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THE
SHAWINIGAN
WATER AND POWER COMPANY
ANNUAL REPORT
1962

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*Service des Relations extérieures et de la Publicité, La Compagnie d'Électricité
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THE
SHAWINIGAN
WATER AND POWER COMPANY

HEAD OFFICE: MONTREAL, CANADA

SIXTY-FIFTH

A N N U A L R E P O R T

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HIGHLIGHTS

	1962	1961	Increase or Decrease*
Total primary kilowatthour sales—millions	11,776	11,878	-
Primary power peak load—kilowatts . . .	2,156,500	2,159,900	-
Revenue from sales of electricity	\$90,594,920	\$86,854,971	4.3%
Earnings per common share	\$1.49	\$1.51	2 cents*
Dividends declared per common share . . .	95 cents	80 cents	15 cents
Common shares outstanding December 31 .	8,027,965	7,939,081	88,884
Capital expenditures	\$29,327,798	\$23,733,153	\$5,594,645
Customers served December 31	384,493	369,366	15,127

The above figures reflect the consolidation of the accounts and operating statistics of The Shawinigan Water and Power Company, St. Maurice Power Corporation, and Southern Canada Power Company, Limited.

THE CHAIRMAN AND THE PRESIDENT

As a result of the election of November 14, 1962 the Liberal Party was returned to office with a mandate to nationalize certain electric utility companies in Quebec including your Company. On December 28, the Government announced the terms of purchase offers it proposed to make for shares of these companies, and on February 22, 1963 the official offers were sent forward to shareholders. Common shareholders of Shawinigan are offered \$30 per share and the class "A" common \$30.25. Both classes, for each share owned, will have the right to subscribe in due course to one share in a new Company, Shawinigan Industries Limited, organized to hold the Power Company's non-utility assets, at a price of \$5 per share.

The official offer to Shawinigan preferred shareholders had not been made at the time of printing this report, but the Government's December press announcement stated that the preferred shares would be replaced by ten-year Quebec bonds of equivalent par value bearing interest at the same rate as the dividend on the preferred shares.

In May 1962, your Company engaged the firm of Stone & Webster to appraise its properties and to evaluate its shares. The findings of these experts and other important related developments were reported in letters to shareholders dated January 18 and February 11, 1963 and will not be enlarged upon in this report. It is intended to send to shareholders another letter with particular reference to Shawinigan Industries Limited and the interests which it holds in The Shawinigan Water and Power Company's former non-utility assets.

EARNINGS

Total operating revenues of \$92,032,169 in 1962 were 4.5 per cent above the previous year. These revenues would have been substantially higher except for prolonged strikes at the plants of two major industrial customers and a reduction in secondary energy sales. Net earnings of \$13,742,769 were slightly below those of the previous year as a result of the lower than anticipated revenues, higher operating expenses and increased interest charges.

CAPITAL EXPENDITURES

Total capital expenditures in 1962 amounted to \$29,327,798 of which \$10,632,890 was for the thermal generating station under construction at Tracy, Quebec.

SHAWINIGAN CHEMICALS LIMITED

Construction work at the new Shawinigan Chemicals Limited \$20 million petrochemical plant located at Varennes continued on schedule. It is expected the plant will start operations in the spring of 1963. Operations of the Chemical Company's Shawinigan plant were stopped on August 17, 1962 because of a strike which was not settled until February 18, 1963. This sharply reduced the Company's earnings compared with the previous year.

SHAWINIGAN'S RECORD

At the turn of the century, your Company installed at Shawinigan Falls, then a forest wilderness, two 5,000-horsepower generating units. Today, the Shawinigan system has a total generating capacity of over 2 million horsepower; electric service of the highest standard is provided directly and through subsidiaries to over a half million customers; and, the Company has paid dividends without interruption since 1907.

Quebec has derived benefit from Shawinigan's operations since the time the Company was organized in 1898. As a result of Shawinigan's promotional efforts and the availability of ample power supply, Quebec's first industries for the large-scale manufacture of paper, aluminum, and calcium carbide chose the pioneer town of Shawinigan. The calcium carbide industry became the basis for a large chemical business, Shawinigan Chemicals Limited, whose products are sold throughout the world. Another subsidiary, The Shawinigan Engineering Company Limited, beyond its work for the Power Company, has undertaken for many years an increasing volume of consulting, design and project management for organizations both in Canada and abroad. Through a continuing and vigorous industrial promotion program, Shawinigan has brought to the Province many new industries, large and small, thereby creating thousands of job opportunities for Quebec citizens.

As already mentioned, the non-utility assets of Shawinigan are being grouped under Shawinigan Industries Limited and it is intended that shareholders in any eventuality will have an opportunity of continuing their participation in Shawinigan's long tradition of pioneering and achievement.



Chairman



President

THE SHAWINIGAN WATER AND POWER COMPANY

St. Maurice Power Corporation and Southern Canada Power Company, Limited

REVENUES AND THEIR DISPOSITION —1962

Percent of gross revenues		
95.4	Revenues:	
2.6	Sales of electricity	\$90,594,920
1.7	Other income	2,486,026
.3	Dividends from subsidiary companies	1,625,773
	Water storage equalization reserve	246,000
<u>100.0</u>		<u>\$94,952,719</u>
	Disposition:	
18.9	Services of employees	\$17,909,979
20.3	Power purchased	19,266,990
12.7	Depreciation and amortization	12,120,737
5.8	Materials and services purchased	5,513,934
20.4	Taxes and other payments to governments	19,341,099
6.9	Interest paid to bondholders	6,532,293
9.8	Dividends to shareholders	9,347,527
.6	Preferred dividends and minority interest— Southern Canada Power Company, Limited	524,918
4.6	Retained for use in the business	4,395,242
<u>100.0</u>		<u>\$94,952,719</u>

