



1959 Annual Report

Abitibi



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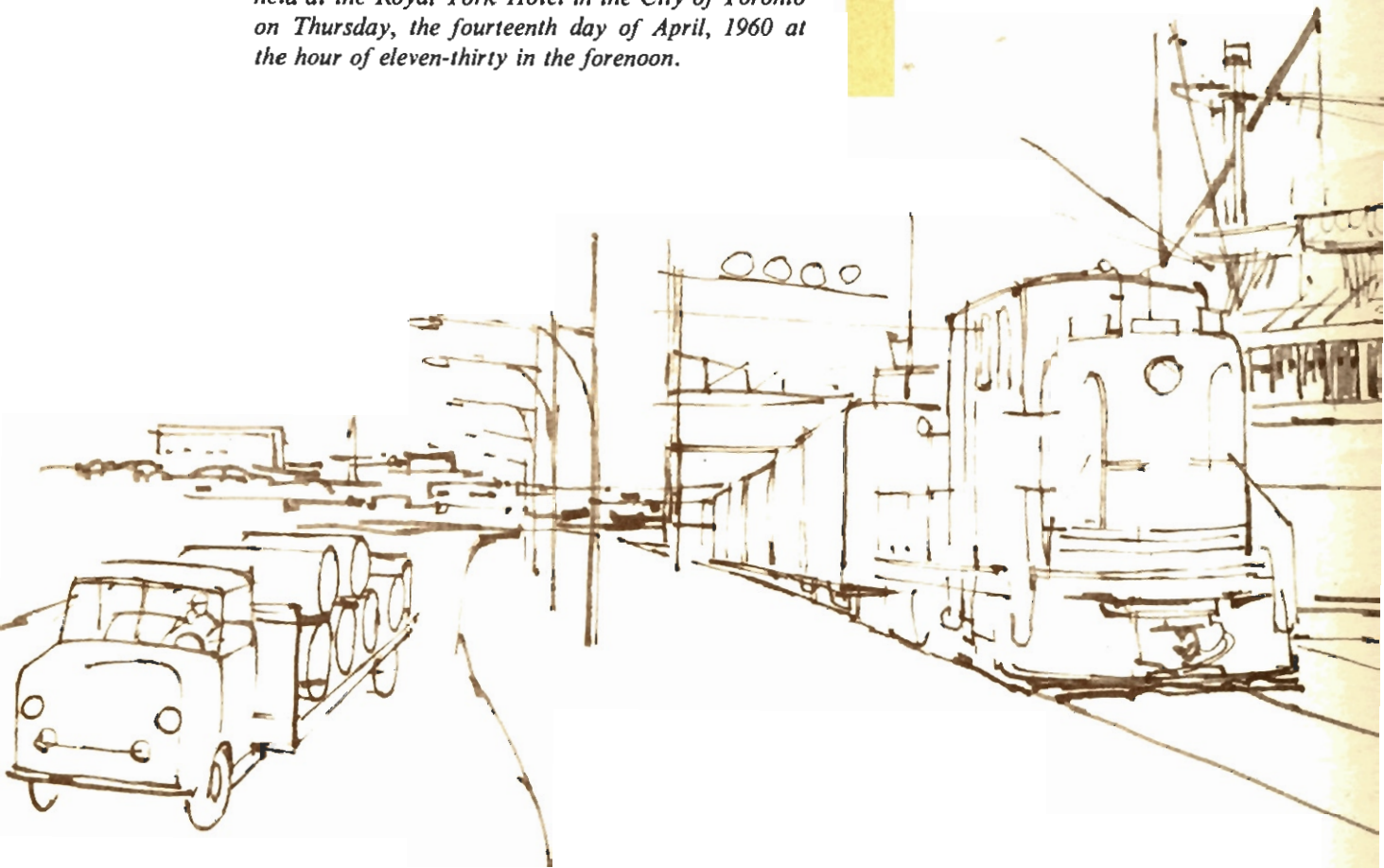
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The Annual General Meeting of Shareholders will be held at the Royal York Hotel in the City of Toronto on Thursday, the fourteenth day of April, 1960 at the hour of eleven-thirty in the forenoon.

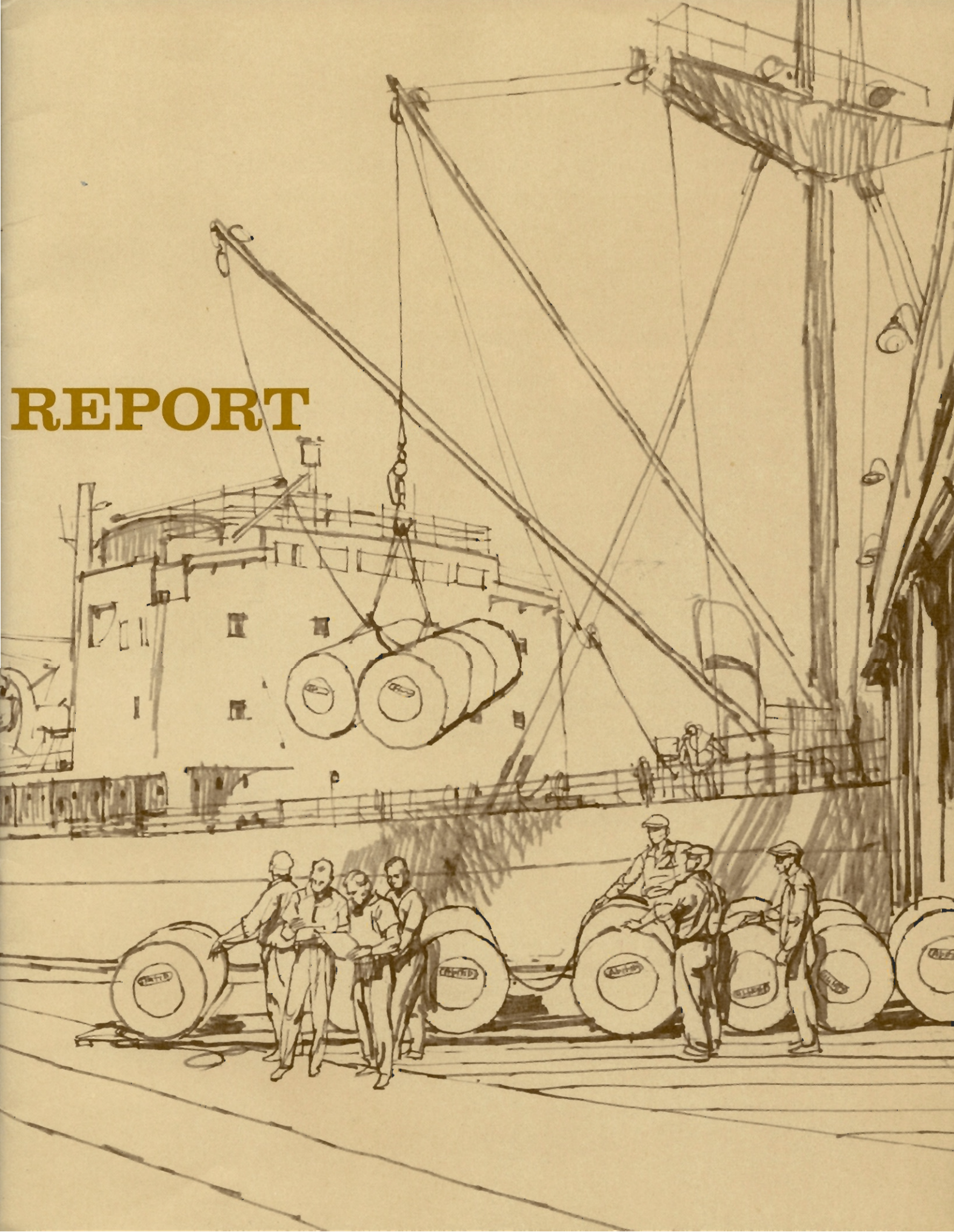
Abitibi Power & Paper Company, Limited

ANNUAL

*For the year
ended December 31
1959*



REPORT





ABITIBI POWER & PAPER COMPANY, LIMITED

Incorporated in 1914 under the Companies Act (Canada)

Executive Offices--408 University Avenue, Toronto, Canada

DIRECTORS

DOUGLAS W. AMBRIDGE
President
Abitibi Power & Paper Company, Limited
Toronto, Canada

HON. EDOUARD ASSELIN, Q.C.
Asselin and Saylor
Montreal, Canada

EDWARD W. BICKLE
Financial Executive
Toronto, Canada

HARRY J. CARMICHAEL
Industrialist
St. Catharines, Canada

ALLAN GRAYDON, Q.C.
Blake, Cassels & Graydon
Toronto, Canada

CHARLES L. GUNDY
President
Wood, Gundy & Company Limited
Toronto, Canada

T. RODGIE McLAGAN
President
Canada Steamship Lines, Limited
Montreal, Canada

ROBERT H. REID
President and Managing Director
London Life Insurance Company
London, Canada

JOSEPH P. RIPLEY
Chairman
Harriman Ripley & Co. Incorporated
New York, U.S.A.

