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Abitibi

**1964
ANNUAL
REPORT**



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The cover illustration demonstrates push-button control of an overhead crane as it moves a 15-ton reel of newsprint from the paper machine to the winder. The 264-inch reel of newsprint will be unwound, slit, rewound and the individual rolls wrapped for shipment to customers.

Annual Report for the year ended December 31, 1964

Highlights	1964	1963
Net Sales	\$184,708,539	\$164,575,637
Taxes on income	\$ 17,498,000	\$ 15,040,000
Net earnings	\$ 17,933,698	\$ 16,207,502
Per common share	\$ 1.01	\$.93 *
Dividends declared on preferred shares	\$ 395,221	\$ 412,046
Dividends declared on common shares	\$ 9,639,413	\$ 8,682,138
Per common share	\$.56	\$.51½ *
Capital expenditures	\$ 19,886,581	\$ 15,958,213
Working capital at end of year	\$ 46,004,640	\$ 37,961,616
Number of shareholders — preferred shares	—	2,607
Number of shareholders — common shares	25,476	19,488

*Adjusted to reflect 4 for 1 stock split in 1963.

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The annual meeting of shareholders will be held at the Royal York Hotel in the City of Toronto on Thursday, the eighth day of April, 1965 at the hour of eleven-thirty in the forenoon.

On peut obtenir ce rapport annuel en français sur demande.

Abitibi Power & Paper Company, Limited

Incorporated under the Companies Act (Canada)

Executive Offices: 408 University Avenue, Toronto, Canada

Directors

Douglas W. Ambridge, Chairman of the Board, Abitibi Power & Paper Company, Limited, Toronto, Canada

Harry J. Carmichael, Industrialist, St. Catharines, Canada

C. Antoine Geoffrion, Q.C., Geoffrion & Prud'homme, Montreal, Canada

Allan Graydon, Q.C., Blake, Cassels & Graydon, Toronto, Canada

Charles L. Gundy, President, Wood, Gundy & Company Limited, Toronto, Canada

Franklin T. McClintock, Chairman, Executive Committee, Harriman Ripley & Co. Inc., New York, U.S.A.

T. Rodgie McLagan, President, Canada Steamship Lines, Limited, Montreal, Canada

Robert H. Reid, President and Managing Director, London Life Insurance Company, London, Canada

Paul E. Roberts, President and Chief Executive Officer, Abitibi Power & Paper Company, Limited, Toronto, Canada

The Rt. Hon. Lord Thomson of Fleet, Publisher, London, England

John S. D. Tory, Q.C., Tory, Tory, DesLauriers & Binnington, Toronto, Canada

Honorary Directors, **Joseph P. Ripley**, **William H. Smith**

Officers

Paul E. Roberts, President and Chief Executive Officer

Douglas W. Ambridge, Chairman of the Board

George M. Brain, Vice-President (Sales)

Robert E. E. Costello, Vice-President (Operations)

J. Elliot Cottrelle, Vice-President

E. Edward Grainger, Vice-President (Woodlands)

Ernest W. McBride, Vice-President (Manufacturing)

C. Harry Rosier, Vice-President (Research, Development & Board Products)

W. Stanley Rothwell, F.C.A., Vice-President and Treasurer

Craig Dick, Secretary

Transfer agents

Montreal Trust Company, Toronto, Montreal and Vancouver, Canada

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

Registrars

Canada Permanent Trust Company, Toronto and Vancouver, Canada

Eastern & Chartered Trust Company, Montreal, Canada

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

Auditors

Price Waterhouse & Co., Toronto, Canada

Report to the Shareholders



Paul E. Roberts

Once again your Directors are pleased to report record sales and record earnings for the company and its wholly-owned subsidiaries.

Net sales in 1964 of \$184,708,539 show an increase of 12% over 1963 and net earnings of \$17,933,698 are 11% higher than those of last year.

Capital expenditures were \$19,886,581 covering new, improved or expanded facilities for the manufacture of newsprint, fine papers, pulp, paperboard and building materials.

A borrowing of \$15,000,000 U.S. funds with a favourable interest rate was successfully concluded and, when reduction in other debt is taken into account, the net increase in our long term obligations amounted to \$8,369,658 in Canadian currency.

Preferred shares, which stood at \$8,990,450 when the year opened, were retired completely at the close of the year leaving only common shares outstanding.

Dividends on common shares, commencing with the quarterly dividend paid January 1, 1964, reflect an increase of 12%.

Conditions in the industry

The Canadian pulp and paper industry raised its output by about 10% over 1963 in response to increased demand for its products in Canada and throughout the world. With about 44% of the free world's newsprint capacity the Canadian industry confidently expected increased production of newsprint in 1964 although the approximate 10% increase was more than forecast. As the year closed, most newsprint mills in Canada were operating at or near capacity in response to seasonal demand. The industry also recorded a satisfactory growth for other products.

Although world capacity for production of newsprint continues in excess of demand, the apparent surplus declined during 1964 by some 500,000 tons. During seasonal periods of peak demand this calculated surplus all but disappears. This points up that the surplus in world capacity is calculated on the basis of an even year-round demand which simply does not occur.

Following a \$10 per ton price reduction late in the year by a major west coast manufacturer, all other west coast newsprint producers decreased their selling prices by the same amount. This action has been perplexing to both newsprint manufacturers and consumers in the face of the narrowing gap between demand and capacity and the fact that, while product quality has been



Conversion of the Smooth Rock Falls mill from bleached sulphite to bleached sulphate pulp is well under way. These new facilities will be in production late in 1965 for the manufacture of bleached kraft pulp of the highest grade.

improved substantially at considerable cost to manufacturers, prices have not increased for close to eight years. Abitibi chose to maintain its existing price structure.

We believe our newsprint price is fair and reasonable and at a level that will permit us to continue to serve our customers with a quality product and a secure source of supply.

Growth in sales and earnings

Net earnings per common share were \$1.01, the highest in our history, as compared with 93¢ per share in 1963. There was an increase in both years in the equity capital investment in Abitibi and the calculation of earnings per common share is based on the number of shares outstanding at the close of each year. Dividends on common shares were paid quarterly at the annual rate of 56¢ per share.

The Canadian dollar was stable throughout the year subject to a minor upward adjustment that took place in late summer and remained in effect for the balance of the year.

The provision for depreciation of \$10,036,903 is determined on a basis consistent with 1963 when revisions were made in rates and practices applicable to Canadian properties in accordance with recommendations submitted to us by independent consultants. This provision includes \$938,771 covering amortization of logging equipment and development which in other years was included in the cost of products sold. For purposes of comparison the 1963 provision for depreciation has been restated on the same basis.

