

ABITIBI POWER & PAPER COMPANY, LIMITED

annual report

FOR THE YEAR ENDED DECEMBER 31





1956



ABITIBI POWER & PAPER COMPANY, LIMITED

Executive Offices - 408 University Avenue, Toronto, Canada

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
ROBERT J. ASKIN,
Vice-President (*Development & Engineering*)
CLARK B. DAVIS,
Vice-President (*Woodlands*)
ARTHUR P. JEWETT,
Vice-President (*Sales*)
LAURENCE B. POPHAM,
Secretary
PAUL E. ROBERTS,
Vice-President
W. STANLEY ROTHWELL, F.C.A.,
Vice-President and Treasurer
WILLIAM H. SMITH,
Vice-President

MANAGEMENT COMMITTEE

DOUGLAS W. AMBRIDGE, Chairman
ROBERT J. ASKIN
JAMES C. BINNIE, Q.C.
LESLIE CLEMINSON
CLARK B. DAVIS
ARTHUR P. JEWETT
ERNEST W. MCBRIDE
PAUL E. ROBERTS
W. STANLEY ROTHWELL, F.C.A.

TRANSFER AGENTS

Montreal Trust Company, Toronto, Montreal and Vancouver, Canada.
City Bank Farmers Trust Company, New York, U.S.A.

REGISTRARS


The Toronto General Trusts Corporation, Toronto and Vancouver, Canada.
The Eastern Trust Company, Montreal, Canada.
The First National City Bank of New York, New York, U.S.A.

AUDITORS

Price Waterhouse & Co., Toronto, Canada.

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held at the Royal York Hotel in the City of Toronto on Thursday, the eleventh day of April, 1957 at the hour of ten-thirty in the forenoon.



HIGHLIGHTS OF THE YEAR

	1956	1955
Paper, pulp and board produced	1,046,430 tons	1,001,715 tons
Net sales	\$132,497,683	\$123,173,281
Taxes on income	\$ 15,589,000	\$ 14,570,000
Net earnings	\$ 15,423,827	\$ 13,936,026
Per common share	\$ 3.56	\$ 3.20
Dividends declared on preferred shares	\$ 605,360	\$ 618,825
Dividends declared on common shares	\$ 6,661,252	\$ 5,618,967
Per common share	\$ 1.60	\$ 1.35
Invested in capital assets	\$ 19,631,893	\$ 10,144,650
Working capital at end of year	\$ 48,256,637	\$ 40,807,946
Number of shareholders – common shares	19,147	18,270
Number of shareholders – preferred shares	3,783	3,893

REPORT OF THE DIRECTORS



TO THE SHAREHOLDERS:

The results of the operations of the Company for the year 1956 were for the most part satisfactory.

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.

The mills of Provincial Paper, Limited, our fine paper subsidiary, ran at a very high percentage of their rated capacity all year long. The new machine at the Thorold mill was brought into operation early in 1956 and, having been fully occupied for most of the year, has contributed materially to the increase in fine paper production.

Our mill at Smooth Rock Falls, which produces a very high quality bleached sulphite pulp, ran extremely well and produced the greatest tonnage in its history.

The production of building and paper boards at the Sturgeon Falls mill was increased over 1955 as the products of this mill, particularly "woodgrain" hardboard, of which we are the world's sole producer, continue to gain public favour.

The total production from all the Company's mills again topped the million ton mark and was again a record. As will be seen from the table on page 6 production for the year was 1,046,430 tons, an increase of 44,715 tons over 1955.

The year 1956 was one of very impressive activity throughout the industry in both Canada and the United States. Several new paper machines were brought into operation and many more are under construction and are due to begin production in 1957 and 1958. There are frequent expressions of the view that this vigorous expansion is both ill-timed and excessive and that, therefore, no good will come from it. It is the view of your Directors that in the next ten years the world's need for paper products will grow rapidly and that if these needs are to be

met the necessary equipment must be installed in good time.

Your Directors approved the installation of an ultra-modern newsprint machine at Fort William in the firm belief that the production of this machine will mostly be needed by our present customers who naturally look to their present suppliers for their future anticipated needs. The availability of this new machine at Fort William will permit the modernization of the two existing machines at this mill, now almost obsolete, without the loss in the process of any present production.

During the year moderate price increases in several of the Company's products were made, in each case after very careful consideration. While there is an obvious need for preventing inflation in every possible way on this continent, it would be unwise and improvident for any one company to try and maintain price levels against the pressures of rising costs when other companies and other industries are not doing so.

SALES, COSTS AND EARNINGS

Net sales in 1956 were \$132,497,683, an increase of \$9,324,402 over the corresponding figure for 1955 and the highest in the history of the Company. These sales figures reflect the increased production of all products. Products shipped to the United States are paid for in U.S. funds so that our receipts from this source are affected by the rate of exchange between Canadian and U.S. currencies. The average discount on U.S. funds was 1.59% in 1956 as compared with 1.37% in 1955 and 2.68% in 1954. The U.S. dollar weakened during the late months of the year and at the year end the discount was slightly in excess of 4%.

The costs of production of all the Company's products continue to increase in spite of the tens of millions of dollars which have been invested in better

physical equipment in the mills and in the woods operations. This steady inexorable and alarming increase in costs is principally due to the rising wage levels which have become a familiar part of the economic scene in North America. These rising wage levels not only affect the Company's operations directly but also indirectly in the increased cost of materials and supplies and in the freight charges which must be paid to the railways for transporting materials to the mills and finished products from them.

Consolidated net earnings for the year ended December 31, 1956 after providing for all charges, including depreciation, depletion and taxes, amounted to \$15,423,827 as compared with \$13,936,026 for the previous year. After providing for preferred dividends, earnings were equal to \$3.56 per share on the 4,163,218 common shares presently outstanding, compared to \$3.20 per share on the same number of shares outstanding at the end of 1955.

It should be noted that in this year's earnings there is included the substantial sum of \$1,173,186 under the heading of "Interest and other income". This addition to the Company's earnings consisted principally of interest earned on temporary surplus funds invested in short term securities and the profits resulting from the advisory services rendered to the Tasman Pulp & Paper Company Limited in New Zealand. The contract for these services was first mentioned in the Annual Report for 1953 and has recently been completed.

DIVIDENDS AND SHAREHOLDERS' EQUITY

Total dividends declared on the common shares during 1956 amounted to \$6,661,252, an increase of \$1,042,285 over the prior year. Dividends on the

common shares have now been paid for eight consecutive years, including 1949, the year in which they were resumed after a lapse of over twenty years. Commencing with the quarterly dividend paid October 1, 1956, the dividend rate on the common shares was increased from 37½¢ to 42½¢ per share per quarter.

