Royal Commission on Corporate Concentration

Study No. 6

Domtar Limited

A Corporate Background Report

by

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FOREWORD

In April 1975 the Royal Commission on Corporate Concentration was appointed to "inquire into, report upon, and make recommendations concerning:

(a) the nature and role of major concentrations of corporate power in Canada;

(b) the economic and social implications for the public interest of such concentrations; and

(c) whether safeguards exist or may be required to protect public interest in the presence of such concentrations."

To gather informed opinion, the Commission invited briefs from interested persons and organizations and held hearings across Canada beginning in November 1975. In addition, the Commission organized a number of research projects relevant to its inquiry. One such project resulted in a series of studies, of which this is one, dealing with the growth of large and diversified corporations in Canada. The series was coordinated by Charles B. Loewen of Loewen, Ondaatje, McCutcheon & Co. Ltd., an investment firm in Toronto.

This study on DOMTAR LIMITED was prepared by Murray Savage of Maison Placements Canada Inc. in Montreal. Mr. Savage, who was manager of the Newsprint Association of Canada between 1946 and 1970 (when it was absorbed by the Canadian Pulp and Paper Association), is one of the leading investment authorities on Canada's forest products industry.

Another study in the series deals with Argus Corporation and examines the principal companies in which Argus has invested other than Domtar. Those interested more generally in the role of Argus Corporation may wish to refer to that study.

The Commission is publishing these and other background studies in the public interest. However, the analyses presented and conclusions reached in each study are those of the author, and do not necessarily reflect the views of the Commission or its staff.

ACKNOWLEDGEMENTS

The author expresses sincere appreciation and gratitude to Domtar officers for immediate response to all requests for previous annual reports and other documents, and in particular to Vice-President and Secretary Stuart Kerr for full cooperation and patient reply to all questions.

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CHAPTER 1

OVERVIEW

Domtar Limited, previously known as Dominion Tar & Chemical Company, Limited, formally adopted its present name in 1965 after using Domtar for several years in the titles of its operating subsidiaries. The company has been identified as a Canadian corporation under a Dominion charter since 1929, but its full history covers a span of more than 70 years starting in 1903 when, as a British company, it established a small coal tar distillery in Sydney, Nova Scotia.

Today, Domtar is an example of corporate concentration--an unusual example because it is commonly regarded as a conglomerate itself and in addition forms a major part of the Argus group, which also is considered a conglomerate organization. Nevertheless, their resemblance is superficial and their respective methods of operation are basically different.

Argus maintains virtual control of its five major companies by holding the largest single block of stock, generally around 20 per cent, but not a majority of outstanding shares. Its position is that of a long-term investor, and it rarely changes its holdings but instead introduces highly qualified directors and members of executive committees, in addition to which its presence in the background provides assurance of financial stability.

In contrast, Domtar's procedure has been to acquire majority control followed by full or almost full ownership and ultimately consolidation. Its objective has been to achieve greater efficiency, better market coverage, and lower cost by regrouping physical assets into larger and more effective operating units.

Another difference is that only two of the Argus companies, Domtar and B.C. Forest Products, are in the same industry and the other four are completely unrelated. At first glance Domtar's diversified operations may seem to extend into three unrelated industries, namely pulp and paper, chemicals and construction materials, but its corporate history shows that there has been considerable relationship between its operations in each of them.

From the beginning, there has been a very close connection between the products of coal tar distillation and the construction industry. Production of creosote and related materials used for preservation of wood and for weatherproof roofing led the original Dominion Tar and Chemical Co. into these and similar applications of its products more than 50 years ago. A natural sequence was development of such products as impregnated shingles, sidings, building board and tar-paper. These led to other building materials and ultimately an extensive array of items used for

construction and maintenance. In many of these there has continued to be a close relationship with Domtar's chemical business, and with the other wood products of companies producing pulp and paper.

The only real expansion into another industry has been the acquisition of the pulp and paper companies whose assets became roughly three-quarters of Domtar's total. The relative size of these properties basically changed the nature of the company's business, but again it may be noted that pulp and paper was not entirely unrelated. For many years the old Dominion Tar and Chemical Co. provided chemicals extensively used in the mills and on the other hand served as a sales outlet for Donnacona and other boards and papers used for construction.

At the end of 1974, Domtar's assets and business were divided between its three main operating companies as follows:

Operating Company	Net Fixed Assets ($MM)	Net Fixed Assets (%)	Sales and Revenues ($MM)	Sales and Revenues (%)
Domtar Pulp & Paper Products Ltd.*	267	79	623	69
Domtar Chemicals Ltd.	41	12	131	14
Domtar Construction Materials Ltd.	30	9	144	16
Other**	1	-	9	1
	339	100	907	100

* - Including Woodlands.
** - A detailed list of plants showing main products and location is included in Appendix A.

As suggested by its size and number of plants, Domtar is well represented in its fields of endeavour by each of its three operating companies, and reported results indicate satisfactory competitive performance, although the company's shares of participation in the various industries are relatively small.

These shares are hard to measure because of the uncertain composition of reported industry statistics, but they seem to range roughly from 3 to 6 per cent of total volume used in Canada, except in a few relatively insignificant products where the company has historically been an important contributor. There is no field in which Domtar's position can be described as dominant.

The process of building up its massive organization has continued throughout the company's history but at varying speeds depending on circumstances. It is worthy of note that there has been a close relationship between changes in rate of growth of Domtar and of the Canadian GNP. (See Chart in Appendix D, p. 89.)

Although this record of performance is subject like any other to variations in the general economy and conditions in business, Domtar's management has been remarkably successful in outperforming the economy by taking advantage of its periods of rapid growth, so much so that the obvious division of periods in its history corresponds with changes in its management.

The most significant such change was the entry of the Argus Corporation in 1948. Prior to this date, growth had consisted generally of expanding existing facilities, building new plants, and acquiring relatively small companies all very closely related to the original operations. The Argus influence not only accelerated the former process but pushed the company into another industry only indirectly related to existing operations. Moreover, the expansions were comparable to or greater in size than Domtar itself.

In the next chapter, the company's history is described in five sections, each corresponding to a significant period of development, as follows:

1. Early Years: 1929-44. Several companies in the same or related businesses were acquired, and three new plants were built. Entry into the salt business came at the request of a salt-producing company that was in financial trouble.

2. Postwar Growth: 1945-48. Growth was generated by productive power built up during World War II, though somewhat restrained by postwar shortages of materials.

3. Argus Impetus: 1949-55. Argus introduced E.P. Taylor as Chairman of a new five-man Executive Committee and later as Chairman of the Board of Domtar. Under his influence expansion was rapid, first in chemicals and then in building materials. By the end of this period the company comprised 11 divisions manufacturing a wide range of products, and had increased its assets threefold.

4. Major Expansion: 1956-67. During this period the company expanded into the industry in which its previous relationship had been one of association rather than direct participation. It acquired complete ownership of Howard Smith Paper Mills and almost complete ownership of St. Lawrence Corporation, including their subsidiaries at home and abroad. These acquisitions changed the composition of Domtar's business, to make the main line pulp and paper. Assets increased to nine times their value at the beginning of the period.

5. Consolidation: 1968-74. Only minor acquisitions were made during this period, and many divestments took place, mainly of unprofitable operations. Despite difficult economic conditions, however, Domtar recorded good gains in sales, and net earnings were much greater than those of any earlier years.

A year-by-year account of Domtar activities is contained in Appendix B at the end of this report. Other appendixes list Boards of Directors and set out financial information that is too detailed to include in the body of the paper.

In Chapter 3, the focus changes from history to the present-day concern of how the company behaves as a corporate citizen. Chapter 4 sums up the main points in the report that are of most relevance to the inquiry of the Royal Commission, commenting on Domtar's performance, disclosure of information, and contribution to the Canadian economy.

The overall conclusion to be drawn from the research is that Domtar Limited appears to be a good corporate citizen, as evidenced by its treatment of shareholders, employees, and management of acquired companies, as well as by its involvement in communities where it operates.

CHAPTER 2

HISTORY OF DEVELOPMENT

As suggested in Chapter 1, Domtar (often referred to as DTC, its former initials) has been able to modify the impact of bad times and magnify the advantages of favourable business conditions because of unusually efficient control and management. These qualities have been provided by three dominant personalities who have been particularly prominent in the company's early history, each for a long period. However, all three could more realistically be described as the figureheads of controlling interests, since this company was only one of a considerable number of corporations under their direct control.

The first of these leading figures was Sir Herbert Holt, best known perhaps as the eminently successful builder of the Royal Bank but also head of a host of other enterprises of all kinds. He was one of the original Board of Directors when Dominion Tar and Chemical was bought from its English owners in 1929, and he retained that position until his death in 1941. Under the limited guidance that he could provide, considering his extraordinary number of involvements elsewhere, the company was very successfully administered and led through a difficult period by its President, Lionel Walsh. When Holt died, Mr. Walsh carried on as President, then as Chairman when that office was created in 1946. Assisted by first Richard Look and then A.O. Ponder as Vice-Presidents, he continued the established policies until the advent of Argus nine years later.

During these years the most significant change in the Board of Directors was the addition of two members of management, A.O. Ponder and L.L. Brown, who also became Vice-Presidents when, in 1940, the acquisition of Dominion Salt Co. increased the scope of operations. Other additions and replacements included H.R. MacMillan of MacMillan Bloedel and Harold Crabtree of Howard Smith, both indicative of DTC's concern with pulp and paper.

The second and more effective commanding figure in Domtar's history was E.P. Taylor, but more significant in the company's affairs was the Argus group and management which he represented. The presence of Argus was first indicated publicly when E.P. Taylor and W.E. Phillips became Directors in 1948. In the following year an Executive Committee was formed with E.P. Taylor as its Chairman and four other members, Lionel Walsh (Board Chairman), A.O. Ponder (President), J.H. Gundy and W.E. Phillips. Argus' ascendance became more apparent in 1950 with M.W. McCutcheon and Arthur Martin joining the Board in place of Hollis Marden, Vice-President and L.L. Brown, retired, and with Arthur Martin of Standard Chemical as President in place of A.O. Ponder, who retired and was replaced as a Director by J.A. McDougald. In 1951, when Argus established its position in Domtar, E.P. Taylor became Board Chairman. In

1952, two deceased Directors, J.H. Gundy and Paul Sise, were replaced by Colin Webster and Percy Fox, who was President of St. Lawrence Corporation in which Argus held about 20 per cent stock interest.

The entry of Argus into the affairs of Dominion Tar & Chemical (DTC) had actually been in progress for several years before 1948. A member of the Argus group, the Standard Chemical Co. Ltd., had been gradually buying DTC shares in the open market and by 1949 had accumulated more than 50 per cent of them. In the consequent discussions regarding amalgamation, management's recognition of the greater size and strength of DTC led to reversal of the purchase procedure. Accordingly it was DTC that bought Standard Chemical's two salt plants in 1950, and DTC that in 1951 offered and paid $5.85 million for all the assets and business of Standard Chemical except the above holding of its own shares. In the amalgamation Standard Chemical preferred stock was redeemed in full and common shareholders received 58.4 cents in cash and 2/5 of a share of DTC. As Standard's largest shareholder, Argus received approximately the 2.5 million shares which still constitute its 16.9 per cent holding of Domtar stock.

As might be expected regarding any large and successful transaction, there has been some criticism of this achievement and its results, some of it more fictitious than factual. A recent and pertinent example is the following statement in a book on the Canadian establishment:

Fiction: "When Argus got control of Dominion Tar and Chemical (Domtar) in 1951, McCutcheon failed to fire only one of the senior executives, because he was on holidays and could not be reached."

Fact: No one was fired. In 1951 the only change among senior executives was made by Lionel Walsh who on attaining age 75 resigned as Board Chairman after more than 40 years of service. He was succeeded as Chairman by E.P. Taylor but remained as Director until his death in 1961.*

Nevertheless in 1951 Argus' position was firmly established with 4 representatives on the 5-man Executive Committee, 5 representatives among 12 Directors on the Board, and E.P. Taylor as Chairman of both.

During the next seven years this situation remained virtually unchanged except that E.P. Taylor served as President as well as Chairman from Arthur Martin's death in 1954, until Wilfred Hall's appointment as President in 1957. Following the three very large acquisitions in the years 1957-61, the Board was increased to include representation by Directors of those companies, 6 from Gypsum, Lime and Alabastine and 5 each from Howard Smith and St. Lawrence.

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* - Appendix C (pages 75 to 85) shows annual changes in management and the Board of Directors from 1929 to 1975.

By 1961 there were 28 Directors and 10 members of the Executive Committee but without change in effective control by Argus. At the end of the period in 1967 the number of Directors had dropped to 23 but with 9 Argus representatives. These included A.L. Fairley, President of Hollinger Mines. The Executive Committee of 10 with Mr. Fairley as Chairman included 7 Argus representatives.

The increase in the number of company officers was similar. In 1956 there were three Vice-Presidents, one of whom was Hollis Marden originally of the subsidiary company Alexander Murray. Another was Dudley Thomas who had served as Secretary and Treasurer when DTC was incorporated and who finally retired as Vice-President Finance in 1963 having contributed continuity and stability to the company for 35 years. The number of Vice-Presidents had reached eleven but was soon reduced to less cumbersome proportions.*

The third leading figure in the affairs of this company, and in many ways the most effective of them all, was T.N. Beaupré. Through Argus influence he was moved in from his position as Chairman of B.C. Forest Products to replace E.P. Taylor, who retired at 65, on January 25, 1966. As Chairman from that date and also President following W.N. Hall's resignation at the same time, he had faced a major task of organization, of converting a conglomeration of newly acquired companies into a confident, efficient organization.

He accomplished this with quiet competence and without ostentation, and Domtar's performance in 1974 provided abundant evidence of his success. Unfortunately he did not survive to see the fulfillment of his talented dedication, and his death in March 1974 was a tragedy for Domtar as well as for his host of friends.