WILLIAM H. SMITH
Vice-President
Abitibi Power & Paper Company, Limited
Toronto, Canada

JOHN S. D. TORY, Q.C.
Tory, Arnold, Wardlaw, Whittaker & Tory
Toronto, Canada

OFFICERS

DOUGLAS W. AMBRIDGE, President

ROBERT J. ASKIN, Executive Vice-President
(Development, Engineering & Services)

PAUL E. ROBERTS, Executive Vice-President (Operations)

ARTHUR P. JEWETT, Vice-President (Sales)

ERNEST W. MCBRIDE, Vice-President (Manufacturing)

W. STANLEY ROTHWELL, F.C.A., Vice-President and Treasurer

WILLIAM H. SMITH, Vice-President

CRAIG DICK, Secretary

MANAGEMENT COMMITTEE

DOUGLAS W. AMBRIDGE, Chairman

ROBERT J. ASKIN

JAMES C. BINNIE, Q.C.

LESLIE CLEMINSON

ROBERT E. COSTELLO

E. EDWARD GRAINGER

ARTHUR P. JEWETT

ERNEST W. MCBRIDE

PAUL E. ROBERTS

C. HARRY ROSIER

W. STANLEY ROTHWELL, F.C.A.

TRANSFER AGENTS

Montreal Trust Company, Toronto, Montreal and Vancouver, Canada

First National City Trust Company, New York, U.S.A.

REGISTRARS

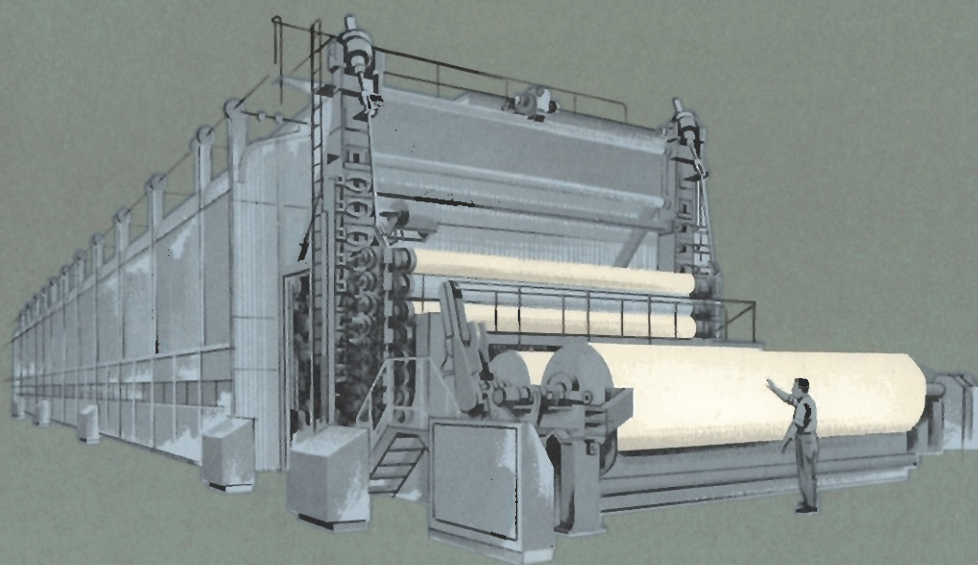
The Toronto General Trusts Corporation, Toronto and Vancouver, Canada

The Eastern Trust Company, Montreal, Canada

The First National City Bank of New York, New York, U.S.A.

AUDITORS

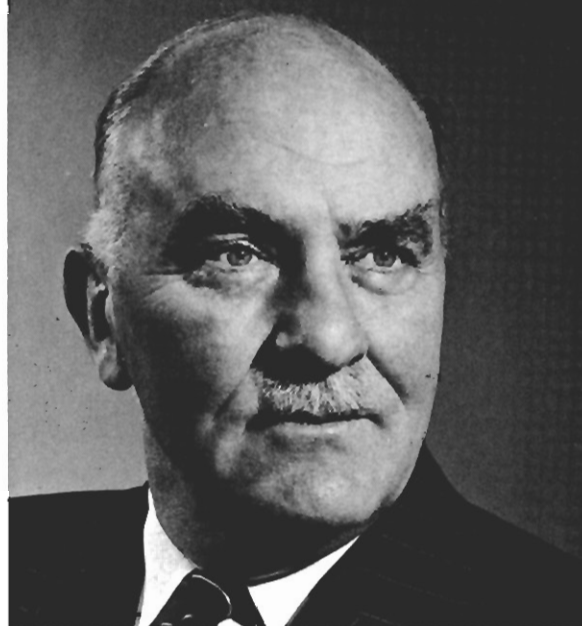
Price Waterhouse & Co., Toronto, Canada



HIGHLIGHTS OF THE YEAR

	1959	1958
Paper, pulp and board produced.....	1,025,861 tons	955,334 tons
Net sales.....	\$133,813,074	\$123,385,542
Taxes on income.....	\$ 12,700,000	\$ 10,470,000
Net earnings.....	\$ 11,825,544	\$ 9,657,382
Per common share.....	\$ 2.72	\$ 2.19
Dividends on preferred shares.....	\$ 507,803	\$ 547,796
Dividends on common shares.....	\$ 7,077,579	\$ 7,077,582
Per common share.....	\$ 1.70	\$ 1.70
Invested in properties, plant and equipment.....	\$ 7,105,455	\$ 10,423,905
Working capital at end of year.....	\$ 39,758,950	\$ 40,396,848
Number of shareholders—common shares.....	18,777	19,523
Number of shareholders—preferred shares.....	3,263	3,487

REPORT TO THE SHAREHOLDERS



Operating results of the Company for 1959 improved over those of the previous year. This was due mainly to the fact that our new building materials mill at Alpena, Michigan, operated at a profit in 1959, whereas in 1958 this mill sustained a loss in its first full year of operations.

During the year under review world demand for newsprint resumed its normal growth trend and, as a result, the Company's production of newsprint was higher by 6% than it was in 1958.

The market for fine papers in Canada was satisfactory and the mills of Provincial Paper, Limited, operating at or near capacity for the entire year, achieved their highest combined production on record.

Pulp markets continued weak, not so much because of lack of demand as because of increased competition for available pulp business from the many new mills all over the world which have recently come into production.

Demand for building materials, both in the United States and Canada, was fairly good and the Company's total output of these materials was the highest on record.

SALES, COSTS AND EARNINGS

These conditions in the four major divisions of the pulp and paper industry in which the Company operates resulted in net sales of all products amounting to \$133,813,074, an

increase of 8.5% over 1958. Total production of 1,025,861 tons was exceeded only in 1956 and then by the small margin of only 2%. It is, therefore, a matter of some concern that earnings in 1959, while showing improvement over 1958, were 23% lower than they were in 1956. This was, of course, the inevitable result of rising costs, increased tax rates and the chronic penalty on all exporters of the high premium on the Canadian dollar.

The rate of exchange between Canadian and United States currencies is, of course, of great importance to the Company inasmuch as almost two-thirds of its business is transacted in United States dollars. A chart showing the annual average exchange rates between the two currencies for the past ten years is shown on the opposite page. It will be seen that the average discount of 4.1% in 1959 on United States funds was as high a figure as we have ever experienced since the Canadian dollar was set free.