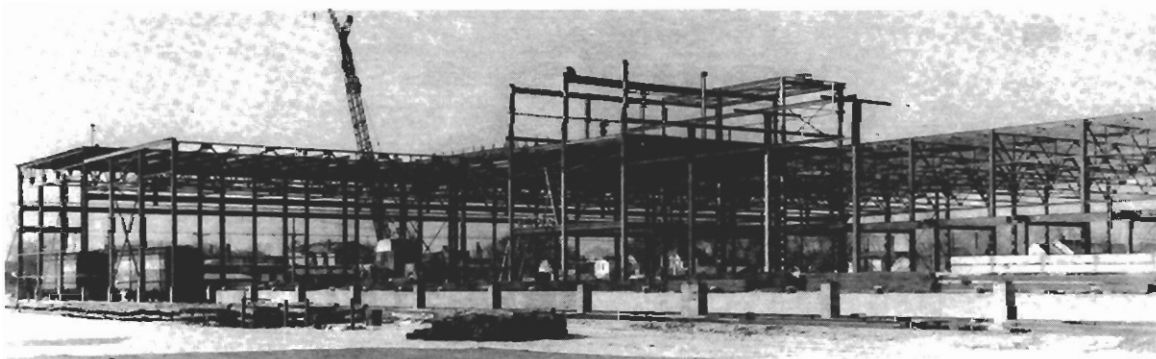
Dividends on the preferred shares in 1956 were \$605,360 as compared to \$618,825 in 1955. The decrease is due to the purchase for redemption during the year of 25,790 preferred shares through operation of the retirement fund which was established in 1956.

The attention of shareholders is directed to the steady increase in the equity behind each of the Company's common shares which this year reached \$25.26 per share as compared with \$7.86 at the end of 1947. This evidence of the Company's sound growth and development is shown in graphic form by the chart on page 16 of this report.

FINANCIAL POSITION

The Company's working capital as at December 31, 1956 stood at \$48,256,637, an increase of \$7,448,691 during the year, and the highest figure for working capital in the Company's history. In this connection it should be remembered that during 1957 working capital will be substantially reduced due to heavy outlays on the current capital expansion programme. The amount of working capital represented by accounts receivable and inventories has again increased due to the higher volume of business being done and also to the creeping inflation to which all industry is exposed.

During the year the amount of the First Mortgage Bonds outstanding was further reduced through operation of the sinking fund. The last of the serial bonds issued in 1947 falls due and will be paid on April 1, 1957.



Insulating and Hardboard Mill at Alpena commences to take form.



PRODUCTION IN TONS

—exclusive of production for use of Abitibi and Subsidiaries

	NEWSPRINT PAPER	PRINTING AND FINE PAPERS	BLEACHED SULPHITE AND OTHER PULPS	BUILDING AND PAPER BOARDS	TOTAL
1947	657,556	65,628	101,319	8,213	832,716
1948	680,539	68,914	104,643	35,644	889,740
1949	673,297	64,900	69,315	31,605	839,117
1950	686,225	73,882	64,246	35,915	860,268
1951	716,112	83,365	89,909	46,547	935,933
1952	726,840	72,039	69,334	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
1955	793,560	85,972	65,504	56,679	1,001,715
1956	815,830	98,038	67,377	65,185	1,046,430

The most important financial action taken by the Company during the year was the issue in September 1956 of \$15,000,000 principal amount of 4½% Convertible Debentures. This issue was well received by the investing public and was quickly sold. Since the date of issue the market appraisal of the value of the debentures indicates that the interest rate and the conversion privileges were soundly determined.

Shareholders will remember that last year they were advised that the Company's holding of the common stock of Alaska Pine & Cellulose Limited was interchangeable at our option in 1957 for 125,000 shares of Rayonier Incorporated. In January 1957 this exchange was effected and the Company now owns 125,000 common shares of Rayonier Incorporated.

There is presented on pages 14 and 15 of this report a summary of the Company's financial statements for the years 1947 to 1956 inclusive. This summary gives an interesting and informative synopsis of the Company's development over the last ten years.

ABITIBI CORPORATION

The construction of the new board mill at Alpena, Michigan, U.S.A., is progressing favourably. Completion has been delayed by about two months due to the strike in the steel industry in the United States, and production is now not likely to begin until October of 1957.

An operating and sales organization is being gathered and a great deal of preliminary work of many kinds is under way.

The authorities in every department of government in the State of Michigan have been most co-operative and the citizens of the City of Alpena could not have been more helpful.

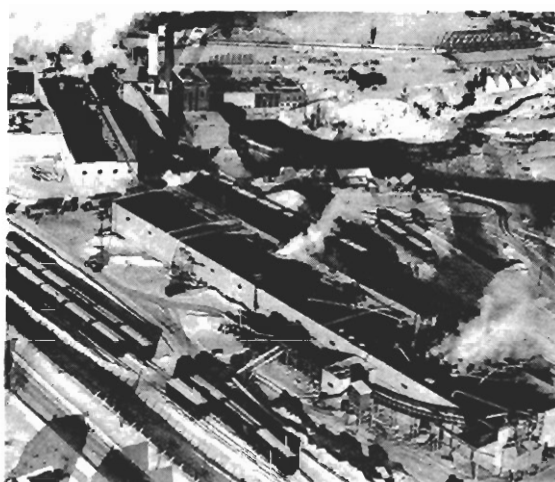
Pre-production expenses at Alpena in 1957 will be substantial and these will, of course, be reflected as a charge to consolidated net earnings of Abitibi Power & Paper Company, Limited for that year. These expenses may be applied at any time during the subsequent five years to reduce net earnings of Abitibi Corporation subject to United States income tax.

PLANTS, PROPERTIES AND TIMBER LIMITS

Capital expenditures during the year on properties, plant, equipment and timber limits amounted to \$19,631,893 which is by far the largest amount in any year in the Company's history.

In addition to the usual improvements and replacements to manufacturing equipment at existing mill divisions there were substantial outlays on the board plant at Alpena, the new newsprint machine at Fort William and the particle board plant at Sturgeon Falls. We also acquired additional timber limits to supply the mill at Beaupre, P.Q.

The new particle board plant at Sturgeon Falls is of special interest. It is now manufacturing a very high quality board which is being marketed under the trade mark PLATEWOOD. We expect that this product will have an expanding market for many uses in the furniture and building industries as soon as its many excellent qualities have become more widely known. This product is manufactured largely from poplar wood of which there are vast quantities on this continent and for which there has been so far a relatively small use.



New PLATEWOOD Mill, Sturgeon Falls, Ontario

The speeding up of the two paper machines at Pine Falls is progressing on schedule and this mill's production has been increased by about 20% and will be still further increased in due course.

The third and final addition to the steam plant at Sault Ste. Marie was completed and arrangements made for the use of coke oven gas as boiler fuel.

A new process for manufacturing unbleached sulphite pulp for use in the production of newsprint was brought into operation during the year at the Beaupre mill. This process, which was pioneered at the Fort William mill, substantially increases the yield of pulp from the wood used. This is a worthwhile contribution to forest conservation and to the better utilization of our forest resources.

