

ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1957

ABITIBI POWER & PAPER COMPANY, LIMITED

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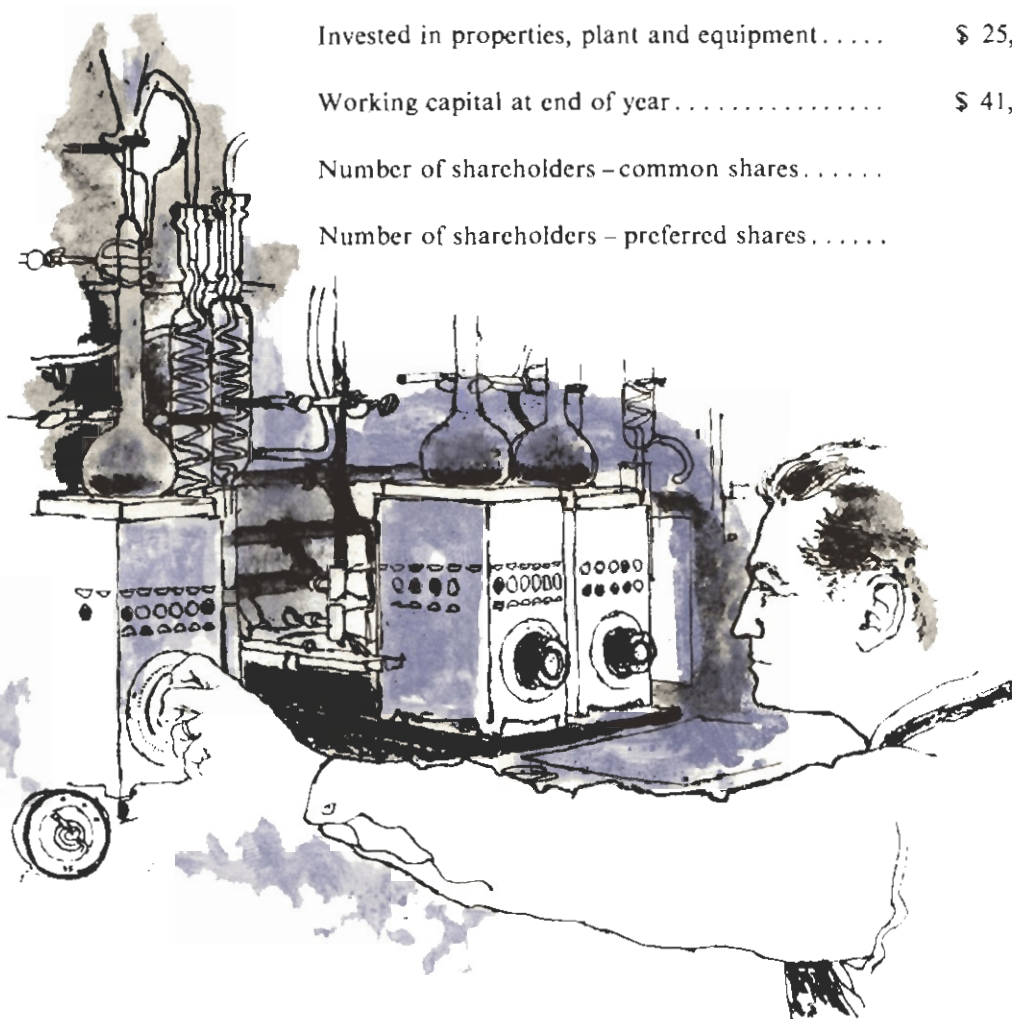
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MCGILL UNIVERSITY



HIGHLIGHTS OF THE YEAR

	1957	1956
Paper, pulp and board produced	1,000,104 tons	1,046,430 tons
Net sales	\$128,198,755	\$132,497,683
Taxes on income	\$ 13,050,000	\$ 15,589,000
Net earnings	\$ 12,502,283	\$ 15,423,827
Per common share	\$ 2.86	\$ 3.56
Dividends declared on preferred shares	\$ 578,441	\$ 605,360
Dividends declared on common shares	\$ 7,077,580	\$ 6,661,252
Per common share	\$ 1.70	\$ 1.60
Invested in properties, plant and equipment	\$ 25,194,262	\$ 19,165,594
Working capital at end of year	\$ 41,611,810	\$ 48,256,637
Number of shareholders – common shares	19,526	19,147
Number of shareholders – preferred shares	3,654	3,783





ABITIBI POWER & PAPER COMPANY, LIMITED

Incorporated in 1914, under the laws of the Government of Canada

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*)
ERNEST W. MCBRIDE, Vice-President (*Manufacturing*)
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 tenth day of April, 1958 at the hour of eleven in the forenoon.*

REPORT TO THE SHAREHOLDERS:

Operations in 1957 resulted in lower earnings than in the previous year. This was due to several reasons:

- (i) the average rate of discount on U.S. funds during 1957 was 4.12% compared to 1.59% in 1956;
- (ii) volume of production of newsprint paper, the Company's principal product, declined by 6% following a decrease in demand;
- (iii) costs of production increased, principally because of an increase in wage rates;
- (iv) costs also increased as a result of higher freight rates;
- (v) expenses for 1957 included pre-production and start-up expenses of Abitibi Corporation;
- (vi) during 1957 the Province of Ontario re-entered the corporate income tax field resulting in an increased income tax levy of 2% applicable to all corporations operating in Ontario and also saw fit to increase the burden of The Logging Tax Act applicable only to the forest products industry.

It can thus be seen that 1957 was a year in which a great many powerful factors and forces were acting to restrict the progress which the Company has been making during the past decade.

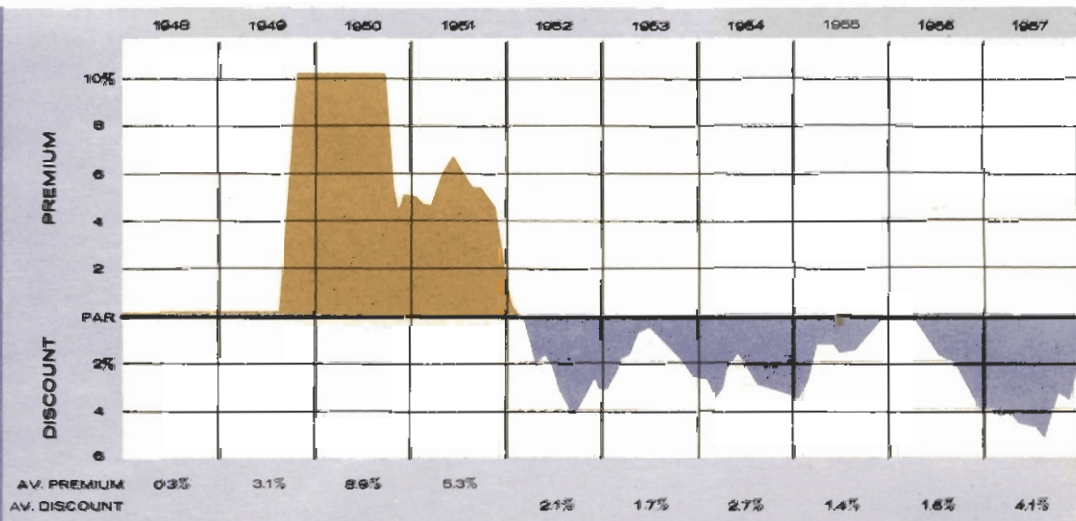
Demand for newsprint was disappointing. Many of our customers were unable to use the full amounts of their contract tonnages due, in most cases, to a decline in demand for advertising space in newspapers of the mid-western United States, the area in which many of our principal customers are located.

The current recession in business activity on the North American continent is the cause of a feeling of uncertainty and concern in all spheres of industry and commerce. It is to be hoped that the measures taken by economic authorities to combat inflation will not unduly delay the resumption of a normal growth in our business economy.

During 1957 the production capacity of the North American newsprint industry increased by about 800,000 tons and it is expected that a further 650,000 tons will be added in 1958. It may be several years before all this new capacity becomes fully occupied.

In the fine paper field our subsidiary company, Provincial Paper, Limited, again increased its volume of production and more than maintained its position as the largest manufacturer in Canada of fine and printing papers.

EXCHANGE RATES ON CONVERSION OF THE UNITED STATES DOLLAR 1948-1957



PRODUCTION IN TONS

—exclusive of production for use of Abitibi and Subsidiaries



	NEWSPRINT PAPER	FINE AND PRINTING PAPERS	BLEACHED SULPHITE AND OTHER PULPS	BUILDING AND PAPER BOARDS	TOTAL
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
1957	765,533	101,952	63,516	69,103	1,000,104

This satisfactory performance is due to our continuous efforts to improve the qualities of our products coupled with the introduction of grades and varieties of papers not previously produced in our mills or, in some instances, in Canada.

