

Abitibi

**ANNUAL REPORT
1958**

OUR COVER: *One of the most important and photogenic phases of our woodlands operations is the delivery of wood across Lake Superior by boom and tug.*

Our cover scene, photographed where the famous log-laden White River empties from Lake Superior's eastern shore, is typical of this final step in the Sault Ste. Marie Division's woodlands operations. The towing booms used, huge logs from western Canada, are here formed into a "bag" to catch the fast-moving logs as they are released by another boat from a holding boom upstream.

Once 10,000 to 12,000 cords of pulpwood have floated through the opening, this end of the towing boom is closed—and the 189-hour, 189-mile tow to our mill holding area in the St. Mary River begins.



ABITIBI POWER & PAPER COMPANY, LIMITED

ANNUAL REPORT

**FOR THE YEAR
ENDED DECEMBER 31**

1958

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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 ninth day of April,
1959 at the hour of eleven in the forenoon.*



ABITIBI POWER & PAPER COMPANY, LIMITED

Incorporated in 1914 under the laws of the Government of Canada

Executive Offices—408 University Avenue, Toronto, Canada

DIRECTORS

D. W. AMBRIDGE
President and General Manager
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 & 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

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

OFFICERS

DOUGLAS W. AMBRIDGE, President and General Manager

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

CLARK B. DAVIS, Vice-President (*Woodlands*)

ARTHUR P. JEWETT, Vice-President (*Sales*)

ERNEST W. MCBRIDE, Vice-President (*Manufacturing*)

LAURENCE B. POPHAM, Secretary

PAUL E. ROBERTS, Vice-President

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

WILLIAM H. SMITH, Vice-President

MANAGEMENT COMMITTEE

DOUGLAS W. AMBRIDGE, Chairman

ROBERT J. ASKIN

JAMES C. BINNIE, Q.C.

LESLIE CLEMINSON

ROBERT E. COSTELLO

CLARK B. DAVIS

ARTHUR P. JEWETT

ERNEST W. MCBRIDE

PAUL E. ROBERTS

W. STANLEY ROTHWELL, F.C.A.

TRANSFER AGENTS

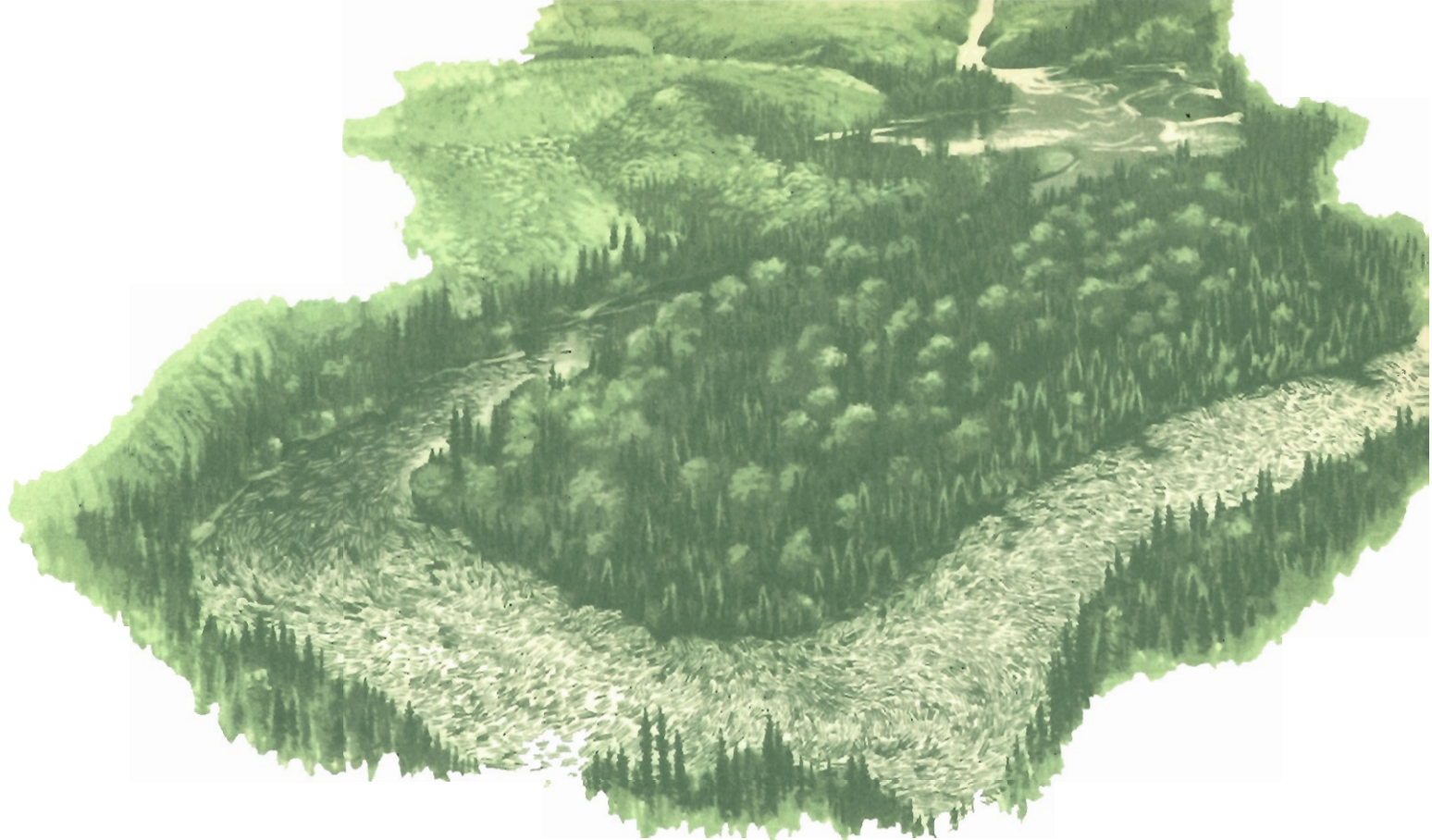
Montreal Trust Company, Toronto, Montreal and Vancouver, Canada
City Bank Farmers Trust Company, New York, U.S.A.

