

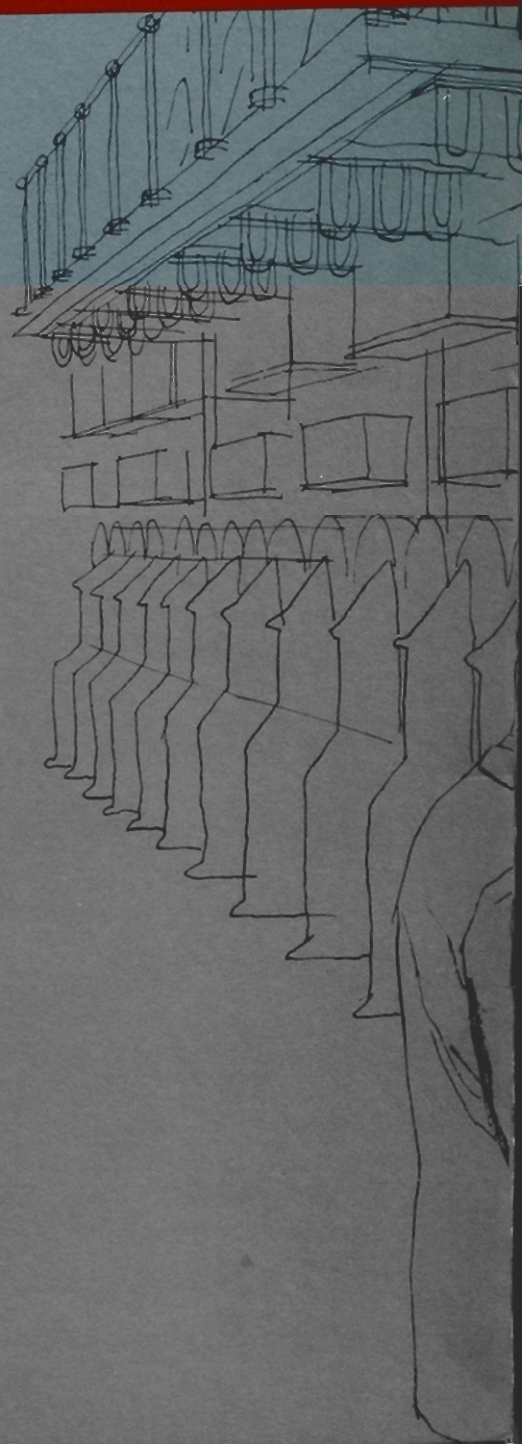
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Abitibi

**ANNUAL
REPORT**
1954

ABITIBI POWER &





PAPER COMPANY, LIMITED

**ANNUAL
REPORT**

FOR THE YEAR ENDED DECEMBER 31

1954



ABITIBI POWER & PAPER COMPANY, LIMITED

EXECUTIVE OFFICES - 408 UNIVERSITY AVENUE, TORONTO, ONTARIO

BOARD OF DIRECTORS

*DOUGLAS W. AMBRIDGE
HON. EDOUARD ASSELIN, Q.C.
*EDWARD W. BICKLE
HARRY J. CARMICHAEL
ALLAN GRAYDON, Q.C.
CHARLES L. GUNDY
T. RODGIE MCLAGAN
ROBERT H. REID
JOSEPH P. RIPLEY
*WILLIAM H. SMITH
*J. S. D. TORY, Q.C.

**Members of Executive Committee*

OFFICERS

DOUGLAS W. AMBRIDGE, President and General Manager
WILLIAM H. SMITH, Vice-President
ARTHUR P. JEWETT, Vice-President (*Sales*)
ROBERT J. ASKIN, Vice-President (*Manufacturing*)
W. STANLEY ROTHWELL, Treasurer
CLARK B. DAVIS, Vice-President (*Woodlands*)
LAURENCE B. POPHAM, Secretary

MANAGEMENT COMMITTEE

DOUGLAS W. AMBRIDGE, Chairman
ROBERT J. ASKIN
CLARK B. DAVIS
JAMES C. BINNIE
ARTHUR P. JEWETT
LESLIE CLEMINSON
W. STANLEY ROTHWELL

TRANSFER AGENTS

Montreal Trust Company, Toronto, Ont., Montreal, Que. and Vancouver, B.C.
City Bank Farmers Trust Company, New York, N.Y.

REGISTRARS

The Toronto General Trusts Corporation, Toronto, Ont. and Vancouver, B.C.
The Eastern Trust Company, Montreal, Que.
The National City Bank of New York, New York, N.Y.

AUDITORS

Price Waterhouse & Co., Toronto, Ont.

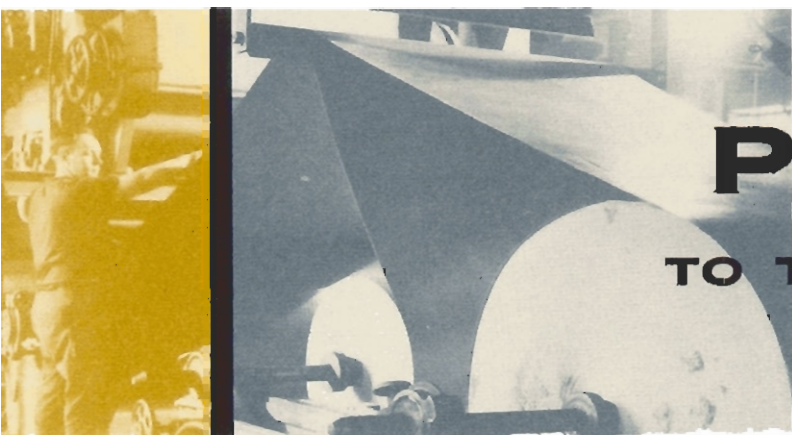
ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at the Royal York Hotel in the City of Toronto on Thursday, the 14th day of April, 1955 at the hour of ten-thirty in the forenoon.