The bleached sulphite mill at Smooth Rock Falls operated all year at practically full capacity. At Sturgeon Falls we now have three separate and distinct products; corrugating board, hardboard and our new particle board known by its trademarked name of PLATEWOOD. This versatile new product is well regarded by its many users. Sales of PLATEWOOD have not yet reached a level that can be regarded as satisfactory in view of the excellent qualities of this product.

As will be seen from the table on this page, total production of paper, pulp and board products from all the Company's mills amounted to 1,000,104 tons, a decrease of only 46,326 tons from the record production of 1956. This result was, in good measure, due to the policy of product diversification followed for some years past.

SALES, COSTS AND EARNINGS

Net sales in 1957 were \$128,198,755, a decrease of \$4,298,928 from the corresponding figure for 1956. Although we experienced a decline of just over 3% from 1956, net sales were the second largest in the history of the Company.

As our shareholders well know, the rate of exchange between the Canadian dollar and the United States dollar is a very important matter in our business. Approximately 65% of our business is done in U.S. funds and even a small discount on the U.S. dollar is of great importance to our earnings. It is encouraging to be able to report that as 1957 reached its close the discount on U.S. funds had declined to a figure of 1.5%, a distinct improvement over the average rate of discount during the year.

The cost of production of all the Company's products continues to increase in spite of everything we can do in the direction of labour-saving



Abitibi's new particle board mill at Sturgeon Falls appears in right centre. Our top-quality particle board is merchandised under the trademark PLATEWOOD.

devices and equipment. This is, of course, true of most industries on the North American continent. The principal reason for this inexorable rise is the yearly increase in wage rates of the industrial workers without a compensating increase in productivity. Several years ago the following paragraph appeared in the Annual Report to shareholders:

"In the United States it may perhaps be possible for the economy to provide for a special class of citizen, the industrial worker, a constantly increasing share of the goods and services produced each year by the whole nation. But if Canada is to be forced to do likewise, the results will not be good for the people of Canada who live in economic surroundings which are totally different from those which exist in the United States."

This paragraph is reproduced because as each year passes the truth of the thought expressed becomes more evident, and the need for avoiding the dangers of blindly following United States labour practices becomes more urgent.

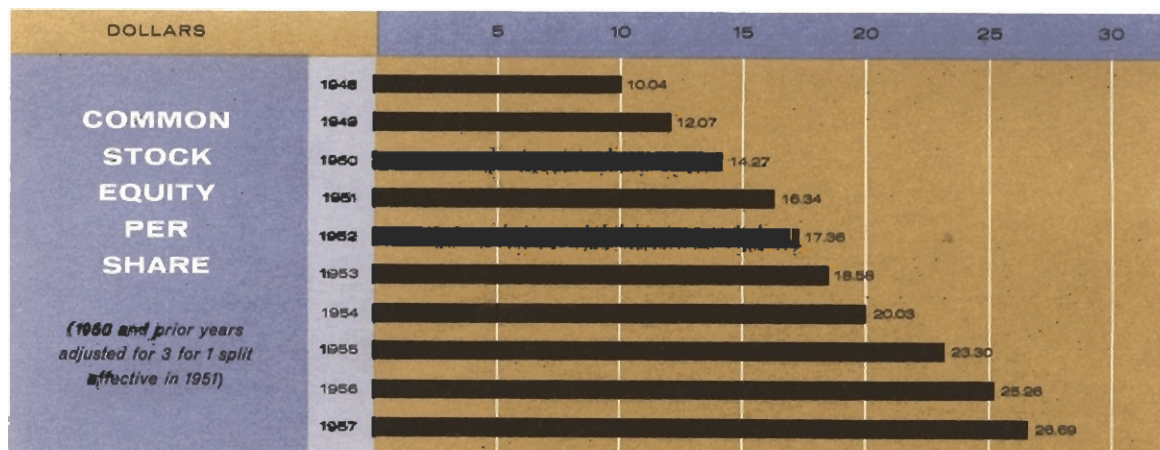
It is extremely important for all Canadians to remember that as a nation we are dependent for our well-being on our ability to meet competition in the markets of the world. This is particularly true of the pulp and paper industry.

Consolidated net earnings for the year ended December 31, 1957 after providing for all charges including depreciation, depletion and taxes amounted to \$12,502,283 which compares with \$15,423,827 for the previous year. After providing for dividends on preferred shares earnings were equal to \$2.86 per common share, compared to \$3.56 per common share in 1956.

It should be noted that earnings for 1957 are after taking up pre-production and start-up expenses of Abitibi Corporation amounting to \$1,002,306. These expenses of Abitibi Corporation, a Company doing business only in the United States, are not deductible in computing the income tax liability in Canada of the parent Company but may be applied for the next five years to reduce net earnings of Abitibi Corporation subject to U.S. income taxes. Abitibi Corporation will add to the earnings potential of the Company in the years to come.

DIVIDENDS AND SHAREHOLDERS' EQUITY

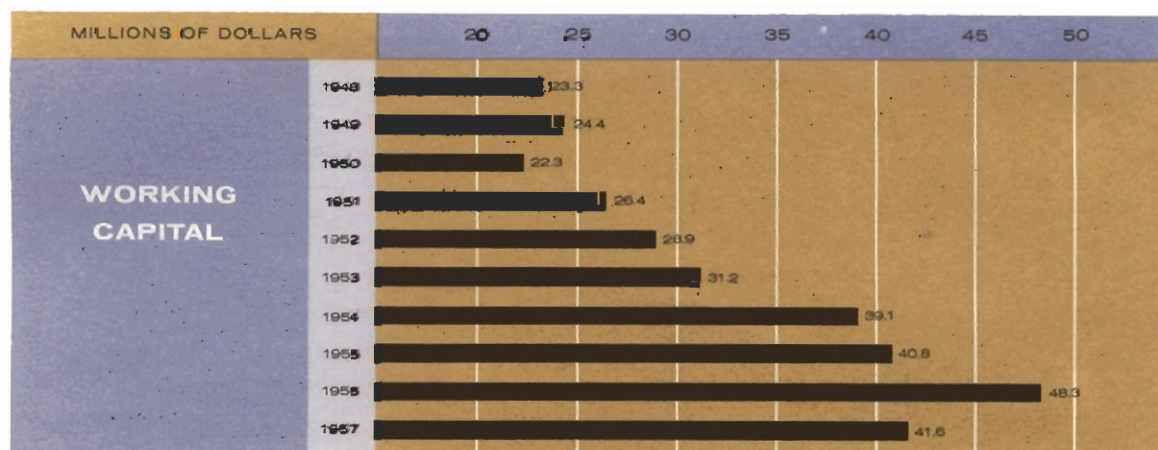
Total dividends declared on the common shares during 1957 amounted to \$7,077,580, an increase of \$416,328 over the prior year. Dividends on the common shares have now been paid for nine consecutive years. The dividend on the common shares was maintained at the annual rate of \$1.70 per share inaugurated during 1956.



SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:	1957	1956
Net earnings.....	\$ 12,502,283	\$ 15,423,827
Non-cash charges for depreciation and depletion deducted in arriving at net earnings.....	7,467,568	7,752,873
Amortization of logging equipment and development.....	967,149	-
Par value of funded debt issued during year.....	10,000,000	15,000,000
Proceeds from disposal of capital assets.....	1,171,962	180,883
	<u>\$ 32,108,962</u>	<u>\$ 38,357,583</u>
 APPLICATION OF FUNDS:		
Invested in properties, plant and equipment.....	\$ 25,194,262	\$ 19,165,594
Invested in timber limits.....	53,508	466,299
Expenditures on logging equipment and development.....	894,624	-
Reduction in funded debt by application of working capital.....	2,614,000	3,462,000
Fund for retirement of preferred shares.....	653,482	665,860
Dividends declared on preferred shares.....	578,441	605,360
Dividends declared on common shares.....	7,077,580	6,661,252
Other items - net.....	491,960	(117,473)
	<u>\$ 37,557,857</u>	<u>\$ 30,908,892</u>
 RESULTING IN AN INCREASE OR (DECREASE) IN WORKING CAPITAL OF.....	 <u>\$ (5,448,895)</u>	 <u>\$ 7,448,691</u>
 CHANGES IN WORKING CAPITAL CONSIST OF INCREASES AND (DECREASES) AS FOLLOWS:		
Current Assets -		
Cash and short term securities.....	\$ (11,827,026)	\$ 2,787,197
Accounts receivable.....	(318,033)	607,716
Inventories.....	1,565,741	6,322,983
Prepaid insurance and other expenses.....	(113,374)	-
	<u>\$ (10,692,692)</u>	<u>\$ 9,717,896</u>
Current Liabilities.....	(5,243,797)	2,269,205
Net Increase or (Decrease) as above.....	<u>\$ (5,448,895)</u>	<u>\$ 7,448,691</u>

NOTE: The above statement for 1957 is based on comparable balances, as shown by the Consolidated Balance Sheet, which have been revised as to grouping of accounts as described in Note 2 to Consolidated Financial Statements. This revision had the net effect of transferring \$1,195,932 from current to non-current assets at the beginning of the year.