REGISTRARS

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

AUDITORS

Price Waterhouse & Co., Toronto, Canada



HIGHLIGHTS OF THE YEAR

	1958	1957
Paper, pulp and board produced.....	955,334 tons	1,000,104 tons
Net sales.....	\$123,385,542	\$128,198,755
Taxes on income.....	\$ 10,470,000	\$ 13,050,000
Net earnings.....	\$ 9,657,382	\$ 12,502,283
Per common share.....	\$ 2.19	\$ 2.86
Dividends declared on preferred shares.....	\$ 547,796	\$ 578,441
Dividends declared on common shares.....	\$ 7,077,582	\$ 7,077,580
Per common share.....	\$ 1.70	\$ 1.70
Invested in properties, plant and equipment....	\$ 10,423,905	\$ 25,194,262
Working capital at end of year.....	\$ 40,396,848	\$ 41,611,810
Number of shareholders—common shares.....	19,523	19,526
Number of shareholders—preferred shares.....	3,487	3,654

REPORT TO THE SHAREHOLDERS

Operations in 1958 resulted in lower net earnings than in the previous year. The main reasons were:

- (i) Production of newsprint paper was lower by 9.5% in comparison with 1957 and by 15% in comparison with 1956 in which year the Company reached the highest newsprint production in its history.
- (ii) Production of fine and printing papers was lower by 5% in comparison with 1957. Practically all of this decline was due to a lower production of machine coated papers.
- (iii) It was the first full year of operations by Abitibi Corporation in the manufacture and sale of hardboards and insulation boards in the United States. This wholly-owned subsidiary company made substantial progress but, due to difficulties inherent in the establishment of a new business, its operations were conducted at a loss.
- (iv) While costs of manufacturing continued to increase, prices were stable and during the year under review no price increases of any account were put into effect.
- (v) There was no relief from the discriminatory burden of income taxes imposed on the forest industry in the Province of Ontario. The impact of Federal and Provincial income taxes on operations of the pulp and paper industry in Ontario is a combined rate of 50.6% to 52% of income which contrasts with a rate of 47% in most other Provinces in Canada.

Sales of newsprint in the United States, our principal market, were lower than in 1957 due not only to the fact that our customers used less but also because total market requirements were shared by an enlarged industry with substantially greater capacity to produce. Newsprint manufacturing capacity in the southern United States, based on the fast-growing southern pine, has increased almost ten-fold in the last decade.

Competition from the Scandinavian countries in overseas markets continues to be a formidable barrier to increased Canadian sales. Not only is Scandinavian capacity to produce newsprint and pulps steadily increasing but their prices in many markets are lower than Canadian prices and they are able more easily to solve the currency problems of their customers.

Looking back at 1958, however, it is evident that progress was made in a number of directions and, more important, that what was achieved during the year will make possible further substantial progress in the years ahead. Included among favourable developments were:

- (i) The average discount on U.S. funds declined to 2.94% in comparison with 4.12% in 1957.
- (ii) Working capital was well maintained and the Company's liquid position was also carefully conserved by vigorous efforts to reduce inventories.
- (iii) The Company's long-term debt was reduced as was the number of outstanding preferred shares.
- (iv) Market reception of our many new products in the United States and Canada has been satisfactory and this gives promise of increased sales in coming years.
- (v) Sales of all principal products of the Company showed an improvement during the last quarter of the year in comparison with the previous quarter.

**SALES, COSTS
AND EARNINGS**

Net sales of all products amounted to \$123,385,542, a decrease of 4% in comparison with 1957. The principal reason for this outcome, as previously commented on, was a decline in newsprint consumption in our market areas at a time when increases in productive capacity intensified competition. The decline in sales of newsprint and fine papers was offset to a considerable extent by an increase of more than 50% in sales of building and paper boards.

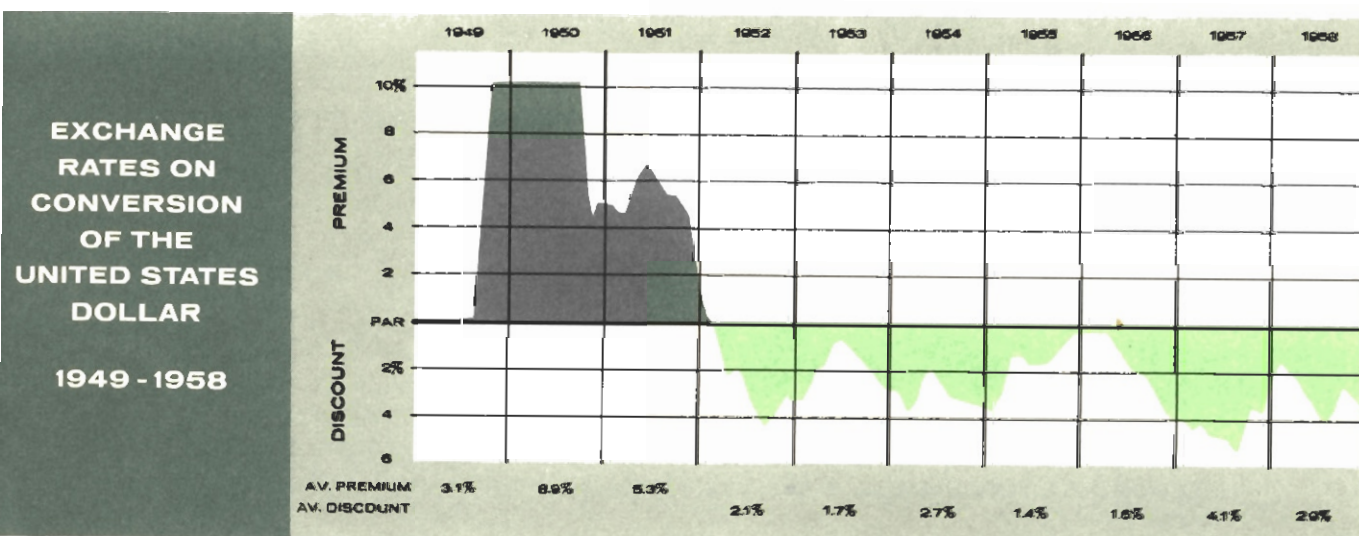
The rate of exchange between Canadian and United States dollars is, of course, of great importance to the Company inasmuch as about 65% of our business is carried out in U.S. currency.

A chart showing the average exchange rates realized during the past ten years on conversion of U.S. funds is shown below on this page. While the average discount of 2.94% experienced in 1958 was some improvement over the average for 1957, it is still a substantial handicap since most of our export trade must of necessity be conducted in terms of U.S. currency.

It must be obvious to those in charge of the financial affairs of this country that an economy as heavily dependent upon exports as is the Canadian economy can ill afford to give our competitors in the markets of the world an advantage of 3% or 4% in every transaction we attempt to make. The sooner some effective steps are taken to put Canadian exporters on a more competitive level in this regard, the better.

Vigorous efforts were made throughout the year to minimize the effects of wage increases which are coming to be regarded by many persons as a necessary part of life. While we introduced new machines and methods to reduce costs of manufacture, the rise in costs persisted as in other years. It is inevitable that cost increases must at some time result in higher prices or reduced employment, or both, and contribute also to the tide of inflation which is a constant worry to all of us.

That a continuous increase in costs can go on indefinitely without serious injury to an exporting nation would seem to be a dangerous doctrine. There appears to be little evidence in any of the actions of governments or labour unions that the dangers of this doctrine are either understood or feared.



PRODUCTION IN TONS

—exclusive of production for use of Abitibi and subsidiaries

	NEWSPRINT PAPER	FINE AND PRINTING PAPERS	BLEACHED SULPHITE AND OTHER PULPS	BUILDING AND PAPER BOARDS	TOTAL
1949	673,297	64,900	69,315	31,605	839,117
1950	686,225	73,882	64,246	35,915	860,268
1951	716,112	83,365	89,909	46,547	935,933
1952	726,840	72,039	69,334	49,229	917,442
1953	728,039	75,506	57,835	52,847	914,227
1954	772,247	74,593	63,617	43,484	953,941
1955	793,560	85,972	65,504	56,679	1,001,715
1956	815,830	98,038	67,377	65,185	1,046,430
1957	765,533	101,952	63,516	69,103	1,000,104
1958	692,781	96,905	51,446	114,202	955,334

Anyone who is familiar with the actual facts of foreign trade must view the outcome of this annual rise in costs in Canada with serious misgivings.