HIGHLIGHTS OF THE YEAR

	1954	1953
Paper, pulp and board produced	953,941 tons	914,227 tons
Net sales	\$113,997,836	\$109,768,039
Taxes on income	\$ 12,403,000	\$ 11,385,000
Net earnings for the year	\$ 10,625,901	\$ 10,044,152
Per common share	\$ 2.49	\$ 2.27
Dividends declared on preferred shares	\$ 1,176,955	\$ 1,575,624
Dividends declared on common shares	\$ 4,487,561	\$ 3,911,336
Per common share	\$ 1.20	\$ 1.05
Invested in properties, plant and equipment	\$ 7,246,492	\$ 4,539,643
Working capital at end of year	\$ 39,099,197	\$ 31,197,679
Number of shareholders—common shares	16,118	14,386
Number of shareholders—preferred shares	3,862	7,906



PRESIDENT'S REPORT TO THE SHAREHOLDERS

The results of the operations of the Company for the year 1954 were satisfactory, all things considered.

Demand for newsprint, the Company's principal product, was very strong throughout the year and production of newsprint was the highest in the Company's history.

While the mills of Provincial Paper, Limited ran at a high percentage of their rated capacity the fine paper markets in Canada reflected a lower level of business activity during the latter half of the year. Present indications point to a strengthening in these markets.

Conditions in world markets for wood pulps continued to be unsatisfactory as they were in 1953. There are signs, however, that world prices are becoming firmer and there have been increases in the price of some grades. The outlook is rather more hopeful than it has been for some time.

Production of hardboard at Sturgeon Falls was excellent in the last few months of the year and this mill is presently running at capacity. Several new varieties of hardboard have been developed and are now in full production. These have been very well received by consumers.

Orders from abroad, especially from the United Kingdom, have permitted the operation of the corrugating board mill at Sturgeon Falls at about 85% of capacity.

Total production of all the mills was 953,941 tons, the highest of any year in the history of the Company.

For some considerable time, the publishers of newspapers in North America have been able to buy all the newsprint they could use. During 1954 publishers of newspapers in other parts of the world began to buy Canadian newsprint in substantial volume. Fortunately this increased demand from overseas was adequately met due to the constantly increasing capacity of the North American newsprint industry. It is now evident, from various announcements of future plans which have recently been made, that all fear of newsprint shortages anywhere in the free world should be a thing of the past.

SALES, EARNINGS AND DIVIDENDS

Net Sales in 1954 were \$113,997,836, the highest in the history of the Company.

Consolidated net earnings for the year ended December 31, 1954, after providing for all charges, including depreciation, depletion and taxes, amounted to \$10,625,901 as compared to \$10,044,152 for the previous year. After providing for preferred dividends, earnings were equal to \$2.49 per common share in 1954 as compared to \$2.27 in 1953.

Both Sales and Earnings are affected, of course, by the rate of exchange between Canadian and United States funds. In 1953 the

average discount on United States funds was 1.66%. In 1954 the average discount was 2.68% and at the close of the year the rate was 3.41%. This is a most unsatisfactory state of affairs for all Canadian exporters. At one time the discount on United States funds was apparently regarded by the authorities as a temporary inconvenience to Canadian export trade. It now appears that the discount could continue for some time to come unless steps are taken to remove this serious handicap to the most important factor in Canadian prosperity—the export trade.

On pages 12 and 13 of this report there appears a table showing the dividend record of the Company since 1948. The policy which has been consistently pursued by the Directors is evident. There has been a steady increase in the dividends paid to the common shareholders and a steady decrease in the amounts payable to the preferred shareholders.

PREFERRED SHARES

One of the most important financial steps which the Company has taken in recent years was the retirement, on July 30th, at the redemption price of \$25 per share, of the remaining 1,050,416 preferred shares issued in 1946. It will be remembered that this issue carried a dividend rate of \$1.50 per share equal to 7½% on the par value and to 6% on the redemption price. Funds for this purpose were provided in part by the sale of a new issue of \$13,750,000 of 4½% Cumulative Redeemable Preferred Shares and the balance from the cash resources of the Company augmented by the sale of \$10,000,000 principal amount of 4% First Mortgage Sinking Fund Bonds, Series "B".

This transaction has substantially reduced the amount payable as preferred share dividends. In 1953 there was paid \$1,575,624 as dividends on the old preferred shares. Annual dividend requirements on the new issue will be \$618,750.

Furthermore, there exists in connection with this new issue a plan of regular retirement which should result in the extinction of these preferred shares within a reasonable period of time.

ALASKA PINE & CELLULOSE LIMITED

As previously reported to the shareholders another step of major importance was taken in 1954 when arrangements were completed for the disposal of the Company's interests in Alaska Pine & Cellulose Limited (AP&C).

Pursuant to these arrangements Abitibi and the Koerner interests of Vancouver each sold on December 15th to Rayonier Incorporated of New York City, 40,000 common shares in the capital stock of AP&C at a price of \$245.95 (Canadian) per share, after adjustments for exchange.

Abitibi thus received \$9,838,281 in respect of such sale and still owns 10,000 AP&C common shares. So long as Abitibi retains at least 5,000 of these shares, it will have a nominee on the Board of Directors of AP&C.

It has been agreed that at any time up to December 31, 1957 Rayonier will have the right to purchase all or any part of the 10,000 AP&C shares retained by Abitibi and that Abitibi will have the right at any time during the calendar year 1957 to call upon Rayonier to purchase all or any part of such shares. In either event, the price to be paid for such shares will, at Abitibi's option, be either \$245.95 (Canadian) per share or five shares of the common stock of Rayonier for each share of AP&C. In other words we will have a call on Rayonier shares instead of the fixed cash price if that is to our advantage at the time.

In the meantime the 10,000 AP&C shares are carried on Abitibi's books at their original net cost of \$1,800,000 and the realized gain of \$2,638,281 on the sale of the 40,000 shares, which have already been paid for, has been taken up in Earned Surplus.

BONDS & DEBENTURES

The attention of the shareholders is directed to the continued reduction of First Mortgage Bonds, Series "A", due to the operation of the sinking fund. When these bonds were issued in 1947 they represented an indebtedness of

PRODUCTION IN TONS

— exclusive of production for use of Abitibi and Subsidiaries

NEWSPRINT PAPER

PRINTING AND FINE PAPERS

BLEACHED SULPHITE PULP

UNBLEACHED SULPHITE PULP

GROUNDWOOD PULP

BOARD

TOTAL

1945	456,412	56,335	59,288	6,978	11,405	1,149	591,567
1946	611,645	61,725	53,144	28,266	802	800	756,382
1947	657,556	65,628	59,484	37,548	4,287	8,213	832,716
1948	680,539	68,914	61,020	38,968	4,655	35,644	889,740
1949	673,297	64,900	57,418	11,804	93	31,605	839,117
1950	686,225	73,882	58,960	5,286		35,915	860,268
1951	716,112	83,365	57,345	32,564		46,547	935,933
1952	726,840	72,039	54,603	14,731		49,229	917,442
1953	728,039	75,506	57,835			52,847	914,227
1954	772,247	74,593	63,617			43,484	953,941

\$45,000,000. As of December 31, 1954 this had been reduced to \$22,797,000; in other words, almost half of this Series has been retired. The money for the sinking fund is, of course, provided by our net earnings and in recent years an average of close to 28% of the net earnings of the Company has been devoted to the retirement of mortgage debt.