Dividends on preferred shares in 1957 were \$578,441 compared with \$605,360 in 1956, reflecting a decrease in the number of preferred shares outstanding through operation of the retirement fund. There were 22,130 preferred shares retired in 1957 and the number outstanding at the close of the year was 502,080 shares.

The total equity in the Company of all shareholders, based on depreciated book values of capital assets, is now \$123,674,033 and of this amount the equity of common shareholders is \$111,122,033. The book value of each common share further increased to \$26.69, an improvement of \$18.83 during the past ten years.

FINANCIAL POSITION

Working capital at the close of 1957 stood at \$41,611,810, a decrease in comparison with the figure at the close of 1956. This decrease was foreseen and shareholders were advised in last year's report that it would occur. The principal reason was the substantial capital expenditures made during the year for diversification and improvement of manufacturing facilities.

First Mortgage Bonds, Series "A" and "B", of a par value of \$3,708,500, were retired during the year in fulfilment of sinking fund obligations.

In November 1957 there were issued First Mortgage Bonds, Series "C", of a par value of \$10,000,000. The proceeds of this issue are being applied toward the cost of capital expenditures in Canada.

Dividends received during the year on the Company's holding of 125,000 common shares of Rayonier Incorporated were at the rate of \$1.40 per share, U.S. funds. Reduced demand for rayon products and increased competition from other synthetic fibres combined to make 1957 a difficult year for manufacturers of chemical cellulose pulp. It is to be hoped that conditions in this industry will soon improve.

ABITIBI CORPORATION

The construction of the new board mill at Alpena, Michigan, is now practically complete and this modern mill is in operation, although it may be several months before all the equipment and machines will be fully tuned up and in efficient operation. The Alpena mill is a first-class industrial plant which compares favourably with any board mill anywhere in the world.

Products of this mill are hardboard, both smooth-one-side (S-1-S) and smooth-two-sides (S-2-S), and various grades of insulation board. Marketing is being carried out by our new sales organization with headquarters in Detroit. The quality of the products which are beginning to flow from this mill is excellent and we are confident that we will be able to satisfy the many new customers we expect to have in 1958.

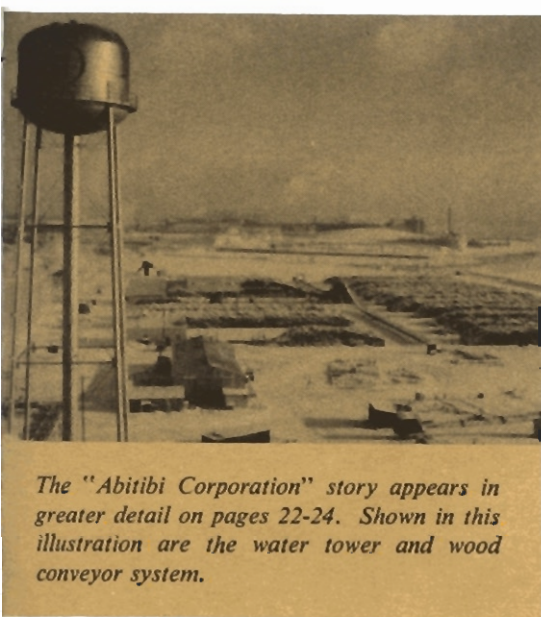
The personnel of Abitibi Corporation, gathered together from every corner of the continent, consists of a group of proven competence and skill which will be a great addition to the Abitibi organization.

The cost of the plant, while somewhat in excess of our early estimates, was not seriously so and we are quite sure that its productive capacity will also be in excess of our estimates.

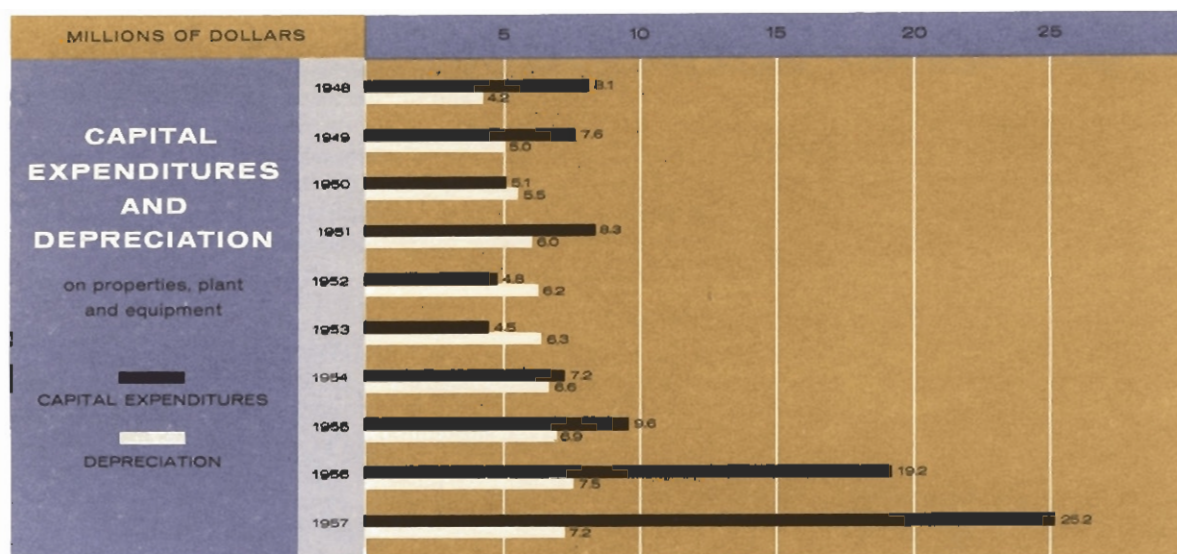
PROPERTIES, PLANT AND EQUIPMENT

Capital expenditures during the year on properties, plant and equipment amounted to \$25,194,262, the largest amount in any year in the Company's history. The two major projects under way in 1957 were the Alpena plant, now in operation as noted above, and the installation at Fort William of a high-speed newsprint machine accompanied by modernization of other manufacturing facilities. The Fort William programme is proceeding on schedule and it is expected that the new machine will be ready to go into operation during July of 1958.

Capital expenditures at the other mills of the Company were kept as low as possible consistent with the maintenance of our manufacturing facilities



The "Abitibi Corporation" story appears in greater detail on pages 22-24. Shown in this illustration are the water tower and wood conveyor system.



in a competitive condition, particularly in regard to quality. At Pine Falls a new boiler is being installed which will permit a further improvement in volume of production at that mill. At the Lakehead, preparations are under way to permit the use of natural gas from Western Canada during this coming summer. At the Provincial mill in Port Arthur new wood room facilities were brought into operation which greatly improved the productivity of the wood handling system. The mill at Sault Ste. Marie is now using coke oven gas from the Algoma Steel plant and this is a very satisfactory arrangement.

As in past years, all divisions shared in the programme of essential replacements and improvements. The programme at most divisions was influenced and restricted because of the fact that production facilities were not fully occupied.

A settlement was made during the year with the Hydro-Electric Power Commission of Ontario in respect of the compensation to be paid for the expropriation of the Company's mill at Mille Roches, Ontario. This was a negotiation which had been going on for years and it is a great satisfaction to be able to report that it is now concluded.

FORESTRY

A good deal of progress was made in the development of new logging techniques and equipment. As a result the amount of labour required to cut and deliver a cunit (one hundred cubic feet) of pulpwood decreased at all divisions.

During the year extensive salvage operations were carried out in areas surrounding Smooth Rock Falls and Pine Falls where forest fires had damaged the forest. Much merchantable pulpwood has been recovered from these areas.

Plans for the development of the recently acquired timber limits on the Outardes River in Quebec are well advanced.

The important question of the safety of the woods workers receives a great deal of attention in all our camps, and the management of our woodlands divisions deserves credit for the outstanding results which have been achieved. For four consecutive seasons the Sault Ste. Marie division has received the award for the safest operations in Ontario. The safety records of all the camps in the Company are showing continued improvement every year.

