Abitibi

ANNUAL REPORT 1962

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ABITIBI POWER & PAPER COMPANY, LIMITED

COVER

Iroquois Falls, Ontario, birthplace of the company, where the waters of the Abitibi River have been dammed for half a century to provide electrical energy for the company's newsprint machines. In a single day, the production of these machines is sufficient to put a 40-page newspaper in the hands of seven out of every ten Canadian families. Begun as a millsite, Iroquois Falls is located in the Arctic watershed approximately 500 miles north of Toronto, Sharing with Abitibi 50 years of growth and development, it is now a vigorous and modern community. Our cover shows an aerial view of Iroquois Falls including power dam, mill and part of the town.

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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 eleventh day of April, 1963 at the hour of eleven-thirty in the forenoon. In 1912, when Abitibi had its beginning, Iroquois Falls was raw frontierland, inaccessible to all but the most venturesome. Woodsmen enjoyed few amenities, were often isolated for weeks at a time. The rough cabins in which they slept were their headquarters for almost everything they did. Here they ate, provided their own entertainment, washed and dried their clothes and kept their axes razor-sharp. Compare this illustration with the photograph, on page 28, which shows typical living quarters provided today by Abitibi for its employees at company woods camps.

ANNUAL REPORT/YEAR ENDED DECEMBER 31, 1962

HIGHLIGHTS	1962	1961
Paper, board and pulp produced	1,080,427 tons	1,049,495 tons
Net sales	\$156,005,549	\$147,587,462
Taxes on income	\$ 15,780,000	\$ 14,557,000
Net earnings	\$ 15,495,251	\$ 13,710,636
Per common share	\$ 3.61	\$ 3.18
Dividends declared on preferred shares	\$ 433,026	\$ 453,504
Dividends declared on common shares	\$ 8,330,868	\$ 7,077,577
Per common share	\$ 2.00	\$ 1.70
Capital expenditures	\$ 14,113,100	\$ 10,323,357
Working capital at end of year	\$ 40,099,382	\$ 41,043,429
Number of shareholders—common shares	18,578	18,832
Number of shareholders—preferred shares	2,778	2,931





ABITIBI POWER & PAPER COMPANY, LIMITED

Incorporated under the Companies Act (Canada)

EXECUTIVE OFFICES: 408 UN;VERSITY AVENUE, TORONTO, CANADA

OFFICERS-1962

DOUGLAS W. AMBRIDGE, President
PAUL E. ROBERTS, Executive Vice-President
ROBERT E. E. COSTELLO, Vice-President (Development, Engineering & Services)
E. EDWARD GRAINGER, Vice-President (Woodlands)
ARTHUR P. JEWETT, Vice-President (Sales)
ERNEST W. MCBRIDE, Vice-President (Manufacturing)
C. HARRY ROSIER, Vice-President (Board Products)
W. STANLEY ROTHWELL, E.C.A., Vice-President and Treasurer

W. SIMMEET ROTHWEED, FROM, VICE TESIGER and Treas

J. ELLIOT COTTRELLE, Vice-President

CRAIG DICK, Secretary

TRANSFER AGENTS

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

AUDITORS Price Waterhouse & Co., Toronto, Canada

DIRECTORS-1962

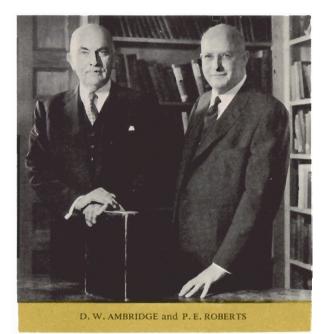
DOUGLAS W. AMBRIDGE President Abitibi Power & Paper Company, Limited Toronto, Canada HARRY J. CARMICHAEL Industrialist St. Catharines, Canada C. ANTOINE GLOFFRION, O.C. Geoffrion & Prud homme Montreal, Canada ALLAN GRAYDON, Q.C. Blake, Cassels & Graydon Toromo, Canada CHARLES L. GUNDY President Wood, Gundy & Company Limited Toronto, Canada 1, 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. PAUL F. ROBERTS Executive Vice-President Abitibi Power & Paper Company, Limited Toronto, Canada ROY H. THOMSON Publisher London, England JOHN S. D. TORY, Q.C. Tory, Arnold, DesLauriers & Binnington Toronto, Canada WILLIAM H. SMITH Honorary Director

REGISTRARS

Canada Permanent Yoronto General Trust Company Toronto and Vancouver, Canada

The Eastern Trust Company Montreal, Canada

Bankers Trust Company New York, U.S.A.



Net sales of \$156,005.549 for the year under review were the highest in the history of the company. This figure includes the exchange premium on sales made in other currencies.

Net earnings for 1962 were S15,495,251, an increase of 13% over 1961 and the highest in our history. By way of comparison our second highest earnings in 1956 were only slightly lower at S15,423,827. In that year our net sales were 15% lower than in 1962. This is confirmation of the reduced profit margins that are becoming the custom under current competitive business conditions.

CONDITIONS IN THE INDUSTRY

Because of the devaluation of the Canadian dollar and an increase in total pulp and paper production of about $3\frac{6}{20}$, it is commonly expected that the Canadian industry will report a generally satisfactory year.

Newsprint production, however, a key barometer, is down slightly in comparison with last year. As in 1961 and several other recent years, the capacity of the world's newsprint producers was expanded by more than the increase in consumption. Under such circumstances the inevitable result is unsatisfactory operating ratios and intense competition in all markets.

Newsprint consumption in the United States was reduced as much as 134,000 tons by labour difficulties in the plants of publishers in Minneapolis, Detroit, Milwaukee, New York, Cleveland and elsewhere. Strikes in New York and Cleveland that commenced in 1962 were unsettled at the year end with continuing losses in newsprint consumption of about 19,000 tons a week.

