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Abitibi

1960 annual report

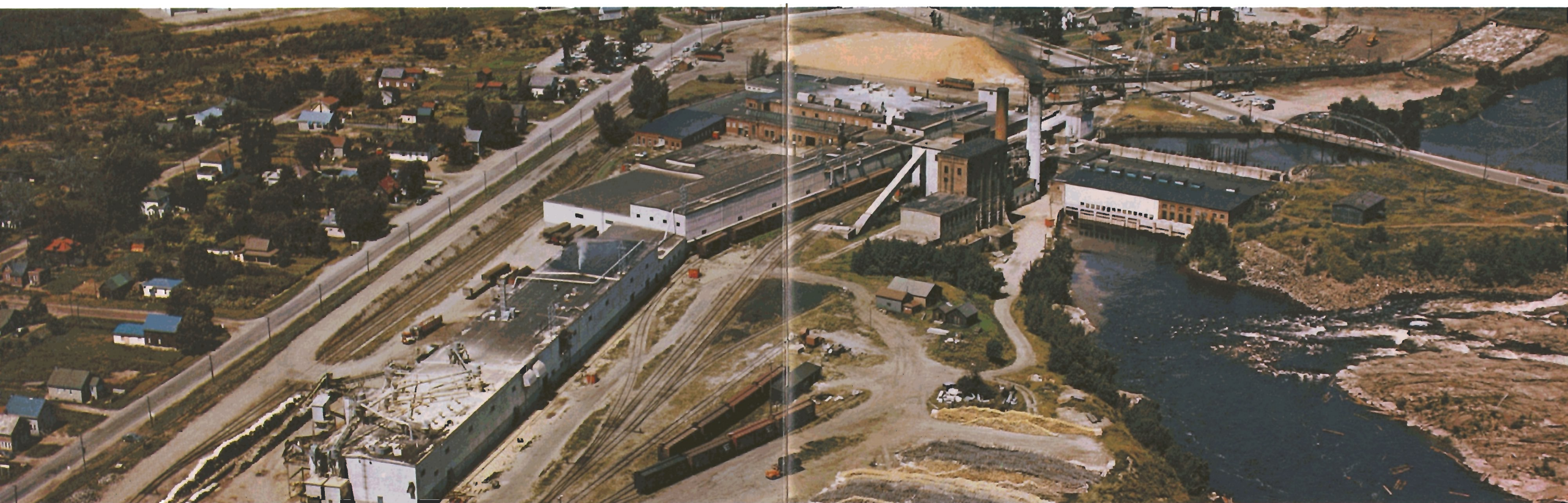
Abitibi Power & Paper Company, Limited
annual report

For the year ended December 31
1960

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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 thirteenth day of April, 1961 at the hour of eleven-thirty in the forenoon.



The Sturgeon Falls Division of the company manufactures corrugating medium, hardboards and PLATEWOOD.

COVER SCENE: Our cover scene is photographed in the rugged terrain of Quebec's forested area. The river driver is releasing a log jam on the Ste. Anne River.



ABITIBI POWER AND 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)

E. EDWARD GRAINGER, Vice-President (Woodlands)

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.

auditors

Price Waterhouse & Co., Toronto, Canada

registrars

The Toronto General Trusts Corporation,
Toronto and Vancouver, Canada

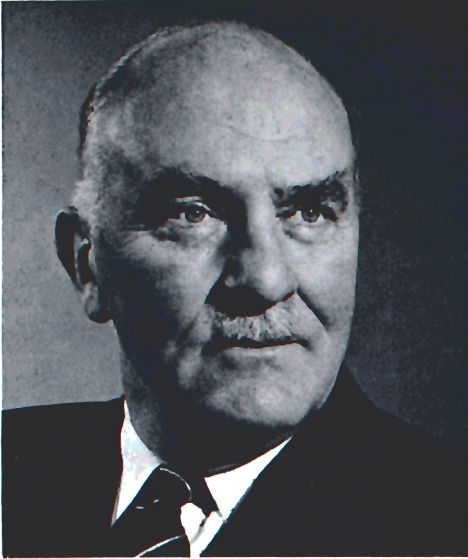
The Eastern Trust Company, Montreal, Canada

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



highlights

	1960	1959
Paper, board and pulp produced.....	1,077,686 tons	1,025,861 tons
Net sales.....	\$146,339,604	\$133,813,074
Taxes on income.....	\$ 13,800,000	\$ 12,700,000
Net earnings.....	\$ 12,266,288	\$ 11,825,544
Per common share.....	\$ 2.83	\$ 2.72
Dividends on preferred shares.....	\$ 471,199	\$ 507,803
Dividends on common shares.....	\$ 7,077,579	\$ 7,077,579
Per common share.....	\$ 1.70	\$ 1.70
Invested in properties, plant and equipment.....	\$ 10,340,956	\$ 7,105,455
Working capital at end of year.....	\$ 38,577,940	\$ 39,758,950
Number of shareholders—common shares.....	18,731	18,777
Number of shareholders—preferred shares.....	3,120	3,263



D. W. Ambridge, president

report to the shareholders...

The year 1960 was another successful one for the Company. Net sales of \$146,339,604 were 9% more than in the previous year and were the highest in our history, although net earnings were up only 4% over 1959.

Abitibi, like many other large industrial enterprises, was faced with increased costs, due particularly to labour rates, but selling prices

were not subject to offsetting adjustments except to a very limited extent.

There were, of course, other factors in addition to costs that made 1960 a somewhat difficult year. The business climate did not develop as favourably as most observers expected and there was a lull in the growth of the North American economy accompanied by unsettled business conditions. Very few manufacturing plants were operated at capacity and competition between producers in all lines of business increased in severity.

However, late in the year the Federal Government did finally move to reduce the premium on the Canadian dollar which has been allowed to continue for so many years. The prompt decline in the dollar premium as a result of the Federal Government's action suggests that this handicap to the Canadian economy might well have been dealt with years ago if the authorities had recognized at an earlier date the disadvantages to Canada's business of an inflated dollar.

It now seems to be recognized that, as a result of this move, employment should be stimulated as Canadian producers become more competitive both in export markets and with imported goods in our own domestic markets.

There is shown in chart form at the bottom of this page the relationship between the Canadian and the United States dollars over a period of forty years from 1921 to 1960 inclusive. This chart illustrates the fact that export industries in Canada have been operating since 1951 under an exchange handicap in comparison with the prior period of thirty-one years.

production and sales

The total output of all Abitibi mills during 1960 was 1,077,686 tons, an increase of 51,825 tons over 1959. This result makes 1960 the most productive year in the Company's history. Newsprint and fine papers show an increase, as do building and paper boards, but production of market pulp declined for the fourth consecutive year.

Newsprint consumption throughout the world increased during 1960 although the increase in North America, our principal market, was less than that in Europe and elsewhere in the world.

While the United States continues to obtain the greater part of its newsprint requirements from Canada, its domestic newsprint industry is growing year by year and now supplies

slightly more than one quarter of the newsprint consumed in that market.

