



REICHHOLD CHEMICALS LIMITED
1974 ANNUAL REPORT

RAPPORT ANNUEL 1974





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Pictured on the cover is Reichhold's new headquarters in Islington, Ontario. The executive and accounting offices for Reichhold Chemicals, Sears and Canada Printing Ink are located here.

Annual Report

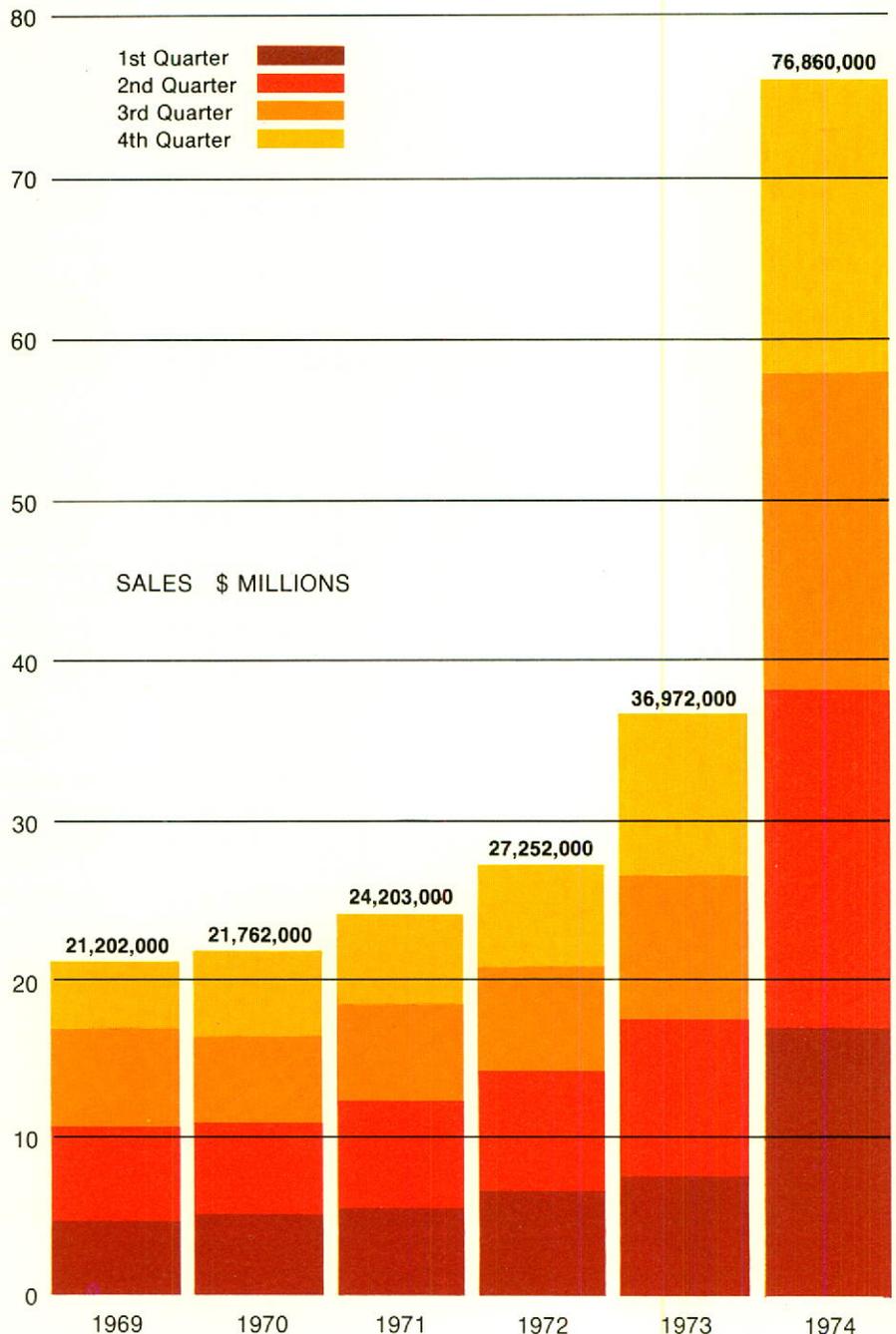
The inside pages of this report were lithographed on a 28" x 40" Heidelberg RZO 4-colour, using printing inks manufactured by The Canada Printing Ink Co. Ltd.

OUR YEAR AT A GLANCE

	1974	1973
Net sales	\$76,860,435	\$36,971,689
Net earnings	4,217,806	1,632,019
Earnings per common share	7.94	3.38
Book value per common share	22.43	15.21

See note at foot of 10 year financial review on page 10

REICHOLD Consolidated Sales By Quarter



REICHHOLD 1974: NEW DIMENSIONS IN LEADERSHIP

Reichhold Chemicals Limited started business in Canada twenty-five years ago as a small subsidiary operation of an American organization. Within ten years it was a Canadian public company: today, more than 85% of the company's shareholders live in Canada and more than 60% of its shares are owned in Canada.

Reichhold's growth has been steady and orderly. Ten years ago, sales were less than \$10 million per year. Total 1974 sales were in excess of \$76 million.

Many factors have contributed to Reichhold's success. A key element has been the corporate policy of aggressive research, development and marketing of its specialty resinous intermediates for specific customer requirements across a broad range of industries. Another has been the company's hard-won reputation for highly-personalized sales and service. Yet another has been an active acquisition program which has brought the leaders of related industries under the Reichhold banner for mutual technological benefit and increased profitability.

Reichhold is a multi-faceted corporation whose prime interests are the manufacture of synthetic resins and chemicals for special applications in a number of industries. To individual customers, however, Reichhold is viewed as the major research, product and technical resource centre for their specific needs. Manufacturing plants are strategically located close to the industries served: in Port Moody and Kamloops, B.C., North Bay, Weston and Lindsay, Ontario and Ste. Therese, Quebec.

Reichhold's resin-based chemical intermediates form the basis of a wide variety of products – no other Canadian chemical manufacturer has such a broad range and type of product mix. This diversity has produced balanced growth and a marketing base independent of any single industry.

The acquisition of The Canada Printing Ink Company Limited in 1968 and of Sears Limited in late 1973 has also established Reichhold as the largest supplier of printing machinery, services and supplies to the thriving Canadian graphic arts industry. Ink manufacturing facilities are located in Vancouver, Edmonton, Winnipeg, Toronto, Ottawa and Montreal, and graphic arts customers are serviced by a sales force of over 70 men. Reichhold's research on printing inks has produced many major developments – among them the new, fast-drying, UV-cured non-polluting inks – that will one day revolutionize the lithography process in both Canada and the rest of the world.

Some of the end-products in which Reichhold's intermediate resins are found are as follows:

Paints & coatings/ particleboard/ waferboard/ plywood/ treated fibreboard panels/ wood preservatives/ insulating foams/ roofing panels/ fibreglass panels/ decorative overlays/ printing inks/ packaging adhesives and laminates/ rubber/ electrical insulation/ moulding compounds/ bonded and coated abrasives/ castings/ curing agents/ textile products/ electrical encapsulating compounds/ can coatings/ thermal insulation/ shoes/ pleasure boats/ food packaging adhesives/ fishing rods/ tubings/ furniture glues and adhesives/ furniture parts/ lamp bases and decorative plaques/ simulated marble/ bathtubs and shower stalls/ floor polishes/ brake linings/ fibreglass reinforced plastics for auto, golfcart and snowmobile bodies and parts/ heaters and air conditioners.

The name Reichhold may not be well known to the general public, but the company's products are a part of virtually every Canadian's daily life – from the kettle in the kitchen to the house he lives in. In the twenty-five years since it began operations, Reichhold has moved to a position in leadership in the manufacture and supply of a large range of specialty chemical products.

The theme of this Report – Dimensions in Leadership – encompasses the scientific, research, production, financial and administrative management expertise that have accompanied this growth – and that assure the continued success of the company in the future.

TO OUR SHAREHOLDERS



The year 1974 was another very good year for the Company. It was also a very unusual year; sales and earnings more than doubled; raw material shortages turned to surpluses; new values on petroleum products had a dramatic effect on chemical prices; inflation boosted costs of nearly all materials and operating expenses; a breakthrough in phenolic resin technology led to a million dollar expansion in our North Bay manufacturing plant; Sears Limited and The Canada Printing Ink Company Limited, two subsidiary companies, stole the scene in the Graphic Arts Industry. These were some of the events which made 1974 a memorable year.

The Reichhold Group sales for the year were \$76,860,435, up 108% from 1973. Earnings rose 158% to \$4,217,806 or \$7.94 per share. Dividends increased from 42 cents to 72 cents, or to an annual rate of 80 cents per share. Working capital increased 22% to \$7,066,009. The sharp upturn in sales and earnings was due to a number of factors, the main ones being the inclusion of the results of Sears for the first time and higher prices on almost all products due to inflation. Our gross profit margins however remained the same as in 1973.

In 1973 we had the start of serious raw material shortages. These shortages continued into the 3rd quarter of 1974, but by year end most materials were in good supply and many were in over-supply. Most of our raw materials are based on natural gas and petroleum. Both of these natural resources have become much more valuable and it may take some time for them and the

petrochemicals derived from them to reach an equilibrium value. Our raw material prices increased greatly but through a responsible pricing policy, we maintained the same gross profit margins as in 1973.

Again, we continued our long term capital expansion program directed towards lowering costs and increasing production. Total capital spending in 1974 was \$2.8 million and the emphasis was on increasing resin production in North Bay. We are very proud of the North Bay expansion. Three years of research & development have resulted in a novel process to make more efficient waferboard resins. We expect to spend another \$4,000,000 in capital expansion projects in 1975. Continued Federal tax incentives are allowing us to expand manufacturing and make it more efficient.

In 1974, Reichhold became a major force in the Graphic Arts Industry. Through the acquisition of The Canada Printing Ink Company Limited in 1968 and Sears Limited in late 1973, we now have the largest printing machinery, equipment and supply line of any company in Canada. More than 70 salesmen from these companies call on printers across the country. The two graphic arts subsidiaries have cooperated to form new, more efficient, integrated facilities in many parts of Canada and have been successful in establishing a coordinated national marketing program.

The importance of the graphic arts industry to Reichhold is demonstrated in the dollar sales mix shown on page 16 of this Report. Graphic Arts made up 37% of sales dollars in 1974.

Our chemical divisions had an excellent year. The forest products industry and the automobile industry slowed down considerably but these did not greatly affect our results. Over the years, we have diversified the business so that a turndown in any one segment of the economy would not have a serious effect on the Company.

Reichhold is in a good financial position, but because we are growing rapidly, the financial demands are greater than ever. Expansion of our business and the building of new facili-

ties is much more expensive than in previous years and will require all the capital we can muster.

At Reichhold, we are still actively considering a number of joint ventures in the petrochemical industry. We still have an active acquisition program. We expect that our graphic arts business will expand from what is now a very strong base. Any new acquisitions will probably emphasize the chemical part of our business.