It is discouraging to hear from the financial authorities of the nation that our government can find no satisfactory weapon to attack and overcome the persistent high Canadian dollar premium. Apparently they believe that the damage being done to Canada's export trade is more than offset by the advantages of permitting a free market for the Canadian dollar. It is to be hoped, at this juncture in the history of world

trade, that their judgment on so vital a matter will prove to be correct.

We continued to make every effort to minimize or offset the effect on the Company's progress of the steady rise in the cost of everything we buy or use. Eventually, of course, it is going to be necessary to study and to solve on a national scale the problems which arise from the relentless demands for higher wages from the labour organizations which have so vastly increased both their power and their responsibilities in the last two decades. Studies on the probable course of development of the nation's economy have been made and, while these are unquestionably useful, it would appear that most earnest attention should be given also at an early date to the problem of whether it is possible for union labour in Canada to have a steadily increasing standard of living without greatly increased productivity in a nation that must trade successfully with the rest of the world if it is to maintain even the standards we now have.

Consolidated net earnings for the year after providing for all charges, including depreciation, interest and income taxes, amounted to \$11,825,544 as compared with \$9,657,382 in the previous year. Earnings for the second half of

the year improved in comparison with the first six months, due to much better results by Abitibi Corporation and an improved market demand for our many paper products.

After providing for dividends on preferred shares, earnings for 1959 amounted to \$2.72 per common share, in comparison with \$2.19 per share in 1958 and \$2.86 per share in 1957.

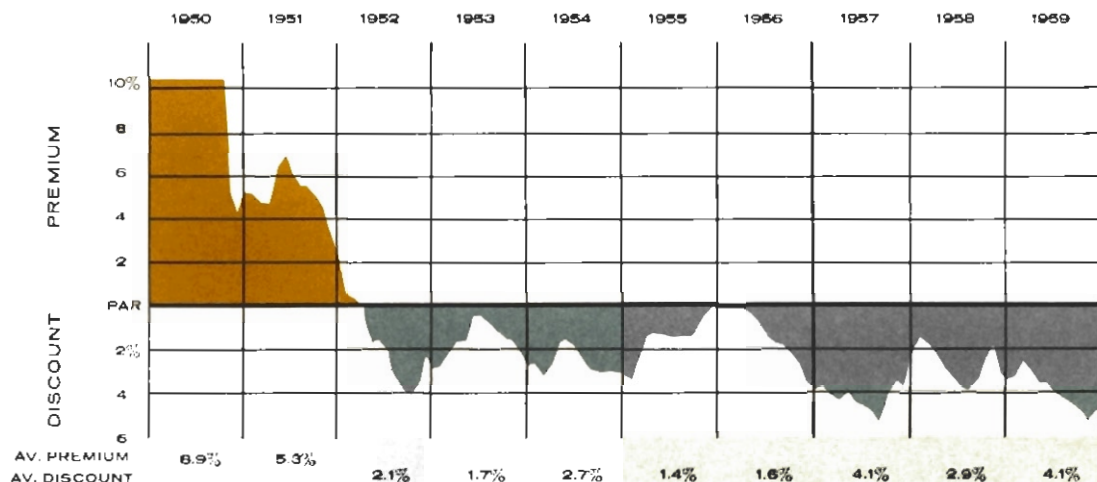
FINE AND PRINTING PAPERS

Our activities in the fine paper trade have hitherto been confined mostly to the Canadian market. In 1959, however, we were able to sell quite a substantial tonnage abroad. It must, however, be remembered that under present conditions these "offshore" sales are barely worth while and we exert ourselves in foreign markets in order to maintain our connections and our customers, and in the hope that one day we may reap some reward for our persistence.

Production of fine and printing papers in 1959 amounted to 107,884 tons, an increase of 11% over 1958 and the highest volume in our history.

We have recently introduced several new products, such as Provincial Bond, Mimeo and Duplicating in the business paper field, and the

EXCHANGE RATES ON CONVERSION OF THE UNITED STATES DOLLAR 1950-1959





PRODUCTION IN TONS *Exclusive of Production for use of Abitibi and Subsidiaries*

	Newsprint Paper	Fine and Printing Papers	Bleached Sulphite and other Pulpa	Building and Paper Boards	Total
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
1958	692,781	96,905	51,446	114,202	955,334
1959	735,215	107,884	44,008	138,754	1,025,861

success which has attended such products has been the main reason for the increased business we have won in the fine paper trade.

New and improved storage facilities have been provided where necessary and as a result we have improved our service to customers.

Finishing operations are an all-important part of the manufacture of high grade papers and much new equipment has been installed in the finishing rooms of our fine paper mills.

It is, of course, important that Provincial Paper, Limited maintains its place as the nation's largest fine paper manufacturer. The normal increase in fine paper consumption in Canada is about 4% per annum and, if we are to maintain our share of the domestic market, it will be necessary to install new capacity or speed up existing machines from time to time. This policy has been followed for many years with satisfactory results.

At the time of writing this report, serious consideration is being given to the question of

expanding the capacity of the Thorold mill by installing a fifth paper machine. A decision will be made in the near future when all aspects of the problem have been thoroughly studied.

The installation of a paper machine is a major undertaking involving a lengthy construction and installation period. If we undertake this project in early 1960 the new machine will not be in production until well into 1961.

ABITIBI CORPORATION

Operations of Abitibi Corporation at Alpena, Michigan, improved steadily throughout 1959, apart from seasonal variations and the serious effect of the strike in the steel industry in the United States. This wholly-owned subsidiary company has now become a recognized supplier of high quality and well diversified board products to the United States market.

The volume of business in 1959 was nearly double what it was in 1958 and a great many new and important customers were added to our lists. Manufacturing methods and processes

were improved and adjusted to satisfy the particular requirements of the many uses to which the products of the mill are put.

While the earnings from the operations of Abitibi Corporation were generally satisfactory at this stage of its development, they are less than we expect in 1960 and thereafter. Much valuable experience has been gained that will be put to good use in the years to come.

With the aid of the research organization of the parent company, many problems were solved and some new products were developed and are being introduced to the market.

There is every reason to expect continued growth and improvement in the operations of this very important subsidiary company.

FINANCIAL POSITION

The financial position of the Company at the close of 1959 should be regarded as satisfactory. Cash resources were higher than they were at the close of 1958 and are adequate for our present scale of operations. We made a practice throughout the year of investing all funds in excess of immediate requirements in selected short-term securities. Revenue from interest and miscellaneous sources was higher than in the prior year.

Working capital at the close of 1959 amounted to \$39,758,950, a decrease of \$637,898 in comparison with one year ago. A factor which affected the working capital position was the relatively substantial reduction in funded debt accomplished during the year.

First Mortgage Bonds Series "A" were reduced by \$4,299,000 and the balance of this issue still outstanding amounts to \$6,814,000. This is all that remains of the \$45,000,000 First Mortgage Bonds issued in 1947 in connection with the refunding at that time of a larger obligation.

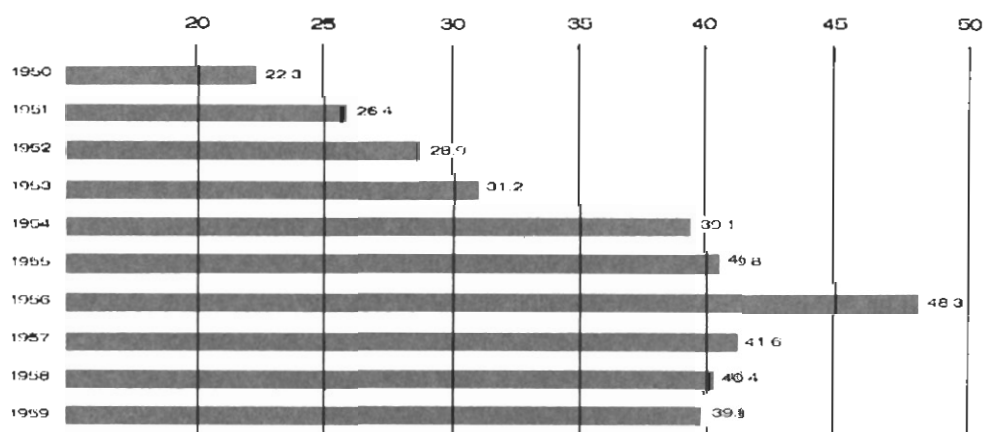
First Mortgage Bonds Series "B," issued in 1954, were reduced by \$414,500 to a figure of \$9,028,000 at the close of the year. We also commenced the redemption of Series "C" bonds by the purchase and cancellation of bonds of a par value of \$210,000.