SOURCE AND APPLICATION OF FUNDS —1962

Source of funds:	
Retained earnings for the year	\$ 4,395,242
Add—Charges to earnings not requiring cash outlay:	
Depreciation and amortization	12,120,737
Taxes applicable to future years	2,959,100
	<u>19,475,079</u>
Sale of common shares to employees	1,733,388
Repayment of advances by subsidiary companies	1,290,000
	<u>22,498,467</u>
Application of funds:	
Capital expenditures	29,327,798
Redemption of funded debt	1,550,000
Miscellaneous items	194,903
	<u>31,072,701</u>
Decrease in working capital	\$ 8,574,234

REPORT OF THE BOARD OF DIRECTORS

for the year ended December 31, 1962

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Net earnings of Shawinigan in 1962 amounted to \$13,742,769 compared to \$13,766,259 in the previous year. Per share earnings on 8,027,965 common shares of the Company outstanding on December 31, 1962, were \$1.49 compared with \$1.51 per share on the 7,939,081 common shares outstanding at the end of 1961.

A dividend of 20 cents was declared for the first quarter of 1962, and 25 cents for each of the three other quarters making total dividends of 95 cents declared on the common stock for the year, and establishing an annual dividend rate of one dollar per share as compared with the 80-cent rate in effect since early 1959.

REVENUES AND EXPENSES

Total operating revenues were \$92,032,169 compared with \$88,075,914 in 1961. Sales of electricity amounted to \$90,594,920. Total operating expenses at \$73,813,647 were up 6.0 per cent leaving an operating income of \$18,218,522, 1.1 per cent below 1961.

Operation, maintenance and general expenses rose 6.8 per cent to \$23,467,596, an increase of \$1,484,428 over the 1961 total of \$21,983,168.

Water storage rentals were 16.4 per cent higher at \$2,465,723 compared with the previous year while power purchases increased 10.6 per cent to \$19,266,990.

Total non-operating income of \$2,487,550 was up 16.1 per cent due mainly to increased interest charged to construction. Dividends received from Shawinigan Chemicals Limited totalled \$749,766, unchanged from 1961.

The Shawinigan Engineering Company Limited paid a \$250,000 dividend to the Power Company, the same as in 1961.

FINANCIAL POSITION

No new financing was undertaken in 1962. As shown in the Consolidated Statement of Source and Application of Funds, internally generated funds amounted to \$19,475,079 which, together with receipts of \$1,733,388 from the Employee Stock Purchase Plan and other receipts resulted in total funds of \$22,498,467. Outlay of funds for capital expenditures, redemption of funded debt, and miscellaneous items totalled \$31,072,701 resulting in a decrease in working capital of \$8,574,234.

As shown in the Balance Sheet, earnings retained and invested in the business totalled \$82,615,074 as of December 31, 1962 compared with \$58,915,383 at the end of the previous year. The account was credited in 1962 with the following: retained earnings of \$4,395,242 from 1962 operations, transfer of water storage equalization,

contingent and other reserves totalling \$1,711,723, transfer of accumulated tax reductions applicable to future years of \$18,328,600, less an amount of \$735,874, details of which are shown in the Consolidated Statement of Retained Earnings.

On December 31, 1962, 17,918 shareholders held 8,596,582 common and class "A" common shares of the Company.

OPERATIONS

Total energy generated in 1962 was 8,329 million kilowatthours, 2.4 per cent below 1961. Purchases of primary power were 6.9 per cent higher than in the previous year, while surplus energy purchased decreased 36.1 per cent.

Total energy sales decreased 3.3 per cent to 13,072 million kilowatthours. Primary energy sales to major industries totalled 6,785 million kilowatthours, a 7.5 per cent decrease compared with 1961. The decrease in sales to Shawinigan Chemicals Limited and Quebec Iron and Titanium Corporation, because of strikes for over four months of the year, more than offset increased sales to other categories of customers.

Sales of secondary energy in 1962 decreased 17.8 per cent to 1,296 million kilowatthours. Less surplus energy available from Shawinigan resources due to less favourable water conditions and a decrease in purchases from other suppliers accounted for the decline.

Kilowatthour sales of primary power to residential customers, including urban, suburban and rural customers, increased 11.2 per cent compared with 1961.

Primary power peak load of the Shawinigan system occurred in January when demand reached 2,156,500 kilowatts. This compared with a peak of 2,159,900 in December of the preceding year. If the two large industrial customers where strikes were in effect, had been operating at normal rate, the increase in primary power peak would have been 6.0 per cent.

Shawinigan customers, including those of Southern Canada Power Company, totalled 384,493 on December 31, 1962, an increase of 4.1 per cent over the same date in 1961. Residential, including rural customers, totalled 342,061 and industrial, commercial, municipal and utility customers totalled 42,432.

CAPITAL AND MAINTENANCE EXPENDITURES

Capital expenditures of \$29,327,798 were 23.6 per cent higher than in 1961. A large part of these expenditures were for the new thermal generating station at

Tracy, initial work on the 230,000-volt transmission line from Sorel to Tracy and a terminal station at St. Césaire.

Completion of the 345,000-volt transmission line linking Isle Maligne and Quebec accounted for an expenditure of \$1,790,380, which included final work on enlarging terminal facilities at Quebec.

Total maintenance expenses were \$7,906,480 compared with \$7,791,632 in 1961. The maintenance charges included repairs to generating plants, transmission and distribution lines, terminal stations and substations.