RESEARCH AND DEVELOPMENT

The research department at Sault Ste. Marie continues to make valuable contributions to the Company's progress. In addition to operating our own research facilities, devoted to our own special problems, we also participate with other companies in the industry in the support of the Pulp and Paper Research Institute of Canada. This joint research organization has been building a most modern and adequate laboratory near Montreal with financial assistance from the Federal Government. The new laboratory is practically complete and its facilities are expected to be of great benefit to the industry.

Together with the Ontario Research Foundation we are engaged in some specialized research which we believe will result in some new products and contribute toward a solution to the problem of stream pollution which becomes more pressing every year.

Our new development organization, which was referred to in last year's Annual Report, is proving to have been a step in the right direction. Plans for both short-range and long-range programmes have been devised and are being carried out.

EMPLOYEE RELATIONS

The major labour contracts under which we operated in 1957 were two-year contracts which expire and are due for re-negotiation in 1958. It is sincerely hoped that it will be possible to work out arrangements which will take due notice of conditions in the world markets in which we operate. It is evident that labour strife such as has existed in this and other industries in Canada and elsewhere cannot possibly do either side, or the nation as a whole, any conceivable good.

The Directors wish to take this opportunity to express their appreciation once again for the fine way in which the year's difficulties were met and overcome by every rank of employee in the Company. The Directors also wish to extend to the new employees at Alpcna a cordial welcome to this great Company.

THE OUTLOOK

Last year the prediction was made in the Annual Report that newsprint machines on the North American continent would operate at close to full capacity and that North American publishers would be able to buy all the newsprint they needed. Developments in the industry in 1957 were mostly in accord with this forecast. At the present time newsprint stocks in the hands of publishers are unusually high and production capacity on the North American continent appears to exceed current demand by 10% to 15% so that we are faced with some idle capacity and short working time in our mills.

Most qualified observers of the United States economic scene appear resigned to the fact that at least the first half of 1958 will be a period of uncertain business conditions with little, if any, improvement in demand and gross national product. If this turns out to be true there is little doubt that newsprint production in North America in 1958 will be less than it was in 1957. It is also probable that demand for newsprint in world markets, apart from North America, will be not more in 1958 than in 1957.

It seems reasonable to expect that the North American economy will resume its normal growth pattern before the close of 1958 under the influence of an expanding population, easier borrowing conditions and large defence appropriations.

The consumption of pulp and paper products will certainly be favourably affected by any improvement in general business activity.

On behalf of the Board,

S.W. Ambbridge
President

Toronto, February 3, 1958.



Fort William Division expansion shows paper machine room, finishing room and shipping warehouse in centre of picture, and expanded woodroom facilities on extreme left.

ABITIBI POWER & PAPER COMPANY, LIMITED

and subsidiary companies

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1957

(with comparable balances at December 31, 1956; Note 2)

ASSETS

CURRENT ASSETS:

	1957	1956
Cash	\$ 5,282,942	\$ 6,399,460
Short term securities, at cost	5,448,479	16,158,987
Accounts receivable, less in each year reserve of \$918,935	13,425,323	13,743,356
Inventories of paper, pulp, wood, materials and supplies at cost, and expenditures on logging operations	37,336,957	35,771,216
Prepaid insurance and other expenses	675,545	788,919
	<u>\$ 62,169,246</u>	<u>\$ 72,861,938</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	\$209,600,858	\$185,175,381
Less – Accumulated depreciation	<u>102,524,167</u>	<u>95,944,441</u>
	\$107,076,691	\$ 89,230,940
Logging equipment and development, at amortized cost	1,912,326	1,984,851
Timber concessions, agreements and licenses, water power rights and freehold timber areas, less accumulated depletion of \$4,364,846 (\$4,134,846 in 1956)	<u>17,093,101</u>	<u>17,273,558</u>
	<u>\$126,082,118</u>	<u>\$108,489,349</u>

INVESTMENTS AND OTHER ASSETS:

Investment in shares of Rayonier Incorporated, at cost (Note 3)	\$ 1,800,000	\$ 1,800,000
Preferred shares retirement fund	178,242	32,302
Unamortized bond discount and expense	435,378	183,106
Miscellaneous investments and other assets	<u>1,550,485</u>	<u>1,292,196</u>
	<u>\$ 3,964,105</u>	<u>\$ 3,307,604</u>

APPROVED ON BEHALF OF THE BOARD:

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

\$192,215,469 \$184,658,891

LIABILITIES

CURRENT LIABILITIES:

	1957	1956
Accounts payable	\$ 10,721,509	\$ 12,682,625
Dividends payable January 1st	1,910,744	1,916,973
Interest accrued on funded debt	569,852	526,688
Provision for income and other taxes	7,307,331	9,532,447
Sinking fund requirements payable within one year	<u>48,000</u>	<u>1,142,500</u>
	<u>\$ 20,557,436</u>	<u>\$ 25,801,233</u>

FUNDED DEBT: (Note 4)

3½ % First Mortgage Serial Bonds, Series "A"	\$ –	\$ 1,000,000
3½ % First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967	13,294,000	15,740,500
4 % First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974	9,738,000	10,000,000
6¼ % First Mortgage Sinking Fund Bonds, Series "C", maturing November 15, 1977	10,000,000	–
4½ % Convertible Debentures, Series "A", maturing September 15, 1966	<u>15,000,000</u>	<u>15,000,000</u>
	\$ 48,032,000	\$ 41,740,500
Less – Amount included with current liabilities	<u>48,000</u>	<u>1,142,500</u>
	<u>\$ 47,984,000</u>	<u>\$ 40,598,000</u>

SHAREHOLDERS' EQUITY:

Preferred shares par value \$25 each –

Authorized: 1,000,000 shares issuable in series (550,000 shares issued; 47,920 shares redeemed and cancelled)

Outstanding: 502,080 4½ % Cumulative Redeemable Preferred Shares (524,210 shares in 1956)

\$ 12,552,000 \$ 13,105,250

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

74,647,338 68,679,713

\$123,674,033 \$118,259,658

\$192,215,469 \$184,658,891

ABITIBI POWER & PAPER COMPANY, LIMITED
and subsidiary companies

CONSOLIDATED EARNINGS

	Year Ended December 31	
	1957	1956
Sales after deducting outward freight, etc.	\$128,198,755	\$132,497,683
Cost of products sold and all expenses (including in 1957 pre-production and start-up expenses of Abitibi Corporation amounting to \$1,002,306), exclusive of items shown below.	93,398,020	92,023,844
	\$ 34,800,735	\$ 40,473,839
Interest and other income.	1,012,964	1,173,186
	\$ 35,813,699	\$ 41,647,025
Provision for depreciation.	\$ 7,237,568	\$ 7,527,873
Provision for depletion.	230,000	225,000
Employees' retirement income plan.	1,094,104	1,166,550
Interest on funded debt.	1,652,016	1,214,552
Discount and expense on funded debt.	47,728	500,223
	\$ 10,261,416	\$ 10,634,198
Earnings before provision for taxes on income.	\$ 25,552,283	\$ 31,012,827
Provision for taxes on income.	13,050,000	15,589,000
Net earnings.	\$ 12,502,283	\$ 15,423,827

CONSOLIDATED EARNED SURPLUS

	Year Ended December 31	
	1957	1956
Earned Surplus at beginning of year.	\$ 68,679,713	\$ 60,522,498
Net earnings for the year.	12,502,283	15,423,827
Surplus arising from disposal of capital assets.	1,121,363	-
	\$ 82,303,359	\$ 75,946,325
Dividends declared on Preferred Shares.	\$ 578,441	\$ 605,360
Dividends declared on Common Shares.	7,077,580	6,661,252
(being the dividends paid on April 1st, July 1st, September 1st and payable January 1st)		
	\$ 7,656,021	\$ 7,266,612
Earned Surplus at end of year.	\$ 74,647,338	\$ 68,679,713

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The conversion into Canadian funds of transactions and balances in United States funds is based on average exchange rates for the months when transactions took place with the exception of current balances which are converted into Canadian funds at the exchange rate in effect at the close of business on December 31st.
2. To conform with accounting practices now followed generally by the industry and without affecting the presentation of net earnings, the balance sheet grouping of accounts and the comparable balances have been revised as follows: (a) "Prepaid insurance and other expenses" is shown under the heading Current Assets and (b) "Logging equipment and development, at amortized cost," previously included in inventories with expenditures on logging operations, is shown under the heading Capital Assets. Amortization of logging equipment and development in 1957 amounted to \$967,149.
3. The investment in Rayonier Incorporated consists of 125,000 common shares received in January 1957 in exchange for 10,000 common shares of Alaska Pine & Cellulose Limited. The quoted market value in United States funds at December 31, 1957 was \$14.87 per share.
4. In accordance with terms of the Trust Deed securing the outstanding First Mortgage Bonds, the Company may not issue further First Mortgage Bonds until all Series "A" Bonds have been retired or the holders thereof have consented. Subject to this and other provisions of the Trust Deed, the aggregate amount of First Mortgage Bonds outstanding at any one time may be increased to \$100,000,000.