We can see that 1975 will be another unusual year. It will be a year where raw material prices will try to stabilize. It could be a very treacherous year. There could be an international scramble for markets, causing raw material prices to deteriorate rapidly.

The Company now operates in 16 Canadian cities from 23 separate physical locations. There are more than 650 employees with more than 100 directly involved in marketing. The Company efforts are all coordinated from our new executive offices in Islington, Ontario, but there is strong local and regional autonomy and profit responsibility.

My thanks go to the employees of the Reichhold Group, Reichhold Chemicals Limited, The Canada Printing Ink Company Limited and Sears Limited. Their dedication in this most unusual year is appreciated by all.

GEORGE L. HAGEN
*President and
Chief Executive Officer*

L'année 1974 marque un autre excellent exercice pour la Compagnie. Ce fut aussi une année exceptionnelle; les ventes et les bénéfices ont plus que doublé; la pénurie de matières premières s'est transformée en surplus; les nouvelles valeurs des produits de pétrole ont causé un effet dramatique sur les prix des produits chimiques; l'inflation a fait monter le coût de presque toutes les matières premières et les frais d'exploitation; une innovation en technologie concernant la résine phénolique a amené un agrandissement d'un million de dollars à notre

usine de fabrication de North Bay; Sears Limited et The Canada Printing Ink Company Limited, deux filiales de la Compagnie ont dominé la scène de l'industrie des arts graphiques. Voilà quelques-uns des événements qui ont marqué l'année 1974.

Les ventes du groupe Reichhold pour l'année ont atteint \$76,860,435, soit une augmentation de 108% sur 1973. Les bénéfices augmentèrent de 158% pour atteindre \$4,217,806 ou \$7.94 par action. Les dividendes augmentèrent de 42 cents à 72 cents, ou à un taux annuel de 80 cents par action. Le fonds de roulement augmenta de 22% pour atteindre \$7,066,009. Ce changement marqué dans les ventes et les bénéfices fut attribuable à plusieurs facteurs; les principaux sont l'inclusion des résultats de Sears pour la première fois et des prix plus élevés sur presque tous les produits à cause de l'inflation. Nos marges de profit brut cependant sont demeurées les mêmes qu'en 1973.

En 1973, nous avons éprouvé le début de pénuries sérieuses de matières premières. Ces pénuries se sont continuées jusqu'au troisième trimestre de 1974, mais vers la fin de l'année la plupart des matières premières étaient en bonne quantité et plusieurs étaient même en surplus. La plus grande partie de nos matières premières se base sur le gaz naturel et le pétrole. Ces deux ressources naturelles ont acquis beaucoup plus de valeur et il leur faudra quelque temps, de même que pour les produits chimiques qui en dérivent, pour atteindre un niveau équilibré.

Les prix de nos matières premières ont beaucoup augmenté mais grâce à une politique responsable de prix, nous avons maintenu les mêmes marges de profit brut qu'en 1973.

De nouveau nous avons continué notre programme d'expansion de capital à long terme orienté vers l'abaissement des frais et l'augmentation de la production. Le capital total dépensé en 1974 fut de \$2.8 millions et la plus grande partie fut consacrée à l'augmentation de la production de résine à North Bay. Nous sommes fiers de notre agrandissement à North Bay. Trois années de recherche et de mise au point ont donné

un procédé nouveau pour fabriquer des résines encore plus efficaces pour les planches minces. Nous prévoyons dépenser encore \$4,000,000 en projets d'agrandissement en 1975. Les encouragements continus de l'impôt fédéral nous permettent d'agrandir nos aménagements de fabrication et de les rendre plus efficaces.

En 1974, Reichhold est devenue une force importante dans l'industrie des arts graphiques. Grâce à l'acquisition de la compagnie The Canada Printing Ink Company Limited en 1968 et de Sears Limited vers la fin de 1973, nous avons maintenant l'assortiment le plus considérable de machinerie d'imprimerie, d'équipement et de fournitures de toute compagnie au Canada. Plus de 70 vendeurs de ces compagnies sollicitent les imprimeurs à travers le pays. Les deux filiales d'Arts Graphiques ont coopéré pour former de nouveaux aménagements intégrés et plus efficaces dans plusieurs régions du Canada et ont réussi à établir un programme coordonné de commercialisation à l'échelle de tout le pays.

L'importance de l'industrie des arts graphiques pour Reichhold est démontrée dans le tableau de ventes en dollars, donné à la page 16 de ce rapport. Les arts graphiques constituent 37% des dollars de ventes en 1974.

Nos divisions de produits chimiques ont connu une excellente année. L'industrie des produits forestiers et l'industrie de l'automobile ont été ralenties considérablement mais n'ont pas affecté grandement nos résultats. Au cours des années, nous avons diversifié nos activités de sorte que le ralentissement dans un secteur ou l'autre de l'économie n'aurait pas un effet sérieux sur la Compagnie.

Reichhold est en bonne position financière mais à cause de notre accroissement rapide, les demandes financières sont plus lourdes que jamais avant. L'essor de nos affaires et la construction de nouveaux aménagements coûtent beaucoup plus cher qu'au cours des années précédentes et exigeront tout le capital que nous pouvons réunir.

Chez Reichhold, nous considérons

encore activement plusieurs projets conjoints dans l'industrie pétrochimique. Nous avons encore un programme actif d'acquisition. Nous prévoyons que nos affaires dans les arts graphiques augmenteront plus, maintenant qu'elles reposent sur une base très solide. Toutes les nouvelles acquisitions seront probablement orientées sur la partie chimique de nos affaires.

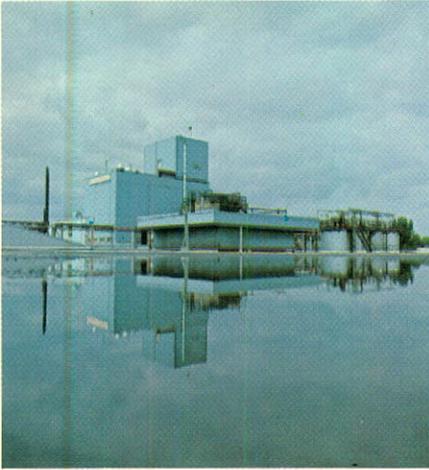
Nous pouvons voir que 1975 sera une autre année peu commune. Ce sera une année où le prix des matières premières essaiera de se stabiliser. Cette année pourrait être très difficile. Il pourrait exister une lutte internationale pour les marchés, causant une détérioration rapide du prix des matières premières.

La Compagnie fonctionne maintenant dans 16 villes canadiennes de 23 emplacements physiques séparés. Elle compte au-delà de 650 employés, dont plus de 100 sont directement impliqués dans la vente. Les efforts de la Compagnie sont tous coordonnés de nos bureaux directoriaux à Islington, Ontario, mais il existe une autonomie locale et régionale très forte de même qu'une responsabilité autonome pour les profits.

Mes remerciements s'adressent à tous les employés du groupe Reichhold, Reichhold Chemicals Limited, The Canada Printing Ink Company Limited et Sears Limited. Leur dévouement au cours de cette année tout à fait exceptionnelle est apprécié par tous.



GEORGE L. HAGEN,
*Président et
directeur administratif en chef*



Close to 50 million pounds of synthetic resin were produced in 1974 in the Weston, Ontario, plant. This facility, which employs a total of 82 personnel, has been expanded and improved over the past several years. It is one of six Reichhold chemical manufacturing plants located across Canada.



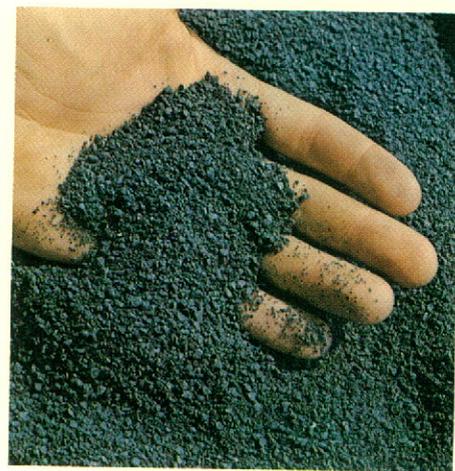
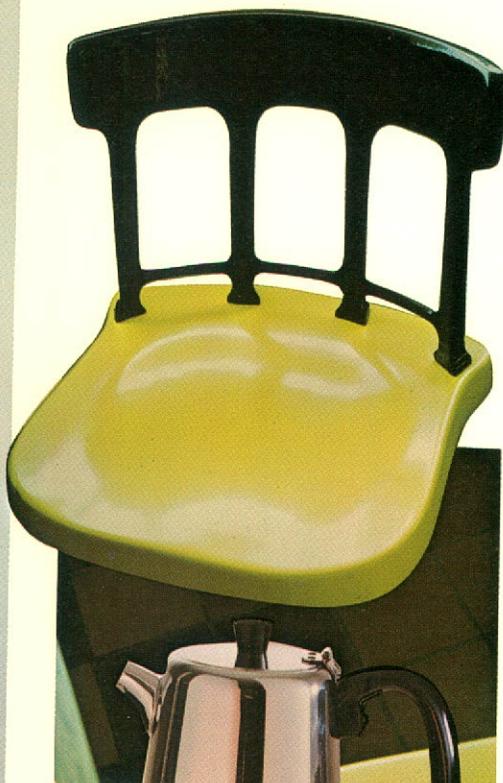
Polyester Resins

These resins are used mainly in conjunction with fibreglass and other reinforcements to produce a wide range and variety of products. Reinforced plastic (R.P.) products include large industrial applications – such as storage tanks, high-pressure water pipes and precast concrete forms – to small hobbyshop applications such as do-it-yourself lampshades.

Reichhold is one of the largest producers of polyester resins in Canada. Some of the more familiar applications of polyester resins (reinforced

and non-reinforced) include sailboats, power boats, stadium and restaurant seating, travel trailers, mobile homes, snowmobiles, swimming-pools, automotive repair compounds, simulated marble vanity tops and patio furniture.

The development of cold-weather polyurethane foam insulating systems has enabled Reichhold to move strongly into the insulation resin markets. The company manufactures a urethane foam spray application system which allows the operator to insulate irregular shapes quickly and easily in any weather condition. Applications here include buildings, pipelines, freezers, domestic re-



The versatile range of phenolic moulding compounds produced at the company's Lindsay, Ontario, plant, are pressed into automobile distributor caps, cooking utensil handles, electrical switches and breakers and many other products requiring the specific properties imparted by the thermosetting phenol formaldehyde resin.

frigerators, automobiles, trucks, boats, and large storage tanks.

Reichhold Chemicals has located its production and service laboratories close to the markets it serves. Polyester resins are manufactured at three locations: Ste. Therese, Weston and Port Moody.