The provision for income taxes of \$17,498,000 includes both taxes currently payable and taxes in respect of which payment is deferred by reason of claiming maximum depreciation allowances for income tax purposes. Deferred income taxes for the current and prior years have been provided for on the liability side of the balance sheet.

Record newsprint production

Production of newsprint moved strongly upward to a total of 819,260 tons, an increase of 78,704 tons over 1963 and the highest newsprint production in our history. The increase is greater than might be expected under usual conditions and is a reflection in part of reduced consumption in 1963 due to strikes in the publishing industry. On the other hand, the current year was not without similar problems. During 1964 we produced and shipped some newsprint for other manufacturers who experienced operating difficulties.

All Abitibi mills manufacturing newsprint exclusively are now using the ARBISO high yield pulping process to produce newsprint with a strength factor superior to newsprint made from conventional sulphite pulp.

Printing of newspapers by the offset method is showing rapid growth, increasing the demand for newsprint particularly suitable for this process. Abitibi's success in developing a product to meet the rigid demands of this printing method ensures your company's full participation in this expanding market.

Fine and printing papers

The production facilities of Provincial Paper, Limited were run at effective capacity during 1964. To ensure that our market position is maintained and enhanced, we will increase capacity by 7,000 tons per annum in the second quarter of 1965 and we are proceeding with the installation of an additional 30,000 ton per annum fine paper machine for start-up in the early months of

1966 as referred to later herein.

There is a stimulating challenge imposed on our fine paper division by the wide range of papers being produced and the diversity of graphic arts and converting industries to which they are sold. Provincial Paper leadership in the Canadian market is nowhere more evident than in the new coated papers now being offered. In 1964, for instance, Provincial developed a high quality paper for the book publishing industry in the form of Georgian Offset Matte. This paper has been enthusiastically received for the printing of school text books where the requirement is for a combination of printing fidelity, high opacity, low glare and economy. The trailing blade coating process, backed by research and papermaking skills, has enabled us to provide all these desirable properties in one grade of paper.

There has been a growing demand for paper with a quality between that of newsprint and the more expensive printing papers. We responded to this demand with a sheet called Pioneer Print produced at Sault Ste. Marie with the aid of recently installed groundwood bleaching facilities. Similarly, the growing use of web offset presses stimulated research into, and development of, fine papers with characteristics specifically suitable for this printing process and we are in the forefront as a supplier.

Fine papers have been a most important element in our diversification program for many years past. Fine paper usage in Canada reflects a steady growth and through Provincial Paper, Limited it is our purpose to remain a leader in the industry.

Growth in paperboard and building materials

Sales of Abitibi Corporation products increased substantially resulting in a high operating ratio for the expanded hardboard mill at Alpena, Michigan. Sales volume of Miratile panel products from the Chicago and California plants exceeded expectation. Following an encouraging first full year of operation, the decision was made to modernize and expand the Miratile Chicago plant and to remodel and relocate the California plant in new company-owned buildings. With more efficient facilities coming into operation prior to mid 1965 the outlook for Abitibi Corporation is promising.

While demand for building products in Canada increased, unsettled market conditions brought about by intense competition resulted in price softening in some hardboard and particle board lines and reduced the profitability of these products. The new Maple Leaf Veneer operations at Durham, Ontario, showed improvements throughout the year, responding well to the upgrading and standardizing of product quality and to the introduction of new product lines. Our fire retardant particle board, F. R. PLATEWOOD, was well received and is in increasing use as a core stock for decorative panelling in public and commercial buildings, private offices and ship construction. This product provides an additional safeguard against fire, and carries the Fire Underwriters' stamp of approval.

The production of corrugating medium at Sturgeon Falls and the manufacture of corrugated containers at Pembroke Shook Mills, Limited established new records. Plans for expansion of corrugated container capacity are receiving consideration.

Market pulp shipments

Production of bleached sulphite pulp at our Smooth Rock Falls mill was at or near capacity throughout the year in response to the strong demand that continued for this product in all

world markets. After providing for our own requirements in the manufacture of fine papers, we had production of 55,866 tons for sale on the market.

There was a small increase at the commencement of the year in the market price of bleached sulphite pulp and a further small increase is in effect from January 1, 1965.

Conversion of operations at Smooth Rock Falls from sulphite to sulphate pulp will take place during the last quarter of 1965. Prior to year end this mill will be producing fully bleached kraft pulp of the highest grade.

Improvements and expansions to properties

Capital expenditures on properties, plant and equipment, including logging equipment and development, amounted to \$19,886,581, an increase over 1963 and the largest outlay for this purpose since 1957. All divisions participated in a program of improvements that was planned and administered to achieve maximum results in terms of quality of product, operating efficiency and reduction in costs of manufacture. Many of the improvement projects contain an expansion element since they contribute directly to increased capacity or are designed to facilitate expansion at a later date. The more important projects completed or under way in 1964 were as follows:

(a) The high yield ARBISO pulp installation at Iroquois Falls was completed resulting in improved quality of newsprint. All Abitibi mills manufacturing newsprint exclusively are now using this process.

(b) Many improvements were made to pulping facilities and to paper machines throughout the company involving screen rooms, head boxes, hoods, drives, calender stacks, winders, etc. to increase product quality and operating efficiency.

(c) The Smooth Rock Falls kraft conversion project, the largest project currently under way, is well advanced involving an outlay over a two-year period of more than \$14,000,000. When completed and in operation the annual capacity of this plant will be in excess of 100,000 tons.

(d) To serve the expanding market for our fine paper products we have been busy for some time with the complete rebuild of a paper machine at Port Arthur at a cost in excess of \$2,000,000 to raise its annual capacity by 7,000 tons and increase its product range. This project will be completed during the second quarter of 1965.

(e) We are substantially enlarging the Miratile plant in Chicago and rebuilding the California plant in a new location to provide increased capacity, much needed space for new equipment, better efficiency and quality control. This program will be completed by April 1965 and will equip this division of Abitibi Corporation with fully modern and efficient plants.

As this report is written we are planning an \$8,000,000 expansion program at Port Arthur, Ontario, involving the installation of a third fine paper machine with trailing blade coaters and capacity of up to 30,000 tons per annum. This installation will extend our product range and is needed to service growth in the Canadian market for fine and printing papers. Construction will begin in 1965 for completion and start-up in the early months of 1966.

