
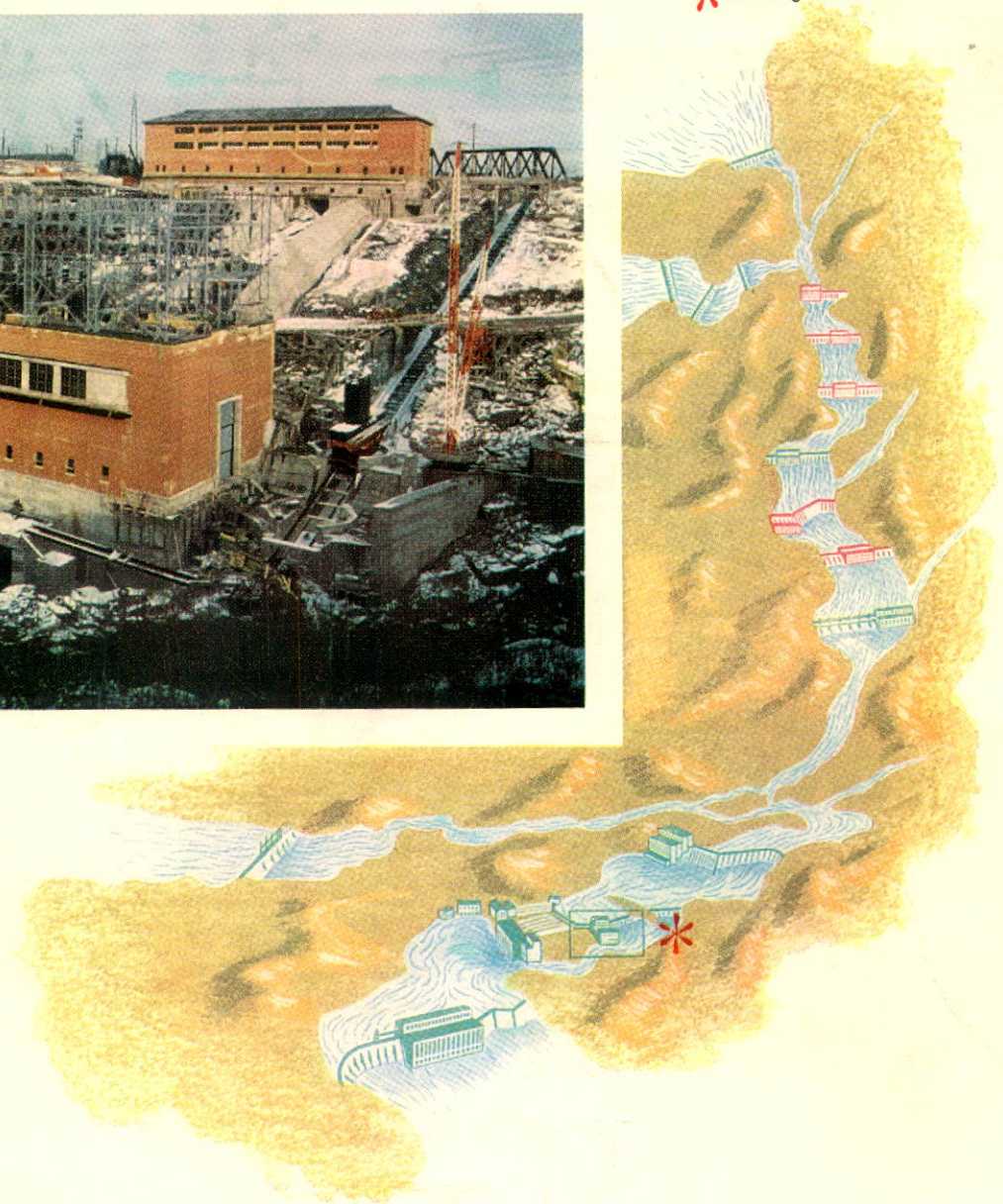
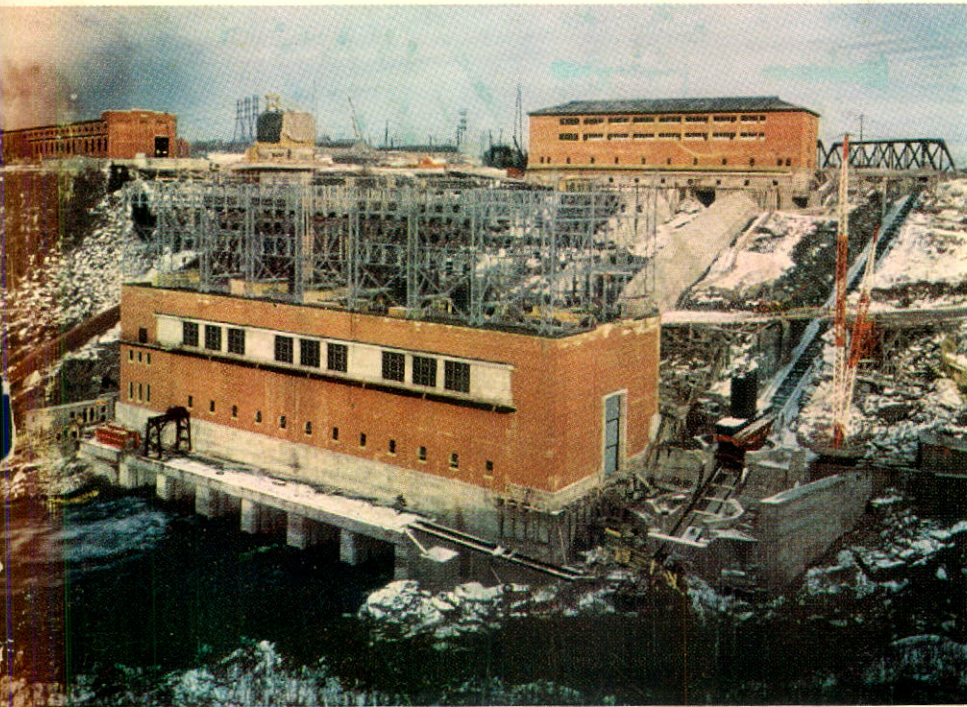


C. J. P. J.

 Shawinigan Falls



Fifty-first Annual Report

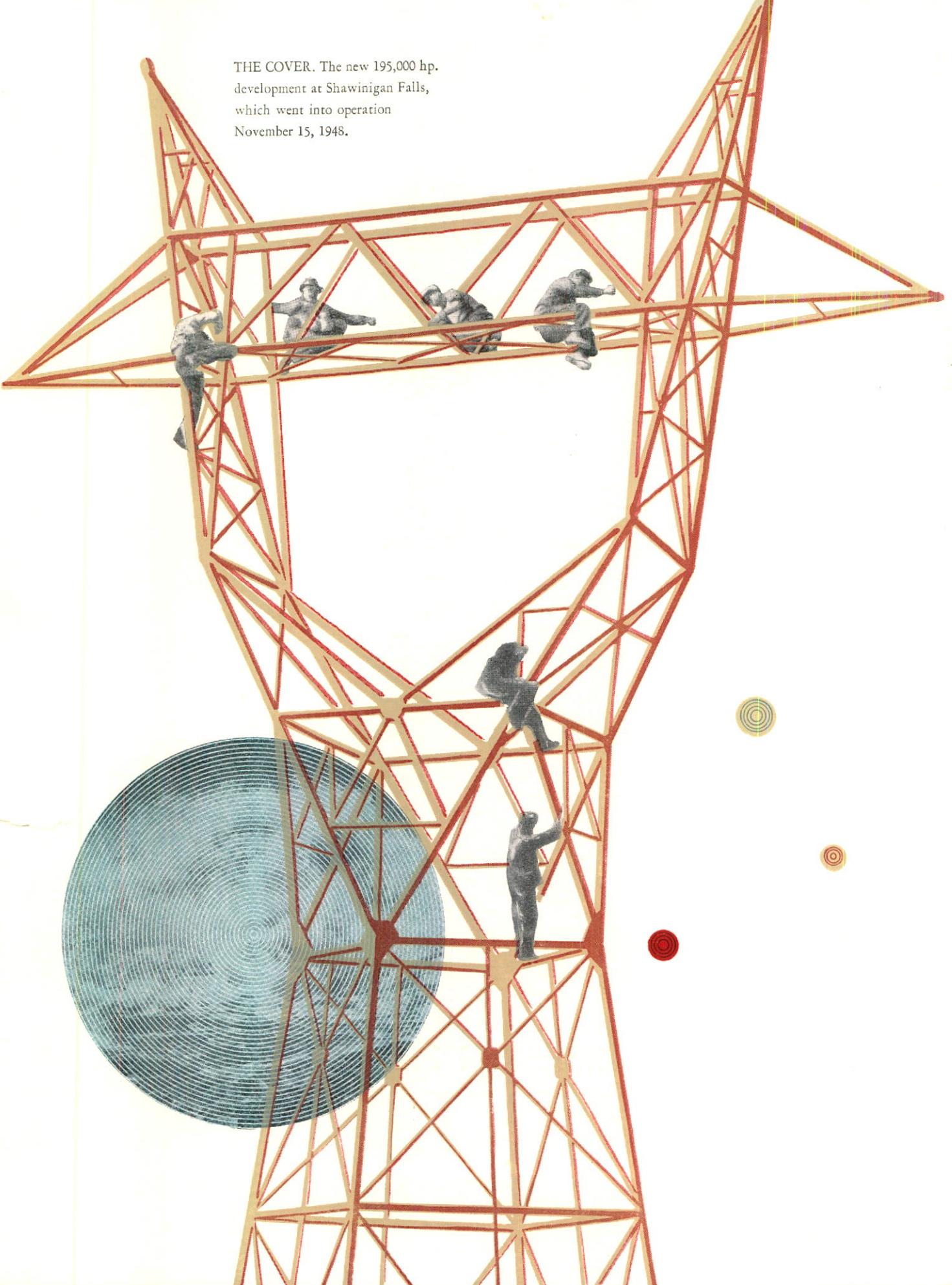
The Shawinigan Water and Power Company



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for the year ended December 31, 1948

THE COVER. The new 195,000 hp.
development at Shawinigan Falls,
which went into operation
November 15, 1948.



Annual Report

for the year ended
December 31, 1948

THE SHAWINIGAN WATER AND POWER COMPANY

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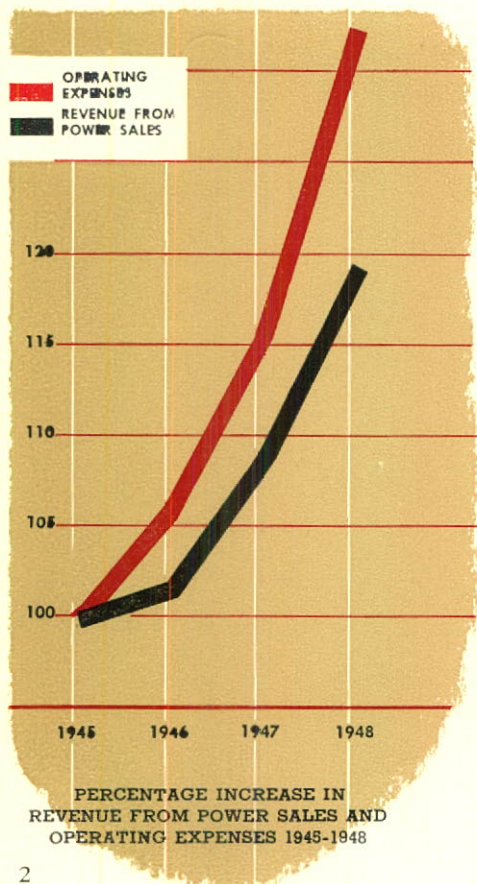
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Foreword

The Report of the Board of Directors for the year 1948 will be found in the following pages. The Report shows that although revenues from power sales increased nearly 10%, net earnings for the year on the Common Shares were somewhat lower than in 1947, despite increased income from sources other than the sale of power. In common with other public utility companies, our costs have increased faster than revenues. Wages and salaries per dollar of revenue, which amounted to 16c in 1939 and 19.8c in 1947, increased to 20.5c in 1948, and other operating costs have also increased.

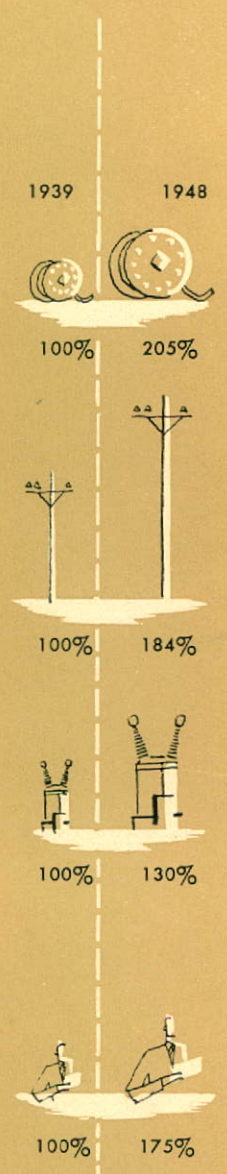
Over the period from 1945 to 1948 our operating expenses per kilowatthour sold have risen 42.7%, while the average revenue per kilowatthour has increased only 27.9%. This higher return is due primarily to the reduced proportion of our output sold as secondary power, with a corresponding increase in the proportion sold as primary power, which now absorbs practically our entire output. It is therefore necessary, in view of our greatly increased costs, that we obtain higher prices for industrial power and for electricity sold to domestic and commercial users.

In order to meet the power demands of our customers, we are now engaged in the largest capital



expenditure programme in our history. The cost of carrying out such a programme is very much greater today than at any previous time. For example, the cost of copper wire is 105% over 1939, poles 84%, transformers 30%, and wage rates 75%. We have had to raise new capital to finance this programme and additional monies will be required to complete it.