EMPLOYEES

During 1962, 1,699 employees of the Company and subsidiary companies purchased, under the provisions of the 1961 Employee Stock Purchase Plan, 88,884 shares of common stock at a total cost of \$1,733,388.

A record total of 98 scholarships were awarded in 1962 to children of employees of the Company and subsidiary companies by the Julian C. Smith Memorial Fund Corporation. In addition, more than 400 employees enrolled in educational courses in the 1962-1963 academic year. The Company assumes 80 per cent of the cost of approved courses successfully completed by employees.

The excellent safety record of Company employees was maintained in 1962. The Company's accident frequency rate (lost time injuries per million man-hours) was approximately half the rate of the electric utility industry throughout Canada and the United States as reported to the National Safety Council.

During the 1962 period, a time of uncertainty and change, employees remained steadfast in their loyalty to the tradition of efficient service that has over the years been the hallmark of the Company.

We take this opportunity to express our appreciation for their good work in 1962, and for their many years of devoted effort in the past.

OFFICERS

In May 1962, Maurice d'Amours, formerly with Quebec Power Company, was appointed Vice-President, Public Relations. On January 1, 1963, W. R. Way, Senior Vice-President, and E. D. Gray-Donald, Vice-President, Administrative Services, retired after 44 and 36 years respectively with the Shawinigan organization. D. E. Ellis, formerly Assistant Vice-President, was appointed Vice-President, Administrative Services.

THE SHAWINIGAN ENGINEERING COMPANY LIMITED

for the year ended December 31, 1962

The Shawinigan Engineering Company Limited in 1962 completed 44 years of operations. During this time a wide range of projects was undertaken from the preliminary stages of investigation through design to ultimate construction and commissioning of hydroelectric generating stations, high voltage transmission systems, thermal electric power and nuclear research installations. In the ten-year period ending in 1962, 58 per cent of the earnings from engineering services were derived from work performed for organizations other than The Shawinigan Water and Power Company.

ENGINEERING FOR OUTSIDE ORGANIZATIONS

The Engineering Company has provided design, field engineering, and project management for the Twin Falls Power Corporation Limited at its Twin Falls hydroelectric development in Labrador, the first stage of which has now been commissioned. Two 60,000 horsepower units operating at a head of 300 ft. were installed, and this capacity is now being doubled to 240,000 horsepower. One 230,000-volt transmission line, 110 miles in length, was provided initially from Twin Falls to Wabush including terminal facilities at Wabush, and a second line is now under construction.

Following completion of the Canada-India reactor two years ago for Atomic Energy of Canada Limited, the Engineering Company was retained to provide overall project co-ordination and design for its Nuclear Research Establishment at Whiteshell in Manitoba in collaboration with architects and consultants in the Winnipeg area. The assignment covers work up to 1964.

During 1962, the Engineering Company was retained as consultant by the Bowater Power Company Limited in the design and location of structures for its Howley-Baie Verte 69,000-volt transmission line in Newfoundland.

The Engineering Company is one of three participating organizations in CASECO Consultants Limited, Vancouver, British Columbia, which was formed to carry out engineering studies on the Columbia River development in Canada and the preliminary design of the Mica Creek dam for the British Columbia Hydro and Power Authority. The preliminary investigations and reports are now virtually complete.

The Quebec Hydro-Electric Commission retained the Engineering Company for the design of its Carillon project on the Ottawa River, the first four units of which were placed in operation on schedule by the end of 1962. This hydroelectric

project will have an installed generating capacity of 840,000 horsepower in fourteen units when completed. The design incorporates a sixty-five-foot single-lift navigation lock, the highest lift of a lock of this type in Canada.

In addition to the foregoing major projects, the Engineering Company was engaged in engineering or construction during 1962 for a number of other Canadian companies.

ENGINEERING AND CONSTRUCTION FOR THE POWER COMPANY

The Company's engineers are actively participating in the design of the new thermal generating station at Tracy and the Engineering Company is project manager and general contractor providing complete services and the administration of all sub-contracts on behalf of the Power Company. The project, which consists of two 150,000-kilowatt units will be completed in 1964.

The Engineering Company completed the construction of the 135-mile, 345,000-volt transmission line from Isle Maligne to Quebec City during 1962. Its responsibilities included the survey and location of the line, the selection of the guyed portal suspension towers, the preparation of the design and specifications, project management, and construction.

The Engineering Company undertook the engineering design, and the management and construction of the 230,000-volt transmission line linking St-Césaire, Tracy and Sorel, major transformer stations at St-Césaire, L'Assomption, and Sorel, and the 345,000-volt station at Quebec.

In addition to the foregoing work on capital expansion projects, the Engineering Company also undertook scheduled repairs to the structures of existing generating and transmission facilities for the Power Company.

SHAWINIGAN CHEMICALS LIMITED

for the year ended December 31, 1962

Operations and earnings of Shawinigan Chemicals Limited were seriously affected during 1962 as a result of the prolonged strike at the Shawinigan Works which began August 17 and ended February 18, 1963. Areas of dispute included management rights, trade classification, seniority, work loads and job descriptions.

Operations of plants other than at Shawinigan, Quebec continued at a high rate throughout 1962.

Earnings for the initial seven months of 1962 increased substantially over the previous year due to larger sales volume and improved costs, and if the strike had not occurred, sales and net earnings for the whole of 1962 would undoubtedly have been well ahead of 1961.

EARNINGS

Consolidated net earnings of Shawinigan Chemicals Limited and its wholly-owned subsidiaries for the year amounted to \$12,518 after deduction of income taxes paid abroad but not including a claim for refund of Canadian income taxes paid in 1961 amounting to \$636,286. This compared with earnings of \$2,087,788 in 1961.