As mentioned above, the Company in July 1954 issued an additional \$10,000,000 principal amount of 4% First Mortgage Sinking Fund Bonds, Series "B", so that as of the close of the year mortgage debt amounted to a total of \$32,797,000.

On December 20th the Directors decided to call the 4 $\frac{1}{4}$ % Convertible Debentures of which, on that date, almost the entire issue of \$10,000,000 was outstanding. Notice of redemption was given fixing the redemption date as January 25, 1955. Prior to this redemption date \$9,453,400 principal amount of the debentures were converted into 378,136 common shares. The remaining debentures were redeemed in cash involving an outlay in January, 1955, of \$566,550 for principal, premium and interest. On the accompanying balance sheet it will be noticed that as at December 31, 1954 debentures in the aggregate principal amount of \$611,700 had been converted into 24,468 common shares. As at that date 44,850 common shares had also been issued under terms of options sold to certain executives of the Company in 1951.

The net result of all the transactions outlined above is that the Company's liquid position is better than it has ever been and the Company is consequently free to continue with plans for its orderly growth and development.

PROPERTIES

Capital expenditures for plant and equipment during the year amounted to \$7,246,492. The usual programme of improvements to plants and logging installations was carried out.

At the Sault Ste. Marie mill one of the paper machines was fitted with equipment to enable

it to make catalogue and telephone directory paper. This machine is now making substantial tonnages of these new products. The steam plant at this same mill is being entirely renovated and a new boiler will soon be ready for operation.

At Fort William the new digester and its ancillary equipment for the full scale production of high yield sulphite was put into operation. The objectives of this project have been attained successfully and the mill is operating entirely on this new type of chemical pulp at a very substantial saving in cost. The new forest laboratory on the Company's freehold areas at the head of the lakes was formally opened last summer by the Honourable, the Minister of Lands and Forests, and various long range schemes of forest management are being tested in actual practice.

At Iroquois Falls the new logging road replacing the logging railway is in full operation several months ahead of schedule and the results are very satisfactory.

At Smooth Rock Falls extensive improvements which have for their object substantially reduced costs of production are under way and are nearly ready for operation.

In addition to the above mentioned major expenditures many replacements and improvements were made in all the mills and in the woods operations of the Company.

RESEARCH AND DEVELOPMENT

The Company continues to be active in many fields. The contract with the Tasman Pulp & Paper Company Limited in New Zealand has been working most satisfactorily and excellent progress has been made with the construction of the mill. Abitibi's part in this project is that of chief adviser to Tasman on all matters appertaining to the future management and operation of this new mill.

Abitibi's activity in the field of helicopter operations and modern methods of electrical prospecting for minerals has also continued and



STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	For year ended December 31, 1954	For period since reor- ganization on May 1, 1946
SOURCE OF FUNDS:		
Net earnings before provision for taxes on income	\$ 23,028,901	\$187,705,109
Non-cash charges for depreciation and depletion deducted in arriving at net earnings	6,793,698	47,604,583
Sale of 40,000 common shares of Alaska Pine & Cellulose Limited	9,838,281	9,838,281
Proceeds from issue of -		
\$10,000,000 par value 4 1/4 % Convertible Debentures (\$611,700 par value converted to common shares in 1954)	-	9,700,000
\$10,000,000 par value 4 % First Mortgage Bonds, Series "B"	9,800,000	9,800,000
550,000 4 1/2 % Cumulative Redeemable Preferred Shares . . .	12,787,500	12,787,500
44,850 common shares under option agreements	807,300	807,300
Proceeds from disposal of capital assets	46,192	5,812,777
Other items - net	84,730	1,966,344
	<u>\$ 63,186,602</u>	<u>\$286,021,894</u>
APPLICATION OF FUNDS:		
Provision for taxes on income	\$ 12,403,000	\$ 96,983,104
Invested in 50,000 common shares of Alaska Pine & Cellulose Limited	-	9,000,000
Invested in properties, plant and equipment	7,246,492	55,228,326
Invested in timber limits	-	1,600,000
Reduction in funded debt by application of working capital . . .	3,388,100	33,890,300
Cost of preferred shares retired	27,310,816	41,329,820
Dividends declared on preferred shares	1,176,955	14,436,733
Dividends declared on common shares	4,487,561	20,503,809
Increase in deferred charges and other assets	(727,840)	421,352
	<u>\$ 55,285,084</u>	<u>\$273,393,444</u>
RESULTING IN AN INCREASE IN WORKING CAPITAL OF	<u>\$ 7,901,518</u>	<u>\$ 12,628,450</u>
CHANGES IN WORKING CAPITAL DURING THE PERIOD CONSIST OF INCREASES AND (DECREASES) AS FOLLOWS:		
Current Assets -		
Cash and investments	\$ 12,408,077	\$ 2,941,351
Accounts receivable	(359,983)	5,404,268
Operating inventories	(1,164,871)	12,353,190
	<u>\$ 10,883,223</u>	<u>\$ 20,698,809</u>
Current Liabilities	2,981,705	8,070,359
Net increase as above	<u>\$ 7,901,518</u>	<u>\$ 12,628,450</u>

some progress had been made. Many new claims were staked during the year but so far there is nothing specific to report. The use of helicopters in the woods operations of the Company will increase every year as experience with these new machines is gained.

Work at the Central Research Division at Sault Ste. Marie goes on at an ever increasing pace. While it is difficult to give credit in the exact proportions in which it is due, it is the considered opinion of the management that much of the progress in the operation of the mills and the development of new processes and new products could never have been made without the help and the work of the Research Division. Certainly every effort will be made in the future to build up and sustain the high level of performance which has so far been achieved.

