



ANNUAL REPORT
OF

John Sabatt Limited

FOR THE YEAR ENDING
30th SEPTEMBER, 1945



L O N D O N

C A N A D A

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John Sabatt Limited

ESTABLISHED 1832

Annual Report

For the Year Ending

30th September, 1945

Annual General Meeting of Shareholders

18th January, 1946

IN CONTINUOUS OPERATION FOR ONE HUNDRED AND THIRTEEN YEARS

John Labatt Limited

DIRECTORS

JOHN S. LABATT	- - - - -	London, Ontario
HUGH F. LABATT	- - - - -	London, Ontario
MAJOR-GENERAL THE HON. S. C. MEWBURN, P.C., K.C., C.M.G.	-	
- - - - -	- - - - -	Hamilton, Ontario
R. H. CRONYN	- - - - -	London, Ontario
W. H. R. JARVIS	- - - - -	New York City, New York, U.S.A.

OFFICERS

MAJOR-GENERAL THE HON. S. C. MEWBURN, P.C., K.C., C.M.G.	-	
- - - - -	-	Chairman of the Board
JOHN S. LABATT	- - - - -	President
HUGH F. LABATT	- - - - -	Vice-President
HUGH A. MACKENZIE	- - -	Vice-President and General Manager
L. C. BONNYCASTLE	- -	Assistant General Manager and Secretary
W. L. DAVIS	- - - - -	Treasurer

The Transfer Agents are The Canada Trust Company, Toronto, and The Royal Trust Company, Montreal and Halifax.

The Registrars are The Royal Trust Company, Toronto and Halifax, and The Bankers' Trust Company, Montreal.



One of the 10,000-gallon copper brewing kettles at the Labatt Brewery.

The President's Report

To The Shareholders of John Labatt Limited:

In June, 1945, shares of John Labatt Limited, which until then had been a private company, were offered to the public. Subsequently, the shares were listed on the Toronto and Montreal Stock Exchanges. On 16th July, 1945, there were 2,327 stockholders, representative of a broad cross section of Canadian investors, including many employees of the Company. This report, which is for your information, contains not only the Company's financial statements but also an outline of the policies of the Company and a review of the year's operations.

Financial Position of the Company

The financial position of your Company and the earnings for the fiscal year ended 30th September, 1945, are shown in the statements published in this report. Net earnings of the Company for the year, including refundable tax, amounted to \$1.70 per share. A lower corporation tax rate will come into effect 1st January, 1946.

During the year the Working Capital of the Company increased from \$2,325,380 to \$2,965,752, an improvement of \$640,372.

Out of each \$1.00 received by the Company for the sale of its products 54 cents was paid out in taxes, license fees and excise duties. The Federal Government excise duty increased during the war years by 166 $\frac{2}{3}$ %.

Conditions in the Industry

Conditions in the brewing industry in Canada have remained stable during the year. While there were no legal restrictions on the quantity of beer which could be brewed and sold, there have been practical limitations and the industry has not been able to meet the full demand for its products. The main factor limiting the supply of beer has been the shortage of barley malt. This situation is expected to improve during 1946. In the meantime, the excess of demand over supply of beer has resulted in overcrowding of retail outlets, queues at retail stores and other unsatisfactory conditions.

In Ontario, the brewers who administer the retail stores through which package sales are made to the home consumer, and the Liquor Authority Control Board which governs the operations of licensed hotels and clubs, in co-operation with the hotel associations, are earnestly striving for improvement. Nevertheless, these conditions may persist to some extent until sufficient supplies are available and until distribution difficulties are overcome.

The Company has maintained its interest in export markets on a minor scale to keep agency organizations intact. In the past year your Company exported less than three tenths of 1% of its total production.

The situation as herein outlined has been under consideration by your Board. Plans have been made to extend the plant on adjacent property, which has already been acquired, as soon as labour, materials and general conditions permit.

Company Policies

The objectives of your Company's policies are twofold. One objective is to continue the successful operations of the Company, which has been in business for over 100 years. The other is to recognize the obligations which the Company has to the various groups of people who are responsible for its profitable operations.