The loss from operations totalled \$821,331 compared with a profit of \$2,233,973 in the previous year. Income from investments, including dividends from affiliated companies, royalties and other sources amounted to \$1,089,281 as compared with \$1,010,396 in 1961.

The Chemicals Company's share of undistributed earnings of its associated companies for 1962 totalled \$170,000.

CAPITAL EXPENDITURES

During 1962, capital expenditures amounted to \$14,435,085 compared to \$2,986,581 in 1961. Of this amount, \$12,791,404 represents the 1962 expenditure on the new petrochemical plant at Varennes, Quebec. The construction of this plant commenced in September 1961 and it is now about 75% completed, with the start-up date expected in the spring of 1963. Petrochemical feed stock will be transported to Varennes from the Montreal East refinery of The British American Oil Company Limited and used to produce ethylene, propylene, butylenes and aromatic gasolines.

A large part of the ethylene will be converted to acetaldehyde which will be shipped to Shawinigan to replace the carbide based material used there in the manufacture of many chemical products. The other products will be marketed in the area or utilized in the production of other chemicals.

PRODUCTS OF SHAWINIGAN CHEMICALS LIMITED

The Chemicals Company's manufacturing plants in the Province of Quebec at Shawinigan, Varennes, Montreal East, Ste. Thérèse and Bedford, and one plant in Ontario, at St. Catharines, produce lime, calcium carbide, acetylene, acetylene black, a wide range of industrial organic chemicals, resins and plastic products derived from acetylene or from petroleum, formaldehyde, pentaerythritol, sulphuric acid, chlorine, caustic soda, sodium cyanide, and stainless steel castings.

FINANCIAL POSITION

Net working capital on December 31, 1962, amounted to \$14,012,410 compared with \$14,896,858 at the end of the previous year.

The Chemicals Company's share of the net worth of associated companies of Shawinigan Chemicals Limited exceeded the book value of its investment in these companies at December 31, 1962 by approximately \$5,647,000.

SHAWINIGAN PRODUCTS CORPORATION

Earnings were somewhat lower in 1962 due to reduced sales resulting from the strike at Shawinigan and lower prices on some products. As far as possible arrangements were made to take care of customer requirements during the strike. Shawinigan Products Corporation acts as a sales agent in the United States for the Chemicals Company.

SHAWINIGAN, LIMITED

Sales and profits of materials sold through Shawinigan, Limited were appreciably lower in 1962. This company is the sales organization in the United Kingdom for United Kingdom and European markets for the Chemicals Company and associated companies.

THE McARTHUR CHEMICAL CO. LTD.

Sales and profits showed a substantial improvement over last year. Sales of fine chemicals and manufactured products are progressing favourably. This company acts as sales agent for the St. Maurice Chemicals Division of the Chemicals Company and for other chemical manufacturers.

SHAWINIGAN RESINS CORPORATION

Earnings of Shawinigan Resins Corporation increased due to higher volume of sales and improved costs.

Shawinigan Resins Corporation, jointly owned with Monsanto Chemical Company, manufactures Butvar, Formvar, polyvinyl acetate and polyvinyl acetate resins at its plants in Springfield, Massachusetts, and Trenton, Michigan.

HEDON CHEMICALS LIMITED

Both sales and earnings were lower as a result of the drop in Great Britain of vinyl acetate prices. This company is jointly owned with The Distillers Company Limited, Edinburgh.

THE SHAWINIGAN WATER AND POWER COMPANY
ST. MAURICE POWER CORPORATION AND SOUTHERN CANADA POWER COMPANY, LIMITED

Consolidated Balance Sheet

As at December 31, 1962 and 1961

<i>ASSETS</i>	1962	1961
<i>Current assets</i>		
Cash	\$ 520,275	\$1,060,758
Temporary investments—at cost, less reserve (market value \$1,381,175)	1,204,257	6,389,698
Accounts receivable, less provision for doubtful accounts	11,077,944	10,598,671
Materials and supplies at cost	3,500,564	3,290,539
Prepaid charges	2,037,172	1,878,602
	18,340,212	23,218,268
 <i>Investments in and advances to subsidiary and other companies</i>		
Investments in subsidiary companies at cost, less net adjustments (Note 1)	19,994,012	19,994,012
Advances to subsidiary companies	1,145,000	2,435,000
Investments in other companies at cost	292,642	209,053
	21,431,654	22,638,065
 <i>Fixed assets</i>		
Property, plant and equipment at cost of construction or acquisition (in- cluding \$7,884,174 being excess of carrying value of investment in subsidiary companies consolidated over book value of their net assets)	514,621,109	488,989,810
Less: Accumulated depreciation	144,322,690	135,174,919
	370,298,419	353,814,891
 <i>Mattawin River and other storage dams at cost</i>		
	4,083,136	4,083,136
Less: Amortization to date	1,831,352	1,778,310
	2,251,784	2,304,826
 <i>Unamortized premium, discount and expense of funded debt</i>		
	2,360,299	2,661,557
	\$414,682,368	\$404,637,607

Approved on behalf of the Directors,
MARCEL CRÊTE, Q.C., *Director*
W. F. MAINGUY, *Director*