The distribution of industry newsprint shipments is quite similar to that of the prior year. Customers in the United States again purchased about 78% of Canada's total production. Consumption in Canada increased slightly but this was more than offset by a decline in shipments to overseas markets. United States publishers obtained about 70% of their requirements from Canadian mills. Just eight years ago Canada provided about 80% of United States newsprint needs. As these figures would indicate, the newsprint industry has been growing relatively faster in the United States than it has in Canada.

THE CANADIAN DOLLAR

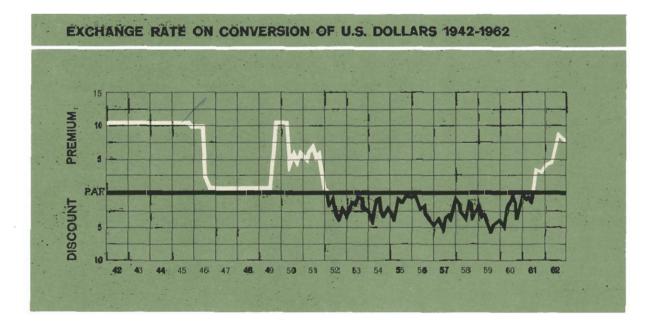
It seems likely that 1962 will be remembered as the year of a dollar crisis for Canada. For close to ten years terminating in mid-1961, the Canadian dollar traded at a premium in terms of U.S. funds. This state of affairs was a distinct handicap to Canadian exporters since for most commodities, including newsprint, the selling price must of necessity be quoted in terms of a world currency such as the United States dollar.

In the last half of 1961 our dollar returned to its traditional discount position and this relationship continued throughout 1962. In May 1962 confidence in the Canadian dollar seemed to evaporate and our national exchange reserves declined drastically in a short period of time. Canadian monetary authorities found it necessary to adopt a fixed rate of exchange and our dollar was stabilized at 92.5% in terms of the U.S. dollar. For the past six months or more our dollar has traded in a narrow range at or about its fixed rate. Confidence has been restored and with it our exchange reserves have been substantially replenished.

There is no doubt at all that with U.S. funds at a premium of close to 8% in terms of Canadian currency our manufacturers are more competitive, both in domestic markets and abroad.

TAXES ON INCOME

It is satisfactory to report to shareholders that relief from the burden of the discriminatory logging tax has been accomplished in part and should soon be achieved in full. The logging tax is an additional Ontario income tax imposed only on the forest industry. In effect, the forest industry has been called upon to shoulder a combined income tax rate of more than 56% on so-called logging income. The industry has contended for years past, and it is now recognized,



that its earnings should be taxed at a combined rate no higher (han the rate of 52% imposed generally in Ontario. In November 1962 the Federal Government amended its tax legislation with the result that two thirds of the logging tax is deductible, commencing in 1962, from Federal income tax and we understand that the Ontario Government will similarly amend its legislation so that the remaining one third will be deductible from Ontario income taxes otherwise imposed.

NET EARNINGS

Net earnings per common share were \$3.61 which compares with \$3.18 per share in 1961. The change in value of the Canadian dollar in comparison with 1961 is a principal reason for the improvement in earnings. If our dollar had remained at its 1961 level, earnings from Canadian operations would have been lower than in 1961.

Earnings by Abitibi Corporation in 1962, included in the consolidation, showed further improvement due to increased volume, product upgrading and the successful introduction of additional lines. In establishing Abitibi Corporation in the hardboard business in the United States we followed the sound and prudent policy of writing off all development expenses in the years in which they were incurred. Consolidated net income of the current year has benefited by approximately \$385,000 through deduction of prior year losses of Abitibi Corporation from income subject to tax.

Earnings from our fine paper mills were lower than in 1961 because of rising costs and temporarily reduced efficiencies that accompanied the introduction of trailing blade coating systems at Port Arthur and Thorold. Operating efficiencies were affected also by more than the usual number of trial runs relating to new products. Prices of our fine paper products were relatively stable througbout the year. As matters now stand, we believe we have a difficult year behind us in the fine paper business and we look forward to increasing public acceptance of our Bladecote papers manufactured by the trailing blade method.

INCREASE IN DIVIDEND ON COMMON SHARES

An announcement was made early in the year that the quarterly dividend on common shares payable April 2nd would be at the rate of 50c

PRODU	PRODUCTION FOR SALE (TONS)							
	Newsprint Paper	Fine and Printing Papers	Board Products	Bleached Sulphite Pulp	Total			
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			
1961	741,978	117,332	145,833	44,352	1,049,495			
1962	756,021	123,939	164,166	36,301	1,080,427			



per share in place of the former rate of $42\frac{1}{2}c$ in effect since its introduction in 1956. This increased rate has been maintained in subsequent dividend declarations. The total dividend declared on common shares in 1962 at the annual rate of \$2.00 per share was \$8,330,868, which compares with \$7,077,577 in 1961 at the then annual rate of \$1.70 per share.

Dividends on preferred shares were \$433,026 which compares with \$453,504 in 1961. This reduction is a result of the retirement during the year of 22,765 shares through operation of the Preferred Shares Retirement Fund.

FINANCIAL POSITION

Working capital of the company at the close of the year was \$40,099,382, which is a decrease of \$944,047 during the year. This decrease is not great considering the increased dividend on common shares, the substantial capital expenditures and the reduction in funded debt and outstanding preferred shares. Working capital at the close of the year is adequate to meet operating requirements of the company.

Along with an increase in our business volume we were successful in achieving a small reduction in inventories without impairment of operating efficiencies. Accounts receivable from customers are up, however, due to increased volume, overseas shipments and general business conditions.