Phenolic Moulding Compounds

Phenolic moulding compounds are one of the better known plastic compounds, and are manufactured by Reichhold at its Lindsay plant. These

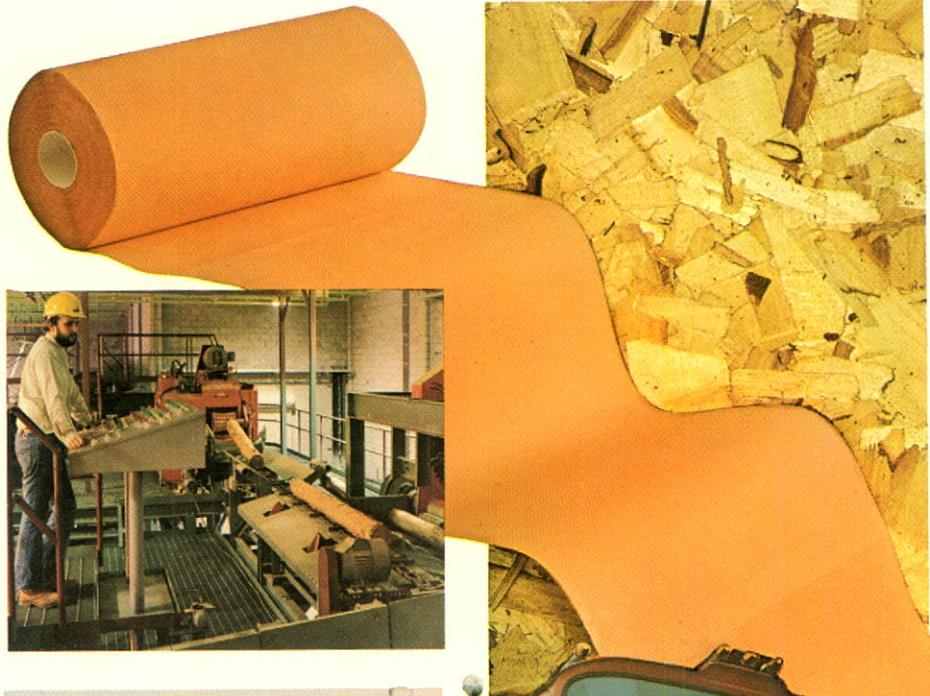
thermo-setting compounds perform extremely well in such typical applications as appliance handles, electrical switch boxes and component parts, automotive distributor and coil caps and bottle caps. Reichhold is one of the largest manufacturers of such compounds in Canada.

The challenge for Reichhold today is to maintain and expand its Dimensions of Leadership in the intermediate plastics product industry.

FOREST PRODUCTS

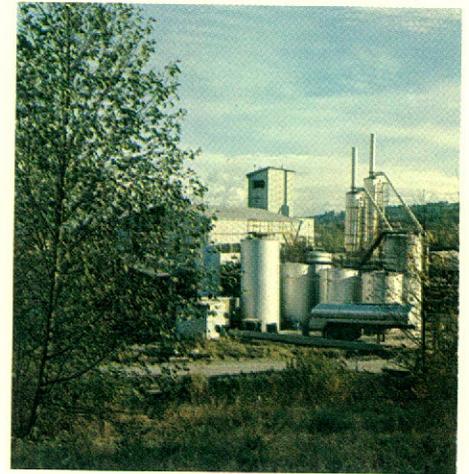
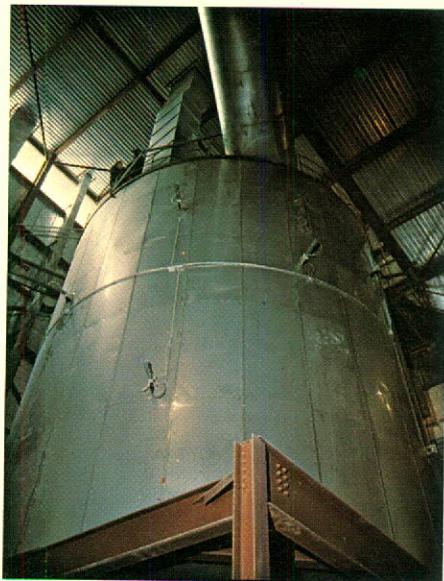
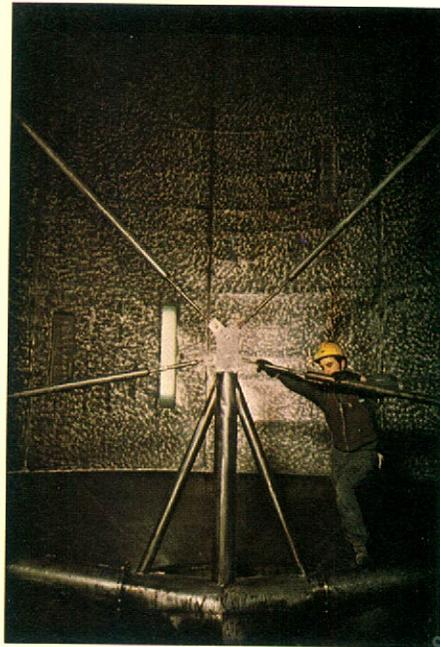
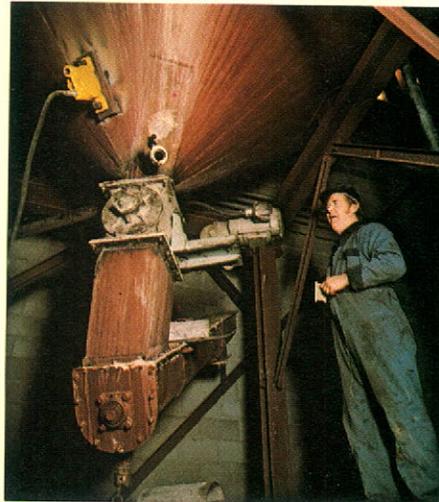
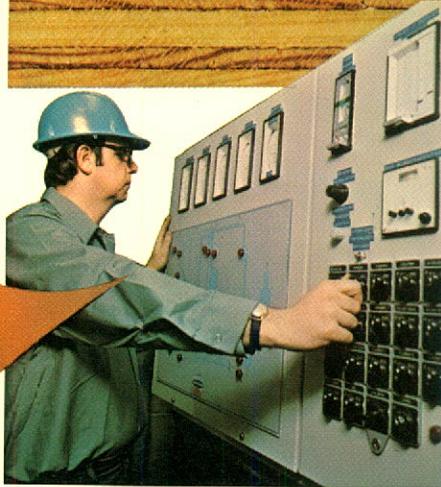
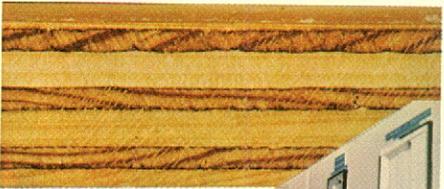
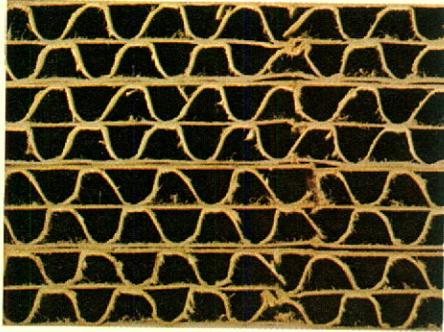


Located at Ontario's gateway to the north, the North Bay plant was built to serve the burgeoning northern forest industry. Recent expansion has greatly increased the capacity of this plant. In 1974, output of synthetic resins and chemicals from this location totalled more than 65 million pounds.



Reichhold has continued to increase its sales to the forest products industry with the development of new resins, the enlargement of its manufacturing facilities and the continued development of its technical service capabilities. The company operates four resin plants to supply the plywood and particleboard industry. These are located at Port Moody, Kamloops, North Bay and Ste. Therese. A new addition to the North Bay plant has recently been completed specifically to supply the waferboard industry.

Much of the new growth in the board industry will be from waferboard – which can be used in place of sheathing-grade plywood. Different resins are used for these two types of construction materials. Plywood is usually bonded with liquid phenol formaldehyde resins; waferboard normally uses a powdered phenol formaldehyde resin.



Reichhold's Port Moody manufacturing plant serves the western part of Canada with a variety of resins and chemicals – 100 million pounds in 1974. Resins for paint, plastics, paper, plywood and other forest products are manufactured here by 68 employees. The Port Moody plant manufactures its own formaldehyde requirements for its phenol and urea formaldehyde resins.

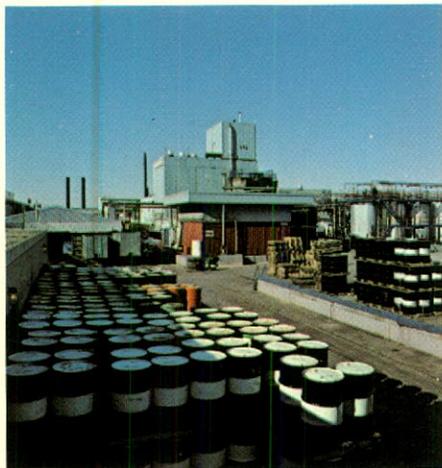
producers of waferboard the best possible services and qualities of resin. As a result, new resins are now available and in full production. The company's new laboratory facilities form the backbone of increased technical service to the industry.

The long-range objective is the development and operation of the most efficient facilities in the industry. To this end, Reichhold's development of improved resins for plywood, particleboard and waferboard has kept the company in the forefront of the forest products industry. Today, Reichhold's resins have become the industry standards, and, as such, the company is living up to its theme for 1974 – New Dimensions Of Leadership.

