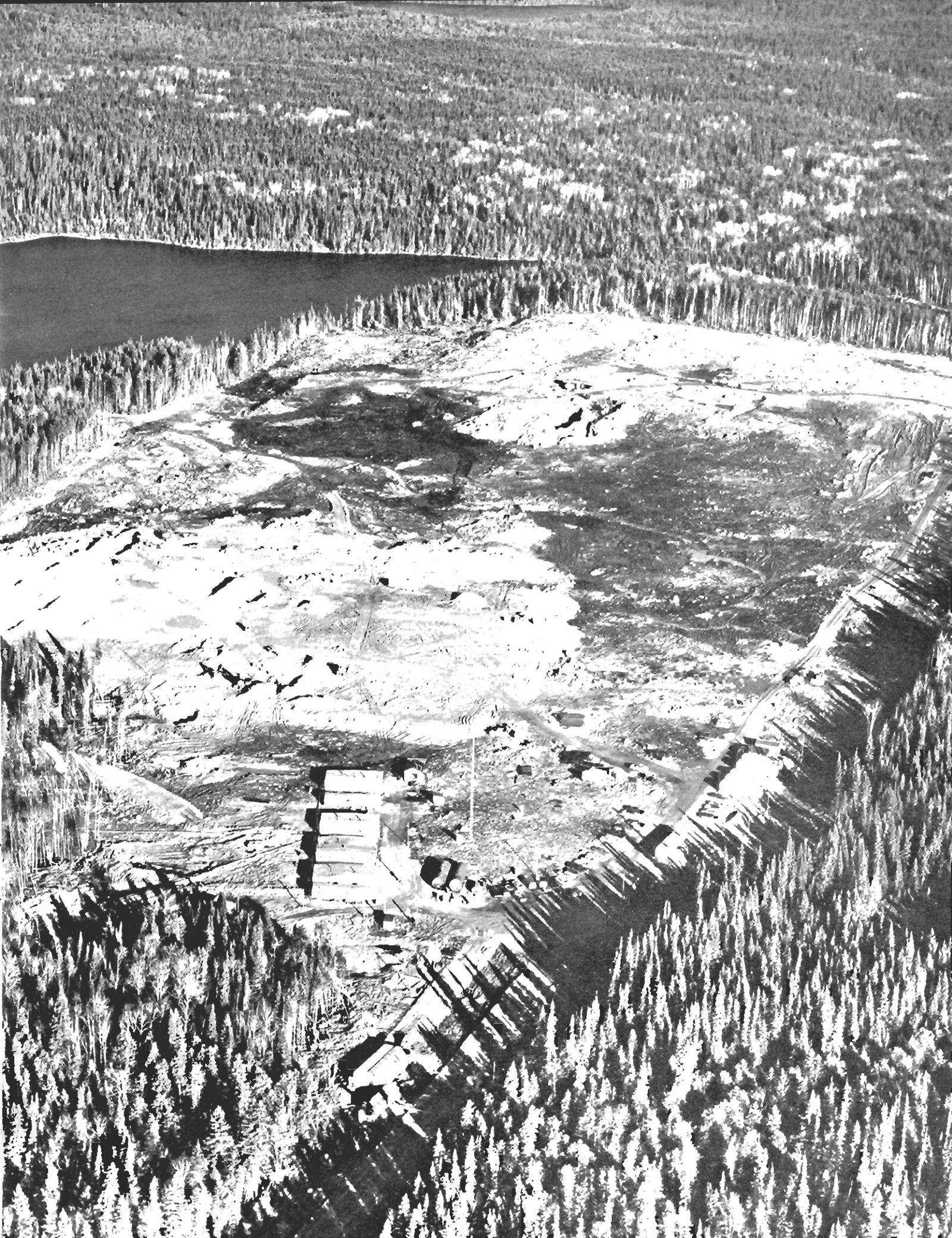
United States domestic industry showed an increase of over 2% while shipments to that market by the Canadian industry declined by more than 4%. Canada provided the United States with 64% of its newsprint compared with 65% in 1969. Abitibi production and shipments declined 3% in a year when the outlook was for growth. Profit margins suffered severely as costs for pulpwood, labour, power, supplies and transportation to markets increased more than the small increase in selling price introduced at the commencement of the year. Net proceeds from export sales were reduced by the changed value of the Canadian dollar.

The outlook for the newsprint industry in 1971 is for some growth in consumption and production beginning about mid-year. Costs will continue to rise as inflationary forces have not been halted and will continue to exert upward pressures.

An announcement was made early in 1970 of our intention to install a new high-speed paper machine at Iroquois Falls including the "Papriformer" twin-wire forming unit. Due to market conditions and reduced profit potential, it was decided to defer this project until more favourable conditions develop.

Pulp markets were strong for most of the year and our kraft pulp mill at Smooth Rock Falls shipped a record 110,000 tons with inter-company sales continuing to provide a firm market base. The stud mill, recently installed to integrate forest operations, showed progressive improvement throughout the year.

*Progress is being made by Mattabi Mines Limited, aimed at a start-up of production by mid-1972. In this aerial view taken last November, we see site preparation for the 3,000 tons-per-day concentrator, the administration buildings and the housing of construction personnel*







### Fine Papers Group

Production by the Canadian industry recorded a strong advance with domestic shipments up 4% and an increase in exports as manufacturers became more aggressive in their efforts to improve volume and extend production runs. The higher value of the Canadian dollar lowered the cost of imported papers causing reduced selling prices for many grades in response to import competition. Imports of fine papers held at 1969 levels. Profit margins suffered with the relationship between costs and selling prices seriously out of balance.