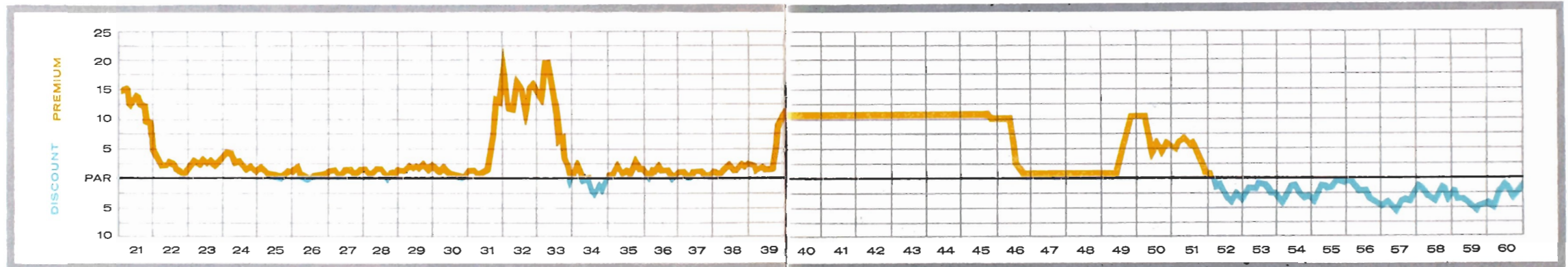
The Company's newsprint production was 6% higher in 1960 than it was the year before and this was due, not only to increased sales in the United States and Canada, but also to increased shipments to overseas markets where we have been more active than in past years.

There was no change in 1960 in the price of newsprint in the United States nor has there been since March 1957 when a 3% increase took effect.

Production of fine and printing papers by Provincial Paper, Limited was at an all-time high in 1960. This wholly-owned subsidiary's three mills operated all year at close to their capacity. The total production of fine and printing papers by Provincial and Abitibi, including groundwood printing papers manufactured at the Sault Ste. Marie mill, was 112,137 tons, an increase of 4% over 1959. By far the greater part of the production of these grades continues to be sold in Canada although we do share in the markets of the rest of the world.

It was necessary last year to make modest increases in the price of some fine paper grades

exchange rate on conversion of U.S. dollars—1921-1960





production for sale—in tons

	Newsprint Paper	Fine and Printing Papers	Building and Paper Boards	Bleached Sulphite and other Pulps	Total
1951	716,112	83,365	46,547	89,909	935,933
1952	726,840	72,039	49,229	69,334	917,442
1953	728,039	75,506	52,847	57,835	914,227
1954	772,247	74,593	43,484	63,617	953,941
1955	793,560	85,972	56,679	65,504	1,001,715
1956	815,830	98,038	65,185	67,377	1,046,430
1957	765,533	101,952	69,103	63,516	1,000,104
1958	692,781	96,905	114,202	51,446	955,334
1959	735,215	107,884	138,754	44,008	1,025,861
1960	780,043	112,137	144,834	40,672	1,077,686

due to the inexorable increases in the cost of production.

The production of building and paper boards at our Sturgeon Falls Division improved in 1960 even though there were unsettled market conditions in many parts of the country. A Sturgeon Falls product, PLATEWOOD, used principally in the domestic furniture industry, continues to gain recognition as a reliable core stock for high grade furniture, cabinets and panelling.

The marketing of bleached sulphite pulp, which is the only product of our Smooth Rock Falls mill, continues to give the management of the Company a great deal of anxiety despite positive quality improvements achieved during the year 1960.

For the past several years there has been an increasing overproduction of pulp in North America culminating in price reductions of \$10 and \$15 a ton in the grades we manufacture. The inland location of our Smooth Rock Falls mill makes it difficult for us to participate in strong overseas markets particularly because of high transportation rates and rising wood costs.

The near and long term outlook for our Smooth Rock Falls Division is under study and review and every effort will be made to find a solution which will permit continued employment for the workers of this area. It is hoped that efforts on the part of everyone involved in the life of this plant and the town which surrounds it, will be successful.

costs of production

The control of the costs of production entails, of course, a never-ending struggle. Many important cost elements are beyond the direct control of management. These include the price of purchased power, freight rates, municipal taxes, income and other taxes. All of these seem to have one characteristic in common—they increase year by year. Many of these increasing costs have another characteristic in common—they are imposed by governments or government agencies at every level, municipal, provincial and federal.

Another cause for rising costs is the necessity for highest attainable quality in a buyer's market. Quality has been stressed throughout our organization and both effort and money have

been expended to achieve the high standards which our customers require.

As manufacturing facilities are improved through capital outlays, the amount of depreciation, which must in all prudence be charged to the cost of production, is increased year by year. In 1960 the provision for depreciation on plant and equipment employed in our manufacturing processes was \$9,356,819.

earnings, dividends and equity

Consolidated net earnings for the year, after providing for all charges, amounted to \$12,266,288 as compared with \$11,825,544 in the previous year. Earnings per common share were \$2.83 as compared with \$2.72 in 1959 and \$2.19 in 1958.

Dividends on preferred shares at the fixed rate of $4\frac{1}{2}\%$ per annum were \$471,199 compared to \$507,803 in 1959. During 1960 a total of 23,514 preferred shares of a total par value of \$587,850 were redeemed. This resulted in the above-noted reduction in the dividend requirements on the Company's preferred stock.

Dividends on common shares were continued at the annual rate of \$1.70 per share, a rate

established in 1956 and maintained since then.

The total equity in the Company of all shareholders at the close of 1960 as shown by the consolidated balance sheet is \$132,424,011. The book value of each common share at the close of 1960, based on balance sheet values for properties and other assets, was \$29.35 per share which compares with \$28.32 at the end of 1959.

financial position

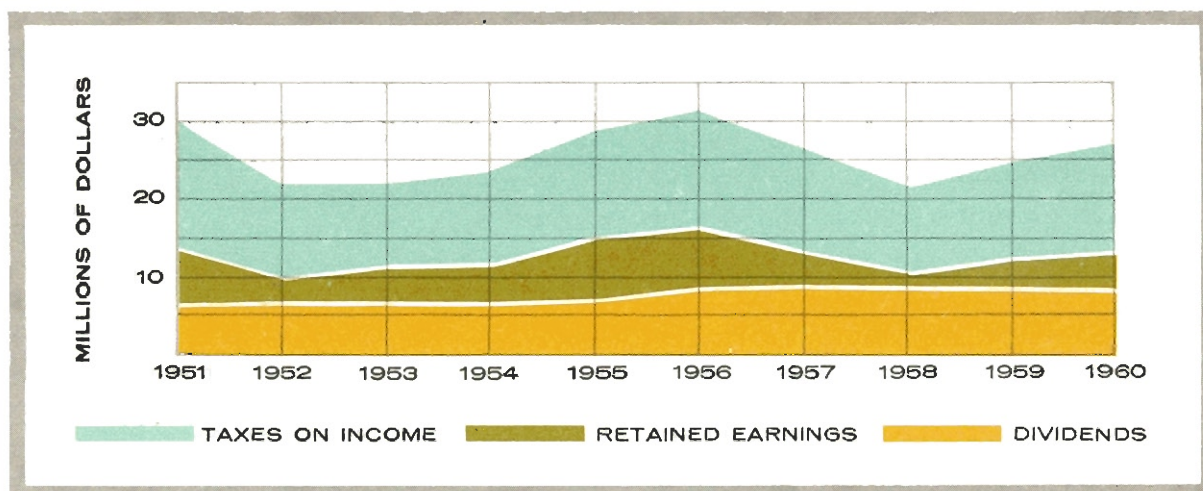
Working capital at the close of 1960 stood at \$38,577,940 and, while this is rather less than it has been in recent years, it is quite adequate for our present scale of operations.