Among them are yourselves, the shareholders, who risk capital in order to provide the plant and equipment necessary to produce the commodity which the Company sells. Your Directors will at all times have your interests in mind when determining dividend policy in relation to the need for additional capital expenditures to provide for the expansion of sales.

Then there are the employees, whose warm loyalty and understanding have meant so much to the Company. To them the Company has tried to give a sense of security in their future, a pride and happiness in their associations here.

The public, through their elected representatives, have granted the Company a franchise to operate. There is, therefore, an obligation on the Company to operate in such a manner and to use such methods as will prove to Canadians that the Company is concerned with the general welfare.

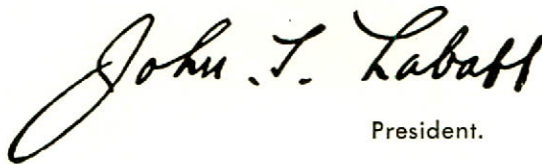
To a most important group, the Company's customers, there is guaranteed an honest product, made from the finest materials available, by men highly skilled and with a deep sense of pride in their craftsmanship; a product backed by fair and consistent business policies carried out to the mutual benefit of the customer and the Company.

During the war years these policies were naturally extended to give all assistance possible to the national war effort. Such activities entailed much extra work on the part of the employees. It is in recognition of their enthusiastic co-operation and in the hope that it will be of interest to you that your Directors have reprinted the special war activities issue of the employees' magazine, "The Spearhead", which accompanies this report.

Your Directors trust that the maintenance of policies which recognize such obligations will meet with your approval.

Despite difficulties with which every industry has been faced in recent years, the operations of the Company have been carried out by the officers, the superintendents and the employees in a way which deserves special mention. The loyalty and co-operation of all has been outstanding, and the relations between the management and the employees have been most gratifying. This is deeply appreciated by your Directors.

Submitted on behalf of the Directors,

A handwritten signature in dark ink, reading "John T. Labatt". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

President.

London, Ontario,
15th December, 1945.

John Lab

(Incorporated under the
and its wholly

Consolidated

30th Sept

ASSETS

Current:

Cash on hand and in banks.....		\$1,638,853	
Dominion of Canada bonds at cost and accrued interest (approximately market value).....		1,318,250	
Accounts receivable less reserve for doubtful accounts		639,140	
Inventories as determined and certified by the management:			
Beer and ale at basic prices (current cost \$843,494).....	\$ 349,302		
Materials and supplies at the lower of cost or market value	227,288	576,590	\$4,172,833

Fixed at cost:

Land		\$ 99,735	
Buildings	\$2,154,604		
Less reserve for depreciation.....	708,393	1,446,211	
Machinery, equipment, trucks and automobiles ..	\$2,353,098		
Less reserve for depreciation	2,190,542	162,556	1,708,502

Other:

Deferred charges and sundry assets		\$ 148,777	
Bottles — at 50% of redemption price.....		138,158	
Kegs		1	
Refundable portion of excess profits tax ..		734,000	1,020,936
			<u>\$6,902,271</u>

AUDITORS' REPORT

We have examined the above consolidated balance sheet of John L. the related consolidated statements of profit and loss and surplus for the year accounting records of the Company and obtained all the information and explanation of the accounting methods and of the operating and income accounts that in our opinion the above consolidated balance sheet and related consolidated a true and correct view of the state of the Company's affairs at 30th September our information and the explanations given us and as shown by the books.

Toronto, Canada,
20th November, 1945.

tt Limited

(Incorporated in the Dominion Companies Act)

Wholly owned subsidiary

Balance Sheet

September 30, 1945

LIABILITIES

Current:

Accounts payable and accrued charges.....	\$ 526,030	
Dividend payable 15th October 1945.....	225,000	
Provision for taxes payable and contingencies		
less payments on account and in advance.....	456,051	\$1,207,081

Reserve for redemption of containers in hands of public..... 500,000

Capital and surplus:

Capital:

Authorized — 1,000,000 common shares without par value		
Issued — 900,000 common shares.....	\$ 340,000	
Earned surplus	4,855,190	5,195,190

On behalf of the Board,

JOHN S. LABATT, Director.