Operations of Abitibi Provincial Paper Ltd. reflected industry conditions with a gain in volume, lower selling prices and reduced earnings. We were unable to offset the cost escalation we experienced notwithstanding intensive cost reduction programs and improvements in manufacturing techniques. We continued to stress production efficiencies, length of runs, quality of product and development of new grades.

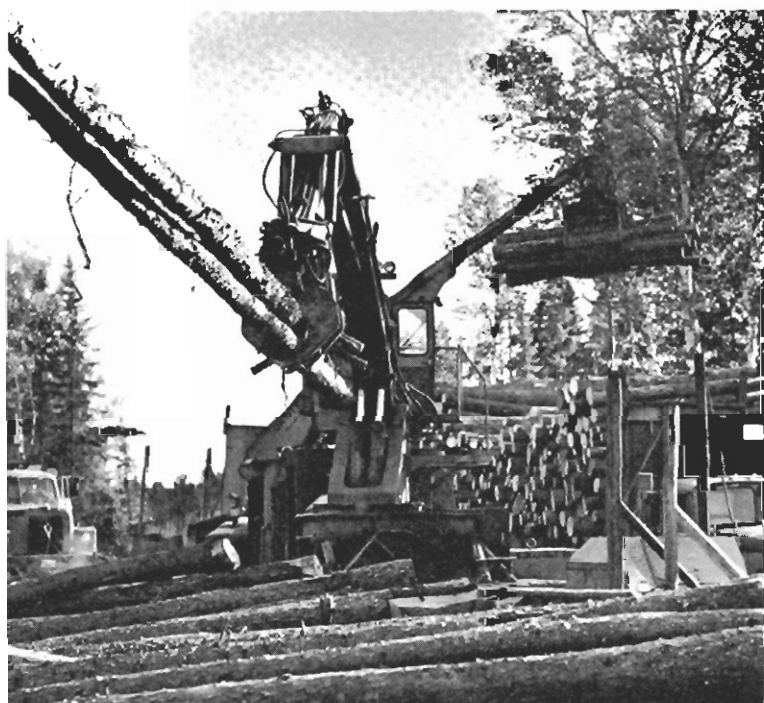
We are optimistic about growth in volume for fine paper grades in 1971 based on recently introduced new products and expansion of the Canadian market. We will continue our efforts to develop and promote new and profitable specialty grades. Present indications are that selling prices will show modest improvement.

Hilroy Envelopes & Stationery Limited had a successful year with its many consumer products continuing to be held in high regard in the Canadian market. Canada Envelope Company, with plants in Montreal, Toronto and Stellarton, fully maintained its market position in a difficult year.

In March, we acquired all the outstanding shares of Neville Papers Limited, Ottawa, and ownership was immediately transferred to Inter City Papers Limited. Branches of this well-established merchant business now consist of Whyte-Hooke Papers, Toronto, T. B. Little+Corbeil, Montreal and Quebec City, and Neville Papers, Ottawa.

*The movement of Abitibi products to the market place utilizes all major carrier systems. Shown on this page is newsprint being loaded on a ship bound for Lebanon. Precision-end-trim, 2" x 4" studs are seen being loaded for rail transportation to United States customers. Many of Abitibi's container and fine paper products are trucked to Canadian customers.*





### Board Products Group

Net sales of the Board Products Group were below those of 1969 reflecting market conditions, severe competitive pressures and lower prices. Housing starts, the barometer of building products activity, continued at a low level in both the United States and Canada with an increasing share diverted to the construction of highrise and mobile home units that provide only a limited potential for our products.

Our major hardboard plant at Alpena overcame the serious start-up problems of the prior year. The hardboard plant at Roaring River, North Carolina, commenced operations in September with the manufacture of primed exterior siding. No serious start-up problems were encountered and volume has been improving month by month as the work force gains experience in the operation of this highly-automated plant. Operations at this new plant should move to a near capacity level at an early date. Our U.S. plants are in an excellent position to share in the improvement in market conditions expected in the current year.

We had a most unsatisfactory year in our hardboard operations in Canada. In this country we have a large excess of manufacturing capacity that was created, in part, with substantial financial support from governments. Exports are much below planned levels and competition for domestic business has reduced prices and destroyed profit margins. In Abitibi, we have responded with an intensive program to achieve utmost manufacturing efficiency and lowest possible costs.

Our production of corrugating medium again increased over the prior year with recently-expanded facilities operating well. Abitibi Containers Ltd. increased its sales of corrugated containers with a volume increase exceeding industry growth in its market area.

*Modern logging equipment processes the basic raw material, pulpwood trees, for shipment to our mills. The Arbomatik feller-buncher cuts the trees; the wheeled-skidder delivers tree-lengths to the road side. The slasher-loader cuts the tree-lengths into 8-foot logs and loads them on a truck-trailer. Finally, the 15-ton payload is hauled direct to our mill or to a siding for rail shipment.*



### Pollution Abatement

Abitibi has long recognized the need for effective anti-pollution measures and its outlays for this purpose have been substantial. In a period of ten years, we have spent more than \$18,000,000 in Canada and the United States on projects associated all or in part with pollution abatement. Water in large quantities is an essential ingredient in the manufacture of pulp and paper products. Its subsequent release into receiving waters can be a source of pollutants although much depends on the total burden placed on these waters from discharges of all kinds made up of human, agricultural, manufacturing and other wastes.