Sinking fund obligations of approximately \$2,700,000, falling due in 1961 on our First Mortgage Bonds already have been discharged by advance purchases of bonds with the exception of a balance of \$99,000.

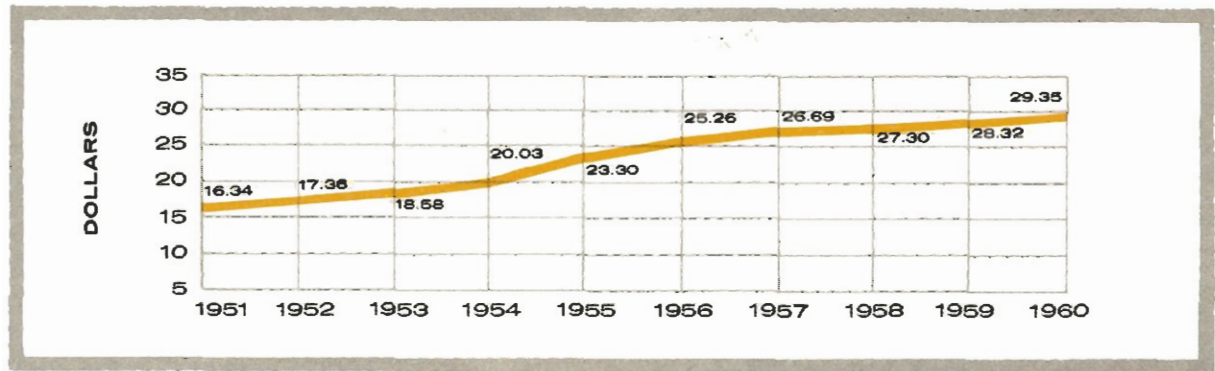
Preferred share retirements during 1960 were more than sufficient to fulfil the retirement fund obligations for that year and will reduce the amount required to be set aside for this purpose in 1961.

Altogether, the financial position of the Company may be regarded as satisfactory.

earnings, taxes on income and dividends



common stock equity per share



pembroke shook mills, limited

Early in 1960 the purchase of all the outstanding shares of Pembroke Shook Mills, Limited was announced.

This old-established company, incorporated in 1912, has been in the wood shook and box business in Pembroke, Ontario, for many years. It began the manufacture of corrugated paper boxes some years ago in a newly-constructed plant in Pembroke and is now well established in this business. In recent years the use of wooden boxes for packaging purposes has greatly declined. Corrugated paper boxes have very largely supplanted wooden boxes and today the major operation carried out by Pembroke Shook Mills, Limited is the manufacture of corrugated boxes.

The plant at Pembroke has for many years been a substantial user of corrugating medium which is made at our Sturgeon Falls mill.

Additions and improvements to the plant in Pembroke have already been made. It is a first rate plant with a fine organization, well able to fulfil the requirements of the users of corrugated paper boxes in Canada.

abitibi corporation

Operations of Abitibi Corporation, the Company's wholly-owned United States subsidiary in the building board industry with

headquarters at Alpena, Michigan, did not progress to our satisfaction in 1960 due to the recession in the construction industry in the United States which set in early in the year.

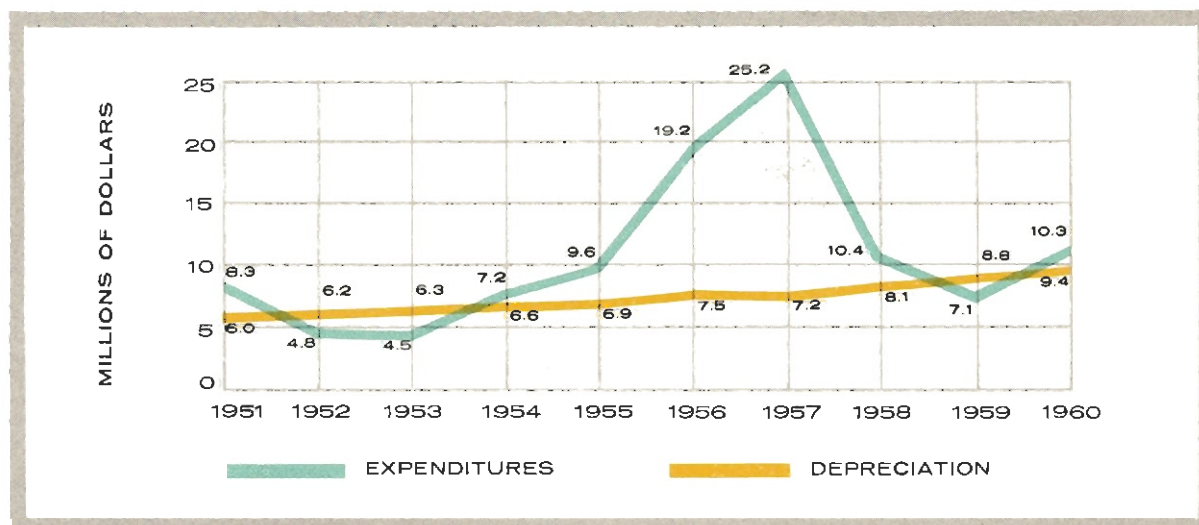
Sales volume was light during the early months of the year and this led to intense competition and depressed prices. Substantial imports from Scandinavia of hardboard at low prices added to the demoralization of the market. Some improvement was noticeable toward the close of the year.

properties, plant and equipment

Capital expenditures on properties, plant and equipment (other than logging equipment and development) were \$10,340,956 which compares with \$7,105,455 in 1959. The more important projects completed or in progress during the year were as follows:

- (i) Construction was begun at Thorold, Ontario, on buildings to house a new paper machine which will be installed during 1961. This major project will increase the capacity of Provincial Paper, Limited to produce fine papers by about 25,000 tons per annum. This additional capacity is necessary in order to permit Provincial Paper, Limited to serve the domestic market, not only in grades presently produced, but also in grades and weights not presently offered in Canada. It is

capital expenditures and depreciation *properties, plant and equipment*



expected that this machine will go into production in the last quarter of 1961.

- (ii) In every mill additional equipment was installed to improve the cleanliness, colour and mechanical quality of the paper we produce and more is going in every month. These expenditures are necessary to meet the competition in quality which is inherent in a buyer's market such as exists today. There is on foot in all Abitibi mills a program of quality improvement which is very comprehensive indeed.
- (iii) Further major work was done at the Sault Ste. Marie mill to permit an increase in production of groundwood printing papers.
- (iv) At Smooth Rock Falls we completed the installation of an additional stage in the bleaching process which makes it possible to produce sulphite pulp of the very highest quality.
- (v) At the Port Arthur mill of Provincial Paper, Limited a new full width paper machine supercalender was installed and is now in satisfactory operation. This new equipment has greatly decreased the cost of finishing operations and has improved the quality of the machine coated paper it processes.