LIABILITIES	1962	1961
Current liabilities		
Bank loan and overdraft	\$ 3,963,906	\$ -
Accounts payable (including provision for taxes on income)	11,346,518	12,029,152
Accrued interest on funded debt	1,697,125	1,700,604
Dividends payable	2,225,027	1,806,642
	<u>19,232,576</u>	<u>15,536,398</u>
Deferred liabilities	1,770,584	2,049,472
(Advances received on account of cost of transmission lines, less instalments repaid)		
Funded debt (Note 2)	166,378,500	167,928,500
Deferred credit (Note 5)	-	15,369,500
(Accumulated tax reductions applicable to future years)		
Reserves		
Water storage equalization	-	1,249,000
Contingent and other reserves	-	689,585
	-	<u>1,938,585</u>
Preferred shares of subsidiary owned by public, and minority interest		
Southern Canada Power Company, Limited		
6 ⁰ / ₁₀₀ cumulative participating preferred stock		
Issued—70,889 shares of \$100 each	7,088,900	7,088,900
Minority interest in common stock and retained earnings	365,758	313,281
	<u>7,454,658</u>	<u>7,402,181</u>
	<u>194,836,318</u>	<u>210,224,636</u>
CAPITAL AND RETAINED EARNINGS		
Cumulative redeemable preferred shares		
Authorized—1,000,000 shares of \$50 par value—\$50,000,000		
Issued —series "A" 4 ⁰ / ₁₀₀ 400,000 shares	20,000,000	20,000,000
—series "B" 4 ¹ / ₂ ⁰ / ₁₀₀ 100,000 shares	5,000,000	5,000,000
Class "A" common shares (Note 3)		
Authorized—592,500 shares without nominal or par value		
Issued —568,617 shares	15,163,120	15,163,120
Common shares (Note 3)		
Authorized—9,600,000 shares without nominal or par value		
Issued —8,027,965 shares (1961—7,939,081)	97,067,856	95,334,468
Earnings retained and invested in the business (Note 4)	82,615,074	58,915,383
	<u>219,846,050</u>	<u>194,412,971</u>
	<u>\$414,682,368</u>	<u>\$404,637,607</u>

The accompanying notes are an integral part of the financial statements.

THE SHAWINIGAN WATER AND POWER COMPANY
ST. MAURICE POWER CORPORATION AND SOUTHERN CANADA POWER COMPANY, LIMITED

Consolidated Statement of Earnings

For the years ended December 31, 1962 and 1961

	1962	1961
Sales of electricity	\$90,594,920	\$86,854,971
Other operating revenues	1,437,249	1,220,943
Total operating revenues	<u>92,032,169</u>	<u>88,075,914</u>
Operation, maintenance and general expenses	23,467,596	21,983,168
Power purchased	19,266,990	17,420,145
Water storage rentals	2,465,723	2,118,546
Provision for depreciation	11,745,000	11,393,000
Taxes, other than taxes on income	5,060,638	4,751,384
Taxes on income (Note 5)		
Provision for income and profits taxes	8,848,600	10,100,000
Taxes applicable to future years	2,959,100	1,886,000
Total operating expenses	<u>11,807,700</u>	<u>11,986,000</u>
Total operating expenses	<u>73,813,647</u>	<u>69,652,243</u>
Operating income	<u>18,218,522</u>	<u>18,423,671</u>
Dividends from subsidiary companies	1,625,773	1,633,186
Miscellaneous income, less income taxes thereon	280,431	312,426
Interest charged to construction	581,346	196,324
Total non-operating income	<u>2,487,550</u>	<u>2,141,936</u>
	<u>20,706,072</u>	<u>20,565,607</u>
Interest on funded debt	6,532,293	6,402,202
Other interest and miscellaneous charges	152,092	103,618
Dividends of \$496,223 to preferred shareholders of Southern Canada Power Company, Limited and minority interest of common shareholders in the net earnings of that Company .	524,918	536,528
	<u>7,209,303</u>	<u>7,042,348</u>
Transfer from water storage equalization reserve	13,496,769	13,523,259
	246,000	243,000
Net earnings	<u>13,742,769</u>	<u>13,766,259</u>
Dividends on preferred shares	1,025,000	1,025,000
Dividends on class "A" common shares	758,156	758,156
Earnings applicable to common shares	<u>11,959,613</u>	<u>11,983,103</u>
Dividends on common shares	7,564,371	6,308,772
Retained earnings for the year	<u>\$ 4,395,242</u>	<u>\$ 5,674,331</u>

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Retained Earnings

For the years ended December 31, 1962 and 1961

	1962	1961
Balance at beginning of year	\$58,915,383	\$52,689,410
Add:		
Retained earnings for the year	4,395,242	5,674,331
Profits arising from sale of property and from other transactions	-	555,479
Transfer of reserves:		
Water storage equalization \$1,003,000		
Contingent and other reserves <u>708,723</u>	1,711,723	-
Transfer of deferred credit (accumulated tax reductions applicable to future years)		
Balance as at December 31, 1961 15,369,500		
Amount for year ended December 31, 1962 <u>2,959,100</u>	18,328,600	-
	<u>83,350,948</u>	<u>58,919,220</u>
Deduct:		
Minority interest in reserves and deferred credit transferred to retained earnings in 1962 as above 59,481		-
Amortization of premium, discount and expense of funded debt, less excess of principal amount over cost of acquisition of bonds redeemed through sinking fund 119,682		3,837
Additional contributions toward funding of past service obligations under Employees' Retirement Income Plans, after deducting income taxes applicable thereto <u>556,711</u>		-
	<u>735,874</u>	<u>3,837</u>
Balance at end of year	<u>\$82,615,074</u>	<u>\$58,915,383</u>

The accompanying notes are an integral part of the financial statements.

Notes to Financial Statements

1. Investment in subsidiary company

As at December 31, 1962 the Company owned 499,844 of the 666,459 outstanding shares of the capital stock of its subsidiary, Shawinigan Chemicals Limited. On January 8, 1963, the Company entered into an agreement providing for the sale by it of 277,691 of these shares for \$25,219,897, an amount which is in excess of the value at which these shares are carried in the accounts of The Shawinigan Water and Power Company.