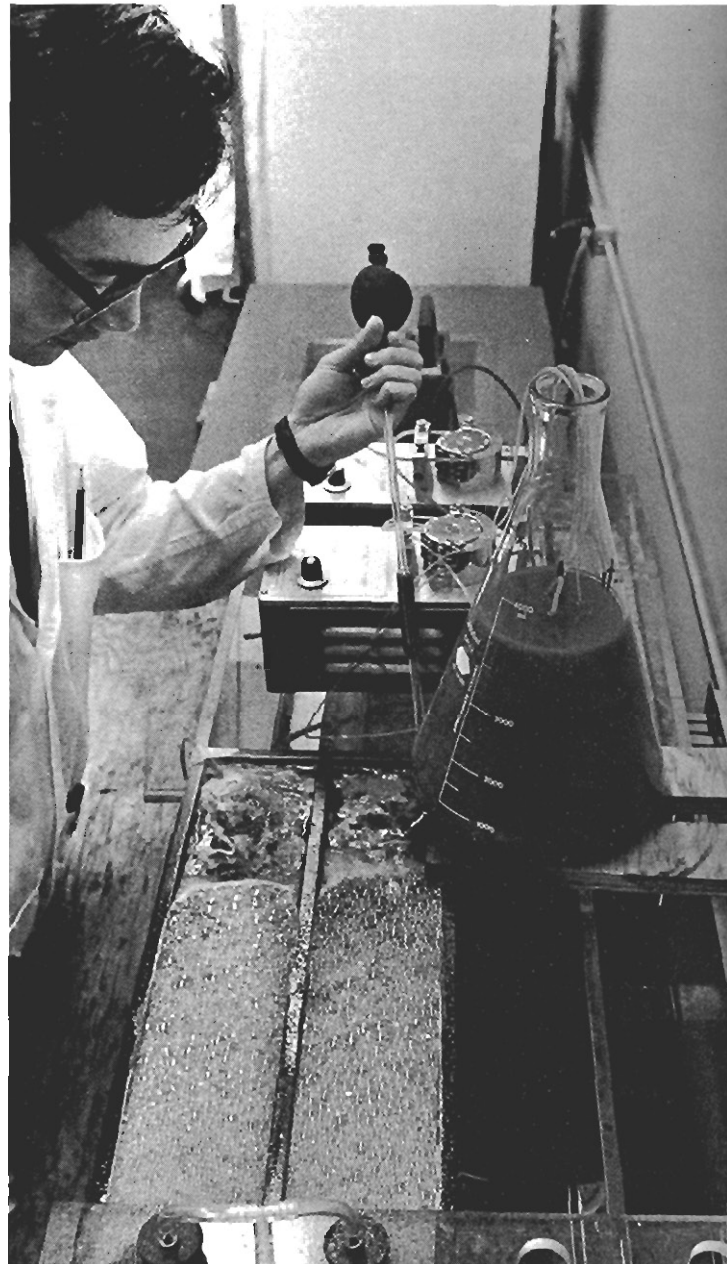
Progress in pollution abatement in this industry has reached the stage where further major achievement in some areas must come from the investment of large sums in new facilities and improvements in technology.

Abitibi is co-operating with regulatory agencies in the jurisdictions in which it operates and its intention to continue pollution abatement outlays is a matter of record. Under existing circumstances, the funds for such programs must be raised through profit from the sale of products and this is a limiting factor on the speed with which progress can be made.