"Beaup's" place as Chairman was taken by Maxwell Meighen of Argus, also Chairman of Canadian General Investments Ltd., who had served on the Domtar Board and Executive Committee for 10 years. His place as President was taken by Alex Hamilton who had worked with Mr. Beaupré for many years at B.C. Forest Products and followed his move to Domtar in 1968 to serve as group president pulp and paper products. Their capable and experienced hands provide assurance of continued prosperity and progress for the company.

Since Domtar's prosperity over the years reflects in good measure the influence of the three outstanding leaders in Herbert Holt, E.P. Taylor, and T.N. Beaupré, the history of the company is now set out in periods roughly corresponding to their terms of leadership.

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* - Details are shown in Appendix C, page 81.

EARLY YEARS: 1929-44

The first fifteen years following Canadian incorporation of Dominion Tar and Chemical Co. coincided with a period of wide, sometimes wild, variation from the tail-end of a boom, through the worst depression of modern times and into the frenzied production needs and efforts of World War II.

DTC entered this period with reported total net assets of $9.8 million and emerged 16 years later at the end of 1944 with that total practically unchanged at $9.9 million. Following are the figures as reported for each of these years:

	1944	1928		1944	1928
	($MM)			($MM)	
Capital Invested:			Represented by:		
Fixed assets, net of depreciation	6.4	7.4	Funded debt	3.3	4.0
Investments and other	.3	.7	Minority interest	-	.8
Net working capital	3.2	1.7	Preferred stock	5.0	4.5
			Common stock	1.6	.5
	9.9	9.8		9.9	9.8

This result may suggest that little was done and that little progress was made in this period, but it may also be a remarkable example of sound and steady progress recorded by conservative accounting without ostentation. Reported operations strongly suggest the latter.*

In the early years of the period, the company bought or exchanged shares to increase its holdings of a few related companies such as Canada Creosoting, Alberta Wood Preserving, Calders (Canada) and Alexander Murray. Thereafter during the depression it managed to abide by the old precept "what we have, we hold."

In 1936 DTC resumed expansion of its operations in construction materials by completing ownership of the companies mentioned above plus similar companies such as Fibre Conduits of Canada, Vancouver Creosoting and Canada Roof Products.

In the chemical field the company participated in a reorganization of the salt producer Industrial Materials Ltd., leading to full ownership of its business and salt mine at Fort McMurray, Alta. It also acquired all the capital stock of Dominion Salt Co. of Sarnia, Ont., thus rounding out its interest in the salt industry with Dominion Salt's distribution capabilities.

Operation of all these properties was continued with improvement and addition as soon as practicable, and expenditures included three new plants for phenols, creosols, and other tar acids.

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* - See Appendix Table E-2. page 96.

Funds for these acquisitions and expansions were largely generated by the company's operations, which produced during the 16-year period an aggregate cash flow amounting to $10.2 million. The net result of the limited financing policy during the period was a reduction of $0.7 million in funded debt, a modest increase of $0.5 million outstanding preferred stock and an addition of 194,764 shares of n.p.v. common. Expenditures on capital assets amounted to $4.3 million.*

Sales for this period were not recorded, but positive cash flow and an operating profit were reported in every year. Like all industry, the company suffered from serious loss of business in the general depression of the early thirties and in its worst year, 1933, volume was half and operating profit a third of 1930 levels. Earnings on common stock showed losses for four years, 1932 through 1935. Dividends on the preferred stock were suspended in 1930, and the accumulated arrears of $1.3 million were eliminated in 1937 by an arrangement reducing their rate from 6½ to 5½ per cent and an issue of 100,700 common shares at 25 cents. No dividends were paid on the common stock during this whole 16-year period.

The increased wartime activity of all industry was fully shared by this company, particularly in expanding various coal tar derivatives needed for war purposes. Earnings were of course restrained by excess profit taxes but remained consistently near $0.3 million after substantial expenditures on extension and improvement of plant.

Management continued with few changes during the period. Lionel Walsh carried on as President, under direction of Sir Herbert Holt, who died in 1941. H.R. MacMillan of Vancouver joined the Board in 1935 and Harold Crabtree of Howard Smith Paper Mills also became a Director in 1942. Following purchase of Dominion Salt Co. in 1940, A.O. Ponder and L.L. Brown became Vice-Presidents and Directors.

As the ending of wartime trials and dislocations approached, the young company had completed a hard and complex period of adolescence in strong physical and financial condition, ready to take full part in resumption of normal peacetime existence and progress.

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* - For tables of assets and liabilities and records of operations, see Appendix E, page 91.

POSTWAR GROWTH: 1945-48

The period immediately following the war was one of restrained growth, starting under difficult restrictions but with all possible speed as the lights went on again all over the world. Demand pent up by five years' privation, production power built up by fulfilling wartime needs, and restored freedom of action, all played their part in the upturn of economic activity as soon as immediate shortages of men and materials could be overcome. Conversion to a peacetime basis of operations did not present serious problems for this company, but immediate expansion was impracticable and in 1945 capital expenditures were held down to $0.3 million mainly because of shortages.

Shortages remained a problem through 1946 but progress thereafter was steady and strong. In the period 1945-48, the Canadian GNP rose from $12 billion to $16 billion, but DTC grew nearly twice as fast, as was to be expected for a company producing such urgently needed commodities as the chemicals and construction materials listed below.

During this period the company was organized in six divisions:

Name	Principal Products
Tar and Chemical	Types of tar and pitch, wood preserving and other oils, phenol, creosol and derivatives, naphthalene, and other industrial chemicals
Salt	Fine and coarse salt for all purposes, plain and free running salts (Sifto, McMurray, Purity)
Alexander Murray	Roofing materials, Donnacona boards, insulated siding, sheathings, felts and road material (Rotar)
Fibre Conduit	Various fibre conduits for electrical distribution and fibre pipe for drainage and sewage disposal (NO-CO-CODE)
Canada Roof Products (Ace-Tex Line)	Asphalt, shingles, roofing materials, paints, insulation, lumber, floor tiles, building paper, sheathing and felt
Creosoting	Creosoted poles, piling, timbers, bridges, culverts, ties, flooring blocks, zinc chloride, lumber, prefabricated trusses, and frames

By the end of 1946 DTC was poised to start its expansion with a program of five major items. Two of these represented new products--a plant at Beauharnois to make chlorine and caustic soda by electrolysis of salt, and an installation in Toronto to convert Orthocresol into a new weed and insect killer. The others were expansion of existing facilities for the manufacture of chemicals. This program was completed in 1949 at a cost, recorded in capital expenditures, of $10.7 million. Financing included redemption in 1946 of $5 million of old 5½ per cent preferred stock and replacement with $7 million of 4 per cent preferred and 68,116 additional common shares.

Organization of the company was modified to include the former Salt and Fibre Conduit divisions as sections of the Tar and Chemical division, together with a new Caustic and Chlorine section.

Meanwhile operating profits and cash flow had been rising steadily, also net earnings. Following payment of the company's first common dividend at the end of 1945 (25 cents per share) a regular rate of $1.00 per year had been maintained. Net assets had increased from $10 million in 1946 to $16 million in 1948.

The following comparison of condensed balance sheets shows the growth achieved in this short period of four years, the increased strength of the balance sheet and particularly the great improvement in common stock equity.

	1948	1944		1948	1944
	($MM)			($MM)	
Capital Invested:			Represented by:		
Fixed assets, net of depreciation	11	6.4	Funded debt	2	3.3
Investments and other	1	.3	Minority interest and other	1	-
Net working capital	4	3.2	Preferred stock	7	5.0
			Common equity	6	1.6
	16	9.9		16	9.9

No new properties were acquired and none were disposed of during these years, although a development of importance to Dominion Tar was the gradual purchase of its shares by Standard Chemical, a company virtually controlled by Argus with a one-third stock holding. The Annual Report for 1948 also recorded what was probably the most significant item in the company's history when the Board was increased to 12 Directors in order to include E.P. Taylor and W.E. Phillips of Argus Corporation.

ARGUS IMPETUS: 1949-55

The postwar resumption of growth as already noted was given new and greater impetus by the increasing presence of the Argus Corporation. In 1949 an Executive Committee of five Directors was formed, with E.P. Taylor as Chairman and also W.E. Phillips representing Argus, the other members being Lionel Walsh (Board Chairman), A.O. Ponder (President) and J.H. Gundy. By 1951 E.P. Taylor had succeeded the aging Lionel Walsh as Chairman of the Board, which by then included four other representatives of Argus, namely M.W. McCutcheon, J.A. MacDougald, Arthur Martin and W.E. Phillips.

The three-year expansion program accomplished by 1949 was followed in 1950 by acquisition from Standard Chemical Co. of two salt plants at Nappan, N.S. and Goderich, Ont. In addition, construction was started on an ill-fated plant in Montreal East to make ethylene oxide and glycol.

Greatly increased activity followed E.P. Taylor's election as Chairman of the Board, and its first result was a major addition to the company's business in chemicals. The Annual Report noted purchase effective May 1, 1951, for $5,850,000 of the assets and business of Standard Chemical Co. Ltd. excepting Standard's shares of Dominion Tar and Chemical Co. Ltd.* This purchase of Standard Chemical, which continued operation as DTC's Standard Chemical Division, included a majority interest in Commercial Chemicals Ltd. of Vancouver, and the minority interest was very soon acquired. It also included 51 per cent interest in Chemical Developments of Canada Ltd., owner of Irwin Dyestuff Corp. and of valuable Canadian patents and trademarks formerly belonging to the German company I.G. Farbenindustrie and covering such products as synthetic detergents. The former Standard Chemical Co. preferred stockholders received redemption value of $1.05, and common shareholders accepted 58 cents cash and two-fifths of a share of DTC common. Financing of these purchases involved the sale of 158,000 shares of common for $4,898,000 or $31 per share. The acquired businesses were fitted into the DTC organization to mutual advantage, and the price paid seems to have been fair to all concerned.

The next important expansion occurred in building materials when, in 1953, Dominion Tar was approached by Charles Greenshields and others representing the Cooksville Co. Ltd. which, with three subsidiaries named Interprovincial Brick, Aerocrete Construction and the Laprairie Co., was a large manufacturer of bricks, tiles and similar products related to the company's construction materials. The Cooksville group was in difficulties

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* - The process of acquisition is described on page 6; Standard Chemical's history is briefly outlined in Appendix F, page 103.

with elderly management about to retire, also a lot of employees approaching retirement age and no funded retirement plan. A satisfactory purchase offer resulted in acquisition of 98 per cent of the Cooksville shares and substantial productive facilities which Dominion Tar proceeded to improve and enlarge.

The only other acquisition in this period was the Brantford Roofing Co. Ltd. of which the company bought all outstanding bonds and shares, the latter at an apparently acceptable price of $18.50.

In contrast to the general expansionary trend, in 1954 the company sold its new petrochemical plant which had just commenced operations in Montreal East. The buyer was Union Carbide Canada Ltd., subsidiary of the U.S. company of the same name. The price was not disclosed but for Dominion Tar divestment was clearly desirable because of a new and cheaper process developed by American manufacturers of the same products.

At the same time the company sold its chlorine and caustic soda plant at Beauharnois and its distributing facilities because the above disposition had upset the plan under which Beauharnois was to supply the chlorine needed at Montreal East to make ethylene oxide and glycol using oil refinery by-product gases. The buyer was a Canadian subsidiary of Columbia Southern Chemical Co.*

During this period there were several changes in the company's organization arising from the changes in its component parts. The original six divisions were reduced to four when Fibre Conduit and Canada Roof Products were made part of the Tar and Chemical and Alexander Murray divisions respectively. Then a Petrochemical division was added temporarily plus a division to operate the properties acquired with Standard Chemical Co. Ltd. Subsequent additions and modifications followed further expansion so that by 1955 the company comprised 11 divisions, all incorporated companies except the division administering its original business. These were:

Name	Principal Products
Coal Tar Products Division	Refined tar, pitch, creosote oils, tar acids, and phthalic anhydride
Sifto Salt Ltd.	Salt for every purpose
Javex Co. Ltd.	Liquid detergents, and household materials
Canada Creosoting Co., Ltd.	Pressure treated wood products of all kinds
NO-CO-RODE Co. Ltd.	Fibre conduits and pipes for many purposes

* - See Appendix B, page 43, for details of this transaction.

Name (Continued)	Principal Products
Alexander Murray & Co., Ltd. and Canada Roof Products, Ltd.	Roofing materials, building boards, insulating boards, felts and sheathing
The Laprairie Brick & Tile Inc.	Brick and structural tile of all types
The Cooksville Co., Ltd.	Lightweight concrete beams and brick products
Siporex Ltd.	Lightweight insulating structural material
Chemical Developments of Canada Ltd. and Irwin Dyestuff Corp. Ltd	Liquid detergents, dyestuffs, soluble plastics and suspending agents.

This wide range of products was distributed throughout Canada, and although sales figures for the period are not available, the threefold increase in net assets suggests a similar increase in volume of production. Their common characteristic was a relationship to what had gone before, a natural sequence of development from the basic raw materials: coal, tar, salt, and the wood or stone that form the basic components of products used in construction.