THE SHAWINIGAN WATER AND POWER COMPANY
ST. MAURICE POWER CORPORATION AND SOUTHERN CANADA POWER COMPANY, LIMITED

2. Funded debt

The Shawinigan Water and Power Company

First mortgage sinking fund bonds:

	1962	1961
Series "H" 3 ¹ / ₂ % maturing January 1, 1970	\$ 13,730,500	\$ 13,810,500
Series "J" 3 ¹ / ₂ % maturing February 1, 1970	7,086,000	7,317,000
Series "M" 3% maturing April 15, 1971	25,000,000	25,000,000
Series "N" 3% maturing May 15, 1971	6,110,500	6,116,500
Series "O" 3 ¹ / ₄ % maturing April 1, 1972	12,021,000	12,270,500
Series "P" 3 ¹ / ₂ % maturing October 1, 1973	20,184,000	20,758,500
Series "Q" 3% maturing March 1, 1975	15,000,000	15,000,000
Series "R" 4 ³ / ₄ % maturing October 1, 1976	14,162,500	14,239,000
Series "S" 5 ³ / ₄ % maturing March 1, 1981	20,000,000	20,000,000
	133,294,500	134,512,000

Convertible sinking fund debentures:

1957 Series 5 ¹ / ₂ % maturing October 15, 1972	13,389,000	13,389,000
	146,683,500	147,901,000

St. Maurice Power Corporation

First mortgage sinking fund bonds:

Series "A" 3 ¹ / ₄ % maturing April 1, 1970	8,695,000	9,027,500
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Southern Canada Power Company, Limited

First mortgage bonds:

Series "B" 3 ¹ / ₂ % maturing July 2, 1976	6,000,000	6,000,000
Series "C" 3 ¹ / ₂ % maturing July 2, 1976	2,500,000	2,500,000
Series "D" 3 ³ / ₈ % maturing January 2, 1981	2,500,000	2,500,000
	11,000,000	11,000,000
	\$166,378,500	\$167,928,500

Principal and interest payable in lawful money of Canada with the exception of The Shawinigan Water and Power Company Series "M" and "Q" payable in lawful money of the United States of America.

3. Common shares—The Shawinigan Water and Power Company

- (a) The class "A" common shares rank equally and pari passu, share for share, with the common shares except that up to and including February 14, 1964, the class "A" common shares are entitled to preferential cumulative cash dividends at the rate of \$1.33¹/₃ per share per annum.
- (b) The following authorized but unissued common shares have been reserved:
1. 30,190 shares under the Employee Stock Purchase Plan—1961 for issue on completion of instalment payments.
 2. 401,670 shares being the number required as of December 31, 1962 in accordance with the provisions of the Trust Indenture to effect the conversion of the \$13,389,000 5¹/₂% convertible sinking fund debentures, 1957 Series.

4. Earnings retained and invested in the business

An amount of \$2,949,890 of the Retained Earnings of Southern Canada Power Company, Limited is deemed to be Designated Surplus under Section 28(2) of the Income Tax Act, and therefore would be subject to income tax if and when received by the parent company.

5. Taxes on income

The estimated reduction of \$2,959,100 in income taxes payable for the current year results from claiming capital cost allowance in excess of the depreciation charged in the accounts. The accumulated amount by which income taxes have been so reduced in this and previous years is \$18,328,600 which has been transferred in 1962 to Retained Earnings.

6. Commitments

Construction commitments outstanding at December 31, 1962 approximated \$15,000,000.

To the Shareholders,
The Shawinigan Water and Power Company,
Montreal.

We have examined the Consolidated Balance Sheet of The Shawinigan Water and Power Company, St. Maurice Power Corporation and Southern Canada Power Company, Limited as at December 31, 1962, and the Consolidated Statements of Earnings and Retained Earnings for the year ended on that date 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 the case of one Subsidiary Company, whose records were not examined by us, we have been furnished with Financial Statements certified by other accountants.

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 related Consolidated Statements of Earnings and Retained Earnings are properly drawn up so as to exhibit a true and correct view of the state of the combined affairs of the Companies as at December 31, 1962 and the results of their operations for the year ended on that date, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SHARP, MILNE & CO.
Chartered Accountants

Montreal, January 31, 1963.

S H A W I N I G A N C H E M I C A L S L I M I T E D
AND WHOLLY-OWNED SUBSIDIARIES

Consolidated Balance Sheet

As at December 31, 1962 and 1961

ASSETS	1962	1961
Current assets		
Cash	\$ 1,092,430	\$ 930,182
Short-term investments—at face value	-	1,233,000
Accounts receivable, less provision for doubtful accounts	6,940,304	8,740,186
Finished goods, raw materials and supplies, valued at lower of cost or market	9,226,036	8,590,651
Prepaid expenses	866,510	900,679
Income taxes recoverable (Note 1)	636,286	-
	<u>18,761,566</u>	<u>20,394,698</u>
Investments—at cost		
Shares in and loans to associated and other companies (Note 2)	3,809,694	3,856,315
Temporary investments—at face value		
reserved for construction cost of petrochemical plant	4,100,000	16,000,000
Property, plant and equipment—at cost	74,502,902	61,996,132
Less accumulated depreciation	40,997,759	40,780,844
	<u>33,505,143</u>	<u>21,215,288</u>
	<u>\$60,176,403</u>	<u>\$61,466,301</u>
LIABILITIES		
Current liabilities		
Bank loan	\$ -	\$ 500,000
Accounts payable and accrued charges	4,254,411	4,046,816
Accrued interest on debentures	40,142	42,648
Provision for taxes on income	204,603	658,376
Sinking fund instalment payable October 15, 1963	250,000	250,000
	<u>4,749,156</u>	<u>5,497,840</u>
4 ³ / ₄ % Sinking fund debentures		
Maturing October 15, 1971	4,000,000	4,250,000
Less amount payable October 15, 1963	250,000	250,000
	<u>3,750,000</u>	<u>4,000,000</u>
Shareholders' equity		
Capital stock		
Authorized—675,000 common shares without nominal or par value		
Issued —666,459 shares	26,423,805	26,423,805
Capital surplus	3,234,085	3,234,085
Retained earnings (Note 3)	22,019,357	22,310,571
	<u>51,677,247</u>	<u>51,968,461</u>
	<u>\$60,176,403</u>	<u>\$61,466,301</u>
<p>Approved on behalf of the Directors, W. F. MAINGUY, Director. E. D. LOUGHNEY, Director.</p>		