HUGH F. LABATT, Director.

\$6,902,271

THE SHAREHOLDERS

tt Limited and its wholly owned subsidiary as at 30th September, 1945, and ended on that date. In connection therewith we made periodic tests of the positions we required from its officers and employees. We also made a general review of the year, but did not make a detailed audit of the transactions. We report that the statements of profit and loss and surplus have been drawn up so as to exhibit a true and correct view of the financial position of the company at the end of 1945 and of the results of its operations for the year according to the best of our knowledge and belief.

CLARKSON, GORDON, DILWORTH & NASH,
Chartered Accountants.

John Labatt Limited

and its wholly-owned subsidiary

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Year Ended 30th September, 1945

Operating profit before deducting the undermentioned expenses		\$3,583,908
Directors' fees	\$ 3,000	
Executives' remuneration	108,000	
Legal fees	17,280	
Provision for depreciation.....	129,241	257,521
		<hr/>
		\$3,326,387
Add miscellaneous income less expenses.....		23,591
		<hr/>
		\$3,349,978
Provision for Dominion income and excess profits taxes.....	\$2,065,000	
Less refundable portion of excess profits tax.....	245,000	1,820,000
		<hr/>
Net profit for year.....		<u>\$1,529,978</u>

STATEMENT OF EARNED SURPLUS

30th September, 1945

Balance 1st October 1944.....		\$2,453,754
Amounts transferred from free reserves.....		833,059
Depreciation provided in excess of normal rates on brick buildings in prior years.....		1,027,321
		<hr/>
		\$4,314,134
Net profit for year ended 30th September 1945.....		1,529,978
		<hr/>
		\$5,844,112
Special expenses preparatory to listing the company's shares on the stock exchanges.....	\$ 48,922	
Transfer to reserve for redemption of containers in hands of public	40,000	
Dividends	900,000	988,922
		<hr/>
Balance 30th September, 1945, (including refundable portion of excess profits tax amounting to \$734,000).....		<u>\$4,855,190</u>

The General Manager's Report

To The President and Directors of John Labatt Limited:

The Balance Sheet and Profit and Loss Statements for the year ended 30th September, 1945, as audited by the Company's Auditors, require little explanation. Sales for the year were somewhat higher than in 1944 but were limited by a shortage of malt. As anticipated, profits were approximately the same as in the previous year. During a period of short supply there is no way in which to measure the public demand for the Company's products. However, it has been apparent throughout the year that the demand has been substantially greater than the amount of ale and beer actually produced.

Your attention is drawn to the following items on the Balance Sheet:

Inventories: Beer and Ale at Basic Prices — \$349,302 (Current Cost \$843,494). For many years past inventories have been valued at manufactured cost excluding Federal Excise Tax. The difference between the two figures constitutes an inventory reserve against possible fluctuation in values.

Fixed Assets: Land, Buildings, Machinery, Equipment, Trucks and Automobiles, less Reserves for Depreciation, (Net) — \$1,708,502. The depreciated value of the fixed assets as at 30th September, 1945, was appraised by the Canadian Appraisal Company at \$3,927,556.

Provision For Taxes Payable — \$456,051. This includes an amount calculated by the Auditors of the Company as a possible liability in respect of Income Taxes assessed by the Income Tax Department, which amount the Company is disputing and on which an appeal has been filed.

Reserve for Redemption of Containers in Hands of Public — \$500,000. This is the estimated amount that the public has left on deposit with the Company which the Company agrees to refund when empty bottles are returned.

Capital: Authorized 1,000,000 shares no par value, issued 900,000 shares no par value. The Company has no mortgages payable, funded indebtedness, nor are there any senior securities authorized.