A pilot plant at Sault Ste. Marie is now in operation and is producing small quantities of a new synthetic lumber which was developed in our laboratories. There are very interesting possi-

bilities for this new material in many fields.

INDUSTRIAL RELATIONS

A two-year contract with the Labour Unions expires on May 1, 1955. Negotiations must, therefore, be undertaken this coming spring with all the mill Unions with which we have contracts. In view of the long history of sensible settlements arrived at by collective bargaining it is confidently expected that sound solutions for the many labour problems in the Company will be reached in due course, and that as a result the many years of good relations between the Unions and the Company will continue.

The Directors take this opportunity of expressing their thanks to all employees whose intelligence, energy and enthusiasm have made possible another successful year.

On behalf of the Board,



President

Toronto, March 1, 1955





ABITIBI POWER &

CONSOLIDATED BALANCE SHEET

(With comparable balances)

ASSETS

CURRENT ASSETS:

	1954	1953
Cash.....	\$ 5,214,848	\$ 4,355,250
Investment in short term securities, at cost.....	14,035,393	2,486,914
Accounts receivable, less reserves.....	11,023,955	11,383,938
Inventories of paper, pulp, wood, materials and supplies on the basis of cost, and expenditures on logging operations.....	30,063,098	31,227,969
	<u>\$ 60,337,294</u>	<u>\$ 49,454,071</u>

INVESTMENT IN ALASKA PINE & CELLULOSE LIMITED, at cost

10,000 common shares (50,000 shares in 1953).....	<u>\$ 1,800,000</u>	<u>\$ 9,000,000</u>
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CAPITAL ASSETS:

Properties, plant and equipment – at gross physical values as at April 30, 1946 (as reported by Messrs. Coverdale & Colpitts, Consulting Engineers, New York, except as to Provincial Paper, Limited, included at book values) plus subsequent additions at cost, less retirements.....	\$159,398,208	\$153,438,680
Less – Accumulated depreciation.....	83,824,226	78,361,570
	<u>\$ 75,573,982</u>	<u>\$ 75,077,110</u>
Timber concessions, agreements and licenses, waterpower rights and freehold timber areas, less accumulated depletion of \$3,684,846 (\$3,509,846 in 1953).....	16,747,537	16,922,537
	<u>\$ 92,321,519</u>	<u>\$ 91,999,647</u>

DEFERRED CHARGES AND OTHER ASSETS:

Prepaid insurance, taxes, etc.....	\$ 858,871	\$ 1,004,501
Employees' past service pension expense deferred.....	536,767	1,095,004
Unamortized bond discount and expense.....	293,727	352,165
Miscellaneous investments and other assets.....	686,256	651,791
	<u>\$ 2,375,621</u>	<u>\$ 3,103,461</u>

APPROVED ON BEHALF OF THE BOARD:

D. W. AMBRIDGE, *Director*
W. H. SMITH, *Director*

\$156,834,434 \$153,557,179

PAPER COMPANY, LIMITED

DECEMBER 31, 1954

at December 31, 1953)

LIABILITIES

CURRENT LIABILITIES:

	1954	1953
Accounts payable.....	\$ 9,792,545	\$ 8,390,810
Dividends payable.....	1,288,104	1,511,431
Interest accrued on bonds and debentures.....	384,743	265,839
Provision for income and other taxes.....	7,868,689	7,085,812
Serial bonds, sinking fund requirements and debentures, payable on or before April 1st next.....	853,600	1,002,500
Tax of 20% on premium paid on preferred shares redeemed July 30, 1954.....	1,050,416	-
	<u>\$ 21,238,097</u>	<u>\$ 18,256,392</u>

FUNDED DEBT:

First Mortgage Bonds:			
Authorized.....	<u>\$65,000,000</u>		
Issued and outstanding:			
3½% First Mortgage Serial Bonds, Series "A" (\$1,000,000 maturing annually)			
Issued.....	\$10,000,000		
Redeemed and cancelled.....	<u>7,900,000</u>	\$ 2,100,000	\$ 4,000,000
3½% First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967			
Issued.....	\$35,000,000		
Redeemed and cancelled.....	<u>14,303,000</u>	20,697,000	22,334,000
4% First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974.....		10,000,000	-
4¼% Convertible Debentures:			
Issued.....	\$10,000,000		
Converted into common shares.....	<u>611,700</u>	9,388,300	10,000,000
Note: In January 1955 the debentures were retired in full; \$8,841,700 by conversion into common shares and \$546,600 by redemption.			

\$ 42,185,300	\$ 36,334,000
853,600	1,002,500

Less - Amount included with current liabilities.....

<u>\$ 41,331,700</u>	<u>\$ 35,331,500</u>
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RESERVE AGAINST POSSIBLE DECLINE IN INVENTORY VALUES

\$ 4,500,000	\$ 4,500,000
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CAPITAL AND SURPLUS:

Preferred Shares par value \$25 each -		
Authorized: 1,000,000 shares issuable in series		
Issued: 550,000 4½% Cumulative Redeemable Preferred Shares.....	\$ 13,750,000	\$ -
Cumulative Redeemable Preferred Shares (annual dividend \$1.50 a share) redeemed July 30, 1954 at \$25 a share - 1,050,416 shares of a par value of \$20 each....	-	21,008,320
Common Shares -		
Authorized: 6,000,000 shares without nominal or par value (375,532 shares reserved in respect of debentures and 15,150 shares reserved under option agreements in favour of senior executives)		
Issued: 3,794,400 shares (3,725,082 shares in 1953).....	27,360,295	25,941,295
Earned Surplus since May 1, 1946 as per statement attached.....	48,654,342	48,519,672
	<u>\$ 89,764,637</u>	<u>\$ 95,469,287</u>
	<u>\$156,834,434</u>	<u>\$153,557,179</u>



ABITIBI POWER &

STATEMENT OF CONSOLIDATED EARNINGS

(With comparable statements)