Consolidated Statement of Earnings

for the years ended December 31, 1962 and 1961

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	1962	1961
Net Sales	\$50,631,550	\$54,909,495
Cost of goods sold	46,734,065	47,893,473
Gross Profit	<u>3,897,485</u>	<u>7,016,022</u>
Administrative and Selling Expenses	3,832,152	3,883,505
Research Expense	687,294	687,300
Interest on Debentures	199,370	211,244
	<u>4,718,816</u>	<u>4,782,049</u>
Profit (Loss) on Operations	<u>(821,331)</u>	<u>2,233,973</u>
Income from investments	1,041,763	773,709
Liquidating dividend from B.A.-Shawinigan Limited	-	154,516
Income from royalties	591	19,031
Income from other sources	46,927	63,140
	<u>1,089,281</u>	<u>1,010,396</u>
	267,950	3,244,369
Provision for taxes on income (Note 1)	255,432	1,156,581
Net Earnings for Year	<u>12,518</u>	<u>2,087,788</u>
Taxes on 1961 income recoverable (Note 1)	636,286	-
Net Earnings Transferred to Retained Earnings	<u>\$ 648,804</u>	<u>\$ 2,087,788</u>

Consolidated Statement of Retained Earnings

for the years ended December 31, 1962 and 1961

	1962	1961
Balance at beginning of year	\$22,310,571	\$20,971,456
Net earnings	648,804	2,087,788
Profit on disposal of fixed assets, etc.	6,737	42,950
Sundry adjustments applicable to prior years	(2,000)	52,134
Exchange adjustment on conversion of accounts of foreign subsidiaries	54,935	72,702
	<u>23,019,047</u>	<u>23,227,030</u>
Dividends paid	999,690	916,459
Balance at end of year	<u>\$22,019,357</u>	<u>\$22,310,571</u>

Notes to Consolidated Financial Statements

1. Income Taxes Recoverable and Accumulated tax reductions applicable to future years

For the year 1962 additional depreciation amounting to \$650,000 is being claimed for income tax purposes by Shawinigan Chemicals Limited. For income tax purposes, the loss will be applied against taxable profits for the year 1961 thus enabling a claim of \$636,286 to be made for recovery of that year's income taxes paid. This amount of \$636,286 has been included in the Consolidated Statement of Earnings in the year 1962.

The accumulated amount by which income taxes have been so reduced in this and previous years is \$1,441,281.

2. Investment in Associated Company

Since December 31, 1962, claim has been made by Monsanto Chemicals Company that in virtue of the provisions of certain agreements entered into in 1954 and 1955, it has become entitled to acquire the 50% share ownership of Shawinigan Resins Corporation presently owned by Shawinigan Chemicals Limited.

3. Earnings retained and invested in the business

The Debenture Trust Agreements restricts the payment of cash dividends and reductions of paid-up capital stock to the total of consolidated net earnings subsequent to December 31, 1955 and \$3,000,000.

An amount of \$1,141,785 of the retained earnings of Canadian Resins and Chemicals Limited is deemed to be Designated Surplus and subject to income tax if and when distributed to the parent company as at present provided under Section 28(2) of the Income Tax Act.

4. Contingent Liabilities

The Company has guaranteed a customer's demand bank indebtedness in the amount of \$125,000.

One of the subsidiary companies whose accounts are consolidated herein is jointly and severally liable as co-guarantor of \$500,000, 4³/₄% Sinking Fund Debentures maturing July 1, 1964 of an associated company.

5. The following amounts have been charged against earnings in 1962:

depreciation \$2,048,661, executive salaries \$344,323, directors' fees \$15,445, legal expenses \$5,003.

To the Shareholders,
Shawinigan Chemicals Limited,
Montreal, Quebec.

We have examined the Consolidated Balance Sheet of Shawinigan Chemicals Limited and its Subsidiary Companies as at December 31, 1962, and the related Consolidated Statements of Earnings and Retained Earnings for the year ended on that date, and have obtained all the information and explanations we have required. We were furnished with financial statements of the United Kingdom and United States subsidiaries, together with the reports thereon of independent accountants. Our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion and according to the best of our information, the explanations given to us and as shown by the books of the Companies examined by us and the financial statements furnished to us, the accompanying Consolidated Balance Sheet and the related Consolidated Statements of Earnings and Retained Earnings, with the accompanying notes thereto, are properly drawn up so as to exhibit a true and correct view of the combined state of affairs of Shawinigan Chemicals Limited and its Subsidiary Companies as at December 31, 1962, and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

SHARP, MILNE & CO.
Chartered Accountants

Montreal, February 11, 1963.