Utility companies, in order to attract the capital required to make improvements and extend their facilities, must have sufficient revenues not only to provide for all costs of operation, but also to allow investors a fair return on their money. For this reason rates must be periodically adjusted either upwards or downwards in order to maintain a proper relationship between costs and revenues. This principle is very generally recognized by the governmental authorities which have supervisory control of electrical utilities. It is a striking fact that a dollar spent for electrical services today will purchase considerably more than in 1939, while for other essential commodities it will purchase only about half as much. It therefore seems reasonable that rates for power and electricity should be brought more into line with general commodity price levels.



HIGHLIGHTS

The

Shawinigan Water and Power Company

- 
- Firm power peak load 1,299,745 horsepower, or 12.8% over 1947.
 - Secondary power sales reduced due to higher primary power demand and much lower rainfall.
 - Gross revenues from power sales increased 9.4%.
 - Operating expenses increased 14.9%.
 - Retail sales of electricity increased 16.9%.
 - Dividends from subsidiary and other companies 12.6% higher.
 - Earnings per share \$1.58 vs. \$1.62 in 1947.
 - Capital expenditures for year \$16,764,000.
 - New generating station at Shawinigan Falls in operation.
 - Trenché Development preliminary construction work begun.
 - \$25,000,000 additional Bonds sold to provide for capital expenditures.
 - Shareholding in Saguenay Power Company, Ltd. sold.
 - New head office building completed and occupied.
 - Precipitation for year below normal.
 - 160,000 horsepower contract signed with Quebec Iron and Titanium Corporation.

51ST annual report

of the Board of Directors
for the year ended December 31, 1948

Income and expenses

A simplified statement of our income and expenses for the year 1948 compared with 1947 is shown below.

THE SHAWINIGAN WATER AND POWER COMPANY

	1948	1947
WE RECEIVED:		
From our customers for power and electricity	\$24,792,632	\$22,670,756
From temporary investments, rentals and other sources	1,031,709	748,990
Dividends from subsidiary and other companies	1,467,803	1,303,181
Total Receipts	<u>\$27,292,144</u>	<u>\$24,722,927</u>
THESE RECEIPTS WERE EXPENDED FOR:		
Materials and services bought from others	\$7,313,387	\$6,387,401
*Wages and salaries (<i>including employee benefits</i>)	5,594,605	4,898,763
Taxes payable directly to Federal, Provincial and Municipal Governments	3,651,706	3,396,410
Cost of providing for replacement of plant and equipment (<i>Depreciation</i>)	3,500,000	3,250,000
Paid for use of money invested in plants and equipment:		
Interest to bondholders \$2,981,256		2,842,045
Dividends: Preferred Shares 800,000		400,000
Common Shares 2,613,900		2,613,900
	<u>6,395,156</u>	<u>5,855,945</u>
	26,454,854	23,788,519
BALANCE RETAINED IN THE BUSINESS	837,290	934,408
	<u>\$27,292,144</u>	<u>\$24,722,927</u>

*Not including wages and salaries charged to Capital Account.

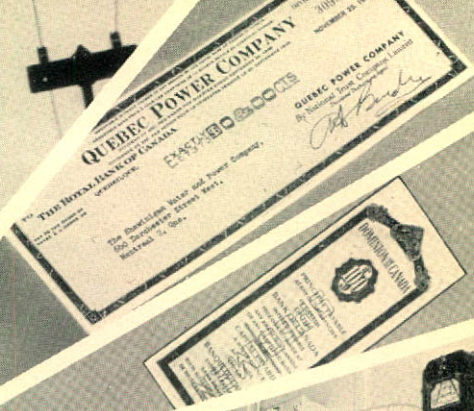
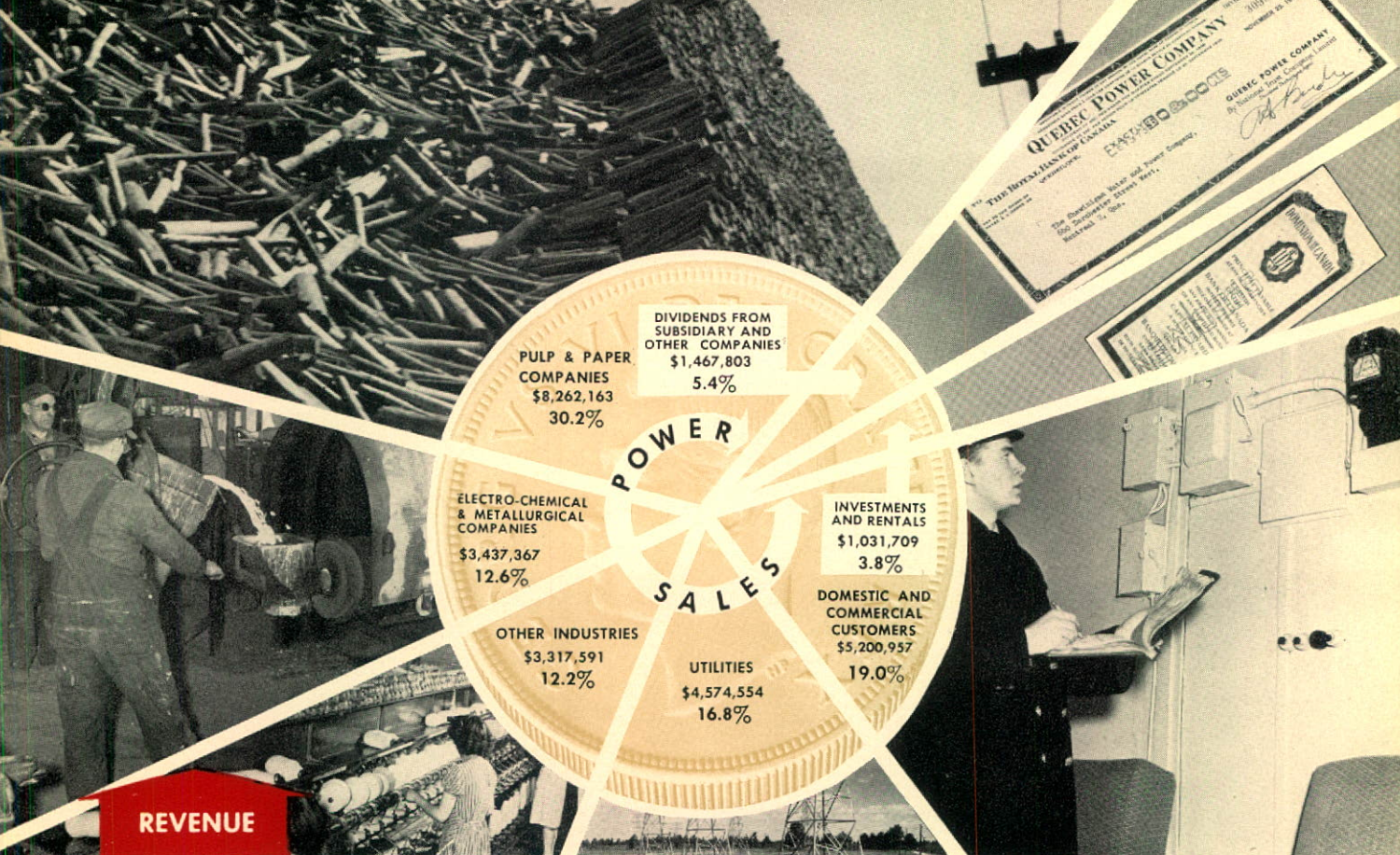
income and expenses (continued)

Our Revenue from sales of power and electricity increased 9.4% over the previous year. Sales of power to wholesale customers increased 6.6%, but there was a very marked decrease in sales of secondary power.

Sales at retail to domestic, commercial, industrial and municipal customers amounted to \$7,133,169 an increase of 16.9% over 1947, and represented 28.8% of our total power revenues. This compares with 21.9% in 1939.

Income from Temporary Investments was considerably higher as a result of revenues received from investment of the proceeds of \$20 million Preferred Shares sold in July, 1947, and \$25 million of Bonds sold in October, 1948. Dividends from Subsidiary and Other Companies increased \$164,622, due primarily to an increase from \$2.50 to \$3.00 per share in the dividend paid by our Chemicals Company. We also received dividends of \$100,000 from our 50% shareholding in St. Maurice Power Corporation, of which \$50,000 was paid from 1947 earnings and \$50,000 from 1948.

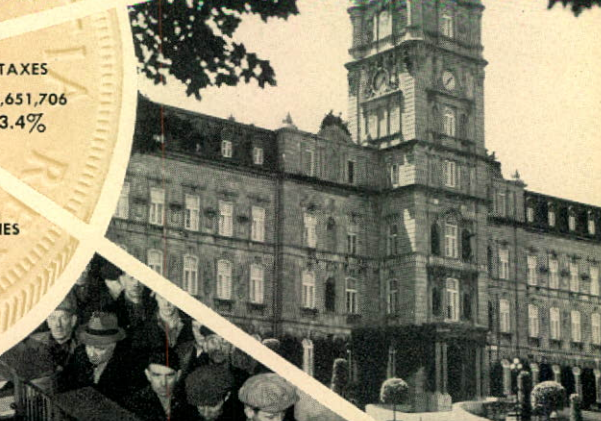
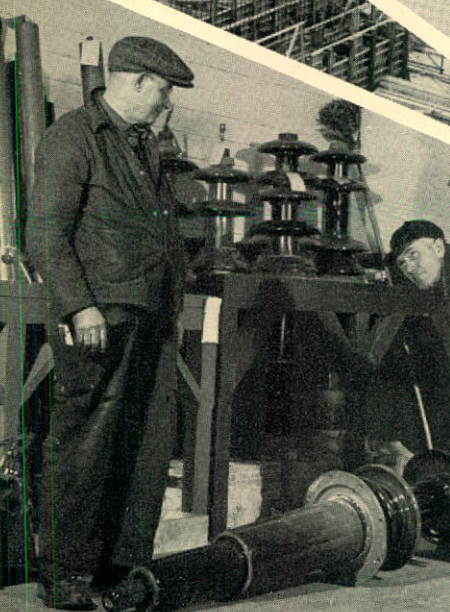
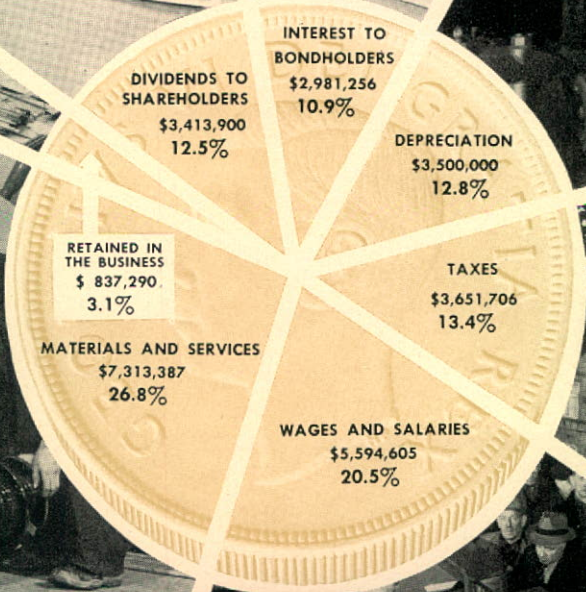
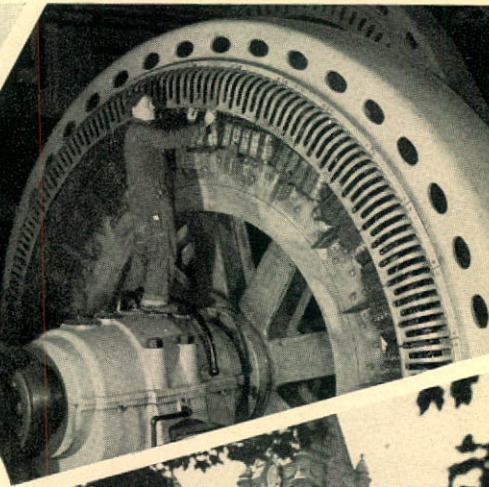
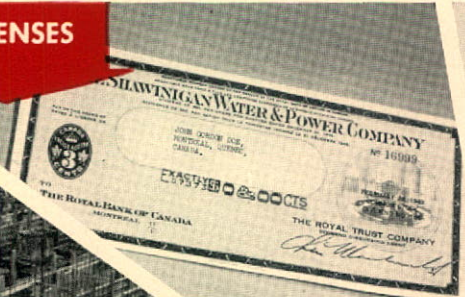
Our Operating Expenses increased 14.9% over 1947. Wage and salary increases were made on January 1 and again about the middle of the year, and the cost of materials and supplies also increased. Total Operating



REVENUE

THE 1948 REVENUE DOLLAR AND ITS DISTRIBUTION

EXPENSES



income and expenses (continued)

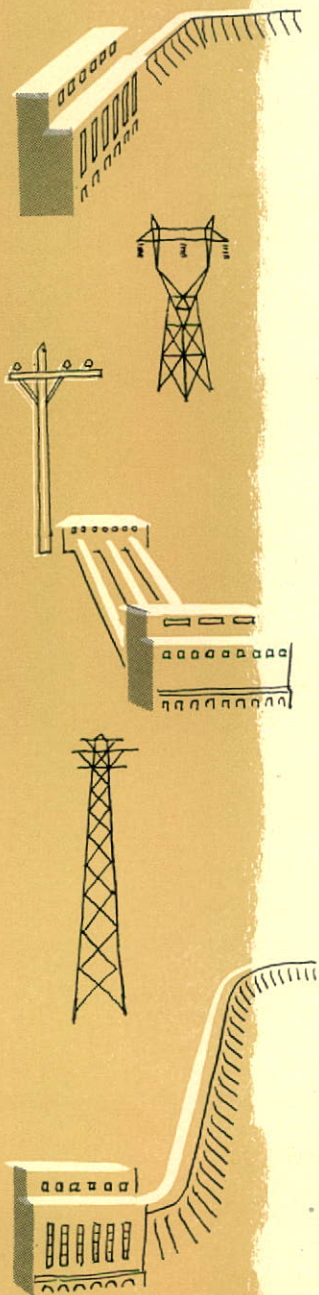
Expenses represented 58.6% of the revenues from power sales in 1948, as compared with 55.8% in 1947.