SOURCE AND APPLICATION OF FUNDS



SOURCE OF FUNDS:

	1956	1955
Net earnings	\$15,423,827	\$13,936,026
Non-cash charges for depreciation and depletion deducted in arriving at net earnings	7,752,873	7,132,899
Par value of 4½ % Convertible Debentures, Series "A", issued in 1956	15,000,000	—
Common Shares issued	—	272,700
Proceeds from disposal of capital assets	180,883	317,525
Other items – net	117,473	(137,959)
	<u>\$38,475,056</u>	<u>\$21,521,191</u>

APPLICATION OF FUNDS:

Invested in properties, plant and equipment	\$19,165,594	\$ 9,634,629
Invested in timber limits	466,299	510,021
Reduction in Funded Debt by application of working capital	3,462,000	3,430,000
Fund for retirement of Preferred Shares	665,860	—
Dividends declared on Preferred Shares	605,360	618,825
Dividends declared on Common Shares	6,661,252	5,618,967
	<u>\$31,026,365</u>	<u>\$19,812,442</u>

RESULTING IN AN INCREASE IN WORKING CAPITAL OF . . .	<u>\$ 7,448,691</u>	<u>\$ 1,708,749</u>
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CHANGES IN WORKING CAPITAL CONSIST OF INCREASES AND (DECREASES) AS FOLLOWS:

Current Assets –		
Cash and short term securities	\$ 2,787,197	\$ 521,009
Accounts receivable	607,716	2,111,685
Operating inventories	6,322,983	1,369,986
	<u>\$ 9,717,896</u>	<u>\$ 4,002,680</u>
Current Liabilities	2,269,205	2,293,931
Net increase as above	<u>\$ 7,448,691</u>	<u>\$ 1,708,749</u>

As in past years all of the Company's eleven mills participated in the annual programme of improvements.

Very little progress has been made in the discussions which have taken place with the Hydro-Electric Power Commission of Ontario concerning the compensation to be paid on account of the expropriation of the Company's mill at Mille Roches, Ont. We are hopeful of bringing the matter to a conclusion in the near future.

FORESTRY

The past year witnessed a great reduction in the amount of damage by fire inflicted on the forests of the whole nation. This was due to a much higher rainfall than usual, to less dangerous atmospheric conditions generally over the forest areas, and to improved efficiencies in the fire fighting agencies concerned.

During the year the University of Toronto accepted an offer by the Company to pay for the establishment and maintenance for ten years of a new Chair of Forest Biology in the Faculty of Forestry. The first incumbent of this Chair is Dr. J. L. Farrar, a distinguished Canadian forest biologist, who has already begun his duties.

RESEARCH AND DEVELOPMENT

A major step was taken during the year to facilitate the orderly development of the Company's diversification programme. This was the appointment of Mr. R. J. Askin (formerly Vice-President, Manufacturing) to the newly created post of Vice-President, Development and Engineering. Under Mr. Askin's supervision the long term planning of the Company's future is being carried out vigorously.

It is now eight years since the Company's research organization began its work and since then there have been many valuable additions and improvements to the Company's products, processes and knowledge, chief among which are "woodgrain" hardboard, the new PLATEWOOD board and the improved sulphite process referred to above. We have every confidence that the future holds many more valuable innovations which will be of increasing importance to the Company.

EMPLOYEE RELATIONS

It is a great satisfaction to be able to report continued good working relations with the Unions representing our employees. Several important contracts were signed in 1956 which will be in effect

until mid 1958 so that the prospects for continued industrial peace and goodwill are excellent.

It may be of interest to the shareholders to learn that we have for the past six years held annual labour-management conferences at which topics of national and industrial interest are thoroughly discussed under the guidance of especially competent men in the various fields which we have explored. In this way it is possible for our management team to conduct friendly and searching discussions with the union officers and with delegates from all our mills on an occasion when there are no contentious contracts or other matters before the meeting. The results of these conferences have been very stimulating.

The Directors take this opportunity to express their appreciation of the skill and energy of all the employees of the Company which made possible the successful accomplishments of the most active and busy year in the history of the Company.

THE OUTLOOK

It seems to be the consensus of informed opinion that the newsprint machines on the North American continent will operate during 1957 at practically their full capacity and that the results of this will be that the publishing industry on the continent will be able to buy the whole of their needs for newsprint.

It also appears that there will be more pulp producing capacity on the continent than will be required to supply even the very large consumption which is expected in 1957.

We expect that demand for our fine papers will enable the mills of Provincial Paper, Limited to run at or close to capacity.

The reduced activity in the house building industry, however, is expected to be reflected in reduced demand for some of our building board products.

In general, it is the view of the Company's Directors that industrial activity in Canada and the United States during 1957 will be at a very high level and that business in all fields will be more and more competitive as more and more capacity to produce appears on the economic scene.

On behalf of the Board,



President

Toronto, February 12, 1957

ABITIBI POWER & PAPER COMPANY, LIMITED

and subsidiary companies

CONSOLIDATED BALANCE

(With comparable balances)

ASSETS

CURRENT ASSETS:	1956	1955
Cash.....	\$ 6,399,460	\$ 6,129,483
Short term securities, at cost.....	16,158,987	13,641,767
Accounts receivable, less reserve of \$918,935 (\$918,935 in 1955).....	13,743,356	13,135,640
Inventories of paper, pulp, wood, materials and supplies on the basis of cost, and expenditures on logging operations.....	37,756,067	31,433,084
	<u>\$ 74,057,870</u>	<u>\$ 64,339,974</u>
INVESTMENT IN ALASKA PINE & CELLULOSE LIMITED, at cost		
10,000 common shares (Note 1).....	<u>\$ 1,800,000</u>	<u>\$ 1,800,000</u>
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.....	\$185,175,381	\$168,258,126
Less – Accumulated depreciation.....	<u>95,944,441</u>	<u>90,381,425</u>
	<u>\$ 89,230,940</u>	<u>\$ 77,876,701</u>
Timber concessions, agreements and licenses, water power rights and freehold timber areas, less accumulated depletion of \$4,134,846 (\$3,909,846 in 1955).....	17,273,558	17,032,558
	<u>\$106,504,498</u>	<u>\$ 94,909,259</u>
DEFERRED CHARGES AND OTHER ASSETS:		
Prepaid insurance, taxes, etc.....	\$ 788,919	\$ 929,491
Unamortized bond discount and expense.....	183,106	233,329
Preferred shares retirement fund.....	32,302	–
Miscellaneous investments and other assets.....	1,292,196	1,127,168
	<u>\$ 2,296,523</u>	<u>\$ 2,289,988</u>

APPROVED ON BEHALF OF THE BOARD:

D. W. AMBRIDGE, *Director*

W. H. SMITH, *Director*

\$184,658,891 \$163,339,221

SHEET DECEMBER 31, 1956

at December 31, 1955)

LIABILITIES

CURRENT LIABILITIES:

	1956	1955
Accounts payable.....	\$ 12,682,625	\$ 11,976,294
Dividends payable January 1st.....	1,916,973	1,715,938
Interest accrued on funded debt.....	526,688	358,858
Provision for income and other taxes.....	9,532,447	8,480,938
Serial bonds and sinking fund requirements payable April 1st.....	1,142,500	1,000,000
	<u>\$ 25,801,233</u>	<u>\$ 23,532,028</u>

FUNDED DEBT: (Note 2)

3½% First Mortgage Serial Bonds, Series "A" (\$1,000,000 maturing annually).....	\$ 1,000,000	\$ 2,000,000
3½% First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967	15,740,500	18,060,000
4% First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974.....	10,000,000	10,000,000
4½% Convertible Debentures, Series "A", maturing September 15, 1966.....	15,000,000	—
	<u>\$ 41,740,500</u>	<u>\$ 30,060,000</u>
Less—Amount included with current liabilities.....	1,142,500	1,000,000
	<u>\$ 40,598,000</u>	<u>\$ 29,060,000</u>

SHAREHOLDERS' EQUITY:

Preferred Shares par value \$25 each—

Authorized: 1,000,000 shares issuable in series (550,000 shares issued; 25,790 shares redeemed and cancelled)

Outstanding: 524,210 4½% Cumulative Redeemable Preferred Shares (550,000 shares in 1955).....

\$ 13,105,250 \$ 13,750,000

Common Shares—

Authorized: 6,000,000 shares without nominal or par value (330,000 shares reserved for possible conversion of Debentures)

Issued: 4,163,218 shares.....

36,474,695 36,474,695

Earned Surplus as per statement attached.....

68,679,713 60,522,498

\$118,259,658 \$110,747,193

\$184,658,891 \$163,339,221

ABITIBI POWER & PAPER COMPANY, LIMITED
and subsidiary companies

CONSOLIDATED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1956

(With a comparable statement for the year ended December 31, 1955)

	1956	1955
Sales after deducting outward freight, etc.	\$132,497,683	\$123,173,281
Operating costs including administrative, selling and general expenses but before provision for depreciation, depletion, etc.	92,023,844	85,311,999
	<u>\$ 40,473,839</u>	<u>\$ 37,861,282</u>
Interest and other income.	1,173,186	476,699
	<u>\$ 41,647,025</u>	<u>\$ 38,337,981</u>
Provision for depreciation.	\$ 7,527,873	\$ 6,907,899
Provision for depletion.	225,000	225,000
Employees' retirement income plan.	1,166,550	1,501,004
Interest on funded debt.	1,214,552	1,137,654
Discount and expense on funded debt.	500,223	60,398
	<u>\$ 10,634,198</u>	<u>\$ 9,831,955</u>
Earnings before provision for taxes on income.	\$ 31,012,827	\$ 28,506,026
Provision for taxes on income.	15,589,000	14,570,000
Net earnings.	<u>\$ 15,423,827</u>	<u>\$ 13,936,026</u>

CONSOLIDATED EARNED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1956

(With a comparable statement for the year ended December 31, 1955)

	1956	1955
Earned Surplus at beginning of year.	\$ 60,522,498	\$ 48,654,342
Net earnings for the year.	15,423,827	13,936,026
Transfer of amount previously carried as Reserve Against Possible Decline in Inventory Values.	—	4,500,000
	<u>\$ 75,946,325</u>	<u>\$ 67,090,368</u>
Dividends declared on Preferred Shares.	\$ 605,360	\$ 618,825
Dividends declared on Common Shares.	6,661,252	5,618,967
	<u>\$ 7,266,612</u>	<u>\$ 6,237,792</u>
Additional contribution to employees' past service retirement fund established in 1946	—	313,680
Premium paid on \$546,600 4¼ % Convertible Debentures redeemed January 25, 1955	—	16,398
	<u>\$ 7,266,612</u>	<u>\$ 6,567,870</u>
Earned Surplus at end of year.	<u>\$ 68,679,713</u>	<u>\$ 60,522,498</u>

ABITIBI POWER & PAPER COMPANY, LIMITED
and subsidiary companies

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company's investment in common shares of Alaska Pine & Cellulose Limited was exchanged in January 1957 for 125,000 common shares of Rayonier Incorporated, the market value of which at January 31, 1957 was \$28.75 (U.S.) per share.
2. The Trust Deed pursuant to which the Series "A" First Mortgage Bonds were issued, contains restrictions which at this date have the effect of limiting the issue of additional First Mortgage Bonds to an aggregate principal amount of \$10,000,000. The Supplemental Trust Deed pursuant to which the Series "B" Bonds were issued, provides that after all outstanding Series "A" Bonds have been retired or the holders thereof have consented, the aggregate principal amount of First Mortgage Bonds which may be outstanding at any one time may be increased to \$100,000,000 subject to compliance with the provisions of the said Trust Deed relating to the issue of additional bonds.
3. The cost to complete capital expenditure projects presently under way and scheduled for completion within three years is estimated at \$30,000,000.
4. For the year 1956 fees of directors not holding salaried positions amounted to \$28,400 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$468,062.

AUDITORS' REPORT

To the Shareholders of

ABITIBI POWER & PAPER COMPANY, LIMITED:

We have examined the consolidated balance sheet of Abitibi Power & Paper Company, Limited and subsidiary companies as at December 31, 1956 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, 1956 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.

PRICE WATERHOUSE & CO.

Chartered Accountants.

Toronto, February 11, 1957.