THE SHAWINIGAN WATER AND POWER COMPANY

DIRECTORS

A. C. Abbott	R. E. Heartz
Lt.-Col. L. J. A. Amyot	W. F. Macklaier, Q.C.*
R. J. Beaumont	W. F. Mainguy*
Hon. P. H. Bouffard, Q.C.	H. Greville Smith, C.B.E.
Marcel Crête, Q.C.	H. S. Sutherland
Paul Desruisseaux, Q.C.	W. R. Way
Raymond Dupuis, Q.C.*	H. G. Welsford*
J. A. Fuller*	J. B. Woodyatt

*Members of the Executive Committee

OFFICERS

R. J. Beaumont	<i>Honorary Chairman</i>
J. A. Fuller	<i>Chairman of the Board and Chief Executive Officer</i>
W. F. Mainguy	<i>President</i>
A. C. Abbott	<i>Executive Vice-President</i>
W. R. Way	<i>Senior Vice-President</i>
H. B. Abbott-Smith	<i>Vice-President, Power Sales</i>
L. E. Boissonnault	<i>Vice-President, Finance</i>
Jules Bouchard	<i>Vice-President, Distribution</i>
Maurice d'Amours	<i>Vice-President, Public Relations</i>
E. D. Gray-Donald	<i>Vice-President, Administrative Services</i>
D. King	<i>Vice-President, System Planning and Engineering</i>
J. A. Smith	<i>Vice-President, Production and Power Operations</i>
A. C. Joncas	<i>Treasurer</i>
R. R. Merifield, Q.C.	<i>Secretary</i>
A. Timon	<i>Comptroller</i>
D. E. Ellis	<i>Assistant Vice-President</i>
H. M. Finlayson	<i>Assistant Vice-President</i>
Gordon D. Hulme	<i>Assistant Vice-President</i>
L. McGillis	<i>Assistant Vice-President</i>
François Roy	<i>Assistant Vice-President</i>

HEAD OFFICE: Montreal, Canada

THE SHAWINIGAN ENGINEERING COMPANY LIMITED

DIRECTORS

A. C. Abbott	R. E. Heartz
J. A. Burke	W. F. Mainguy
J. A. Fuller	J. A. Thomas
E. D. Gray-Donald	W. R. Way
R. E. Grout	

OFFICERS

R. E. Heartz	<i>Chairman of the Board</i>
R. E. Grout	<i>President</i>
J. A. Burke	<i>Vice-President, Construction</i>
J. A. Thomas	<i>Vice-President, Engineering</i>
L. E. Boissonnault	<i>Treasurer</i>
R. R. Merifield, Q.C.	<i>Secretary</i>

HEAD OFFICE: Montreal, Canada

SHAWINIGAN CHEMICALS LIMITED

DIRECTORS

P. W. Blaylock	W. F. Mainguy
D. L. Campbell	J. W. Morgan
J. A. Fuller	E. H. Peck
J. H. Gibbs	H. D. Ross
C. K. Lockwood	A. W. Scott
E. D. Loughney	H. S. Sutherland

OFFICERS

J. A. Fuller	<i>Chairman of the Board</i>
H. S. Sutherland	<i>President</i>
H. D. Ross	<i>Vice-President and General Manager</i>
P. W. Blaylock	<i>Vice-President, Research and Development</i>
J. H. Gibbs	<i>Vice-President, Industrial Relations</i>
C. K. Lockwood	<i>Vice-President, Marketing</i>
A. H. Andersen	<i>Assistant Vice-President</i>
Gwyn Benson	<i>Assistant Vice-President and Secretary</i>
G. A. Donald	<i>Treasurer</i>

HEAD OFFICE: Montreal, Canada

WORKS: Shawinigan, Montreal East, Ste. Thérèse, Varennes, Bedford, P.Q. and St. Catharines, Ont.

SHAWINIGAN, LIMITED, LONDON, ENGLAND

F. G. Pentecost	<i>Chairman of the Board</i>
A. W. Scott	<i>Managing Director</i>
V. P. Brooks	<i>Director</i>
R. G. Waller	<i>Secretary</i>

SHAWINIGAN PRODUCTS CORPORATION NEW YORK, N.Y.

K. C. Clarke	<i>President</i>
F. X. Lee	<i>Secretary-Treasurer</i>

THE McARTHUR CHEMICAL CO. LTD. MONTREAL, P.Q.

H. S. Sutherland	<i>President</i>
N. F. Chappell	<i>Vice-President and General Manager</i>
S. A. Bird	<i>Vice-President, Sales</i>
Gwyn Benson	<i>Secretary</i>
G. A. Donald	<i>Treasurer</i>



THE SHAWINIGAN WATER AND POWER COMPANY

TRANSFER AGENTS:

Preferred Shares

Montreal Trust Company
Montreal, Toronto, Halifax,
Winnipeg, Edmonton, Vancouver

Class "A" Common Shares

Montreal Trust Company
Montreal, Toronto

Common Shares

The Royal Trust Company
Montreal, Toronto, Vancouver

Bank of Montreal Trust
Company
New York City

REGISTRARS:

Preferred Shares

The Royal Trust Company
Montreal, Toronto, Halifax,
Winnipeg, Edmonton, Vancouver

Class "A" Common Shares

The Royal Trust Company
Montreal, Toronto

Common Shares

National Trust Company,
Limited
Montreal, Toronto, Vancouver

Bankers Trust Company
New York City

BANKERS:

The Royal Bank of Canada
Banque Canadienne Nationale

AUDITORS:

Sharp, Milne & Co.,
Chartered Accountants
Montreal

The Company's Preferred and Class "A" Common Shares are listed or traded on the Montreal and Toronto Stock Exchanges. The Common Shares are listed or traded on stock exchanges in Montreal, Toronto, Vancouver, New York, London, Paris, Amsterdam and Brussels.