Convertible Debentures, Series "A", may be converted at the option of the holders into common shares as presently constituted at the rate of 22 shares per \$1,000 Debenture on or before September 15, 1960; thereafter and on or before September 15, 1963 at the rate of 21 shares; thereafter and prior to September 15, 1966 at the rate of 20 shares.
5. For the year 1957 fees of directors not holding salaried positions amounted to \$27,800 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$488,486.

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, 1957 and the statements of consolidated earnings and consolidated earned surplus for the year then ended and have obtained all the information and explanations we have 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 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, 1957 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.

Toronto, February 3, 1958.

Chartered Accountants.

ABITIBI POWER & PAPER COMPANY, LIMITED

TEN YEAR REVIEW

	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948
SALES AND EARNINGS										
Net sales.....	\$128,198,755	\$132,497,683	\$123,173,281	\$113,997,836	\$109,768,039	\$107,381,890	\$111,528,208	\$ 93,776,756	\$ 84,677,709	\$ 87,756,852
Depreciation and depletion.....	7,467,568	7,752,873	7,132,899	6,793,698	6,532,298	6,419,055	6,193,932	5,622,168	5,118,241	4,464,018
Interest on funded debt.....	1,652,016	1,214,552	1,137,654	1,417,564	1,399,178	1,502,159	1,419,864	1,282,322	1,393,876	1,499,499
Earnings before taxes on income.....	25,552,283	31,012,827	28,506,026	23,028,901	21,429,152	21,369,759	29,742,877	22,863,833	17,580,947	20,414,224
Taxes on income.....	13,050,000	15,589,000	14,570,000	12,403,000	11,385,000	12,272,000	16,745,000	10,240,000	7,800,000	8,643,638
Net earnings.....	12,502,283	15,423,827	13,936,026	10,625,901	10,044,152	9,097,759	12,997,877	12,623,833	9,780,947	11,770,586
Net earnings per common share*.....	\$ 2.86	\$ 3.56	\$ 3.20	\$ 2.49	\$ 2.27	\$ 2.02	\$ 3.07	\$ 2.92	\$ 2.06	\$ 2.56
DIVIDEND RECORD										
Declared on preferred shares.....	\$ 578,441	\$ 605,360	\$ 618,825	\$ 1,176,955	\$ 1,575,624	\$ 1,575,624	\$ 1,575,624	\$ 1,730,406	\$ 2,116,605	\$ 2,217,908
Declared on common shares.....	7,077,580	6,661,252	5,618,967	4,487,561	3,911,336	3,725,082	3,724,853	2,793,050	1,861,927	—
Declared per common share*.....	\$ 1.70	\$ 1.60	\$ 1.35	\$ 1.20	\$ 1.05	\$ 1.00	\$ 1.00	\$.75	\$.50	—
CAPITAL EXPENDITURES										
On properties, plant and equipment.....	\$ 25,194,262	\$ 19,165,594	\$ 9,634,629	\$ 7,246,492	\$ 4,539,643	\$ 4,776,602	\$ 8,268,295	\$ 5,078,843	\$ 7,557,780	\$ 8,110,102
On timber limits.....	53,508	466,299	510,021	—	—	—	1,600,000	—	—	—
FINANCIAL POSITION										
Current assets.....	\$ 62,169,246	\$ 74,057,870	\$ 64,339,974	\$ 60,337,294	\$ 49,454,071	\$ 47,809,617	\$ 51,370,768	\$ 40,014,424	\$ 39,730,709	\$ 41,215,831
Current liabilities.....	20,557,436	25,801,233	23,532,028	21,238,097	18,256,392	18,933,172	24,967,589	17,691,685	15,292,829	17,904,623
Working capital.....	41,611,810	48,256,637	40,807,946	39,099,197	31,197,679	28,876,445	26,403,179	22,322,739	24,437,880	23,311,208
Capital assets, at net book values.....	126,082,118	106,504,498	94,909,259	92,321,519	91,999,647	94,253,791	95,992,441	92,390,176	93,102,636	94,249,234
Investments and other assets.....	3,964,105	4,096,523	4,089,988	4,175,621	12,103,461	10,830,859	10,807,922	21,436,727	2,196,995	1,808,652
Funded debt and non-current liabilities.....	47,984,000	40,598,000	29,060,000	41,331,700	35,331,500	38,549,000	41,588,500	51,162,000	36,914,500	39,565,500
Appropriation reserves.....	—	—	—	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,579,536
Total equity of shareholders.....	123,674,033	118,259,658	110,747,193	89,764,637	95,469,287	90,912,095	87,115,042	80,487,642	78,323,011	75,224,058
EQUITY OF SHAREHOLDERS										
Equity of preferred shareholders.....	\$ 12,552,000	\$ 13,105,250	\$ 13,750,000	\$ 13,750,000	\$ 26,260,400	\$ 26,260,400	\$ 26,260,400	\$ 27,330,400	\$ 33,364,900	\$ 37,826,800
Equity of common shareholders.....	111,122,033	105,154,408	96,997,193	76,014,637	69,208,887	64,651,695	60,854,642	53,157,242	44,958,111	37,397,258
Outstanding common shares*.....	4,163,218	4,163,218	4,163,218	3,794,400	3,725,082	3,725,082	3,725,082	3,725,082	3,725,082	3,725,082
Equity per common share*.....	\$ 26.69	\$ 25.26	\$ 23.30	\$ 20.03	\$ 18.58	\$ 17.36	\$ 16.34	\$ 14.27	\$ 12.07	\$ 10.04