Operating profit rose steadily through the period, from $5.4 million in 1948 to $10 million in 1955. Earnings on common stock showed almost as consistent a pattern and in the seven years amounted to $13.7 million of which $6.0 million or 44 per cent was paid in dividends.*

By the end of 1955 the company had much to show for seven years of almost uninterrupted advance. The following condensed balance sheet figures indicate the progress made in terms of size and of stability:

	1955	1948		1955	1948
	($MM)			($MM)	
Capital Invested:			Represented by:		
Net fixed assets	19	11	Funded debt	20	2
Investments and other	7	1	Other liability and pfd. stock	7	8
Net working capital	27	4	Common equity	26	6
	53	16		53	16

These figures show remarkable progress during a period of seven years but a record that is by no means unique in industry. They reflect the ability of a good management to take advantage

* - Annual figures are shown in Appendix Table E-2, page 96.

of opportunities in growing industry and in a period of general economic expansion. As mentioned earlier this accelerated growth of DTC was achieved during a similar acceleration of increase of Canadian GNP, but twice as fast.*

Most of the expansion at this time was in construction materials which had originated in the use of creosote and other coal tar derivatives for the preservation of wood in various forms. Other weatherproof materials like bricks and tiles, concrete and asphalt shingles had been in logical sequence leading in turn to alternate types of roofing, building boards and insulating materials. An increasing number of these products involved wood fibre in some form, e.g., the Donnacona building boards, that the Alexander Murray Division had been marketing since its inception, and all of them pointed a path toward further involvement in wood pulp.

On the chemical side of the company's original business of distilling coal tar, early progress had been made into salt as another raw material followed by a big and broad extension into the wide variety of products acquired with Standard Chemical and extended in the name of Chemical Developments of Canada. Despite the unfortunate development that had upset the attempt to combine salt with petroleum by-products at Beauharnois and Montreal East, progress in other directions had been good. Among the biggest Canadian users of chemicals were the pulp and paper mills which required a long list of chemical products, many in relatively large amounts. Here again a relationship was developing between them and DTC, which was supplying them with increasing quantities of such items as bleaching agents, coating materials, dyestuffs and limestone.

Because of the growing relationship between the two industries it is not hard to understand the reasoning leading to the next stage in the company's growth.

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* - See chart in Appendix D, page 89, for graphic comparison.

MAJOR EXPANSION: 1956-67

The 12-year period starting in 1956 was one not only of greatly increased growth for DTC but also of very great expansion by the company into a new industry. For more than fifty years its name Dominion Tar and Chemical Co. had accurately described its operations. As previously mentioned, developing applications for the many chemicals and other products of distillation of coal tar had led naturally to use of salt and other chemicals for various purposes. Uses for wood products preserved with creosote had led with equal logic to other building products and materials for the construction industry. Thus the business of the company was divided almost equally between chemical processing and building materials, in both of which there was some relationship to pulp and paper. However, in this period of major expansion three notable acquisitions changed the character of the combined operations.

NOTABLE ACQUISITIONS*

The first of these was Howard Smith Paper Mills, Ltd., and the process of acquiring it had already been started by open market purchase of shares amounting to about 16 per cent by 1956.** In that year an equal amount of stock was made available by the foundation that the Crabtree family had established, and the offer was accepted by the company at a fair price relative to market value. To expand its 33 per cent holding to majority control, in 1957 DTC offered 1,241,058 shares (the balance of its authorized shares not already issued) on a basis of 3½ for one Howard Smith share. This offer was close to current market value but was quickly over-subscribed, giving Dominion Tar 53.5 per cent of Howard Smith shares.

The remaining minority interest was acquired in 1961 when shareholders accepted 2½ shares of DTC for one of Howard Smith. Consolidation of operations, including Howard Smith's subsidiaries, notably Donnacona Paper and the Arborite Co., effectively doubled DTC sales and changed the division of these by-products so much that for 1957 it showed the following division of sales:

Pulp and Paper	$ 90 million	or	51%
Building Materials	44 million	or	25%
Chemical Processing	43 million	or	24%
	$177 million	or	100%

* - Descriptions of these companies are contained in Appendix F, page 101.

** - This was before regulations were in force that required filing of insider transactions.

In the same period the company commenced purchase of shares of Gypsum, Lime and Alabastine, Ltd. (GLA) and by the end of 1957 owned 17 per cent of them, valued at $3.7 million. This holding was increased to 20 per cent in the following year, and effective November 30, 1958 complete ownership was acquired for $44 million under the following terms:

	($MM)
Payment in cash	14
Assumption of GLA's liabilities	7
Allotment of 1,782,232 DTC shares	23
	44*

This merger of complementary and practically noncompetitive operations was so clearly beneficial to both groups that GLA shareholders willingly approved an arm's-length negotiated offer by Dominion Tar whereby all of their assets were acquired by Dominion Tar early in 1959. Under the agreement the company paid $14,018,325 in cash, allotted 1,782,232 common shares (valued at $23,169,016 or approximate market price of $13 per share) and assumed all liabilities of GLA including winding-up expenses estimated at $7,015,550.

The third major acquisition in this period was St. Lawrence Corporation Ltd., of which 93 per cent was acquired in 1961. St. Lawrence was already practically controlled by Argus, which held about 22 per cent of its shares as a result of previous purchases. The St. Lawrence Board of Directors included five Argus representatives who were also serving on the Board and Executive Committee of DTC. These were E.P. Taylor, W.E. Phillips and J.A. McDougald also M.W. McCutcheon, who was Chairman of the Board, and Percy Fox, President, who had been largely responsible for the development and growth of St. Lawrence Corporation.

This 93 per cent ownership resulted from a public offer to exchange 1-3/8 DTC shares for each St. Lawrence share, a negotiated relationship based on assets, earnings and market value. Book value of DTC shares was about 50 per cent higher, but earnings were a little lower than those of St. Lawrence. Relative stock market prices of shares are tabulated on page 108 and show St. Lawrence about 20 per cent higher than DTC in the preceding year 1960, and 30 per cent higher in 1961.

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* - This total of $44 million is reflected by changes in the balance sheet items recorded in Appendix Table E-1, page 94, but not in capital expenditures shown in Appendix Table E-2, page 96.

The apparent fairness of the terms was shown by almost unanimous acceptance of the Canadian shareholders to whom it was restricted by law, and who held about 80 per cent of the stock. Moreover, a very large proportion of the U.S. residents who held most of the remaining 20 per cent apparently managed to accept the exchange.

Consolidation of the St. Lawrence assets and accounts in DTC statements and operations included the large packaging company Hinde and Dauch Ltd. of which St. Lawrence owned 60 per cent. During ensuing years additional shares of this company and of St. Lawrence itself were bought on the market as they became available, leading to almost complete ownership.

CHANGE IN CHARACTER

Thus the character of DTC was dramatically changed in five years. It had been a company engaged about equally in the businesses of chemical processing and building materials. During this period it became a company five times as large in terms of total net assets, with both sales and assets divided roughly as follows:

Pulp and paper	64%
Building materials	20%
Chemicals	16%

Expansion was also carried into overseas areas with two substantial additions. The first of them was Hendon Paper Works Co. Ltd. in England, fully acquired in exchange for 240,000 DTC shares valued at $3.2 million. This company was then equipped to make fine paper grades in the name of Howard Smith Hendon. Facilities for manufacture of Arborite plastic laminates in England were also purchased in 1962.

In the following year the company obtained a 49 per cent interest in Cellulosa d'Italia S.p.A., a maker of fine paper grades with a mill at Chieti, Italy. Majority ownership was retained by the government's Istituto Per La Ricostruzione Industriale. In 1967 the company's investment in Italy was increased by sharing equally in the purchase of control of Cartiera Italiana, a company operating two fine paper mills and one making molded fibre products for the automobile industry. Cost of these Italian ventures were not disclosed.

Following acquisition of these pulp and paper properties at home and abroad, a vigorous program for their expansion and improvement was undertaken. The first applications of it were to bleaching facilities, construction of a new paper machine (No. 6) and a new recovery furnace at the Howard Smith fine paper mill in Cornwall. An important item in 1963 was conversion to No. 1 newsprint machine at the St. Lawrence mill at Trois Rivières to make machine-coated publication paper grades, and

a similar modification was made later to a second machine. In the following year work was started on another new paper machine at Cornwall and also on the largest project, an entirely new bleached kraft pulp mill at Lac Quévillon. Expansion and modernization programs were implemented to increase production at Red Rock and to improve quality of all mills, accompanied by continuing research in mechanical pulping of wood residue in the form of chips.

This program of general expansion was similarly applied to the Chemical and Construction Materials sections of the company. Acquisitions of operating units included Prairie Fibreboard Co., at a cost of about $2.2 million, Sydney Roofing and Paper Co. Ltd., in B.C. (from MacMillan, Bloedel Ltd.), Plastic Packaging Products Ltd., and Vancouver Salt Co. In 1960 a "Capital Program" listed 46 items planned including 15 each for the Chemicals and Building Products divisions.

DIVESTMENTS

There were only two significant divestments during this period. The first was Howard Smith's old Crabtree mill at Joliette, which was sold to Westminster Paper Co. Ltd. in 1958, before DTC assumed management control of its new acquisition. This mill's production of toilet and wrapping tissues and similar grades did not fit well into the DTC pattern of operations but was carried on admirably by Westminster.

The other was Domtar's entire Consumer Products Division except Sifto Salt, which was retained because of its close relationship with the company's other operations involving salt products. The buyer was Javex Consumer Products Ltd., wholly owned subsidiary of the American company Bristol-Myers. The price was $37.4 million, reported to represent a capital gain of $30.3 million. The explanation of this departure from the apparent company policy of continuous growth was that although this division had contributed to company earnings it was not a natural part of Domtar's three primary operations in pulp and paper, industrial chemicals and construction materials. Consequently, its development and growth would be "materially enhanced" as part of an international organization such as Bristol-Myers, which was engaged mainly in making and marketing consumer products. Another factor may have been modification of the expansionist policy under the influence of T.N. Beaupré who had recently become Chairman and President.

The extent and continuity of expansion and improvement during these 12 years is shown by capital expenditures of $313 million,* and the corresponding net total of $300 million** in 12 years compares with $43 million in the preceding 11 years and $47 million for the whole period from 1928 to 1955.

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* - Listed in Appendix Table E-2, page 97.
** - See Appendix Table E-3, page 98.

The amount actually spent, $313 million, averaged out at $26 million per year with a range from a slow start at $7 million in 1956 to a peak of $67 million in 1965. A significant feature of these immense capital expenditures is that they were financed entirely by Domtar itself without any financial help by Argus other than its implied backing.

Net assets rose from $53 million to $477 million, a nine-fold increase, divided as shown by the following comparison:

	1967	1955		1967	1955
	($MM)			($MM)	
Capital Invested:			Represented by:		
Net fixed assets	306	19	Funded debt	165	20
Investments and other	53	7	Other liabilities and pfd. stock	84	7
Net working capital	118	27	Common equity	228	26
	477	53		477	53

The proportions represented by funded debt, other liabilities and common equity varied widely from year to year, but, as indicated on the following page, at the end of this immense expansion there had been remarkably little change in their relationships.

Capitalization Changes*
($MM)

	1967		1958	
Funded debt	165	34%	20	38%
Other liabilities	84	18%	7	13%
Common equity	228	48%	26	49%
	477	100%	53	100%

* - The amount of capital assets and liabilities from year to year are shown in Appendix Table E-1, page 94.

Other liabilities in 1955 consisted almost wholly of DTC preference shares. In 1967 they included deferred income taxes and minority interests of $25 million of which $12 million represented St. Lawrence preferred and $8 million Howard Smith preferred shares.

Organization of the company in 1956 was in 12 operating divisions, which included the original Coal Tar Products division, 13 major incorporated companies, and numerous smaller ones. Seven of these divisions were loosely grouped under

Building Materials, and five under Chemical Processing. This complex structure was further complicated by the numerous acquisitions which followed and by rearrangement of their component parts in the two former groups plus a third and much larger one, Pulp and Paper.

In 1961 a general reorganization took place, consolidating the management of Dominion Tar, Howard Smith and St. Lawrence "with operating responsibilities on the basis of industries rather than on the previous basis of corporate identities." Six major operating groups were established as follows, each with a high degree of autonomy: chemicals, construction materials, newsprint and containerboard, consumer products, kraft and fine paper, and packaging and converted products.

Central Staff departments were also organized to assist Central Management and the above operational groups. These included Financial and Secretarial, Development, Engineering, Research, Purchasing, Traffic, Employee and Public Relations and a Woodlands Division.

In the following year these six operating groups were reported as regularly incorporated companies each with the prefix Domtar, the first public use of the name, and each with a different address. Changes in their respective areas of operation were reflected in modification of their names to the following:

Domtar Chemicals Ltd.	1155 Dorchester Blvd., Montreal, Quebec.
Domtar Construction Materials Ltd.	1 Place Ville Marie, Montreal, Quebec.
Domtar Consumer Products Ltd.	99 Vanderhoof Avenue, Toronto, Ontario.
Domtar Newsprint Ltd.	840 Sun Life Building, Montreal, Quebec.
Domtar Packaging Ltd.	43 Hanna Avenue, Toronto, Ontario.
Domtar Pulp & Paper Ltd.	2300 Sun Life Building, Montreal, Quebec.

The number of plants and main products of each operating company in 1962 are shown in Appendix A, page 39.

In 1965 the name of the parent company was changed to Domtar Limited. No change was made in the six operating companies, but their treatment in the Annual Reports starting in 1965 and other indications suggested revival of the former three groups:

Chemicals	Including Domtar Chemicals Ltd. and Domtar Consumer Products.
Construction Materials	Consisting of Domtar Construction Materials Ltd.
Pulp & Paper	Including Domtar Newsprint Ltd., with the Woodlands Division, Domtar Packaging Ltd., Domtar Pulp & Paper Ltd. with Howard Smith, Kraft and Boxboard and the sales companies.

The sales companies included a newly formed Domtar Pulp and Paper Inc., effectively replacing the Wright Co. Inc., also wholly owned, to direct newsprint sales in the United States, and Domtar Pulp Sales Ltd., operating in Canada. Overseas newsprint sales in the United Kingdom continued to be administered jointly with a group of other Canadian companies through the British International Paper Co., a wartime arrangement which had been continued after serving all members well. Sales in Mexico, Australia and New Zealand were handled jointly with a different group through Canadian Overseas Paper Co. Ltd., another operation which had originated under wartime conditions.