ABITIBI POWER & PAPER COMPANY, LIMITED

TEN YEAR

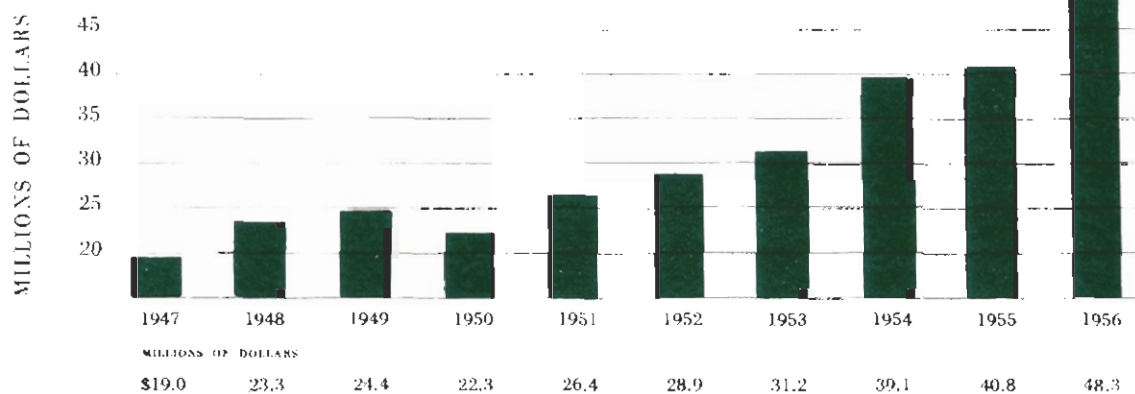
	1956	1955	1954
SALES AND EARNINGS			
Net sales.....	\$132,497,683	\$123,173,281	\$113,997,836
Depreciation and depletion.....	7,752,873	7,132,899	6,793,698
Interest on funded debt.....	1,214,552	1,137,654	1,417,564
Earnings before taxes on income.....	31,012,827	28,506,026	23,028,901
Taxes on income.....	15,589,000	14,570,000	12,403,000
Net earnings.....	15,423,827	13,936,026	10,625,901
Net earnings per common share*.....	\$ 3.56	\$ 3.20	\$ 2.49
DIVIDEND RECORD			
Declared on preferred shares.....	\$ 605,360	\$ 618,825	\$ 1,176,955
Declared on common shares.....	6,661,252	5,618,967	4,487,561
Declared per common share*.....	\$ 1.60	\$ 1.35	\$ 1.20
CAPITAL EXPENDITURES			
On properties, plant and equipment.....	\$ 19,165,594	\$ 9,634,629	\$ 7,246,492
On timber limits.....	466,299	510,021	—
FINANCIAL POSITION			
Current assets.....	\$ 74,057,870	\$ 64,339,974	\$ 60,337,294
Current liabilities.....	25,801,233	23,532,028	21,238,097
Working capital.....	48,256,637	40,807,946	39,099,197
Properties, plant and equipment less depreciation.....	89,230,940	77,876,701	75,573,982
Timber limits, etc., less depletion.....	17,273,558	17,032,558	16,747,537
Investments and other assets.....	4,096,523	4,089,988	4,175,621
Funded debt and non-current liabilities.....	40,598,000	29,060,000	41,331,700
Appropriation reserves.....	—	—	4,500,000
Total equity of shareholders.....	118,259,658	110,747,193	89,764,637
EQUITY OF SHAREHOLDERS			
Equity of preferred shareholders.....	\$ 13,105,250	\$ 13,750,000	\$ 13,750,000
Equity of common shareholders.....	105,154,408	96,997,193	76,014,637
Outstanding common shares*.....	4,163,218	4,163,218	3,794,400
Equity per common share*.....	\$ 25.26	\$ 23.30	\$ 20.03

* Years 1950 and prior adjusted for stock split effected in 1951

REVIEW

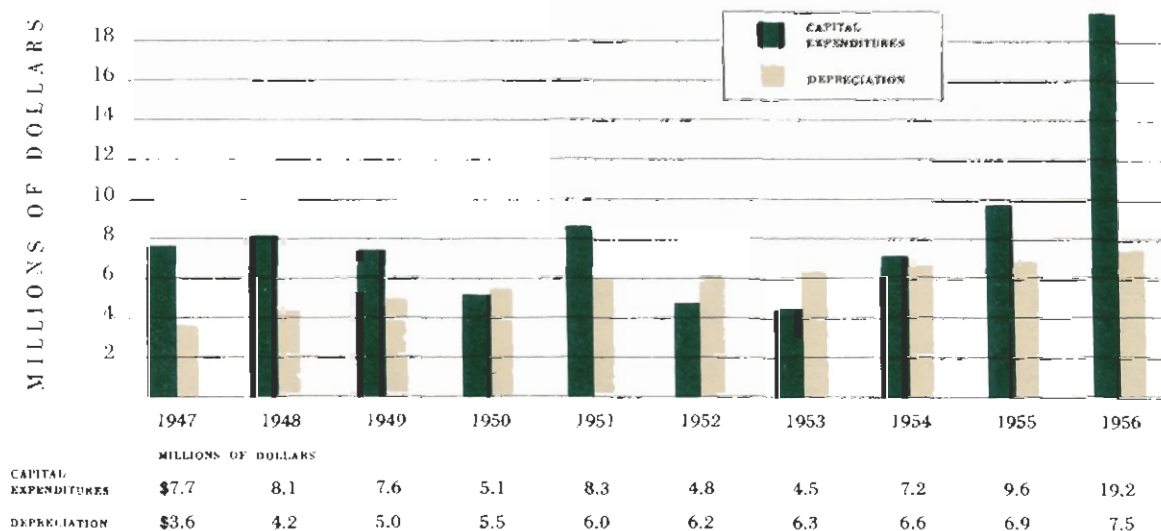
1953	1952	1951	1950	1949	1948	1947
\$109,768,039	\$107,381,890	\$111,528,208	\$ 93,776,756	\$ 84,677,709	\$ 87,756,852	\$ 75,695,600
6,532,298	6,419,055	6,193,932	5,622,168	5,118,241	4,464,018	3,895,940
1,399,178	1,502,159	1,419,864	1,282,322	1,393,876	1,499,499	1,835,955
21,429,152	21,369,759	29,742,877	22,863,833	17,580,947	20,414,224	20,256,190
11,385,000	12,272,000	16,745,000	10,240,000	7,800,000	8,643,638	10,846,237
10,044,152	9,097,759	12,997,877	12,623,833	9,780,947	11,770,586	9,409,953
\$ 2.27	\$ 2.02	\$ 3.07	\$ 2.92	\$ 2.06	\$ 2.56	\$ 1.93
\$ 1,575,624	\$ 1,575,624	\$ 1,575,624	\$ 1,730,406	\$ 2,116,605	\$ 2,217,908	\$ 2,467,987
3,911,336	3,725,082	3,724,853	2,793,050	1,861,927	-	-
\$ 1.05	\$ 1.00	\$ 1.00	\$.75	\$.50	-	-
\$ 4,539,643	\$ 4,776,602	\$ 8,268,295	\$ 5,078,843	\$ 7,557,780	\$ 8,110,102	\$ 7,725,151
-	-	1,600,000	-	-	-	-
\$ 49,454,071	\$ 47,809,617	\$ 51,370,768	\$ 40,014,424	\$ 39,730,709	\$ 41,215,831	\$ 40,003,521
18,256,392	18,933,172	24,967,589	17,691,685	15,292,829	17,904,623	20,964,762
31,197,679	28,876,445	26,403,179	22,322,739	24,437,880	23,311,208	19,038,759
75,077,110	77,131,256	78,644,906	76,442,641	77,005,103	78,026,701	74,493,884
16,922,537	17,122,535	17,347,535	15,947,535	16,097,533	16,222,533	16,446,361
12,103,461	10,830,859	10,807,922	21,436,727	2,196,995	1,808,652	2,290,160
35,331,500	38,549,000	41,588,500	51,162,000	36,914,500	39,565,500	43,035,447
4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,579,536	2,129,536
95,469,287	90,912,095	87,115,042	80,487,642	78,323,011	75,224,058	67,104,181
\$ 26,260,400	\$ 26,260,400	\$ 26,260,400	\$ 27,330,400	\$ 33,364,900	\$ 37,826,800	\$ 37,826,800
69,208,887	64,651,695	60,854,642	53,157,242	44,958,111	37,397,258	29,277,381
3,725,082	3,725,082	3,725,082	3,725,082	3,725,082	3,725,082	3,725,082
\$ 18.58	\$ 17.36	\$ 16.34	\$ 14.27	\$ 12.07	\$ 10.04	\$ 7.86