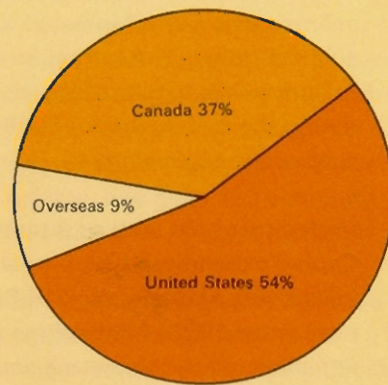
Woodlands operations

Pulpwood production during the past season to meet the requirements of our mills in Ontario, Quebec, Manitoba and Michigan was in the order of 1,150,000 cords. More than half of this volume was produced from our own limits with the remainder being purchased from woodlot

Production for the market—tons

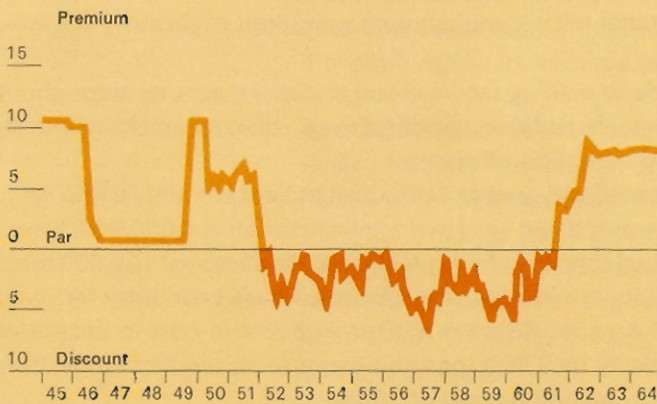
	Newsprint paper	Fine and printing papers	Paperboard and building materials	Bleached sulphite pulp	Total
1955	793,560	85,972	56,679	65,504	1,001,715
1956	815,830	98,038	65,185	67,377	1,046,430
1957	765,533	101,952	69,103	63,516	1,000,104
1958	692,781	96,905	114,202	51,446	955,334
1959	735,215	107,884	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
1963	740,556	132,094	177,288	39,966	1,089,904
1964	819,260	132,283	205,100	55,866	1,212,509

Distribution of 1964 sales by principal markets

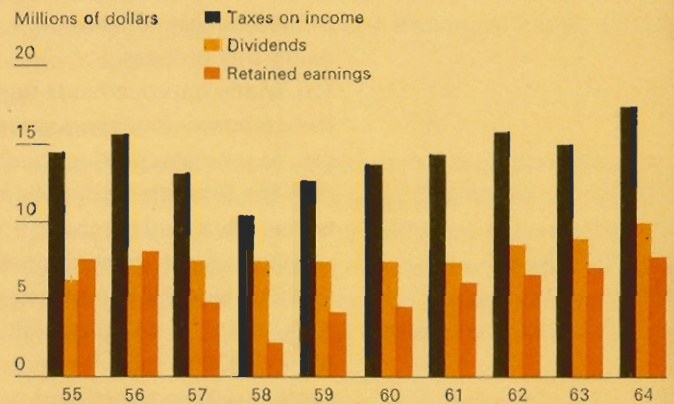


Canadian sales consist of newsprint, fine papers, machine coated and groundwood printing papers, bleached sulphite pulp, hardboards, particle boards, corrugating medium, corrugated cartons, veneers and hardwood plywood. United States sales include hardboards, insulation boards, decorative hardboards and plywoods, in addition to newsprint and bleached sulphite pulp from Canada. In overseas markets, the company sells newsprint, fine papers, corrugating medium and other products.

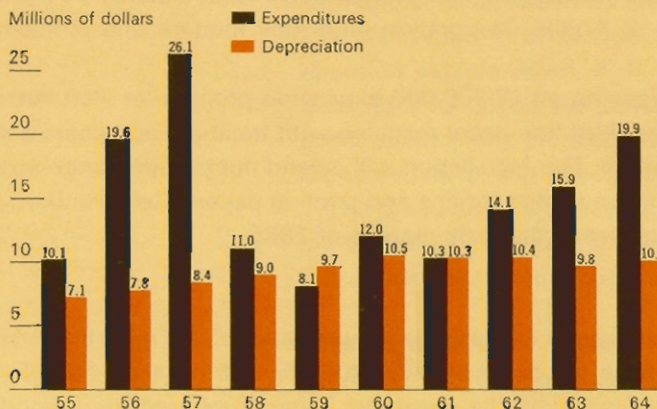
Exchange rate on conversion of U.S. dollars 1945-64



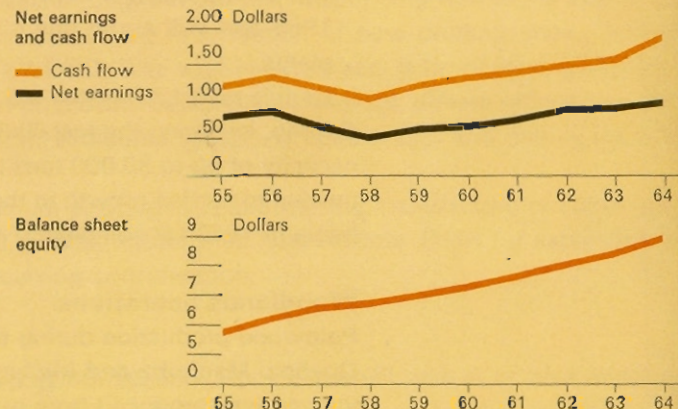
Taxes on income, dividends and retained earnings



Capital expenditures and depreciation



Per common share



owners, settlers and other independent producers.

Forest fires on limits under our control or ownership were few in number and losses from fire or other causes were negligible.

To achieve increased efficiency and reduce administration costs, we merged woodlands operations at Iroquois Falls and Smooth Rock Falls divisions into one production unit. Results are fully up to expectations.

Further progress was made and will continue in our advanced program of mechanization of logging operations. Through participation in Logging Research Associates we now have prototypes of radically new harvesting equipment undergoing field testing on our operations. One such unit, an ARBOMATIK skidder, is shown in operation on page 13 of this report.

The final section of the Spruce River Road near Port Arthur, Ontario, was completed under the cost sharing program sponsored by Abitibi and the Federal and Provincial Governments. This high standard road, now 75 miles in length, permits direct land delivery of pulpwood throughout the year in place of a lengthy and costly water delivery system. An additional important benefit is a reduced investment in pulpwood inventories at our Lakehead mills.

Arrangements are well advanced with the Province of Ontario for the acquisition of additional woodland limits near Smooth Rock Falls to support increased pulpwood requirements when our mill at that location commences production of kraft pulp late in 1965.

Ownership of mineral rights

Considerable interest has developed in the past year in the possibility that on Abitibi's freehold lands there could be an ore body of substantial commercial value. This interest was heightened early in the year by a valuable find by others in the area north of Timmins, Ontario, adjacent to extensive Abitibi holdings.