Interest charges on Funded Debt were somewhat higher due to the sale of \$25,000,000 of 3½% Bonds bearing interest from October 1, 1948. We provided \$3,500,000 for the replacement of plant and equipment as compared with \$3,250,000 last year.

Taxes of various kinds payable to Federal, Provincial and Municipal Governments amounted to \$3,651,706, or 18.2% of our total costs, excluding interest paid to bondholders. The taxes we pay to Provincial and Municipal Governments represent an important contribution towards the cost of the services they provide to the general public and to the progress of education in the Province.

Dividends on the Preferred Shares amounted to \$800,000, leaving earnings of \$3,451,190 for the Common Shares, or \$1.58 per share, compared with \$1.62 in 1947. Dividends on these shares were paid at the rate of 30c quarterly, or \$1.20 per share for the year. After payment of dividends we retained in our business for working capital and plant expansion an amount of \$837,290.

Financial position

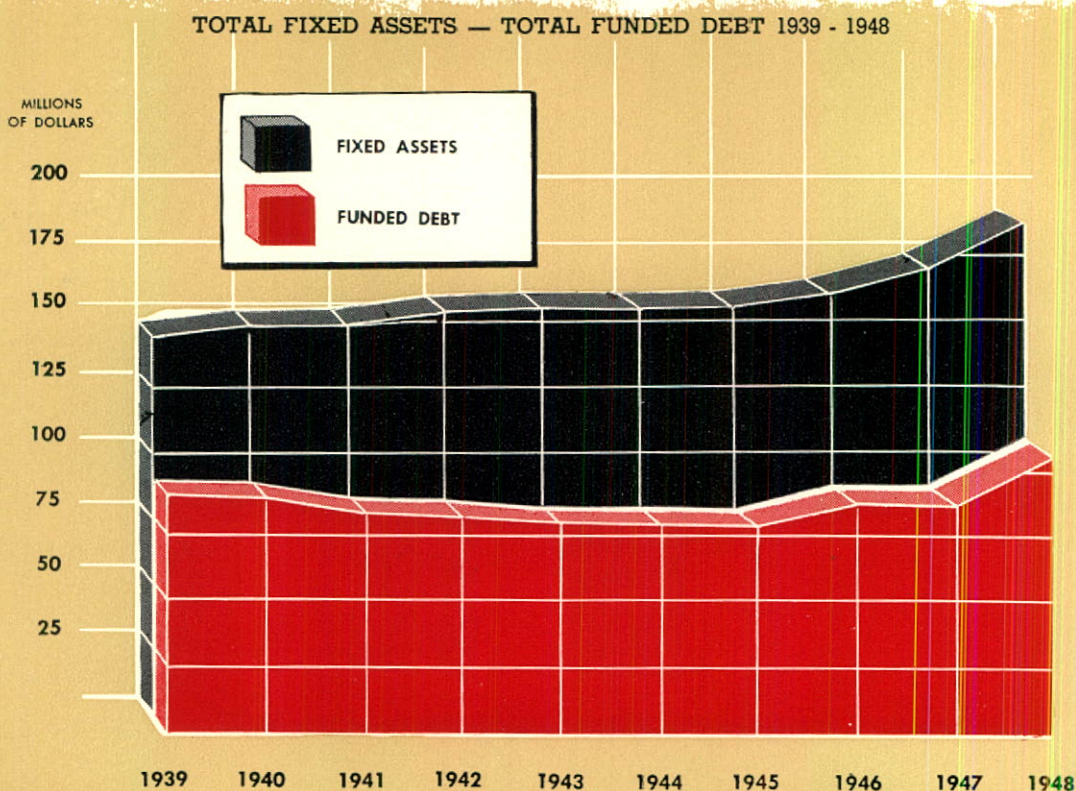



The Balance Sheet as at December 31, 1948 is presented on Pages 38 and 39 of this Report. As a result of capital expenditures made during the year, Fixed Assets increased by \$16,499,609. The financing of our capital expenditure programme for 1948 and 1949 was in part provided for by the sale of \$20,000,000 Preferred Shares in July, 1947. As additional funds would have been required early in 1949 at the planned rate of expenditure, we sold \$25,000,000 3½% Bonds in October, 1948. In July we sold our interest in Saguenay Power Company, Ltd., amounting to 42,000 shares, at \$85 per share, or a total amount of \$3,570,000.

Net Current Assets at December 31, 1948, including Temporary Investments and Funds Deposited with the Trustee, amounted to \$34,487,497, as compared with \$21,233,080 at the end of the previous year.

financial position (continued)

The book value of Securities of Subsidiary and Other Companies has been reduced from \$16,824,772 to \$14,790,991, largely reflecting the sale of our interest in Saguenay Power Company, Ltd. and a reduction of \$1,749,229 in the book value of our shareholdings in Quebec Power Company to a value of \$17.00 per share. The profit realized from the sale of our shares of Saguenay Power Company, Ltd. was utilized in part to make this adjustment and to provide a reserve against the book value of Temporary Investments, and the remainder, amounting to \$647,718, was transferred to Earned Surplus.





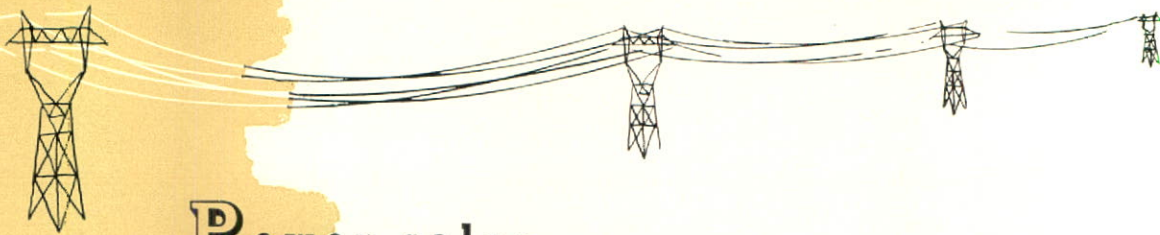
Sources of funds and their allocation

The following statement indicates the sources of funds which became available to us during the years 1948 and 1947 and their allocation.

**THE
SHAWINIGAN WATER AND POWER
COMPANY**

	1948	1947
SOURCES OF FUNDS:		
Net Profit for the year	\$4,251,190	\$3,948,308
Depreciation and amortization	3,569,075	3,319,076
Proceeds from sale of 4% Preferred Shares	—	20,150,000
Proceeds from sale of 3½% Series "P" Bonds	24,468,750	—
Proceeds from sales of securities	3,582,783	—
Refunded portion of Excess Profits Tax for 1942	441,700	—
	<u>\$36,313,498</u>	<u>\$27,417,384</u>
ALLOCATION OF FUNDS:		
Capital expenditures for year	\$16,763,895	\$10,813,008
Stores and moveable plant	476,416	851,234
Financing expenses	70,827	295,157
Bonds redeemed under sinking fund provisions	1,129,000	—
Increase in other assets and miscellaneous items	1,205,043	209,029
Dividends—Preferred Shares	800,000	400,000
Common Shares	2,613,900	2,613,900
Increase in working capital	13,254,417	12,235,056
	<u>\$36,313,498</u>	<u>\$27,417,384</u>

The large increase in our working capital was due mainly to the sale of Bonds during the year. The funds available will be used for proposed capital expenditures.

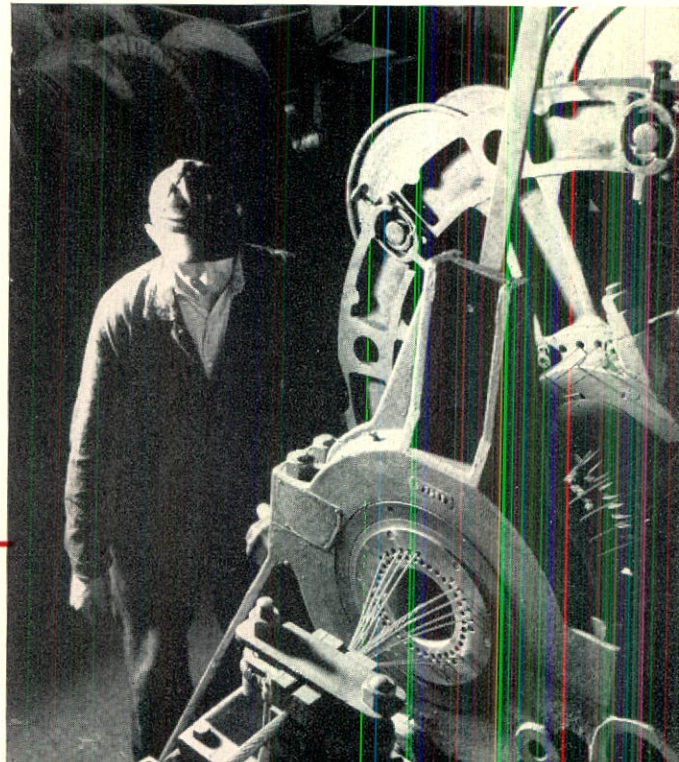


Power sales

Total kilowatthours sold were 5,963,711,000 or 95.2% of those sold in 1947. Sales of primary power at wholesale amounted to 5,293,154,000 kilowatthours, an increase of 16% over last year. The increase reflects the growth in power requirements of existing customers and the establishment of new industries in our territory. Due to abnormally low rainfall during the year and also because of greater demands for primary power, sales of secondary power for the production of steam in electric boilers totalled only 249,906,000 kilowatthours as compared with 1,355,886,000 kilowatthours in 1947. Because of continued low rainfall in the fall months, deliveries of power to wholesale industrial customers were reduced by 10% as from November 15.

Our Industrial Development and Research Departments have successfully continued their efforts to attract new industries, as evidenced by the fact that during the

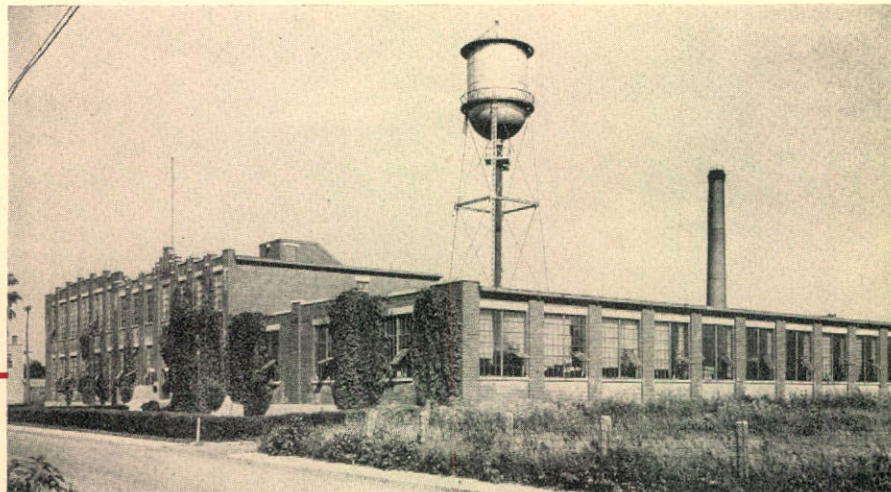
Stranding aluminum cable. A large amount of electric power is used in the manufacture of aluminum.





Typical scene in a large textile mill served by Shawinigan.

year twenty-six new industries located in our territory. Contracts entered into with these industries, together with additional power required by existing customers, involve new firm power commitments totalling 238,883 horsepower. Other important contracts are under negotiation. Among the new contracts is one with Quebec Iron and Titanium Corporation for 160,000 horsepower, which is the largest single power contract we have ever made. That company will erect a plant at Sorel, Quebec, for the separation of iron and titanium slag from ilmenite ores, which will be obtained on the North Shore of the Gulf of St. Lawrence near Havre St. Pierre. This new industry will be of great importance in the development of the natural resources of the Province of Quebec. As the process to be operated by Quebec Iron and Titanium Corporation is based upon the



A large silk mill in Shawinigan territory.

power sales (continued)

work of our Research Department, we feel that we have made an important contribution to the industrial development of our Province.

Retail sales again exceeded those of any previous year. The number of customers served at the end of the year was 153,548 and the number of municipalities 551. Retail kilowatthour sales increased 21% as compared with 1947. This increase is a result, not only of higher average annual consumption of domestic customers as shown on the chart opposite, but also of continued construction of new lines in rural areas. In 1948 we completed 1,603 miles of lines, and poles were erected over an additional 805 miles.

We realize that we have an obligation to supply service to the rural areas of our territory. In recent years an increasing proportion of our rural extensions has been in sparsely settled areas, with a consequent reduction in the average number of customers per mile of line. Furthermore, the

Hoisting hay with electric power at a Quebec farm.



The company's new office building and stores at Ste. Therese.