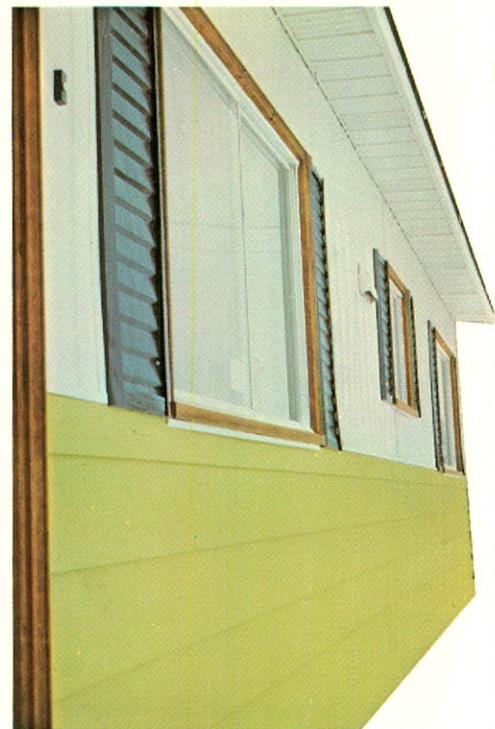
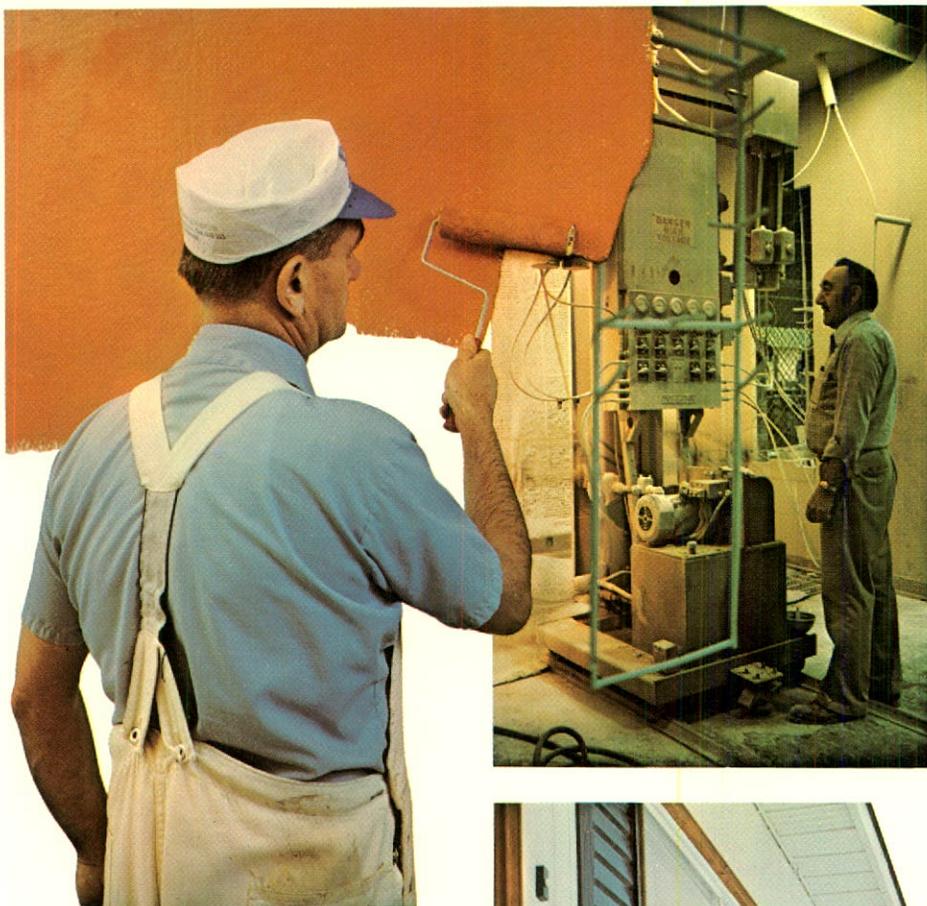
In 1974, Reichhold produced and sold more than 100 million pounds of resin for bonding plywood, particleboard, hardboard and waferboard.

Three years ago, Reichhold started a development project designed to give

SURFACE COATINGS



Twenty five years ago, Reichhold started manufacturing in Canada from this site. Today on this site is located the largest alkyd and polyester manufacturing facility in the country.

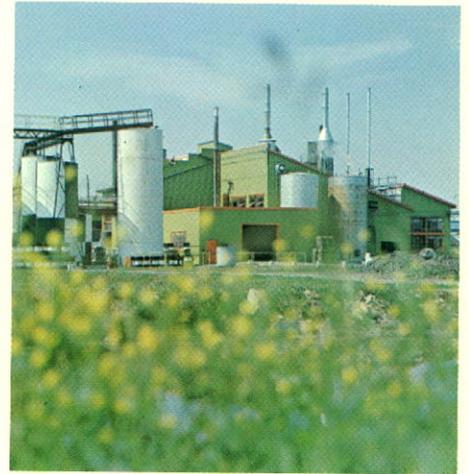


Reichhold's commitment – to keep pace with the needs of the coatings' industry – has required a high level of technology to sustain a constant flow of new products. This broad range of products is second to none in the industry, and meets customers' requirements from traditional household paints to sophisticated industrial surface coatings applications. The lifeblood of Reichhold is the constant stream of new products developed in its laboratories and marketed coast-to-coast across Canada.

Reichhold is the only supplier with three strategically-located production plants: these facilities enable Reichhold to provide fast, dependable service at competitive prices.

Reichhold's line of products for surface coatings includes alkyds, urethanes, acrylics, polyesters, ureas, melamines, epoxies, phenolics, hydrocarbons, rosin derivatives and vinyl resins and emulsions.

Alkyds and vinyl acetate emulsions have been the backbone of Reichhold's coatings business. However, in recent years, the technical emphasis has been on water-based systems. For some applications the products of this technology offer advantages in performance, pollution control and energy conservation.



The Ste. Therese plant produces a variety of resins for surface coatings, plastics, textiles and forest products. In 1974, the plant's 93 employees produced 81 million pounds of chemicals and synthetic resins. The plant is also one of the three Reichhold facilities producing its own formaldehyde.

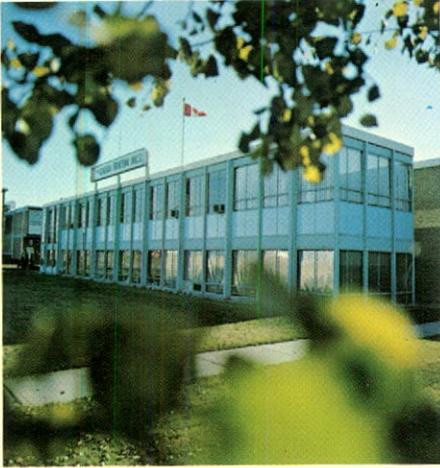
Current marketing programs include products designed for interior/ exterior use, latex gloss and semi-gloss, and industrial air-dry and baking systems.

New solvent-free products have been formulated for instant curing with ultra-violet light and electron beam energy.

Reichhold has demonstrated the ability to meet its customers' changing requirements brought about by ad-

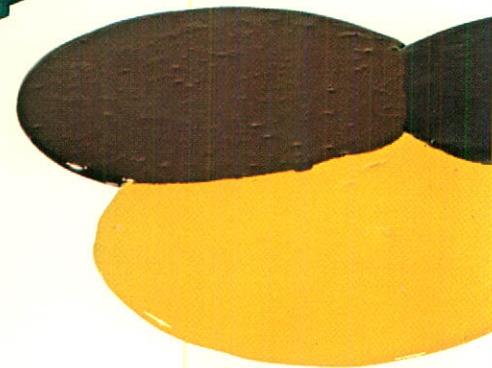
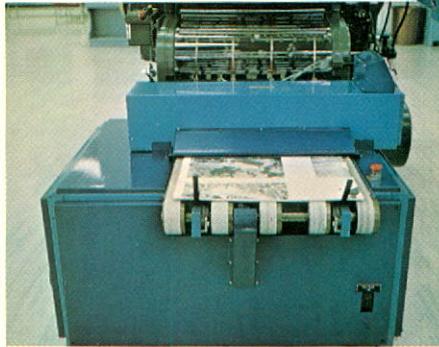
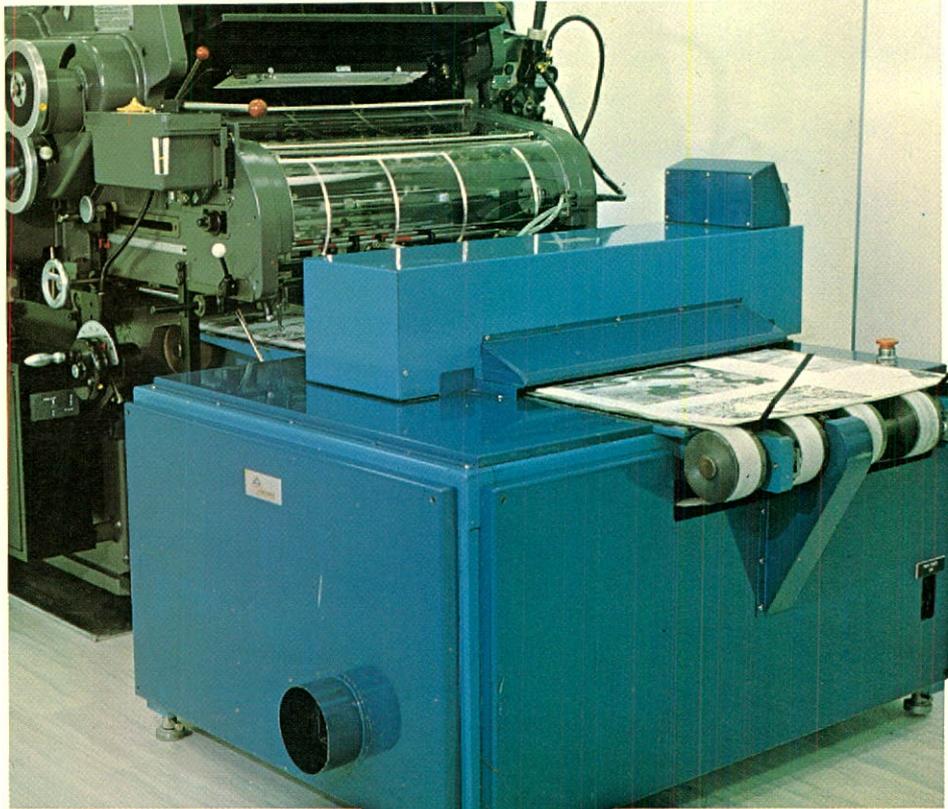
vancing technology. The company's technical, productive and marketing capabilities have produced a total "package" that allows Reichhold wide scope in satisfying its customers' needs – and producing both the rewards and responsibilities concurrent with its New Dimensions of Leadership in the market.

THE CANADA PRINTING INK CO. LTD.



The 36,000 square foot Toronto plant has the largest ink mill in the country. It features the world's most modern, up-to-date ink manufacturing equipment. This plant is one of eight Canada Printing Ink manufacturing locations across Canada. Fifty persons work at this location.

The main laboratory houses a team of skilled scientists well equipped for research and testing of ink performance under various printing methods and conditions. Canada Printing Inks' ultra-violet-cured inks were developed at this laboratory. Inks for offset, letterpress, flexographic and gravure printing processes are also produced at this Toronto plant.