In connection with its woodlands operations Abitibi is the owner of more than 1,000 square miles of forest lands with both surface and mineral rights in the Province of Ontario. Some 800 square miles are comprised of eight large blocks to the north west of Fort William and 216 square miles lie between Timmins and Smooth Rock Falls to the north of the Township of Kidd which is the location of the valuable find in 1964. Abitibi also has many small scattered holdings near Iroquois Falls and a majority interest in the mineral rights on eleven lots (160 acres each) in the Township of Kidd.

An agreement was entered into in 1963 with a large mining company for exploration of the 216 square miles to the north of Timmins. This land is in a clay belt and exploration is carried out by geophysical methods followed by drilling where and if ore body indications justify this additional step. An extensive exploration program has been going on and is continuing. Without incurring exploration costs, Abitibi will be a minority partner in the ownership of any ore body that might be located of sufficient value to warrant commercial development. This agreement is for a limited term and lands are being released in annual instalments.

There are a number of reasons why it is usual for large scale exploration to be carried out under an agreement such as that outlined above. These are the substantial costs, the uncertainty of reward, the skills and judgment required and, perhaps more important, while exploration expenses are allowed as a deduction under Canadian income tax law to a company whose principal business is mining, such expenses are non-deductible capital outlays for a company whose principal business is pulp and paper.



All divisions of the company participated in a program of improvements designed to maintain the highest standard of product quality and operating efficiency. On the opposite page is shown progress in the installation of twin debarkers in the new woodroom at Fort William. Top right shows newsprint sheets packaged in cartons ready for shipment from the expanded warehouse at Iroquois Falls. Lower right is the new head box and four-drum wire improvements on a newsprint machine at the Thunder Bay mill.

New research centre planned

The long tradition of research, first established at Iroquois Falls in the early 1920's and greatly intensified since 1947 in laboratories at Sault Ste. Marie, is to be further enhanced by the relocation of research facilities and headquarters at the Sheridan Park Research Community just beyond the western outskirts of Metropolitan Toronto. We will be the first company in our industry to establish in this planned community which is to be equipped to become one of the most important research centres in North America. Our proposed new building as visualized in the architects' preliminary perspective is shown on page 13 of this report. Facilities will be ready for occupancy during 1966 and will result in significant improvement in communications with divisions of our company as well as increased liaison with universities and the progress made by others in research of interest to us.

The Central Research Division has placed increased emphasis in the past year on the application of mathematics and physics to problems involved in attaining a new level of uniformity of quality in our products. Sophisticated instrumentation on a paper machine, coupled with an electronic computer, is providing us with processing knowledge not previously available with the expectation of improved control over production variables and a major contribution to consistent quality.

Research incentives provided under Canadian income tax law have undoubtedly been a stimulant to research in Canada and it is to be hoped they will be continued. However, the principal incentive applies only to the increase in research outlays over a base period which tends to penalize companies such as ours that were actively engaged in research activities during the base period and long before. Recommendations to correct this inconsistency in the Canadian research incentive program have been submitted to the Government by a number of organizations.

Long term debt

Abitibi Corporation completed a borrowing in September of \$15,000,000 U.S. funds by the issue of its long term instalment notes. Funds so obtained were used to repay the parent company for advances made to establish this subsidiary company in the United States and will assist in carrying out the substantial capital expenditure program currently under way. Shareholders will be interested to know that Abitibi Corporation was established by advancing funds from Canada at a time when the Canadian dollar was at a premium whereas the \$15,000,000 repayment in 1964 was converted to \$16,132,812 in Canadian currency.

In April, prior to the above borrowing, a meeting was held of the holders of our First Mortgage Bonds to seek approval of an amendment to the Deed of Trust and Mortgage authorizing subsidiary companies with business and assets outside of Canada to incur long term debt. This amendment received the required approval. In this connection the interest rate on Series "B" bonds was increased from 4% to 4¼%.

During the year the remainder of our Series "A" bonds issued in 1947 were redeemed and some Series "B" and Series "C" bonds were retired resulting in a reduction of \$3,647,000 in our outstanding First Mortgage Bonds. Also, many of the holders of our convertible debentures exercised the right of conversion to common shares with the result that outstanding debentures amounted to \$10,837,000 at the close of 1964 as compared with \$14,898,000 at the close of 1963.

Outstanding long term debt at December 31, 1964, including the portion due within one year,

amounted to \$42,129,033 in Canadian funds as compared with \$33,759,375 at December 31, 1963, a net increase during the year of \$8,369,658.

All preferred shares retired

At the meeting of the Board of Directors held in November the decision was made to redeem all remaining outstanding preferred shares from the issue of \$13,750,000 made in 1954. Notice of Call was mailed to holders in November and late in the year an amount of \$8,697,400 was deposited with the trustee for payment on December 31, 1964 to holders of all remaining shares at the redemption price of \$25 per share.

It is unnecessary under existing circumstances for a company of Abitibi's standing to continue to support outstanding preferred shares. Such shares are senior to common shares in security and dividends. Dividends at the rate of 4½% were payable from net earnings after tax which is equivalent to interest of slightly more than double this rate on an issue of debentures or bonds.

A by-law will be presented at the annual meeting of shareholders in April 1965 to reduce the authorized capital of the company by cancelling the preferred shares that were issued in 1954 and are now retired. For this reason the forthcoming meeting has been designated an Annual and Special General Meeting.

Working capital

Working capital at the close of 1964 amounted to \$46,004,640, an increase during the year of \$8,043,024. Shareholders will note, however, that as our business increases from year to year the investment in inventories and accounts receivable also increases. While careful attention is paid to this matter, it is essential that our inventories be adequate at all times to safeguard the requirements of our customers.

It is anticipated that working capital will decrease during 1965 as a result of expansion and improvement projects now in progress. Additional debt financing is a likelihood at some time during the next year or two.

Increase in shareholders

There were 25,476 holders of Abitibi common shares as at December 31, 1964, an increase of 30% in comparison with the number at the close of 1963. The equity per common share has again increased as in all recent years reflecting the retention and investment of earnings in the business to finance growth.

There were 324,880 common shares issued during the year on conversion of debentures and 69,000 shares under terms of the Key Employees' Stock Option Plan, a total of 393,880 shares in all. There were 17,364,988 common shares outstanding at the close of 1964.

New director elected

At the 1964 Annual Meeting, Mr. Franklin T. McClintock was elected a Director to fill the vacancy created when Mr. J. P. Ripley did not stand for re-election.

Mr. McClintock is Chairman of the Executive Committee, Harriman Ripley & Co. Inc., New York City, and is prominent in investment banking in the United States. His views and counsel will be of great value in the administration of Abitibi affairs.

Pictured at the right undergoing field trials is the ARBOMATIK skidder developed by Logging Research Associates. This machine is capable of skidding up to 25 tree lengths per trip from the cutting area to the haul road. At this point the ARBOMATIK processor removes the branches and bark, then cuts the trunk into 8 foot logs and places them in piles for loading onto trucks.