The above is, of course, only part of the work that was completed during 1960. Those who have been in a modern integrated paper mill will realize that every year a great many alterations, replacements and improvements must be made in order to control costs and improve or diversify the products.

forestry

Outlays on logging equipment and development amounted to \$1,666,438, an increase of \$711,093 over comparable expenditures in 1959.

The program for construction of access and service roads to permit pulpwood operations in our limits was more extensive than in recent years as new areas were opened up for production. A second section of the Spruce River access road at Port Arthur was begun in 1960 under a cost-sharing agreement with federal and provincial governments, and construction is sufficiently advanced to permit winter hauling of pulpwood at a saving in cost.

Each year progress is made in the mechanization of timber limit operations. This progress is of the greatest importance to the well-being of the Company in the future. Shareholders will

find in this report an illustrated account of the Company's logging operations which it is hoped will be of interest to them.

The control of fire losses in the forest areas of the nation reflects great credit upon the various organizations, both governmental and private, which have banded together to suppress fires and minimize losses. These co-operative efforts have been most successful and fire losses in 1960 were a small fraction of what they were a decade ago.

research and development

The Company's Research and Development Division operates well-equipped laboratories and pilot plants in Sault Ste. Marie and Georgetown. This very competent organization is fully occupied in the many problems which are referred to it by the operating departments and in the development of new processes and products leading to the long-term growth of the Company.

Many of the methods and processes which are normal operating procedures in the Company today were developed in the Research Division's laboratories and pilot plants. As an example of this, there was begun at the Sault Ste. Marie mill last year a new chemical process which makes it possible for this mill to use much

greater quantities of jackpine in the manufacture of groundwood printing papers. This has resulted in lower costs and is, of course, most important in the proper utilization of the forest areas tributary to the Sault Ste. Marie mill.

employee relations

Negotiations with the many unions which represent our employees in the Canadian mills resulted in a one-year contract to April 30, 1961 giving effect to rate increases and other benefits substantially similar to wage adjustments previously granted by other companies in the pulp and paper industry.

Long negotiations with the union which represents woods workers in the Province of Ontario have only recently been concluded. A new contract was signed which will remain in effect until August 31, 1962 granting increases in pay and other benefits.

These annual or biennial negotiations with their inevitable increases in wages and in the costs of production have become a familiar part of the industrial scene in North America.

Sooner or later we must all understand that wage increases, unless accompanied by equivalent increased productivity, must inevitably result in price inflation or stifled industrial



enterprise with accompanying unemployment. There are some indications that this fundamental truth is beginning to be understood and appreciated.

A most important way in which productivity in relation to invested capital can be increased in Eastern Canada is to operate paper mills on a continuous seven day basis, just as any number of other process industries operate, in place of the present restrictive six day schedule. In the Southern United States, paper mills are operated continuously as they are on the Pacific Coast on both sides of the border and as they are in Scandinavia. For many years the paper companies in Eastern Canada have been trying to reach an agreement with the unions in regard to continuous operation and it is encouraging to find that in recent months several moves have been made which may well result in such an agreement being reached.

The Directors take this opportunity to express appreciation to all employees of the Company whose loyalty, interest and support have made the year's achievements possible.

Toronto, February 2, 1961.

the outlook

It would appear that few authorities on the subject of the general economic future have any great hopes that 1961 will show much improvement, if any, over 1960. We are told that there are too many uncertainties, that the new administration in the United States must settle into the saddle and concrete progress must be made in the settlement of many international problems before the economies of the western world can again move forward with confidence.

This may well be so, and if it is so in general, then the paper industry in particular can hardly expect a spectacular rise in production or in its overall well-being. Nevertheless, there seems to be no reason to fear that anything will transpire which will greatly diminish the production of so important a commodity as paper.

All in all, 1961 looks like a year in which growth of the North American economy and of the paper industry will continue although the rate of growth may be less than the long-term annual average.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "D. W. Aubridge". The signature is fluid and cursive, with a long horizontal stroke at the end.

President

CONSOLIDATED EARNINGS

	Year Ended December 31	
	1960	1959
Net sales.....	\$146,339,604	\$133,813,074
Cost of products sold and all expenses except items shown below..	108,519,352	98,028,116
	\$ 37,820,252	\$ 35,784,958
Interest and other income.....	1,017,954	951,390
	\$ 38,838,206	\$ 36,736,348
Provision for depreciation.....	\$ 9,356,819	\$ 8,778,695
Provision for depletion.....	120,000	150,000
Employees' retirement income plan.....	1,385,263	1,195,337
Interest on funded debt.....	1,869,249	2,008,936
Discount and expense on funded debt.....	40,587	77,836
	\$ 12,771,918	\$ 12,210,804
Earnings before taxes on income.....	\$ 26,066,288	\$ 24,525,544
Taxes on income.....	13,800,000	12,700,000
Net earnings.....	\$ 12,266,288	\$ 11,825,544

CONSOLIDATED EARNED SURPLUS

	Year Ended December 31	
	1960	1959
Earned Surplus at beginning of year.....	\$ 81,427,772	\$ 77,187,610
Net earnings for the year.....	12,266,288	11,825,544
Transfer of amount previously carried as a general reserve against accounts receivable.....	879,181	—
	\$ 94,573,241	\$ 89,013,154
Dividends on preferred shares.....	\$ 471,199	\$ 507,803
Dividends on common shares.....	7,077,579	7,077,579
(being the dividends paid on April 1st, July 1st, October 1st and payable January 1st)		
Excess of cost of investment in subsidiary company acquired during the year over the value of its net tangible assets.....	1,323,722	—
	\$ 8,872,500	\$ 7,585,382
Earned Surplus at end of year.....	\$ 85,700,741	\$ 81,427,772

Abitibi Power & Paper Company, Limited and subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	December 31	
	1960	1959
CURRENT ASSETS:		
Cash.....	\$ 4,428,435	\$ 5,069,659
Short term securities, at cost.....	2,936,212	8,273,831
Accounts receivable, less allowance of \$92,625 (\$918,935 in 1959).....	19,911,516	15,205,664
Inventories of pulpwood, supplies and products at cost, and expenditures on current logging operations.....	33,041,247	30,844,327
Prepaid insurance and other expenses.....	774,097	677,515
	<u>\$ 61,091,507</u>	<u>\$ 60,070,996</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.....	\$236,434,321	\$225,635,971
Less—Accumulated depreciation.....	126,372,258	118,093,194
	<u>\$110,062,063</u>	<u>\$107,542,777</u>
Logging equipment and development, at amortized cost.....	2,443,057	1,779,440
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of \$4,799,846 (\$4,679,846 in 1959).....	16,525,407	16,791,263
	<u>\$129,030,527</u>	<u>\$126,113,480</u>
 OTHER ASSETS:		
Unamortized bond discount and expense.....	\$ 251,556	\$ 292,143
Miscellaneous investments and other assets.....	4,461,488	3,206,319
	<u>\$ 4,713,044</u>	<u>\$ 3,498,462</u>
 APPROVED ON BEHALF OF THE BOARD:		
D. W. AMBRIDGE, <i>Director</i>		
W. H. SMITH, <i>Director</i>		
	<u>\$194,835,078</u>	<u>\$189,682,938</u>