WORKING CAPITAL



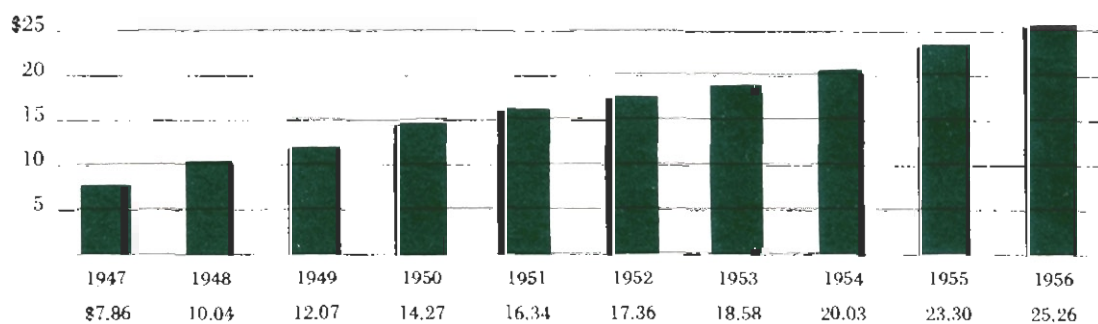
CAPITAL EXPENDITURES AND DEPRECIATION

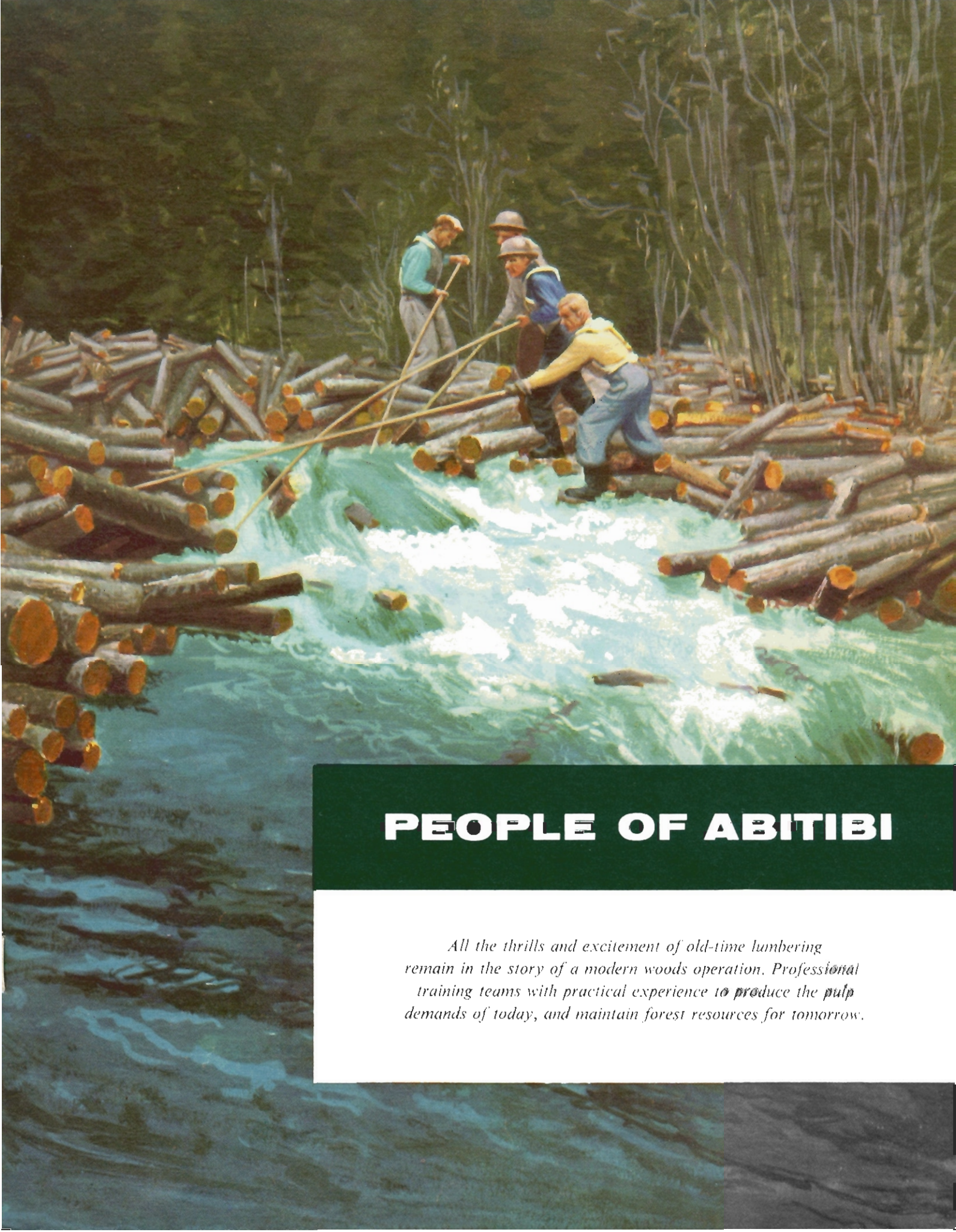
On properties, plant and equipment



COMMON STOCK EQUITY PER SHARE

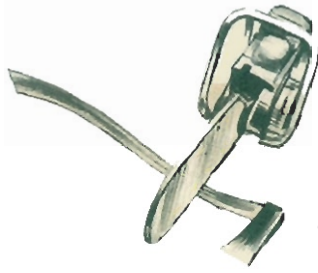
(1950 and prior years adjusted for 3 for 1 split effected in 1951)





PEOPLE OF ABITIBI

All the thrills and excitement of old-time lumbering remain in the story of a modern woods operation. Professional training teams with practical experience to produce the pulp demands of today, and maintain forest resources for tomorrow.



Protection of our forests and planning the perpetuation of this great natural resource is as important a part of the lives of the men in the Abitibi woods divisions as the production of pulpwood.

They bring to their work a mature blend of professional training, practical experience and, most important, a deep personal affection for the woods. All are deeply conscious of the abundance that Mother Nature provides unattended, but training and experience have proven that a skilled helping hand is occasionally needed.

It has been found that in some circumstances after logging, the new crop is slow to develop or is too sparse. To find cutting methods which might improve on nature, Abitibi in 1952 established its Woodlands Laboratory located about 60 miles northwest of the Lakehead. There on some 40,000 acres of company-owned land, a planned program of experiment is carried on continuously under the direct supervision of well-qualified foresters.