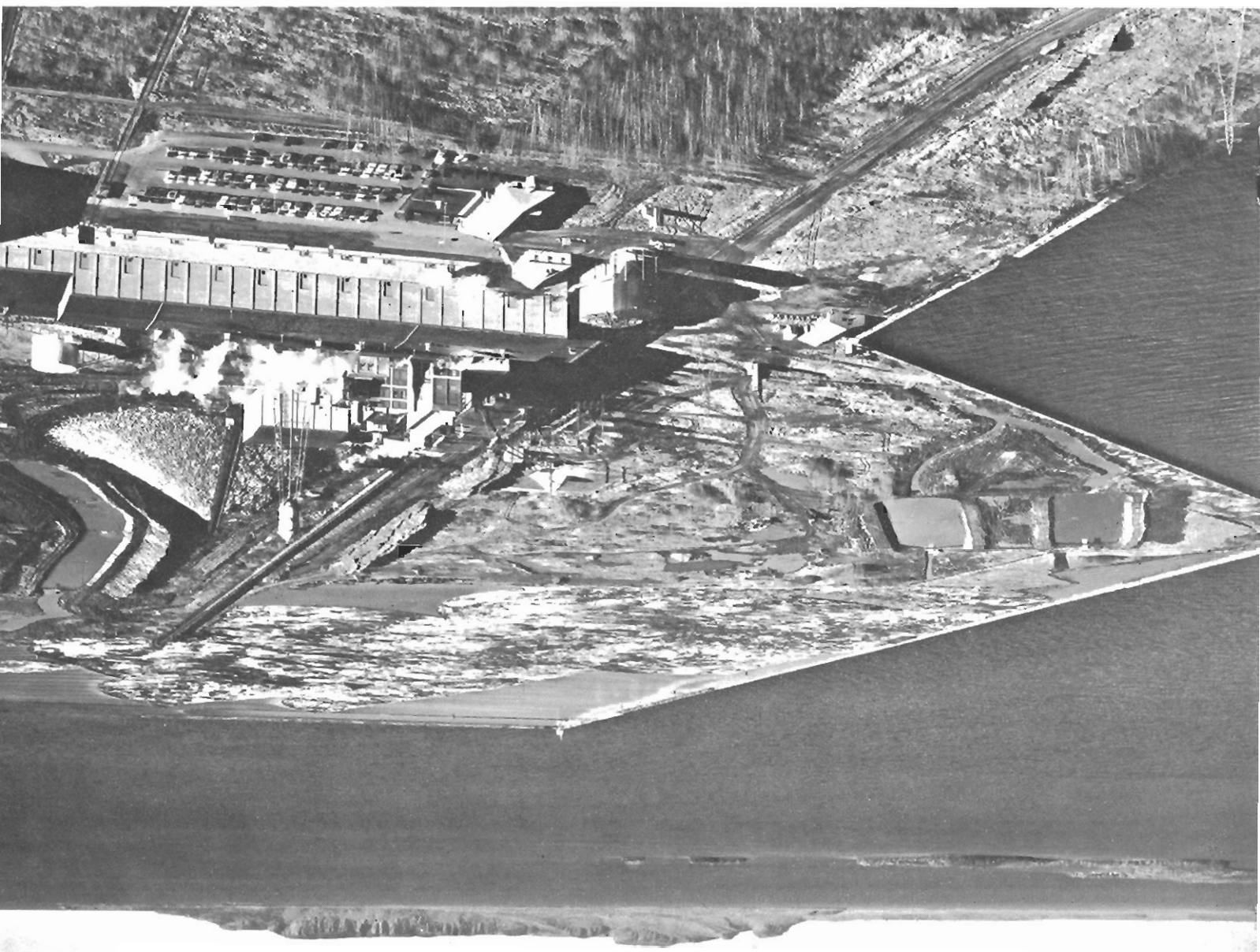
### Employee Relations

In common with the Eastern Canadian industry, collective agreements with unions representing employees in most of our Canadian mills expired on April 30, 1970 and were subject to renegotiation and renewal. Agreements with woodlands workers in Ontario expired on August 31, 1970. It was apparent early in the year that negotiations would be difficult and lengthy.

Negotiations commenced with mill unions bargaining as a group although one principal union withdrew before agreement was reached. With this joint group a two-year contract was agreed to and ratified. Elsewhere in the industry, negotiations resulted in three-year agreements and, at a later date, we reached agreement on this basis with the union that



*The Abitibi program for treatment of mill effluent involves both the research laboratory and installations at mill locations. At Abitibi Research, a biochemical engineer in consultation with a university team carries out a study aimed at the development of a strain of organisms that would accelerate the biological degradation of waste in the lagoon treatment system. At the Mission Mill (Thunder Bay, Ontario) effluent treatment lagoons (L) and bark retention lagoons (R) are a part of the waste treatment system that meets the requirements of the Ontario Water Resources Commission.*







elected to bargain separately. Both settlements were compatible, one with the other, except for matters affecting the third year. These and other settlements conformed with the general pattern that emerged from industry negotiations. Near the end of the year we reached agreement with the woodlands unions.

### Board of Directors

During the year, Lord Thomson of Fleet, a director for nine years, retired from the Board. He attended the annual meeting, however, and his remarks to shareholders on his business experiences in Ontario and his early association with Abitibi were of great interest to all. He was appointed an Honorary Director in appreciation of his valuable services.

At the annual meeting in April, Kenneth R. Thomson was elected a director. He brings to the Board the viewpoint of an experienced publisher having a close and continuing contact with the newspaper publishing business in North America, the United Kingdom and elsewhere. His sound judgment and understanding of business affairs adds strength to the Abitibi Board.

It is virtually impossible to express adequate appreciation for the great contribution made by Douglas W. Ambridge, C.B.E., who resigned from the Board during the year. No one person had greater influence or responsibility over a longer period of time. From 1946 to 1963 he was President, Chief Executive Officer and a director. For the following four years he was Chairman of the Board and he continued as a director until his recent retirement. The entire Abitibi organization holds him in the highest esteem and will always do so. He was appointed Honorary Director and Honorary Chairman in recognition of his outstanding record.

### Outlook

The outlook for the current year is for improved general business conditions and a related improvement in demand for the products we manufacture. Paper consumption is closely linked to the general level of business activity and the expected upturn should reflect in increased usage of newsprint and fine papers. Lower interest rates and availability of funds should stimulate construction activity and reflect favourably on the demand for building materials.

The outlook for profit improvement continues to be obscure. It would be overly optimistic to expect a rapid return to a profit level that affords a satisfactory yield on our substantial investment in plant and equipment. The major contributing factors to the downturn in earnings—rising costs, unrewarding selling prices and the high value of the Canadian dollar—are continuing industry problems. Stabilization of the Canadian dollar at a lower level would do much to stimulate Canada's pulp and paper industry and the Canadian economy.

On behalf of the Board,



President and Chief Executive Officer

Toronto, February 9, 1971.

*The hissing discharge of a massive cloud of steam as the press closes is a dramatic moment in the manufacture of exterior siding at the Roaring River, N.C. plant. With an annual capacity of 100 million square feet, this plant is moving toward maximum output.*