LIABILITIES

	December 31	
	1960	1959
CURRENT LIABILITIES:		
Accounts payable.....	\$ 11,934,729	\$ 10,376,893
Dividends payable January 1st.....	1,885,034	1,891,592
Interest accrued on funded debt.....	491,860	498,497
Income and other taxes.....	8,102,944	7,545,064
Sinking fund requirements payable within one year.....	99,000	—
	<u>\$ 22,513,567</u>	<u>\$ 20,312,046</u>
 FUNDED DEBT (Note 2):		
3½ % First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967.....	\$ 6,407,000	\$ 6,814,000
4 % First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974...	8,890,500	9,028,000
6¼ % First mortgage Sinking Fund Bonds, Series "C", maturing November 15, 1977.....	9,699,000	9,790,000
4½ % Convertible Debentures, Series "A", maturing September 15, 1966.....	15,000,000	15,000,000
	<u>\$ 39,996,500</u>	<u>\$ 40,632,000</u>
Less—Amount included with current liabilities.....	99,000	—
	<u>\$ 39,897,500</u>	<u>\$ 40,632,000</u>
Total Liabilities.....	<u>\$ 62,411,067</u>	<u>\$ 60,944,046</u>

SHAREHOLDERS' EQUITY

PREFERRED SHARES:

Authorized: 1,000,000 shares par value \$25 each issuable in series (550,000 shares issued; 140,057 shares redeemed and cancelled—Note 3)

Outstanding: 409,943 4½ % Cumulative Redeemable Preferred Shares
(433,457 shares in 1959).....

\$ 10,248,575 \$ 10,836,425

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.....

85,700,741 81,427,772

\$132,424,011 \$128,738,892

\$194,835,078 **\$189,682,938**

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. 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 may be converted at the option of the holders into common shares at the rate of 21 shares per \$1,000 debenture on or before September 15, 1963; 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 1961 requirement leaving a balance not exceeding \$86,546 to be set aside on or before April 30, 1961.
4. Of the authorized and unissued common shares, 315,000 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 1960 amounted to \$986,728.
6. For the year 1960 fees of directors not holding salaried positions amounted to \$28,100; counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$449,490.

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, 1960 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, 1960 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, 1961

SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:	1960	1959
Net earnings.....	\$ 12,266,288	\$ 11,825,544
Non-cash charges for depreciation and depletion deducted in arriving at net earnings.....	9,476,819	8,928,695
Amortization of logging equipment and development.....	986,728	751,658
Cash flow from operations.....	\$ 22,729,835	\$ 21,505,897
Disposal of capital assets.....	337,889	216,946
	<u>\$ 23,067,724</u>	<u>\$ 21,722,843</u>
APPLICATION OF FUNDS:		
Invested in properties, plant and equipment.....	\$ 10,340,956	\$ 7,105,455
Expenditures on logging equipment and development.....	1,666,438	955,345
Investment in Pembroke Shook Mills, Limited net of working capital acquired.....	3,414,372	—
Reduction in funded debt.....	734,500	4,923,500
Preferred shares retirement fund.....	551,162	827,424
Dividends on preferred shares.....	471,199	507,803
Dividends on common shares.....	7,077,579	7,077,579
Other items—net.....	871,709	963,635
	<u>\$ 25,127,915</u>	<u>\$ 22,360,741</u>
RESULTING IN A DECREASE IN WORKING CAPITAL OF.....	\$ 2,060,191	\$ 637,898
WORKING CAPITAL AT BEGINNING OF YEAR.....	39,758,950	40,396,848
Transfer to surplus of amount previously carried as a general reserve against accounts receivable.....	879,181	—
WORKING CAPITAL AT END OF YEAR.....	<u>\$ 38,577,940</u>	<u>\$ 39,758,950</u>

Abitibi Power & Paper Company, Limited and subsidiary companies

TEN YEAR REVIEW

	1960	1959	1958
SALES AND EARNINGS			
Net sales.....	\$146,339,604	\$133,813,074	\$123,385,542
Depreciation and depletion.....	9,476,819	8,928,695	8,292,119
Interest on funded debt.....	1,869,249	2,008,936	2,083,546
Earnings before taxes on income.....	26,066,288	24,525,544	20,127,382
Taxes on income.....	13,800,000	12,700,000	10,470,000
Net earnings.....	12,266,288	11,825,544	9,657,382
Net earnings per common share.....	\$ 2.83	\$ 2.72	\$ 2.19
DIVIDEND RECORD			
On preferred shares.....	\$ 471,199	\$ 507,803	\$ 547,796
On common shares.....	7,077,579	7,077,579	7,077,582
Declared per common share.....	\$ 1.70	\$ 1.70	\$ 1.70
CAPITAL EXPENDITURES			
On properties, plant and equipment.....	\$ 10,340,956	\$ 7,105,455	\$ 10,423,905
On timber limits.....	—	—	14,344
FINANCIAL POSITION			
Current assets.....	\$ 61,091,507	\$ 60,070,996	\$ 57,714,700
Current liabilities.....	22,513,567	20,312,046	17,317,852
Working capital.....	38,577,940	39,758,950	40,396,848
Capital assets, at net book values.....	129,030,527	126,113,480	127,995,218
Investments and other assets.....	4,713,044	3,498,462	2,547,639
Funded debt and non-current liabilities.....	39,897,500	40,632,000	45,555,500
Appropriation reserves.....	—	—	—
Total equity of shareholders.....	132,424,011	128,738,892	125,384,205
EQUITY OF SHAREHOLDERS			
Equity of preferred shareholders.....	\$ 10,248,575	\$ 10,836,425	\$ 11,721,900
Equity of common shareholders.....	122,175,436	117,902,467	113,662,305
Outstanding common shares.....	4,163,218	4,163,218	4,163,218
Equity per common share.....	\$29.35	\$28.32	\$27.30