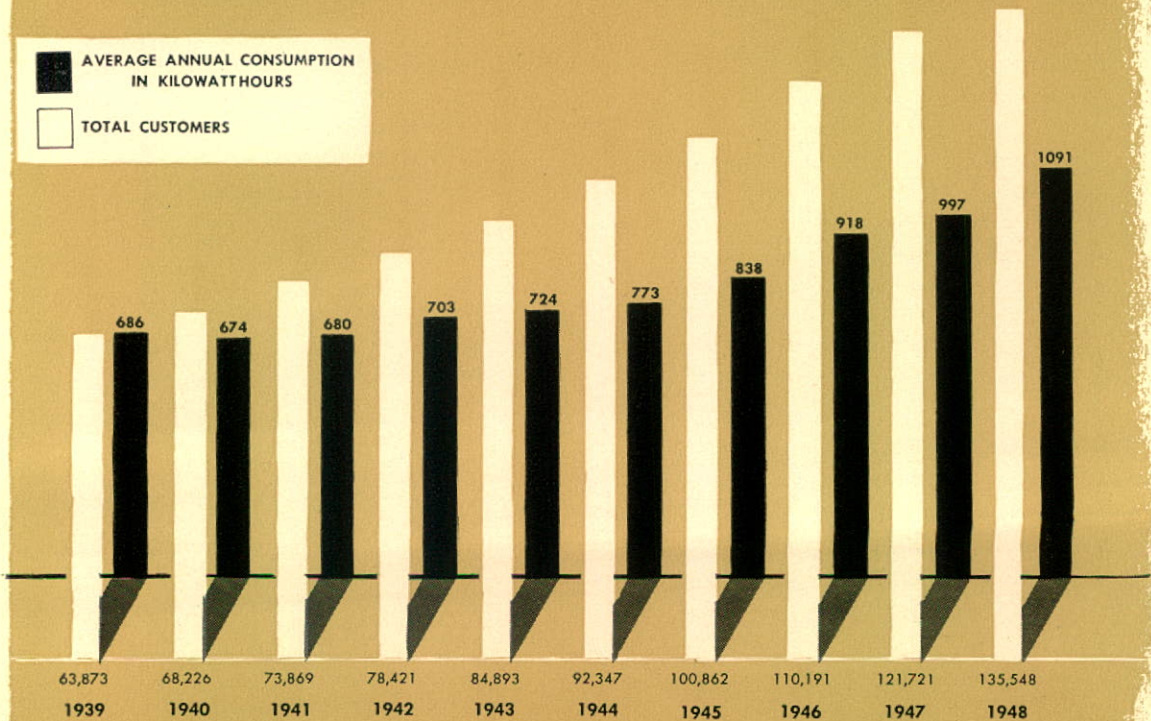




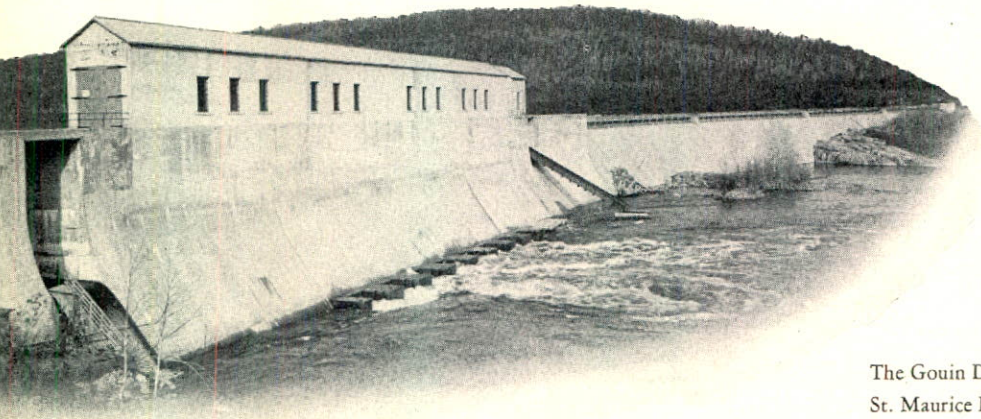
power sales (continued)

average cost of constructing new lines has advanced 70% over 1939. Prospective revenues in many areas are therefore insufficient to cover the substantially increased fixed charges and operating costs.

TOTAL RESIDENTIAL CUSTOMERS — AVERAGE ANNUAL CONSUMPTION



Operation



The Gouin Dam at the headwaters of the St. Maurice River.

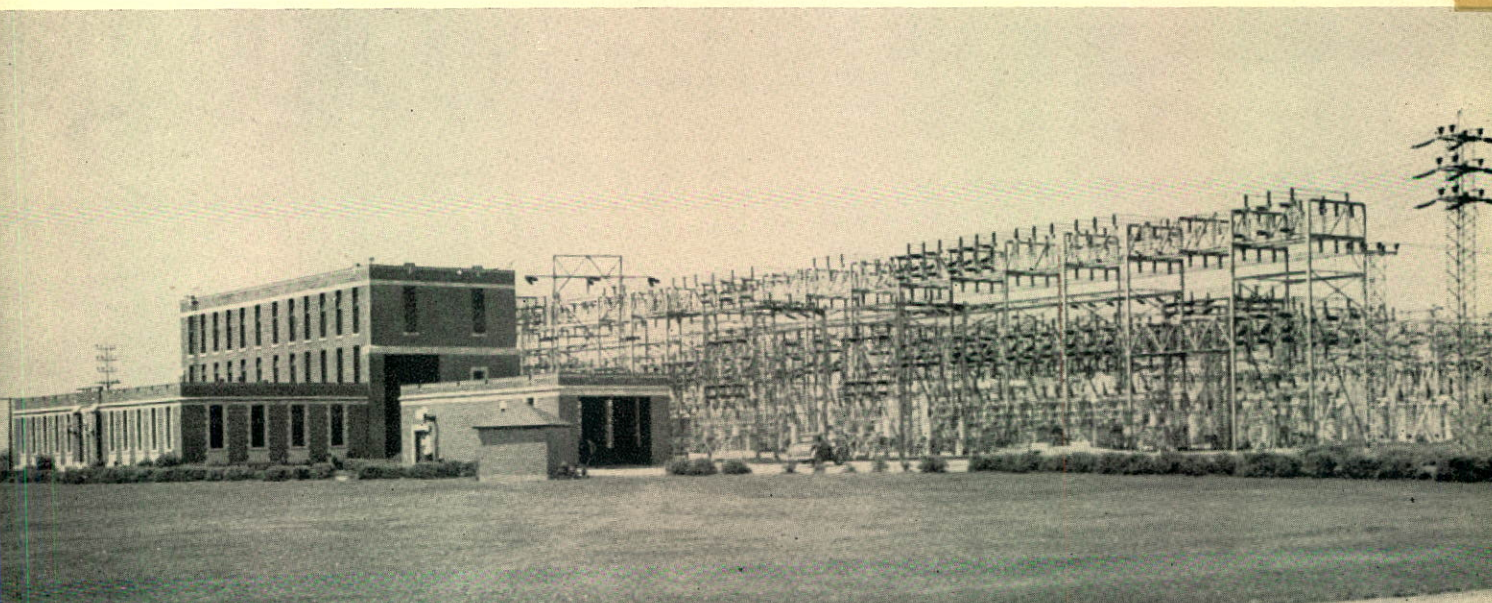
The firm power peak load on the Company's system was 1,299,745 horsepower, compared with 1,151,863 horsepower in 1947. Power produced amounted to 4,140,680,000 kilowatthours compared with 4,654,507,000 in 1947, the reduction being entirely due to lower than average rainfall. We purchased 279,318,000 kilowatthours more than in the previous year, so that the decrease in total system output was only 3.4%.

Precipitation in the St. Maurice watershed has been exceptionally low since the summer of 1947, and in September and October of last year, when we usually expect replenishment of our reservoirs, averaged only 55.5% of normal. To enable us to supply primary power demands, we progressively reduced deliveries during the year of secondary power and of power sold under interruptible contracts. In addition, because of continued reduction

in the quantity of water in storage, we also reduced deliveries of power to large industrial customers by 10% as from November 15, 1948 in order to assure continuance of power supply throughout the winter. However, conditions have improved considerably because of higher than normal rainfall since October, and we were able to resume normal deliveries on February 1, 1949.

We are continuously planning many years ahead to ensure that adequate supplies of power will be available when required. In accordance with these plans, the first 65,000 horsepower unit of the new 195,000 horsepower generating station at Shawinigan Falls went into operation on November 15, 1948, and the remaining two units early in 1949. The completion of this plant brings the total generating capacity at Shawinigan Falls to 489,900 horsepower.

The Terminal Station at Quebec City.



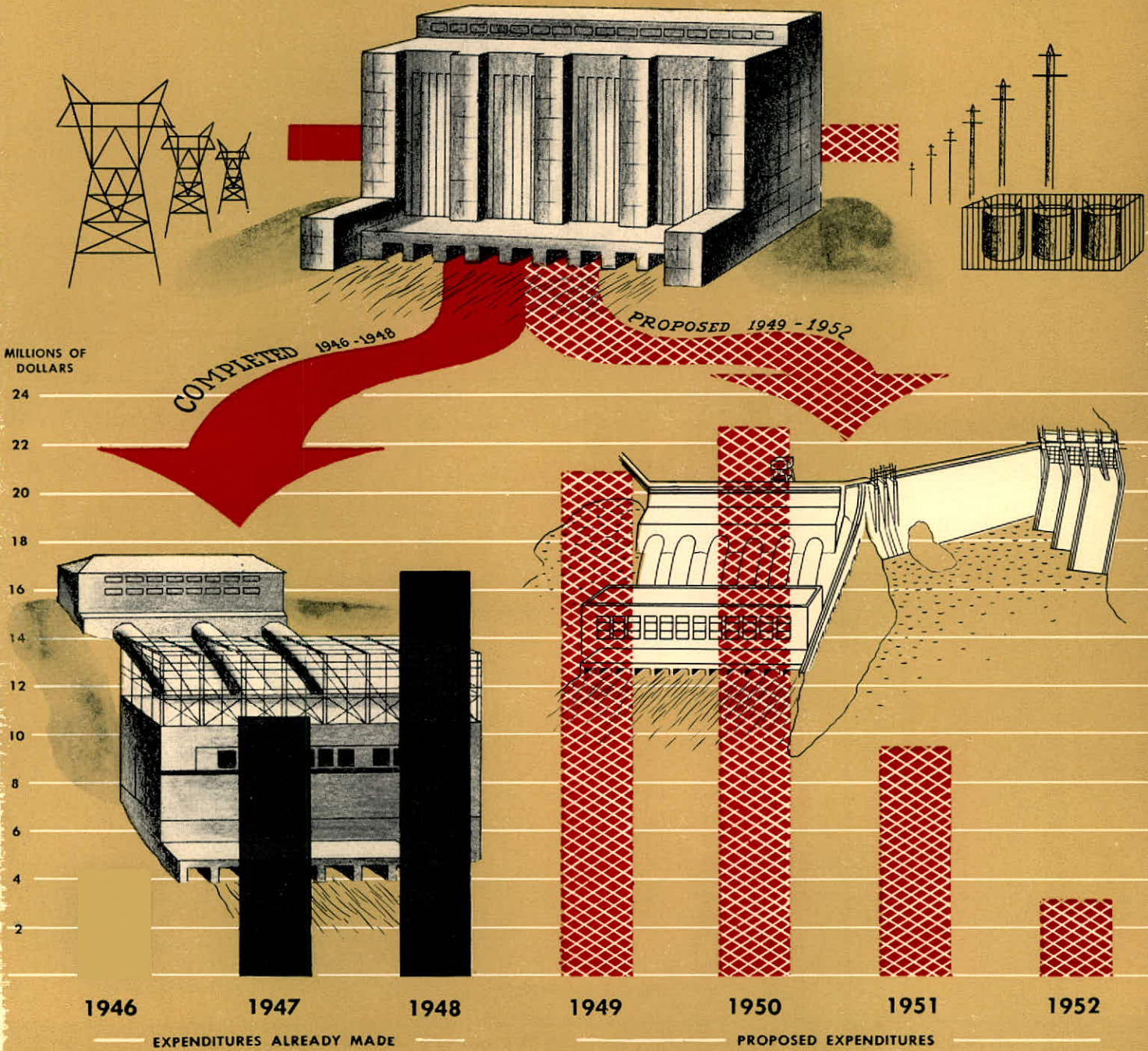
Capital expenditures

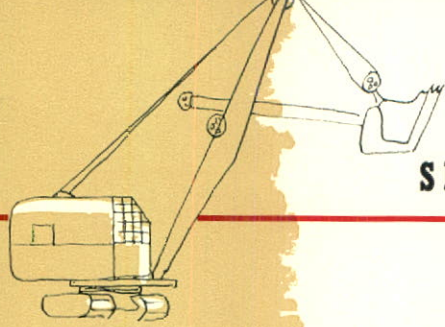
During 1948 we continued the programme of capital expenditure decided upon in the previous year, and, as a result of further studies, this programme has been projected through 1952, when it is expected that the new power development at the Trenché site will be completed. The estimated capital expenditure involved in the revised programme for the six years 1947-1952 amounts to a total of \$83,608,000, of which \$10,813,000 was spent in 1947. Expenditures in 1948 were \$16,764,000; of this \$4,707,000 was spent on the new generating station at Shawinigan Falls; \$5,843,000 for extensions to rural and urban distribution facilities; \$3,377,000 on preliminary construction work on the Trenché Development, and the remainder for various other additions.

The chart reproduced on the next page shows graphically our capital expenditures for the past three years and the projected programme up to the end of 1952.

ACTUAL AND PROPOSED CAPITAL EXPENDITURES 1946-1952

TOTAL = \$87,976,000



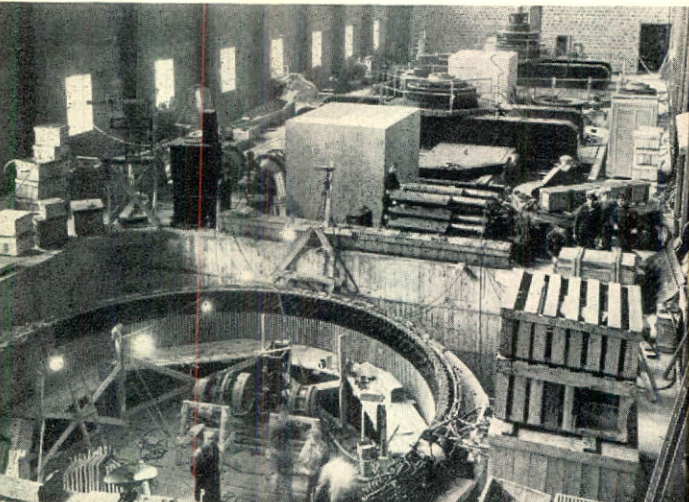


The
SHAWINIGAN ENGINEERING COMPANY
Limited

Our wholly owned subsidiary, The Shawinigan Engineering Company Limited, has had the responsibility during the year of bringing to completion the new power development at Shawinigan Falls, and is now engaged in the design and construction of the Trenché Development. It has also carried out other major construction work for our Company and for Shawinigan Chemicals Limited and Canadian Resins and Chemicals Limited. It has acted as engineering and construction consultants for the British Columbia Electric Railway Company's 186,000 horsepower Bridge River Development, the first 62,000 horsepower unit of which went into operation October 28, 1948, eight months ahead of schedule.