**Consolidated Net Earnings**

	Year ended December 31	
	1970	1969
<b>Revenue:</b>		
Net sales.....	\$283,947,177	\$287,000,009
✓Interest and other income.....	2,166,574	2,298,932
	<u>286,113,751</u>	<u>289,298,941</u>
<b>Costs and expenses:</b>		
Cost of products sold.....	227,709,937	217,781,665
✓ Provision for depreciation.....	15,652,793	15,254,971
✓ Provision for depletion.....	369,733	820,772
Selling, general and research expenses.....	21,441,323	20,691,799
✓Employees' pension plans (note 2).....	2,969,663	3,116,740
✓Interest on bank indebtedness.....	935,315	791,580
✓Interest and expense on long term debt.....	7,372,863	6,393,332
	<u>276,451,627</u>	<u>264,850,859</u>
<b>Earnings before taxes on income.....</b>	<u>9,662,124</u>	<u>24,448,082</u>
<b>Taxes on income:</b>		
Current (note 3).....	4,492,500	11,422,500
Deferred.....	137,500	884,500
	<u>4,630,000</u>	<u>12,307,000</u>
<b>Net earnings from operations.....</b>	<u>5,032,124</u>	<u>12,141,082</u>
Extraordinary loss on balances receivable in other currencies, resulting from the freeing of the Canadian dollar at May 31, 1970 (net of income tax reductions of \$381,500).....	455,000	—
<b>Net earnings for the year.....</b>	<u>\$ 4,577,124</u>	<u>\$ 12,141,082</u>
<i>Per common share:</i>		
Net earnings from operations.....	23.9¢	63.8¢
Net earnings for the year.....	21.4¢	63.8¢

**Consolidated Retained Earnings**

	Year ended December 31	
	1970	1969
Retained earnings at beginning of year.....	\$135,834,584	\$130,873,512
Net earnings for the year.....	4,577,124	12,141,082
	<u>140,411,708</u>	<u>143,014,594</u>
Dividends declared on preferred shares.....	749,906	750,000
Dividends declared on common shares.....	5,005,828	6,430,010
	<u>5,755,734</u>	<u>7,180,010</u>
<b>Retained earnings at end of year.....</b>	<u>\$134,655,974</u>	<u>\$135,834,584</u>

*Forests and waterways are among our most valued natural resources. In the management of natural resources, Abitibi co-operates with governments in the development and application of sound multiple-use, forest management programs.*

## Consolidated Balance Sheet

	ASSETS	
	December 31 1970	1969
<b>Current Assets:</b>		
Cash.....	\$ 2,185,137	\$ 3,660,986
Short term investments at cost which approximates market.....	454,414	2,088,117
Accounts receivable, less allowance for doubtful accounts.....	61,999,099	57,721,160
Inventories:		
Finished products, goods in process, materials and supplies at the lower of cost or net realizable value.....	28,628,110	28,068,922
Pulpwood and expenditures on current logging operations at cost....	22,323,822	20,829,529
Prepaid insurance and other expenses.....	2,382,781	1,144,320
	<u>117,973,363</u>	<u>113,513,034</u>
<b>Capital Assets:</b>		
Properties, plant and equipment (note 5).....	437,483,428	423,285,816
Less—Accumulated depreciation.....	<u>230,493,767</u>	<u>217,828,949</u>
	206,989,661	205,456,867
Logging equipment and development at depreciated cost.....	6,527,308	6,453,822
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of \$7,441,821 (1969 — \$7,072,088).....	25,886,653	26,167,685
	<u>239,403,622</u>	<u>238,078,374</u>
<b>Investments and Other Assets:</b>		
Bonds, debentures and notes at cost.....	3,518,232	5,432,143
Townsite mortgages and advances at cost.....	1,770,486	1,646,038
Investment in Mattabi Mines Limited at cost.....	3	—
Other investments at cost.....	2,215,087	2,179,528
Cost of shares of subsidiary companies in excess of book values of underlying net assets at dates of acquisition.....	21,987,652	21,894,313
Unamortized discount and expense on long term debt.....	<u>1,203,596</u>	<u>950,432</u>
	<u>30,695,056</u>	<u>32,102,454</u>
 Approved on behalf of the Board:		
T. J. BELL, Director		
P. E. ROBERTS, Director		
	<u>\$388,072,041</u>	<u>\$383,693,862</u>



# **LIABILITIES**

	<b>December 31</b>	
	<b>1970</b>	<b>1969</b>
<b>Current Liabilities:</b>		
Bank indebtedness.....	\$ 12,426,394	\$ 13,754,965
Accounts payable.....	19,973,829	23,600,805
Dividend payable January 1st.....	894,219	1,607,705
Interest accrued on long term debt.....	1,432,877	1,168,552
Income and other taxes.....	1,025,082	4,654,616
Payments due within one year on long term debt.....	5,102,728	4,221,624
	<u>40,855,129</u>	<u>49,008,267</u>
<b>Long Term Debt</b> (notes 1 and 6).....	<u>118,370,000</u>	<u>109,551,610</u>
<b>Deferred Taxes on Income</b> .....	<u>29,867,004</u>	<u>29,687,809</u>
<b>Unrealized Gain on Translation of Foreign Currencies</b> (note 1).....	<u>5,153,565</u>	<u>689,160</u>

# **SHAREHOLDERS' EQUITY**

## **Preferred Shares:** (note 7)

Authorized: 1,000,000 shares par value \$50 issuable in series  
(200,000 shares issued; 200 shares purchased and cancelled)

Outstanding: 199,800 7½% Cumulative Redeemable Preferred Shares,  
Series A (1969 — 200,000 shares).....

9,990,000 10,000,000

## **Common Shares:** (note 8)

Authorized: 24,000,000 shares without nominal or par value

Issued: 17,884,384 shares (1969 — 17,863,384 shares).....