The wholly-owned subsidiary of John Labatt Limited, referred to in the Balance Sheet, is The Superior Transportation and Shipping Company Limited. This Company was incorporated in 1927 for the purpose of operating the Garage and the truck fleet of the Company. In 1933 John Labatt Limited purchased all the Fixed Assets of this Company and has since operated the Garage and the truck fleet directly. As at 30th September, 1945, the Assets of The Superior Transportation and Shipping Company Limited consisted of Cash in the Bank and Dominion of Canada Bonds totalling \$59,685. It is capitalized at \$50,000, and its Surplus is \$9,685. The Assets are included in the Cash and Bonds shown on the Consolidated Balance Sheet.

During the year under review, changes in operations were occasioned by the ending of hostilities of which the following are examples:

In 1942 the number of trucks on highway operations was reduced to four to conserve rubber and gasoline. Since the lifting of gasoline restrictions, the number has gradually increased but shortages of parts and the reconditioning of units long in storage has prevented the use of the entire fleet. It is hoped that full operations will be resumed in 1946.

The Company formerly maintained a department for servicing beer dispensing equipment in beverage rooms. This was discontinued in 1942 to conserve labour and materials. The men in the department were transferred to a newly acquired machine shop and employed on the production of war materials. The machine shop functioned successfully and at full capacity during the war. On the cancellation of war contracts, the Service Department was reconstituted and the men transferred to their former work of servicing hotels.

During the war the Sales Department transferred some of its men to the machine shop. The remainder concentrated on war work and public service in the communities in which they lived. The department is again functioning in a normal manner.

There are few reconversion problems in the plant itself and it has continued to operate efficiently throughout the year. During the war, as enlistments from the plant increased, women were employed in the Bottling Department for the first time, many of them wives of our own enlisted employees. This year the eighty women, who so ably carried on this work, were replaced by our men returning to their former positions.

In accordance with the general policies of the Company, the Public Relations Department undertook certain special work during the year. This included organizing and directing campaigns such as that held by the Society for Crippled Civilians in Toronto to raise funds for their new building. Assistance was given to Community Chest drives in various municipalities, the National Clothing Collection campaign, and similar community activities in various parts of the Province.

The Company's advertising supported anti-inflation, Victory Loans, and other matters of national interest during the year. Present advertising is directed to the furtherance of the tourist trade.

In co-operation with the Department of Veterans' Affairs, the sales representatives throughout the Province were given an intensive course in rehabilitation legislation in order to qualify them as voluntary rehabilitation consultants in their territories. This work is continuing actively under the direction of a former Department of Veterans' Affairs officer who is now employed by the Company.

To summarize employer-employee relations:

The average number of employees during the year was 671.

Pensions — A group pension plan was inaugurated in 1938. The Company contributed for past service the sum of \$540,000. Current contributions are made on the basis of 5% of wages and salaries by the employee and a like amount by the Company.

Group Insurance — Employees are covered for Life, Accidental Death, Sickness and Accident Insurance, and for Hospitalization with surgical benefits. It also provides hospital benefits for employees' wives and children. It is complementary to benefits under the Workmen's Compensation Act of Ontario. Half the cost is paid by the Company.

Sick Benefit Fund — Each employee is allowed a six days leave credit each year. He receives a full day's pay for each day he is ill up to six days in each year. Unused credits are cumulative during his employment.

Housing Loans — Employees who have been with the Company for five years and who wish to buy or build a house, may apply to the Company for a loan. If the application is approved, the Company will lend dollar for dollar with the employee up to a maximum of \$500 without interest charges. The loan is repaid by weekly payments over a maximum of five years.

Holidays — Until the present year, plant employees received one week's vacation with pay after one year's service, Garage employees two weeks with pay after one year of service. Commencing in 1946 the Company has agreed that all employees shall be entitled to two weeks' vacation with pay after one year of service.

Medical Services — A fully equipped First Aid room operates twenty-four hours a day with a qualified First Aid employee in charge at all times. A nurse is employed full time and it is intended that there shall be a doctor in attendance at the plant two hours each day.