	1954	1953
Net sales after deducting outward freight, etc.....	\$ 113,997,836	\$ 109,768,039
<i>Less -</i>		
Operating costs including administrative, selling and general expenses, but before provision for depreciation, depletion, etc.....	<u>81,276,015</u> <u>\$ 32,721,821</u>	<u>78,859,483</u> <u>\$ 30,908,556</u>
<i>Add -</i>		
Dividends from Alaska Pine & Cellulose Limited.....	<u>-</u> <u>\$ 32,721,821</u>	<u>-</u> <u>\$ 30,908,556</u>
<i>Deduct -</i>		
Provision for depreciation.....	\$ 6,618,698	\$ 6,332,298
Provision for depletion.....	175,000	200,000
Employees' retirement income plan.....	1,423,220	1,478,425
Interest on First Mortgage Bonds.....	1,026,109	974,178
Interest on Convertible Debentures.....	391,455	425,000
Amortization of bond discount and expense.....	58,438	69,503
Discount on Convertible Debentures.....	-	-
Dividends on preference shares of Provincial Paper, Limited.....	<u>-</u> <u>\$ 9,692,920</u>	<u>-</u> <u>\$ 9,479,404</u>
Earnings before provision for taxes on income.....	\$ 23,028,901	\$ 21,429,152
<i>Deduct -</i> Provision for taxes on income.....	<u>12,403,000</u>	<u>11,385,000</u>
Net earnings for the year.....	<u>\$ 10,625,901</u>	<u>\$ 10,044,152</u>

Note: For the year 1954 fees of directors not holding salaried positions amounted to \$24,200 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$431,044.

DIVIDEND RECORD FOR SEVEN

	1954	1953
Declared on prior preferred shares.....	\$ -	\$ -
Declared on preferred shares.....	1,176,955	1,575,624
Declared on common shares.....	<u>4,487,561</u>	<u>3,911,336</u>
	<u>\$ 5,664,516</u>	<u>\$ 5,486,960</u>

PAPER COMPANY, LIMITED

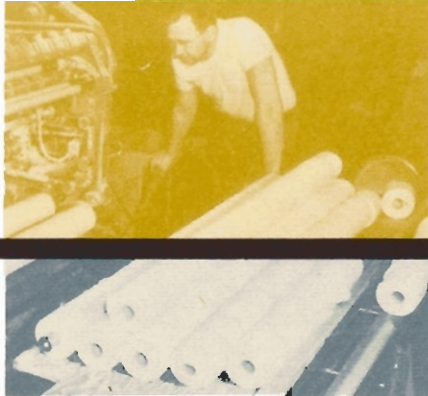
FOR THE YEAR ENDED DECEMBER 31, 1954

for the preceding six years)

1952	1951	1950	1949	1948
\$107,381,890	\$111,528,208	\$93,776,756	\$84,677,709	\$87,756,852
<u>76,558,811</u>	<u>73,568,574</u>	<u>62,590,832</u>	<u>59,179,992</u>	<u>60,068,928</u>
\$ 30,823,079	\$ 37,959,634	\$31,185,924	\$25,497,717	\$27,687,924
<u>-</u>	<u>1,174,851</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ 30,823,079	\$ 39,134,485	\$31,185,924	\$25,497,717	\$27,687,924
\$ 6,194,055	\$ 5,993,932	\$ 5,472,168	\$ 4,993,241	\$ 4,204,018
225,000	200,000	150,000	125,000	260,000
1,461,481	1,348,449	1,274,497	1,264,256	1,116,486
1,077,159	1,177,769	1,282,322	1,393,876	1,499,499
425,000	242,095	-	-	-
70,625	89,363	103,104	100,397	153,697
-	300,000	-	-	-
-	40,000	40,000	40,000	40,000
\$ 9,453,320	\$ 9,391,608	\$ 8,322,091	\$ 7,916,770	\$ 7,273,700
\$ 21,369,759	\$ 29,742,877	\$22,863,833	\$17,580,947	\$20,414,224
<u>12,272,000</u>	<u>16,745,000</u>	<u>10,240,000</u>	<u>7,800,000</u>	<u>8,643,638</u>
\$ 9,097,759	\$ 12,997,877	\$12,623,833	\$ 9,780,947	\$11,770,586

YEARS ENDED DECEMBER 31, 1954

1952	1951	1950	1949	1948
\$ -	\$ -	\$ -	\$ 62,500	\$ 125,000
1,575,624	1,575,624	1,730,406	2,054,105	2,092,908
3,725,082	3,724,853	2,793,050	1,861,927	-
\$ 5,300,706	\$ 5,300,477	\$ 4,523,456	\$ 3,978,532	\$ 2,217,908



ABITIBI POWER & PAPER COMPANY, LIMITED

STATEMENT OF CONSOLIDATED EARNED SURPLUS

(Since May 1, 1946)

FOR THE YEAR ENDED DECEMBER 31, 1954

(With a comparable statement for the year ended December 31, 1953)

	1954	1953
Earned Surplus at beginning of year.....	\$48,519,672	\$43,962,480
Net earnings for the year.....	10,625,901	10,044,152
Gain on sale of 40,000 common shares of Alaska Pine & Cellulose Limited	2,638,281	—
	<u>\$61,783,854</u>	<u>\$54,006,632</u>
<i>Deduct —</i>		
Dividends declared on 4½% Cumulative Redeemable Preferred Shares from August 1, 1954.....	\$ 257,841	\$ —
Dividends declared on the former Cumulative Redeemable Preferred Shares for period to redemption on July 30, 1954 at annual rate of \$1.50 a share.....	919,114	1,575,624
Dividends declared on Common Shares: (Dividends declared in 1954 were 30c each quarter, a total of \$1.20 a share; dividends declared in 1953 totalled \$1.05 a share)....	4,487,561	3,911,336
	<u>\$ 5,664,516</u>	<u>\$ 5,486,960</u>
Premium on redemption of the former Cumulative Redeemable Preferred Shares of a par value of \$20 each together with tax of 20% on the redemption premium.....	6,302,496	—
Payment to the underwriter on the sale of 550,000 4½% Cumulative Redeemable Preferred Shares.....	962,500	—
Commission on sale of \$10,000,000 principal amount 4% First Mortgage Sinking Fund Bonds, Series "B".....	200,000	—
	<u>\$13,129,512</u>	<u>\$ 5,486,960</u>
Earned Surplus at end of year.....	<u>\$48,654,342</u>	<u>\$48,519,672</u>

Note: In compliance with Section 61 of the Companies Act, a portion of the Earned Surplus, viz. \$7,258,320, is designated as a Capital Surplus resulting from redemption on July 30, 1954 of the 1,050,416 Cumulative Redeemable Preferred Shares of a par value of \$20 each.