We have again discharged by advance purchase of bonds more than half of the sinking fund obligations that fall due in the coming year. Our outstanding funded debt now stands at \$34,928,500, a decrease of \$2,734,500 during the year.

The par value of outstanding preferred shares now stands at \$9,339,300, a reduction of \$569,125 in comparison with the position at the close of 1961.

PRODUCTION AND SALES

Our newsprint production in 1962 was 756,021 tons, an increase of 2% in comparison with the prior year. In common with the industry our

shipments to North American customers were affected by strikes in publishing plants. On the other hand, we benefited from quality improvements made possible by numerous equipment and process changes as well as the use of Arbiso pulp and we increased our shipments to overseas consumers. Newsprint prices were generally firm in most of our markets.

Fine paper volume is up more than 5% in comparison with 1961. The larger part of our shipments was again to consumers in the domestic market. We did not make full use of the increased capacity at our Thorold plant nor did we expect to. We again paid particular attention to quality of product and we were successful in introducing a number of new grades and products that give promise for the future.

Board products from our mill at Sturgeon Falls were well received. Hardboard, which is a very versatile material, increased in sales volume and so did our flake board PLATEWOOD.

Volume in sales of board products from our mill at Alpena, Michigan, increased despite the uncertain markets that existed for most of the year. We introduced a number of new products including a medium-density siding that is used mostly in residential construction. During the latter half of 1962 we had a continuing large backlog of orders and found it difficult to satisfy the requirements of our customers. Our mill was down for a brief period late in the year because of the expansion program currently under way and it will again be down for a short period early in 1963 for the same reason.

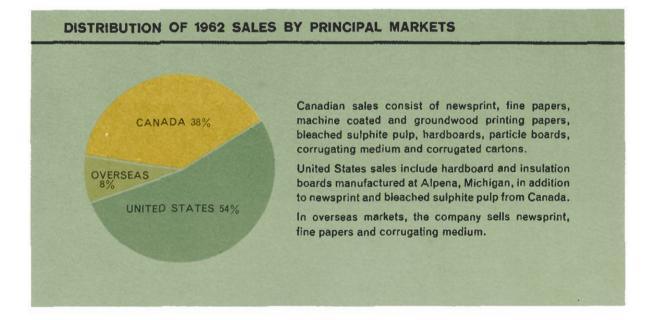
Pulp markets in North America were unstable and selling prices for market pulp were again lowered late in the year to meet competitive quotations. Despite every effort on the part of management and the employees of our Smooth Rock Falls Division, we cannot claim to have had a satisfactory year in the production of bleached sulphite pulp. It is fortunate that production and sale of market pulp is not a substantial part of our total business.

PROPERTIES, PLANT AND EQUIPMENT

Capital expenditures on properties, plant and equipment (other than logging equipment and development) were \$13,222,400 which is the largest capital expenditure program in any of the past five years. All mills of the company shared in this program with the intent that efficiency of manufacturing operations and quality of output will be maintained at a high standard. We are expanding capacities in those locations where expanding capacities in those locations where expansion is justified by customer acceptance of our products. The principal improvement and expansion programs completed or under way during 1962 are as follows:

(a) At the Port Arthur mill of Provincial Paper, Limited we completed the installation of an off-machine trailing blade coater for the production of magazine and printing papers. In conjunction with this program we installed a groundwood bleach plant to improve colour and cleanliness. Papers coated by this new method have been introduced to the printing trades and have been particularly well received. Products of this mill under the trade name Bladecote are now equal to the best coated papers of similar grades produced anywhere in the world.

- (b) At the Alpena mill of Abitibi Corporation we commenced a program to expand hardboard and insulation board capacity substantially. This program will be completed during the first half of 1963. We also installed equipment for the manufacture of a new type of medium-density siding developed in our research laboratories. This new product, which complements our hardboard lines, was introduced late in 1962 and is gaining increasing acceptance.
- (c) At the Thunder Bay newsprint division we installed a modern steam generator to be fired by a combination of either natural gas or pulverized coal together with bark from pulpwood logs. This installation replaced a boiler that no longer had the capacity and efficiency to serve our requirements after more than thirty years' service. We also commenced the installation of a high yield sulphite pulp system to be used in conjunction with Arbiso pulp. This installation will increase the yield from pulpwood and



chemicals as well as the strength and runability of the product. Completion of this project is scheduled for April 1963.

- (d) We embarked on a program to double the hardboard capacity of our mill at Sturgeon Falls including an extension to the finished products storage warehouse. This major expansion program will be completed during the second half of 1963.
- (e) At the Thorold mill of Provincial Paper, Limited we installed trailing blade coaters on No. 4 paper machine and made extensive alterations to permit high velocity drying of coated papers. This project was completed early in 1962 and, following development trials, a new line of Bladecote papers was offered to the trade. Reception accorded these new papers in the market is fully up to expectations.

We expanded the finished paper storage warehouse at Thorold to improve efficiency in scheduling orders on the paper machines as well as the handling of finished paper inventories and service to customers.

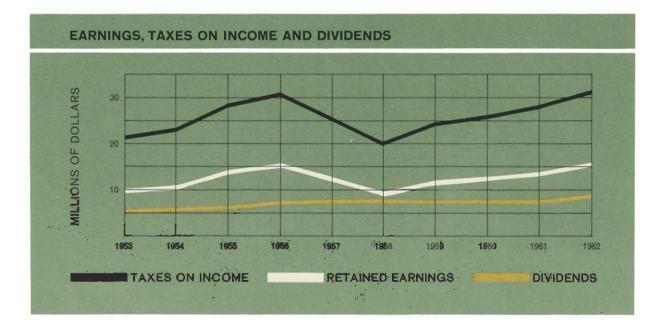
(f) At the Iroquois Falls newsprint division we built an extension to the finishing room to

provide additional space for the manufacture and storage of newsprint sheets. This extension has reduced the cost of sheeting operations and improved service to those customers that purchase newsprint in sheet form.