The Central Research Division will move to the Sheridan Park Research Community close to Metropolitan Toronto and the Toronto International Airport. Below is shown the architects' sketch of the new research building which, when completed in 1966, will be one of the most modern pulp and paper research centres in Canada.



It is difficult indeed to pay adequate tribute to Mr. Ripley who has been a Director since 1946 and was intimately connected with Abitibi matters for many years before that time. Mr. Ripley has been appointed an Honorary Director in appreciation of his outstanding contribution to the progress of our company. His fellow Directors and, I am sure, all shareholders join in wishing him health and happiness in the years ahead.

Personnel

It is a pleasure for the Directors to extend appreciation to our more than 10,000 employees for their fine team effort and the resultant progress made by the company.

As noted in last year's report, many of the union agreements negotiated in 1963 were for a two-year period. Settlements for a majority of employees involved pension improvements rather than wage increases which is the reason for increased pension plan costs in 1964.

All union agreements expiring in 1964 were renewed but in some cases only after protracted negotiations. It is a matter of record that the unions with which this company has negotiated have always bargained in a responsible manner, aware that their long-term interests are best served by settlements that do not put the company at a competitive disadvantage.

Training activities related to start-up of new equipment and improving supervisory performance were continued. Employee safety is a subject closely related to training and is given priority over any other consideration. We will never be satisfied with our safety record until all accidents are eliminated. The newsprint mill at Pine Falls has shown what can be done by achieving the much sought after but rarely reached objective of more than a million man hours of work without a lost-time accident.

The outlook

Most forecasts indicate a continued growth in business activity during 1965. This will be accompanied by increased use of pulp and paper products. Consumption of newsprint, a leading indicator, is expected to increase by 3% to 4% in North America and it is likely that there will be a greater increase in consumption of other pulp, paper and board products.

Abitibi's long-standing dedication to research and quality continues to result in new and improved products. Our organization is competent and our plants are modern, efficient and strategically located.

We look forward with confidence to another year of growth and achievement.

On behalf of the Board,



Toronto, February 1, 1965.

President

Consolidated net earnings

Year ended December 31

	1964	1963
Net sales	\$184,708,539	\$164,575,637
Cost of products sold and all expenses except items shown below	135,858,229	120,661,911
	\$ 48,850,310	\$ 43,913,726
Interest and other income	780,175	780,574
	\$ 49,630,485	\$ 44,694,300
Provision for depreciation	\$ 10,036,903	\$ 9,748,823
Provision for depletion	105,000	105,000
Employees' retirement income plan	2,306,104	1,903,391
Interest on long term debt	1,709,297	1,652,146
Discount and expense on long term debt	41,483	37,438
	\$ 14,198,787	\$ 13,446,798
Earnings before taxes on income	\$ 35,431,698	\$ 31,247,502
Taxes on income (current and deferred — note 3)	17,498,000	15,040,000
Net earnings	\$ 17,933,698	\$ 16,207,502

Consolidated retained earnings

Year ended December 31

	1964	1963
Retained earnings at beginning of year	\$104,526,416	\$ 98,611,653
Net earnings for the year	17,933,698	16,207,502
	\$122,460,114	\$114,819,155
Dividends declared on preferred shares	\$ 395,221	\$ 412,046
Dividends declared on common shares	9,639,413	8,682,138
(being the dividends paid on April 1st, July 1st, October 1st, and payable January 1st)		
Excess of cost of investment over net tangible values acquired on the purchase of the business and assets of Miratile Manufacturing Company and Maple Leaf Veneer Co. Limited	—	1,198,555
	\$ 10,034,634	\$ 10,292,739
Retained earnings at end of year	\$112,425,480	\$104,526,416

Consolidated balance sheet

ASSETS		
	December 31	
	1964	1963
Current assets:		
Cash	\$ 3,319,240	\$ 3,498,981
Short term investments at cost (market value \$7,035,000).	7,003,453	565,000
Accounts receivable, less allowance for doubtful accounts	27,957,979	26,092,477
Inventories at cost:		
Finished products, goods in process, materials and supplies	16,558,655	13,062,441
Pulpwood and expenditures on current logging operations	15,457,241	19,749,946
Prepaid insurance and other expenses	1,080,638	1,060,486
	<u>\$ 71,377,206</u>	<u>\$ 64,029,331</u>
Capital assets:		
Properties, plant and equipment (note 2)	\$294,915,093	\$277,202,900
Less — Accumulated depreciation	160,028,495	152,211,514
	<u>\$134,886,598</u>	<u>\$124,991,386</u>
Logging equipment and development at depreciated cost	2,374,271	2,635,330
Woodlands, both freehold and leasehold, and water power rights, less accumulated depletion of \$5,144,846 (1963 — \$5,039,846)	16,179,134	16,285,399
	<u>\$153,440,003</u>	<u>\$143,912,115</u>
Other assets:		
Unamortized discount and expense on long term debt	\$ 272,021	\$ 122,970
Miscellaneous investments at cost	4,566,391	4,451,287
	<u>\$ 4,838,412</u>	<u>\$ 4,574,257</u>
 Approved on behalf of the Board:		
P. E. Roberts, Director		
D. W. Ambridge, Director		
	<u>\$229,655,621</u>	<u>\$212,515,703</u>

LIABILITIES

	December 31	
	1964	1963
Current liabilities:		
Accounts payable	\$ 15,092,980	\$ 14,270,565
Dividends payable January 1st	2,431,087	2,474,091
Interest accrued on long term debt	464,596	421,754
Income and other taxes	5,994,217	6,819,899
Payments due within one year on long term debt	1,389,686	2,081,406
	<u>\$ 25,372,566</u>	<u>\$ 26,067,715</u>
Long term debt:		
3½% First Mortgage Twenty-Year Bonds, Series "A"	\$ —	\$ 1,827,500
4¼% First Mortgage Sinking Fund Bonds, Series "B", due July 15, 1974	5,568,500	7,187,000
6¼% First Mortgage Sinking Fund Bonds, Series "C", due November 15, 1977	8,999,000	9,200,000
4½% Convertible Debentures, Series "A", due September 15, 1966 (note 5)	10,837,000	14,898,000
5½% Instalment Notes, due May 1, 1984 (\$15,000,000 U.S. funds)	16,131,780	—
6.1% Instalment Note, due November 1, 1975 (\$550,000 U.S. funds)	592,753	646,875
	<u>\$ 42,129,033</u>	<u>\$ 33,759,375</u>
Less — Amount included with current liabilities	1,389,686	2,081,406
	<u>\$ 40,739,347</u>	<u>\$ 31,677,969</u>
Deferred taxes on income (note 3)	\$ 6,604,500	\$ 1,485,000
Total Liabilities	\$ 72,716,413	\$ 59,230,684