The volume of engineering and construction work now being undertaken by the Engineering Company has necessitated a very considerable expansion in its head office and field staff, as well as in the number of its employees actually engaged in construction work, the total number employed at December 31, 1948 being 2,072.

Installing the third generator in the new No. 3 development at Shawinigan Falls.



Looking down a penstock towards the power house of the Bridge River development in British Columbia.

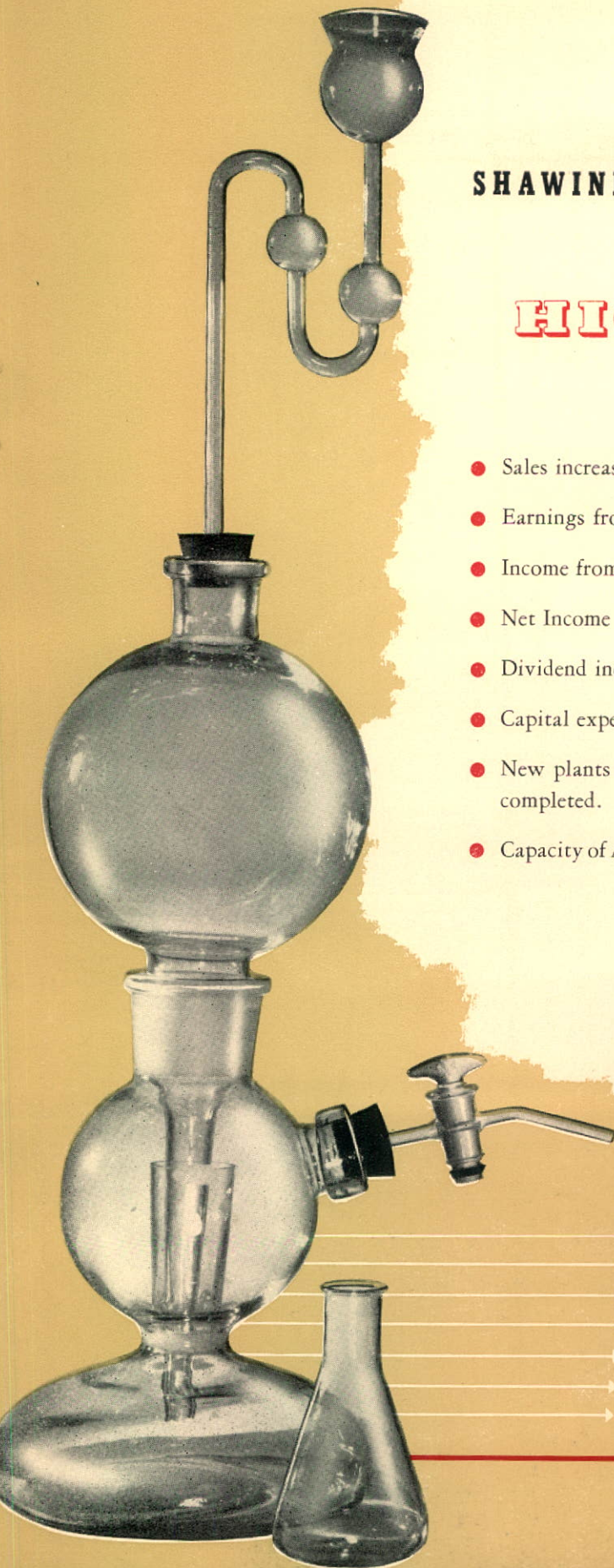
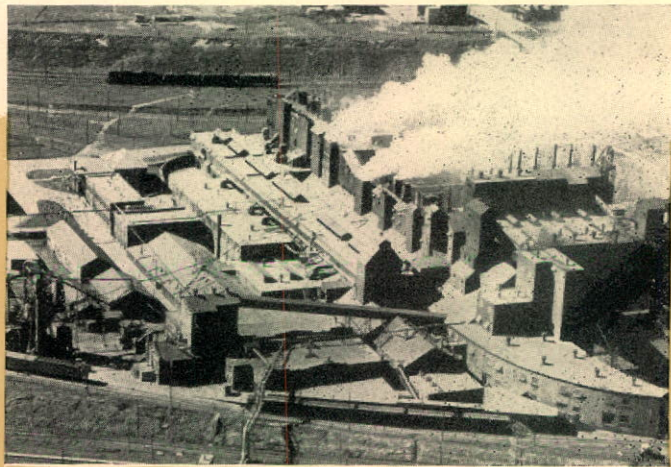


SHAWINIGAN CHEMICALS LIMITED

HIGHLIGHTS

- Sales increased 26% over 1947.
- Earnings from manufacturing operations before taxes \$1,975,625.
- Income from other sources \$1,135,780.
- Net Income after taxes \$1,964,405 or \$6.98 per share.
- Dividend increased from \$2.50 to \$3.00 per share.
- Capital expenditures for year \$1,743,000.
- New plants for Butyraldehyde and Monochloroacetic Acid completed.
- Capacity of Acetylene Black and Acetic Anhydride plants increased.

The Carbide Plant of Shawinigan Chemicals Limited at Shawinigan Falls.



Shawinigan Chemicals Limited

A statement of the sales and earnings of our Chemicals Company for 1948 as compared with 1947 is shown below.

SHAWINIGAN CHEMICALS LIMITED

	1948	1947
INCOME FROM SALE OF PRODUCTS.....	\$16,594,329	\$13,166,964
The cost of making and selling these products was.....	14,368,704	11,596,201
<i>Note: Included in this cost is an amount of \$592,440* to provide for replacement of plant (Depreciation).</i>		
	<u>2,225,625</u>	<u>1,570,763</u>
Special appropriation to cover increased cost of replacements.....	250,000	—
This left earnings on manufacturing operations before Income and Profits Taxes of.....	1,975,625	1,570,763
Estimated proportion of such taxes payable on these earnings....	<u>860,727</u>	<u>765,092</u>
THIS LEFT A PROFIT ON MANUFACTURING OPERATIONS OF.....	1,114,898	805,671
Income from investments in subsidiary companies, from royalties on patents and from other sources. \$1,135,780		734,562
Estimated proportion of Income and Profits Taxes payable on this income..... 286,273		<u>259,908</u>
	849,507	<u>474,654</u>
NET INCOME FROM ALL SOURCES THEREFORE WAS.....	1,964,405	1,280,325
Dividends of \$3.00† per share paid to the parent company for use of money invested in the business, or a total of.....	<u>843,825</u>	<u>703,188</u>
BALANCE RETAINED IN THE BUSINESS.....	<u>\$1,120,580</u>	<u>\$577,137</u>
* \$427,808 in 1947 † \$2.50 in 1947		

Sales exceeded those of the previous year by 26%. Costs of raw materials and wage levels were higher than in 1947. Provision for replacement and renewal of plant and equipment amounting to \$592,440 is



Shawinigan Chemicals Limited

included in manufacturing costs. This amount is based on the original book cost of plant and equipment without recognition of the fact that under today's conditions, the cost of replacement would be very much greater. Although it is not possible at present to determine how much this greater cost might be, the Directors of the Chemicals Company have decided to make some provision for this eventuality by appropriating an amount of \$250,000 to Contingent Reserve. After this appropriation and after providing for estimated taxes, the profit on manufacturing operations was \$1,114,898.

In addition to the profit on manufacturing operations, the Chemicals Company received income totalling \$1,135,780 from investments in subsidiary companies, from royalties on patents and other sources.

Dividends received from Shawinigan Limited, London, England, amounted to \$90,559 after conversion at current exchange rates. Net profits (subject to audit) of that company for 1948 were £11,028 as compared with £15,927 in 1947.

Dividends paid during the year by Shawinigan Products Corporation, New York City, U.S.A., amounted to \$114,000 U.S. Funds, and a further dividend of \$100,000 has been declared since the close of the year. The net profits (subject to audit) of Shawinigan Products Corporation for 1948 were \$375,000 compared with \$506,457 for 1947. This decrease is mainly due to the fact that the dividends received on its fifty percent shareholding

Shawinigan Chemicals Limited

in Shawinigan Resins Corporation, Springfield, Massachusetts, were \$143,000 compared with \$250,250 in 1947, the latter figure including payments out of 1946 earnings which were not actually received until 1947. The sales and earnings of Shawinigan Resins Corporation for 1948 were somewhat lower than in 1947.

No dividends were received from Canadian Resins and Chemicals Limited, which the Chemicals Company owns jointly with Union Carbide and Carbon Corporation. The Resins Company has spent substantial sums of money since the war for extensions to existing plants and construction of plants for new products. A new plant for the manufacture of dioctyl phthalate plasticizer, an essential material in the manufacture of "Vinylite" plastics, came into operation late in 1948. This material, which was previously imported from the United States, will therefore be available to the Resins Company from its own plant, and will also be sold by it to other users in domestic and export markets.

Net income from royalties on the Chemicals Company's patents amounted to \$561,551 as compared with \$342,055 in 1947, part of the increase being of a non-recurring nature.

After providing for Income and Profits Taxes, Net Income of the Chemicals Company was \$1,964,405 as compared with \$1,280,325 in 1947. Dividends of \$3.00 per share were paid or a total amount of \$843,825, compared with \$703,188 in 1947. After payment of dividends, an amount of \$1,120,580 was retained in the business for working capital and plant expansion.

Financial position

A summary of the Chemicals Company's financial position as compared with that of the previous year is shown below. The increase in 'Property, plant and equipment' is the result of capital expenditures made during the year. The increase in 'Investments in subsidiary and associated companies' represents the investment by the Chemicals Company of its share of the funds required by Canadian Resins and Chemicals Limited to finance its capital expenditure programme.

SHAWINIGAN CHEMICALS LIMITED

Financial Position as at December 31, 1948 and 1947

OWNED			OWED		
	1948	1947		1948	1947
Cash, call loan and marketable securities.....	\$ 2,798,574	\$ 3,122,034	For materials, services and taxes.....	\$ 1,606,245	\$ 1,499,636
Raw materials, supplies and finished goods.....	3,095,350	2,429,916	Purchase of Government plant.....	773,808	958,313
Due from customers.....	1,815,667	2,552,094	Purchase of patent.....	150,000	180,000
Investments in subsidiary and associated companies	2,455,695	1,622,695	Reserve to provide for replacement of plant (Depreciation).....	10,170,320	9,660,768
Other assets.....	1,605,379	1,841,558	Contingent and insurance reserves.....	917,361	667,361
Property, plant and equipment.....	16,697,001	15,209,223	TOTAL OWED.....	13,617,734	12,966,078
TOTAL OWNED.....	<u>\$28,467,666</u>	<u>\$26,777,520</u>	Net Worth (total owned less total owed).....	14,849,932	13,811,442
				<u>\$28,467,666</u>	<u>\$26,777,520</u>

Capital expenditures

The Chemicals Company spent \$1,743,000 during the year on new plants and additions and improvements to existing plants. New plants for the production of Butyraldehyde and Monochloroacetic Acid were brought into operation and additional capacity was installed for the manufacture of Acetylene Black and Acetic Anhydride. An addition was also made to the Research Laboratories which will greatly facilitate the continuing programme of research.

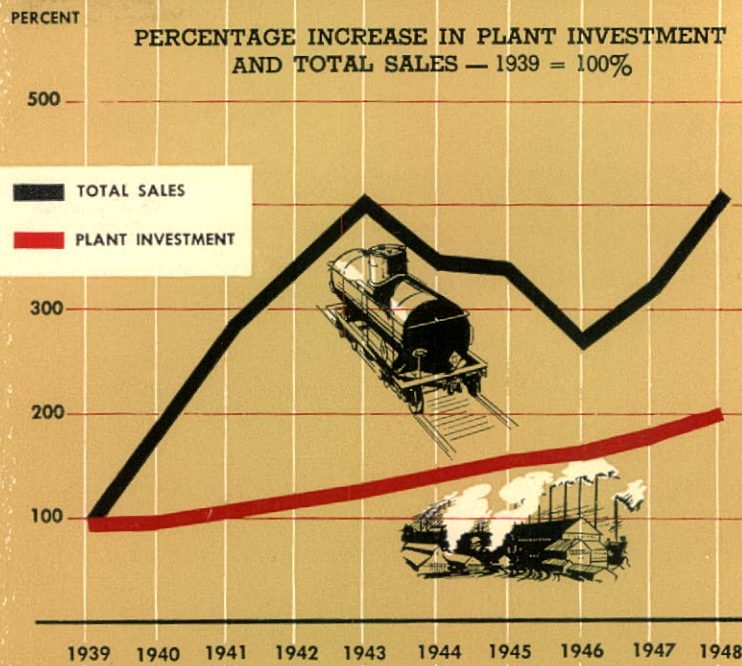
The capital expenditures of Canadian Resins and Chemicals Limited amounted to \$1,763,000. The major item of expenditure was for the construction of the plant for the manufacture of Dioctyl Phthalate. In addition, the capacity of the resin plant was increased and a new office building was erected.

Since the war the Chemicals Company has carried out an extensive capital expenditure programme which is now approaching completion. In view, however, of the nature of the chemical industry, it is inevitable that new capital investment will be required from time to time for the erection of additional plants for the manufacture of new products, as well as for the improvement of existing processes.

The new Dioctyl Phthalate Plant of Canadian Resins and Chemicals Limited.