AUDITORS' REPORT

PRICE WATERHOUSE & CO.

ROYAL BANK BUILDING

TORONTO

February 9 1955.

To the Shareholders of
ABITIBI POWER & PAPER COMPANY, LIMITED:

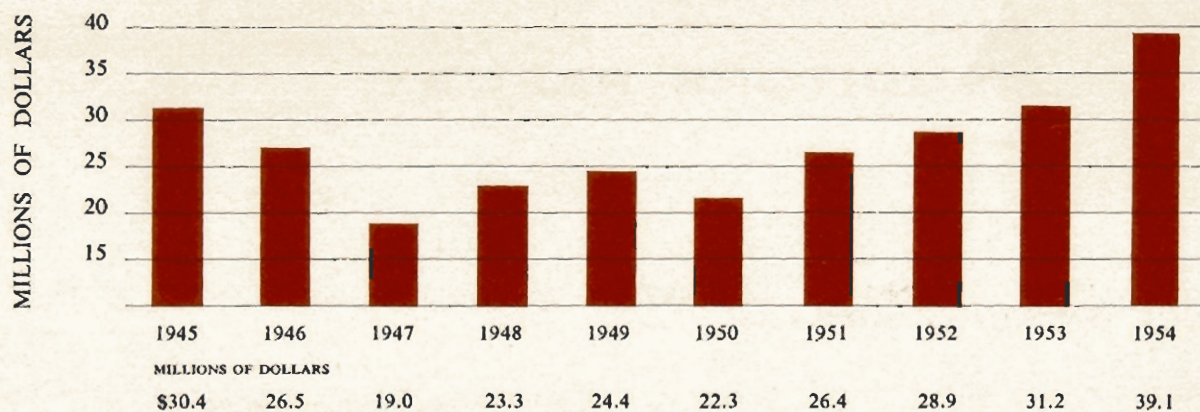
We have examined the consolidated balance sheet of Abitibi Power & Paper Company, Limited as at December 31 1954 and the related statements of consolidated earnings and consolidated earned surplus for the year then ended and have obtained all the information and explanations which we required. Our examination 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, the accompanying consolidated balance sheet and related statements of consolidated earnings and consolidated earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31 1954 and the result of operations for the year then ended according to the best of our information and the explanations given to us and as shown by the books of the companies.

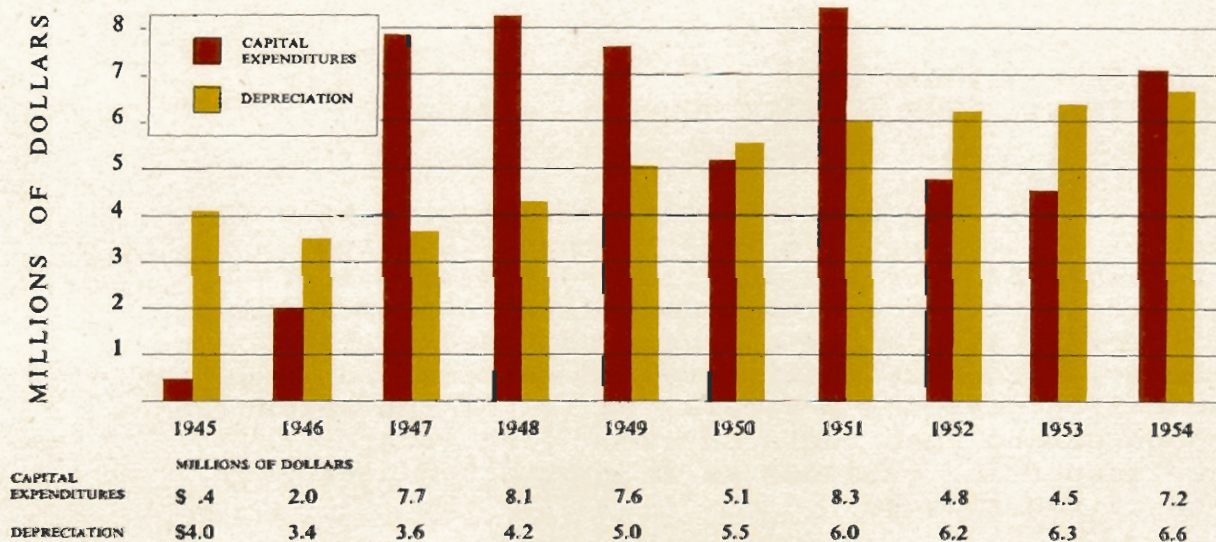


Auditors.

WORKING CAPITAL

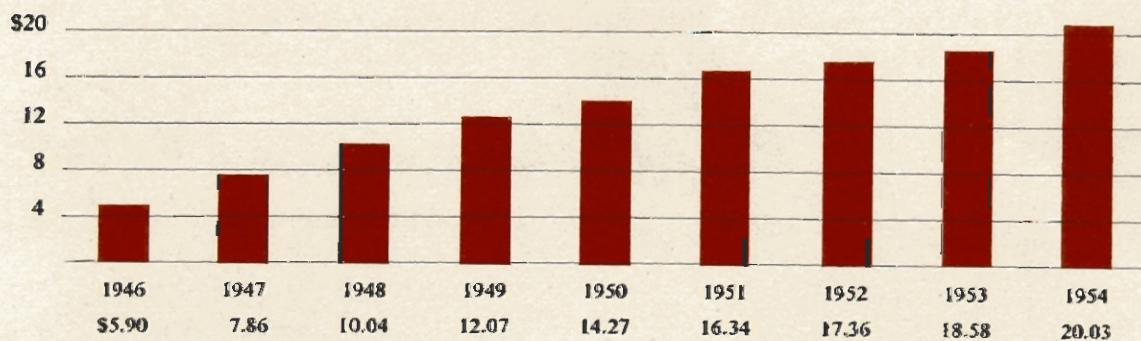


CAPITAL EXPENDITURES AND DEPRECIATION



COMMON STOCK EQUITY PER SHARE

(1950 and prior years adjusted for 3 for 1 split effected in 1951)



MERCHANDISING THE PRODUCT

Between production and research on the one hand and the market on the other, stands the *Abitibi Man in the Field*. Familiar with the needs and aspirations of both, he provides a constant two-way liaison.