Consolidated net earnings for the year, after providing for all charges including depreciation, depletion and income taxes, amounted to \$9,657,382 as compared with \$12,502,283 in the previous year. Earnings for the second half of the year improved in comparison with the first six months, due mostly to better results by Abitibi Corporation as its volume and manufacturing efficiency increased.

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

While earnings for 1958 were adversely affected by the loss incurred during the first full year of operations by Abitibi Corporation, it should be noted that this loss may be applied for a period of five years as an offset to earnings subject to U.S. income taxes. Present indications are that Abitibi Corporation will make an earnings contribution in 1959 and its activities will add to the earnings potential of the Company in subsequent years.

FINE AND PRINTING PAPERS

As most shareholders know, our activities in the fine paper trade are confined mostly to the Canadian market. We do make shipments to many other markets in the world although the narrow margin presently existing between costs of manufacture and proceeds of net sales is somewhat of a handicap. The attention of shareholders is directed to pages 19 to 26 of this report which show by illustration the many ways in which the products of Provincial Paper, Limited, our wholly-owned fine paper subsidiary, contribute to our Canadian way of life.

An announcement was made recently concerning our intention to develop in Canada what is known as the trailing blade method of coating fine papers to improve printing surface characteristics and the range of coated papers available to the trade. We have the equipment on order, to be the first of its kind in Canada, which will enable us to proceed in 1959 with development trials and tests prior to offering to the Canadian printing trade, papers coated by this new and versatile method.

**ABITIBI
CORPORATION**

The usual difficulties attending the launching of a new business were experienced by Abitibi Corporation at its new plant at Alpena, Michigan. This plant manufactures a great many varieties of hardboards and insulation boards and is a very complex and highly mechanized unit. The results of the first year's operations have proved, however, that a wide variety of first-class products can be produced economically with a minimum of labour. The strategic location of this plant, well served by nearby forest resources and within reasonable shipping distances of large markets, will be of increasing importance as operations improve and extend.

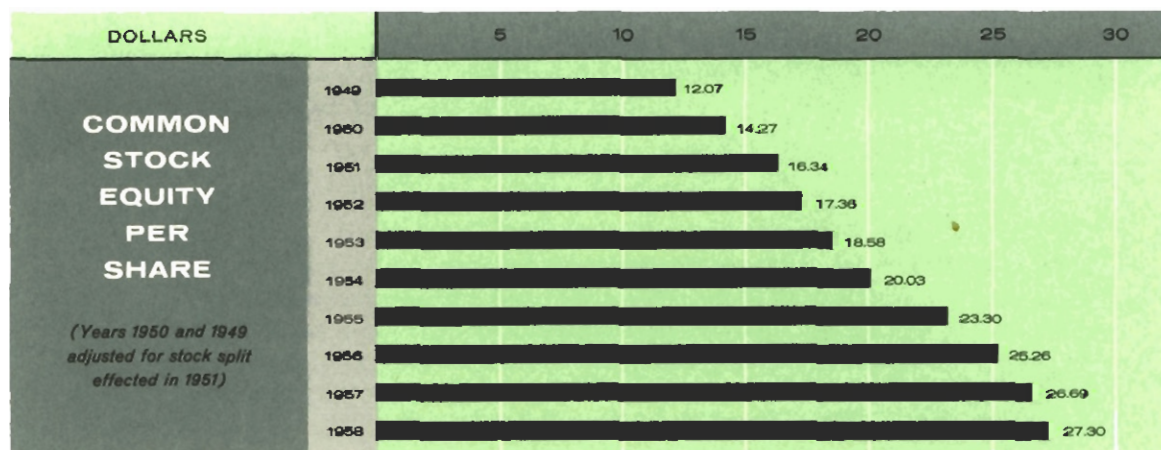
We have every confidence that the initial difficulties of this undertaking will soon be overcome. Operating results in 1958 improved steadily, quarter by quarter, as we gained in manufacturing efficiency and employee experience. The Directors appreciate particularly the interest and energy displayed by the management and staff of Abitibi Corporation in 1958.

**DIVIDENDS AND
SHAREHOLDERS'
EQUITY**

Total dividends declared on the common shares during 1958 amounted to \$7,077,582. Dividends were continued at the annual rate of \$1.70 per common share inaugurated during 1956. While the total amount distributed is a somewhat larger part of earnings than the previous year, the Directors considered that the strong financial position of the Company and the outlook for the future justified maintaining the rate of dividend payments.

Dividends on preferred shares were \$547,796, a reduction of \$30,645, as a result of the redemption and retirement of preferred shares through operation of the retirement fund. There were 33,204 preferred shares retired during 1958 and 468,876 shares were outstanding at December 31st.

The total equity in the Company of all shareholders at the close of 1958 was \$125,384,205, an increase of \$1,710,172 during the year. The book value of each common share, based on the depreciated book value of capital assets, increased to a figure of \$27.30 per share.

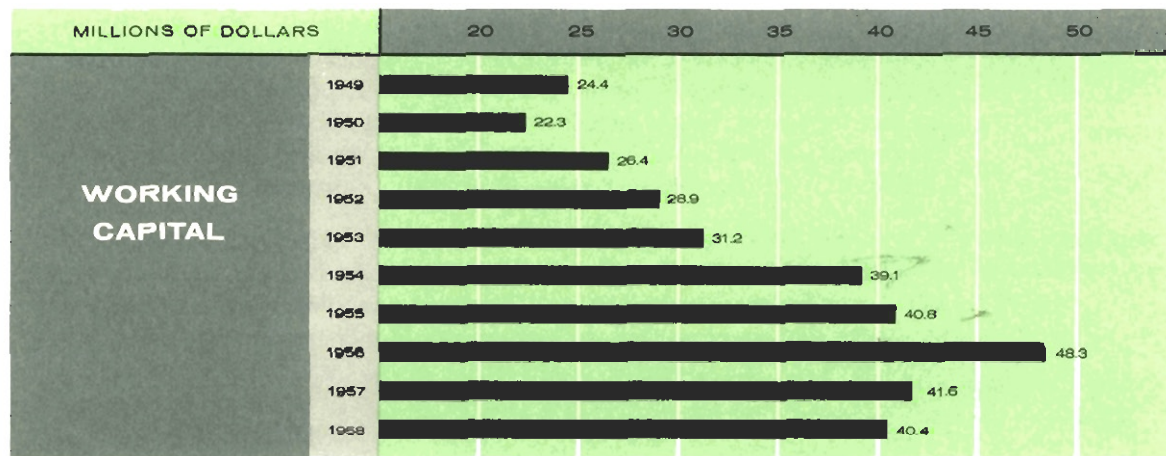


**FINANCIAL
POSITION**

Both working capital and liquid resources were well maintained and balances at December 31st are adequate to meet financial requirements for the present scale of operations.