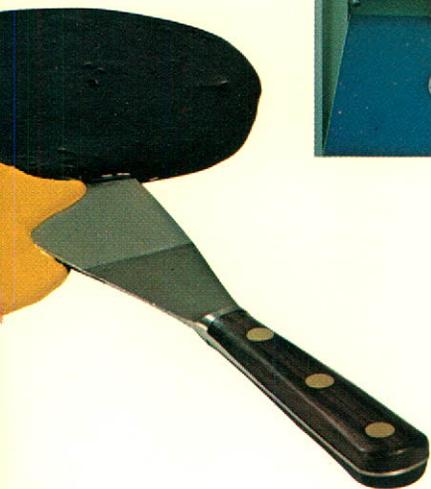
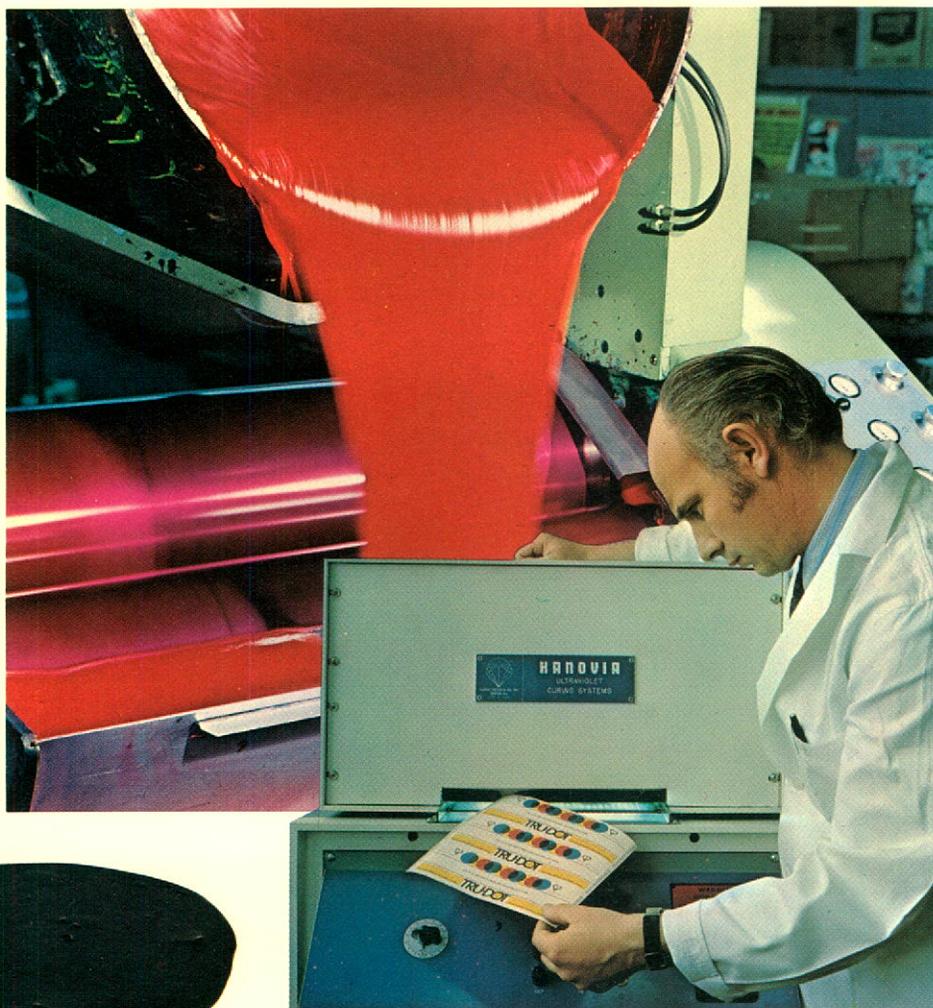
Since the 1968 merger, Reichhold's resin technology, coupled with Canada Printing Ink's 95 years of experience, has produced a solidly-based partnership of growth. On a broader corporate level, the acquisition enables Reichhold to offer the graphic arts industry an unparalleled service.

This industry is currently experiencing a technological revolution, with presses now printing four and five colors on two sides simultaneously at high speeds. Research and development have made it possible to print on almost any surface in a vast range of brilliant colors, and the development

of more sophisticated electronic controls have aligned today's printing presses more accurately with today's needs.

The challenge created by special papers, foils and plastics now being produced by the paper and allied industries has been successfully met by Reichhold's wide range of versatile products. Canada Printing Ink has played a significant role in keeping pace with progress, and an increasingly wider range of inks and supplies have been made available to the market.

Today, Canada Printing Ink Limited is the sole Canadian manufacturer of instantaneous ultra-violet curing inks. These inks were developed for the



sheet fed web printer by using the principal of ultra violet radiation curing. These new inks contain chemicals which, when exposed to an ultra-violet energy source chemically cross-link producing an instantaneous drying mechanism.

The company manufactures ink in eight locations across Canada – Vancouver, Edmonton, Winnipeg, London, Toronto, Ottawa, Montreal and Moncton. Extensive modernization and expansion programs have greatly increased the capacity and efficiency

at all plants. The Toronto ink mills are the largest in Canada, and produce an extremely high-quality ink, quickly and efficiently.

Canada Printing Ink is also an important distributor of graphic art supplies to the industry. Pre-press processing equipment, supplies and chemicals have undergone numerous changes and now fill an increasingly important role in the graphics arts industry. The product line is designed to give printers and art departments rapid, efficient and accurate pre-press processing and a selection of supplies that include film, plates, blankets and solvents.

With the acquisition of Sears Limited in late 1973, Reichhold can now provide an extremely broad base of graphic arts services together with the quality of leadership associated with an aggressive and respected organization.



In addition to the new ultra violet ink technology Canada Printing Ink is responsible for several other major developments in ink technology in recent years. These new products were achieved by using the latest innovations in polymer chemistry and ink technology by the scientists at both Reichhold and Canada Printing Ink.

Environmental Inks

Low pollution, heatset process inks were developed that would give low odour and low smoke emissions using conventional heatset dryers. These inks still maintain features of having high gloss and excellent rub resistance.

Catalytic Inks

A new concept in sheetfed process printing inks was evolved, enabling the printer to print and process the printing job without the normal waiting time for conventional oxidation-type drying inks.

Mix and Match

In 1969, Canada Printing Ink introduced a unique colour matching system for printers, aptly named, Mix and Match. The system enabled printers to produce colours by a method which is easier, quicker and more accurate than other systems. The Mix and Match system is based on a 100 part intermix formulae and gives the printer access to over 2,800 colours and more than 2,000 screen tints with the basic minimum inventory of 13 Mix and Match Inks.

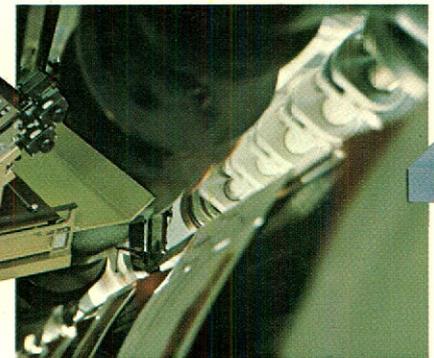
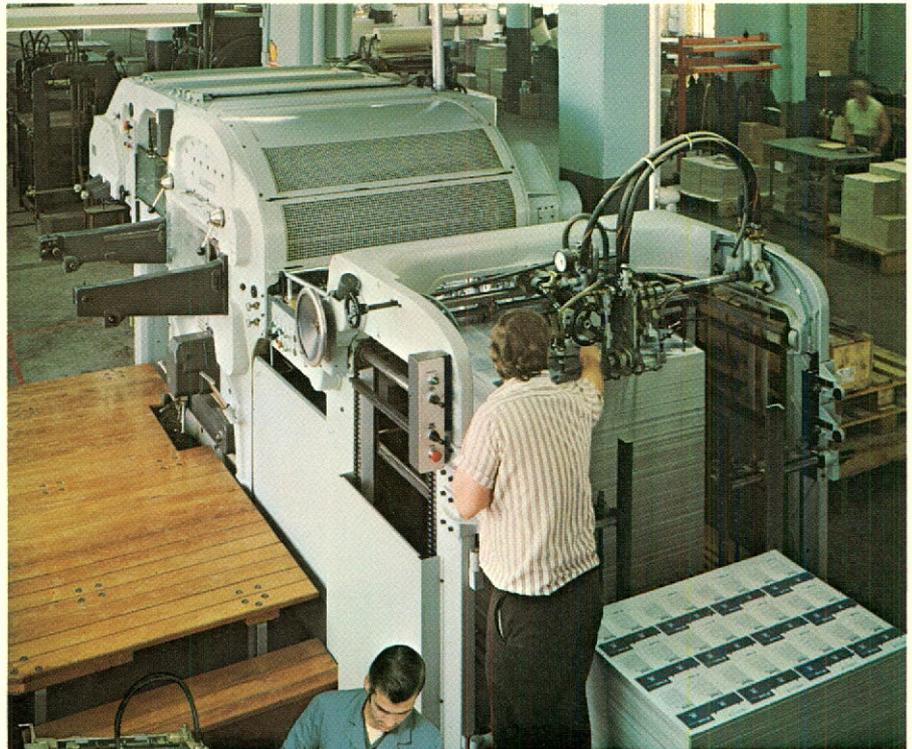
SEARS LIMITED



Located at 220 Norelco Drive in the north west sector of Toronto, this 43,000 square foot building is the largest of the 13 Sears Limited branches across Canada.

In addition to office space and a large showroom, the plant houses a parts and supply department, service operations with a staff of over 30, a machinery reconditioning centre and a warehouse.

The sales and service territory of the Toronto branch stretches from Kingston on the east, Windsor to the south west, Wawa and Kapuskasing to the north. This vast territory includes over 1300 customers, and is serviced by 10 sales representatives. Together, this sales team accounted for nearly nine million dollars of the total sales for the company in 1974.



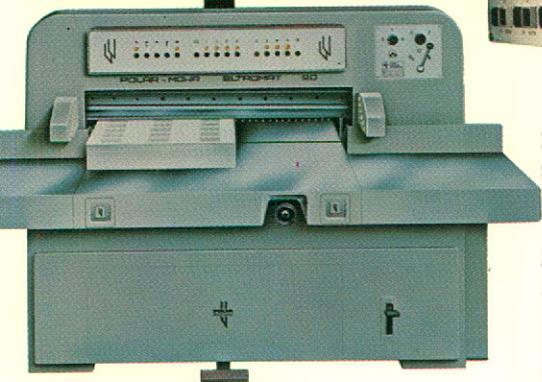
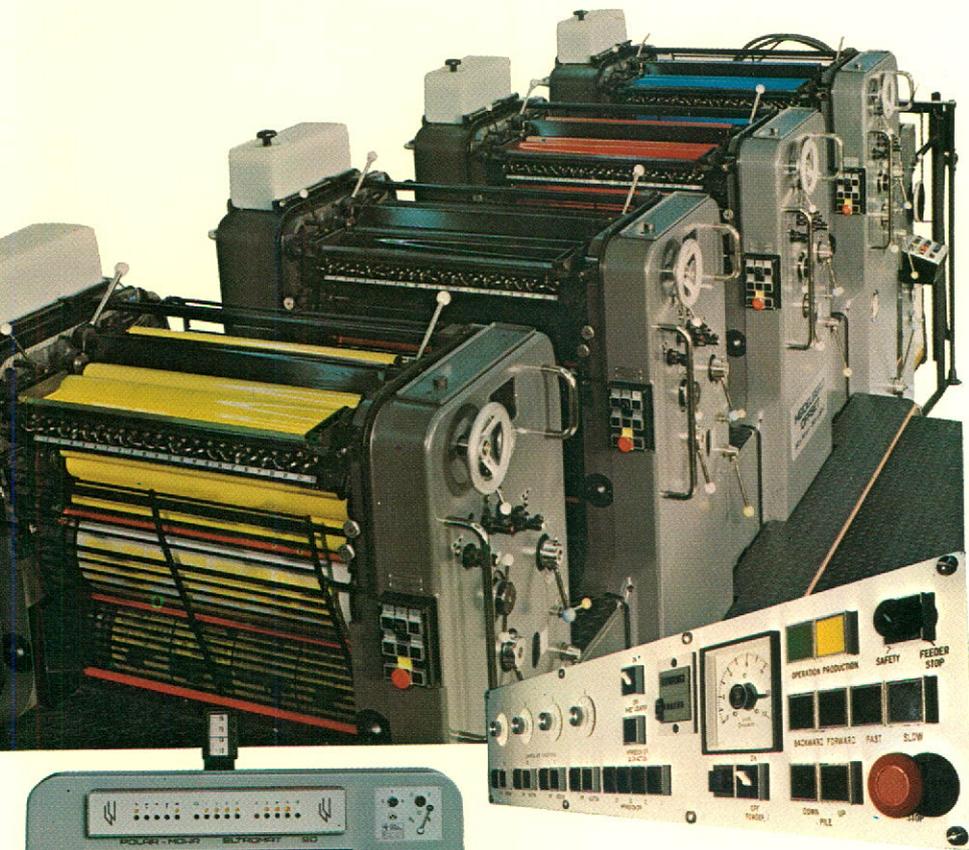
The earlier acquisition by Reichhold of Canada Printing Ink was reinforced more recently by the acquisition of Sears, one of the most prominent graphic arts suppliers in the country. With an all-time sales high in 1974, Sears can look back on a banner year that has confirmed its position as a sales leader in virtually every market area it services.