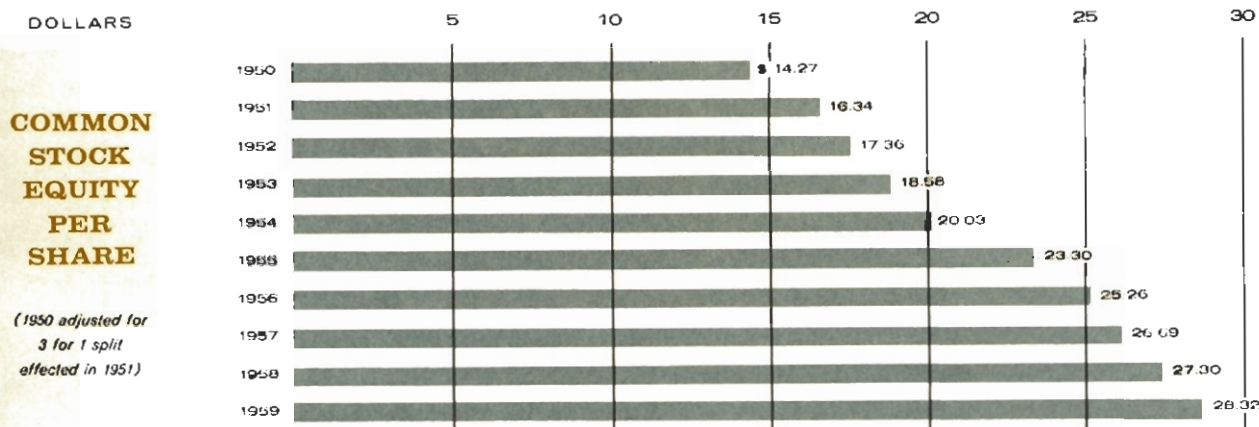
The total reduction in funded debt during 1959 was \$4,923,500. As a result of debt retirements effected prior to the close of 1959, all sinking fund obligations falling due in 1960 have been discharged in advance of due dates.

There were 35,419 preferred shares of a par value of \$885,475 retired during the year in comparison with 33,204 shares of a par value of \$830,100 in 1958. Preferred shares retired as of

MILLIONS OF DOLLARS

WORKING CAPITAL





this date are somewhat in excess of retirement fund obligations to the close of 1959 and will serve to reduce the amount required to be set aside for this purpose in 1960.

DIVIDENDS AND SHAREHOLDERS' EQUITY

Dividends on common shares were continued at the annual rate of \$1.70 per share established in 1956 and continuously maintained since then. While the total amount of \$7,077,579 paid in dividends on common shares is a somewhat larger portion of current earnings than is usual with many growth companies, the Directors consider that the strong financial position of the Company and the outlook for the future fully justify the continuation of dividends at the established rate.

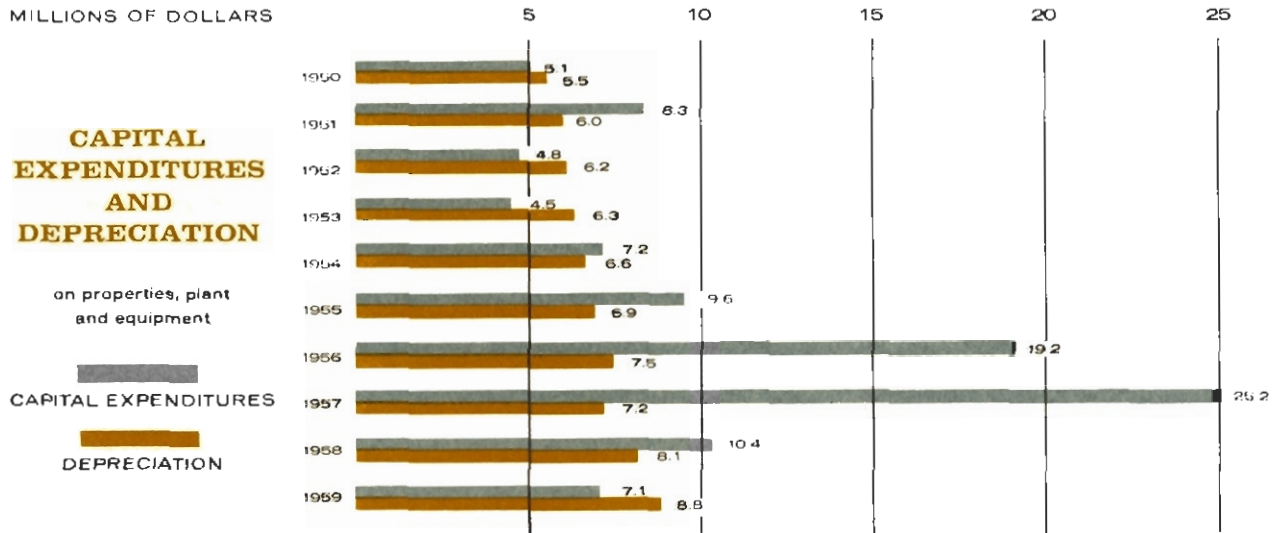
As a result of the retirement program, dividends on preferred shares were reduced to \$507,803 compared with \$547,796 in 1958.

The total equity in the Company of all shareholders as at December 31, 1959 is \$128,738,892, an increase of \$3,354,687 during the year. The book value of each common share, based on the depreciated book value of capital assets, increased to a figure of \$28.32 per share.

PROPERTIES, PLANT AND EQUIPMENT

For the first time in several years, capital expenditures on mill properties were less than the depreciation provision for the year. Even so, they amounted in total to \$7,105,455. The more important projects completed or in process during 1959 were as follows:

- (i) The high-speed newsprint machine installed at Fort William Division was brought into production early in 1959 and is now in regular and satisfactory operation.
- (ii) An important forward step was made at Pine Falls Division by the installation of a sulphite pulp system which considerably improves the yield from pulpwood with a consequent reduction in costs. A bark burning system was also installed which permits the use of waste bark as boiler fuel and disposes of the problem of bark accumulation. These and other major projects previously carried out at the Pine Falls mill make it by any standards one of the most efficient newsprint mills in the world.
- (iii) At Sault Ste. Marie Division the progression from standard newsprint to specialty



papers was further advanced by machine renovations and installations of new winders.

- (iv) At Smooth Rock Falls Division, where our product is bleached sulphite pulp, we commenced the addition to the bleaching system of a chlorine dioxide process. This major revision to the manufacturing process was made necessary by changing market requirements. This program will be completed during the first half of 1960.

There were also, of course, a great many lesser projects throughout the Company involving replacements, modernization and improvements. To maintain our many properties in efficient competitive condition requires the expenditure of a substantial amount annually. As in past years, all divisions of the Company shared in the capital expenditure program.

FORESTRY

Outlays on logging equipment and development were larger in 1959 than in the previous year due partly to construction of the Spruce River access road at the Lakehead, where we conduct logging operations to meet pulpwood requirements for three paper mills. Cost of this

road is being shared with Federal and Provincial governments. Pulpwood deliveries over this new access road have now commenced and will increase annually until the adjacent limits are yielding their full potential.

Wood production schedules for the current season are being met and control over operations is satisfactory. We have had an exceptional safety record in the past year due to rigorous accident prevention measures and employee co-operation. Loss of standing timber through fire damage has never been lower, due to above-normal precipitation in most areas and excellent fire-fighting organizations maintained both by the Company and the governments of the provinces in which our limits are located.