There was a further reduction of \$2,476,500 in outstanding Series "A" and "B" First Mortgage Bonds. All sinking fund obligations falling due within one year on outstanding First Mortgage Bonds were discharged prior to the close of 1958 by advance purchase and cancellation of bonds.

Towards the latter part of the year we disposed of our former holdings of 125,000 common shares of Rayonier Incorporated. The total sum received from this sale was \$2,308,268, Canadian funds, which compares with the book value of \$1,800,000 at which they were shown on the balance sheet. The decision to sell these shares was based on the opinion that available net proceeds could be employed to greater advantage for purposes more closely allied with our Company's principal objectives.



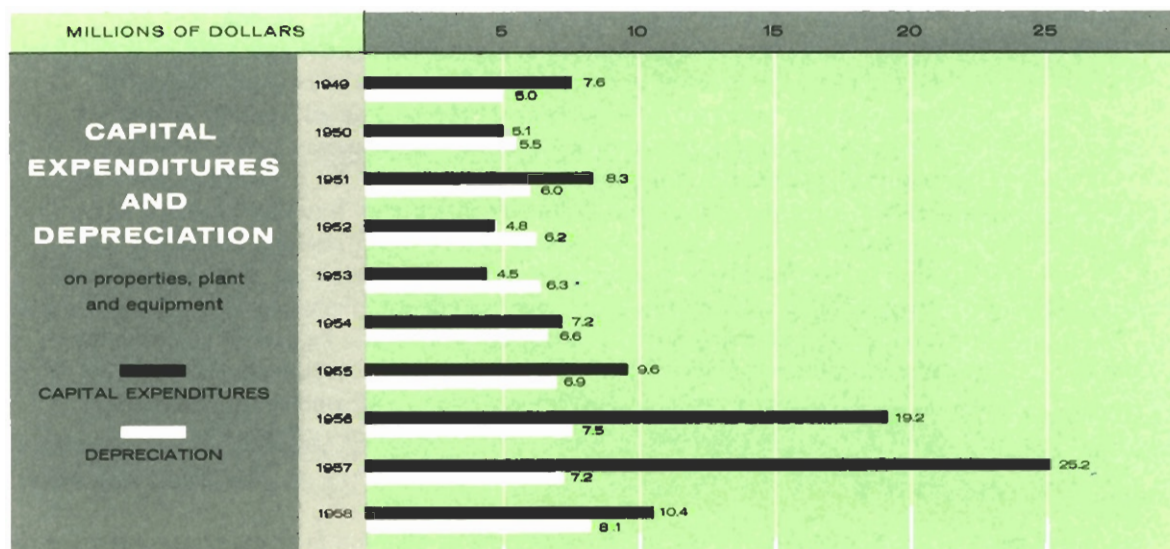
**PROPERTIES,
PLANT AND
EQUIPMENT**

Capital expenditures during the year on properties, plant and equipment amounted to \$10,423,905, less than half the amount spent in 1957 but a substantial sum nevertheless.

The major capital expenditure projects completed or in process during the year were:

- (i) Completion of the board mill at Alpena, Michigan.
- (ii) Installation at Fort William of a high-speed newsprint machine and modernization of other manufacturing facilities.
- (iii) Installations at six mills to permit the use of natural gas in place of coal and oil.
- (iv) Conversion of facilities to permit increased production of a special high-grade newsprint for use in weekly supplements in newspapers.
- (v) Extension of warehouse facilities at two plants to improve our service to customers.

Installations of the new machine and other improvements at Fort William were not pressed because of the slackness in newsprint markets. The completion of this project is, therefore, being carried out at an economical rate and will not be final in all its aspects until early in 1959.



The balance of operation between the new machine and the two old machines at this division will depend on market conditions. Both old machines are now nearly obsolete and due for major renovation.

As in prior years there were a great many other projects carried through involving replacements, modernization or improvements to manufacturing facilities made necessary by age, obsolescence and technological advances. All divisions of the Company shared in the programme of essential improvement with the result that our manufacturing plants are being maintained in an efficient and competitive condition.

FORESTRY

Further progress was made looking toward the development of our limits on the Outardes River in the Province of Quebec. Facilities for docking of vessels carrying pulpwood to our Ste. Anne mill were completed during 1958 which will greatly improve wood handling arrangements.

An agreement was concluded recently with the Governments of Canada and Ontario to share in the cost of the first stage of a forest access road which will run north from Port Arthur, Ontario, tapping a large section of the timber limits which are tributary to our three Lakehead mills. Our woodlands operations will benefit through improved access, reduced delivery costs and lower pulpwood inventories.

Exhaustive studies of methods for reducing pulpwood inventories were carried out and the substantial reduction in the amount of inventories shown by the balance sheet is one of the results.

We were fortunate in that our forest areas suffered no severe losses from fire.

RESEARCH AND DEVELOPMENT

Our Research Department continues to play a valuable role in the search for improved processes, techniques and new products as well as contributing to the solution of technical difficulties that arise in our many and varied operations. During 1958 we intensified our efforts in several directions, particularly into research in the fine paper field and for this purpose we opened a new research laboratory at our Georgetown mill.

**EMPLOYEE
RELATIONS**

Contracts with the major mill and woodlands labour unions, representing many of our employees, expired during the past year. Negotiations for renewal of contracts have been quite lengthy because of demands that increases in wage rates should be granted whether or not warranted by greater contributions on the part of labour or by current economic conditions in the industry. Demands of our mill unions were resisted for some months but, following acceptance by other large companies in the industry, we agreed to a two-year contract extending until May 1, 1960, involving increased wages and fringe benefits. As this is written, no acceptable solution has been found to contract demands of our major woodlands union and matters in dispute will shortly be placed in the hands of a Conciliation Board for consideration and a recommended solution.

The Directors wish to express appreciation to all employees of the Company for the manner in which the challenges of 1958 have been met and dealt with at all levels of operations.

THE OUTLOOK

For a period of close to two years, the production facilities of the pulp and paper industry in Canada have not been fully employed. Market conditions, particularly in export markets, have been very competitive and are likely to remain so for some time to come. It is strikingly evident that Canada has no monopoly on world forest resources or on the ability to utilize forest crops.

Present indications are that the decline which took place in demand for newsprint and other paper products is giving way to a moderate growth. Newsprint inventories in the hands of publishers are down somewhat from the levels of one year ago but are still rather substantial in relation to the present level of consumption.

We appear to have reached a recovery stage in the current business recession although the strength of underlying growth forces is uncertain and difficult to measure.

On behalf of the Board,

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

President

Toronto, February 3, 1959.