49,180,369 48,922,432

**Retained Earnings** (note 9).....

134,655,974 135,834,584

193,826,343 194,757,016

\$388,072,041 \$383,693,862

## Consolidated Source and Application of Funds

	Year ended December 31	
	1970	1969
<b>Source of Funds:</b>		
Net earnings for the year.....	\$ 4,577,124	\$ 12,141,082
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion.....	16,022,526	16,075,743
Deferred taxes on income.....	137,500	884,500
Discount and expense on long term debt.....	80,993	71,946
	<u>20,818,143</u>	<u>29,173,271</u>
Increase in long term debt.....	19,436,485	10,317,387
Disposal of capital assets.....	172,288	1,241,419
Common shares issued under option agreements.....	7,937	72,250
Decrease in miscellaneous investments.....	<u>1,732,301</u>	<u>(314,725)</u>
	<u>42,167,154</u>	<u>40,489,602</u>
<b>Application of Funds:</b>		
Invested in capital assets.....	17,343,208	24,711,911
Retirement of long term debt.....	5,732,599	5,800,711
Retirement of preferred shares.....	9,786	—
Dividends declared on preferred shares.....	749,906	750,000
Dividends declared on common shares.....	5,005,828	6,430,010
Unrealized loss on translation of working capital of United States subsidiary companies.....	592,896	—
Other items—net.....	<u>119,464</u>	<u>(22,724)</u>
	<u>29,553,687</u>	<u>37,669,908</u>
Increase in working capital.....	12,613,467	2,819,694
Working capital at beginning of year.....	64,504,767	61,685,073
<b>Working Capital at End of Year.....</b>	<u><u>\$ 77,118,234</u></u>	<u><u>\$ 64,504,767</u></u>

## **Notes to Consolidated Financial Statements**

1. The consolidated financial statements include the accounts of Abitibi Paper Company Ltd. and all subsidiary companies. Balances and transactions in other currencies have been translated into Canadian dollars as follows:

current assets, current liabilities, long term debt and deferred taxes on income at exchange rates in effect at December 31st; capital assets at rates in effect at dates of acquisition; net sales and expenses of United States subsidiary companies at average rates for the period except for depreciation provisions which are on the same basis as the related capital assets.

In prior years, long term debt and deferred taxes on income in U.S. funds were expressed on the consolidated balance sheet in Canadian dollars at historical rates of exchange. Consistent with the practice adopted in the current year, these items have been restated as at December 31, 1969 at the then current rate of exchange. This change had no effect on 1969 earnings which are presented as previously reported.

A net unrealized gain of \$5,153,565 resulting from the translation of other currencies into Canadian dollars is carried forward on the consolidated balance sheet under the heading "Unrealized Gain on Translation of Foreign Currencies".

2. The amount charged to earnings in respect of employees' pension plans includes past service costs resulting from retroactive improvements of benefits. Applicable costs are being funded in annual instalments to 1989. Based on the most recent actuarial report, the single-sum liability for unfunded pension benefits is estimated at \$4,400,000 at December 31, 1970.

3. Provision for current taxes on income has been reduced by U.S. investment tax credits of \$606,300 (\$245,900 in 1969).

4. Remuneration in 1970 of the company's sixteen directors and twenty-two officers, including past officers, determined in accordance with the Canada Corporations Act 1970, amounted to \$68,331 and \$780,449 respectively. Three officers of the company also serve as directors.

5. Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of \$5,834,611 at December 31, 1970 included at appraised values as at April 30, 1946.



6. Details of long term debt are as follows:

	December 31	
	1970	1969
ABITIBI PAPER COMPANY LTD.:		
First Mortgage Sinking Fund Bonds		
Series B, 4¼% due July 15, 1974.....	\$ ✓2,529,500	\$ ✓3,277,500
Series C, 6¼% due November 15, 1977.....	✓5,189,000	✓5,587,000
Sinking Fund Debentures		
Series A, 5¼% due September 15, 1985 (\$16,700,000 U.S.)....	✓16,877,020	✓18,795,562
Series B, 7¼% due September 15, 1987.....	✓15,000,000	✓15,000,000
Series D, 9¾% due April 1, 1990.....	✓15,000,000	—
ABITIBI CORPORATION:		
5½% Instalment Notes, due May 1, 1984 (\$11,400,000 U.S.).....	✓11,520,840	✓12,870,000
ABITIBI CAROLINA CORPORATION:		
7½% Promissory Notes, due June 30, 1978 (\$10,000,000 U.S.)....	✓10,106,000	✓6,971,250
ABITIBI HOLDINGS, INC. AND SUBSIDIARY COMPANIES:		
4% Promissory Note, due March 22, 1973 (\$5,000,000 U.S.).....	✓5,053,000	✓5,362,500
6½% Instalment Note, due March 31, 1973 (\$4,000,000 U.S.).....	✓4,042,400	✓4,826,250
5½% Instalment Note, due December 1, 1986 (\$16,000,000 U.S.)..	✓16,169,600	✓18,232,500
7¾% Guaranteed Notes, due May 15, 1988 (\$17,000,000 U.S.)....	✓17,180,200	✓18,232,500
5¼% Promissory Note, due May 28, 1991 (\$3,256,692 U.S.).....	✓3,291,213	✓3,305,103
Miscellaneous notes due 1971 to 1976 (\$504,239 U.S.).....	✓509,584	✓732,576
Other obligations.....	✓1,004,371	✓580,493
	123,472,728	113,773,234
Less-- Amount included with current liabilities.....	5,102,728	4,221,624
	<u>\$118,370,000</u>	<u>\$109,551,610</u>

Sinking fund and instalment payment obligations for 1971 on long term debt, including payments based on 1970 earnings, amount to \$5,437,728 of which \$335,000 has been discharged by prior purchase and retirement of first mortgage bonds. Principal repayment obligations on long term debt for the years 1972 to 1975 inclusive are estimated to be \$5,350,000, \$13,875,000, \$7,375,000 and \$6,300,000 respectively.