MANAGEMENT ORGANIZATION

There have been an unusual number of changes during the past year in the management organization of the Company. These changes were made because of retirements and in order to strengthen the Company in many ways. The more important changes were:

- (i) D. W. Ambridge, while retaining the office of President of the Company, relinquished

Seaway facilities at Toronto place Provincial's fine paper grades within reach of world markets.

the duties of General Manager and these were assumed by two newly appointed Executive Vice-Presidents.

- (ii) R. J. Askin, formerly Vice-President, appointed Executive Vice-President in charge of Development, Engineering and Services.
- (iii) P. E. Roberts, formerly Vice-President, appointed Executive Vice-President in charge of Operations.
- (iv) A. P. Jewett, a Vice-President of the parent Company, appointed also to the office of President, Abitibi Sales Company, Limited.
- (v) C. H. Rosier joined the Company during 1959 and was appointed Vice-President and General Manager of Abitibi Corporation.
- (vi) C. B. Davis, former Vice-President Woodlands, retired at normal retirement date after 41 years of outstanding service both to the Company and to the profession of forestry. He was succeeded by E. E. Grainger, formerly Woodlands Manager at Sault Ste. Marie.
- (vii) L. B. Popham, former Secretary of the Company, retired at normal retirement

date after 41 years distinguished service. He was succeeded by C. Dick, formerly Assistant Secretary.

EMPLOYEE RELATIONS

Achievements of the past year were made possible through the interest and team work displayed by the many employees of Abitibi and associated companies and by the job ability so very evident throughout the organization. The Directors have taken, and will continue to take, every reasonable step to ensure that employment with Abitibi offers satisfaction in the discharge of responsibilities and the opportunity of promotion. The Directors appreciate greatly the support given them by employees at all levels and locations.

THE OUTLOOK

Most economists and economic forecasters agree that 1960 should be a year of continued progress throughout the Western World provided serious outbreaks of unrest or violence do not interfere with the flow of world trade. There is, however, more than the usual element of



caution or uncertainty in most forecasts which extend beyond the short term.

In the pulp and paper industry in Canada we expect a larger volume of business in 1960, although insufficient in total to absorb all of the new productive capacity that has made its appearance in recent years.

The need for efficiency in our operations will consequently be as great as ever, which is a good thing. The need for competitive costs will be greater than ever.

One of the striking features on the world trading scene, as we enter the seventh decade of the twentieth century, is the formation by independent nations of large trading groups. If this trend persists we will find the greater part of the world, in which we have been accustomed to trade, divided into several immense areas each containing scores of millions of inhabitants and within which there will be conditions of free or, at least, preferential trade for the benefit of

member nations.

If Canadian exporters are to sell their goods within these great trading areas or in competition with their manufacturers, the governments at all levels in Canada must do what can be done to assist Canadian industry to maintain the highest quality at lowest cost and to develop new and diverse products.

If taxes are to remain high, if laws are to be kept or new ones passed which hamper development and if the handicap of currency value is to be ignored, it is difficult to see how Canadian exporters and our domestic economy can prosper in the commercial world which is unfolding before our eyes.

If Canadians are to keep their traditional markets, expand them and develop others, then, it is just not possible for the producers to do all this alone. All of us — governments, labour unions, industry—have got to work together with a common purpose toward a common goal . . . and this is a goal we dare not fail to attain.

On behalf of the Board,

A handwritten signature in dark ink, reading "A. W. Ambbridge". The signature is fluid and cursive, with a large initial "A" and a long, sweeping underline.

President

Toronto, February 2, 1960.

CONSOLIDATED EARNINGS

	Year Ended December 31	
	1959	1958
Net sales.....	\$133,813,074	\$123,385,542
Cost of products sold and all expenses except items shown below..	98,028,116	92,316,283
	\$ 35,784,958	\$ 31,069,259
Interest and other income.....	951,390	603,334
	\$ 36,736,348	\$ 31,672,593
Provision for depreciation.....	\$ 8,778,695	\$ 8,127,119
Provision for depletion.....	150,000	165,000
Employees' retirement income plan.....	1,195,337	1,104,147
Interest on funded debt.....	2,008,936	2,083,546
Discount and expense on funded debt.....	77,836	65,399
	\$ 12,210,804	\$ 11,545,211
Earnings before provision for taxes on income.....	\$ 24,525,544	\$ 20,127,382
Provision for taxes on income.....	12,700,000	10,470,000
Net earnings.....	\$ 11,825,544	\$ 9,657,382

CONSOLIDATED EARNED SURPLUS

	Year Ended December 31	
	1959	1958
Earned Surplus at beginning of year.....	\$ 77,187,610	\$ 74,647,338
Net earnings for the year.....	11,825,544	9,657,382
Gain on sale of investment in shares.....	—	508,268
	\$ 89,013,154	\$ 84,812,988
Dividends on preferred shares.....	\$ 507,803	\$ 547,796
Dividends on common shares.....	7,077,579	7,077,582
(being the dividends paid on April 1st, July 1st, September 1st and payable January 1st)		
	\$ 7,585,382	\$ 7,625,378
Earned Surplus at end of year.....	\$ 81,427,772	\$ 77,187,610

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31	
	1959	1958
CURRENT ASSETS:		
Cash.....	\$ 5,069,659	\$ 5,666,537
Short term securities, at cost.....	8,273,831	5,027,852
Accounts receivable, less in each year reserve of \$918,935.....	15,205,664	12,224,694
Inventories of pulpwood, supplies and products at cost, and expenditures on current logging operations.....	30,844,327	33,732,392
Prepaid insurance and other expenses.....	677,515	1,063,225
	<u>\$ 60,070,996</u>	<u>\$ 57,714,700</u>
CAPITAL ASSETS:		
Properties, plant and equipment—at gross physical values as at April 30, 1946 (as reported by Coverdale & Colpitts, Consulting Engineers) plus subsequent additions at cost.....	\$225,635,971	\$219,442,069
Less—Accumulated depreciation.....	118,093,194	110,146,187
	<u>\$107,542,777</u>	<u>\$109,295,882</u>
Logging equipment and development, at amortized cost.....	1,779,440	1,757,937
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of \$4,679,846 (\$4,529,846 in 1958).....	16,791,263	16,941,399
	<u>\$126,113,480</u>	<u>\$127,995,218</u>
OTHER ASSETS:		
Unamortized bond discount and expense.....	\$ 292,143	\$ 369,979
Miscellaneous investments and other assets.....	3,206,319	2,177,660
	<u>\$ 3,498,462</u>	<u>\$ 2,547,639</u>
APPROVED ON BEHALF OF THE BOARD:		
D. W. AMBRIDGE, <i>Director</i>		
W. H. SMITH, <i>Director</i>		
	<u>\$189,682,938</u>	<u>\$188,257,557</u>

LIABILITIES

	December 31	
	1959	1958
CURRENT LIABILITIES:		
Accounts payable.....	\$ 10,376,893	\$ 9,541,371
Dividends payable January 1st.....	1,891,592	1,901,812
Interest accrued on funded debt.....	498,497	545,351
Provision for income and other taxes.....	7,545,064	5,329,318
	<u>\$ 20,312,046</u>	<u>\$ 17,317,852</u>
FUNDED DEBT (Note 2):		
3½% First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967.....	\$ 6,814,000	\$ 11,113,000
4 % First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974...	9,028,000	9,442,500
6¼% First Mortgage Sinking Fund Bonds, Series "C", maturing November 15, 1977.....	9,790,000	10,000,000
4½% Convertible Debentures, Series "A", maturing September 15, 1966.....	15,000,000	15,000,000
	<u>\$ 40,632,000</u>	<u>\$ 45,555,500</u>
Total Liabilities.....	<u>\$ 60,944,046</u>	<u>\$ 62,873,352</u>

SHAREHOLDERS' EQUITY

PREFERRED SHARES:		
Authorized: 1,000,000 shares par value \$25 each issuable in series (550,000 shares issued; 116,543 shares redeemed and cancelled—Note 3)		
Outstanding: 433,457 4½% Cumulative Redeemable Preferred Shares (468,876 shares in 1958).....	\$ 10,836,425	\$ 11,721,900
COMMON SHARES:		
Authorized: 6,000,000 shares without nominal or par value (Note 4)		
Issued: 4,163,218 shares.....	36,474,695	36,474,695
EARNED SURPLUS.....	<u>81,427,772</u>	<u>77,187,610</u>
	<u>\$128,738,892</u>	<u>\$125,384,205</u>
	<u>\$189,682,938</u>	<u>\$188,257,557</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. 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. Sinking fund requirements for 1960 on First Mortgage Bonds have been discharged by purchase and cancellation of bonds prior to December 31, 1959.