SHAREHOLDERS' EQUITY

Preferred shares:		
Authorized: 1,000,000 shares par value \$25 each issuable in series (550,000 shares issued and subsequently redeemed)		
Outstanding: Nil (1963 — 359,618 4½% Cumulative Redeemable Preferred Shares)	\$ —	\$ 8,990,450
Common shares: (note 4)		
Authorized: 24,000,000 shares without nominal or par value		
Issued: 17,364,988 shares (1963 — 16,971,108 shares)	44,513,728	39,768,153
Retained earnings	112,425,480	104,526,416
	<u>\$156,939,208</u>	<u>\$153,285,019</u>
	<u>\$229,655,621</u>	<u>\$212,515,703</u>

Consolidated source and application of funds

Source of funds:	1964	1963
Net earnings	\$ 17,933,698	\$ 16,207,502
Non-cash charges deducted in arriving at net earnings:		
Depreciation and depletion	10,141,903	9,853,823
Discount and expense on long term debt	41,483	37,438
Deferred taxes on income	4,740,500	1,485,000
Funds derived from operations	\$ 32,857,584	\$ 27,583,763
Disposal of capital assets	216,790	94,149
Issue of 5% long term notes	16,132,812	—
Common shares issued under option agreements	684,575	391,800
Increase in deferred portion of prior year taxes on income	379,000	—
Working capital of businesses acquired during the year	—	1,346,480
Other items — net	—	178,804
	<u>\$ 50,270,761</u>	<u>\$ 29,594,996</u>
Application of funds:		
Invested in properties, plant and equipment	\$ 19,115,962	\$ 15,007,893
Expenditures on logging equipment and development	770,619	950,320
Long term debt retired or included with current liabilities	3,010,434	2,517,453
Par value of preferred shares retired	8,990,450	348,850
Acquisition of business and assets of Maple Leaf Veneer Co. Limited	—	3,814,062
Dividends declared on preferred shares	395,221	412,046
Dividends declared on common shares	9,639,413	8,682,138
Other items — net	305,638	—
	<u>\$ 42,227,737</u>	<u>\$ 31,732,762</u>
Resulting in an increase (decrease) in working capital of	\$ 8,043,024	\$ (2,137,766)
Working capital at beginning of year	37,961,616	40,099,382
Working capital at end of year	<u>\$ 46,004,640</u>	<u>\$ 37,961,616</u>

Notes to consolidated financial statements

1. Balances and transactions in other currencies have been restated in Canadian dollars as follows:

Current assets and current liabilities at exchange rates in effect at December 31st; capital assets at rates in effect at dates of acquisition; long term debt at rates in effect when debt incurred; net sales and expenses of United States subsidiary companies at average rates for the year except for depreciation provisions which are on the same basis as the related capital assets.

2. Properties, plant and equipment are stated at cost except for assets of a net depreciated book value of \$10,024,722 at December 31, 1964, included at appraised values as at April 30, 1946 as reported by Coverdale & Colpitts, Consulting Engineers.

3. It is the company's practice to claim maximum depreciation allowances for income tax purposes and such allowances for 1964 are in excess of depreciation provided in the accounts. The resulting reduction of \$4,740,500 in income taxes currently payable is included in the provision for taxes on income and set aside on the balance sheet as deferred taxes on income.

4. A total of 393,880 common shares were issued during the year being 324,880 shares on conversion of \$4,061,000 principal amount of Debentures and 69,000 shares for an aggregate cash payment of \$684,575 under terms of the Key Employees' Stock Option Plan.

Of the authorized and unissued common shares, 866,960 shares are reserved for possible conversion of Debentures and 276,536 shares are reserved under the Key Employees' Stock Option Plan of which 198,136 shares are under option at December 31, 1964 at the market value at date of grant.

5. Convertible Debentures may be converted into common shares at the option of the holders up to September 15, 1966 at the rate of 80 shares per \$1,000 debenture.

6. For the year 1964 fees of directors not holding salaried positions amounted to \$27,275; counsel and solicitors' fees, salaries and fees of executive officers and directors holding salaried positions amounted to \$622,781.

Auditors' report to the shareholders

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, 1964 and the consolidated statements of net earnings and 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 consolidated statements of net earnings and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at December 31, 1964 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

We also examined the consolidated statement of source and application of funds for the year ended December 31, 1964, which is presented as supplementary information and, in our opinion, the statement presents fairly the information shown therein.

Toronto, February 1, 1965

PRICE WATERHOUSE & CO.
Chartered Accountants

Ten year review

	1964	1963	1962
Sales and earnings:			
Net sales	\$184,708,539	\$164,575,637	\$156,005,549
Depreciation and depletion	10,141,903	9,853,823	10,369,899
Interest on long term debt	1,709,297	1,652,146	1,738,212
Earnings before taxes on income	35,431,698	31,247,502	31,275,251
Taxes on income	17,498,000	15,040,000	15,780,000
Net earnings	17,933,698	16,207,502	15,495,251
Net earnings per common share *	\$1.01	\$.93	\$.90½
Dividend record:			
On preferred shares	\$ 395,221	\$ 412,046	\$ 433,026
On common shares	9,639,413	8,682,138	8,330,868
Declared per common share *	\$.56	\$.51½	\$.50
Capital expenditures:			
On properties, plant and equipment	\$ 19,115,962	\$ 15,007,893	\$ 13,222,400
On logging equipment and develop- ment (from 1957)	770,619	950,320	890,700
On timber limits	—	—	—
Financial position:			
Current assets	\$ 71,377,206	\$ 64,029,331	\$ 65,886,200
Current liabilities	25,372,566	26,067,715	25,786,818
Working capital	46,004,640	37,961,616	40,099,382
Capital assets, at net book values	153,440,003	143,912,115	132,606,747
Investments and other assets	4,838,412	4,574,257	5,528,727
Long term debt	40,739,347	31,677,969	33,677,500
Deferred taxes on income	6,604,500	1,485,000	—
Equity of shareholders	156,939,208	153,285,019	144,557,356
Equity of shareholders:			
Equity of preferred shareholders	\$ —	\$ 8,990,450	\$ 9,339,300
Equity of common shareholders	156,939,208	144,294,569	135,218,056
Outstanding common shares *	17,364,988	16,971,108	16,666,736
Equity per common share *	\$9.04	\$8.50	\$8.11

* The number of common shares and per share calculations have been adjusted where applicable to reflect the 4 for 1 stock split on November 30, 1963.