FORESTRY

Capital expenditures on woodlands mechanical equipment, access roads, camp construction, etc. were \$890,700, an increase over 1961 but a smaller outlay than in the two previous years.

During the year we participated, through Ste. Anne Paper Company, Limited, in the formation of Logging Research Associates in conjunction with two other large companies that carry out extensive woodlands operations. This organization was formed to conduct joint research into the design, development and testing of new and improved logging techniques and equipment. A five-year program has been approved and is under way with costs and benefits to be shared equally by the three participants. This venture is expected to contribute substantially to economy and efficiency in forestry operations.



RESEARCH AND DEVELOPMENT

There has been no let up in our research activities which again covered a wide range. We endeavour to maintain a balanced program including pioneering research in fields related to pulp and paper. We are constantly evaluating possible alternatives in methods and materials so as to improve existing products and develop new ones. Our patented Arbiso pulp process is an excellent example of the contribution made by our research laboratories.

There is no doubt that the quality of our research has been a most important factor in our progress in recent years.

OFFICE OF THE PRESIDENT

It was recently announced through the press that, after close to seventeen years as President and Chief Executive Officer, Mr. D. W. Ambridge will retire from this position to become Chairman of the Board. In this new capacity he will continue to serve the company but will no longer be directly involved in the dayto-day administration of Abitibi affairs.

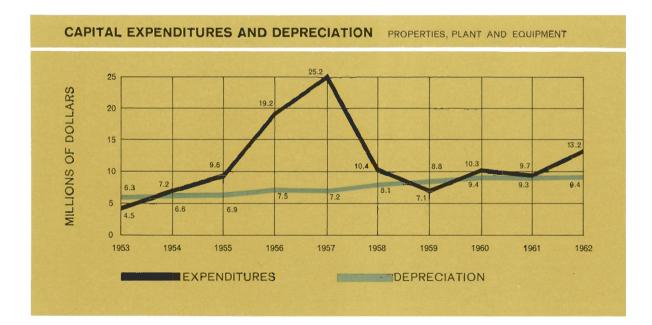
Mr. Paul E. Roberts has been elected to the office of President and Chief Executive Officer

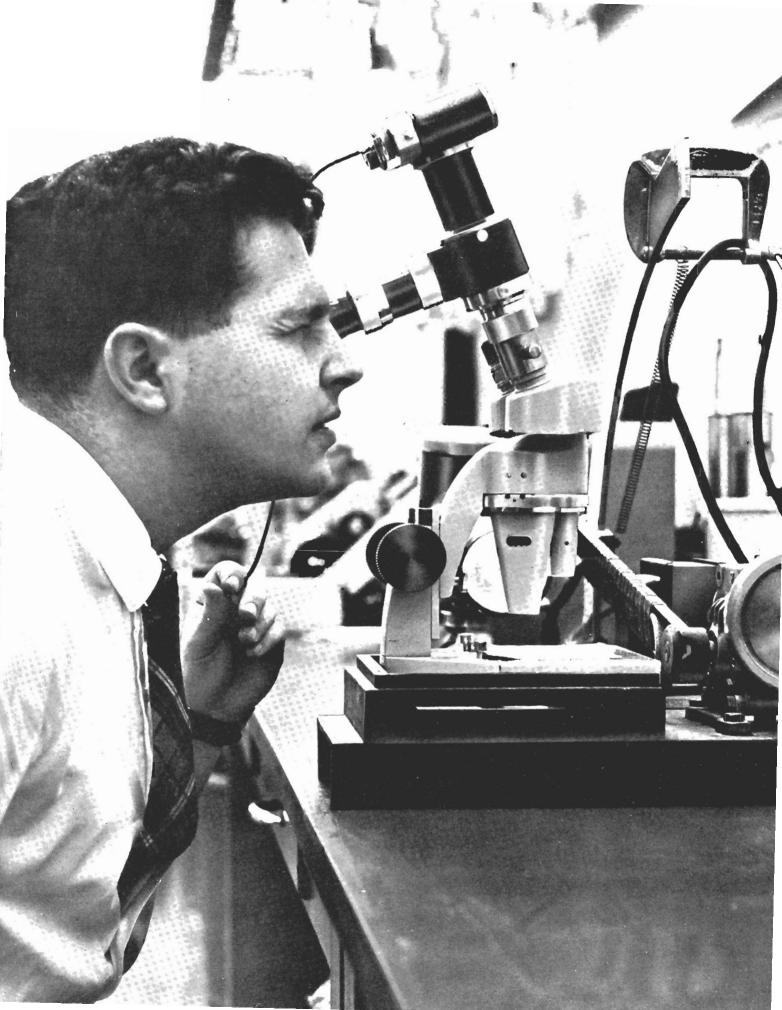
effective February 1, 1963. Mr. Roberts joined the company in 1949 and has served in a number of important posts since that time. He was appointed Executive Vice-President in 1959 and elected a Director in 1961.

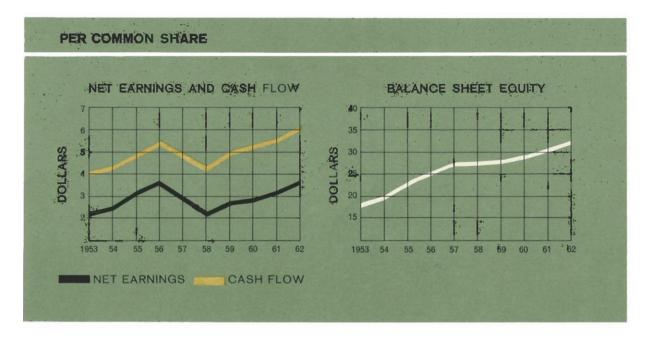
The Directors are very confident that our company will continue to progress under the leadership of Mr. Roberts. He has the loyal and enthusiastic support of all company executives and employees.