Abitibi Power & Paper Company, Limited and subsidiary companies

1957	1956	1955	1954	1953	1952	1951
\$128,198,755	\$132,497,683	\$123,173,281	\$113,997,836	\$109,768,039	\$107,381,890	\$111,528,208
7,467,568	7,752,873	7,132,899	6,793,698	6,532,298	6,419,055	6,193,932
1,652,016	1,214,552	1,137,654	1,417,564	1,399,178	1,502,159	1,419,864
25,552,283	31,012,827	28,506,026	23,028,901	21,429,152	21,369,759	29,742,877
13,050,000	15,589,000	14,570,000	12,403,000	11,385,000	12,272,000	16,745,000
12,502,283	15,423,827	13,936,026	10,625,901	10,044,152	9,097,759	12,997,877
\$ 2.86	\$ 3.56	\$ 3.20	\$ 2.49	\$ 2.27	\$ 2.02	\$ 3.07
<hr/>						
\$ 578,441	\$ 605,360	\$ 618,825	\$ 1,176,955	\$ 1,575,624	\$ 1,575,624	\$ 1,575,624
7,077,580	6,661,252	5,618,967	4,487,561	3,911,336	3,725,082	3,724,853
\$ 1.70	\$ 1.60	\$ 1.35	\$ 1.20	\$ 1.05	\$ 1.00	\$ 1.00
<hr/>						
\$ 25,194,262	\$ 19,165,594	\$ 9,634,629	\$ 7,246,492	\$ 4,539,643	\$ 4,776,602	\$ 8,268,295
53,508	466,299	510,021	—	—	—	1,600,000
<hr/>						
\$ 62,169,246	\$ 74,057,870	\$ 64,339,974	\$ 60,337,294	\$ 49,454,071	\$ 47,809,617	\$ 51,370,768
20,557,436	25,801,233	23,532,028	21,238,097	18,256,392	18,933,172	24,967,589
41,611,810	48,256,637	40,807,946	39,099,197	31,197,679	28,876,445	26,403,179
126,082,118	106,504,498	94,909,259	92,321,519	91,999,647	94,253,791	95,992,441
3,964,105	4,096,523	4,089,988	4,175,621	12,103,461	10,830,859	10,807,922
47,984,000	40,598,000	29,060,000	41,331,700	35,331,500	38,549,000	41,588,500
—	—	—	4,500,000	4,500,000	4,500,000	4,500,000
123,674,033	118,259,658	110,747,193	89,764,637	95,469,287	90,912,095	87,115,042
<hr/>						
\$ 12,552,000	\$ 13,105,250	\$ 13,750,000	\$ 13,750,000	\$ 26,260,400	\$ 26,260,400	\$ 26,260,400
111,122,033	105,154,408	96,997,193	76,014,637	69,208,887	64,651,695	60,854,642
4,163,218	4,163,218	4,163,218	3,794,400	3,725,082	3,725,082	3,725,082
\$26.69	\$25.26	\$23.30	\$20.03	\$18.58	\$17.36	\$16.34
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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 - - - - - Beaupre, Que.

Subsidiary companies:

ST. ANNE POWER COMPANY

BAIE ST. PAUL LUMBER COMPANY LIMITED

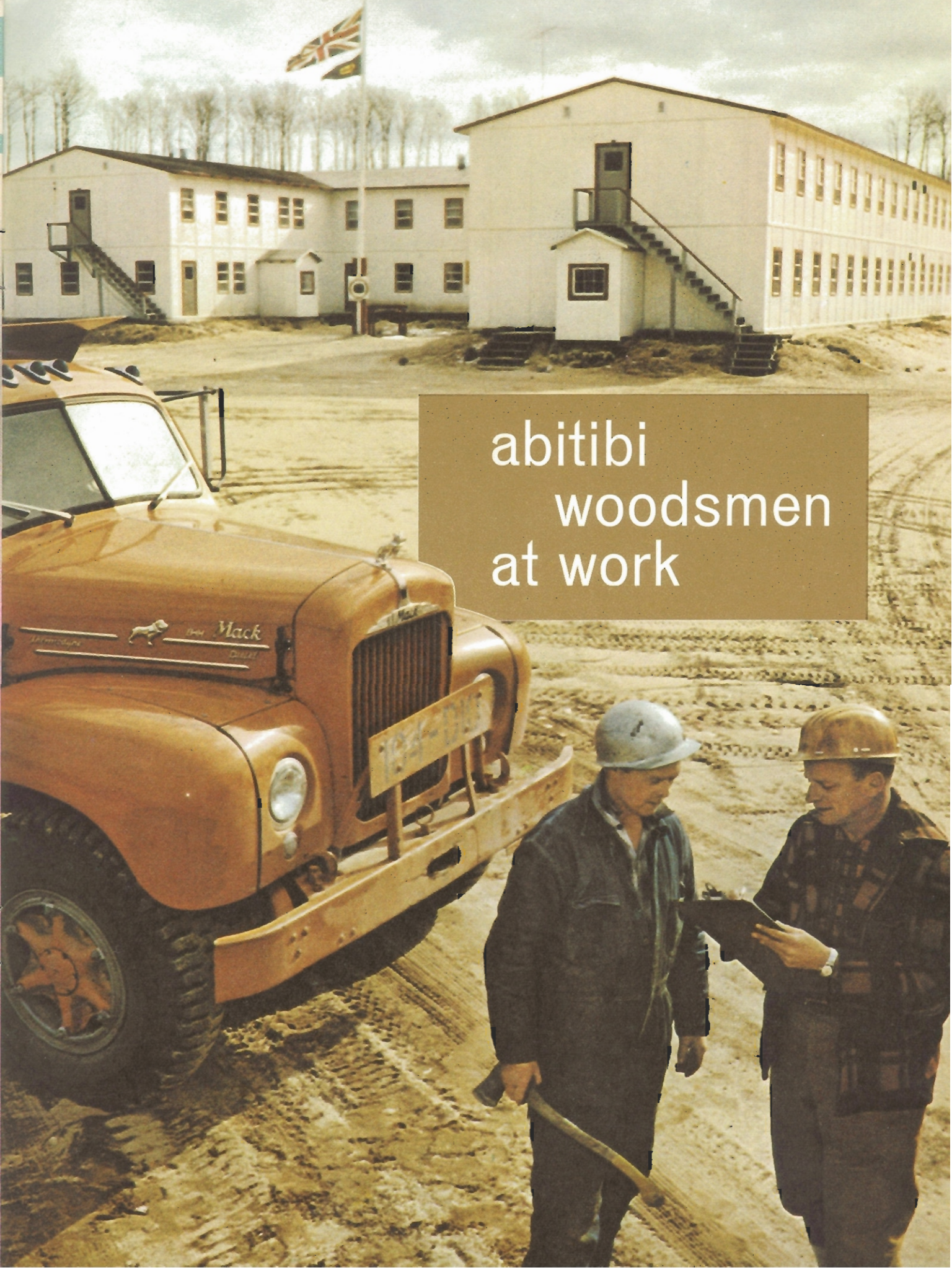
conducting woodlands operations from - - Beaupre, Que.

Pembroke Shook Mills, Limited

Manufacture and sale of
 corrugated cartons - - - - - Pembroke, Ont.