Abitibi has cutting rights on approximately 25,000 square miles of timber limits in Ontario, Manitoba and Quebec. At the peak period of operations in the woods, approximately 5,000 woodsmen are on the Abitibi payroll and it is significant that the majority of these men come to the camps from neighboring farm areas.



Six woods managers—four in Ontario, one in Manitoba and one in Quebec—keep a watchful eye on all phases of the company's forest management program for their respective areas. Hulme Stone, left, at Iroquois Falls, has been with Abitibi 34 years. Here, he examines a map of the limits with Dick Day, Assistant Woods Manager.



George Riopel, whose camp has predominantly French Canadian personnel, is a typical Camp foreman. His intimate knowledge of woods and men makes a major contribution to good camp operations. Three strip bosses work as his assistants.



The use of a power saw by Roger Audet indicates the mechanization that is evident in all Abitibi camps. Safety clothing such as fibre safety helmets, hard-toed boots and non-skid mitts does much to make the woods a safe place in which to work.



A skidder, like George Therrien, shown here, works with a cutter and uses a horse to skid the logs to a road-side. Abitibi maintains well designed stables and provides top quality feed and care for the horses, which are, in some cases, owned by men working in the camps.



Despite the weight of these 16' logs, Louis Vandal has no difficulty piling them on a skidway by the skilled use of a roughly-hewn "jack." These logs will soon be crane-loaded onto tractor-trailer units for delivery by road to the mill.



Scaler Nessel Ross and tallyman Walter Pearson measure the diameter and length of logs to determine the volume of the wood in this pile. Such logs are usually spruce, balsam or jackpine as these are the principal species used in our operations.



Mechanization to men in the woods means easier and better methods leading to increased production. To the company, it is the only way to keep pace with the demand for its products on a competitive basis. At Iroquois Falls, for example, the mill can be maintained at capacity production during the winter hauling months (December 15th—March 10th) with logs delivered by tractor-trailers. The tractor-trailers run on schedule day and night. Roger Lainey, loading boss at camp 23, supervises the loading of 16' logs on trailers that carry ten cunits per load. (A cunit is one hundred cubic feet.)

"Peter Blockhead", as he is affectionately called by the woods worker, carries safety messages and reminders to all men on the operations. The little fellow is bilingual with his messages and is known as "Peter Boisdur" to French Canadian woodsmen.



The Abitibi woods department builds and maintains all-season roads within its timber limits which service cutting operations and permit hauling by truck at greatly reduced costs. Such winter delivery of wood has made possible important reductions in inventories. These roads also provide an economical means of access for personnel buses and freight trucks. Motor Patrol Graders work night and day to keep the roads in good condition for heavy tractor-trailer traffic. Heavy snow and ice pack into a smooth road surface. The scarifying blade, shown here, cuts narrow parallel ridges in this surface to prevent skidding and possible "jack-knifing" of these tractor-trailer units.

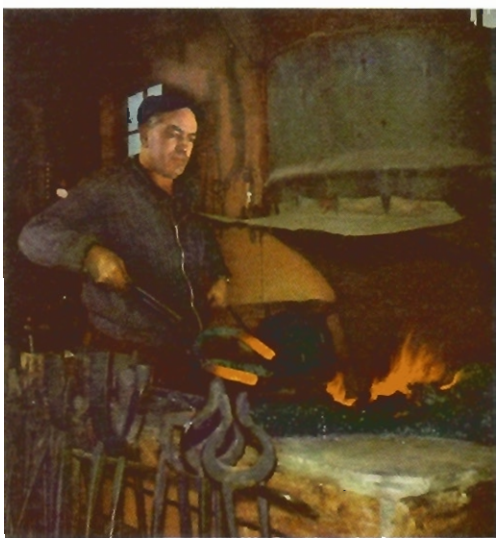
In addition to the main all-season roads, temporary winter roadways are cleared through the cutting areas. Here at Iroquois Falls such roads are bulldozed at 700 foot intervals and have eliminated an intermediate hauling stage. Where, previously wood had to be loaded onto sleighs and horse-hauled to main roads for stockpiling and reloading, it is now transferred directly from skidway to truck. Besides being used for hauling wood they assist in fire protection and also provide light necessary for the growth of young trees, as well as a seed bed for new trees.



Equipment used by the woods department in road maintenance must be capable of coping with the heaviest snow storms and the extremely low winter temperatures of the northland. Such vehicles are maintained in well-equipped garages staffed by expert mechanics. Potential breakdowns are reported by vehicle operators who are required to complete a Preventive Maintenance check before and after each shift.



Despite machines, each camp has its horses and a blacksmith, who also works on logging equipment maintenance. Arthur Laprise, shown at his forge, has been employed by Abitibi for several years. Recently in eight camps employing a total of 1,200 men, 450 horses were being used under carefully supervised working conditions.



The cook is a key man in woods camps and, with well-balanced meals tastefully prepared, contributes a great deal to the health and morale of the men. Here Julien Gilbert, cook at Camp 23 Iroquois Falls, removes his bread from the oven. It is not unusual for a camp cook to make 85 pies, 100 loaves of bread and 40 pounds of cake in one day.



In the sleep camps electric lights are but minor examples of the change from the "good old days." Electric razors are common in washrooms that have hot and cold water, shower stalls and other modern installations. Shown here are Joseph Cousineau, Honore Mayrand, Joseph Richard and Hector Frenette.



Typical boatmen, Joseph Tremblay and Armand Dupont work as a well-coordinated team from a boat to keep logs moving on Lac Brulé, in Quebec. Lifebelts, designed for comfort and ease of movement, are required to be worn by boatmen on these craft.



This dam, at Lac Gourganne, is one of several such strategically placed and vitally important dams on our Beupre limits in Quebec used to assist in river driving wood towards the mill. Here Auguste St. Hilaire and Laureat Paquet work at the feed gap using pikepoles to prevent log jams from blocking the entrance.



One of the biggest jobs facing drive crews is the watering of wood "dry" sluced into these huge piles from the nearby hills during the winter. Magella Racine, Eugene Dupont, David Lavoie and Ghislain Lavoie, here shown breaking down such a pile, work from a typical "pointer."



Piles of wood such as these are broken up by dynamite charges placed by drive crews. These men, Wilbrod Giguere, Robert Dupuis, Jean-Marie Thomassin and Philippe Martineau balance skilfully in their pointer as the charge is placed. These boats are designed to manoeuvre easily in the floating wood common to driving operations.

Bateau "Alida", which delivers 7,500 cords of pulpwood per season unloads into Beaupre Harbour. Capt. Paul Bouchard and the Alida have been first into the harbour each of the past four years—being awarded the Provincial "fleur de lis" flag—instead of the traditional "goldheaded" cane.



WHOLLY-OWNED SUBSIDIARY COMPANIES

ABITIBI SALES COMPANY, LIMITED

ABITIBI SERVICE INC.