Abitibi Paper Company Ltd. has effectively guaranteed payment of outstanding long term debt of subsidiary companies amounting to \$47,400,000 U.S. at December 31, 1970. Its guarantee of the 7¾% Guaranteed Notes of Abitibi Holdings, Inc. is secured by the pledge of \$17,000,000 U.S. principal amount of 7¾% Debentures, Series C.

7. During 1970, 200 7½% Cumulative Redeemable Preferred Shares, Series A were purchased and cancelled pursuant to the conditions attaching to this issue of shares. The preferred shares are redeemable at the option of the company at \$52 per share from June 1, 1978 to May 31, 1983 and thereafter at \$51 per share.

8. Of the authorized and unissued common shares, 540,100 shares are reserved under the Key Employees' Stock Option Plan. Options granted under this plan are for terms of up to ten years at market value at date of grant and are normally exercisable in instalments upon fulfillment of service conditions. At December 31, 1970 options were outstanding on a total of 398,700 shares at prices ranging from \$7.9375 to \$10.75 per share of which options covering 334,700 shares were held by officers of the company.

During 1970, 1,000 common shares valued at \$7,937 were issued under terms of the Key Employees' Stock Option Plan and 20,000 common shares valued at \$250,000 were issued in exchange for all the outstanding shares of Neville Papers Limited.

9. Covenants entered into in connection with the issue of debentures and preferred shares include certain restrictions on the payment of dividends. Under the most restrictive of these provisions, dividends subsequent to December 31, 1969 may be not more than consolidated net income earned after that date plus an amount of \$20,000,000.

## **Auditors' Report**

### **To the Shareholders of ABITIBI PAPER COMPANY LTD. -**

We have examined the consolidated balance sheet of Abitibi Paper Company Ltd. and subsidiary companies as at December 31, 1970 and the consolidated statements of net earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in the basis of translating into Canadian dollars long term debt and deferred income taxes in other currencies as explained in Note 1 to the consolidated financial statements.

TORONTO, February 8, 1971

**PRICE WATERHOUSE & CO.**  
**Chartered Accountants.**

# Ten Year Review (all amounts stated in thousands of dollars other than per share calculations)

	1970	1969	1968	1967	1966	1965
<b>Sales and Earnings</b>						
Net sales.....	\$283,947	\$287,000	\$255,588	\$209,303	\$211,167	\$194,411
Depreciation and depletion.....	16,023	16,076	15,078	12,284	11,599	10,486
Earnings before taxes on income.....	9,662	24,448	22,107	24,909	31,033	32,896
Taxes on income.....	4,630	12,307	11,490	12,457	15,105	16,160
Extraordinary loss—net.....	455	—	(411)	—	—	—
Net earnings.....	4,577	12,141	11,028	12,452	15,928	16,736
Net earnings per common share*.....	21¢	64¢	60¢	72¢	92¢	96¢

## Dividends Declared

On preferred shares.....	\$ 750	\$ 750	\$ 323	\$ —	\$ —	\$ —
On common shares.....	5,006	6,430	8,157	9,747	9,741	9,728
Per common share*.....	28¢	36¢	46¢	56¢	56¢	56¢

## Capital Expenditures

On properties, plant and equipment.....	\$ 15,178	\$ 21,836	\$ 14,476	\$ 13,332	\$ 20,842	\$ 30,418
On logging equipment and development.....	2,076	2,818	1,722	2,271	3,730	1,204
On woodlands.....	89	58	6	1,615	—	—

## Financial Position

Current assets.....	\$117,973	\$113,513	\$ 97,978	\$ 83,247	\$ 71,156	\$ 86,887
Current liabilities.....	40,855	49,008	36,293	25,835	25,664	38,130
Working capital.....	77,118	64,505	61,685	57,412	45,492	48,757
Capital assets, at net book values.....	239,404	238,078	230,661	192,541	187,077	174,296
Investments and other assets.....	30,695	32,102	31,890	10,835	5,978	4,793
Deposit on sale of real estate.....	—	—	—	1,650	—	—
Long term debt, net of current portion**.....	118,370	109,552	105,704	59,675	46,123	48,948
Deferred taxes on income**.....	29,867	29,687	28,809	26,189	21,855	14,847
Unrealized gain on translation of foreign currencies.....	5,154	689	—	—	—	—
Equity of shareholders.....	193,826	194,757	189,723	173,274	170,569	164,051

## Equity of Shareholders

Equity of preferred shareholders.....	\$ 10,052	\$ 10,062	\$ 10,062	\$ —	\$ —	\$ —
Equity of common shareholders.....	183,774	184,695	179,661	173,274	170,569	164,051
Outstanding common shares* (thousands).....	17,884	17,863	17,855	17,405	17,405	17,374
Equity per common share*.....	\$10.28	\$10.34	\$10.06	\$9.95	\$9.80	\$9.44

\*Calculation of net earnings per common share is based on the average number of shares outstanding during the respective periods. Calculation of equity per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split November 30, 1963.

\*\*Long term debt and deferred taxes on income in U.S. Funds are translated into Canadian dollars for 1969 and 1970 at exchange rates in effect at December 31st and for prior years at historical rates of exchange.