The ninefold increase previously noted for net assets during this period was not achieved in sales or operating profits, but results* are impressive. Total sales and other revenues show a fivefold increase from $80 million when first reported for 1956 to $432 million in the peak year 1966, and operating profit kept pace, rising from $10 million in 1955 to $70 million in 1965. Net income of $3.5 million in 1955 reached $21 million in both 1964 and 1965 before dropping to $16 million in 1966 and $9 million in 1967, partly because of high completion and start-up costs at the new Quévillon mill. Total earnings on common for the 12 years were $154 million out of which dividends of $103 million or 65 per cent were paid.**

Any corporation increase of this size, speed and scope is bound to attract comment and criticism, particularly when its scope involves the taking over of relatively large units in what seems to be a different industry. Domtar's performance was no exception, but further consideration suggests that it was commendable in many ways.

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* - See Appendix Table E-2, page 96.

** - Based on subsequently restated earnings during this period, total earnings for 12 years were $147 million, of which $103 million in dividends represented 70 per cent.

None of the companies acquired were relatively weak competitors whose elimination contributed to dominance of an industry. In fact, they were all good efficient units, operating in similar or related fields but not in direct competition with Domtar. Acquisition of them served to extend the company's service by adding other but similar products to those already provided, thus improving Domtar's ability to compete with significantly larger companies in the same field. Combining of facilities for production, transportation, sales, advertising and general service did in fact improve efficiency and help to hold down costs.

The relationship that had naturally developed between DTC's chemical and construction material business and the pulp and paper industry has been described elsewhere and was a major consideration in the expansion. Another consideration and indication of management's objective and intention was given by a comment contained in the company's Annual Report for 1959. This was in the middle of the period of DTC's most dramatic expansion, when assets had been almost tripled by acquisition of Howard Smith Paper Mills, then Gypsum, Lime and Alabastine and with St. Lawrence Corp. to follow. Sales that three years earlier had been divided between building materials and chemicals with significant amounts of pulp and paper had become 41 per cent pulp and paper, 35 per cent building materials and 24 per cent chemicals. Nevertheless, the Report stated: "It should be pointed out that the common denominator in practically all our operations is chemical processing and that 95% of our sales arise from operations which could be described as chemical process industries."

Management changes during this period correspond in number of personnel with the growth of assets but with little if any effect upon company policy. Control remained firmly in the hands of the Argus group despite the increases in size of the Board of Directors and the Executive Committee. From 12 Directors in 1956 the Board reached a total of 28 in 1961 and in the same period the Executive Committee grew from five, four of them Argus representatives, to ten.

The change in company officers was similar. In 1956 Domtar had 5 senior officers, namely Chairman & President, two Vice-Presidents, Vice-President & Treasurer, and Secretary. By 1965 this number had become 14 by the addition of 9 more Vice-Presidents during the reorganization and changes previously mentioned.

The partial success of these changes of organization in achieving effective operation is shown by the operating results reported year by year* but in 1965 the assembled entity might still have been more appropriately described as a conglomeration than a comglomerate enterprise.

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* - See Appendix Table E-2, page 97.

Further changes were needed and it was fortunate that the Argus group was able to produce the man for the job in the person of T.N. Beaupré, then Chairman of B.C. Forest Products, another Argus company. He became a Director of Domtar in 1965, and assumed command in 1966 when E.P. Taylor resigned from his position as Chairman. In this exchange Domtar's gain was B.C. Forest Products' loss but the latter had already benefited greatly from the Beaupré touch and was in good trim, which Domtar was not. As always some time was needed for the change to produce results, but a start was soon made and by 1967 some pruning back of the unwieldy organization was evident. The Board had been reduced from 28 to 24, and the senior officers from 14 to 8 as this period of major expansion reached its end.

CONSOLIDATION: 1968-74

In 1968 Domtar entered what seems to have been a period of general consolidation. The only acquisitions during the next seven years were a salt mine in Cote Blanche, La., rated at a million tons per year and intended as back-up for the troubled Goderich mine in Ontario, and three Canadian companies whose operations supplemented those of Domtar. These companies, all acquired by purchase of shares, were:

Buntin Reid Paper Co., a fine paper merchant operating in Toronto, London and Ottawa, acquired to improve the marketing of fine paper products through its operations in Toronto, London and Ottawa;

Northwest Wood Preservers Ltd., a small company with wood resources in northern B.C. and a plant at Dawson Creek producing lumber and railway ties;

Superior Box Ltd., a maker of corrugated containers located in Kitchener.

In contrast to acquisitions the company disposed of a considerable number of assets that seemed unlikely to earn their keep. The plastic plant at Moorestown, N.J., was sold to St. Regis Paper at an undisclosed capital gain. No such gain was made, however, when the unfortunate investment of $7.7 million in two jointly owned Italian companies was written off because of their disappointing performance, accentuated by the adverse state of European business in 1971. Elimination of unprofitable operations in which the high cost of pollution control was involved required closing of the sulphite mill, also chlorine, caustic and vanillin facilities at Cornwall and the phthalic anhydride plant at Toronto. For similar reasons the Siporex plant at Delson was closed, also the metal powder plant at Ridgeway, Pa., the latter following damage by explosion and fire.

Four idle newsprint machines in the old St. Lawrence mill at Trois Rivières were "mothballed" in 1972 when it seemed likely that the needs of Domtar's customers could be provided more economically from its mills at Dolbeau, Donnacona, and Red Rock or by purchase from other companies. This was a high-cost mill by industry standards as well as in comparison with Domtar's others. Its wood cost was high and too many man-hours per ton were needed to operate its six little old machines. Its location in an urban area lacking open ground space would inevitably increase the cost of controlling pollution by effluents. Moreover, the position of its smelly pulp mill at the windward end of a town aggravated the potential problem of air pollution. Unlike a mill town, a city the size of Trois Rivières contains large numbers of folk to whom a pulp mill does not smell of wages and salaries. It just stinks.

In the following year, 1973, the whole mill was sold to Kruger Pulp and Paper Ltd. for $16 million, Domtar retaining and servicing its own contracts for the publication-grade paper made on the two machines recently modified by addition of machine coating equipment, also some newsprint contracts requiring service from elsewhere. Kruger badly needed productive facilities to provide for contracts made in anticipation of production from a new mill which had been planned in the Quévillon area but had not materialized, and mainly for this reason it proceeded at once to add a new high-speed newsprint machine.

Investment in listed securities was reduced by $6.5 million when 361,258 shares of Price Co. were sold to Abitibi in November 1974. This sale represented pro rata acceptance of part of Domtar's holding of 684,525 shares, all of which were tendered in response to Abitibi's offer to buy 5 million shares at $25, which was about double the market price. Domtar's net realization was $8.6 million, indicating a capital gain after taxes of $2.0 million. The remaining 323,267 shares were also sold to Abitibi in April 1975. These Price shares had been acquired by Domtar as part of the assets of St. Lawrence Corp., and carried as an investment of $12.45 million, or $18.19 per share. The reason for this holding by St. Lawrence has not been explained.

From the low point of $10 million in 1968 capital expenditures amounted to roughly $32 million per year through 1969-73 and were applied more to improvement than to expansion of operating facilities of all groups. They included continuous costs of more facilities for pollution control, roads, wood-harvesting equipment, equality improvement and control at Dolbeau and Donnacona, plus thermo-mechanical chip refining at the latter mill. Salt operations at Unity were expanded, also those at Goderich.

Total capital expenditures for the seven years were $241 million and nearly one-third of this was in 1974 when an amount of $72 million surpassed the previous peak of $67 million in 1965.* This amount was spread over all operations but applied mainly to pulp and paper with $12 million for sawmill projects at Quévillon and Dolbeau, $10 million for woodland roads, $5 million for adding linerboard capacity at Red Rock, $4 million for the chip refining system at Donnacona and an equal amount on pollution control. Distribution between groups in the last five years was as follows:

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* - See Appendix Table E-2, page 97.

RECENT CAPITAL EXPENDITURES BY GROUP
($ Million)

Year	Pulp and Paper	Chemicals	Construction Materials	Other	Total
1970	26	7	5	1	39
1971	16	2	5	1	24
1972	22	5	2	-	29
1973	25	12	4	1	42
1974	57	6	9	-	72
5 years	146	32	25	3	206

It should be noted that a considerable part of the increase in recent years has been caused by inflated costs of construction.

Capitalization changes in this period were notable for a steady year-by-year reduction of funded debt, from $165 million at the beginning of 1968 to $108 million at the end of 1974, and from 35 to 20 per cent of invested capital. Common stock equity was increased from $228 to $315 million. By 1971, Howard Smith was fully amalgamated into Domtar, and the outstanding Howard Smith preferred stock ($2 cum., par $50) became Domtar preferred ($1 cum., par $23.50, redemption value $25).

In 1968 the organization of operations was changed again, reverting in effect to the three-group arrangement that had preceded the 6 operating companies formed in 1961, and which had been increasingly evident in the recent Annual Reports. All pulp and paper operations were concentrated under Domtar Pulp and Paper Products Ltd., with this company and the other two operating companies, Domtar Chemicals Ltd. and Domtar Construction Materials Ltd., each headed by its own President instead of a Vice-President. Two years later another change reestablished consolidation of all packaging operations again into Domtar Packaging Ltd. so that the subsidiaries of Domtar Pulp & Paper Products Ltd. became Woodlands, Newsprint, Fine Papers, Packaging and Pulp.

In 1968 all Head Office personnel were concentrated in a new building, Domtar House, outside the high-cost Montreal financial district, vacating the four different buildings into which they had expanded. The result was an improvement of internal communications combined with a saving of costs.

Despite considerable variation in economic conditions, sales continued to expand regularly each year from 1968 through 1973, then explosively in 1974 when favourable conditions prevailed in all areas of Domtar's business. Operating profits failed to respond in some years, particularly in 1970 and 1971 when they were held back by the continued rise of costs, notably wage increases, and by unfavourable exchange rates. Moreover

profits in 1971 and 1972 were reduced by disposal and writing off of assets already mentioned and charging against profits of these losses amounting to $8.7 million in 1971 and $4 million in 1972. An additional drain on profits resulted from continuous losses at the Quévillon pulp mill which had been completed in 1967.

With rapidly improving business conditions in 1973 all of Domtar's operating companies recorded good gains, and for the first time the Quévillon mill contributed to profits. Net earnings were much greater than those of any earlier years; in fact at $40 million they were nearly double the previous peaks established in 1964 and 1965. Nevertheless, the 1973 records were far surpassed by performance recorded for 1974. Net sales increased by 37 per cent, operating profits by 84 per cent, and net earnings on common stock were more than double those of 1973. With earnings of $5.53 per share, dividends were increased from $1.00 to $1.60.

The following condensed balance sheet comparison shows the improvement achieved during these seven years in Domtar's financial position:

	1974	1967		1974	1967
	($MM)			($MM)	
Capital Invested:			Represented by:		
Net fixed assets	339	306	Funded debt	108	165
Investments and other	19	53	Other liability & pfd. stock	111	84
Net working capital	176	118	Common stock	315	228
	534	477		534	477

Application of price-level accounting as explained in the next chapter would increase the 1974 fixed assets figure by 43 per cent to $486 million and common equity by the same amount to $463 million. Earnings per share, however, would be reduced from $5.53 to $5.24. The other figures would not be changed.

During these seven years the number of Directors was reduced from 24 to 17 and for 1975 was further reduced to 14. Most of these changes represented retirements under the age limit but an exception was the death in 1974 of T.N. Beaupré, whose leadership as Chairman and President had guided the company for 10 years. He was replaced as Chairman by Maxwell Meighen and as President by A.D. Hamilton who also joined the Board. The only other new member was A.E. Barron, Chairman of Canadian Tire.

CHAPTER 3

CORPORATE CITIZENSHIP

On first glance at the performance in 1974, particularly the record capital expenditures and the impressive rises in assets, one might wonder if Domtar were taking off on another spending spree. Further consideration, however, suggests no such action. One reason for this is the economic recession, which is continuing to take its toll from all industry and very notably from pulp and paper and construction. Another is the nature of the expenditures in 1974, which were applied more to improvement and maintenance than to expansion, with no new acquisitions and no borrowing. The assumption follows that Domtar simply made good use of its large cash flow in 1974 to get on with the process of consolidation started in 1968 following an 11-year period of exceptional growth.

In retrospect, the extraordinary expansion and acquisitions of that period seem to have been undertaken with remarkable foresight. In the recession of 1957 it became clear that the pulp and paper industry had overexpanded its productive capacity. It continued to suffer from potential oversupply for a long period during which company earnings were so continuously depressed that costs of acquiring their assets were low. In relation to the prices and current dollar values resulting from the period of inflation that followed, these costs were very low indeed.

Domtar's acquisitions have been related in the historical context of the preceding chapter, and the details need not be repeated here. The question of corporate citizenship, however, involves more than the manner in which the company's assets have been bought and sold. Other topics of interest are the market shares of its products, treatment of its shareholders and employees, observance of the law, its tax record, and relationships to the communities in which it operates. These facets of Domtar's behaviour are outlined in the following sections.

MARKET SHARE OF DOMTAR PRODUCTS

Domtar is a big company by any standard of comparison, but not overwhelmingly so in any field. Omitting a few large corporations with provincial rather than federal charters, Domtar's rank is No. 17 in terms of sales and No. 25 in terms of total assets, according to the *Financial Post*'s compilation. In its own particular areas, of course, its importance is greater than these rankings suggest.

In the pulp and paper industry with which Domtar is generally identified it is difficult to measure this company's share of the Canadian market because of the large proportion of total production that is exported. Domtar's production of 1.4 million tons represents about 6 per cent of total Canadian output of 22 million tons, but in the Canadian market the company's share is considerably larger.

Only 13 per cent of Canada's total production of newsprint and market pulp is consumed in Canada but in the other grades the Canadian market accounts for 60 per cent. Domtar's production is roughly 40 per cent newsprint and market pulp and 60 per cent other grades, so that the company's share of the Canadian market is clearly much greater than its part of total production.