A large part of this success has resulted from the confidence that the Canadian graphic arts industry has shown in the company and the excellent manufacturers that the Sears organization represents in Canada.

Heidelberg, the largest manufacturer

of printing machines in the world, is celebrating its 125th Anniversary in 1975. The latest addition to the Heidelberg family is an all-new four-color offset press recently unveiled at Print '74 in Chicago. This new model, to be known as 72V, has already created a considerable stir in the graphic arts industry. To date, Sears, the exclusive agent for Heidelberg, has supplied almost 5,000 presses to the Canadian graphic arts industry.

Sears is also the exclusive sales agent in Canada for *Polar* paper cutting machines. In recent years, sales of these exceptional machines have outstripped all competitive models in this country many times over. Located in Hofheim, West Germany, the Polar factory is the world's largest manufacturing facility dedicated solely to the production of paper handling and



235-9 – can deliver 14,000 saddle-stitched and trimmed books or magazines per hour.

Baum, a division of Bell & Howell, specializes in paper-folding equipment. Located in Sidney, Ohio, the Baumfolder plant produces 80% of all the folders in use in North America today.

cutting machines. The Polar factory delivers over 3,000 machines each year to 130 countries and is unique in that it produces everything from machine castings to solid state circuits within its own buildings. The demands of the Canadian graphic arts industry for more efficient and sophisticated paper cutting equipment ensures the continuing lead for the Sears-Polar combination in the future.

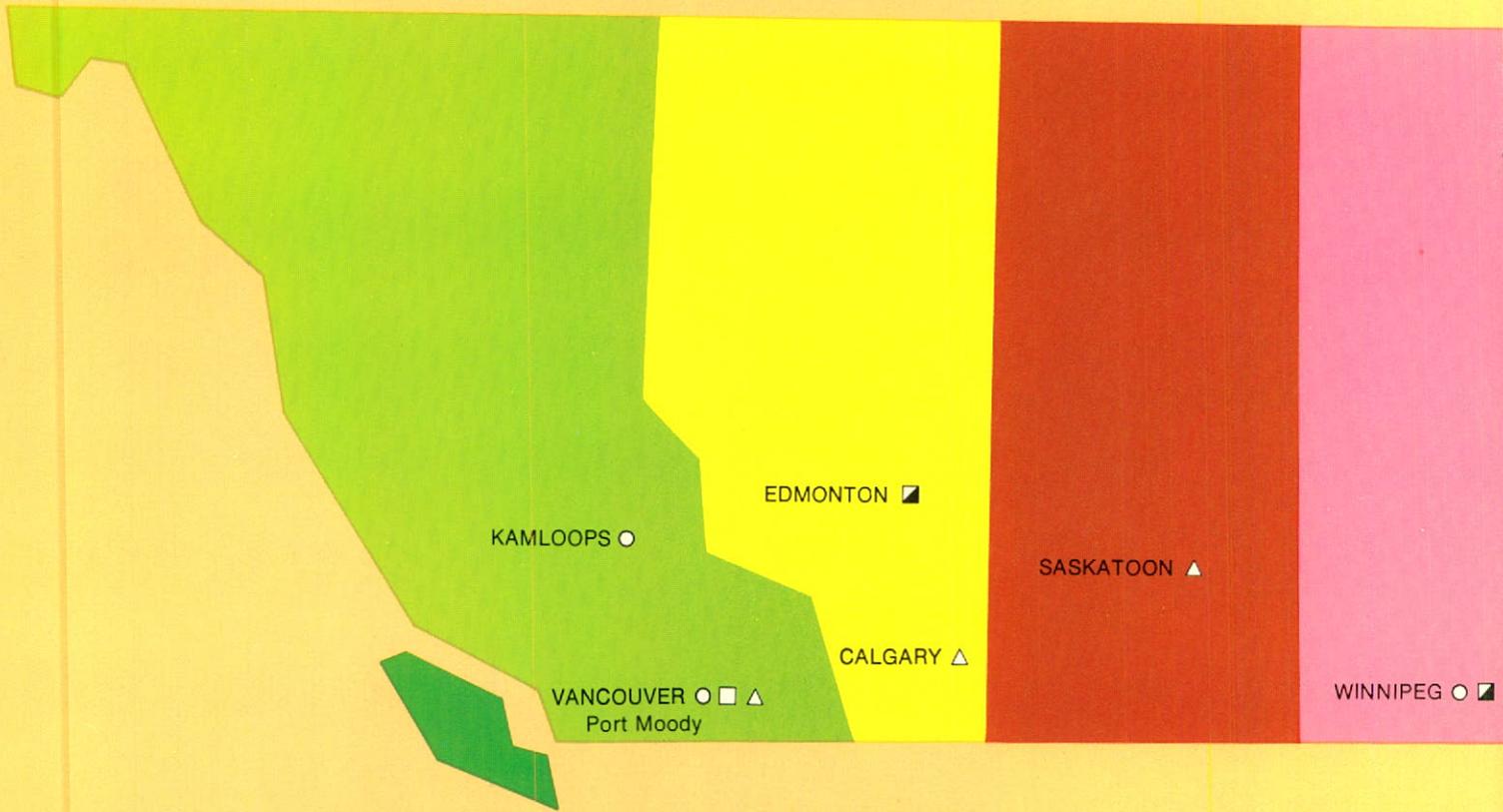
Other important manufacturers represented by Sears include Bobst, Mueller-Martini and Baum. *Bobst* die cutting and creasing machines are in heavy demand by the folding box and carton industry. Another prominent Swiss company is *Mueller-Martini*, which specializes in book binding, gathering, inserting and stitching equipment. The latest machine – the

As a supplier of equipment and service to the graphics and printing industry, Sears enjoys a unique reputation. The year 1975 will mark the 50th Anniversary of Sears and the company plans to celebrate the event by surpassing the sales figures established in 1974. Currently, Sears operates branch offices in Vancouver, Edmonton, Calgary, Winnipeg, Toronto, Ottawa, Moncton and Montreal, with new offices opening in London and Saskatoon in early 1975. This network of new sales and service facilities will further enhance what is already the strongest representation in the industry. Appropriately, the Sears contribution to the larger Reichhold group creates a fuller and more diversified range of products and services – and hence broader dimensions of leadership.



In September, 1925, the fledgling Canadian graphic arts industry received notification of the formation of a brand-new equipment supply company: Sears Limited, of Toronto, Ontario. In that official announcement, founder Thomas H. Sears Sr. pledged that his company would offer good service "... in the hopes that we might merit a share of your patronage ..."

Fifty years later, good equipment, management and service have produced this country's foremost supply company for the graphic arts industry. Today, Sears Limited is the industry byword for sales and service of the world's finest, and most comprehensive, range of printing equipment.

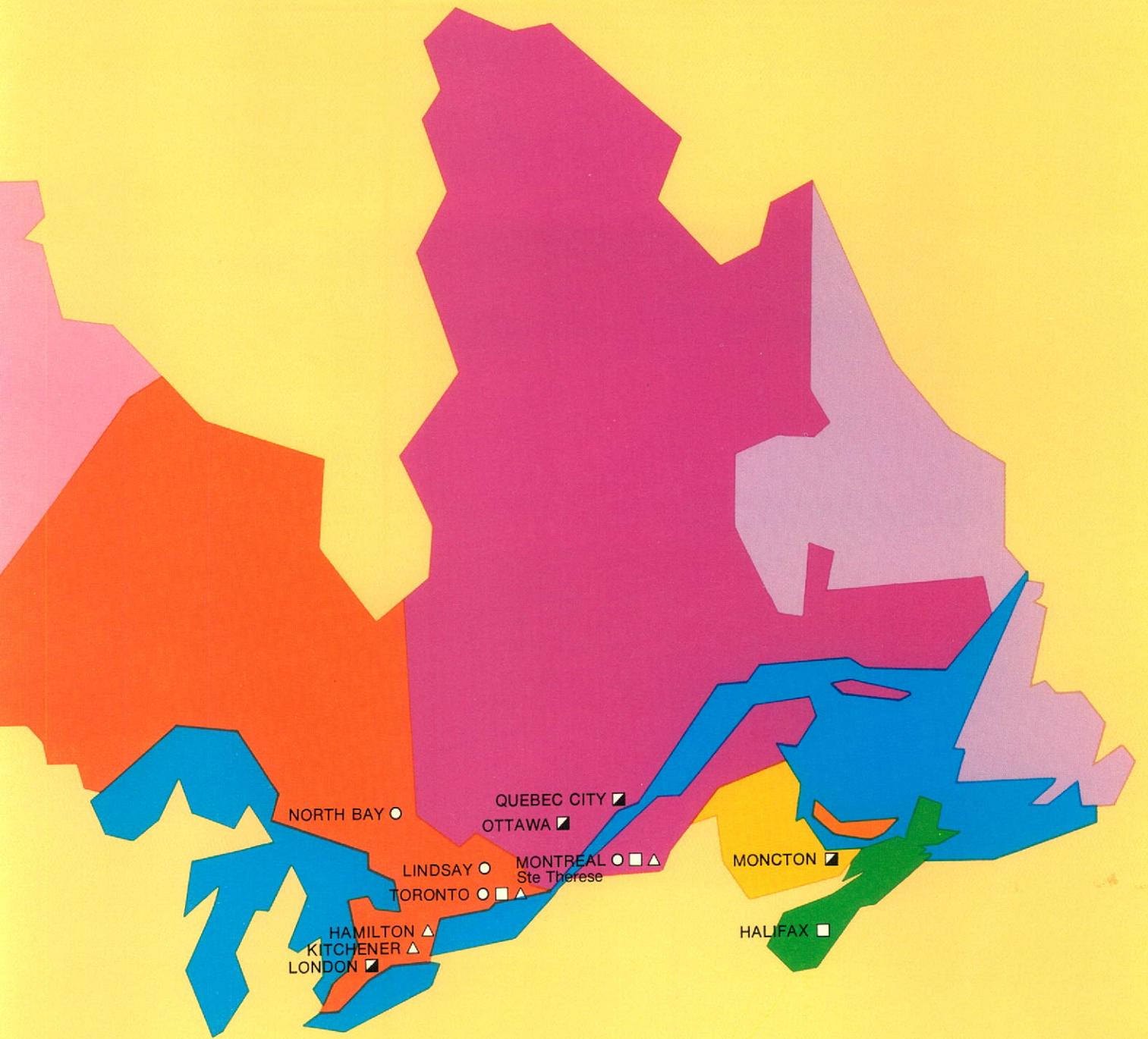


The Reichhold Group – Reichhold Chemicals Limited, Sears Limited and The Canada Printing Ink Company Limited represents a wide spectrum of products and services for a number of Canadian industries across the face of this nation.