EMPLOYEE RELATIONS

In February 1962 we held our Seventh Labour-Management Meeting with close to one hundred representatives in attendance. Employee pulp and paper unions were represented by delegates from each local as well as national and international officers. The company was represented by divisional managers and other officials. As in previous years we reviewed and discussed some of the circumstances and trends that the company faces in conducting its business. Our custom has been to hold these conferences at a time when wage negotiations are not an issue and we believe they have contributed to a better understanding of economic conditions and







business problems. Proceedings at the Conference were printed in booklet form and distributed to employees.

One outcome of the 1962 Conference was the establishment in the company of a "Council on Education" to make known the ever-increasing importance of higher education and to ensure that sons and daughters of Abitibi employees have the opportunity to receive education to the limit of their various abilities.

Results of the past year are due to a great extent to the competence and interest of our employees throughout the organization. The Directors take this opportunity to express their appreciation.

OUTLOOK

Indications are that the world will again increase its consumption of pulp and paper products in the coming year. World demand for newsprint is forecast to increase by more than 3% which is a larger growth than in the average year of the past decade. Most authorities expect the Canadian newsprint industry to resume a growth trend after the pause that occurred in 1962 and this is in line with our expectations.

It is also expected that world consumption of fine papers and board products will continue to grow in 1963 as it has in recent years.

Because of its dependence on export markets, the Canadian pulp and paper industry is vitally interested in the level of the Canadian dollar in relation to other currencies.

Industrial strife in the publishing industry retarded newsprint production in 1962 and with continuation of strike conditions in two major cities in the United States, it seems a certainty that industrial strife will again have a detrimental effect on production in 1963.

In Abitibi we are basing our plans for 1963 on increased volume in newsprint, fine papers and board products. We expect selling prices to be relatively stable and we anticipate some cost increases. We will continue to do our utmost to serve our customers to the best of our ability and we expect to grow in the process.

On behalf of the Board,

N. Wambridg.

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President

CONSOLIDATED EARNINGS

	Year Ended 1962	December 31 1961
Net sales	\$156,005,549	\$147,587,462
Cost of products sold and all expenses except items shown below	113,102,597	107,399,941
Interest and other income	\$ 42,902,952 932,595 \$ 43,835,547	\$ 40,187,521 707,628 \$ 40,895,149
Provision for depreciation (Note 2). Provision for depletion. Employees' retirement income plan. Interest on funded debt. Discount and expense on funded debt.	\$ 9,429,878 60,000 1,289,650 1,738,212 42,556 \$ 12,560,296	\$ 9,275,166 75,000 1,399,962 1,828,793 48,592 \$ 12,627,513
Earnings before taxes on income	\$ 31,275,251	\$ 28,267,636
Taxes on income (Note 3)	15,780,000	14,557,000
Net earnings	\$ 15,495,251	\$ 13,710,636

CONSOLIDATED RETAINED EARNINGS

	Year Ended December 31		
	1962	1961	
Retained Earnings at beginning of year Net earnings for the year	\$ 91,880,296 15,495,251	\$ 85,700,741 13,710,636	
	\$107,375,547	\$ 99,411,377	
Dividends declared on preferred shares Dividends declared on common shares	\$ 433,026 8,330,868	\$ 453,504 7,077,577	
	\$ 8,763,894	\$ 7,531,081	
Retained Earnings at end of year	\$ 98,611,653	\$ 91,880,29 6	

Abitibi Power & Paper Company, Limited and subsidiary companies

CONSOLIDATED BALANCE SHEET

ASSETS

	Decem	iber 31
CURRENT ASSETS:	1962	1961
Cash	\$ 4,717,076	\$ 6,200,437
Short term investments, at cost, which is approximate market value	7,300,091	5,799,017
Accounts receivable, less allowance for doubtful accounts	23,602,373	20,498,108
Inventories, at cost:		
Supplies and products	9,238,508	8,695,412
Pulpwood and expenditures on current logging operations	20,211,017	21,007,873
Prepaid insurance and other expenses	817,135	907,121
	\$ 65,886,200	\$ 63,107,968

CAPITAL ASSETS:

Properties, plant and equipment (Note 4)		\$245,425,926 134,974,406
Logging equipment and development, at amortized cost		\$110,451,520 2,082,735
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of \$4,934,846 (\$4,874,846 in 1961)	16,391,337	16,451,337
	\$132,606,747	\$128,985,592

OTHER ASSETS:

Unamortized bond discount and expense			
Miscellaneous investments, at cost	5,368,319	_	5,441,431
	\$ 5,528,727	\$	5,644,395

APPROVED ON BEHALF OF THE BOARD: D. W. Ambridge, Director

P. E. ROBERTS, Director

\$204,021,674 \$197,737,955

LIABILITIES

	Decem	ber 31
CURRENT LIABILITIES:	1962	1961
Accounts payable. Dividends payable January 1st. Interest accrued on funded debt. Income and other taxes. Payments on funded debt due within one year.	\$ 12,978,906 2,188,503 435,117 8,933,292 1,251,000	1,881,412 468,420
	\$ 25,786,818	\$ 22,064,539
 FUNDED DEBT (Note 5): 3½% First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967. 4 % First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974 6¼% First Mortgage Sinking Fund Bonds, Series "C", maturing November 15, 1977 	7,584,000	
1977	9,400,000 15,000,000	9,600,000 15,000,000
Less—Amount included with current liabilities	\$ 34,928,500 1,251,000	\$ 37,663,000 253,000
	\$ 33,677,500	\$ 37,410,000
Total Liabilities	\$ 59,464,318	\$ 59,474,539