1961	1960	1959	1958	1957	1956	1955
\$147,587,462	\$146,339,604	\$133,813,074	\$123,385,542	\$128,198,755	\$132,497,683	\$123,173,281
10,289,473	10,463,547	9,680,353	9,039,110	8,434,717	7,752,873	7,132,899
1,828,793	1,869,249	2,008,936	2,083,546	1,652,016	1,214,552	1,137,654
28,267,636	26,066,288	24,525,544	20,127,382	25,552,283	31,012,827	28,506,026
14,557,000	13,800,000	12,700,000	10,470,000	13,050,000	15,589,000	14,570,000
13,710,636	12,266,288	11,825,544	9,657,382	12,502,283	15,423,827	13,936,026
\$.79½	\$.70¾	\$.68	\$.54¾	\$.71½	\$.89	\$.80
\$ 453,504	\$ 471,199	\$ 507,803	\$ 547,796	\$ 578,441	\$ 605,360	\$ 618,825
7,077,577	7,077,579	7,077,579	7,077,582	7,077,580	6,661,252	5,618,967
\$.42½	\$.42½	\$.42½	\$.42½	\$.42½	\$.40	\$.33¾
\$ 9,729,078	\$ 10,340,956	\$ 7,105,455	\$ 10,423,905	\$ 25,194,262	\$ 19,165,594	\$ 9,634,629
594,279	1,666,438	955,345	592,602	894,624	—	—
—	—	—	14,344	53,508	466,299	510,021
\$ 63,107,968	\$ 61,091,507	\$ 60,070,996	\$ 57,714,700	\$ 62,169,246	\$ 74,057,870	\$ 64,339,974
22,064,539	22,513,567	20,312,046	17,317,852	20,557,436	25,801,233	23,532,028
41,043,429	38,577,940	39,758,950	40,396,848	41,611,810	48,256,637	40,807,946
128,985,592	129,030,527	126,113,480	127,995,218	126,082,118	106,504,498	94,909,259
5,644,395	4,713,044	3,498,462	2,547,639	3,964,105	4,096,523	4,089,988
37,410,000	39,897,500	40,632,000	45,555,500	47,984,000	40,598,000	29,060,000
—	—	—	—	—	—	—
138,263,416	132,424,011	128,738,892	125,384,205	123,674,033	118,259,658	110,747,193
\$ 9,908,425	\$ 10,248,575	\$ 10,836,425	\$ 11,721,900	\$ 12,552,000	\$ 13,105,250	\$ 13,750,000
128,354,991	122,175,436	117,902,467	113,662,305	111,122,033	105,154,408	96,997,193
16,652,872	16,652,872	16,652,872	16,652,872	16,652,872	16,652,872	16,652,872
\$7.71	\$7.34	\$7.08	\$6.82	\$6.67	\$6.31	\$5.82

Members of the management committee

The widespread and diversified operations of Abitibi are controlled by a Management Committee with the President serving as the Chairman. Members are company executives each with assigned senior management responsibilities. Regular meetings ensure communication and co-ordination in the administration of Abitibi's affairs.



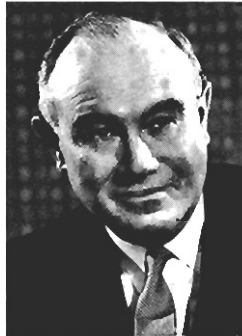
P. E. Roberts



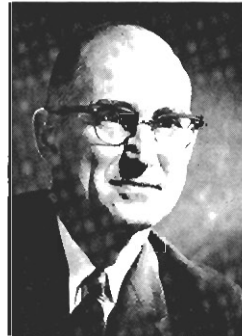
G. M. Brain



R. E. E. Costello



J. E. Cottrelle



E. E. Grainger



E. W. McBride



C. H. Rosier



W. S. Rothwell



H. P. Armstrong



J. E. Haire

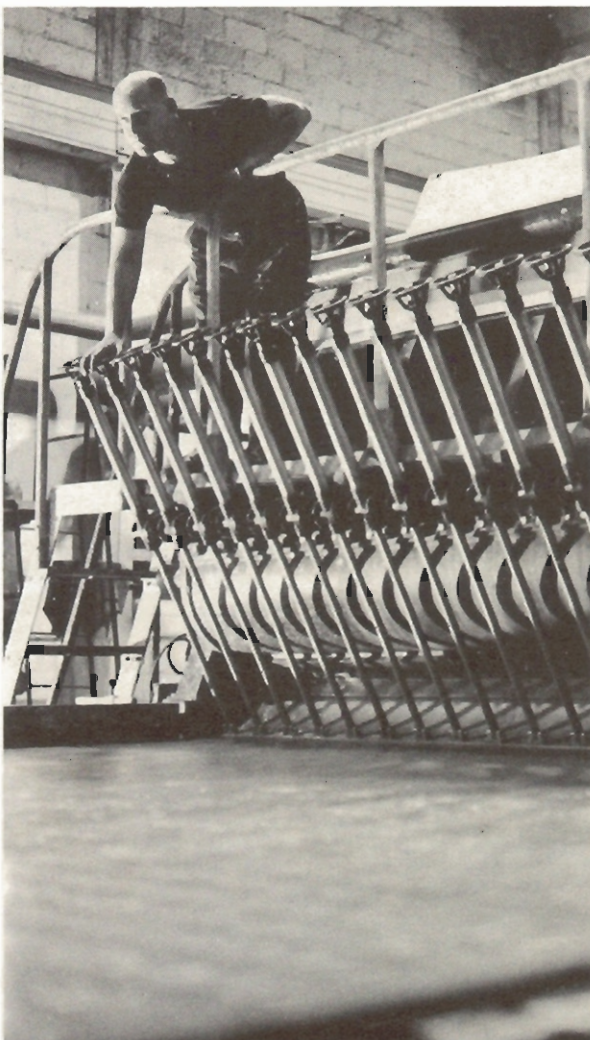


H. G. O'Leary



Technical progress in the pulp and paper industry has brought new meanings to the term "Craftsman" and a new measure of precision and specialization. Fifty years ago, jobs in Abitibi's operations called for a heavy expenditure of effort supplied by human muscles. Today, most of the power for work is provided by modern fuels and machinery with the craftsman supplying judgment and control.

Throughout the mill and woods operations of Abitibi from the power-saw-equipped woodsman in the pulpwood forest to the electric truck operator at the shipping docks, the craftsmen of Abitibi are at work. Each day, Abitibi people, both men and women, apply the skills of their crafts. It may be the precise pencil impressions on an engineering drawing, or the turn of a knob to regulate the flow of pulp through the slice of the head box onto the paper-forming wire. It could be the pressure of a finger at an exact moment on a button-studded control panel to stop or start the huge paper machine. These actions, simple in performance, are only a momentary exercise by individuals whose technical know-how of the entire operation of their jobs results from years of formal education, on-the-job training and experience.