*Abitibi Power & Paper Company, Limited
and subsidiary companies*

CONSOLIDATED EARNINGS

	Year Ended December 31	
	1958	1957
Net sales	\$123,385,542	\$128,198,755
Cost of products sold and all expenses except items shown below . . .	92,316,283	93,398,020
	\$ 31,069,259	\$ 34,800,735
Interest and other income	603,334	1,012,964
	\$ 31,672,593	\$ 35,813,699
Provision for depreciation	\$ 8,127,119	\$ 7,237,568
Provision for depletion	165,000	230,000
Employees' retirement income plan	1,104,147	1,094,104
Interest on funded debt	2,083,546	1,652,016
Discount and expense on funded debt	65,399	47,728
	\$ 11,545,211	\$ 10,261,416
Earnings before provision for taxes on income	\$ 20,127,382	\$ 25,552,283
Provision for taxes on income	10,470,000	13,050,000
Net earnings	\$ 9,657,382	\$ 12,502,283

CONSOLIDATED EARNED SURPLUS

	Year Ended December 31	
	1958	1957
Earned Surplus at beginning of year	\$ 74,647,338	\$ 68,679,713
Net earnings for the year	9,657,382	12,502,283
Gain on sale of shares of Rayonier Incorporated	508,268	—
Surplus arising from disposal of capital assets	—	1,121,363
	\$ 84,812,988	\$ 82,303,359
Dividends declared on preferred shares	\$ 547,796	\$ 578,441
Dividends declared on common shares	7,077,582	7,077,580
(being the dividends paid on April 1st, July 1st, September 1st and payable January 1st)		
	\$ 7,625,378	\$ 7,656,021
Earned Surplus at end of year	\$ 77,187,610	\$ 74,647,338

CONSOLIDATED BALANCE SHEET

	December 31	
	1958	1957
ASSETS		
CURRENT ASSETS:		
Cash.....	\$ 5,666,537	\$ 5,282,942
Short term securities, at cost.....	5,027,852	5,448,479
Accounts receivable, less in each year reserve of \$918,935.....	12,224,694	13,425,323
Inventories of paper, pulp, wood, materials and supplies at cost, and expenditures on logging operations.....	33,732,392	37,336,957
Prepaid insurance and other expenses.....	1,063,225	675,545
	<u>\$ 57,714,700</u>	<u>\$ 62,169,246</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.....	\$219,442,069	\$209,600,858
Less—Accumulated depreciation.....	110,146,187	102,524,167
	<u>\$109,295,882</u>	<u>\$107,076,691</u>
Logging equipment and development, at amortized cost.....	1,757,937	1,912,326
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of \$4,529,846 (\$4,364,846 in 1957).....	16,941,399	17,093,101
	<u>\$127,995,218</u>	<u>\$126,082,118</u>
INVESTMENTS AND OTHER ASSETS:		
Investment in shares of Rayonier Incorporated, at cost.....	\$ —	\$ 1,800,000
Preferred shares retirement fund (Note 2).....	—	178,242
Unamortized bond discount and expense.....	369,979	435,378
Miscellaneous investments and other assets.....	2,177,660	1,550,485
	<u>\$ 2,547,639</u>	<u>\$ 3,964,105</u>
APPROVED ON BEHALF OF THE BOARD:		
D. W. AMBRIDGE, <i>Director</i>		
W. H. SMITH, <i>Director</i>		
	<u>\$188,257,557</u>	<u>\$192,215,469</u>

	December 31	
	1958	1957
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable.....	\$ 9,541,371	\$ 10,721,509
Dividends payable January 1st.....	1,901,812	1,910,744
Interest accrued on funded debt.....	545,351	569,852
Provision for income and other taxes.....	5,329,318	7,307,331
Sinking fund requirements payable within one year (Note 3).....	—	48,000
	<u>\$ 17,317,852</u>	<u>\$ 20,557,436</u>
FUNDED DEBT (Note 4):		
3½ % First Mortgage Twenty-Year (Sinking Fund) Bonds, Series "A", maturing April 1, 1967.....	\$ 11,113,000	\$ 13,294,000
4 % First Mortgage Sinking Fund Bonds, Series "B", maturing July 15, 1974..	9,442,500	9,738,000
6¼ % First Mortgage Sinking Fund Bonds, Series "C", maturing November 15, 1977.....	10,000,000	10,000,000
4½ % Convertible Debentures, Series "A", maturing September 15, 1966.....	15,000,000	15,000,000
	<u>\$ 45,555,500</u>	<u>\$ 48,032,000</u>
Less—Amount included with current liabilities.....	—	48,000
	<u>\$ 45,555,500</u>	<u>\$ 47,984,000</u>
Total Liabilities.....	<u>\$ 62,873,352</u>	<u>\$ 68,541,436</u>

SHAREHOLDERS' EQUITY

PREFERRED SHARES:		
Authorized: 1,000,000 shares par value \$25 each issuable in series (550,000 shares issued; 81,124 shares redeemed and cancelled)		
Outstanding: 468,876 4½ % Cumulative Redeemable Preferred Shares (502,080 shares in 1957).....	\$ 11,721,900	\$ 12,552,000
COMMON SHARES:		
Authorized: 6,000,000 shares without nominal or par value (330,000 shares reserved for possible conversion of Debentures)		
Issued: 4,163,218 shares.....	36,474,695	36,474,695
EARNED SURPLUS.....	77,187,610	74,647,338
	<u>\$125,384,205</u>	<u>\$123,674,033</u>
	<u>\$188,257,557</u>	<u>\$192,215,469</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Conversion into Canadian funds of transactions and balances in United States funds is based on average exchange rates for the months when transactions took place with the exception of current balances which are converted into Canadian funds at the exchange rate in effect at the close of business on December 31st.
2. A retirement fund for the purchase of preferred shares in the market is maintained by annual appropriation. An amount of \$421,269 is to be set aside for this purpose on or before April 30, 1959.
3. Sinking fund requirements for 1959 on First Mortgage Bonds have been discharged by purchase and cancellation of bonds prior to December 31, 1958.
4. In accordance with terms of the Trust Deed securing the outstanding First Mortgage Bonds, the company may not issue further First Mortgage Bonds until all Series "A" Bonds have been retired or the holders thereof have consented. Subject to this and other provisions of the Trust Deed, the aggregate amount of First Mortgage Bonds outstanding at any one time may be increased to \$100,000,000.

Convertible Debentures, Series "A", may be converted at the option of the holders into common shares as presently constituted at the rate of 22 shares per \$1,000 debenture on or before September 15, 1960; thereafter and on or before September 15, 1963 at the rate of 21 shares; thereafter and prior to September 15, 1966 at the rate of 20 shares.
5. Amortization of logging equipment and development in 1958 amounted to \$746,991.
6. For the year 1958 fees of directors not holding salaried positions amounted to \$28,400 and counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$467,152.

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, 1958 and the statements of consolidated earnings and consolidated earned surplus for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated earnings and consolidated earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company as at December 31, 1958 and the result of operations for the year then ended according to the best of our information and the explanations given to us and as shown by the books of the companies.

PRICE WATERHOUSE & CO.

Toronto, February 3, 1959.

Chartered Accountants.