SHAREHOLDERS' EQUITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- B decores and transactions in other currencies have been restated in Canadian dollars as follows: Current assets and current liabilities at the exchange rate in effect at December 31st; capital assets at the exchange rates in effect at dates of acquisition; net sales and expenses of United States subsidiary companies at average exchange rates for the year except that depreciation provisions are restated on the same basis as the related capital assets.
- 2. Depreciation of properties, plant and equipment is provided on a straight-line basis. Asset values at cost relating to integrated pulp and paper mills, comprising the larger part of properties, plant and equipment, are depreciated at a composite rate of 5% per annum. Depreciation provided in the accounts for 1962 is approximately \$200,000 greater than maximum allowances that will be claimed for income tax purposes.
- 3. Taxes on income for 1962 of a subsidiary company are reduced approximately \$385,000 by deduction of prior year losses from income subject to tax.
- 4. Properties, plant and equipment are stated at cost except for assets included at appraised values as at April 30, 1946 as reported by Coverdale & Colpitts, Consulting Engineers. Assets at appraised values have a net depreciated book value of \$12,799,604 at December 31, 1962.
- 5. In accordance with terms of the Trust Deed securing the outstanding First Mortgage Bonds, the company may not issue additional 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 and thereafter up to September 15, 1966, at the rate of 20 shares per debenture.

- 6. A preferred shares retirement fund is to be set aside by annual appropriation for the purchase of shares in the market. Purchases have been made in anticipation of the 1963 requirement leaving a balance not exceeding \$135,572 to be set aside on or before April 30, 1963.
- 7. Of the authorized and unissued common shares, 315,000 shares are reserved for possible conversion of Debentures and 46,534 shares are reserved for stock options.

The company established a Key Employees' Stock Option Plan in 1959 and 50,000 common shares were reserved for this purpose. In the intervening period, options for terms not in excess of ten years have been granted at market value at date of grant for all shares reserved under the plan. During 1962 options were exercised on 3,466 shares for a cash consideration of \$131,708 leaving a balance of 46,534 shares under option at the close of the year.

- 8. Amortization of logging equipment and development in 1962 amounted to \$880,021.
- 9. For the year 1962 fees of directors not holding salaried positions amounted to \$27,500; counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$556,325.

AUDITORS' REPORT

To the Shareholders of ABITIBLPOWER & PAPER COMPANY, LIMITED:

We have examined the consolidated balance sheet of Abitibi Power & Paper Company, Limited and subsidiary companies as at December 31, 1962 and the statements of consolidated earnings and consolidated retained earnings 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 retained earnings 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, 1962 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.

Toronto, January 30, 1963

PRICE WATERHOUSE & CO. Chartered Accountants.

SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:	1962	1961
Net earnings Non-cash charges for depreciation and depletion deducted in	\$15,495,251	\$13,710,636
arriving at net earnings	9,489,878	9,350,166
Amortization of logging equipment and development	880,021	939,307
Cash flow from operations	\$25,865,150	\$24,000,109
Disposal of capital assets	122,046	78,819
Common shares issued under option agreements	131,708	
	\$26,118,904	\$24,078,928
APPLICATION OF FUNDS:		
Invested in properties, plant and equipment	\$13,222,400	\$ 9,729,078
Expenditures on logging equipment and development	890,700	594,279
Funded debt retired or included with current liabilities	3,732,500	2,487,500
Par value of preferred shares retired	569,125	340,150
Dividends declared on preferred shares	433,026	453,504
Dividends declared on common shares	8,330,868	7,077,577
Other items-net.	(115,668)	931,351
	\$27,062,951	\$21,613,439
Resulting in an Increase (Decrease) in Working Capital of	\$ (944,047)	\$ 2,465,489
Working Capital at Beginning of Year	41,043,429	38,577,940
WORKING CAPITAL AT END OF YEAR	\$40,099,382	\$41,043,429

TEN YEAR REVIEW

SALES AND EARNINGS	1962	1961	1960
Net sales	\$156,005,549	\$147,587,462	\$146,339,604
Depreciation and depletion Interest on funded debt Earnings before taxes on income	9,489,878 1,738,212 31,275,251	9,350,166 1,828,793 28,267,636	9,476,819 1,869,249 26,066,288
Taxes on income	15,780,000 15,495,251	14,557,000 13,710,636	13,800,000 12,266,288
Net earnings per common share	\$3.61	\$3.18	\$2.83
DIVIDEND RECORD			
On preferred shares On common shares	\$ 433,026 8,330,868	\$ 453,504 7,077,577	\$ 471,199 7,077,579
Declared per common share	\$2.00	\$1.70	\$1.70
CAPITAL EXPENDITURES			
On properties, plant and equipment On logging equipment and development (from 1957) On timber limits	\$ 13,222,400 890,700	\$ 9,729,078 594,279 	\$ 10,340,956 1,666,438 —
FINANCIAL POSITION			
Current assets Current liabilities Working capital	\$ 65,886,200 25,786,818 40,099,382	\$ 63,107,968 22,064,539 41,043,429	\$ 61,091,507 22,513,567 38,577,940
Capital assets, at net book values Investments and other assets	132,606,747 5,528,727	128,985,592 5,644,395	1 29, 030,527 4,713,044
Funded debt	33,677,500 	37,410,000	39,897,500
Equity of shareholders	144,337,330	138,263,416	132,424,011
EQUITY OF SHAREHOLDERS			
Equity of preferred shareholdersEquity of common shareholders	\$ 9,339,300 135,218,056	\$ 9,908,425 128,354,991	<pre>\$ 10,248,575 122,175,436</pre>
Outstanding common shares	4,166,684	4,163,218	4,163,218
Equity per common share	\$32.45	\$30.83	\$29.35