Other Subsidiary Companies

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



abitibi
woodsmen
at work

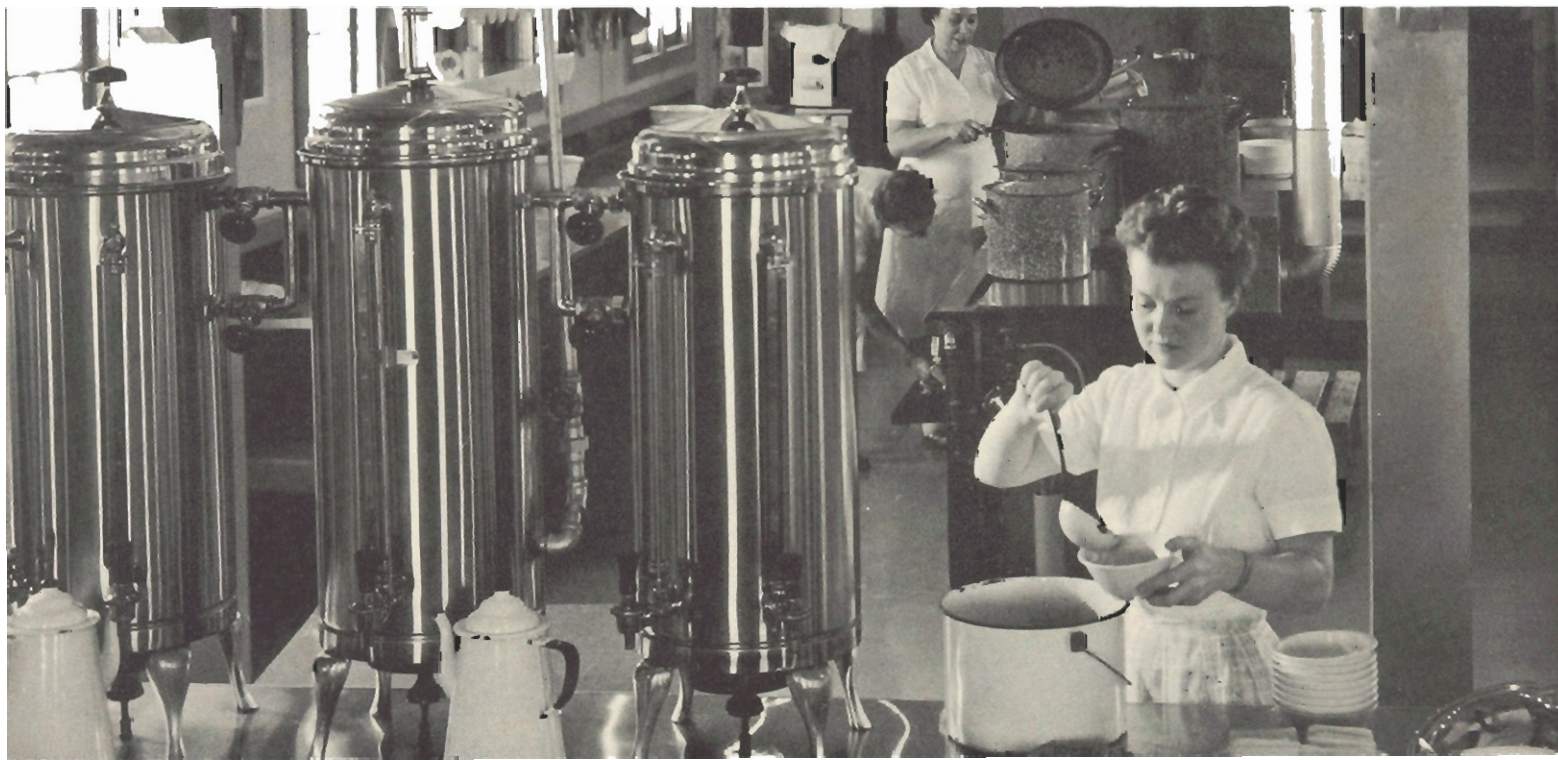
The bite of the power saw, guided by skilled pulpwood cutters, is the first step in producing wood for our paper mills.

Abitibi's woodland operations in Canada are a complex and highly specialized business, carried out in the forests of three provinces under a wide variety of conditions. Constant attention to methods and efficiency is necessary to minimize the persistent rise in the cost of wages, materials and services. Alert management and advancing technology provide the means. Concurrent with the changes in methods introduced for greater efficiency and higher productivity have been substantial improvements in the living and working environment, training and skills of Abitibi woodsmen.

Over two million meals a year are served in our woods camps. Planned menus, careful buying, quick delivery, and skilled preparation in modern kitchens provide the woodsman with wholesome well-balanced meals. Dining halls are airy, well-lighted and maintained at the peak of cleanliness. Typical

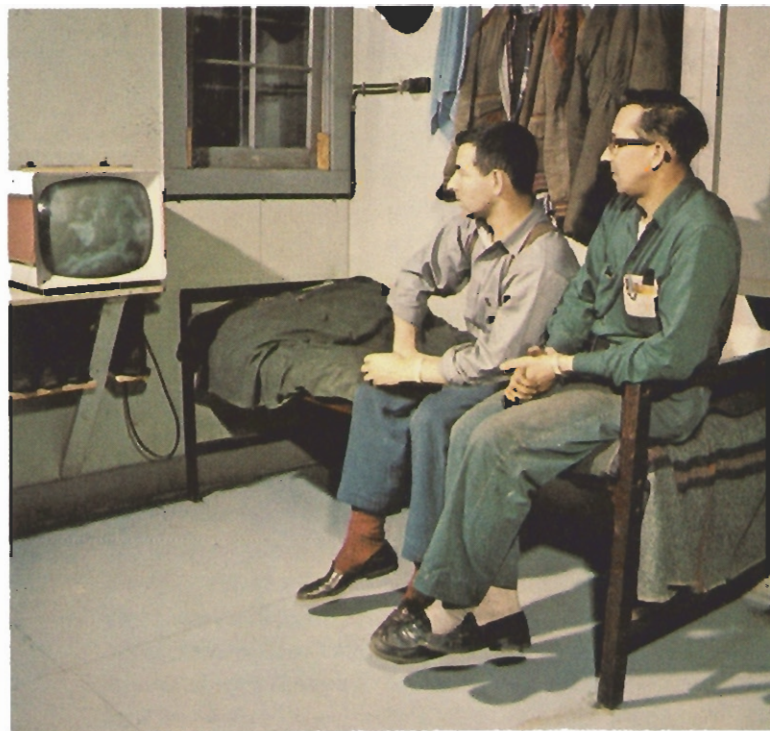


Tea, coffee, and hot water urns, propane gas stoves and automatic dishwashers are equipment trends in the kitchens of modern woods camps. Meals are prepared to healthful standards of nutrition.





Capable assistants, "cookees," serve our woodsmen from stainless steel steam tables in a cafeteria styled dining hall, permitting a more convenient schedule in the feeding of large numbers of men.



Spring beds, mattresses, bed covers and clothes lockers are basic furnishings in all rooms occupied by woodsmen.

of the new order are waitresses who serve in many of our camps.

Accounting and clerical responsibilities are expertly handled by a competent staff. The woodsman's account is credited with his earnings and charged with his authorized deductions in a manner similar to a credit card system. At the close of each month and/or at the termination of employment each woodsman receives a statement of all transactions.

Safety and accident prevention programs are an integral part of our woods operations. The effect has been to keep Abitibi woodsmen safely at work, as evidenced by the steady improvement in the Company's accident frequency record. Woodsmen have helped themselves in this improvement by their willingness to wear and use safety clothing and equipment.

Telephone and radio communications assist supervisors in the control and management of company field operations.





Multiple-unit camps are common compared to the more advanced motel-type accommodation as illustrated on the introductory page of this section.

Our woodland camps are designed for maximum efficiency of operation, while providing a high level of convenience, comfort and safety to the men. The buildings are clean, bright and well-ventilated and feature central heating, full sanitary facilities, electric light, power and laundry service. For the evenings there are movies or television and space for card games, reading or relaxation.

Woods roads built by the Company to varying standards are production tools designed to serve for the length of time they may be used in the delivery of pulpwood to streams, lakes or direct to the mills.

Because of reliable communication made possible by Company bus or private automobiles the woodsman is no longer isolated from mill communities.