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.
3. A preferred shares retirement fund is set aside by annual appropriation for the purchase of shares in the market. Purchases have been made in anticipation of the 1960 requirement leaving a balance not exceeding \$135,666 to be set aside on or before April 30, 1960.
4. Of the authorized and unissued common shares, 330,000 shares are reserved for possible conversion of Debentures and 50,000 shares are reserved under a Key Employees' Stock Option Plan adopted in 1959. Options for 37,000 shares were granted to certain key employees on November 12, 1959 at the then market value of \$38.00 per share. These options may be exercised in annual installments following fulfillment of employment conditions and are for terms not in excess of ten years.
5. Amortization of logging equipment and development in 1959 amounted to \$751,658.
6. For the year 1959 fees of directors not holding salaried positions amounted to \$28,300; counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$463,412.

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, 1959 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, and according to the best of our information and the explanations given to us and as shown by the books of the companies, 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, 1959 and the result of operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Toronto, February 2, 1960

SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:	1959	1958
Net earnings.....	\$ 11,825,544	\$ 9,657,382
Non-cash charges for depreciation and depletion deducted in arriving at net earnings.....	8,928,695	8,292,119
Amortization of logging equipment and development.....	751,658	746,991
Sale of investment in shares.....	—	2,308,268
Disposal of capital assets.....	216,946	29,488
	<u>\$ 21,722,843</u>	<u>\$ 21,034,248</u>
APPLICATION OF FUNDS:		
Invested in properties, plant and equipment.....	\$ 7,105,455	\$ 10,423,905
Invested in timber limits.....	—	14,344
Expenditures on logging equipment and development.....	955,345	592,602
Reduction in funded debt.....	4,923,500	2,428,500
Preferred shares retirement fund.....	827,424	630,402
Dividends on preferred shares.....	507,803	547,796
Dividends on common shares.....	7,077,579	7,077,582
Other items—net.....	963,635	534,079
	<u>\$ 22,360,741</u>	<u>\$ 22,249,210</u>
RESULTING IN A DECREASE IN WORKING CAPITAL OF.....	\$ 637,898	\$ 1,214,962
WORKING CAPITAL AT BEGINNING OF YEAR.....	<u>40,396,848</u>	<u>41,611,810</u>
WORKING CAPITAL AT END OF YEAR.....	<u>\$ 39,758,950</u>	<u>\$ 40,396,848</u>

TEN YEAR REVIEW

	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950
SALES AND EARNINGS										
Net sales.....	\$133,813,074	\$123,385,542	\$128,198,755	\$132,497,683	\$123,173,281	\$113,997,836	\$109,768,039	\$107,381,890	\$111,528,208	\$ 93,776,756
Depreciation and depletion.....	8,928,695	8,292,119	7,467,568	7,752,873	7,132,899	6,793,698	6,532,298	6,419,055	6,193,932	5,622,168
Interest on funded debt.....	2,008,936	2,083,546	1,652,016	1,214,552	1,137,654	1,417,564	1,399,178	1,502,159	1,419,864	1,282,322
Earnings before taxes on income.....	24,525,544	20,127,382	25,552,283	31,012,827	28,506,026	23,028,901	21,429,152	21,369,759	29,742,877	22,863,833
Taxes on income.....	12,700,000	10,470,000	13,050,000	15,589,000	14,570,000	12,403,000	11,385,000	12,272,000	16,745,000	10,240,000
Net earnings.....	11,825,544	9,657,382	12,502,283	15,423,827	13,936,026	10,625,901	10,044,152	9,097,759	12,997,877	12,623,833
Net earnings per common share*.....	\$ 2.72	\$ 2.19	\$ 2.86	\$ 3.56	\$ 3.20	\$ 2.49	\$ 2.27	\$ 2.02	\$ 3.07	\$ 2.92
DIVIDEND RECORD										
On preferred shares.....	\$ 507,803	\$ 547,796	\$ 578,441	\$ 605,360	\$ 618,825	\$ 1,176,955	\$ 1,575,624	\$ 1,575,624	\$ 1,575,624	\$ 1,730,406
On common shares.....	7,077,579	7,077,582	7,077,580	6,661,252	5,618,967	4,487,561	3,911,336	3,725,082	3,724,853	2,793,050
Declared per common share*.....	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.60	\$ 1.35	\$ 1.20	\$ 1.05	\$ 1.00	\$ 1.00	\$.75
CAPITAL EXPENDITURES										
On properties, plant and equipment.....	\$ 7,105,455	\$ 10,423,905	\$ 25,194,262	\$ 19,165,594	\$ 9,634,629	\$ 7,246,492	\$ 4,539,643	\$ 4,776,602	\$ 8,268,295	\$ 5,078,843
On timber limits.....	—	14,344	53,508	466,299	510,021	—	—	—	1,600,000	—
FINANCIAL POSITION										
Current assets.....	\$ 60,070,996	\$ 57,714,700	\$ 62,169,246	\$ 74,057,870	\$ 64,339,974	\$ 60,337,294	\$ 49,454,071	\$ 47,809,617	\$ 51,370,768	\$ 40,014,424
Current liabilities.....	20,312,046	17,317,852	20,557,436	25,801,233	23,532,028	21,238,097	18,256,392	18,933,172	24,967,589	17,691,685
Working capital.....	39,758,950	40,396,848	41,611,810	48,256,637	40,807,946	39,099,197	31,197,679	28,876,445	26,403,179	22,322,739
Capital assets, at net book values.....	126,113,480	127,995,218	126,082,118	106,504,498	94,909,259	92,321,519	91,999,647	94,253,791	95,992,441	92,390,176
Investments and other assets.....	3,498,462	2,547,639	3,964,105	4,096,523	4,089,988	4,175,621	12,103,461	10,830,859	10,807,922	21,436,727
Funded debt and non-current liabilities.....	40,632,000	45,555,500	47,984,000	40,598,000	29,060,000	41,331,700	35,331,500	38,549,000	41,588,500	51,162,000
Appropriation reserves.....	—	—	—	—	—	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Total equity of shareholders.....	128,738,892	125,384,205	123,674,033	118,259,658	110,747,193	89,764,637	95,469,287	90,912,095	87,115,042	80,487,642
EQUITY OF SHAREHOLDERS										
Equity of preferred shareholders.....	\$ 10,836,425	\$ 11,721,900	\$ 12,552,000	\$ 13,105,250	\$ 13,750,000	\$ 13,750,000	\$ 26,260,400	\$ 26,260,400	\$ 26,260,400	\$ 27,330,400
Equity of common shareholders.....	117,902,467	113,662,305	111,122,033	105,154,408	96,997,193	76,014,637	69,208,887	64,651,695	60,854,642	53,157,242
Outstanding common shares*.....	4,163,218	4,163,218	4,163,218	4,163,218	4,163,218	3,794,400	3,725,082	3,725,082	3,725,082	3,725,082
Equity per common share*.....	\$ 28.32	\$ 27.30	\$ 26.69	\$ 25.26	\$ 23.30	\$ 20.03	\$ 18.58	\$ 17.36	\$ 16.34	\$ 14.27

*Year 1950 adjusted for stock split effected in 1951.