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

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

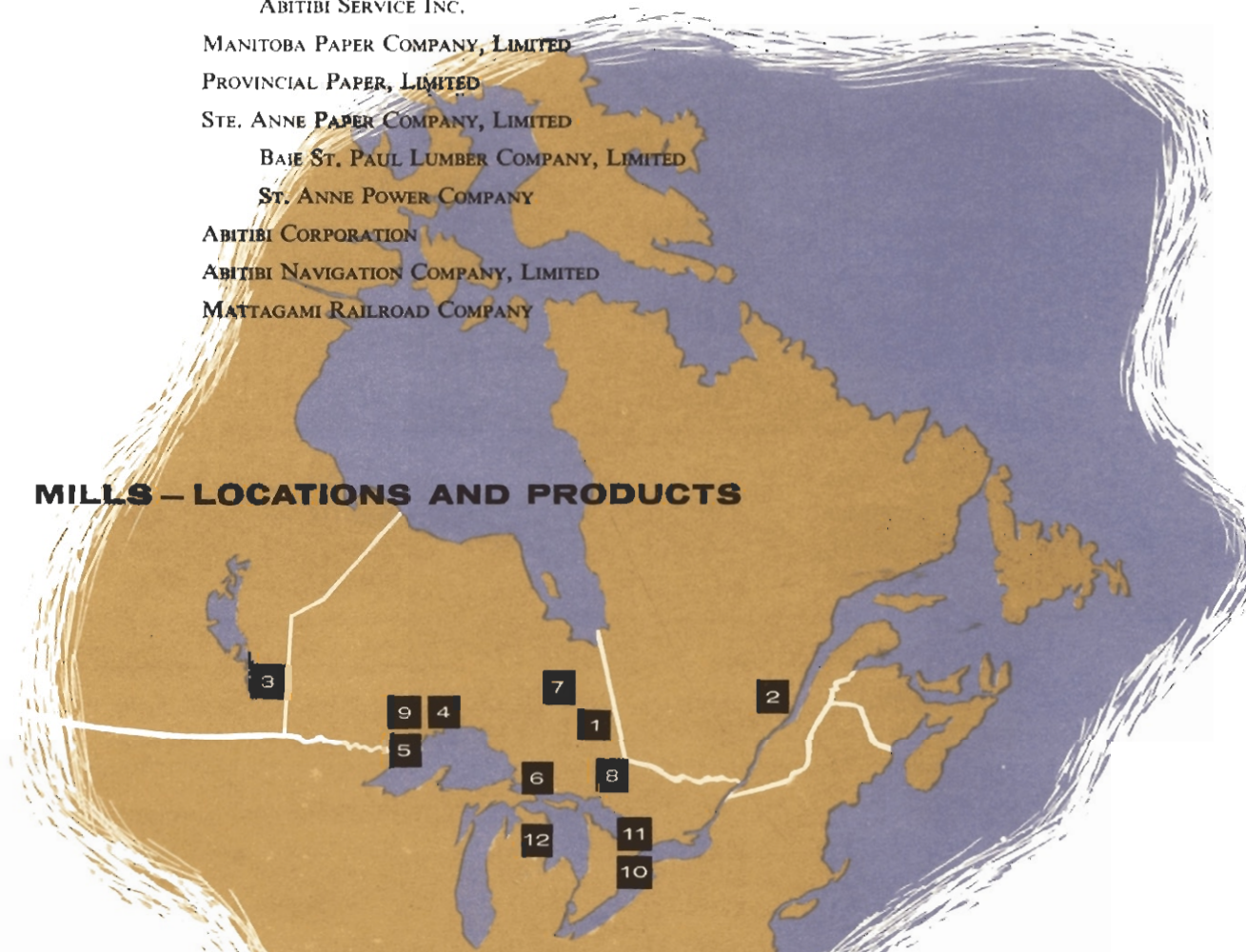
ST. ANNE POWER COMPANY

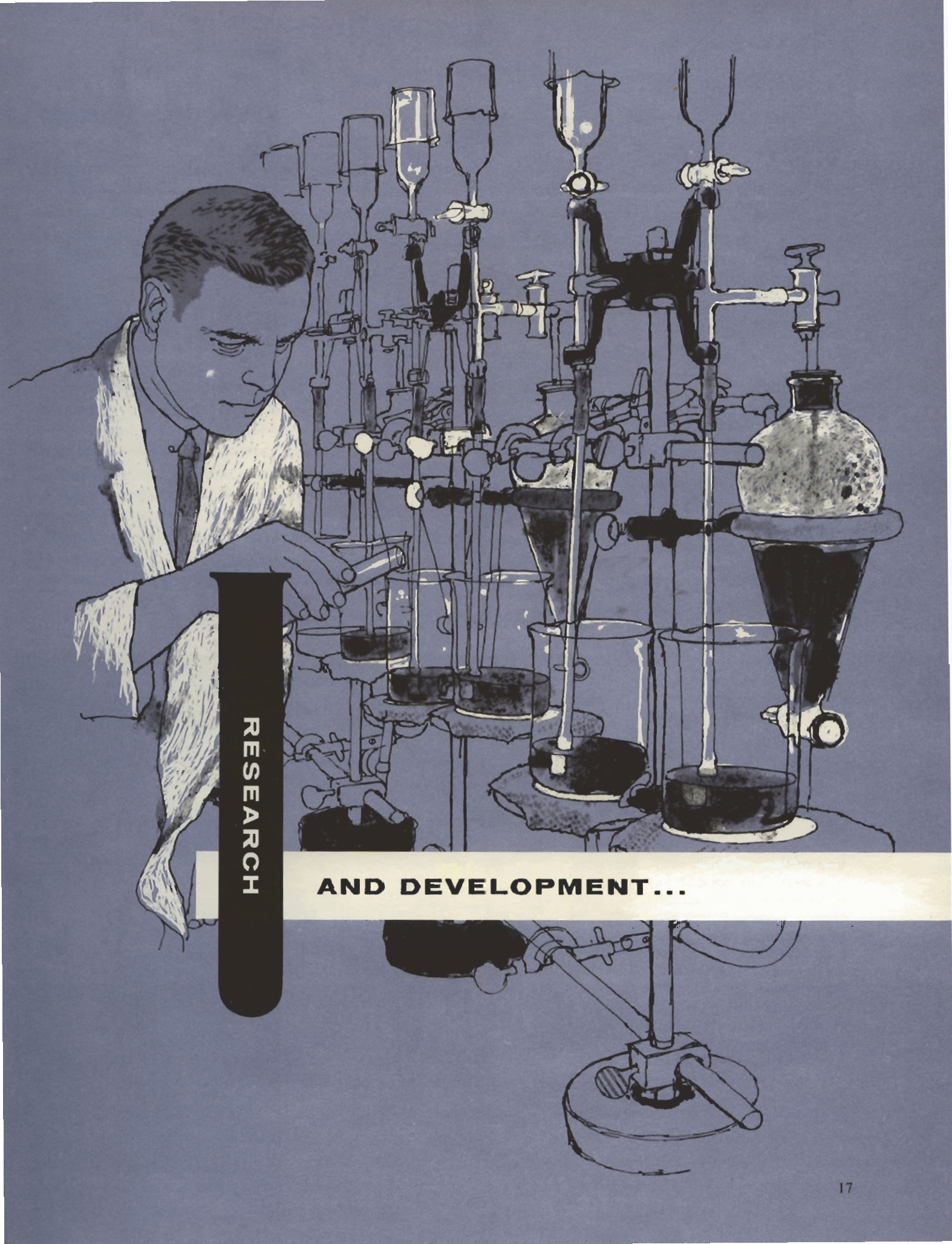
ABITIBI CORPORATION

ABITIBI NAVIGATION COMPANY, LIMITED

MATTAGAMI RAILROAD COMPANY

MILLS – LOCATIONS AND PRODUCTS

- 
- | | |
|--|---|
| 1. IROQUOIS FALLS <i>Newsprint</i>
ONTARIO | 7. SMOOTH ROCK FALLS . . . <i>Bleached sulphite</i>
ONTARIO |
| 2. BEAUPRE <i>Newsprint</i>
QUEBEC | 8. STURGEON FALLS . . . <i>Corrugating board, hard-
board and particle board</i>
ONTARIO |
| 3. PINE FALLS <i>Newsprint</i>
MANITOBA | 9. PORT ARTHUR <i>Machine coated and
groundwood printing papers</i>
ONTARIO |
| 4. PORT ARTHUR <i>Newsprint</i>
ONTARIO | 10. THOROLD . . . <i>Book, writing and specialty papers</i>
ONTARIO |
| 5. FORT WILLIAM <i>Newsprint</i>
ONTARIO | 11. GEORGETOWN . . . <i>Coated book and litho papers</i>
ONTARIO |
| 6. SAULT STE. MARIE . . . <i>Newsprint and ground-
wood printing papers</i>
ONTARIO | 12. ALPENA <i>Insulation board and hardboard</i>
MICHIGAN |




RESEARCH

AND DEVELOPMENT...

RESEARCH AND

Abitibi established a Central Research and Development Division with the firm conviction that only in well-conceived research lay the future progress of the company.

As a wood using industry the problem facing us was, first of all, to make the maximum use of all the wood available to us on our limits. In doing this we had to learn how to get the most pulp out of each cord of wood that was cut; how to use those species not normally used in our products; and, where large amounts of certain species were not being used in present products, how to develop new products that could use them. The importance of this policy can best be emphasized by pointing out that, without it, at least two of our mills were then faced with eventual extinction. In these mills the problem was how to use the jackpine which occurred in considerable quantity in their woods areas, and it was imperative that we learn how to grind it, cook it, and make it into newsprint paper so that there was no deterioration of quality in any way. It can now be said that our newsprint mills are able to use jackpine as it is encountered in woods operations.



Discussion is the cornerstone upon which every research project is built. Men such as Dr. Rodger M. Dorland, Director of Research, and his associates . . . in this instance Drs. J. Willard McKinney, Kenneth G. Booth and Maxwell M. Yan . . . meet to discuss each new project and the best manner in which to attack it. Each of the scientists shown above is a PhD in either Chemistry or Wood Chemistry and can bring the experience of a specialized training to bear upon the problems involved.

So that research on pulp and paper manufacturing methods may be carried out in our laboratory under conditions which duplicate those in our mills, experimental digesters are installed. E. W. Read, shown here at the controls of these digesters, can, with them, cook wood chips with precise control of all the factors involved. By this means delicate variations of heat, time, pressure and the chemicals used may be introduced so that the effects of these changes can be related to each other. Here, as everywhere else in this Central Research Laboratory, there is a constant striving for a better product produced in a more efficient manner.



DEVELOPMENT

Similarly, at Sturgeon Falls, Ontario, there was a newsprint mill that was one of the first casualties of the depression of the 1930's. The coniferous woods normally used in newsprint production were no longer available but adequate quantities of mixed hardwoods and sawmill waste were. Research developed methods of using these latter so that this mill, in a greatly expanded form, now produces semi-chemical corrugating medium, Hardboard and our new particle board called PLATEWOOD.

High-yield sulphite, the result of another major research project, is a method for producing pulp yields, from a unit quantity of wood, much higher than any ever before obtained in the industry—and this process is now being installed in our newsprint mills as funds permit.

It is obvious that developments such as these are not the result of haphazard decisions. Our company has intelligently-planned long-range research objectives and a thorough appreciation of the problems involved. On this basis we have evolved our research program and the road on which we are to travel during the years to come.