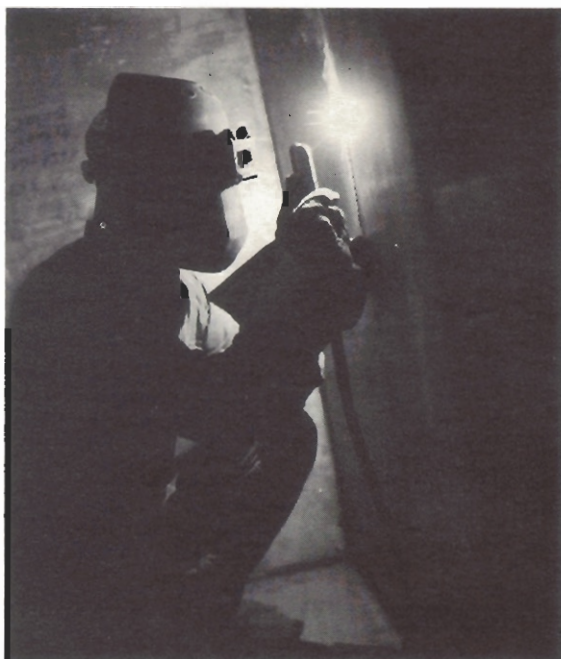


The simple definition of a craftsman as "one who practises some trade or manual occupation" has expanded in meaning at Abitibi. To this we add such terms as skillful, proud, experienced, responsible and creative. In the manufacture of quality products for domestic and world markets, more is contributed by an Abitibi worker than just routine, mechanical exertion. Many of the jobs and skills that are available now did not exist 50 years ago when Abitibi was founded, and many of the jobs that did exist then have changed today to an almost unrecognizable degree. Seen on these pages are occupations requiring new and different machines and new and more precise skills. Twenty years ago you would not have heard of a "flying paster" that permits the continuous running of the off-machine blade coater from one paper roll to the next. One illustration shows an operator applying a pressure sensitized adhesive to join one roll to another. The crew required to run the blade coater provides another example of new skills. A recent addition is the familiarization of a worker with the operation of a "save-all" that recovers usable fibres and coating material at the same time reducing effluent from the mill.

In many cases the new skills require advanced education and specialized training. Correspondence courses, trade schools and night classes may be a necessity along with on-the-job training. Such technical training is encouraged by Abitibi because technology has narrowed the allowable limits of tolerance and increased individual responsibility. The high speeds of machines, such as the off-machine supercalender or the lightning action of the electronic computer, allow no room for the untrained and unskilled in their operations. A single mistake can cause costly interruptions and delay in the manufacturing process and disrupt the entire routine of a plant.

The people pictured at work on these pages with their skills and responsibilities are representative of the Abitibi manufacturing team. Combined with their skills is a conscious sense of safety in their work habits. An active company safety program and the worker's sense of responsibility help to ensure his well-being and that of his fellow worker. However, complementing and important to all this are the impressive changes in working conditions. Brighter, cleaner and more comfortable working surroundings are the rule.





Effective **safety** devices around **danger** areas, work rules designed to promote safe working habits, improved ventilation and fatigue-reducing tools, all play a part in improving the safety record.

The mechanic seen on the opposite page manipulating the controls of the steam plant designed to burn natural gas, fuel oil or coal would never trade his place in this spick-and-span plant with a stoker shovelling coal in a steaming boiler room.

Although many new jobs have been added to our operations at Abitibi, there are still to be found **those individuals** practising **the crafts** long recognized as part of the machine age. The hooded welder, the machinist at a lathe and even the blacksmith shown here are examples; all maintaining, repairing or modifying the machines that form, directly or indirectly, part of the production line. The instrument technician in the control department is daily in contact with electronic and mechanical units as finely tuned as the most expensive Swiss watch.

The machines of today's craftsmen are ingenious and costly and have one basic purpose which is to make their work as valuable as possible. The prosperity of a nation's business and the well-being of its employees are linked directly to productivity. The girl on the veneer splicer, the operator of the paper guillotine or the technician in the paper quality control laboratory must be trained in the control and functions of complex machines or instruments. At the same time these new and more efficient machines have increased the demand for greater skill and knowledge by those who will operate them.

The products of the crafts themselves have changed. For example, today's newsprint quality was not available a decade or so ago. Improved opacity, increased strength and superior runability are just some of the improvements. At Abitibi, the creative and imaginative work of individuals in the "science-crafts" initiated the development of new products and made improvements to existing ones along with new and better methods of manufacturing. The results of this program and others have kept Abitibi a leader in the pulp and paper industry. Whether it is an idea born, a drawing made, a machine assembled, an operation performed, a product packaged or a market served, the continuing growth, progress and prosperity of Abitibi will always be related to the skills of its craftsmen.





Abitibi Companies and Products

Abitibi Power & Paper Company, Limited

Parent company with manufacturing operations in Ontario

Executive offices: Toronto, Ont.

Newsprint: Iroquois Falls, Fort William and Port Arthur, Ont.

Newsprint and groundwood specialty 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 specialty papers, bleached sulphite pulp, corrugating medium, hardboards, particle boards, veneers and hardwood plywoods

Sales offices: Toronto, Ont. ; Montreal, Que. ; Winnipeg, Man.

Subsidiary company:

Abitibi Service, Inc.

Serving customers in the United States

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

Abitibi Corporation

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

Plant and executive office: Alpena, Mich.

Sales Offices: Detroit, Mich. ; Chicago, Ill. ; Dayton, Ohio ; New York, N.Y.

Miratile Panel Products Division

Decorative hardboards and plywood panel products

Chicago, Illinois and Cucamonga, California

Provincial Paper, Limited

Manufacture and sale of fine and printing papers

Machine and trailing blade coated papers: Port Arthur, Ont.

Book, 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.

Ste. Anne Paper Company, Limited

Manufacture of newsprint: Beaufort, Que.

Subsidiary companies:

St. Anne Power Company

Beaufort St. Paul Lumber Company Limited

Conducting woodlands operations from Beaufort, Que.

Pembroke Shook Mills, Limited

Manufacture and sale of corrugated cartons: Pembroke, Ont.

Maple Leaf Veneer Limited

Veneers and hardwood plywoods: Durham, Ont.

Other subsidiary companies

Abitibi Navigation Company Limited: Toronto, Ont.

Mattagami Railroad Company: Smooth Rock Falls, Ont.

Geomont Explorations Limited: Toronto, Ont.

Affiliated company

Abitibi Bathurst (U.K.) Limited: London, S.W.7, England