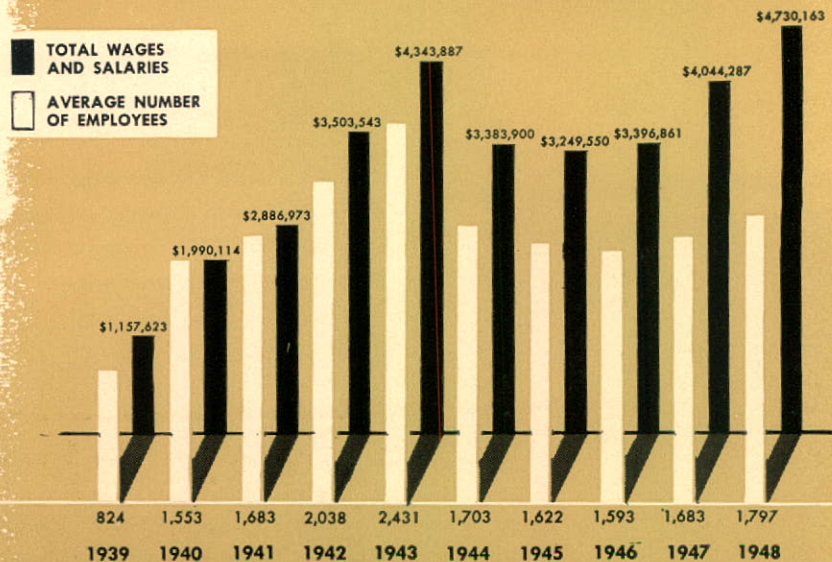


The Outlook



The business of the Chemicals Company continues to grow. The manufacture of chemicals is a basic industry, and the growing industrialization now taking place in Canada is bringing about an increasing domestic demand for the Company's products. Furthermore, as many of its products are essential raw materials for manufacturers in other countries, its export business has increased despite currency restrictions in certain countries. Illustrative of the growth of the Chemicals Company are the accompanying charts which show the increase in total sales and in plant investment since 1939, and in the number of its employees.

AVERAGE TOTAL NUMBER OF EMPLOYEES, TOTAL WAGES AND SALARIES PAID 1939 - 1948



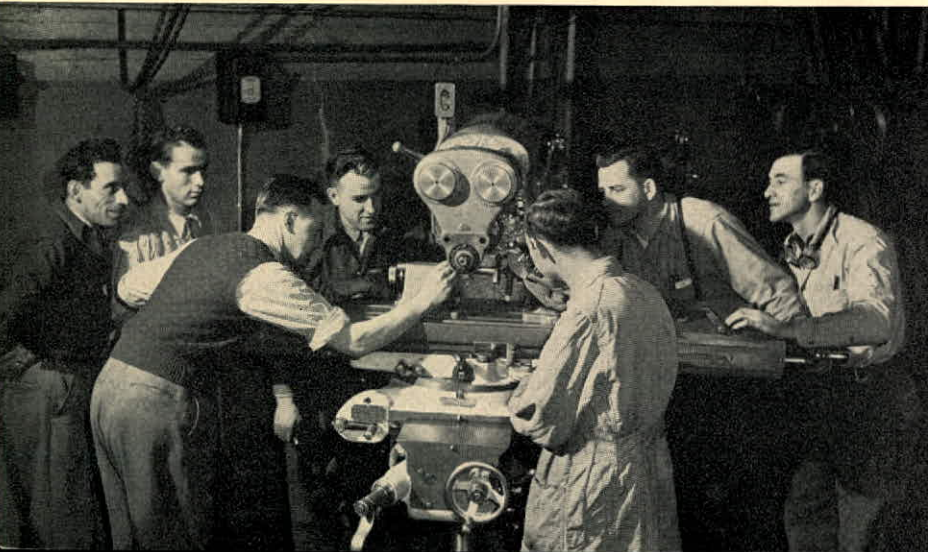


Relations with employees

Our Company's relations with its employees continue to be most satisfactory. During the year two general wage and salary increases were made effective, and agreements which expired with Unions representing 76% of our employees were renewed. Total wages and salaries paid amounted to \$6,675,418, an increase of 15.2% over the previous year.

The new Contributory Retirement Income Plan, which became effective January 1, 1947 for employees of all the Shawinigan Companies, is operating satisfactorily, and more than 99% of those eligible are participating. As of January 1, 1949 there were 324 former employees receiving pensions under either the present or the former non-contributory plan.

In a number of centres where the Shawinigan Companies are operating, many employees attend technical and trade schools in order to further their practical education and training, and others act as instructors of night classes in these schools. For example, at the Shawinigan Technical Institute



A class in progress at the Shawinigan Technical Institute.

Students learning the use
of an acetylene torch.



at Shawinigan Falls there are at present 114 Shawinigan employees attending various night classes, and six others are instructors. In addition, 67 sons of our employees are regular day pupils at the Institute.

We encourage the participation of our employees in various community activities. Many of them serve on School and Hospital Boards, Community Welfare organizations, Boards of Trade and in other similar phases of community life. While community activity makes demands upon the leisure time of participating employees, it is of great benefit to the communities which we serve, and we commend our employees who are engaged in such activities.

The high position which the Shawinigan Companies have attained in the business life of the Province of Quebec has been due primarily to the loyalty, initiative, efficiency and co-operation of every employee. The Directors take this opportunity of expressing their appreciation to all employees for their efforts throughout the past year.

Directors and officers

There have been no changes in the Directorate during the year. Mr. M. Balls, Manager of the Water Resources Department, and Mr. A. L. J. Baribeau, Assistant Manager of the Commercial and Distribution Department, were appointed Assistant Vice-Presidents of the Company. Mr. Balls has been an employee of the Company for 22 years and Mr. Baribeau for 18 years. Mr. J. L. T. Martin, formerly Manager of the Property and Tax Department and an employee of the Company for 33 years, was appointed Secretary upon the retirement on pension of Mr. H. G. Budden on January 1, 1949. Mr. Budden had given 32 years of loyal service to the Company.

The Future

The growth in the demand for electrical services is at present the greatest in our Company's history. In order to serve industry and the people of the Province of Quebec adequately, we are spending large sums of money for new plant. The money so required can be obtained only if investors are satisfied that their investment will provide security and a fair return.

We are making every effort to carry on our operations in an efficient and economical manner, but, in the inflationary period through which we are passing, our operating costs, like those of all business, have been

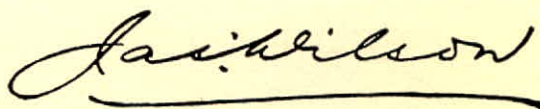
steadily and rapidly increasing. Until recently this was to a large extent offset by the improvement in revenues resulting from an increasing proportion of primary power sales. In 1948, however, practically our entire output was sold as primary power so that further gain in revenues can only be derived from additional output.

In the light of these conditions, which are common to the electric utility business as a whole, we are confident that industry and the public we serve will recognize that the rates for electrical services should now be adjusted to meet the greatly increased cost of providing those services.

It is confidently anticipated that with rates at a level which more closely reflects our increased costs, we shall be able to maintain the high standards of service which it has been our constant endeavour to provide and at the same time to earn a reasonable return on the greatly increased amounts of capital now required for expansion of our facilities for the production and distribution of power.

There is appended hereto in graphic form a review which illustrates the physical and financial changes which have taken place in our Company's affairs during the ten years which have elapsed since the outbreak of the war.

On behalf of the Board of Directors,

A handwritten signature in cursive script, reading "J. A. Wilson", with a horizontal line underneath.

President.

10-YEAR REVIEW



The close of the year 1948 marked the end of the tenth year since the outbreak of World War II. During this period our Company has experienced the largest growth in its history and we think it is appropriate to present, in graphic form, a review of the more important developments and their effect upon our physical growth and financial position.

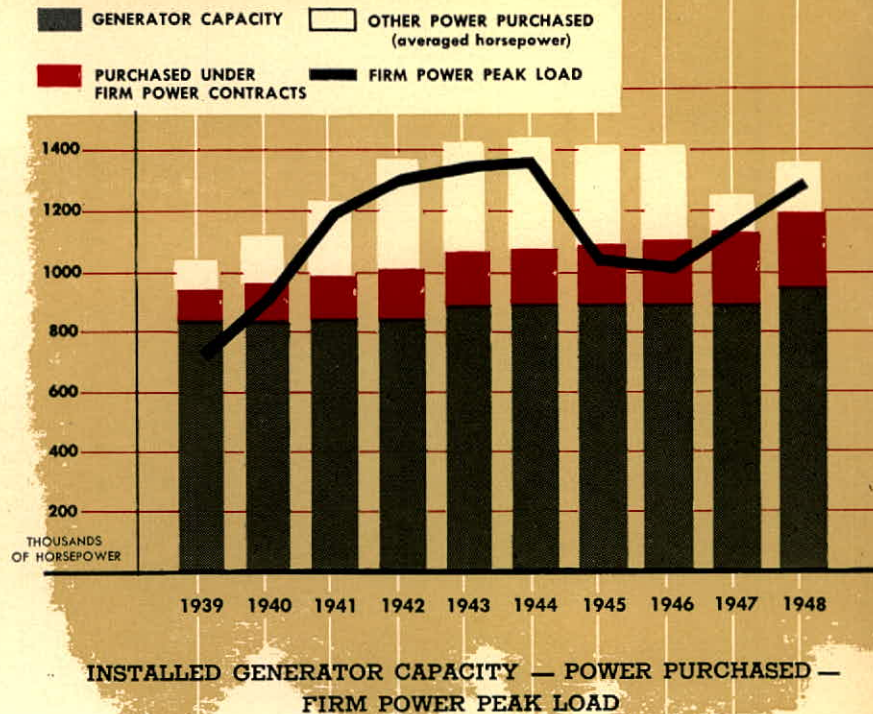
Physically, the outstanding feature is that, due to the remarkably rapid rate of progress in the industrial development of the Province of Quebec and the consequent increased demands for power throughout the territory we serve, we have found it necessary to add to and extend our generation and distribution facilities.

Financially, the outstanding feature is that, while revenue from power sales has greatly increased, our costs have increased at an even faster rate.

The story of Physical Growth

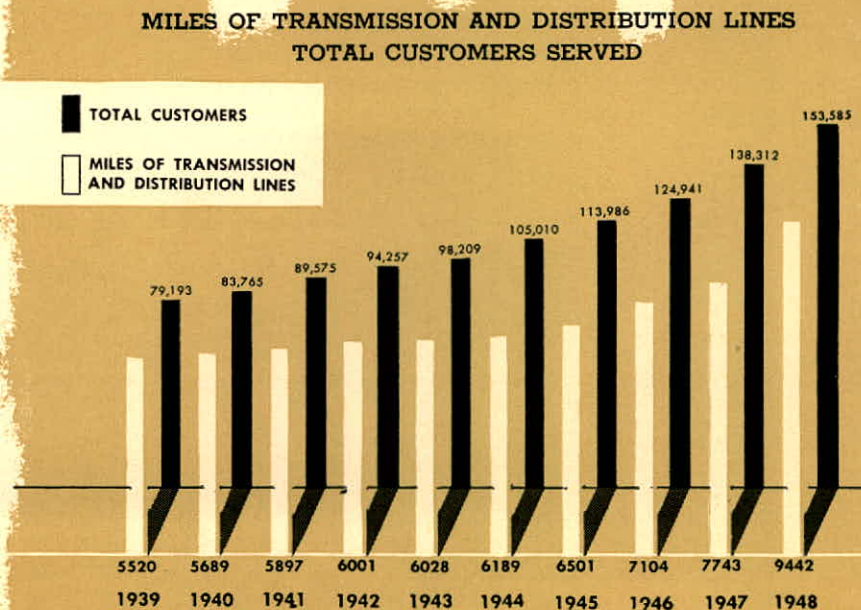
Power Supply

During the war, our primary task was to assure that adequate supplies of power were available for war purposes. Through the interconnection of our system with the systems of other generating companies and through elimination of the sale of secondary power, this task was achieved. The growth of the firm power peak load on our system indicates the very large demand for primary power which existed during the war, and which, after some recession in the immediate post-war period, has since been increasing rapidly.



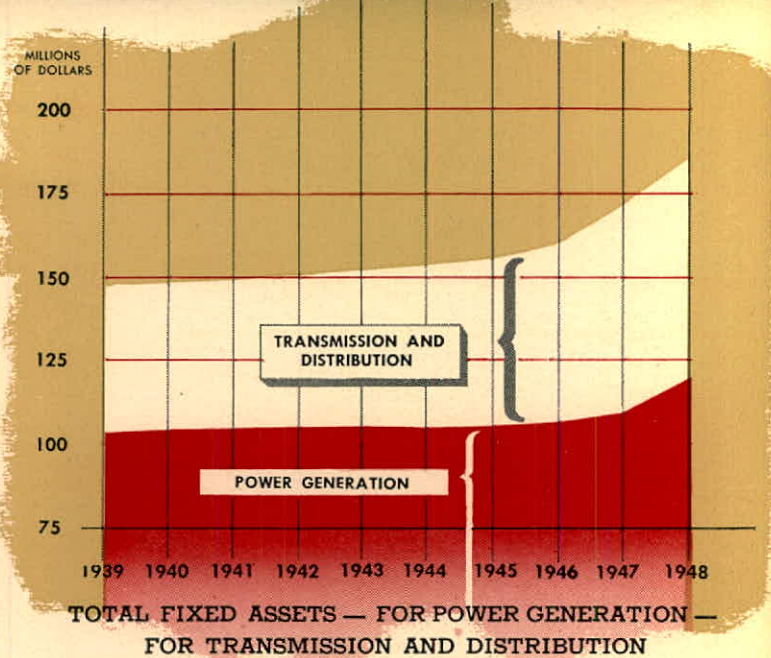
Power Distribution

It has been our policy to extend our transmission and distribution systems, particularly in the rural and agricultural areas of our territory. During the war period, it was necessary to stop all but essential construction. Since the end of hostilities the extension programme has been resumed and accelerated, and there has been a corresponding increase in the number of new customers added each year.



Plant and Equipment

It has also been our policy to foster the establishment of new industries in our territory, and over the past ten years there has been an ever widening diversification in the industries we serve. Since the end of the war, the demand for power from industry has grown almost to wartime peak levels and, in order to keep pace with this demand, we have had to increase our investment in plant and equipment required for the generation and delivery of power.