In newsprint and market pulp the share is very small but in the fine paper grades and special products the former Howard Smith mills share the local market with Abitibi's Provincial Paper Co., Rolland, and several smaller companies, also with importing competitors. In some products Domtar's share may reach 30 per cent, but statistical data are liable to be confusing because of variation in accepted definitions of some grades.

Definition of chemicals and construction materials for comparative purposes is more difficult, in fact almost impracticable. The Annual Census of Manufacturers indicates a value of about $4.5 billion for annual Canadian shipments of chemical products, of which Domtar's $131 million would represent 4 per cent. No similar figure is compiled for construction materials but even if it were Domtar's share seems likely to be equally insignificant, except in a few particular products.

These percentages of industry totals serve only to show that Domtar does not dominate, or even play a large part in any of its three industries. Data are not available to break down production in each of these industries into its components except in a very general way. In some of the highly specialized products Domtar's part may be close to dominant but generally in products and uses where it has been largely responsible for developments such as high pressure laminates (Arborite), non-combustible wall boards (Gyproc), and salt for all purposes (Sifto). In such cases the chief competitors seem to be American-owned companies like Cyanamid of Canada (Formica), U.S. Gypsum, Canadian-Johns Manville, Morton Salt (Windsor), and International Salt (rock salt for streets and highways).

TREATMENT OF

SHAREHOLDERS AND EMPLOYEES

A favourite target for critics of a large corporation, particularly when it is big and successful, is its treatment of shareholders and employees. The critics give special attention to minority shareholders, to employees of subsidiary companies, and to former employees of plants which may be shut down. Domtar seems to have been remarkably free from criticism for mistreatment in any of these circumstances and this may be the best evidence that the company's performance has been good for Canadians.

For most of the acquisitions described in the previous chapter, details regarding treatment of shareholders who refused to sell are lacking, but the almost complete acceptance of offers open to all suggests that they represented a fair value. The Cooksville acquisition described on page 12 was a case in which Domtar was able to rescue a company in trouble and may be an example of many similar situations. All of these acquisitions seem to have been publicly known, arm's-length transactions or negotiated arrangements openly carried out.

Regarding treatment of employees, Domtar's record also seems to be clear and clean. Practically all of the acquisitions were followed very soon by improvement and expansion of the plants and equipment and by increased production, all leading to more and better jobs for their employees. In the rare instances where plants or equipment have been sold, employees have had ample warning and a chance to remain with the new owner or accept other employment that was generally available in a growing organization such as Domtar. In the still more rare instances where facilities have been closed employees have had similar opportunities. For example, when the four newsprint machines in Trois Rivières were shut down, several hundred mill workers were warned well in advance of being laid off. Some moved to other company jobs, and for all of them Kruger's purchase of the mill soon replaced their former job opportunities and added many more coincidental with construction of a new high-speed machine.

Domtar's Industrial Conversion Program has been in operation for ten years or more and has been very effective for the company and employees alike in retraining people actually or about to be displaced so that they can handle new and better jobs. It has been of great benefit also to any of Domtar's employees with ambition to learn and qualify themselves for better and more highly paid positions.

In providing pensions for retiring employees Domtar's performance has been excellent and in this regard many of its acquisitions of smaller companies have been very helpful to employees for whom previous pension provisions had been much inferior to Domtar's Retirement Plan. The Cooksville company was also an example of this feature as it had made very meagre provision for its retiring employees.

Typical of Domtar's care of employees was its action in applying a form of COLA (cost of living allowance) to the pensions of all retired employees. All of them received pension increases of 3 per cent for each year of retirement before January 1, 1974.

OBSERVANCE OF THE LAW

The most prominent problem in company compliance with the law is in the relatively new requirements regarding control of pollution. There is no doubt that in the past all pulp and paper mills, and particularly those making pulp by chemical processes, have caused great damage to the environment by discharge of harmful effluents. There is also no doubt that as big units representing big business they have received more than their share of criticism compared, for instance, with the amount of blame ascribed to municipalities whose voting and taxable residents would pay the cost of cleaning up their sewage.

A notable example was recent publicity following indication of excessive blood mercury levels in some members of Indian bands living in northwest Quebec. On August 23rd, 1975, a leftist morning newspaper greeted Montrealers with a front page headlined story blaming Domtar's chloralkali plant adjoining its pulp mill at Quévillon and relating these conditions to the tragic situation at Minamata in Japan. Some other media took up this sensational news with alacrity and also without verification.

Investigation seems to show that this story was based on the results of a routine departmental check made on a band of Indians living on a different watershed that was inaccessible to fish from the Bell River which drains the Quévillon area. The situation is complicated by reports that high levels of mercury have always been present in all of these watersheds, apparently from natural sources. It has also been stated that the serious mercury poisoning in other countries has resulted from organic mercury compounds, such as fungicides used for seeds, rather than from naturally occurring or metallic mercury. Domtar's emission consists of metallic mercury, and its amount at .0038 lb. per ton of chlorine produced has been well below the government standard limit of .0050 lb.

Control of pollution by chemical processing is so technically complicated and involves so many considerations and such a variety of needs that establishment of provincial regulations has been slow. Compliance with them is also complicated by local considerations and is necessarily a long process. Domtar has been among the leaders in pollution control, greatly assisted by the technical skill and application of its Research Centre in Senneville. As a result most of the company's 80 manufacturing plants in Canada are either in full compliance with current regulations or are completing programs leading to this condition.

Several of the potentially menacing pulp and paper mills in Ontario have been particularly successful in controlling effluents and also their less harmful but unpleasant odours. The packaging plant at Trenton is now considered an exemplary mill, thanks to process changes to improve effluents, and a new pulping development by the Domtar Research Centre to eliminate the smell of black liquor stored in lagoons.

At the Cornwall fine paper mill, compliance with effluent regulations has been achieved by installing a Copeland fluidised bed waste burner, and satisfactory control of odours has followed incineration of the offending gases from which a steam stripping process recovers concentrates for re-use. In the newsprint and board mill at Red Rock, the effluent complies with requirements and control of gases is in process.

In Quebec the provincial regulations to date seem to be less clearly defined and the position of the mills is consequently less clear, but all of Domtar's newsprint mills have operated within the limits imposed. The company has developed a program for continued compliance with anticipated requirements for all mills and is continuously in touch with authorities regarding its implementation.

The cost of pollution control has been and will contine to be an important factor in Domtar's earnings, particularly from its pulp and paper operations. Following are comparisons for the last five years.

EXPENDITURES ON POLLUTION CONTROL

COMPARED TO

RETURNS ON COMMON SHARES

($ Million)

Year	Capital Expenditures on Pollution	Earned on Common	Dividends on Common
1970	5	17	10
1971	7	1	9
1972	6	13	9
1973	3	40	15
1974	4	82	24
5 years	25	153	67

TAX RECORD

Payment of taxes is another consideration in this aspect of corporate citizenship. The share of our tax burden borne by Domtar, that is by Domtar's shareholders, is not basically different from that of any other Canadian corporation but the size of this imposition compels its inclusion in any corporate history. The company, of course, pays normal municipal taxes on plant and property, provincial taxes on raw materials in the form of stumpage, rental, royalty or otherwise, and sales tax where applicable, but the real burden is federal income tax. As shown below, during the past 19 years payments of income tax have been 55 per cent more than payments of dividends.

INCOME TAX PAYMENTS, 1956-74*
($ Million)

	Period 1956-67	Period 1968-74	19 years 1956-74
Income taxes deducted from earnings (current & deferred)	145	143	288
Dividends paid to shareholders	102	84	186
Excess of income tax over dividends	42%	69%	55%

* - Details by years are contained in Appendix Table E-4, page 99.

GOOD NEIGHBOUR POLICY

Another criterion of a good corporate citizen is its relationship with its neighbours. For a company like Domtar "neighbours" mean generally the people who like to camp, canoe, fish, hunt, ski and in general enjoy reasonable freedom to move about in its woodland territories.

Domtar has continued the policy of free access to the public that has been practised by its predecessors for many years. In areas under lease such activities are largely controlled by the provincial authorities, but the company collaborates completely with them and grants public use of all company roads.

In freehold territory Domtar's policy is similar, except that in some areas fishing or hunting rights may be leased to clubs whose members are to be trusted to respect the game laws, in which event public use in only for other pursuits.

Public access may, of course, increase the fire hazard and may be forbidden during particularly dangerous periods. It also increases the cost of patrolling and keeping of records needed in case rescue operations are required. Nevertheless, Domtar regards this as a normal and reasonable expense for a good neighbour to bear.

CHAPTER 4

CONCLUSIONS

Recapitulation of Domtar history leads to very favourable conclusions regarding its overall achievement during the 45 years of its Canadian corporate existence. Following are some of the commendable features.

1. Despite the cyclical nature of all parts of its business the company has shown a remarkably stable record of performance. Except for losses in the Depression years, 1932-35, it has reported earnings in every year, including 1971 when heavy write-offs of the ill-fated Italian venture and other capital costs were charged directly to profit in that year. (Appendix Tables E-1, E-2 and E-3 show the data.)

2. It is difficult to compare growth of a company with the national economy but in terms of total net assets Domtar has greatly outperformed the Canadian gross national product. From 1929 to 1955 the relationship was about 2 to 1 and from 1956 to 1974 about 4 to 1. The chart in Appendix D, page 89, shows remarkable concurrence of growth periods.

3. Domtar has established an admirable record in apparently conservative accounting and in disclosure of its financial position and operations. Its annual reports have consistently shown a policy of keeping its shareholders and others fully informed and of making changes in accounting procedure when needed.

A long-term example has been its practice of recording expansion with appropriate distinction between construction of new or additional facilities and acquisition of other operating companies. Building activities are reflected in reported capital expenditures and buying processes are recorded as such or as investments, both with full explanation.

A current example occurs in its annual reports for recent years in which, unlike many other corporations, governments and institutions, Domtar has pointed out that reported earnings did not truly represent performance and position because of the impact of inflation on traditional accounting practices. Original costs of assets and inventories were falling farther and farther behind replacement costs so that depreciation and depletion charges against profits were becoming less and less adequate to provide for replacement.

In 1973, and with great emphasis for 1974, Domtar indicated that amounts of return on capital based on a traditional or historic basis were increasingly overstated. The company recommended price-level accounting for general use and suggested that the Consumer

Price Index should be used as a temporary measure to convert historical to current dollars in order to present comparable data. Application of this correction to 1974 data resulted in the following changes:

EFFECTS OF CHANGES

IN ACCOUNTING PROCEDURES
($ Million)

	Comparable Data in Current Dollars	Reported Data in Historical Dollars	Amount of Increase
Increases			
Net fixed assets	486	339	147 or 43%
Capital employed	681	534	147 or 28%
Common equity	463	315	148 or 47%
			Amount of Decrease
Decreases			
Net earnings on common	78	82	-4 or -5%
Return on capital employed	12%	16%	
Return on common equity	17%	26%	

4. In addition to corporate achievements in financial terms, the assets of a company include other features of great and increasing importance. One of these is its contribution to the economy by increasing useful manufactured items. Another is its behaviour as a good Canadian corporate citizen, sharing our tax burdens and obeying our laws. A third is its treatment of personnel, notably employees and shareholders and including those involved in acquisitions and divestments of operating units. In all of these features Domtar's record appears to have been exceptionally good and it has established an enviable reputation.

5. Current performance and apparent policy suggest further consideration and improvement of efficiency and cost control for the next few years rather than major expansion. Moreover, ultimate growth seems more likely to come from building than from buying, and particularly from expansion of existing facilities. Granted fair treatment from government authorities at all levels, this company can contribute its full share to the growth of our Canadian economy. Granted fair treatment from its 18,000 employees it can provide them with a good and secure livelihood. Under these conditions Domtar can continue to produce fair earnings to justify the confidence of about 26,000 Canadians who own more than 95 per cent of its shares.

APPENDIX A

DOMTAR'S SUBSIDIARY OPERATING COMPANIES--
PRODUCTS AND PLANTS AT END OF 1974

APPENDIX A

DOMTAR'S SUBSIDIARY OPERATING COMPANIES-

PRODUCTS AND PLANTS AT END OF 1974

Operating Companies	Principal Products	Mills and Plants
Domtar Pulp & Paper Products Ltd.		
Domtar Fine Papers Ltd.	Uncoated and coated fine papers, specialty papers, diazo base, glassine, greaseproof, cigarette, carbonizing base	Beauharnois, Que. Cornwall, Ont. Georgetown, Ont. St. Catherines, Ont. Toronto, Ont. Morden, Man. Sunderland, U.K.
Domtar Newsprint Ltd.	Standard and special newsprint, groundwood specialties, machine-coated publication grades	Dolbeau, Que. Donnacona, Que. Red Rock, Ont.
Domtar Packaging	Linerboard, corrugating medium, kraft papers, boxboards, corrugated shipping containers, packaging and wrapping papers, grocery and other paper bags, toweling and tissue products, disposable diapers, fiber cans, tubes	East Angus, Que. Montreal, Que. Ste. Foy, Que. Windsor, Que. Peterborough, Ont. Red Lake, Ont. Red Rock, Ont. Toronto, Ont. Winnipeg, Man. Calgary, Alta.
Domtar Pulp Ltd.	Softwood kraft, bleached and unbleached, hardwood kraft, bleached and unbleached. Softwood kraft semi-bleached, sulphite unbleached	East Angus, Que. Quévillon, Que. Windsor, Que. Cornwall, Ont.
Domtar Woodlands Ltd.	Lumber, pulpwood	Quévillon, Que. St. Alexis, Que. St. George, Que. Windsor, Que. Bancroft, Ont. Sapawe, Ont.