*Abitibi Power & Paper Company, Limited
and subsidiary companies*

SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:	1958	1957
Net earnings.....	\$ 9,657,382	\$ 12,502,283
Non-cash charges for depreciation and depletion deducted in arriving at net earnings.....	8,292,119	7,467,568
Amortization of logging equipment and development.....	746,991	967,149
Par value of funded debt issued during year.....	—	10,000,000
Sale of shares of Rayonier Incorporated.....	2,308,268	—
Disposal of capital assets.....	29,488	1,171,962
	\$ 21,034,248	\$ 32,108,962
APPLICATION OF FUNDS:		
Invested in properties, plant and equipment.....	\$ 10,423,905	\$ 25,194,262
Invested in timber limits.....	14,344	53,508
Expenditures on logging equipment and development.....	592,602	894,624
Reduction in funded debt by application of working capital....	2,428,500	2,614,000
Preferred shares retirement fund.....	630,402	653,482
Dividends declared on preferred shares.....	547,796	578,441
Dividends declared on common shares.....	7,077,582	7,077,580
Other items—net.....	534,079	491,960
	\$ 22,249,210	\$ 37,557,857
RESULTING IN A DECREASE IN WORKING CAPITAL OF.....	\$ 1,214,962	\$ 5,448,895
WORKING CAPITAL AT BEGINNING OF YEAR.....	41,611,810	47,060,705
WORKING CAPITAL AT END OF YEAR.....	\$ 40,396,848	\$ 41,611,810

TEN YEAR REVIEW

	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949
SALES AND EARNINGS										
Net sales	\$123,385,542	\$128,198,755	\$132,497,683	\$123,173,281	\$113,997,836	\$109,768,039	\$107,381,890	\$111,528,208	\$ 93,776,756	\$ 84,677,709
Depreciation and depletion	8,292,119	7,467,568	7,752,873	7,132,899	6,793,698	6,532,298	6,419,055	6,193,932	5,622,168	5,118,241
Interest on funded debt	2,083,546	1,652,016	1,214,552	1,137,654	1,417,564	1,399,178	1,502,159	1,419,864	1,282,322	1,393,876
Earnings before taxes on income	20,127,382	25,552,283	31,012,827	28,506,026	23,028,901	21,429,152	21,369,759	29,742,877	22,863,833	17,580,947
Taxes on income	10,470,000	13,050,000	15,589,000	14,570,000	12,403,000	11,385,000	12,272,000	16,745,000	10,240,000	7,800,000
Net earnings	9,657,382	12,502,283	15,423,827	13,936,026	10,625,901	10,044,152	9,097,759	12,997,877	12,623,833	9,780,947
Net earnings per common share*	\$ 2.19	\$ 2.86	\$ 3.56	\$ 3.20	\$ 2.49	\$ 2.27	\$ 2.02	\$ 3.07	\$ 2.92	\$ 2.06
DIVIDEND RECORD										
Declared on preferred shares	\$ 547,796	\$ 578,441	\$ 605,360	\$ 618,825	\$ 1,176,955	\$ 1,575,624	\$ 1,575,624	\$ 1,575,624	\$ 1,730,406	\$ 2,116,605
Declared on common shares	7,077,582	7,077,580	6,661,252	5,618,967	4,487,561	3,911,336	3,725,082	3,724,853	2,793,050	1,861,927
Declared per common share*	\$ 1.70	\$ 1.70	\$ 1.60	\$ 1.35	\$ 1.20	\$ 1.05	\$ 1.00	\$ 1.00	\$.75	\$.50
CAPITAL EXPENDITURES										
On properties, plant and equipment	\$ 10,423,905	\$ 25,194,262	\$ 19,165,594	\$ 9,634,629	\$ 7,246,492	\$ 4,539,643	\$ 4,776,602	\$ 8,268,295	\$ 5,078,843	\$ 7,557,780
On timber limits	14,344	53,508	466,299	510,021	—	—	—	1,600,000	—	—
FINANCIAL POSITION										
Current assets	\$ 57,714,700	\$ 62,169,246	\$ 74,057,870	\$ 64,339,974	\$ 60,337,294	\$ 49,454,071	\$ 47,809,617	\$ 51,370,768	\$ 40,014,424	\$ 39,730,709
Current liabilities	17,317,852	20,557,436	25,801,233	23,532,028	21,238,097	18,256,392	18,933,172	24,967,589	17,691,685	15,292,829
Working capital	40,396,848	41,611,810	48,256,637	40,807,946	39,099,197	31,197,679	28,876,445	26,403,179	22,322,739	24,437,880
Capital assets, at net book values	127,995,218	126,082,118	106,504,498	94,909,259	92,321,519	91,999,647	94,253,791	95,992,441	92,390,176	93,102,636
Investments and other assets	2,547,639	3,964,105	4,096,523	4,089,988	4,175,621	12,103,461	10,830,859	10,807,922	21,436,727	2,196,995
Funded debt and non-current liabilities	45,555,500	47,984,000	40,598,000	29,060,000	41,331,700	35,331,500	38,549,000	41,588,500	51,162,000	36,914,500
Appropriation reserves	—	—	—	—	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000	4,500,000
Total equity of shareholders	125,384,205	123,674,033	118,259,658	110,747,193	89,764,637	95,469,287	90,912,095	87,115,042	80,487,642	78,323,011
EQUITY OF SHAREHOLDERS										
Equity of preferred shareholders	\$ 11,721,900	\$ 12,552,000	\$ 13,105,250	\$ 13,750,000	\$ 13,750,000	\$ 26,260,400	\$ 26,260,400	\$ 26,260,400	\$ 27,330,400	\$ 33,364,900
Equity of common shareholders	113,662,305	111,122,033	105,154,408	96,997,193	76,014,637	69,208,887	64,651,695	60,854,642	53,157,242	44,958,111
Outstanding common shares*	4,163,218	4,163,218	4,163,218	4,163,218	3,794,400	3,725,082	3,725,082	3,725,082	3,725,082	3,725,082
Equity per common share*	\$ 27.30	\$ 26.69	\$ 25.26	\$ 23.30	\$ 20.03	\$ 18.58	\$ 17.36	\$ 16.34	\$ 14.27	\$ 12.07

* Years 1950 and 1949 adjusted for stock split effected in 1951.



MILL LOCATIONS

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

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. and Montreal, Que.

Subsidiary company:

ABITIBI SERVICE, INC.

Servicing 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. and New York, N.Y.

PROVINCIAL PAPER, LIMITED

Manufacture and sale of fine and printing papers

Machine coated and groundwood papers - Port Arthur, Ont.

Printing, writing and specialty papers - - - Thorold, Ont.

Coated printing and litho papers - - - Georgetown, Ont.

Sales offices - - - - - Toronto, Ont.; Montreal, Que.
and Winnipeg, Man.

MANITOBA PAPER COMPANY, LIMITED

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

STE. ANNE PAPER COMPANY, LIMITED

Manufacture of newsprint - - - - - Beupre, Que.