MANITOBA PAPER COMPANY, LIMITED

PROVINCIAL PAPER, LIMITED

STE. ANNE PAPER COMPANY, LIMITED

BAIE ST. PAUL LUMBER COMPANY, LIMITED

ST. ANNE POWER COMPANY

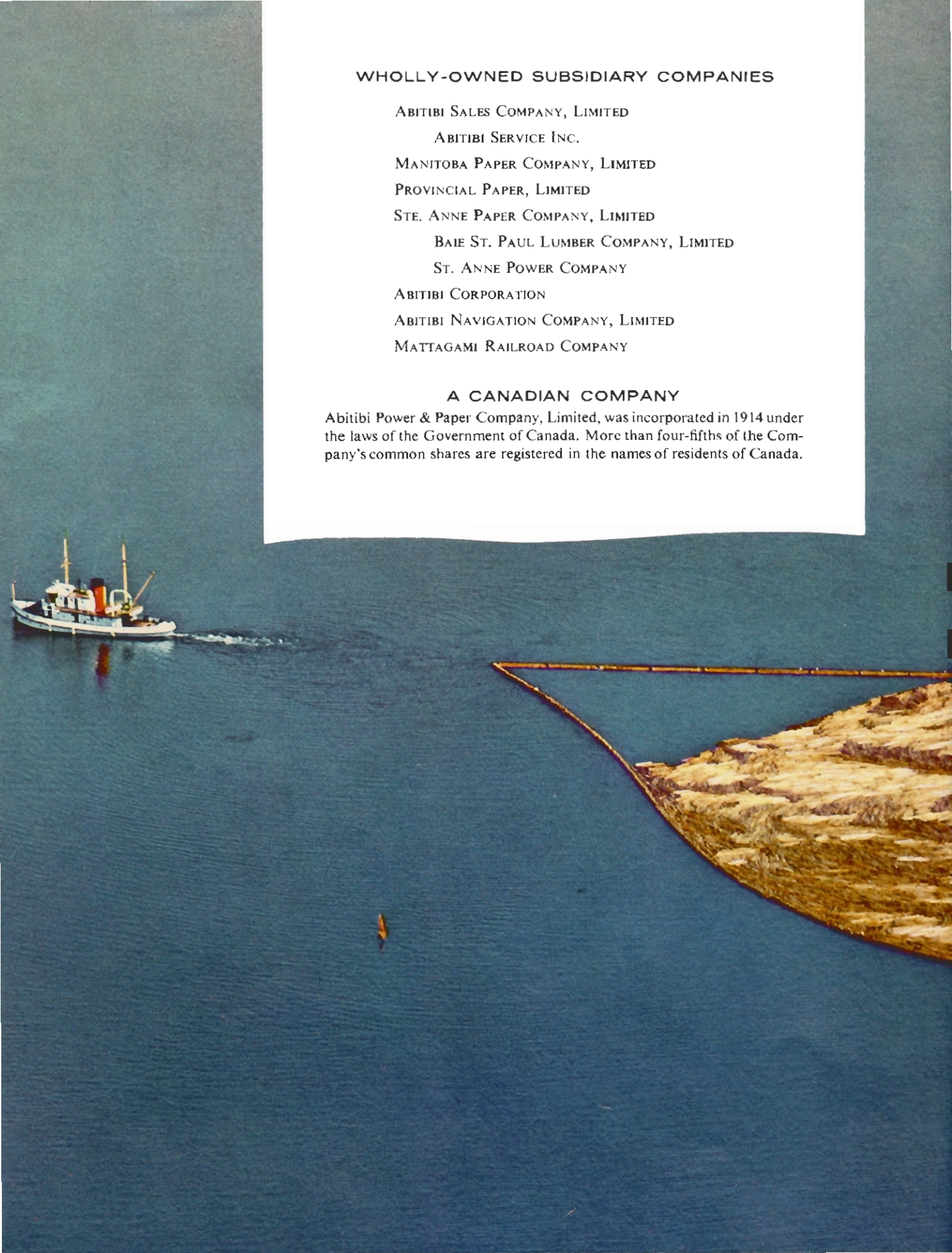
ABITIBI CORPORATION

ABITIBI NAVIGATION COMPANY, LIMITED

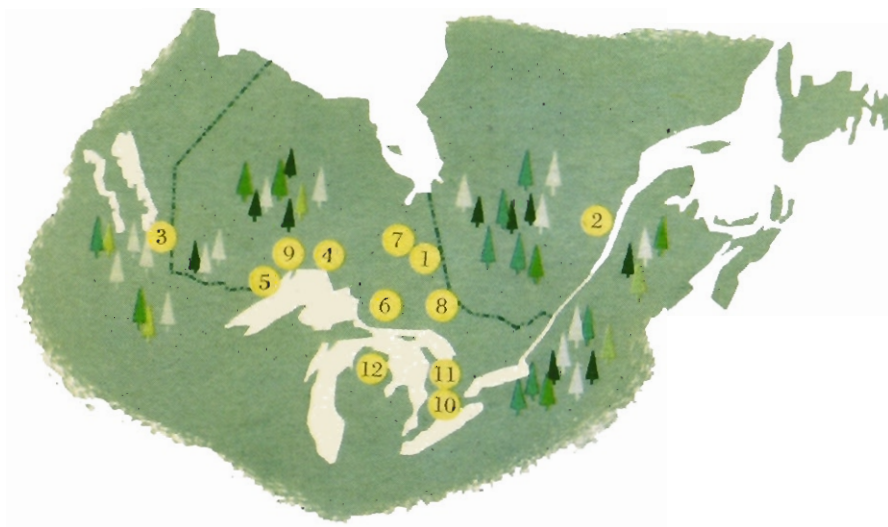
MATTAGAMI RAILROAD COMPANY

A CANADIAN COMPANY

Abitibi Power & Paper Company, Limited, was incorporated in 1914 under the laws of the Government of Canada. More than four-fifths of the Company's common shares are registered in the names of residents of Canada.



MILLS—LOCATIONS AND PRODUCTS



1. IROQUOIS FALLS *Newsprint*
ONTARIO
2. BEAUPRE *Newsprint*
QUEBEC
3. PINE FALLS *Newsprint*
MANITOBA
4. PORT ARTHUR *Newsprint*
ONTARIO
5. FORT WILLIAM *Newsprint*
ONTARIO
6. SAULT STE. MARIE. . *Newsprint and groundwood papers*
ONTARIO
7. SMOOTH ROCK FALLS *Bleached sulphite*
ONTARIO
8. STURGEON FALLS . . *Hardboard and corrugating board*
ONTARIO *and "Platewood"*
9. PORT ARTHUR *Machine coated and*
ONTARIO *groundwood printing papers*
10. THOROLD *Book, writing and speciality papers*
ONTARIO
11. GEORGETOWN *Coated book and litho papers*
ONTARIO
12. ALPENA *Insulation board and hardboard*
MICHIGAN *(under construction)*



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