SPECIALTY PAPERS

PULP

CORRUGATING

FINE PAPERS

NEWSPRINT

HARDBOARD

NEW DEVELOPMENTS

PUBLISHERS

PAPER MERCHANTS

CONVERTERS

DISTRIBUTORS

GRAPHIC ARTS

MANUFACTURERS

CONSTRUCTION INDUSTRY





Marketing the product is an important aspect of most business operations. Abitibi is no exception in this regard. Day in, day out, our skilled *Men in the Field* work in the market expediting the flow of current production, introducing new developments and generally searching out demands and opportunities for cellulose products.

Some typical examples of the splendid work of our *Men in the Field* are covered in the following pages:

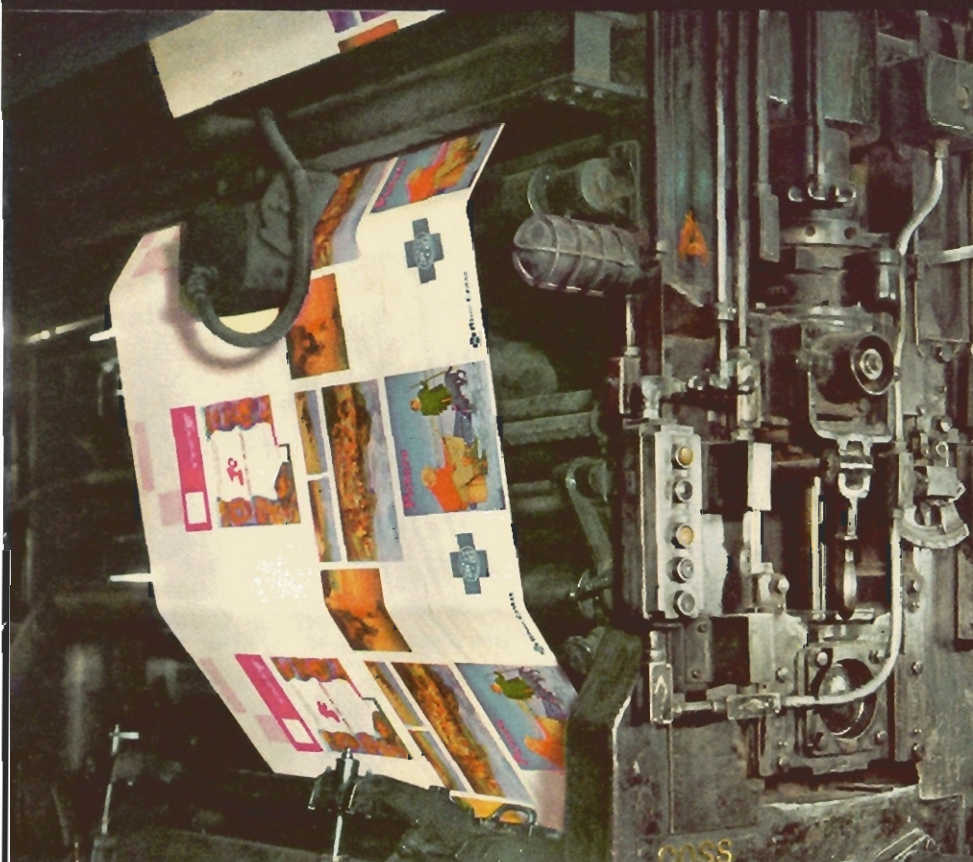


With the object of helping them to get better performance from our product, the *Man in the Field* is constantly circulating among Abitibi customers. For instance, it may be apparent to him that the results being achieved in a press-room are not as good as they might be. Out of his experience he is sometimes able to suggest changes or adjustments in mechanical equipment, or minor changes in some qualities, which lead to a better printed and more readable publication.



While hardboard performs splendidly in drawer bottoms and other applications in the furniture industry, its use has been somewhat restricted because it does not have the appearance of wood. Meeting this reaction, the *Abitibi Man in the Field* proposed to our technicians that we endeavour to produce a woodgrain hardboard.

During the course of development work, it became apparent that, in addition to furniture applications, a woodgrain board would open up a vast new field for hardboard in panelling dens, recreation rooms, etc. With Abitibi Woodgrain Hardboard now on the market in both Canada and the United States, actual experience has amply confirmed this view.



For a long time, technical requirements made it necessary to print the rotogravure sections of week-end newspapers on relatively high cost paper. As the link between our technicians and the publishers, the *Abitibi Man in the Field* played an important role in the development of a new sheet of paper which gives excellent rotogravure reproduction with a substantial saving in cost.





Through his contacts in the printing and binding business, our *Man in the Field* became impressed with the relatively high cost of the linen used in certain book binding operations.

With a worthwhile market in prospect, we developed a substitute paper product with requisite strength and appearance characteristics. Merchandised under the brand name Clothtex, this product is finding its way into many applications.

Photo shows girls laminating Clothtex to paper backing in the manufacture of bank pass books.



Fluted and reinforced on either side with a liner, Abitibi corrugating paper is transformed into board for the corrugated box industry.

The character of the manufacturer's processing equipment determines the grade of our product which will give him best results. Armed with an intimate knowledge of the individual needs of his customers, the *Abitibi Man in the Field* works with the mill to ensure each customer gets the grade best fitted to his needs.



To provide for copies, paper used in the manufacture of counter sales books has to be carbonized. For a period, this fact precluded the use of newsprint with its relatively low cost.

Our technicians took hold of this problem and developed a special sheet of newsprint which, combined with certain changes in the carbonizing process, made possible a lower cost sales book which is now in general use.

The *Abitibi Man in the Field* played his customary role in this achievement.

In the course of his probing for new outlets for our hardboard, the *Abitibi Man in the Field* conceived the idea that there was a market for it in crating.

Experiment and cost studies demonstrated the application was sound and a vast new market potential was revealed.

Many companies both in Canada and the United States have now adopted Abitibi Hardboard for crating products ranging all the way from the fragile bent glassware shown here to heavy electrical equipment.





In their constant search for new applications for cellulose products, our technicians carried their research into the field of silicones. We learned how to coat a sheet of paper with silicones and thereby prevent it from sticking to other materials.