1964	1963	1962	1961
\$184,709	\$164,576	\$156,006	\$147,587
10,142	9,854	10,370	10,289
35,432	31,248	31,275	28,268
17,498	15,040	15,780	14,557
—	—	—	—
17,934	16,208	15,495	13,711
\$1.02	94¢	90¢	80¢

\$ 395	\$ 412	\$ 433	\$ 454
9,639	8,682	8,331	7,078
56¢	51½¢	50¢	42½¢

\$ 19,116	\$ 15,008	\$ 13,222	\$ 9,729
771	950	891	594
—	—	—	—

\$ 71,277	\$ 64,029	\$ 65,886	\$ 63,108
25,372	26,067	25,787	22,065
46,005	37,962	40,099	41,043
153,440	143,912	132,607	128,986
4,838	4,574	5,529	5,644
—	—	—	—
40,739	31,678	33,678	37,410
6,605	1,485	—	—
—	—	—	—
156,939	153,285	144,557	138,263

\$ —	\$ 8,990	\$ 9,339	\$ 9,908
156,939	144,295	135,218	128,355
17,365	16,971	16,667	16,653
\$9.04	\$8.50	\$8.11	\$7.71

### Primary Production of Paper, Pulp and Board Products in tons

	Newsprint Paper	Fine and Printing Papers	Building Boards and Paperboards	Market Pulp	Total
1961	742,000	117,300	145,800	44,400	1,049,500
1962	756,000	123,900	164,200	36,300	1,080,400
1963	740,600	132,100	177,300	39,900	1,089,900
1964	819,300	132,300	205,100	55,800	1,212,500
1965	829,300	136,700	227,300	46,800	1,240,100
1966	890,800	158,400	206,500	56,100	1,311,800
1967	825,900	164,100	208,400	43,800	1,242,200
1968	925,100	159,500	232,800	72,400	1,389,800
1969	1,078,300	171,200	244,300	69,800	1,563,600
1970	1,043,600	176,000	247,300	78,200	1,545,100

Groundwood specialty papers are grouped in the above table with Fine and Printing Papers.

In addition to these products, Abitibi manufactures corrugated containers, lumber studs, veneered panelings, decorative hardboard panels and fine hardwood veneers.

## Products, Sales Offices and Plants

### NEWSPRINT, PULP AND GROUNDWOOD SPECIALTY PAPERS

#### Newsprint

##### SALES AND SERVICE:

Abitibi Paper Sales Ltd.

*Toronto and Montreal, Canada*

Abitibi Papers Inc.

*Dayton, New York and Chicago, U.S.A.*

Clarendon Paper Sales Company

*Atlanta, U.S.A.*

##### MANUFACTURED AT:

*Iroquois Falls, Ontario*

*Thunder Bay, Ontario (two mills)*

*Sault Ste. Marie, Ontario*

*Pine Falls, Manitoba*

*Beaupré, Quebec*

*Augusta, Georgia*

### Groundwood Specialty Papers, Kraft Pulp and Corrugating Medium

##### SALES AND SERVICE:

Abitibi Paper Sales Ltd.

*Toronto and Montreal, Canada*

##### MANUFACTURED AT:

*Groundwood Specialty Papers*

*Sault Ste. Marie, Ontario*

*Kraft Pulp*

*Smooth Rock Falls, Ontario*

*Corrugating Medium*

*Sturgeon Falls, Ontario*

### FINE PAPERS INCLUDING MERCHANT AND CONVERTING OPERATIONS

#### Fine and Printing Papers

##### SALES AND SERVICE:

Abitibi Provincial Paper Ltd.

*Toronto and Montreal, Canada*

##### MANUFACTURED AT:

*Thorold, Ontario*

*Thunder Bay, Ontario*

*Georgetown, Ontario*

### Envelopes and Stationery; School, Home and Office Supplies

Hilroy Envelopes & Stationery Limited

*Toronto, Vancouver and Calgary, Canada*

The Canadian Stationery Company  
Limited

*Joliette, Quebec*

Canada Envelope Company

*Montreal, Quebec; Stellarton, N.S.*

Canada Envelope (Ontario) Limited

*Toronto, Ontario*

#### Paper Merchants

##### INTER CITY PAPERS LIMITED:

Whyte-Hooke Papers

*Toronto, Ontario*

T. B. Little + Corbeil

*Montreal and Quebec City, Quebec*

Neville Papers Limited

*Ottawa, Ontario*

### BOARD PRODUCTS AND CORRUGATED CONTAINERS

#### Building Materials

##### SALES AND SERVICE:

Abitibi Corporation

*Detroit, Chicago, Los Angeles,  
New York, Philadelphia, Cleveland,  
Atlanta and Dallas, U.S.A.*

Abitibi Panel Products Ltd.

*Toronto and Montreal, Canada*

##### MANUFACTURED AT:

*Alpena, Michigan*

*Roaring River, North Carolina*

*Chicago, Illinois*

*Cucamonga, California*

*Sturgeon Falls, Ontario*

*Durham, Ontario*

#### Corrugated Containers

##### SALES AND SERVICE:

Abitibi Containers Ltd.

*Toronto, Pembroke and Montreal, Canada*

##### MANUFACTURED AT:

*Toronto, Ontario*

*Pembroke, Ontario*

### Principal Subsidiary Companies

Abitibi Paper Sales Ltd.

Abitibi Papers Inc.

Abitibi Manitoba Paper Ltd.

Abitibi St. Anne Paper Ltd.

Abitibi Holdings, Inc.

Cox Newsprint, Inc.

Cox Woodlands Company

Abitibi Provincial Paper Ltd.

Hilroy Envelopes & Stationery Limited

The Canadian Stationery Company Limited

Canada Envelope Company

Canada Envelope (Ontario) Limited

Inter City Papers Limited

Abitibi Corporation

Abitibi Carolina Corporation

Abitibi Florida Corporation

Abitibi Panel Products Ltd.

Abitibi Containers Ltd.