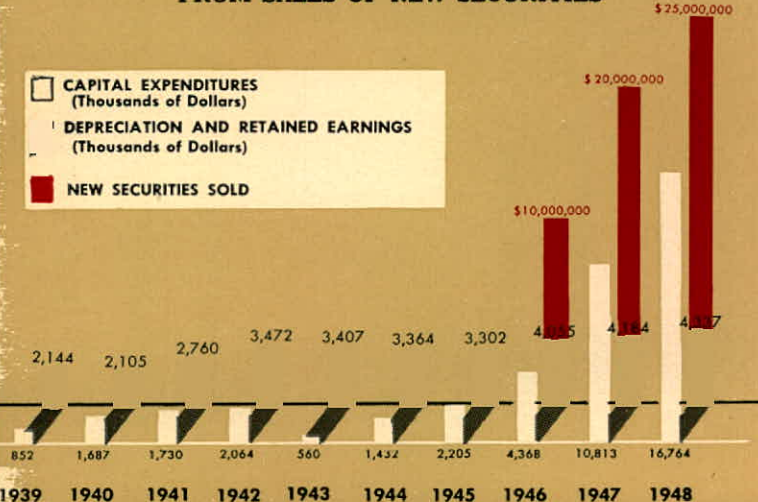


This expansion has required the expenditure of large sums of money, particularly during the last three years. It is the nature of the hydro-electric industry that a very large dollar investment is required for every dollar of revenue obtainable from the sale of power.

During the war years, funds which became available from depreciation and earnings retained in the business were sufficient to provide for the capital expenditures which we had to make in that period. During the last three years, however, expenditures for plant and equipment

have greatly exceeded the funds available from within the Company's own resources, and the difference has been obtained from the sale of new securities. In 1946 we sold \$10,000,000 of Bonds; in 1947, \$20,000,000 of 4% Preferred Shares and late in 1948, we sold a further \$25,000,000 of Bonds.

ANNUAL CAPITAL EXPENDITURES — FUNDS AVAILABLE FROM DEPRECIATION AND RETAINED EARNINGS — FROM SALES OF NEW SECURITIES

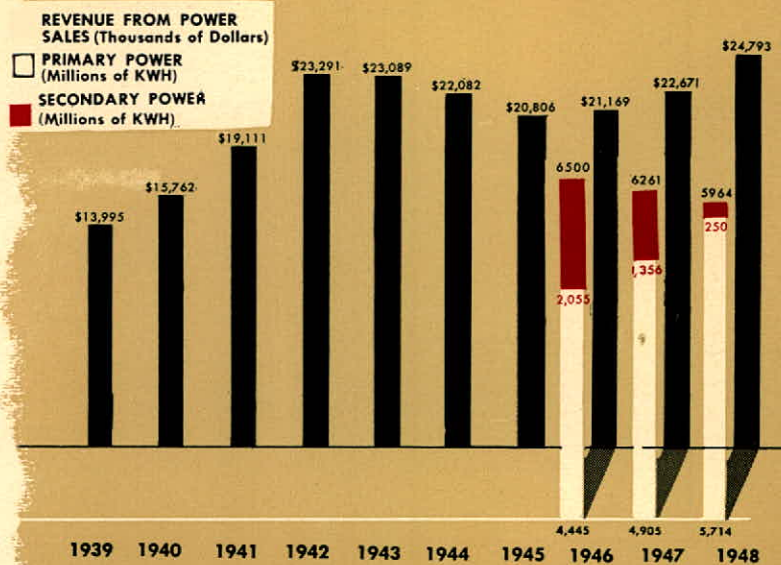


The story of Increased Revenues and Operating Expenses

Revenue from Power Sales

The high level of industrial activity which prevailed throughout our territory during the war years resulted in greatly increased gross revenues. Not only was our output much larger, but also most of the power, which had previously been disposed of as secondary power, was sold as primary power. With the cessation of the war, secondary power sales were resumed but, since that time, the demand for primary power has increased progressively with the result that practically no surplus is now available.

Although the total kilowatthours sold during the years 1946 to 1948 showed some reduction, revenues over the period increased by \$3,623,846 because of the higher proportion of primary power sales as shown in the chart above.



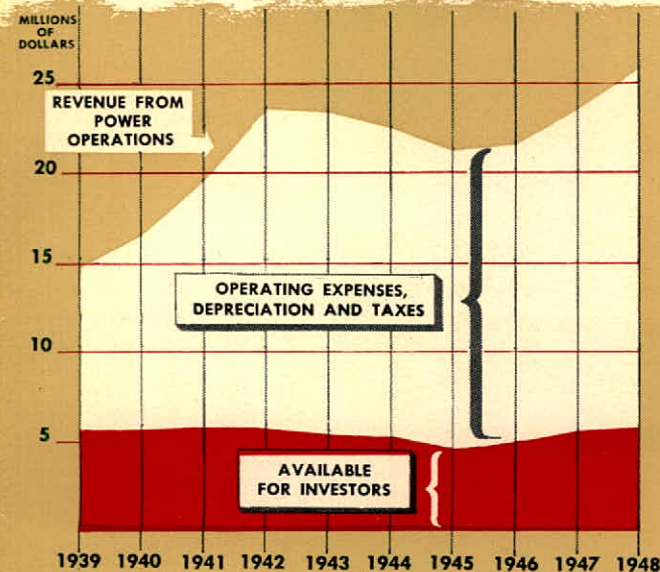
REVENUE FROM POWER SALES —
TOTAL KILOWATTHOURS SOLD - PRIMARY AND SECONDARY

Net Revenue from Power Operations

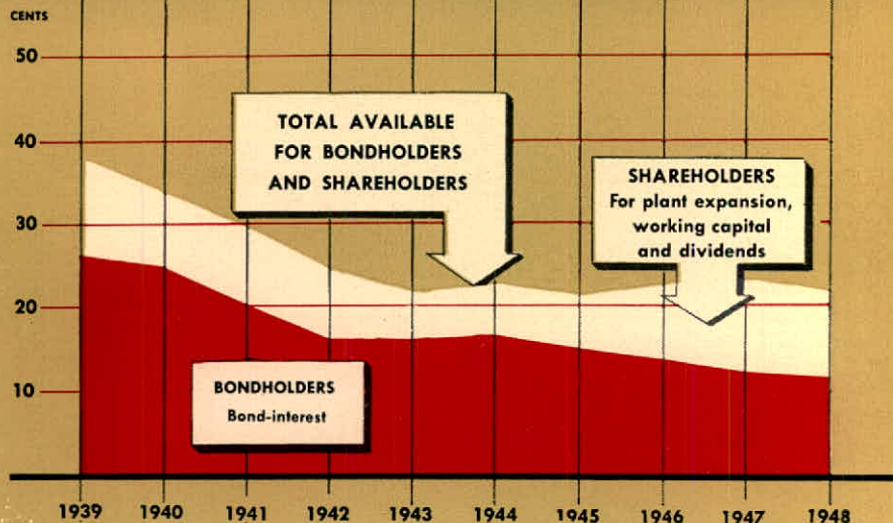
Our operating expenses have increased considerably since 1939 due to the higher cost of materials and equipment, and the increases which have taken place in wages and salaries. In addition, the proportion of our revenue which is paid for taxes is very much greater. Consequently, despite larger revenue from power operations*, the balance of net revenue available for bondholders and shareholders remains about the same. This situation is revealed on the accompanying chart.

**In this chart and those which follow, revenue from power operations includes all revenues except Dividends from Subsidiary and Associated Companies. The balance of net revenue available for bondholders and shareholders is arrived at after inclusion of Depreciation and Income and Profits Taxes in Operating Expenses.*

REVENUE FROM POWER OPERATIONS AND
BALANCE OF NET REVENUE AVAILABLE FOR INVESTORS



While the balance of net revenue from power operations available for bondholders and shareholders has remained at approximately the same level as in 1939, the percentage of each dollar of revenue derived from this source is considerably lower.

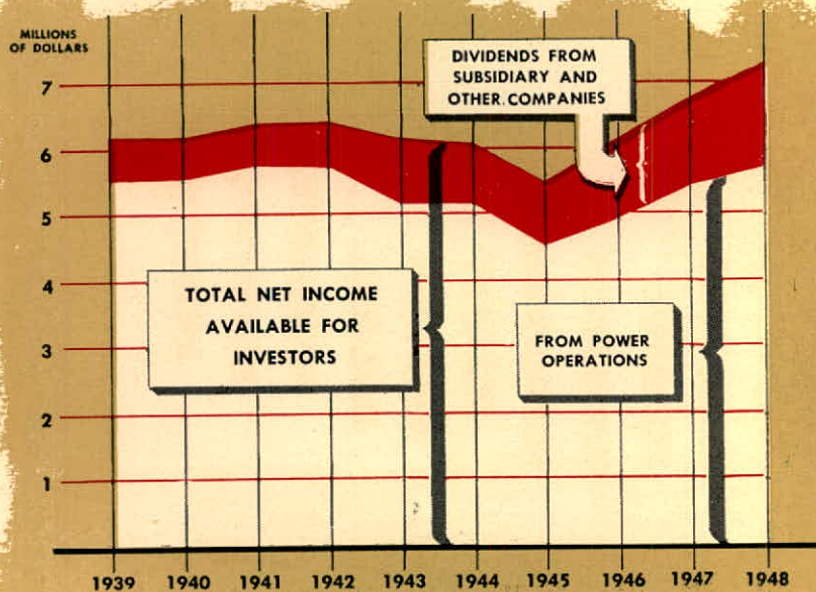


CENTS PER DOLLAR OF REVENUE FROM POWER OPERATIONS AVAILABLE TO INVESTORS

Dividends from Subsidiary and Other Companies

In addition to our power operations, we also have substantial investments in a number of subsidiary and other companies. The largest of these is Shawinigan Chemicals Limited, which since 1943, has paid dividends starting with \$1.00 per share and increasing to \$3.00 per share in 1948. These dividends, together with those received from other companies, have increased the amount available to investors.

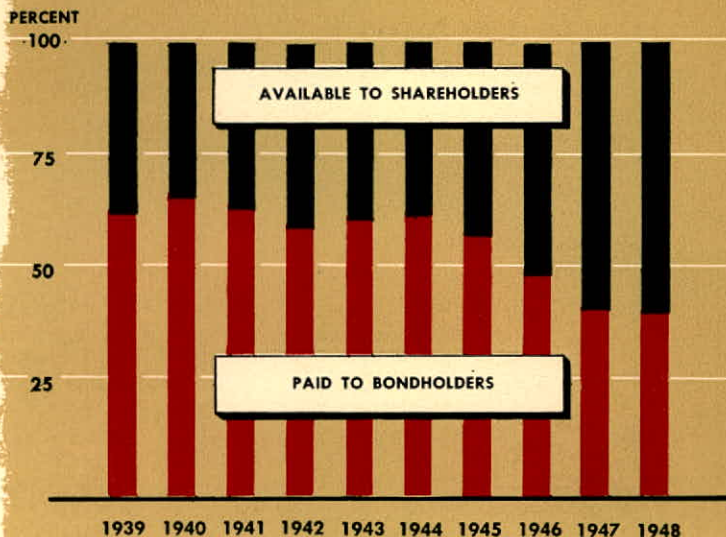
SOURCES OF NET INCOME AVAILABLE FOR INVESTORS



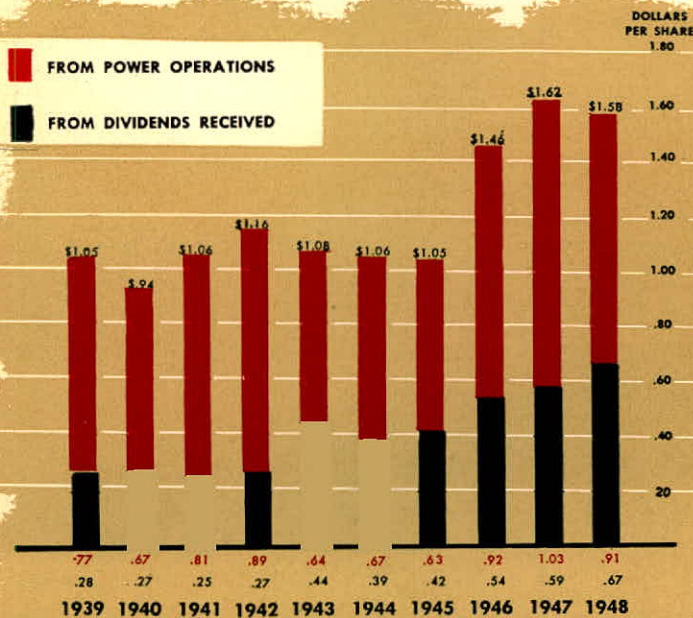
Earnings on the Common Shares

Between 1945 and 1947, we refinanced our entire funded debt which resulted in an annual saving in interest charges of almost \$900,000, or more than 40c per share on our Common Stock. The earnings available to the common shareholders have therefore increased as shown on the accompanying chart.

PERCENTAGE OF NET INCOME AFTER DEPRECIATION AND INCOME AND PROFITS TAXES PAID TO BONDHOLDERS AND AVAILABLE FOR SHAREHOLDERS



PROPORTION OF NET EARNINGS PER COMMON SHARE DERIVED FROM POWER OPERATIONS AND FROM DIVIDENDS RECEIVED



The increasing importance to the common shareholders of dividends received from subsidiary and other companies is brought out by the chart at the left showing the proportion of net income per common share derived from this source and from power operations.