Subsidiary companies:

ST. ANNE POWER COMPANY

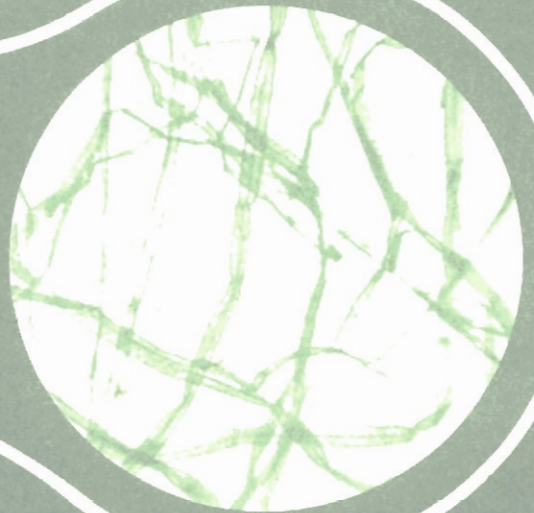
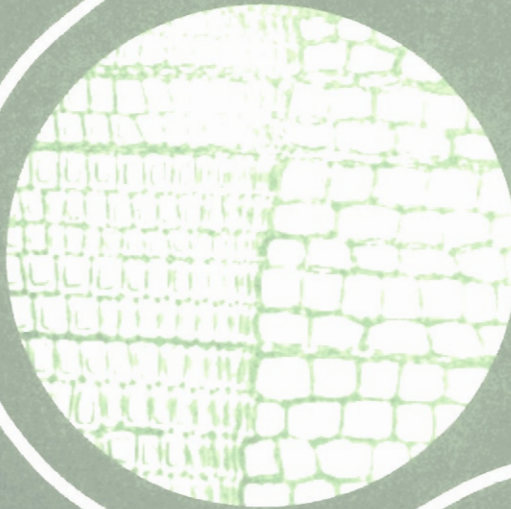
BAIE ST. PAUL LUMBER COMPANY LIMITED

conducting woodlands operations from - - - Beupre, Que.

OTHER SUBSIDIARY COMPANIES

Abitibi Navigation Company, Limited - - - Toronto, Ont.

Mattagami Railroad Company - - - Smooth Rock Falls, Ont.



FINE PAPER... AND YOU



The burst of new life each spring is seldom seen as graphically as in the cell growth of trees. The first microscopic picture, across the grain, shows spruce cells becoming smaller and smaller as winter continues... then exploding into full vitality in the warmth of spring. Below it is a similar, lengthwise, magnification of pulp fibres prepared for papermaking.

Fine printing and fine paper, a timeless team, are keeping in step with the modern pace through the continued development of ever faster and more versatile printing methods, and through continuing paper research which is leading to new finishes, purer colors, dazzling whites and ever-improving quality. Provincial Paper, Limited, long the leader in Canada's fine paper industry, has a powerful three-mill answer to any paper problem. Modern mills at Port Arthur, Georgetown, and Thorold, Ontario are each designed for specialized production—their total output consisting of more than 200 different grades of fine papers, not including variations in weights and colors available.

While the greater part of this production is sold in Canada, export shipments are made to more than 25 countries—and everywhere the name "Provincial" is acknowledged to be synonymous with the highest quality.

Paper, like many fine products, is taken for granted by even the most discerning of us. Those outside the industry accept it as merely a vehicle to deliver the printed word, seldom realizing how it has the ability to enhance the appearance of type, and how, through touch, it complements a fine job of typography by adding a prestige "feel".

Manufactured grades must, of necessity, vary widely from those top-quality grades used in annual reports (such as the Paragon Brilliant you are now holding) through the "quality with economy" grades manufactured at our machine-coating Port Arthur mill and used in almost every Canadian magazine. Special grades, shades, and weights are each designed for a specific purpose—whether it be for packaging rubber-soled shoes, or for the boxes containing fine gems from Canada's leading jewellers.

The diversity of these Provincial papers, and the manner in which they are constantly at the tips of your fingers, is partially illustrated in this section of your Annual Report. There could have been thousands of other items chosen, but perhaps you, as a shareholder, will find it interesting to identify some of these in your daily routine.

Papermaking is a fascinating and demanding art. The fine paper branch of it is one in which Provincial Paper, Limited has been prominent for over forty years.



From the moment you saw them in your favorite magazine you knew this was the year you would buy a new car. And, from magazine to sales folder to contract, fine paper was with you all the way! Automobile manufacturers know that the gleaming luxury of quality paper does full justice to their products, and it's not by mere chance that when you enter their showrooms a salesman immediately hands you their colorful brochures—for later, when you're comparing "differences" they want their cars to be before you—the coated or offset papers breathing excitement into the illustrations and adding a thrill of anticipation to your decision.



Those last few moments before you board your plane, train or bus are often spent browsing through magazine racks—and prominently displayed as the popular choice of travellers are Canadian magazines, nearly all of which are printed on the machine-coated papers from Provincial's Port Arthur mill, the only machine-coating mill in our country. Such papers have become a part of every Canadian magazine editor's life, enriching his color reproductions and blacks—while at the same time minimizing printing problems and costly delays. As the miles of your journey pass, and the pages turn, Provincial Paper helps you to enjoy your travelling all the more.

Today's attractive school-room scribblers serve to introduce Provincial's papers at that all-important moment in a young life when the art of writing is being learned—when there is still a thrill in the forming of a letter, the making of a word. The paper grades most commonly accepted for these books are kind to such young hands and this serious miss, intent upon the black-board message, little realizes the care with which the paper in her book has been designed, tested and manufactured to exacting standards. Fine papers have already become an integral part of her life with a degree of importance that will never cease to increase through the years to come.



Historians, studying our way of life in the early 1900's, now turn to the catalogues of that era as an open door to the desires, needs and fashions of the time. Where else but in one of these fascinating paper paradises can one get such an insight into the ages and stages of Canadians and their living habits? In fact, with an index ranging from accordions to zippers there is little needed for today's home that can't be supplied from its versatile pages. Provincial's paper is used by the largest Canadian catalogue producers, and in cottage or city home the gay color-splashed pages of these books help mother and daughter alike in their choice of gifts or gadgets, drapes or dresses. The city home is, as a matter of interest, increasingly the destination of this mail-order masterpiece—and now the distribution of one of Canada's largest catalogues has reached the point where, as an indication of its wide appeal, fewer copies are received by farm wives than by their more sophisticated city sisters!



Perhaps one of the old catalogues mentioned above might have advertised a counter spike, designed to be piled high with sales slips covering each day's, or week's, transactions. But now, in modern business, the trend is to specialized counter machines utilizing continuous form sales slips which give, in addition to the customer copy, a rapid and complete record of the sale, and an automatic retention of audit copies. Provincial's paper fits hand in glove with these counter machines, and the smile of eager anticipation on our boy's face is no more radiant than that you'll find on the lips of the store owner who has discovered how, in this way too, fine papers have added to the pleasure of selling quality merchandise.



Somewhere, soft music is playing. A trip to the refreshment stand has just calmed our junior-grade helper somewhat—and shopping, as ever, is a pleasure. People who should know claim that lady shoppers fall into something akin to a trance while in our bigger supermarkets—almost becoming dream-walkers. Since highly-specialized label papers form such an important part of Provincial's production we'd like to argue the point—for we feel sure that our lovely lady is merely entranced by the riot of color on the thousands of labels she is passing—and is wisely choosing each item with the friendly help of the words, and the mouth-watering picture of the contents, each label is presenting for her inspection.