1959	1958	1957	1956	1955	1954	1953
\$133,813,074	\$123,385,542	\$128,198,755	\$132,497,683	\$ 123,173,281	\$113,997,836	\$109,768,039
8,928,695 2,008,936 24,525,544	8,292,119 2,083,546 20,127,382	7,467,568 1,652,016 25,552,283	7,752,873 1,214,552 31,012,827	7,132,899 1,137,654 28,506,026	6,793,698 1,417,564 23,028,901	6,532,298 1,399,178 21,429,152
12,700,000 11,825,544	10,470,000 9,657,382	13,050,000 12,502,283	15,589,000 15,423,827	14,570,000 13,936,026	12,403,000 10,625,901	11,385,000 10,044,152
\$2.72	\$2.19	\$2.86	\$3.56	\$3.20	\$2.49	\$2.27
\$ 507,803 7,077,579	\$ 547,796 7,077,582	\$	\$ 605,360 6,661,252	\$ 618,825 5,618,967	\$ 1,176,955 4,487,561	\$ 1,575,624 3,911,336
\$1.70	\$1.70	\$ 1.70	\$1.60	\$1.35	\$1.20	\$1.05
\$ 7,105,455 955,345 	\$ 10,423,905 592,602 14,344	\$ 25,194,262 894,624 53,508	\$ 19,165,594 466,299	\$ 9,634,629 	\$ 7,246,492 	\$ 4,539,643
\$ 60,070,996 20,312,046 39,758,950	\$ 57,714,700 17,317,852 40,396,848	\$ 62,169,246 20,557,436 41,611,810	\$ 74,057,870 25,801,233 48,256,637	\$ 64,339,974 23,532,028 40,807,946	\$ 60,337,294 21,238,097 39,099,197	\$ 49,454,071 18,256,392 31,197,679
126,113,480 3,498,462	127,995,218 2,547,639	126,082,118 3,964,105	106,504,498 4,096,523	94,909,259 4,089,988	92,321,519 4,175,621	91,999,647 12,103,461
40,632,000	45,555,500	47,984,000	40,598,000	29,060,000	41,331,700 4,500,000	35,331,500 4,500,000
128,738,892	125,384,205	123,674,033	118,259,658	110,747.193	89,764,637	95,469,287
\$ 10,836,425 117,902,467	\$ 11,721,900 113,662,305	\$ 12,552,000 111,122,033	\$ 13,105,250 105,154,408	\$ 13,750,000 96,997,193	\$ 13,750,000 76,014,637	\$ 26,260,400 69,208,887
4,163,218	4,163,218	4,163,218	4,163,218	4,163,218	3,794,400	3,725,082
\$28.32	\$27.30	\$26,69	\$25.26	\$23.30	\$20.03	\$18.58

MANAGEMENT COMMITTEE

The widespread and diversified operations of Abitibi and associated companies are coordinated and controlled by a committee of executives holding senior management responsibilities. Members of the Management Committee during 1962 are shown below.



D. W. AMBRIDGE



G.M. BRAIN



L. CLEMINSON



R.E.E.COSTELLO



J.E. COTTRELLE





A.P.JEWETT



P.E. ROBERTS



E. W. MCBRIDE



C. H. ROSIER



H.G.O'LEARY



W. S. ROTHWELL



ABITIBI'S GROWING RESOURCES

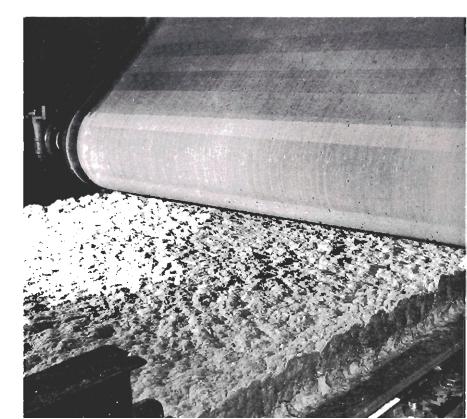




The dynamic program of diversification by Abitibi in recent years has resulted in products such as hardboards. Platewood, and insulating boards. Developed in the company's Central Research Division, these materials are made in Sturgeon Falls, Ontario, and Alpena. Michigan, They have outstripped all other products in rate of growth during the last ten years.

The elegance of Abitibi's glamorous pre-finished woodgrain panelling is today's answer to residential and commercial interior finishing. Finding numerous uses in home and industry are Abitibi's other functional hardboard lines such as peg boards. The exclusive smooth-two-sides hardboard grades made at Alpena have been designed to satisfy the special needs of industry. For exterior uses the superior quality of the medium density S-2-S siding has been a boon to builders and home owners alike.

To meet the anticipated market for these products the hardboard mill at Sturgeon Falls is being doubled in capacity, while Abitibi Corporation's mill at Alpena is being increased by more than 30 per cent. Both mills are scheduled to begin operations on the expanded bases in 1963. The photo below shows hardboard in the making at Sturgeon Falls.



Despite the rapid growth in hardboard sales in recent years, newsprint continues to be Abitibi's major product. In terms of dollar value, newsprint is Canada's most important export commodity. Better newsprint has been the constant objective of Abitibi since the first rolls were produced at Iroquois Falls 50 years ago. During the last decade millions of dollars have been spent in improvements to plant and equipment—all of which has helped the company to maintain its position as a pace-setter in the industry.

The latest development in this continual search for the best possible product is the patented ARBISO pulp process, a name coined from "A" for Abitibi, "R" for Research, and "BISO" for Sodium Bisulphite. Sulphite pulp made by the Arbiso process is another forward step in the production of improved newsprint for today's high-speed gravure, rotary and offset printing presses.