The Spruce River Road at the Lakehead, an essential to our operations, was built jointly by Abitibi and the Ontario and Federal Governments. This is a public road which the Company will use for many decades for access to the woods and for delivery of pulpwood to the mills. Abitibi



Construction of all-weather roads requires the skill of many technicians and supervision by professional foresters.

The Spruce River Road into our limits will be 74 miles long and will open up untapped forest areas.





Operator training involves the operation and maintenance of heavy equipment. Vehicles are serviced to high standards of efficiency to minimize mechanical failures.

Bottom left: Mechanics must be experienced in the servicing of many types of camp and logging equipment from small generator units to heavy trucks and cranes.

Bottom right: Garages at camps are well equipped with mechanical facilities enabling prompt servicing to keep equipment running at peak performance.

truck license fees and fuel tax payments will defray over future years much of the governments' cost.

Felling of trees is only a part of pulpwood logging. Many skills are needed to carry out the succeeding stages of forwarding, loading and hauling. The introduction of mechanical equipment has provided opportunities for the Company to up-grade woodsmen's skills. This has been accomplished by Company-developed operator training programs for such mechanical units as trucks, tractors and cranes. Company training programs are repeated annually for the benefit of new applicants as well as refresher courses for qualified operators. There is no doubt in anyone's mind about the success of the programs from every angle, including safety, improved efficiency and reduced mechanical down-time.

The broken terrain of Abitibi's 26,000 square miles of forest limits dictates the type of mechanical equipment required to skid, load, haul or unload pulpwood. These machines have been a boon to the woodsman, for a great deal of the physical duress of pulpwood logging has been removed by the introduction of mechanical power.



Self mobile yarders skid one cord bundles of pulpwood from cutting strips and load directly on trucks.

Research by the Company and equipment suppliers is never-ending. Better ways are continually being sought to move wood from cutting strips to mills.

The Company owns and operates over six hundred units of various types and models of mechanical logging equipment.

To the unacquainted, the advent of mechanical logging may seem to be a sudden development. Actually, it has been a process of evolution with each new development resulting from years of continuous research, trial and necessity.

The program has been centred around the the woodsman and his ability to accept and learn new working methods. Recruitment and training of equipment-operators, and other workmen involved in new methods, has had to keep pace with the introduction of new and better machines.

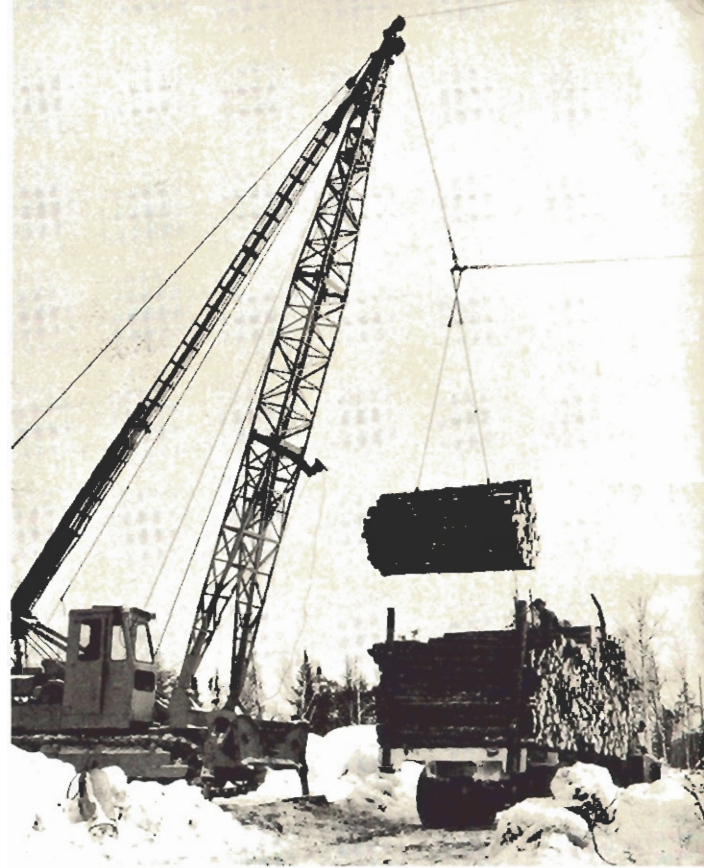
The evolution of logging methods began early in the century in the heydays of the pine logger. The woodsman's basic tools, the crosscut saw and double-bitted axe, suited to the felling and bucking of white pine, soon gave way to smaller, lighter web saws and single-bitted axes, suited to pulpwood trees. The handsaw in turn yielded to mechanization and now practically all pulpwood is cut with power saws.

The most dramatic advance has been in the methods of moving pulpwood from the stump to the mill, for it is here that the most radical changes occurred.

Four wheel drive tractors skid tree length logs from cutting areas to roadsides where they are cut to length and piled.



From roadside piles, tractors with front-end attachments, lift a cord of eight foot wood and place it on trucks, or truck-trailer units.



The time-honoured methods of moving logs by horse and sleigh is fast disappearing. The woodsman is dropping the reins and taking hold of the steering wheel and logs roll swiftly by truck instead of sliding slowly on steel runners. The teamster has become a tractor operator or truck driver and the stable is now a garage.

Thus, the value of the modern Abitibi woodsman cannot be measured solely by his stamina and dexterity with hand tools. His capacity to learn new skills and his ability to master several is important to the woodsman and the Company. The man who fells trees today may be tomorrow's tractor-trailer driver. On the other hand, he might be one of the crew in a cable yarding operation that moves bundles of logs from the bush to a roadside landing. Or, when the hauling begins, he could be the man controlling the swing of the boom and the bite of the grapple as his crane loads pulpwood. Perhaps he could be manœuvring a tractor with a front-end attachment that acts like a great hand, lifting pulpwood from piles and placing it precisely on a truck.

Experienced forest engineers are in charge of field operations and their studies determine where and how cutting is to be done and the type of logging equipment most suited to the location. They must be thoroughly conversant with Company policies for forest management, fire protection and safety of personnel and with Company obligations under union and government agreements.



Truckloads of pulpwood arrive at a frozen river at which point a waiting crane unloads it onto the ice surface where it remains until the spring river drive begins.



The versatile crane has many uses in our woods operations. In this scene it is loading eight foot wood at a transfer point for direct haul to the paper mill.

Pulpwood operations are carried out in the open and are exposed to the full cycle of northern weather. Such a wide range of terrain and weather demands a flexible variety of mechanical equipment and the skills that go with its operation and maintenance under adverse conditions. The short winter day is lengthened artificially, for with lighted vehicles and flood lamps, winter woods operations frequently carry on throughout the night.

Because of management policies, and because of the ability of men **to learn**, to devise and improvise, pulpwood logging is **no longer** the three to four month proposition of **bygone years**. Much of the physical labour has been **eliminated** and safe work methods have developed. The term of employment has expanded, and the earnings of the men have increased substantially. All of these factors contribute to the formation of a well-trained and stable labour force, an essential for success in a complex and competitive industry.

The haul of pulpwood logs to intermediate destinations at frozen lakes and rivers must be completed within a limited period of time and continues day and night. These trucks are rolling out onto a frozen lake.



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