MILL LOCATIONS

1. Iroquois Falls 2. Beupre 3. Pine Falls
4. Port Arthur (newsprint) 5. Fort William
6. Sault Ste. Marie 7. Smooth Rock Falls
8. Sturgeon Falls 9. Port Arthur (fine paper)
10. Thorold 11. Georgetown 12. Alpena

Abitibi

COMPANIES AND PRODUCTS

ABITIBI POWER & PAPER COMPANY, LIMITED

Parent company with manufacturing operations in Ontario
Executive offices - - - - - Toronto, Ont.
Newsprint - - - - - Iroquois Falls, Fort William
and Port Arthur, Ont.
Newsprint and groundwood papers - - - - - Sault Ste. Marie, Ont.
Bleached sulphite pulp - - - - - Smooth Rock Falls, Ont.
Corrugating medium, hardboards
and particle boards - - - - - Sturgeon Falls, Ont.

ABITIBI SALES COMPANY, LIMITED

Sales agent for newsprint, groundwood papers, bleached sulphite
pulp, corrugating medium, hardboards and particle boards
Sales offices - - - - - Toronto, Ont.; Montreal, Que.
and London, England

Subsidiary company:

ABITIBI SERVICE, INC.

Serving customers in the United States

Offices - - Dayton, Ohio; New York, N.Y.; Chicago, Ill.

ABITIBI CORPORATION

Manufacture and sale of hardboards and insulation boards, in
the United States

Plant and executive office - - - - - Alpena, Mich.
Sales offices - - - - - Detroit, Mich.; New York, N.Y.

PROVINCIAL PAPER, LIMITED

Manufacture and sale of fine and printing papers
Machine coated and groundwood papers - Port Arthur, Ont.
Printing, writing and specialty papers - - - Thorold, Ont.
Coated printing and litho papers - - - Georgetown, Ont.
Sales offices - - - - - Toronto, Ont.; Montreal, Que.
and Winnipeg, Man.

MANITOBA PAPER COMPANY, LIMITED

Manufacture of newsprint - - - - - Pine Falls, Man.

STE. ANNE PAPER COMPANY, LIMITED

Manufacture of newsprint - - - - - Beupre, Que.
Subsidiary companies:

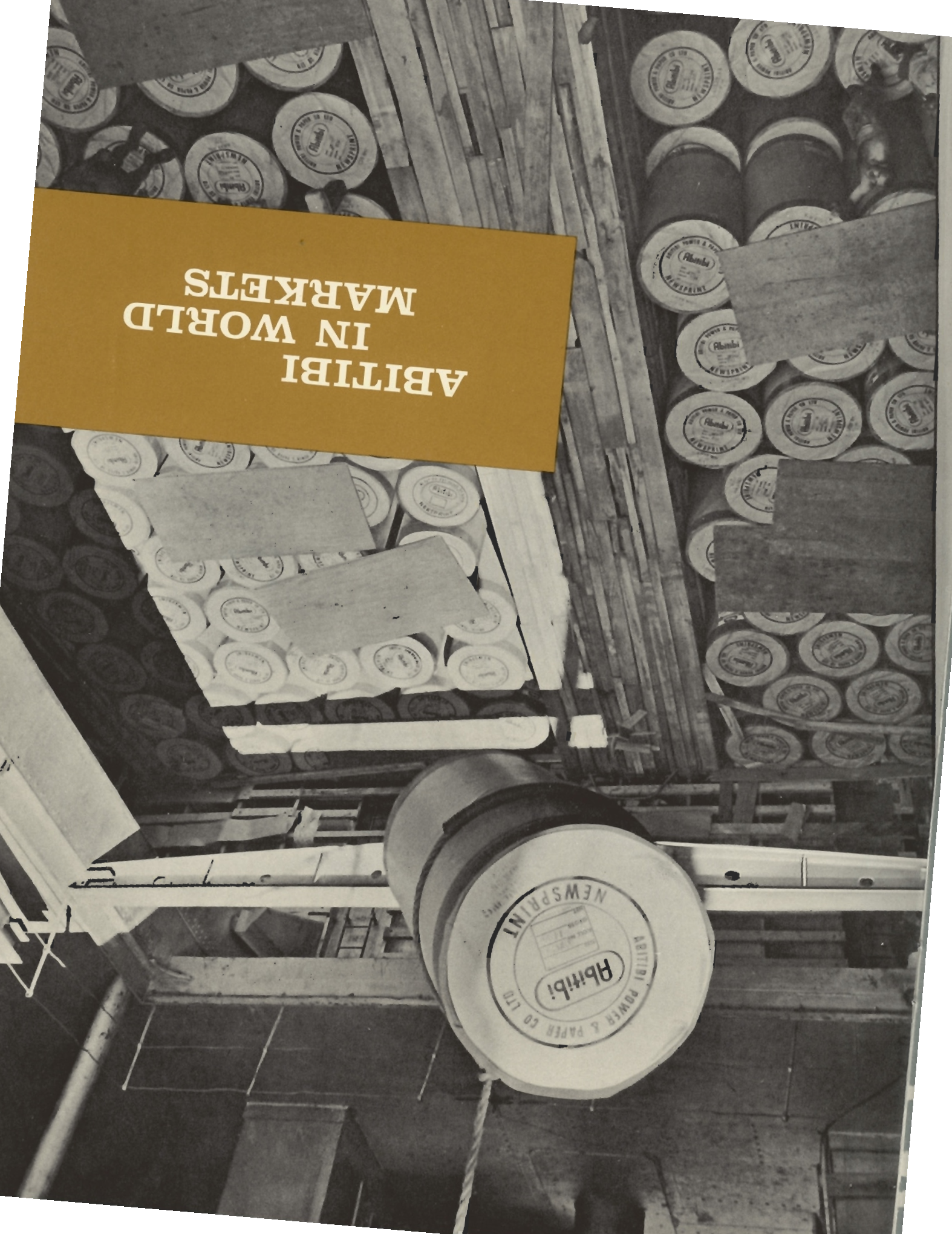
ST. ANNE POWER COMPANY

BAIE ST. PAUL LUMBER COMPANY LIMITED
conducting woodlands operations from - - - Beupre, Que.

OTHER SUBSIDIARY COMPANIES

Abitibi Navigation Company Limited - - - Toronto, Ont.
Mattagami Railroad Company - - - Smooth Rock Falls, Ont.

ABITIBI IN WORLD MARKETS



The printed word continues to serve mankind as the most effective medium of communication. It is the principal instrument for learning and in the search for knowledge, men and women in all walks of life turn to books, periodicals and newspapers to keep informed and to satisfy their desire for truth.

For over thirty years Abitibi quality newsprint has rolled through the presses of the world's outstanding newspapers in countries as geographically distant as the United States, Great Britain, Brazil and Australia.

During the same period, but in smaller tonnages, the products of Provincial Paper, Limited have been supplying the needs of printers and publishers in world markets.