Our *Man in the Field* was instrumental in initiating this development and through his knowledge of the market was able to apply it to the needs of his customers. Silicone-treated paper is now used extensively for such applications as lining bakery tins (illustrated here). There appears to be a potential in many other applications such as dividers for fish fillets and frozen meat, for wrapping or interleaving glue and for packing adhesive tape.



Proper handling and storage are important elements in the process which transforms fine newsprint into a well-printed newspaper.

On this subject, the *Abitibi Man in the Field* is well qualified to give valued counsel. His advice enables customers to save many thousands of dollars by reducing waste arising from damaged rolls and by securing better performance on the press.



Illustration shows the manufacture of box board. Our bleached sulphite pulp forms the top layer and provides a snowy white surface for printing.

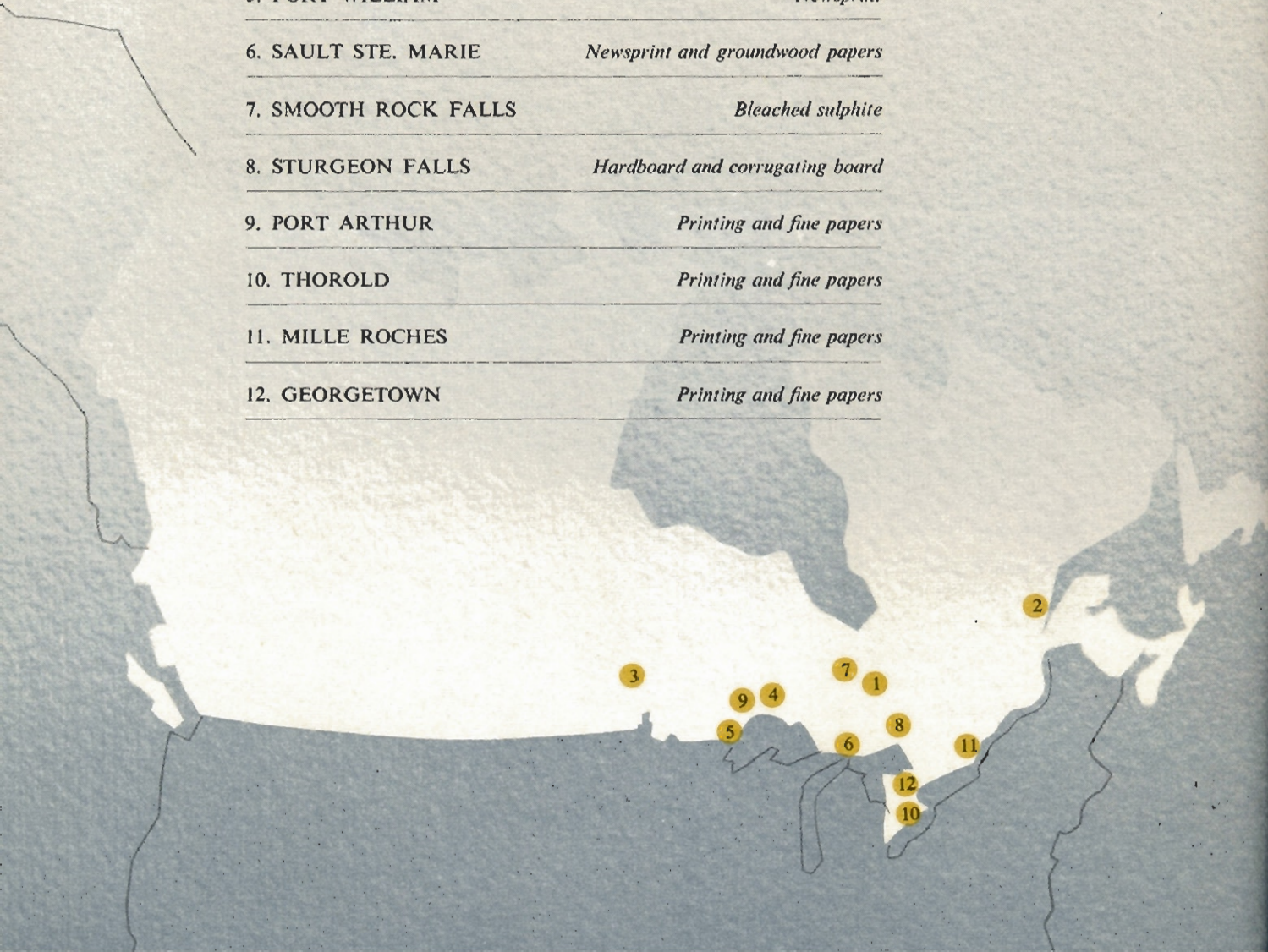
The requirements of our pulp customers vary with the character of their end products and with the type of equipment they use. Some require a "soft" pulp, some a "hard" pulp. The degree of brightness required by different customers also varies.

Through his knowledge of our product and of the needs of his customers, the *Abitibi Man in the Field* performs a valuable function in helping to ensure that our pulp flows to customers in a manner designed to best suit their needs.



MILLS—LOCATIONS AND PRODUCTS

1. IROQUOIS FALLS	<i>Newsprint</i>
2. BEAUPRE	<i>Newsprint</i>
3. PINE FALLS	<i>Newsprint</i>
4. PORT ARTHUR	<i>Newsprint</i>
5. FORT WILLIAM	<i>Newsprint</i>
6. SAULT STE. MARIE	<i>Newsprint and groundwood papers</i>
7. SMOOTH ROCK FALLS	<i>Bleached sulphite</i>
8. STURGEON FALLS	<i>Hardboard and corrugating board</i>
9. PORT ARTHUR	<i>Printing and fine papers</i>
10. THOROLD	<i>Printing and fine papers</i>
11. MILLE ROCHES	<i>Printing and fine papers</i>
12. GEORGETOWN	<i>Printing and fine papers</i>





KEY TO PHOTOGRAPHS

Page 2—Newsprint on the press

*Page 3—Machine-coated paper
entering four-color press*

*Page 4—Laminating liner to
corrugating paper*

*Page 6—Newsprint feeds into
press*

*Page 8—Fabricating T.V. backs
from hardboard*

Page 9—Fine paper on offset press

*Page 10—Drinking straw
manufacturing*

Page 12—Bookbinding operation

*Page 14—Tissue from bleached
sulphite pulp*

Page 15—Ruling machine

*Back Cover—Letterpress (upper)
and offset (lower) presses*