Research is a partnership of cause and effect. Photo-micrographic apparatus, here operated by Andrew Pataky, is used continually to evaluate the results of preliminary work. Such a unit is versatile enough to permit not only individual study of the microscope slide but, in addition, group viewing of the subject matter by means of projection on a small screen. Where necessary, photographs are taken of the subject being studied by means of a built-in camera attachment and these pictures are invaluable in comparing a series of experimental results. The light necessary to penetrate and illuminate the slides is supplied by an electric arc which is varied by rheostatic controls.

An example of the type of material studied is the effect of various pulp cooking methods on the wood fibres and their ability to form, through their interlocking characteristics, a stronger and better sheet of newsprint.



Before the cooked pulp from the digesters can be made into a sheet of paper the fibres must be screened, washed, and in most cases refined. The latter step is carried out by refiners such as these which receive the pulp in the centre of two discs revolving in opposite directions. These plates, set to such close tolerances that the individual fibres are separated by the rubbing action, allow the fibres to fall from their edges. Those fibre bundles which are not completely broken down by such treatment are screened out at the next step in the process and returned for another passage through the refiner. Research Engineer Ronald Bluez and Technician Douglas Witty take samples of the pulp as it comes from the refiner so that an analysis of its characteristics may be made.

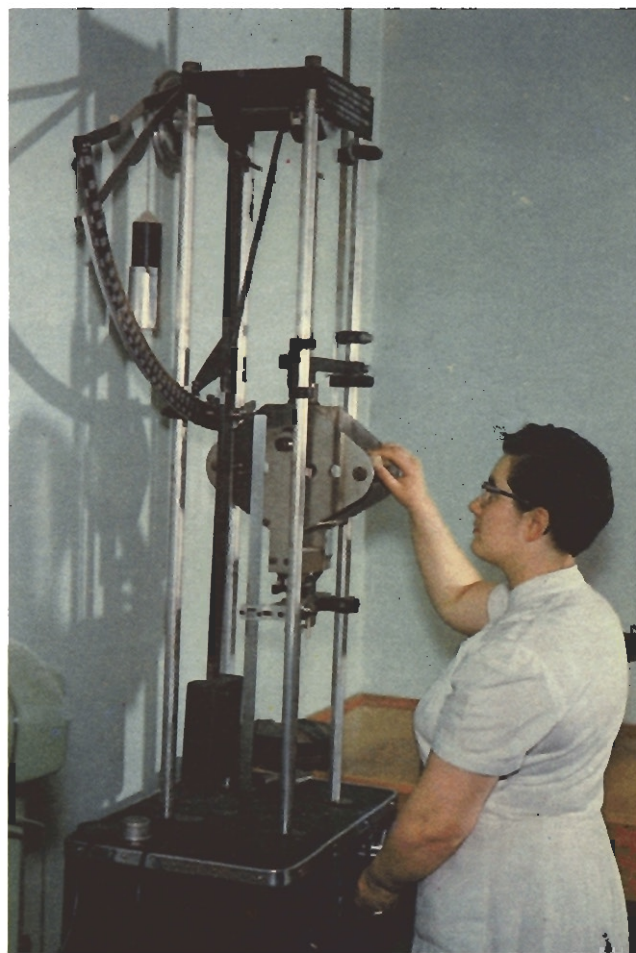


Muffle furnaces, designed to operate at extremely high temperatures, are used to determine what percentage of the substances under test is mineral in origin. These are called "ash tests". The procedure followed is to place samples of the material being checked in crucibles and these are then left in the furnaces until all flammable parts have burned off and only the nonflammable ones are left. Spectrographic and chemical analyses then give a basis for an accurate picture of the chemical composition of the material involved. The laboratory assistant uses asbestos mitts and tongs to handle the crucibles as these become white hot while being heated.



Pulp beaters similar to this unit, here being operated by Wilma M. Walsh, are found in paper mill testing laboratories everywhere. In research work, however, they play an even more important role as they are called upon to prepare pulps of unique properties. Such new and untested trial runs have to be checked and rechecked after they have gone through these beaters. Rawstock, admitted to this unit, is beaten at about the same consistency as the pulp which is pumped through the system of a full-size paper mill. This is possible because the laboratory unit duplicates, on a small scale, the action of the mill production machine.

Electrohydraulic Tensile Testers are versatile checking devices useful in determining the strength characteristics of a wide range of Abitibi products. Not only papers, but our Hardboards and PLATEWOOD, are given a variety of tests on such machines to learn the results of trial runs and to verify the constancy of such results in the case of items which are already in commercial production. Here, Gloria J. McLeod runs such a routine test on a competitor's product.



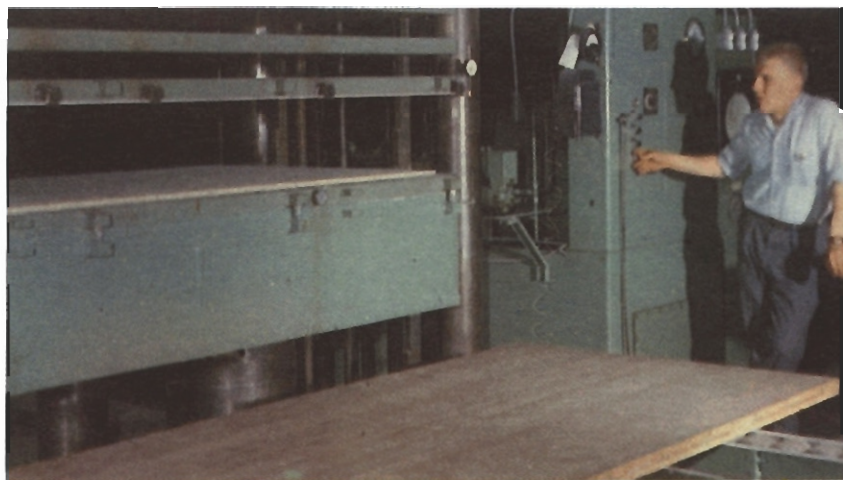


Chemical Engineer Shafi Hossain prepares an autoclave for the treatment of material at extremely high temperature and pressure. This is only one of the complex testing machines required by this laboratory to make certain that each of Abitibi's products is of the highest quality.



Abitibi Hardboard, as are all of the Company's many products, is subjected to rigorous quality control tests. One of these, in process here under the guidance of Virginia I. Willoughby, is the mullen, or burst, test designed to obtain a reading of our Hardboard's resistance to this type of rupture.

Here, in the top photograph, is the experimental press from which emerged the first sheet of Abitibi **PLATEWOOD**, the new improved particle board which was the result of so many years of research in our laboratory. This particle board, designed primarily as a furniture core stock, has received wide acceptance in the furniture industry. An impressive example of co-operation between research and production, **PLATEWOOD**'s development led to the increased utilization of vast areas of hardwoods in the North Bay area which were formerly of little use or value. While the board as originally marketed far surpassed anything of its type then in existence, research didn't stop, but continues even now in a never-ending search for ways to improve its beauty and utility. Samples of this work are exhibited in the lower picture where the results of the application of a wide range of finishes are examined and studied. At no time, however, does the research staff lose sight of the fact that dimensional stability, constant density, and accuracy of dimensions are of prime importance to the furniture trade. **PLATEWOOD**'s already famous adherence to these features is never allowed to vary.





ABITIBI CORPORATION, ALPENA, MICHIGAN

The ever-increasing demand for Abitibi Hardboard in the United States, and its proven ability to meet all competition on a quality basis, led to the decision, in 1955, that a subsidiary company should be incorporated there to manufacture this product.

The site chosen was Alpena, Michigan, an attractive community of 15,000 people on the shore of Lake Huron about 250 miles north of Detroit. Its location, close to the heavily-wooded Michigan peninsula, provides an economical source of the species of trees required for the Hardboard process. Further investigation of market requirements led to the decision that a diversified mill should be built and that a full range of insulation and hardboard products should be produced.

The mill, now in operation, is on the shore of Thunder Bay and adjacent to that river, this latter permitting coal-bearing lake boats to deliver our supplies of this fuel directly onto our mill coal pile.

The main mill building is equivalent to four football fields in area. The smaller building, beside the water tower in the above picture, is the power house which supplies 65% of the power and 100% of the steam required by the mill machines.