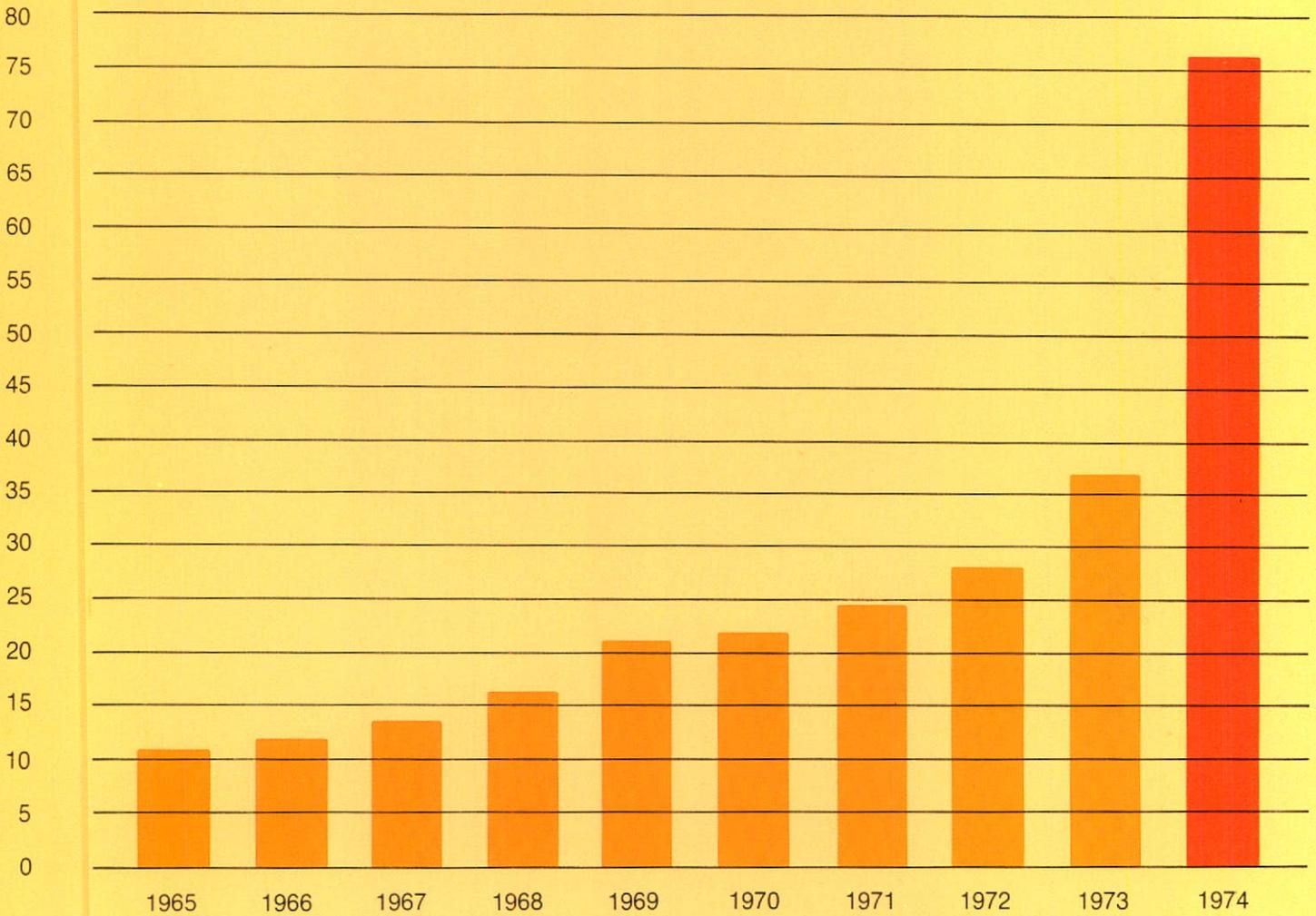
This map shows the plants, offices, distribution and service centres of the companies within the group. They have been strategically located close to the markets they serve in each of Canada's 16 major metropolitan areas.

The new executive offices of Reichhold Chemicals and its subsidiary companies are located in Islington, Ontario.

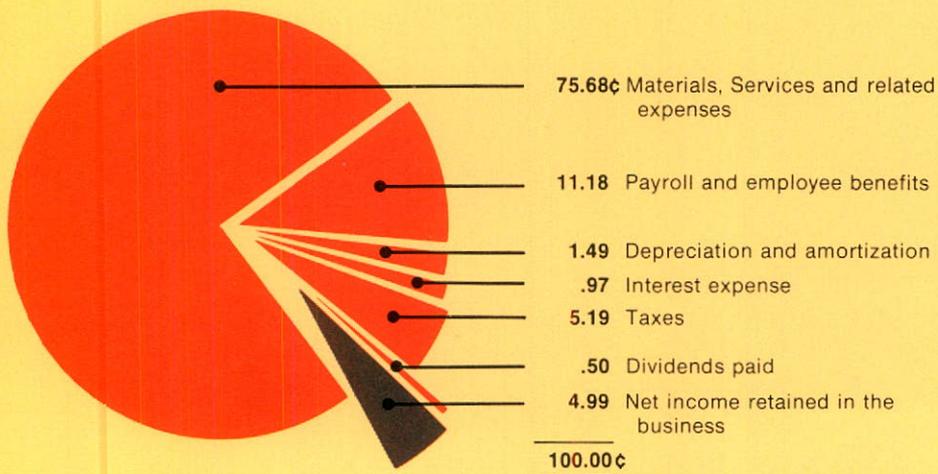
- **Reichhold Chemicals Ltd.**
- **Canada Printing Ink Co. Ltd.**
- ▲ **Sears Limited**
- **Sears/Canada Ink Distribution Centres**



10 Years of Sales Growth



Disposition of sales dollar: 1974



Dollar sales product mix

- 37%** Printing Inks, Graphic Arts Equipment and Supplies
- 8%** Decorative Overlays, Specialty Industrial Resins, Adhesives, Chemicals, Oils.
- 26%** Resins for Paint, Floorwax, Surface Coatings.
- 13%** Plastics and Moulding Compounds for Electrical Appliances, Transportation, Recreation, Industrial, Decorative Applications.
- 16%** Resins for Forest Products, Plywood, Particle Board, Paper.

Consolidated Statement of Earnings and Retained Earnings

Year ended December 31, 1974 with comparative figures for 1973

	1974	1973
Net sales*	\$76,860,435	\$36,971,689
Cost of sales	57,232,564	27,627,375
Gross profit	19,627,871	9,344,314
Selling, general and administrative expenses	10,668,735	5,978,303
Net operating profit	8,959,136	3,366,011
Other expenses:		
Interest (note 9)	749,228	436,351
Earnings before income taxes	8,209,908	2,929,660
Income taxes:		
Current	3,509,654	942,631
Deferred	482,448	355,010
Net earnings	3,992,102	1,297,641
Retained earnings, beginning of year	4,217,806	1,632,019
Deduct dividends	5,425,565	3,995,677
Retained earnings, end of year (note 5)	9,643,371	5,627,696
Earnings per share	382,536	202,131
(fully diluted earnings per share for 1974 \$6.79; 1973 - \$2.90, note 6)	\$ 9,260,835	\$ 5,425,565
The above statement of earnings includes the following charges:		
Depreciation and amortization of leasehold improvements	\$ 918,007	\$ 711,831
Amortization of deferred charges	79,356	34,310
Amortization of goodwill (note 1 (d))	150,564	16,476
Directors' and senior officers' remuneration	319,635	209,919

*Net sales by the graphic arts subsidiaries were \$28,158,320 (1973 - \$7,526,154)

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

Year ended December 31, 1974 with comparative figures for 1973

Assets	1974	1973
Current assets:		
Cash	\$ 335,056	\$ 415,716
Receivables, less allowance for doubtful accounts \$393,253 (1973 - \$271,146).....	10,062,927	8,803,807
Current portion of lien notes receivable (note 2).....	1,305,611	1,428,058
Inventories (note 1 (b)):		
Raw materials.....	4,172,706	2,141,294
Finished goods.....	7,556,549	5,252,086
Total inventories.....	11,729,255	7,393,380
Prepaid expenses and deposits.....	305,486	538,903
Total current assets.....	23,738,335	18,579,864
Lien notes receivable (note 2)	2,433,100	2,711,242
Property, plant and equipment, (note 1 (c)):		
Buildings.....	4,172,418	4,078,661
Equipment and leasehold improvements.....	12,914,340	10,324,999
	17,086,758	14,403,660
Less accumulated depreciation and amortization	8,075,613	7,269,679
	9,011,145	7,133,981
Land	335,252	335,252
Net fixed assets.....	9,346,397	7,469,233
Other assets, at cost less amortization:		
Goodwill, less accumulated amortization \$195,873 (1973 - \$45,309) (note 1 (d))	639,351	789,915
Deferred charges	137,543	216,899
	776,894	1,006,814
	<u>\$36,294,726</u>	<u>\$29,767,153</u>

See accompanying notes to consolidated financial statements.