Medical Examinations — All employees who drive motor vehicles on Company business are examined yearly. All new employees are examined as a prerequisite of employment. It is intended to extend yearly examinations to all employees.

Cafeteria — Last year was the first full year of operation of the cafeteria. It is operated twenty-four hours a day and the charges for meals cover the cost of food only. All other charges are paid by the Company.

St. John Ambulance — Two Divisions are maintained and all employees driving trucks are given First Aid training each year. The classes are also attended by a number of men in the plant.

Employees' Magazine — A monthly periodical entitled "The Spearhead" is published. This is edited by a committee of employees.

The brewery employees have been Union members since 1910. The Management has held regular monthly meetings with the Union Executive. Sub-Committees on Safety, Recreation, Cafeteria, "The Spearhead", have met regularly throughout the year.

The employees themselves have carried on a number of activities, such as Backers Associated, an organization which includes all employees, the purpose of which is to "back" the men in the armed forces and their families.

There has been a good deal of interest in sporting activities, such as baseball, bowling, hockey, etc., wholly directed by the employees with some small financial support from the Company.

One hundred and forty-eight employees enlisted in the armed forces. Of these, 74 have returned to the Company and 64 have not yet been released. It is with deep regret we record that three former employees lost their lives on active service.

Your Management gives great credit to Department Heads and other employees for the manner in which they have cheerfully and intelligently undertaken additional work, duties and responsibilities.

Respectfully submitted,

Nugh Mackenzie

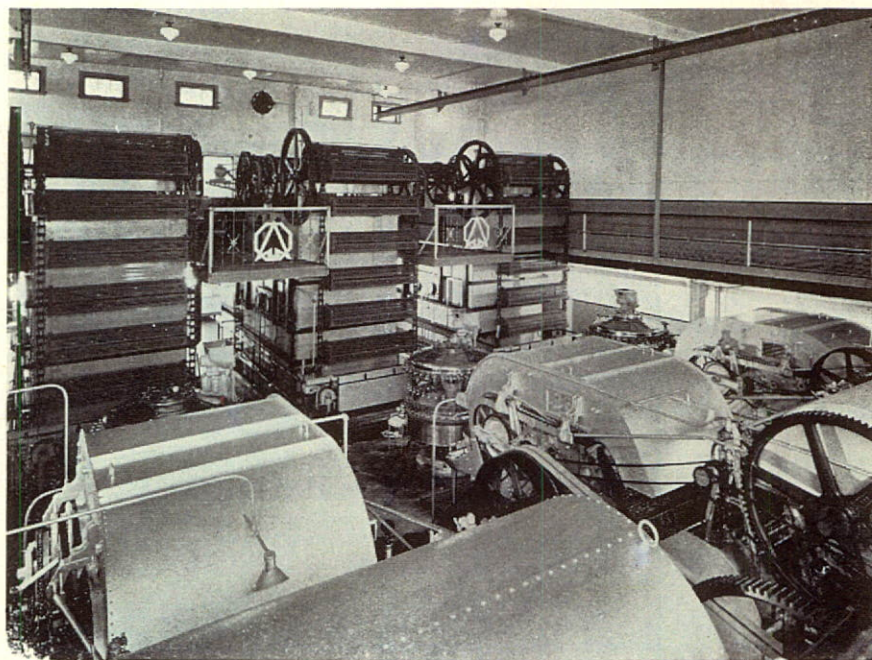
London, Ontario,
14th December, 1945.

General Manager.

How Beer is Made and Packaged

Beer is a fermented cereal beverage made from four ingredients: barley, hops, yeast and water. In order to prepare barley for brewing purposes it must be "malted". This process consists of steeping the barley grain in water and allowing it to germinate or sprout. Then it is heated and the growth stopped. After screening and cleansing the malt is stored for later use.