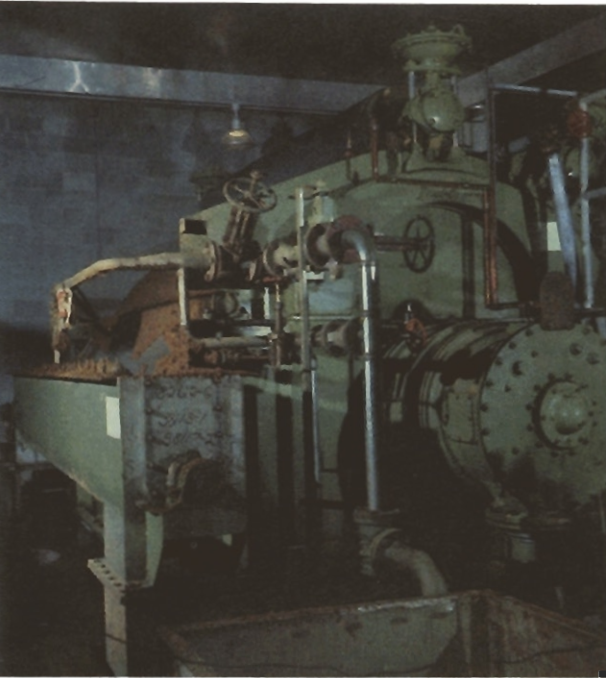
The three main production lines are designed to produce a complete range of board products in a highly automated process. Efficiency in manpower and machine utilization was the keynote of its design and

in every case the best of the latest method was installed. Indicating the size and complexity of some of this equipment is the large machine, the drying section of which is, in itself, over 300 feet long and contains more than 7000 power-driven conveyor rolls.

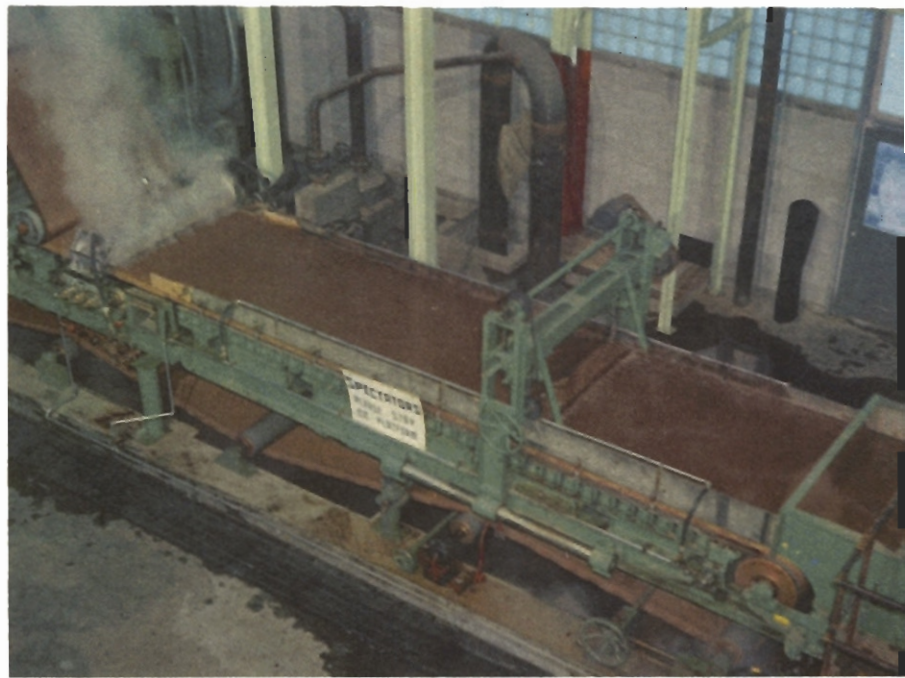
Between the mill and the nearby lake are rows of the eight-foot wood which has been received from woodlot operators within the thirteen counties surrounding the mill. These logs, delivered by truck, are mechanically unloaded into piles of varieties such as pine, poplar and other mixed hardwoods and are taken, in turn, from these piles to the wood conveyors as required by the mill. As different products need different mixtures of species, this versatile woodyard operation is an impressive indication of the thoughtful and detailed planning behind the mill design.

Charged with marketing 200,000,000 square feet of annual production is the Abitibi Corporation sales staff directed from a central office located in Detroit, Michigan. The primary market is that portion of the United States which holds both two-thirds of the population and the heaviest concentration of its industrial activity.

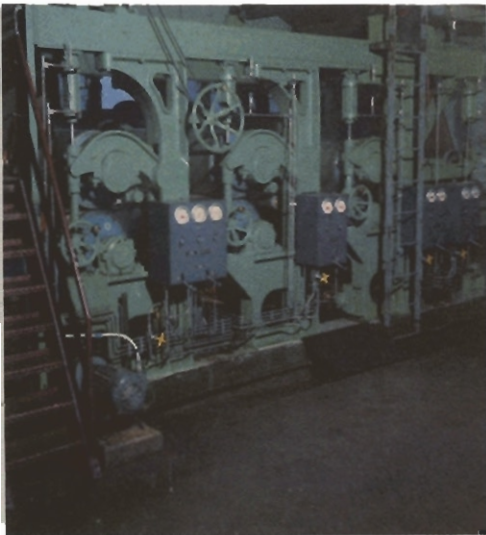
This combination—the most modern of mills, an ample wood supply, and the richest of marketing areas nearby—augurs well for the future of our first manufacturing venture outside of Canada.



Logs, mechanically debarked and chipped, are cooked in digesters and reduced to pulp in refiners before reaching this washer. Here undesirable wood sugars and solubles are washed away, leaving only clean fibres. The stock, refined and with chemicals added, then reaches the headbox of the forming machine.



From the headbox, which is to the right of this photograph, the pulp flows onto a fourdrinier wire—an endless bronze screen through which the water in the pulp is drawn by suction boxes—until, at the left of the photograph, it enters the press section. At this point a similar wire screen comes down onto the surface and the pulp then goes between the press rolls in this wire "sandwich", emerging as a semi-dry mat which must be cut to the length required by the dryer.



The press section of the small forming machine shows the point at which the upper screen leaves the mat, which then enters the hot press to become Hardboard. After further treatment the panels move automatically to the fabricating conveyors.



Initial Hardboard fabrication entails trimming panels to exact widths and lengths. Other products are cut to required dimensions by other special machines. Surface and edge treatments complete the process and the products are then ready for warehousing and shipment.



Indicative of the efficiency of the operation are these "cyclones", a part of the dust collection system. They minimize mill housekeeping, add greatly to plant hygiene and, in doing so, reduce costs in providing part of the power house fuel requirements.



As part of a complex system of liquid waste reclamation and disposal a chemical reaction is initiated in this 80-ft. diameter tank. As a result, the harmful free solids are separated from mill effluent and only a clear liquid is dispersed harmlessly far offshore in Lake Huron.

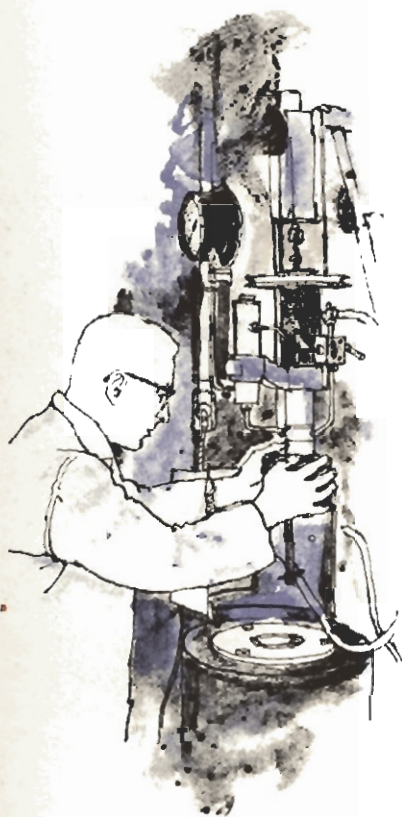


An integral part of any modern mill is the quality control laboratory. Here highly trained specialists maintain a constant watch over each step of the mill manufacturing processes. With the latest and best of equipment they can provide answers to problems as they arise, guaranteeing uniformity of product quality.



And here, in this photograph of Abitibi Corporation Hardboard, the finest panelboard of its type available, is one of the products of the mill. Similar piles, elsewhere in the warehouse contain: smooth-one-side and smooth-two-sides Hardboard, decorative ceiling tiles, and an attractive line of insulating board products.

Each day—as nearly $\frac{3}{4}$ of a million sq. ft. of these materials move from mill to warehouse and from warehouse into the market . . . Abitibi Corporation's name becomes synonymous with quality across the most populated segment of the United States.



*The Cover is Paragon Brilliant
Basis 25 x 38—400M.*

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Products of
Provincial Paper, Limited
the Fine Paper Division of
**Abitibi Power & Paper
Company, Limited**

Lithographed in Canada