Liabilities and Shareholders' Equity	1974	1973
Current liabilities:		
Bank advances and acceptances, secured (note 3)	\$ 6,861,000	\$ 4,900,530
Accounts payable and accrued expenses	5,922,340	5,781,036
Income taxes payable	2,585,815	903,988
Current portion of long term debt (notes 4 and 5)	1,303,171	1,214,013
Total current liabilities	16,672,326	12,799,567
Long term debt:		
12% note payable (note 4)	1,832,100	3,285,987
8 ¹ / ₂ % sinking fund debentures, Series A (note 5)	3,780,000	4,000,000
	5,612,100	7,285,987
Deferred income taxes	2,092,045	1,598,614
Shareholders' equity:		
Capital stock (note 6):		
Common shares without nominal or par value.		
Authorized 2,287,500 shares; issued 531,299 shares	1,221,716	1,221,716
Contributed surplus	1,435,704	1,435,704
Retained earnings (note 5)	9,260,835	5,425,565
Total shareholders' equity	11,918,255	8,082,985
Commitments (note 7)		
	\$36,294,726	\$29,767,153

On behalf of the Board: D. G. McNabb, Director, G. L. Hagen, Director.

Auditors Report to the Shareholders

We have examined the consolidated balance sheet of Reichhold Chemicals Limited and subsidiaries as of December 31, 1974 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. 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.

As described in note 8, the payment to fund the past service costs of the pension plans, was charged to income in the year, rather than being amortized over a reasonable period of years as required by generally accepted accounting principles.

In our opinion, except for the accounting treatment mentioned in the preceding paragraph, these consolidated financial statements present fairly the financial position of the companies as of December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants,
Toronto, Ontario
February 28, 1975

Consolidated Statement of Changes in Financial Position

Year ended December 31, 1974 with comparative figures for 1973

	1974	1973
Additions to working capital:		
Net earnings.....	\$ 4,217,806	\$ 1,632,019
Depreciation and amortization.....	1,147,927	762,617
Deferred income taxes	493,431	355,010
Additions to working capital from operations	<u>5,859,164</u>	<u>2,749,646</u>
12% note payable	—	3,285,987
Shares issued	—	900,600
Reduction in lien notes receivable	278,142	—
Total additions to working capital.....	<u>6,137,306</u>	<u>6,936,233</u>
Deductions from working capital:		
Purchase of subsidiary company for \$8,056,250 less its working capital at acquisition of \$4,243,588	—	3,812,662
Net additions to fixed assets.....	2,795,171	2,315,543
Additions to deferred charges	—	13,796
Dividends	382,536	202,131
Reduction of long term debt (notes 4 and 5)	1,673,887	—
Total deductions from working capital	<u>4,851,594</u>	<u>6,344,132</u>
Increase in working capital.....	1,285,712	592,101
Working capital, beginning of year	5,780,297	5,188,196
Working capital, end of year.....	<u>\$7,066,009</u>	<u>\$5,780,297</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 1974

1. Summary of significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the company and its subsidiaries all of which are wholly-owned. All material inter-company items have been eliminated.

(b) Inventories:

Inventories of raw materials are stated at the lower of cost and replacement cost and finished goods at the lower of cost and net realizable value except for chemical manufactured goods which are generally at the lower of cost and reproduction cost.

(c) Property, plant and equipment:

Property accounts are carried at cost. Depreciation on buildings is computed on the declining balance method and on equipment on the straight line method at rates to recover the cost of such assets over their estimated useful lives. Leasehold improvements are amortized over the terms of the leases.

(d) Goodwill:

Goodwill, being the excess of the cost of shares of subsidiaries over the value of their underlying net tangible assets at the dates of acquisition, is being amortized to earnings on a straight line basis over a 10 year period with respect to The Canada Printing Ink Company Limited and over a 5 year period with respect to Sears Holdings Limited.

(e) Research and development costs:

Research and development costs related to both future and present products are charged against income as incurred.

2. Lien notes receivable:

Lien notes receivable consist of the following:

	1974	1973
Gross amounts receivable	\$5,179,035	\$5,599,757
Less unearned interest	1,440,324	1,460,457
	<u>3,738,711</u>	4,139,300
Less current portion	1,305,611	1,428,058
	<u>\$2,433,100</u>	<u>\$2,711,242</u>

3. Bank advances and acceptances:

Bank advances and acceptances are secured by a general assignment of receivables and by a pledge of inventories.

4. 12% note payable:

The note is secured by an assignment of a portion of the lien notes receivable and a charge on all the other assets of a subsidiary company and is payable in monthly instalments to April 30, 1980 out of collections from the lien notes receivable but may be retired in full after January 1977.

5. 8¹/₂% Sinking Fund Debentures, Series A due November 1, 1989:

The debentures are secured by a charge on all the assets of the company and certain of its subsidiaries

except for the receivables and inventories assigned to secure the bank advances. The debentures may be pre-paid at the holders' option on November 1, 1979. The company is required to establish a sinking fund sufficient to retire in each of the years 1975 to 1979 inclusive, \$220,000 of the debentures and thereafter is to make equal annual payments reducing the principal amount outstanding to \$800,000 by November 1, 1988. During the year debentures with a principal amount of \$34,000 were purchased for sinking fund purposes. The debentures are redeemable at the option of the company, at a premium of 6.25% in 1975 reducing to par in the year of maturity. The trust deed securing the debentures contains certain provisions restricting the payment of dividends. At December 31, 1974, \$6,566,019 of consolidated retained earnings was free of such restrictions.

6. Capital stock:

As of December 31, 1974, 99,925 common shares were reserved with respect to share purchase warrants issued in association with the sale of the 8¹/₂% sinking fund debentures, Series A. Each warrant is exercisable to November 1, 1979 and entitles its holder to purchase one common share for \$12.00 cash.

Exercise of the share purchase warrants would result in dilution of earnings per share as disclosed in the consolidated statement of earnings and retained earnings.

7. Commitments:

The company is committed for annual rentals on leased premises aggregating \$274,000 extending to various dates to 1979. At December 31, 1974, contracts for plant and equipment additions amounted to approximately \$523,000.

8. Pension Plans:

The company maintains pension plans which cover substantially all of its employees. In prior years unfunded liabilities of such plans were being discharged and charged to earnings by annual payments over a reasonable period. In 1974 the small balance of such unfunded liabilities and amounts required to fund certain increased benefits, relating to past service, which were introduced during the year, amounting in total to \$584,952, were paid and charged to income during the year, rather than over a reasonable period of years as would be required by generally accepted accounting principles.

9. Interest:

Interest expense (net) is comprised as follows:

	1974	1973
Interest on long term debt ...	\$ 613,721	\$340,000
Other	698,864	96,351
	<u>1,312,585</u>	436,351
Deduct interest income	563,357	—
Interest expense (net)....	<u>\$ 749,228</u>	<u>\$436,351</u>

10 Year Financial Review

(in \$000 except per share items)

	1974	1973	1972
Net sales	\$76,860	\$36,972	\$27,252
Profit before income taxes and special items	8,210	2,930	1,826
Special profit (loss) items	—	—	—
Net profit after income taxes	4,218	1,632	981
Expenditures on fixed assets	2,795	2,316	1,074
Provision for depreciation and amortization	1,148	763	635
Fixed assets at net book value	9,346	7,469	5,014
Net earnings per common share*	\$ 7.94	\$ 3.38	\$ 2.04
Dividends paid per common share*	\$.72	\$.42	\$.30
Book value per common share*	\$ 22.43	\$ 15.21	\$ 11.95

*Note

Calculation of net earnings per common share is based on the weighted monthly average number of shares outstanding during the respective periods. Book value per common share is based on the number of shares outstanding at the end of the respective periods. The number of common shares and per share calculations have been adjusted where applicable to reflect the stock split in December 1968 whereby two additional shares were issued for each share held prior to the split.

1971	1970	1969	1968	1967	1966	1965
\$24,203	\$21,762	\$21,202	\$16,108	\$13,286	\$12,000	\$11,231
1,046	327	319	631	886	677	908
—	—	—	—	—	—	(25)
512	145	217	322	451	368	425
677	742	979	392	658	1,217	868
579	525	632	603	586	479	418
4,524	4,401	4,175	3,824	3,909	3,842	3,114
\$ 1.06	\$.30	\$.45	\$.67	\$.99	\$.80	\$.93
\$.24	\$.24	\$.24	\$.21	\$.20	\$.192	\$.167
\$ 10.21	\$ 9.38	\$ 9.31	\$ 8.85	\$ 8.25	\$ 7.48	\$ 6.87

Directors and Officers

Directors

ROBERT J. ADAMS
Vice-President, Eastern Division,
Reichhold Chemicals Limited

CHARLES B. BREEDLOVE
Executive Vice-President,
Reichhold Chemicals Incorporated

PETER J. FASS
President,
Reichhold Chemicals Incorporated

BRIAN GALLAGHER
Vice-President, Finance,
Reichhold Chemicals Limited

GEORGE L. HAGEN
President and
Chief Executive Officer,
Reichhold Chemicals Limited

DONALD G. McNABB
Executive Vice-President,
Reichhold Chemicals Limited

WILLIAM H. MUNDEN
Vice-President & General Manager,
The Canada Printing Ink
Company Limited

HENRY H. REICHHOLD
Chief Executive Officer,
Reichhold Chemicals Incorporated

WILLIAM H. SEARS
Vice-President & General Manager,
Sears Limited

BRIAN W. SHIELDS, Q.C.
Partner, Law firm of Tory, Tory,
Deslauriers & Binnington

Officers

H. H. REICHHOLD
Chairman of the Board

G. L. HAGEN
President and Chief Executive Officer

D. G. McNABB
Executive Vice-President

R. J. ADAMS
Vice-President, Eastern Division

W. L. ANDERSON
Vice-President,
Business Development

A. B. DAVIE
Vice-President, Western Division

B. GALLAGHER
Vice-President, Finance

D. J. McLEOD
Vice-President, Central Division

R. T. O'SHAUGHNESSY
Vice-President, Administration

L. ROY
Vice-President,
Sales, Eastern Division

B. W. SHIELDS
Secretary

Plants and sales offices

Islington, Ont. (Executive Offices)
Weston, Ontario
Ste. Therese de Blainville, Quebec
Lindsay, Ontario
North Bay, Ontario
Kamloops, British Columbia
Port Moody, British Columbia

Principal subsidiaries

The Canada Printing Ink Company Limited

Halifax, Nova Scotia
Moncton, New Brunswick
Quebec City, Quebec
Montreal, Quebec
Ottawa, Ontario
Toronto, Ontario
London, Ontario
Winnipeg, Manitoba
Edmonton, Alberta
Vancouver, British Columbia

Sears Limited

Moncton, New Brunswick
Quebec City, Quebec
Montreal, Quebec
Ottawa, Ontario
Toronto, Ontario
London, Ontario
Winnipeg, Manitoba
Edmonton, Alberta
Calgary, Alberta
Vancouver, British Columbia

Registrar and Transfer Agent

Common Stock:

National Trust Co. Ltd.
Toronto, Montreal, Vancouver,
Calgary, Winnipeg

Auditors:

Peat, Marwick, Mitchell & Co.
Commerce Court West,
Toronto

INVESTOR'S DIGEST: APRIL 8, 1975