At the brewery the malt is ground and mixed with water in a cylindrical vessel called a mash tun where it is steeped. The resulting liquid called "wort" is drained off through filters and flows by gravity to a copper kettle. To the wort hops are added and the whole is boiled to extract the valuable tonic and flavouring elements from the hops. Next, the wort is conveyed to a hopjack where the hops are separated from the wort. The wort is then cooled and transferred to a wooden vat and the fourth ingredient, yeast, is added for the purpose of fermentation. When fermentation is complete the beer or ale is drawn off to a glass-lined steel tank and allowed to age slowly and naturally. After the beer or ale has aged it is filtered and is bottled or racked in kegs.



A view of the Bottling Department

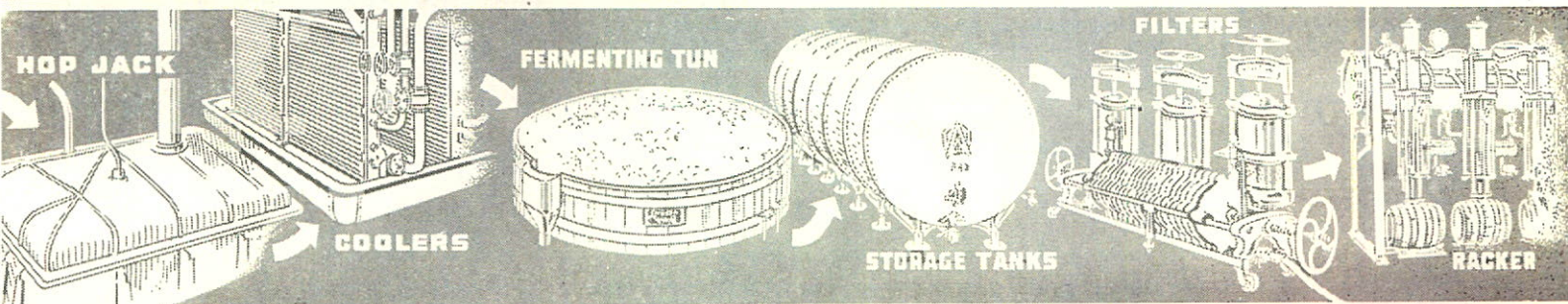
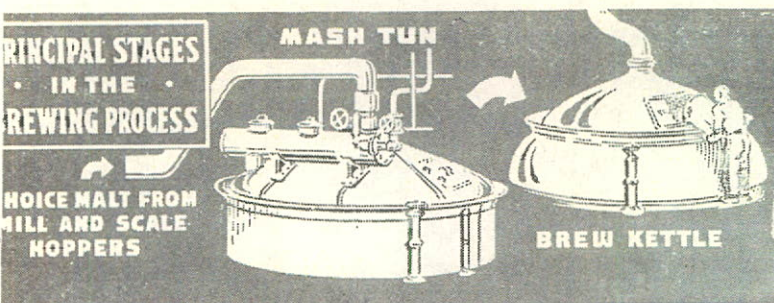
RACKING

Before beer or ale is packaged in kegs, the kegs must be clean both inside and outside and must be leak-proof. Cleanliness is ensured by washing and scrubbing the kegs thoroughly. The kegs are then filled with compressed air and submerged in tanks of water to detect any leaks. If a keg should prove to be defective, it is repaired by coopers and re-pitched.

BOTTLING

The bottling process is an assembly line process which covers all operations from cleansing the bottles to the point where they are packaged in cartons ready for shipment.

Bottles are first placed in a soaker which removes old labels and sterilizes the bottles. They are next rinsed both inside and outside. Moving on an endless belt they are inspected and any defective bottles are removed. Then the bottles are filled and capped. Next, the bottles move to pasteurizing tanks where they are immersed for over one hour in water at a rigidly controlled temperature. Following pasteurization, the filled bottles are inspected again under a magnifying glass and then the labels are affixed. After the labelling operation has been completed, the bottles are packed in corrugated paper cartons and are conveyed to the shipping room.