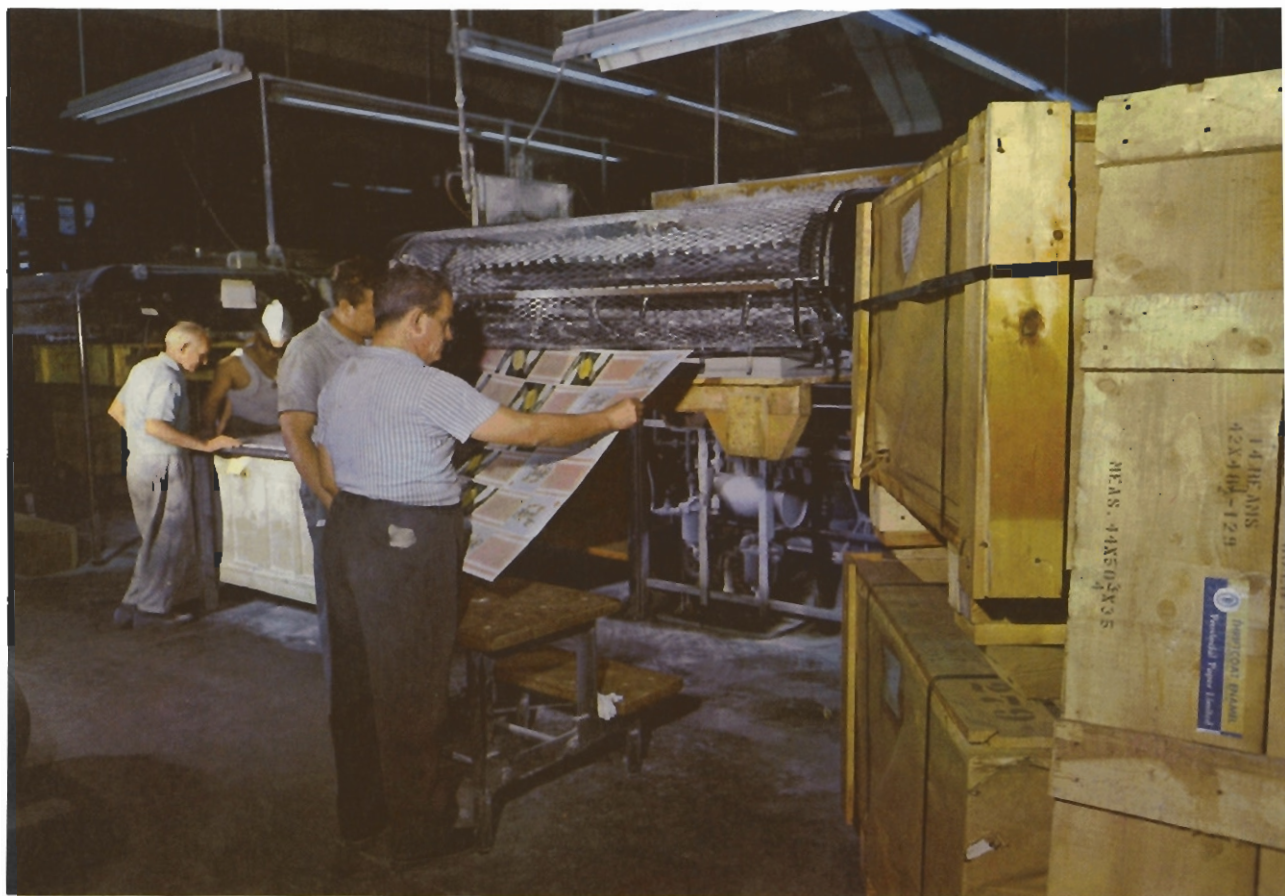
As an important company in Canada's largest export industry, Abitibi expects to develop and expand its world markets.

*Loading Abitibi quality newsprint at Quebec City
for shipment to overseas customers.*





*Abitibi quality newsprint
feeds the presses of the world.
The Dayton News is one of
hundreds of our valued customers
in the United States.*



*The cover of "Selecciones" del Reader's Digest being printed
in Havana on paper manufactured by Provincial Paper, Limited.*



The packaging industry in Great Britain is a substantial user of Abitibi corrugating medium. Our product made at Sturgeon Falls is converted into the fluted section of this flower box.



Where world news occurs, it is printed on Abitibi newsprint. This dependable newsie sells his papers in the heart of the Commonwealth.



*A misty view of the Tower Bridge backgrounds
the unloading of Abitibi corrugating medium
from a Thames River barge.*

Canada has always enjoyed a market in the United Kingdom and elsewhere in the British Commonwealth. Within this trading area, Abitibi has customers for newsprint, corrugating medium and the fine paper products of Provincial Paper, Limited.

Looking at the total export picture in 1959, Abitibi shipped more than 85% of its newsprint production to this market. In the same year, Provincial Paper, Limited exported more than one-third of the total Canadian fine paper shipments.

Strong tariff protection restricts the entry of our fine paper products into some markets, but in spite of this fact and competition from other producers, shipments of many different fine paper grades were made in 1959 to more than 25 countries.

Provincial's three modern mills at Port Arthur, Georgetown and Thorold produce a wide range of fine paper products for a multiplicity of uses in business and industry. Among the 200 manufactured grades, the largest export tonnage is machine coated paper made at Port Arthur.

Widely used by magazine publishers, machine coated paper permits fine screen halftones in color or black and white and is available for the letterpress, offset or rotogravure reproduction processes. A special grade for the gravure process is illustrated on this page.

*A native son of Puerto Rico
sells our customer's newspapers on
the streets of San Juan.*



The bookstands of Capetown, Sao Paulo or Havana may hold the cover illustrations of magazines printed on Provincial's coated paper. The cigarette pouch pack of a leading brand on the shelves of a Bogota shop and the school scribbler used by the bright-eyed student in Guatemala are also end uses of grades exported by Provincial Paper.

Our products enter these trade areas only when quality, price and delivery satisfy the buyer. This is the challenge of export trade.

*This issue of Australia's Brisbane
"Telegraph," a week end supplement,
is printed on "Thrifcoat Roto."*



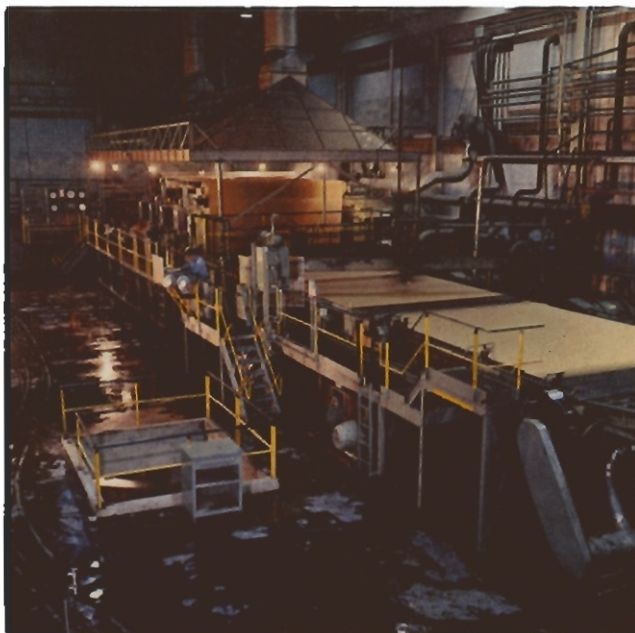


Increased production efficiency and a wider acceptance of the company's top quality hardboard and insulation board products highlighted Abitibi Corporation's activities in 1959.

The company's successful entry into the rapidly changing and highly competitive board industry is being accomplished by quality production, imaginative product research, sound forest management and an aggressive sales organization working as a team toward the continuous development of new and improved products. This program starts with an assured supply of pulpwood.

Behind the picture of neatly ranked wood in the millyard lies a sound forest management program.

ABITIBI CORPORATION



Abitibi's professional foresters provide a management service to owners of forest lands, tree farms and hunt clubs, with the aim of promoting increased production of the twin crops—pulpwood and game.

Abitibi Corporation pioneered in the design of much of the production machinery in its Alpena mill. Many features of the machines were firsts in the industry. The versatile machine pictured to the left forms the basic board for both S2S hardboard (smooth two-sides) and insulation board products. A smaller forming machine produces the company's decorative woodgrain finish Plateboards.



Production planning, packaging and extensive warehousing enables the company to service customers' needs. Abitibi products of unsurpassed quality and versatility are being used in such manufacturing industries as the automotive, furniture, and the expanding mobile home industry. Informed opinion and market evaluation indicate increasing sales for Abitibi's products in both the industrial and residential fields. These products are also being used extensively by manufacturers of television, high fidelity and radio sets, toys, displays, prefab homes, garage doors and many others too numerous to mention.

Thousands of new homes have incorporated in their construction, Abitibi insulation sheathing and our exclusive decorative woodgrain-finish Plateboards.

The importance of new product development in management planning is evidenced by the establishment of a department with laboratory facilities at Alpena to maintain continued leadership in specialty products.

Spearheaded by an alert and enthusiastic marketing staff, an ever increasing use of Abitibi products is taking place. The general sales office is located in Detroit. Eastern and western regional sales offices are in New York and Detroit respectively and a district sales office in Chicago.

Abitibi Corporation is now recognized as an important source of supply for hardboard and insulation board products and the mill location assures prompt delivery to an expanding market. Thus looms an encouraging future for this company.

The paper grades used in this Annual Report are:

cover—Paragon Brilliant Cover basis 25 x 38—280M; the inside pages—Paragon Brilliant basis 25 x 38—160M;

*products of **PROVINCIAL PAPER, LIMITED***

*the Fine Paper Division of **ABITIBI POWER & PAPER COMPANY, LIMITED***