DOMTAR'S SUBSIDIARY OPERATING COMPANIES-

PRODUCTS AND PLANTS AT END OF 1974
(Continued)

Operating Companies	Principal Products	Mills and Plants
Domtar Construction Materials Ltd.		
The Arborite Company	High-pressure laminates - domestic and industrial, particle boards	La Salle, Que. Toronto, Ont. Vaughan, Ont.
Clay Division	Bricks, tiles, panels, special products	Laprairie, Que. Cooksville, Ont. Ottawa, Ont.
Gypsum Division	Wallboard, paneling, plank lath, ceiling tiles, and non-combustible specialties (GYPROC)	Windsor, N.S. Montreal, Que. Caledonia, Ont. Gypsumville, Man. Winnipeg, Man. Calgary, Alta. N. Westminster, B.C.
Fibre Division	Asphalt shingles, roll roofing and siding, roof sheathing, panel board, roof boards, sewer and drainage pipe, ceiling tiles, grid panels, plastic and fibre conduit, building insulation	Donnacona, Que. Lachine, Que. Montreal, Que. Brantford, Ont. Cornwall, Ont. Thorold, Ont. Saskatoon, Sask. Lloydminster, Alta. Burnaby, B.C.
Domtar Chemicals Ltd.		
Lime Division	Limestone, quicklime, hydrated lime, special products	Joliette, Que. Beachville, Ont. Hespeler, Ont. Blubber Bay, B.C. Granville, B.C. Tacoma, Wash.

DOMTAR'S SUBSIDIARY OPERATING COMPANIES-

PRODUCTS AND PLANTS AT END OF 1974
(Continued)

Operating Companies	Principal Products	Mills and Plants
Sifto Salt Division	Salt for all purposes, domestic, commercial	Amherst, N.S. Goderich, Ont. Unity, Sask. Vancouver, B.C. Cote Blanche, La.
Metal Powders Division	Iron, iron alloy powders	La Salle, Que. Lachine, Que.
Tar & Chemical Division	Creosote, pitches, oils, acids, and other coal tar products	Hamilton, Ont. Sault Ste. Marie, Ont. Toronto, Ont.
Wood Preserving Division	Pressure-treated wood products of kinds, railway ties, poles, building trusses	Truro, N.S. Newcastle, N.B. Trenton, Ont. Transcona, Man. Prince Albert, Sask. Cochrane, Alta. Dawson, B.C. N. Westminster, B.C. Prince George, B.C.
Chemical Developments of Canada Ltd. (51% owned)	Synthetic detergents, wetting agents, carboxy methyl cellulose, dyestuffs, pigments.	Longford, Ont.

APPENDIX B

ANNUAL RECORD OF PERFORMANCE

1929 TO 1974

APPENDIX B

ANNUAL RECORD OF PERFORMANCE, 1929 TO 1974

The corporate history of Domtar Ltd. starts with that of its predecessor Dominion Tar and Chemical Co. Ltd., a name which fully described the original company's operations, and the derived name Domtar is sufficiently similar to avoid confusion as to its origin. Nevertheless the company's relatively very large expansion into pulp and paper has led to its general classification as a member of the pulp and paper industry.

Dominion Tar & Chemical (DTC) obtained a Dominion of Canada charter dated 17 January 1929, following purchase by Canadian interests of the original company which had been incorporated in the U.K. in 1903. Its first operating unit, built in the same year, had been a plant to distill tar at Sydney, N.S., and by 1929 its expanded facilities included six tar distillation and ten creosoting plants located at Sault Ste. Marie, St. Boniface, Montreal and Toronto.

The purchase price was about £1.5 million or $7.3 million. Holders of 220,000 preferred shares received par value at £1 and accrued dividends; holders of 330,000 common shares, also £1 par value, received £3-11-0 or $17 per share. In addition, £148,000 was paid to cover liquidation and other expenses and to compensate directors and staff of the English company, out of which the directors paid £33,000 to preferred shareholders as an ex gratia dividend of 3s. The balance sheet at the end of 1928 shows:

	($MM)		($MM)
Capital Invested:		Represented by:	
Fixed assets, net of depreciation	7.4	Funded debt	4.0
Investments and other	.7	Minority interest	.8
Net working capital	1.7	Preferred stock (45,000 shares @ $100)	4.5
		Common stock (23,000 shares @ n.p.v.)	.5
	9.8		9.8

The head office of the new company was in Montreal, where it has remained, although from the start its business has been spread across Canada. A leading figure was Sir Herbert Holt, who continued to guide the company until his death 11 years later.

EARLY YEARS: 1929 to 1944

1929

Progress of the new company was immediate in the booming conditions that still prevailed during 1929. The remaining minority interest in Alexander Murray and Co. was acquired, and holding of Canada Creosoting Co. was increased. A new subsidiary was formed, Fibre Conduits of Canada Ltd., and construction of its plant at Cornwall was begun. Capital expenditures of about $0.4 million were applied to new equipment for tar and chemical plants. Operating profits of $1.2 million contributed cash flow of $0.93 million, and financing involved issue of 1,000 preferred and 5,000 common shares. Results are reflected in the following balance sheet figures at 31 December 1929:

Capital Invested:	($MM)	Represented by:	($MM)
Net fixed assets	7.7	Funded debt	4.0
Invested in associated corporation	.7	Minority interest	.7
Net working capital	2.0	Preferred stock (46,000 shares)	4.6
		Common stock (235,500 shares)	.5
		Surplus	.6
	10.4		10.4

The following were listed as subsidiary companies:

Canada Creosoting Co. Ltd.
Alexander Murray & Co. Ltd.
Vancouver Creosoting Co. Ltd.
Canada Roof Products Ltd.
Fibre Conduits of Canada Ltd.
American Tar & Chemical Co.
Alberta Wood Preserving Co. Ltd.
British Columbia Wood Preserving Co. Ltd.

Directors were: Sir Herbert Holt, J.H. Gundy, Russell Bell, Robert Dodd, E.G. Jackson, Albert Whitmore, Richard Look and Lionel Walsh.

Officers were: President Lionel Walsh, Vice-President Richard Look, Secretary and Treasurer Dudley Thomas.

1930

Despite decreasing economic activity the company's growth continued in 1930. Capital expenditures, which doubled at $0.8 million, were applied to erection of two new plants at New Westminster and Swift Current, and to extensions of three others at New Westminster, Swift Current, and North Vancouver. Moreover, a new subsidiary, Calders (Canada) Ltd., was acquired in total and holdings were increased in Canada Creosoting and Alberta Wood Preserving, the latter including $0.4 million of 7 per cent preferred stock. To finance these purchases capitalization was increased by sale of $1.5 million debentures, and issue of 4,350 preferred and 37,684 common shares.

Operating profit increased by 40 per cent to $1.7 million, but net earnings on common decreased 20 per cent to $0.4 million. Management was unchanged.

1931

As business conditions continued to deteriorate, company expansion was modified, but capital expenditures of $0.3 million were applied to the building of a new plant in Toronto representing the start of new activity in the manufacture of phenols, creosols, and other tar acids, and to improvements in wharfing facilities at Toronto and New Westminster. Capitalization changes were routine with minor purchases of outstanding shares and consolidation of subsidiary companies. Operating profit dropped by 25 per cent, and net earnings almost disappeared. The only change in management or Directors was election of Andrew Holt as a Director in place of Robert Dodd.

At this date Dominion Tar operations comprised the following five divisions, all based upon crude tar and its derivatives:

Division	Main Products
Creosoting	Poles and piles, railway ties, lumber, structural timbers
Conduit	Fibre conduit, underfloor ducts
Tar	Electrode pitch, refined tars and oils, pitch coke
Chemical	Phenol, cresylic acid, HB acid
Alexander Murray	Road materials, roof supplies, soundproofing, specialties.

1932

In this year of general depression the company's business

dropped by one-third and net earnings recorded a loss of nearly $0.25 million. Capital expenditures were suspended and consolidation was accelerated with reduction in personnel and salaries. All plants remained in operation but many on reduced schedules. Contractual obligations were met including debenture sinking fund requirements, and dividends on Alberta Wood Preserving preferred stock were paid, but on Dominion Tar preferred they were suspended after one quarterly payment. There were no changes in management.

1933

Volume of business continued to drop in 1933 to about one-half of the 1930 level, and operating profit to about one-third of it. Net earnings showed a loss of $0.65 million. Because of decrease in prices the drop in physical volume was not so severe, and all plants and properties remained in operation. Officers and Directors of the company were unchanged.

1934

Improving conditions in 1934 were reflected in a 10 per cent gain in sales and reduction of the net loss to $0.37 million. No changes were reported in fixed assets or organization but a major revision of the balance sheet reduced net fixed assets by $4 million to $6.3 million and added an item of $3.7 million goodwill, representing the amount paid for subsidiary company shares in excess of book value of their assets. This goodwill item was gradually written off during the next ten years. The only change in management was J.A. Kilpatrick's election as a Director, replacing E.G. Jackson.

1935

In 1935 all divisions benefited from continued improvement in the general economy, although the Alexander Murray building products lagged behind the others. For the fourth consecutive year capital expenditures were negligible and operation of the sinking fund continued to reduce funded debt. Net working capital increased but preferred dividends were not earned. Net loss for the year was $0.08 million. H.R. MacMillan of Vancouver replaced Richard Look as a Director.

1936

Continued improvement of business continued in 1936 and the company showed net earnings of $0.06 million on the common shares after 4 years of losses. It was able to refund its 6 per cent debentures, due 1949, issuing 3-1/2 per cent serial debentures maturing 1937-44, and 4-1/2 per cent debentures, due 1951, amounting to $5 million. The minority holding of Canada

Creosoting Co. was acquired for cash and notes, also the rest of the common and some preferred shares of Alberta Wood Preserving Co. and additional shares of Fibre Conduits of Canada. Management was unchanged.

1937

Satisfactory increases for all branches occurred in 1937. The company reported elimination of the arrears of preferred dividends amounting to about $1.3 million by arrangement involving issue of 100,700 common shares (at 25 cents) for $25,175 and reduction of the preferred dividend rate from 6-1/2 per cent to 5-1/2 per cent. $200,000 of serial debentures were redeemed, and smaller payments and purchases improved the balance sheet. Earnings on common were $0.3 million, and dividends on the new preferred shares were paid. There was no change in management.

1938

Expansion of the company was resumed in 1938 when it acquired control of Industrial Materials Ltd. under a scheme of reorganization, details not disclosed, thereby starting the development of the salt division with operations at a deposit near Fort McMurray, Alta. The remaining minority interest in Fibre Conduits of Canada was purchased, also additional preferred shares of Alberta Wood Preserving for redemption. Capital expenditures were confined to plant improvements costing $63,000. Earnings on common were $0.2 million. Directors and officers were unchanged.

1939

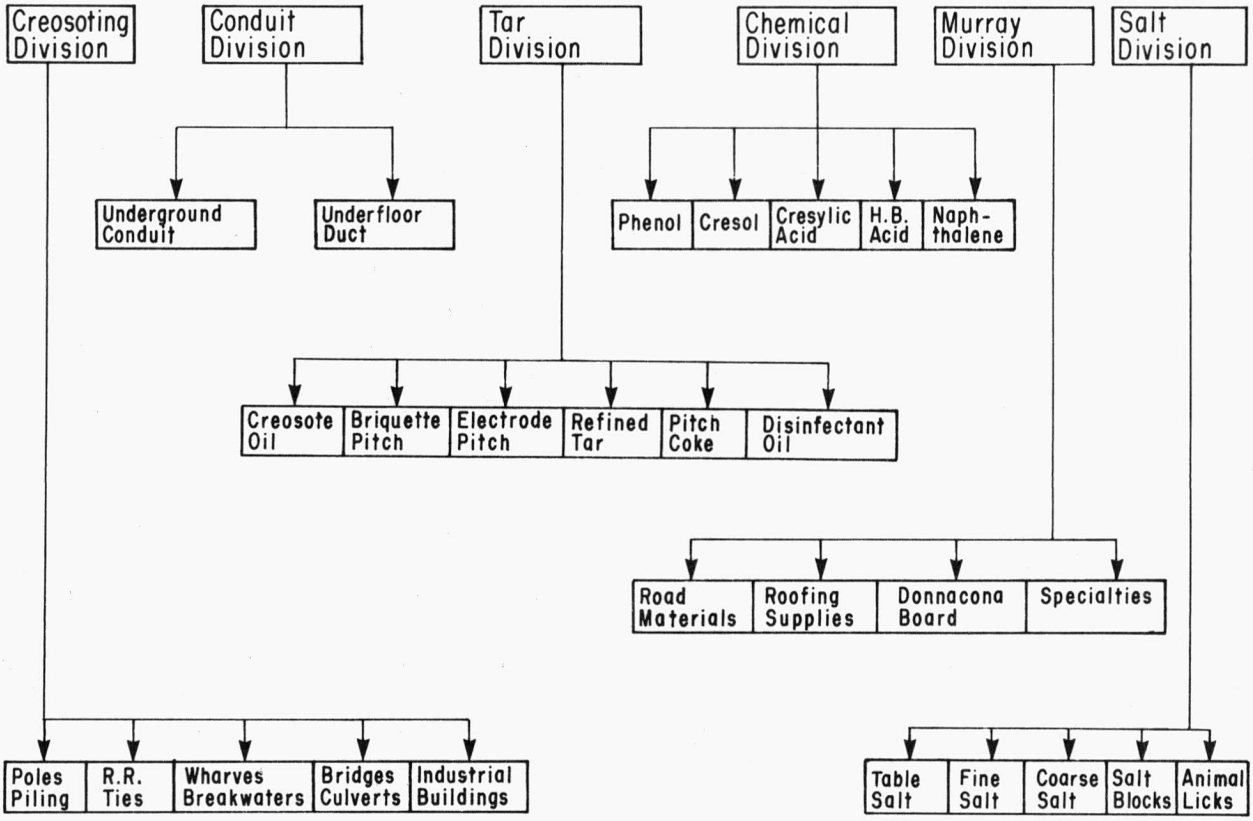
Company sales increased in 1939, particularly in the latter part reflecting wartime generation of activity. There were no new acquisitions, but capital expenditures rose to $453,000, applied to extensions and improvements of facilities in Nova Scotia, Ontario, Saskatchewan and Alberta. Net earnings rose to $0.34 million. Directors and officers were unchanged.