Below is a section of the control room at one of Abitibi's Arbiso installations. At right, Frank T, Howland, President of Abitibi Service, Inc., inspects Abitibi newsprint where it counts most—on the customer's press. Abitibi Service, Inc. maintains offices in Chicago, Dayton and New York.





A NEW MAGAZINE PAPER



An historical "first" in Canada occurred last year with the installation by Provincial Paper, Limited of a high-speed trailing blade coater at Port Arthur for quantity production of premium grade magazine papers. This machine gets its name from a special spring steel blade a hundredth of an inch thick that "trails" a finishing coat on paper previously roll-coated on the paper machine.

The Port Arthur unit, installed after four years of trial and development, has the capability to blade-coat both sides of 154-inch-wide stock at high speeds with extraordinary levelness of surface.

Trailing blade coaters were also installed on a paper machine at Thorold, resulting in the introduction of "Bladecote" label papers to the market. Other grades of "Bladecote" papers will follow—papers which will provide new opportunities for quality printing.



SERVICING 28 STATES



Perhaps the most significant development in recent years in Abitibi's program of expansion and diversification was the opening of the hardboard mill at Alpena, Michigan. This manufacturing site was selected because of its proximity to wood supply and its location in relation to the consumer market. Approximately 75 per cent of the purchasing power in the United States lies within the trading area.

Abitibi Corporation now has 450 employees at Alpena, maintains sales offices in Detroit, Chicago, Dayton and New York and services 200 major industrial accounts plus 150 leading building material distributors who service more than 15,000 dealers in 28 states.

Above, Alan B. Cook, Vice-President of Sales, Abitibi Corporation, meets with two of his marketing team. Below, steel framework is shown in place for the more than 30 per cent expansion to the plant.







RESEARCH EMPHASIZED

Abitibi has long stressed the importance of research and the intelligent use of our forest resources. Indicative of its leadership in these fields are the encouragement and financial support it gives to universities and the maintenance of a woodlands research laboratory in northwestern Ontario.

Currently, Abitibi provides financial assistance to four university chairs. One such chair, unique in Canada, is 1 orest Biology, occupied by Dr. J. L. Farrar (left) of the University of Toronto. Others are Engineering Mathematics at Queen's. Engineering Science at the University of Western Ontario, and Control Ungineering at McGill.

In addition to industrial research at its Central Research Division. Abitibi engages in a broad program of forest research at its 40,000-acre woodlands laboratory at Raith, near Port Arthur. The continuing goal at the laboratory is better utilization and perpetuation of the forests.

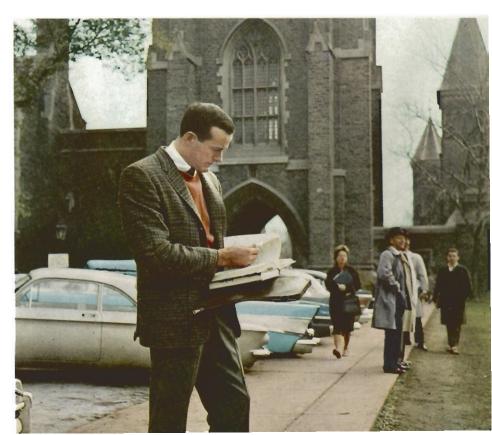


A FRUITFUL CONFERENCE

Equal in importance to research is the growing necessity for a broader understanding of today's industrial problems and the development of personnel qualified to assume management responsibilities in the years that lie ahead.

In these two fields, Abitibi has displayed imaginative leadership. Last year, in the seventh of a series of labour-management meetings sponsored by the company since 1950, papers dealing with the European Common Market and Trends in Manpower and Employment were discussed at length.

Most important outcome of last year's meeting may prove to be the establishment of the Abitibi Council on Education. Two principal objectives of the 12-member council are to encourage the 10,000 children of Abitibi employees to complete high or technical school training and to make it possible for students of ability to acquire additional education in universities of their choice.



PROGRESS AT HOME AND AT WORK



Symbolic of the kind of progress with which Abitibi has become identified is this big forest harvester which, in less than a minute, can pick up a 60-foot tree measuring 12 inches at the stump and in one continuous operation strip it of bark and branches and cut it into 8-foot peeled logs. The development of this machine and others, expected to advance the mechanization of pulpwood logging once all kinks have been ironed out, is being underwritten by Logging Research Associates, an organization formed by Ste. Anne Paper Company, Limited and two other large companies.

One in every six of Abitibi's 6,000 full-time employees has been with the company 25 years or longer. This enviable record may be attributed, at least in part, to the regard held for Abitibi as an employer. Unlike the woodsmen of 50 years ago, men housed in modern woods camps enjoy well-ventilated sleeping quarters, recreational facilities, and many of the comforts of home.





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. 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; Chicago; Dayton; New York.

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.; Winnipeg, Man.

MANITOBA PAPER COMPANY, LIMITED

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

STÉ. ANNE PAPER COMPANY, LIMITED

Manufacture of newsprint.....Beaupré, Que. Subsidiary companies: ST. ANNE POWER COMPANY BAIE ST. PAUL LUMBER COMPANY LIMITED conducting woodlands operations from....Beaupré, Que.

PEMBROKE SHOOK MILLS, LIMITED

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

OTHER SUBSIDIARY COMPANIES

Paper grades used in this Annual Report: Cover-Paragon Brilliant Cover basis 25x38-280M; Inside pages-Paragon Brilliant basis 25x38-160M; products of PROVINCIAL PAPER, LIMITED the fine paper division of ABITIBI POWER & PAPER COMPANY, LIMITED