The girls at supermarket check-out counters seldom have to look twice at the price on a carton of paper cups, for they're to be found so often in the carts that pass. And when, on the annual vacation, father has just learned that you not only need to know where you're going, but how to get there too—out come the cups and down goes the tension as everyone agrees that after all it's a nice day to retrace any route. Maps take a beating on long trips, but map paper, just like the paper designed for cups, is made for the needs of its ultimate use, firmly resisting all the stresses and strains of wrong folds and the usual long hard life in a glove compartment that's filled with anything but gloves!





Dining out is a pleasure anytime, but it can never recapture the thrill of a coffee and sandwich after a college dance—hurrying so a gal can get home before the curfew hour! Restaurants everywhere now have learned of the convenience and decorative capabilities of paper place mats and are having their own designs printed in shades that match their decor. Local points of interest to the tourist, area maps, or just pretty pictures make this useful article a conversation piece at any meal. Now, with the wide variety of embossed surface finishes that are available, such designs achieve an extra measure of appeal.



From the Baby Book that listed her vital statistics at the age of one hour—to the college text that lists the vital statistics of this atomic age—our young student has come to depend upon books for her education, her entertainment, and her relaxation. In fact, this love of books and the pleasures they contain is a sign not only of an educated mind, but an intelligent mind—one which is seeking continually for new concepts, and old philosophies—and for the answers to the constant “why” which forms the foundation for the questing spirit of today’s undergraduates.

On Mother’s Day, Father’s Day—or even one of those birthdays that seem to come sooner each year—whenever love and affection take a tangible form in the shape of a present, fine papers join the party when colorful giftwrapping adds a festive air to each presentation. Even though there are times when the fingers that tied the ribbon were too young to be skillful, the moments taken to unwrap, slowly, these gaily-designed sheets of paper seem to add that final lillip of excitement, and fun!



Business, today, travels a paper path. It is impossible to think of commerce, as we know it, without seeing paper in myriad forms—as adding-machine rolls, calendar pads, note-books, ledger sheets, and the dozens of other paper-borne messages that cross a busy man's desk each day. Foremost, of course, is a company's annual report, representative of the finest in printing, planning and paper. And seldom is so much consideration given to the relative merits of coated and uncoated stocks, to the paper weights for cover and inside pages, to the color of papers available, and to the kind of sheet which is best adapted to the printing method chosen. Today's thoughtful executive realizes that Provincial papers stand highest in meeting these criteria—so they are meeting his shareholders too!



And we never underestimate the power of a duplicating machine, either! We know the importance of these machines and we make in our mills those mimeo and duplicating papers which enable them to produce the quality of job the manufacturer knew was possible. Just as much care has gone into the making of the bond letterhead—a sheet of paper which guarantees clear, sharp, type impressions and that alert snap and liveliness demanded by the authors of today's business letters. The calendar, too, needs paper of a definite design so that its freshness will be the same in fall and spring—its flatness and brilliant colors remaining constant as the seasons pass. An interesting thought, that even in this small corner of an office there should be three distinct paper grades, each serving its purpose.





A team, a telephone, and a time to meet—the eternal triangle in any young man's life! For, when one of the team develops a free-time problem arising out of a recent report card, how else can a fellow round up another player in a hurry? The two-telephone house, paralleling the popularity of the two-car garage, is becoming a sign of the times and the fingers that flip the familiar telephone book pages, seem to be younger, yet more capable, each year. The paper used in telephone directories is a custom-made paper, economical yet carefully designed for that all-important lightness in weight and shade which must always be accompanied by outstanding ruggedness and resistance to wear.



But perhaps it is in a greeting card that we call upon fine papers to serve us most intimately. Whether it be gay Christmas Cards, ridiculous (and clever) birthday wishes, or a deeply religious Easter message we send—the card that bears our name often, at the same time, also bares our true feelings in a manner we somehow cannot express ourselves. And just as the discriminating person chooses his card with care and thought, so does such a person expect the envelope to be of a quality that compliments its contents. Thus, from desk calendar to address book to card to envelope continues the association of fine paper and you. It's a pattern in which familiarity breeds, not contempt but respect—for as we become more and more appreciative of the many types of papers held by our hands each day, we also become more and more appreciative of the skill of the men who make such papers possible.

ABITIBI CORPORATION

Even though the title-page of this section is headed "Fine paper . . . and you" we know that, as shareholders, you will be interested in hearing of the progress of our new American subsidiary, Abitibi Corporation, at Alpena, Michigan.

Last year's Annual Report described the operation of this mill in some detail but perhaps did not emphasize sufficiently the many unique mechanical features of it. In actual fact, this immense operation is the only mill of its kind in existence, incorporating, as it does, many vital processes and automated methods which were hitherto untried by a producing mill.

Most of the designed production and quality objectives have been met and, in many instances, surpassed—for the dozens of basic products produced. The staff (many employed in a board mill for the first time) worked unstintingly at meeting, and overcoming, each problem—gaining valuable experience as they did so.

And, as was expected, problems did arise. But by the end of 1958 practically all of them had been solved with corrections either made or in process—the research and engineering employees having that sense of success that comes from achievement. Credit should also be given to the people in the community of Alpena for their understanding cooperation and many expressions of goodwill.

As production increased, sales kept pace. Our Abitibi Corporation sales office in Detroit, Michigan developed an enthusiastic staff of salesmen serving customers in the north-east, mid-Atlantic and east north-central states. Our products met good acceptance and our evaluation of the market potential of this area was confirmed.

The photographs on this page are designed to show only a representative sample of the range of products available from the Alpena mill—products receiving wide recognition for their quality.



It was December 11, 1957 that the first boxcar of products was built up for shipment from the Abitibi Corporation's Alpena mill. By the middle of 1958 the mill was officially in production and, since then, a steadily-increasing flow of boxcars, flatcars and truck-trailer units has been leaving the immense

warehouse. With a loading area capable of servicing fifteen railway cars and six trailers simultaneously, a small fleet of fork-lift loading trucks is kept hustling in a well-coordinated activity that makes certain each car is loaded with the correct products—and loaded to prevent damage en route, too!



Each year the list of industries using hardboards in their products grows—the versatile panels produced by Abitibi Corporation's Alpena mill in such a variety of sizes, thicknesses, and finishes now being found in items ranging from automotive uses to the children's furniture shown on the left. The challenge of strict industrial standards, and delivery dates, is one which Abitibi Corporation has been pleased to meet—our faith in the unique features of our boards (and the production capabilities of our mill) being fully justified on every occasion.



But it is normally in homes that the average person sees hardboards, and this picture (taken in a "model home" in a housing development near Detroit, Michigan) shows one of a wide range of our woodgrain finishes. Such homes may also incorporate the Abitibi Corporation's shingle

underlay, wall sheathing, or roof insulation—all products of the vast Alpena mill. In this modern home the exciting wood-grained hardboards have been invited upstairs, from their normal location in the recreation room, to the living-room walls—a compliment which they so richly deserve!

The Paper grades used in this Annual Report are :

cover--Paragon Brilliant basis 25 x 38--320M; the inside pages—Paragon Brilliant basis 25 x 38--160M;

*products of **Provincial Paper, Limited***

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