The new Salt Division, with added products of other divisions, had changed company organization so that it now looked like the chart on page 50.

1940

The company "rounded out" its interest in the salt industry by acquiring in 1940 full ownership of Dominion Salt Co. in Ontario. It also purchased the remaining assets of three subsidiaries, Vancouver Creosoting, Fibre Conduits of Canada and Calders (Canada) Ltd., as well as additional preferred shares of Alberta Wood Preserving and Industrial Materials. Writing off of goodwill was continued with $750,000, of which $477,000

Dominion Tar and Chemical Co. Ltd.
Company Organization, 1939



represented capital profit realized on the above purchases at their appraised value. These acquisitions, together with extension and improvement of other plants, raised capital expenditures to $1.04 million.

All divisions contributed to an increase of 25 per cent in operating profit of $2.0 million but income and excess profits tax reduced net earnings to $0.30 million from $0.34 million in 1939.

A.O. Ponder and L.L. Brown were elected Vice-Presidents and Directors of the company.

1941

Remaining assets of three subsidiaries, Canada Creosoting, Alexander Murray and Canada Roof Products, were acquired at appraised values, and the resulting capital surplus of $0.4

million formed part of further goodwill write-off of $750,000. A new plant was built by arrangement with government to make phthalic anhydride and absorbed a large part of capital expenditures of $637,000. Operating profit increased by 20 per cent and earnings by 13 per cent to $0.34 million. Sir Herbert Holt, a prominent Director since 1929, died during the year.

1942

All publicly owned shares of Industrial Materials were bought and redeemed, together with more preferred shares of Alberta Wood Preserving, and goodwill was reduced to $1.5 million by a further write-off of $250,000. Capital expenditures were greatly reduced at $135,000. Sales volume was maintained despite increasing shortages of men and materials and operating profit continued to rise by 25 per cent to $3.0 million. Earnings reached $0.39 million. Harold Crabtree, Chairman of Howard Smith Paper Mills, was elected to the Board of Directors.

1943

Early in the year the remaining Alberta Wood Preserving preferred shares were redeemed at $105 for $173,040, eliminating the last minority interest dividend claim, and the assets transferred to the company. The resulting capital surplus and a further appropriation were applied to reduce goodwill by $900,000, leaving $600,000. Capital expenditures rose to $259,000. Sales and operating profits were curtailed by shortages but net earnings rose to $0.40 million. There was no change of management.

1944

No major additions were made to fixed assets, and reduced capital expenditures of $120,000 were applied to improvement and replacements. Head office was moved from outgrown space occupied since incorporation into the 22nd floor of the Sun Life Building. The company took advantage of lower prevailing interest rates to refund its 4-1/2 per cent debt with 3-1/2 per cent First Mortgage Bonds, and for an amount lower by $110,000. Sales volume and operating profits were affected by lower demand for war products and earnings were slightly reduced to $0.39 million. Directors and officers were unchanged.

POSTWAR GROWTH: 1945-48

1945

Conversion to peacetime basis produced record sales in 1945, except for the wartime peak in 1942. Capital expenditures were

held down to $301,622 by shortages of materials and labor. After preferred dividends, net earnings were $430,000 or $1.15 per common share, and a quarterly dividend of 25 cents was declared at the year end, the first in the company's history. Management remained unchanged.

1946

In 1946 capital expenditures rose to $996,168, mostly for a new Fibre Conduit plant at Cornwall, representing the start of a major program of expansion and improvement. The $5,035,000 issue of 5½ per cent preference stock was redeemed at April 1, and replaced with $3,525,000 of $1 preference shares redeemable at $25, and 68,116 additional common shares. Sales and profits increased substantially and net earnings to $1,060,011 or $2.40 on the increased number of common shares. Dividend rate remained $1. Lionel Walsh became Chairman and was replaced as President by A.O. Ponder. A.H. Marden of subsidiary Alexander Murray replaced H.R. MacMillan as a Director.

1947

Expansion of the company's business into the manufacture of chlorine and caustic soda by electrolysis of salt was started in 1947 with construction of a plant at Beauharnois, Quebec. Its stated objectives were utilization of its already large production of salt and extension of its chemical production to include these materials which are essential to the pulp and paper industry and used in manufacture of other chemicals. Capital expenses for this and other projects amounted to $954,064, and to finance the program extending over several years 150,000 more preference shares were sold for $3,525,000. Net earnings were $1,266,299 or $2.99 per common share on which $1 dividend was paid.

1948

Continuation of the capital expansion in 1948 included start-up of the new steam plant in Toronto, addition of the phthalic anhydride plant and progress toward completion of other projects. Capital expenditures on these and normal smaller additions amounted to $5.4 million, an amount almost equal to the total expended during the preceding 9 years.

Net operating profit increased by 35 per cent to $5.4 million and net earnings to $1.9 million or $4.27 per share on which dividends of $1 were paid.

The number of Directors was increased from 10 to 12 and Messrs. E.P. Taylor and W.E. Phillips were elected to fill the two new seats.

1949

The expansion program started in 1946 was completed in 1949 at a cost of $3.3 million, making $10.7 million in the 4-year period. The chlorine and caustic soda plant at Beauharnois and the new salt plant at Unity, Sask. both came into production.

Operating profit was reduced in 1949 and net earnings on common were $1.5 million or $3.32 per share, with dividends at $1.

Raymond Dupuis and Paul Sise replaced Directors J.A. Kilpatrick and A.E. Whitmore, who died in 1948. The annual report notes formation of an Executive Committee of five Directors, Messrs. Gundy, Phillips, Ponder, Taylor and Walsh.

1950

In 1950 expansion was resumed with acquisition of two salt plants of Standard Chemical Co. at Nappan, Nova Scotia and Goderich, Ontario, and a salt division was established in recognition of a basic raw material other than coal tar used in the company's manufacturing operations. A plant to make ethylene oxide and glycol was started in Montreal East where needed gases were obtainable from oil refineries and chlorine was available from the company's plant at Beauharnois.

Financing involved sale of $4.25 million of 3½ per cent S.F. Bonds due 1970. Capital cost of minor additions was $450,000 and total of capital invested showed an increase of $5.4 million. Net earnings rose to $1.9 million or $4.38 per share with dividend remaining at $1. The annual report showed 95 per cent Canadian ownership.

Arthur Martin, President of Standard Chemical, joined the Board and was elected President, replacing A.O. Ponder who retired, and W.M. McCutcheon replaced L.L. Brown as a Director.

Company organization was further modified in 1950 when a Salt Division was again established following acquisition from Standard Chemical Co. of the two salt plants noted above. The former Canada Roof Products division was made a section of Alexander Murray, so that the corporate organization became:

Division	Sections	Plants	Use of Products
Tar and Chemical	Tar Products	6	Abrasives, aluminum reductions, oil refining, disinfectants, resins, chemicals and paints
	Fibre Conduit	1	Electrical distribution and cable protection, sewage, drainage and irrigation
	Caustic and Chlorine	1	Pulp and paper, textiles, soap, antifreeze, bleach, chemicals and oil refining
Salt	Same	5	Food processing, ice contol, chemicals and domestic
Creosoting	Same	14	Lumber and timber products for all purposes
Alexander Murray	Same	6	Sheathing, insulating, roofing, siding, etc. of all buildings
	Canada Roof Products	1	Similar to above plus Ace-Tex brand items.

1951

The company's annual report records a year of great activity in 1951 coinciding with E.P. Taylor's election as Chairman. On May 1 the assets and business of Standard Chemical Co. Ltd., excepting shares of Dominion Tar and Chemical Co. Ltd., were purchased for the sum of $5,850,000, and included a majority interest in Commercial Chemicals Ltd., the minority being bought out subsequently, also a 51 per cent interest in Chemical Developments of Canada Ltd. and its wholly owned Irwin Dyestuff Corp. Ltd. The latter owned many former Canadian patents originally owned by the German I.G. Farbenindustrie.

Note: This acquisition seems to have started in the opposite direction when Standard Chemical, in which Argus Corp. held a large interest, purchased a controlling interest exceeding 50 per cent of DTC and Arthur Martin of Standard Chemical became President. It was reversed by the transaction noted above. This transaction is explained in Chapter 2.

Capital expenditures of $4.4 million were applied to continue building of the glycol plant in Montreal East and the phthalic anhydride plant in Toronto. Capitalization was increased by sale of 158,000 common shares for $4,898,000 or $31 per share. (Market range for the year was $49-$30.)

Net earnings of $2.2 million represented $3.71 per common share on which dividends were increased to $.37½ in the second quarter, making $1,375 in the year.

E.P. Taylor became Chairman of the Board as well as the Executive Committee replacing Lionel Walsh, who remained a Director. J.A. McDougald replaced A.O. Ponder, retired.

Organization of the company was changed to six divisions from the previous four:

1. Tar and Chemical: Tar Products Section and Fibre Conduit Section;

2. Petrochemical;

3. Salt;

4. Creosoting;

5. Alexander Murray, including Canada Roof Products Section;

6. Standard Chemical, including Chemical Developments of Canada Ltd., and Irwin Dyestuff Section.

1952

Expenditures on the expansion program increased to $12 million in 1952 and were applied mostly to completion of the phthalic anhydride plant in Toronto, continued building of the petrochemical plant in Montreal East, and increasing capacity of the caustic soda and chlorine plant at Beauharnois in order to supply it.

An issue of $10 million 5 per cent 15-year S.F. Debentures was sold on April 1, matching the increase for the year in total net assets to $39 million. Depreciation charge was increased from $1.9 million to $4.0 million, of which the report stated that $1.7 million represented permissible extra write-off of assets during construction and early operating years.

Record operating profit of $7.7 million was not reflected in net earnings, which dropped to $1.3 million or $2.17 per common share on which the dividend was raised to $1.50.

Colin Webster and Paul Fox replaced Directors Paul Sise and J.H. Gundy deceased. On Andrew Holt's resignation from the Board, his replacement was H.R. MacMillan of Vancouver.

1953

In the 50th anniversary year, 1953, expansion continued with purchase of Brantford Roofing Co. and 98 per cent of the shares of the Cooksville Co. which included the Laprairie Co. and Aerocrete Construction. The origin and "arm's-length" nature of this acquisition are explained in Chapter 2. These purchases added ten operating units, and their brick production greatly increased the company's scope in building materials for construction. The planned start-up of the petrochemical plant in Montreal East was intended to coincide with increased capacity in caustic soda and chlorine at Beauharnois, but it met with unexpected problems and substantial costs. Capital expenditures amounted to $8.8 million.

Financing of this expansion included sale of $7.5 million 5 per cent serial debentures and 400,000 shares of stock, after a 4-for-1 split, for $3,387,500. The price of $8.47 per share compared with market range of $10¼-$7¼ in the year.

Operating profit was slightly reduced by start-up costs, but net earnings increased to $1.7 million or 60 cents per share on the new stock, on which the dividend rate was raised to 40 cents, representing an increase of 10 cents to $1.60 on the old stock.

The corporate structure was simplified by the parent company's purchase of the assets of seven wholly owned subsidiaries.

1954

In contrast with preceding years there was no expansion of the company's activities in 1954. On the contrary, sale was arranged of the new petrochemical plant in Montreal East and also the caustic soda and chlorine plant at Beauharnois, both of which had been made obsolete and unprofitable because of new and cheaper processes developed by American chemical companies. The Canadian subsidiary of Union Carbide Co. bought the petrochemical plant and in a completely arm's-length transaction Beauharnois went to a company called Standard Chemical Co.--no kin to DTC's acquisition of 1951, but owned by Columbia Southern Chemical Co., the latter a subsidiary of Pittsburgh Plate Glass Co. Proceeds of these sales were $13.5 million net cash and $2.9 million represented by a substantial minority interest in this Standard Chemical, both effective in January 1955, but reported for 1954 *pro forma*. Capitalization expenditures on fixed assets were reduced to $3.6 million.

Operating profits of $8.2 million showed an increase of 9 per cent but net earnings were slightly lower at $1.5 million or 56 cents per common share with dividend remaining at 40 cents.

On the death of A.H. Martin in February, J.G. Kirkpatrick was elected to the Board and E.P. Taylor became President as well as Chairman of the Board, and Chairman of the Executive Committee, the other members of which were W.M. McCutcheon, W.E. Phillips and Colin Webster.

1955

Expansion in 1955 consisted mainly of additions to existing plants notably for manufacture of "Siporex" and of bricks at Delson and in the Cooksville Division. Capital expenditures amounted to $3.1 million.

The company's minority interest in the American Standard Chemical, bought in January 1955 for $2.9 million, was converted to cash at the same price. Nevertheless an amount of $5.6 million was added to investment in common shares of Canadian companies, making a total of nearly $7 million.

Almost all divisions contributed to increases in operating profit to $10 million, and net earnings to $3.5 million or $1.24 per share on which the dividend was raised in the last quarter to 12-1/2 cents, or 50 cents annual rate.

1956

In 1956 there began a 12-year period of greatly increased growth and expansion into a new field. In the company's previous history, operations had generally been confined to its original business involving uses of the products of coal tar distillation, salt and other chemicals, together with a wide range of construction materials. Now it reported availing itself of an opportunity offered by the Crabtree family foundation to acquire a substantial holding of Howard Smith Paper Mills Ltd.*, owing to a long-term community of interest. This action plus purchase in the market resulted in a holding by the year end of 33 per cent of Howard Smith common shares, reflected in an increase of $20 million in the company's reported investments.**

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* - This company is described in Appendix F, page 103.