THE SHAWINIGAN WATER

Comparative Balance Sheet as at

ASSETS

	1948	1947
Fixed Assets:		
Power Development	\$63,419,342	\$58,368,695
(Cost of power houses, gatehouses, dams, tunnels, sluice and regulating gates, log chutes, penstocks, shop buildings, roads, tracks, bridges and riparian rights at Shawinigan Falls, La Gabelle, Grand'Mere, Rapide Blanc and other plants.)		
Properties	25,964,455	25,782,024
(Cost of land for power developments at Shawinigan Falls, La Gabelle, Grand'Mere, Rapide Blanc and other plants, including road and shore protection, together with the cost of undeveloped water power sites, real estate and dwellings at Shawinigan Falls owned by the Company, dwellings and miscellaneous buildings at other power sites.)		
Machinery	29,023,668	25,753,947
(Cost of water wheels, generators, transformers, switches, cables and other equipment used in the production of power at Shawinigan Falls, La Gabelle, Grand'Mere, Rapide Blanc and other plants.)		
Distribution Systems	68,889,173	60,892,363
(The amount of the Company's investment in equipment required for the delivery of power to the Company's customers, inclusive of towers, transmission lines, distribution lines, right-of-way, terminal stations, sub-stations, transformers and installations of electric steam boilers.)		
Total Fixed Assets (at cost of construction or acquisition)	\$187,296,638	170,797,029
Mattawin River and Other Storage Dams (at cost)	4,078,104	
Less: Amortization to Date	949,197	
	3,128,907	3,193,537
Securities of Subsidiary and Other Companies (at cost, less net adjustments)	14,790,991	16,824,772
Deposit with Quebec Government	250,000	250,000
(\$250,000 Province of Quebec Bonds, deposited with the Quebec Government as provided in the emphyteutic lease dated June 22, 1928.)		
Refundable Portion of Dominion of Canada Excess Profits Tax	1,091,074	1,532,774
Stores and Moveable Plant (at cost)	3,733,578	3,257,162
(Cost of spare equipment, also materials, supplies and miscellaneous items carried in stores.)		
Funds Deposited with Trustee, to be withdrawn against Additional Property under Terms of the Trust Deed	8,500,000	—
Current Assets:		
Cash in Banks and on Hand	3,766,635	1,702,516
Call Loans	1,510,000	250,000
Temporary Investments (at cost, less reserve)	22,522,885	21,232,725
(Government Bonds and other investments, market value \$22,658,840.)		
Accounts and Bills Receivable	3,231,527	2,776,487
Total Current Assets	31,031,047	25,961,728
Prepaid Charges	780,045	559,807
(Insurance, taxes, rentals, etc., paid in advance.)		
Unamortized Bond Premium, Discount and Expense	5,842,486	5,483,458
Total Assets	<u>\$256,444,766</u>	<u>\$227,860,267</u>

AUDITORS' REPORT

We have audited the books and accounts of The Shawinigan Water and Power Company for the year ended December 31, 1948. In connection therewith we examined or tested the accounting records and other supporting evidence and made a general review of the accounting methods of the Company.

Stores, Moveable Plant, Cash Funds and Customers' Accounts, have been verified periodically by your Internal Audit Department which has furnished us with certificates to that effect.

We have received all the information and explanations we have required, and in our opinion, based on our examination, the above Balance Sheet and related Statement of Profit and Loss and Surplus set forth correctly the financial position of The Shawinigan Water and Power Company as at December 31, 1948, and the result of operations for the year ended on that date, according to the best of our information, the explanations given to us and as shown by the books and records of the Company.

(Signed) SHARP, MILNE & CO.,

Chartered Accountants.

Montreal, January 20, 1949.

AND POWER COMPANY

December 31, 1948 and 1947

LIABILITIES

Capital Stock:	1948	1947
<u>Cumulative Redeemable Preferred:</u>		
Authorized—600,000 Shares of \$50 par value	\$30,000,000	
Issued—Series "A" 4%, 400,000 Shares of \$50 par value	\$20,000,000	\$ 20,000,000
<u>Common:</u>		
Authorized—2,600,000 Shares of no par value		
Issued —2,178,250 Shares of no par value	67,562,997	67,562,997
Total Capital Stock	\$ 87,562,997	87,562,997
<u>Funded Debt:</u>		
<u>First Mortgage and Collateral Trust Sinking Fund Bonds:</u>		
Series "H" 3½% maturing January 1, 1970	18,761,000	
Less: Redeemed under Sinking Fund Provisions	1,194,000	
	17,567,000	17,567,000
Series "J" 3½% maturing February 1, 1970	9,164,000	
Less: Redeemed under Sinking Fund Provisions	63,000	
	9,101,000	9,101,000
Series "L" 3% maturing March 1, 1961	12,828,000	12,828,000
Series "M" 3% maturing April 15, 1971	25,000,000	25,000,000
Series "N" 3% maturing May 15, 1971	10,000,000	
Less: Redeemed under Sinking Fund Provisions	629,000	
	9,371,000	9,500,000
Series "O" 3¼% maturing April 1, 1972	13,806,500	13,806,500
Series "P" 3½% maturing October 1, 1973	25,000,000	
Less: Redeemed under Sinking Fund Provisions	1,000,000	
	24,000,000	—
Total Funded Debt	111,673,500	87,802,500
	<small>(Principal and Interest payable in Canadian Funds with the exception of Series "M" payable in United States Funds.)</small>	
<u>Current Liabilities:</u>		
Accounts Payable (including Provision for Income and Profits Taxes)	3,108,081	3,002,695
Accrued Bond Interest, and Dividends Payable	1,935,469	1,725,953
Total Current Liabilities	5,043,550	4,728,648
<u>Reserves:</u>		
Contingent and Insurance Reserves	1,160,032	1,160,032
<small>(This amount is made up of sums transferred from surplus or earnings to provide for loss or damage to property by fire or other contingencies.)</small>		
Depreciation and Renewal Reserve	43,136,833	39,901,119
<small>(Amounts representing provision for depreciation and renewals.)</small>		
Total Reserves	44,296,865	41,061,151
<u>Surplus:</u>		
Earned Surplus	6,776,780	5,172,197
Deferred Surplus	1,091,074	1,532,774
<small>(Refundable Portion of Dominion of Canada Excess Profits Tax.)</small>		
	7,867,854	6,704,971
Total Liabilities	\$256,444,766	\$227,860,267

The Company jointly with Montreal Light, Heat & Power Consolidated (now succeeded by Quebec Hydro-Electric Commission) has guaranteed, as to one half each, the principal and interest of \$3,351,500 of the 3% Collateral Trust Ten-year Bonds of United Securities Limited maturing May 1, 1952.

Approved on behalf of the Directors,

ARTHUR SURVEYER
H. G. WELSFORD } *Directors.*

THE SHAWINIGAN WATER AND POWER COMPANY

COMPARATIVE STATEMENT OF PROFIT AND LOSS ACCOUNT

For the years ended December 31, 1948 and 1947

	1948	1947
Revenue from Power Sales	\$24,792,632	\$22,670,756
Other Revenue, including Income from Temporary Investments and Rentals	1,031,709	748,990
Dividends from Subsidiary and Other Companies	1,467,803	1,303,181
Total Revenue	27,292,144	24,722,927
Deduct:		
Operating Expenses	2,757,125	2,581,455
Power Purchased	4,446,236	3,556,985
Maintenance and Repairs	1,899,033	1,729,082
Taxes, other than Income and Profits Taxes	1,611,706	1,353,410
General Expenses	3,177,839	2,750,473
Water Storage Rentals	627,759	668,169
Total Operating Expenses	14,519,698	12,639,574
Net Profit before Bond Interest, Depreciation and Income and Profits Taxes	12,772,446	12,083,353
Deduct:		
Interest paid and accrued on Bonds (including U.S. Exchange \$3,750)	2,981,256	2,842,045
Net Profit before Depreciation and Income and Profits Taxes	9,791,190	9,241,308
Deduct:		
Provision for—Depreciation	3,500,000	3,250,000
Income and Profits Taxes	2,040,000	2,043,000
Total Depreciation and Income and Profits Taxes	5,540,000	5,293,000
Net Profit transferred to Earned Surplus Account	\$4,251,190	\$3,948,308

COMPARATIVE STATEMENT OF EARNED SURPLUS ACCOUNT

For the years ended December 31, 1948 and 1947

	1948	1947
Surplus carried forward from previous year, after adjustments	\$5,165,492	\$4,538,426
Refunded Portion of Excess Profits Tax for 1942	441,700	—
Profit on Securities Sold	647,718	—
Net Profit transferred from Profit and Loss Account	4,251,190	3,948,308
Total	10,506,100	8,486,734
Deduct:		
Amortization of Bond Premium, Discount and Expense, less Net Preferred Stock Premium and Expense	243,050	228,267
One tenth of additional cost for past service, Employees' Retirement Income Plan (third annual payment)	72,370	72,370
Dividends on Preferred Shares	800,000	400,000
Dividends on Common Shares	2,613,900	2,613,900
Total	3,729,320	3,314,537
Earned Surplus as per Balance Sheet	\$6,776,780	\$5,172,197

Audited and Verified,
per our Report attached,
(Signed) SHARP, MILNE & CO.,

Chartered Accountants.

Montreal, January 20, 1949.

THE SHAWINIGAN WATER AND POWER COMPANY

Comparative Statement of Profit and Loss Account

For the Years ended December 31, 1939-1948

	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
Revenue from Power Sales	\$13,994,918	\$15,762,141	\$19,111,277	\$23,291,283	\$23,088,890	\$22,081,965	\$20,805,955	\$21,168,786	\$22,670,756	\$24,792,632
Other Revenue, including Income from Temporary Investments and Rentals	524,388	705,135	405,057	298,633	282,142	330,690	245,289	399,135	748,980	1,031,709
Dividends from Subsidiary and Other Companies	614,221	597,439	547,949	588,397	960,681	860,735	934,955	1,178,294	1,303,181	1,467,803
<i>Total Revenue</i>	<u>15,133,527</u>	<u>17,064,715</u>	<u>20,064,283</u>	<u>24,178,313</u>	<u>24,331,713</u>	<u>23,273,390</u>	<u>21,986,199</u>	<u>22,746,215</u>	<u>24,722,927</u>	<u>27,292,144</u>
<i>Deduct:</i>										
Operating Expenses	1,126,794	1,302,468	1,470,186	1,580,349	1,703,598	1,872,595	1,868,763	2,086,954	2,581,455	2,757,125
Power Purchased	1,771,897	2,339,693	3,485,991	4,252,495	4,284,068	4,353,609	3,465,720	3,593,803	3,556,985	4,446,236
Maintenance and Repairs	838,667	871,821	1,127,915	1,194,900	1,425,055	2,794,115	2,042,721	1,729,420	1,729,082	1,899,033
Taxes, other than Income and Profits Taxes	1,046,140	1,040,799	1,093,939	921,936	836,384	865,450	913,599	1,245,363	1,353,410	1,611,706
General Expenses	1,459,166	1,480,218	1,550,008	1,737,503	2,024,499	2,064,224	2,058,854	2,324,690	2,750,473	3,177,839
Water Storage Rentals	485,832	500,736	481,407	530,921	548,726	549,508	575,005	616,200	668,169	627,759
<i>Total Operating Expenses</i>	<u>6,728,496</u>	<u>7,535,735</u>	<u>9,209,446</u>	<u>10,218,104</u>	<u>10,822,330</u>	<u>12,499,501</u>	<u>10,924,662</u>	<u>11,596,430</u>	<u>12,639,574</u>	<u>14,519,698</u>
<i>Net Profit before Bond Interest, Depreciation and Income and Profits Taxes</i>	<u>8,405,031</u>	<u>9,528,980</u>	<u>10,854,837</u>	<u>13,960,209</u>	<u>13,509,383</u>	<u>10,773,889</u>	<u>11,061,537</u>	<u>11,149,785</u>	<u>12,083,353</u>	<u>12,772,446</u>
<i>Deduct:</i>										
Interest paid and accrued on Bonds (including U.S. Exchange)	3,881,205	4,124,038	4,018,574	3,836,244	3,789,897	3,723,806	3,163,562	2,958,659	2,842,045	2,981,256
<i>Net Profit before Depreciation and Income and Profits Taxes</i>	<u>4,523,826</u>	<u>5,404,942</u>	<u>6,836,263</u>	<u>10,123,965</u>	<u>9,719,486</u>	<u>7,050,083</u>	<u>7,897,975</u>	<u>8,191,126</u>	<u>9,241,308</u>	<u>9,791,190</u>
<i>Deduct:</i>										
Provision for—										
Depreciation	1,800,000	2,000,000	2,400,000	2,900,000	3,000,000	3,000,000	3,000,000	3,150,000	3,250,000	3,500,000
Income and Profits Taxes	419,000	1,340,000	2,116,000	4,691,099	4,352,101	1,725,796	2,592,000	1,849,000	2,043,000	2,040,000
<i>Total Depreciation and Income and Profits Taxes</i>	<u>2,219,000</u>	<u>3,340,000</u>	<u>4,516,000</u>	<u>7,591,099</u>	<u>7,352,101</u>	<u>4,725,796</u>	<u>5,592,000</u>	<u>4,999,000</u>	<u>5,293,000</u>	<u>5,540,000</u>
<i>Net Profit</i>	<u>\$ 2,304,826</u>	<u>\$ 2,064,942</u>	<u>\$ 2,320,263</u>	<u>\$ 2,532,866</u>	<u>\$ 2,367,385</u>	<u>\$ 2,324,287</u>	<u>\$ 2,305,975</u>	<u>\$ 3,192,126</u>	<u>\$ 3,948,308</u>	<u>\$ 4,251,190</u>
<i>Earnings and Dividends:</i>										
4% Preferred Shares, \$50 Par Value:										
Earned per Share									\$9.87	\$10.62
Dividends for the Year									1.00*	2.00
<i>Common Shares, No Par Value:</i>										
Earned per Share	\$1.05	\$0.94	\$1.06	\$1.16	\$1.08	\$1.06	\$1.05	\$1.46	\$1.62	\$1.58
Dividends for the Year90	.90	.90	.90	.90	.90	.92	1.05	1.20	1.20

*For six months only.

⊗Including Refundable Portion of Dominion of Canada Excess Profits Tax.

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Montreal, Que. Toronto, Ont.

Bank of Montreal Trust Company
New York City, U.S.A.

Bankers:

The Royal Bank of Canada
National Canadian Bank

Registrars:

National Trust Company Limited
Montreal, Que. Toronto, Ont.

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

Auditors:

Sharp, Milne & Co.
Chartered Accountants, Montreal, Que.

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