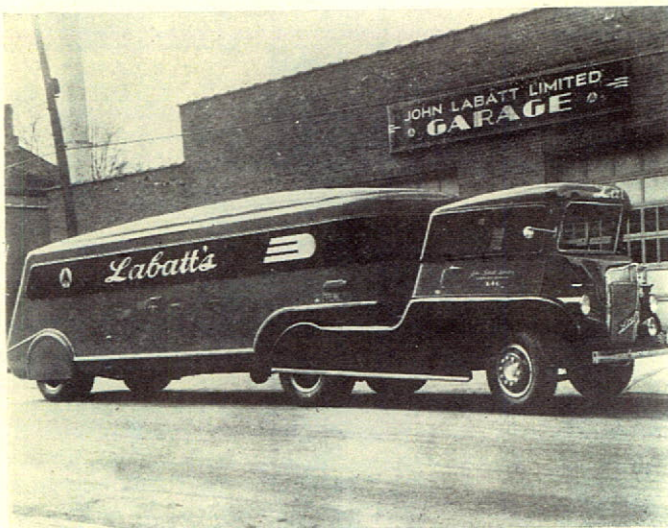
How Beer Is Distributed

Labatt products are distributed throughout Canada by rail and motor transport under the supervision of the Transportation Department. This department arranges for both kegs and bottled goods to be picked up at the shipping platforms and transported to either the freight yards or to the brewers' warehouses. In the city of London it also directs the delivery of packaged goods to home consumers.

For these purposes the department operates a fleet of 120 trucks of all types and has complete facilities for their maintenance and repair.



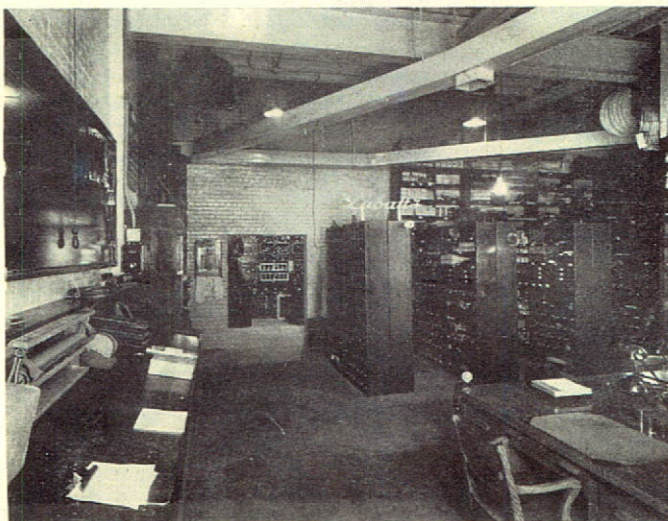
A view of the storage garage.



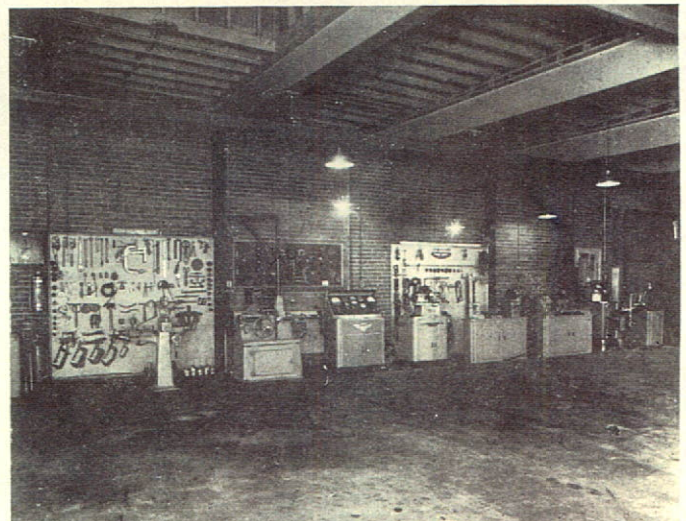
The queen of the highways is this Labatt "Streamliner".



Two of the panel trucks used for home delivery in London.



A section of the large stock room where a full supply of repair parts is kept.



All Labatt vehicles are maintained and repaired in this well-equipped repair shop.