** - This fully "arm's-length" transaction is explained in Chapter 2, page 16.

Capital expenditures were $7.4 million, applied to such projects as enlargement of Siporex and brick plants, expansion of Javex facilities, construction of a new plant in Montreal for Brantford Roofing, and a successful drilling program to increase supplies of salt. An issue of 935,938 new common shares was made through rights to shareholdings at $10 per share (market value for 1956: $18½-$10½), and increased the number outstanding by one-third.

Net sales increased by 11 per cent, operating profit by 17 per cent, and net earnings by 32 per cent to $4.6 million or $1.23 on the increased number of shares. Dividends of 50 cents were paid.

Wilfred Hall was elected a Director.

1957

Acquisition of majority control of Howard Smith was completed in 1957 by full acceptance of the company's offer for 1,241,058 shares on a basis of 3½ for 1 Howard Smith share, giving the company 53.5 per cent. The added assets included the three Howard Smith pulp and paper mills at Cornwall, Donnacona and Windsor Mills plus other facilities, but not the Crabtree Mills division, producing toilet tissues and napkins, which was sold to Westminster Paper Co. Ltd. Consolidation of these assets in company accounts effectively tripled net fixed assets and doubled total net assets by adding the following:

Capital Invested:	($MM)	Represented by:	($MM)
Fixed assets net of depreciation*	44	Long term debt	16
Investments and other	2	Preferred shares	8
Net working capital	34	Common equity	56
	80		80

* - Depreciation and Depletion: $64 million.

An additional expansion in 1957 involved acquisition of a substantial interest in Gypsum, Lime and Alabastine Canada Ltd.* amounting to 138,100 shares, carried as an investment at $3,752,737 or $27.17 per share.

* - This company is described in Appendix F, on page 106.

Results of the year's expansion and changes are shown by the following comparison of condensed balance sheets of Dominion Tar & Chemical Co. Ltd.:

	1957 ($MM)	1956		1957 ($MM)	1956
Capital Invested:			Represented by:		
Fixed assets net of depreciation	85	23	Long term debt	32	18
Investments and other	5	27	Minority interest	35	-
Net working capital	45	13	Preferred shares	7	7
			Common equity	61	38
	135	63		135	63

Capital expenditures of $12 million during the year were typically diversified. They included completion of new bleaching facilities at the former Howard Smith paper mill in Cornwall, a new brick kiln at Laprairie and a new Brantford Roofing plant in Lachine. New projects started were a recovery furnace at Cornwall, a tar distillation plant in Hamilton, and a new shaft at the Goderich salt mine.

Addition of Howard Smith increased net sales to $178 million in 1957 from $79 million in 1956, but including Howard Smith in both years the change was insignificant in spite of the general business recession which adversely affected all operations. Division of sales by main group was:

Pulp & Paper 51%	Alliance Paper Mills Brantford Roofing (felt mill) Canada Paper	Donnacona Paper (paper mill) Don Valley Paper Howard Smith Paper Mills
Building Materials 25%	Alexander Murray Arborite Corp. Brantford Roofing Canada Roof Products Cooksville Co.	Donnacona (board mill) Laprairie Brick & Tile NO-CO-RODE Co. Precast Haydite Siporex
Chemical Processing 24%	Canada Creosoting Chemical Developments Coal Tar Products Division Howard Smith (vanillin)	Javex Co. J.J. Seguin Co. Sifto Salt

Changes in management were the election of W. Hall as President and C.D. Howe as Director to replace Russell Bell, deceased.

1958

Expansion continued in 1958 with open market purchase of additional shares to increase holdings of Gypsum, Lime and Alabastine to 20 per cent and of Howard Smith to nearly 56 per cent. Capital expenditures of $13 million were applied to the recovery furnace and to the building of a new paper machine at Cornwall, to the tar distillation plant in Hamilton, the rock salt mine at Goderich and two new major brick plant additions at Cooksville and Laprairie.

Financial changes included redemption of $14 million and placement of $27.5 million new debentures and other retirements to make a net increase of $12.6 million. Authorized share capital was increased from 5 to 10 million shares.

Net sales increased by 2 per cent to $181 million despite poor business conditions and were divided: pulp & paper 50 per cent, building materials 27 per cent, and chemical processing 23 per cent. Earnings increased to $7 million or to $1.50 from $1.25 but the dividend of 50 cents was unchanged.

The number of Directors was increased to 14; Roy Crabtree of Howard Smith and C.L. Gundy were added to the Board.

1959

Acquisition of Gypsum, Lime and Alabastine (GLA) was completed effective November 30, 1958, following previous purchase of 20 per cent of its common shares. Under the agreement all properties, rights and assets were acquired for $44 million, made up as follows:

$23,169,016	By allotment of 1,782,232 shares of DTC $13 per share of which market price High-Low during 1958-59 was about $20-$10
14,018,325	In cash
7,015,550	By assumption of all GLA's liabilities, etc.
$44,202,891	

This addition added two basic materials and products to DTC's operations. GLA's Construction Materials Division quarried gypsum and produced plaster and plaster board at several strategic locations. Its Industrial Materials Division quarried limestone for conversion to quick lime and hydrated lime. Products included Gyproc wallboard, mineral wool insulation, lime and water paints, and other contributions to diversification of the DTC operations.

The increase in fixed assets before depreciation was $61 million, making a total of $237 million divided into:

	($MM)		(%)
Howard Smith and Subsidiaries.....	132	or	56
Building Materials and Chemical Divisions.....	105	or	44

Capital expenditures increased to $30 million, spread over a list of 48 additions and improvements covering all divisions.

Net sales increased by 21 per cent to $219 million, with a notable change in proportions to:

Pulp and Paper	41%
Building Materials	35
Chemical Processing	24
	100%

Earnings of $11.2 million represented $1.61 per share, higher by 15 per cent and the dividend was raised to 60 cents.

Management changes included election to the Board of six former Directors of GLA, Messrs. R.A. Bryce, Gordon Cockshutt, R.W. Cooper, S.G. Dixon, G.H. Dobbie and R.T. Hagar, addition of Gordon Cockshutt to the Executive Committee; P.N. Gross, former President of GLA, was appointed a Vice-President of Dominion Tar.

1960

One new company, Prairie Fibreboard Ltd. of Saskatoon, was acquired in 1960 thus adding a plant in the west to make building board and reduce cost of delivery from Donnacona. Capital expenditures were reduced to $17 million applied to more than 40 additions and improvements.

Capitalization changes included doubling of authorized common share capital to 20 million, effective February 1961, and sale of $15 million 6-1/4 per cent S.F. Debentures on May 1, 1960.

Net sales declined 2 per cent, all in the Building Materials group, and operating profit was slightly lower. Earnings of $10 million represented $1.43 per share compared with $1.61. Dividends were unchanged at 60 cents.

The only change in management was the death of Director C.D. Howe.

1961

Two expansions of DTC occurred in 1961, both in pulp and paper. The first was acquisition of the remaining minority interest in Howard Smith, and this was accomplished when it became a wholly owned subsidiary in September, shareholders accepting 2-1/2 shares of DTC for each outstanding share of Howard Smith common. The second was acquisition of St. Lawrence Corp., and by the end of 1961 DTC held 93 per cent of the outstanding shares, stockholders having accepted 1-3/8 shares of DTC for 1 outstanding share of St. Lawrence Corp. This included the packaging company Hinde and Dauch Ltd. of which St. Lawrence owned more than 60 per cent. All of these company accounts were consolidated with the parent company DTC.

New stock issued for these acquisitions amounted to 7.4 million shares carried at book value of $70 million or $9.41 per share. Capital expenditures of $19 million were divided among all divisions and a new research centre in Senneville was announced, costing about $3 million. Book value of fixed assets, before depreciation, was $386 million, made up of $131 million for Howard Smith, $117 million for St. Lawrence and $138 million for DTC with subsidiaries in each case.

Net sales increased by 3 per cent for the year and amounted to $326 million, of which $208 million or 63 per cent was pulp and paper, $68 million or 21 per cent construction materials, and $50 million or 16 per cent chemicals. Operating profit of $56 million was slightly higher than *pro forma* profit for 1960. Net earnings were $1.29 per share on the increased number of shares, compared with $1.43 earned in 1960; dividends were increased to 80 cents for the year.

The Board of Directors was enlarged to permit election of ten former directors of St. Lawrence and Howard Smith, including de Gaspé Beaubien and George Bourke replacing C.D. Howe and Lionel Walsh, deceased.

During 1961 major changes were made in organization, changing to a basis of industry or technology rather than the previous basis of corporate identity.

1. Instead of the former three operating divisions, Chemicals, Building Materials and Pulp & Paper, six major sections were formed, each under the direction of a Group Vice-President, each with a high degree of autonomy. These groups and the main plants were:

Chemicals	32 plants -	11 in Ontario, 7 in Quebec, 5 in British Columbia, 5 on the

		Prairies and 4 in the Maritimes.
Construction Materials	18 plants -	9 in Ontario, 6 in Quebec, and 3 in the Maritimes.
Consumer Products	6 plants -	Montreal, Toronto, Winnipeg, Edmonton, Vancouver, Kingston (Jamaica)
Kraft and Fine Paper	12 plants -	7 in Ontario, 3 in Quebec
Newsprint & Containerboard	5 plants -	Dolbeau, Trois Rivières and Donnacona in Quebec, Red Rock and Trenton in Ontario
Packaging and Converted Products	12 plants -	6 in Ontario, 3 in Quebec.

2. Central staff departments were established to administer special areas such as financial and secretarial, research, purchasing, traffic, labour relations and public relations.

3. A Woodlands Division was formed to consolidate the separate woodlands operations of Canada Paper, Donnacona, Hinde & Dauch, Howard Smith and St. Lawrence. Its area of management was more than 22,000 square miles, some freehold but most of it Crown land under licence from provincial governments, and located two-thirds in Ontario and one-third in Quebec, with small holdings in the U.S. states of Maine and New York. The division also purchased large supplies of pulpwood from farmers and others and increasing amounts of sawmill waste in the form of chips.

1962

New acquisitions in 1962 included the Sydney Roofing & Paper Co. with plants at Burnaby and Lloydminster for an undisclosed cost, and the Hendon Paper Works of Sunderland in England. Cost of the latter was 240,000 common shares, on an exchange of stock, valued by the Directors at $3,184,800 or $13.85 per share. "Howard Smith Hendon" was to make fine paper grades using pulp supplies from Canada. Facilities to make arborite in England were acquired in North Shields.

Capital expenditures amounted to $27 million, and were provided from depreciation provision and retained earnings. An increase of $10 million in funded debt resulted from sale of $15.5 million 5-1/2 per cent S.F. Debentures and $4.5 million 5 per cent serial debentures, less retirements of $6.5 million and other transactions. Minority interests in St. Lawrence and Hinde & Dauch were reduced by $3.1 million during the year by purchase of shares in the open market.

Net sales gained 6 per cent, operating profits 3 per cent, and net earnings 10 per cent to $21 million or $1.40 per share. Dividend remained at 80 cents.

M.W. McCutcheon resigned as Director on appointment as Cabinet Minister and J.N. Swinden also of Argus was elected to replace him.

In 1962 the name Domtar appeared publicly for the first time when the six operating groups organized in the previous year were modified with some changes and each incorporated as a separate company under names and with divisions as shown below:

DOMTAR ORGANIZATION 1962

Company and Divisions	Plants or Operations	Products
Domtar Chemicals Ltd.		
Canada Creosoting	10	Pressure-treated and fire-retardant wood
Gypsum Lime	5	Limestone, lime hydrate, crushed stone, etc.
Metal Powders	2	Iron and iron alloy powders
Sifto Salt	5	All salt products
Tar & Chemical	4	Coal tar derivatives, creosote, etc.
Chemical Developments Ltd.	1	Synthetic detergents, dyestuffs, etc.
Domtar Construction Materials Ltd.		
Same	24	Wide variety of brick, board, plaster, etc.
Arborite Co.	3	Plastic laminates, adhesives, mouldings
McFadden Lumber Co.	1	Bonded pine, specialized lumber, chips
Siporex Co.	2	Lighweight cellular concrete

Company and Divisions (Continued)	Plants or Operations	Products
Domtar Consumer Products Ltd.		
Same	6	Bleach, starch, ammonia, cleaners
Domtar Newsprint Ltd.		
Containerboard	2	Kraft linerboard, corrugating medium
Newsprint	4	Newsprint and groundwood papers
Woodlands	15	Pulpwood and saw logs
Domtar Packaging Ltd.		
Bell-Kilgour	2	All kinds of bags and wrapping paper
Carton Specialties	3	Carton, fibre cans and food containers
Hinde & Dauch	9	Corrugated and solid containers
Domtar Pulp and Paper Ltd.		
Howard Smith	6	Fine and coated papers, market pulps
Kraft and Boxboard	5	Kraft and special papers, towels, boxboards

1963

Two new acquisitions were reported in 1963. The first was a 49 per cent interest in Cellulosa d'Italia S.p.A., a fine paper company with a mill at Chieti, Italy, and bought by Domtar International Ltd. for an undisclosed sum. The second was purchased by Domtar Packaging Ltd. of the facilities of Cleveland Container Canada Ltd. at Toronto and Prescott, also without disclosure of cost.

Capital expenditures were reduced to $19 million from $26 million in the previous year, large items being the new lime plant at Tacoma, Washington, installation of machine coating equipment for publication grade paper at Trois Rivières and the new research facilities at Senneville.

Net sales increased by 2-1/2 per cent to $353 million of which $220 million were pulp and paper, $74 million construction materials and $59 million chemicals. Volume was restricted by strikes against newspaper customers in New York and Cleveland and against the company's plant in Etobicoke, and operating profit of $57 million was slightly lower. Earnings of $21 million represented $1.41 per share and dividends remained at 80 cents.

1964

Capital expenditures were increased to $29 million for 1964, major items being modernization and conversion of Windsor Mills to bleached hardwood kraft pulp, expansion of pulp and linerboard facilities at Red Rock and starting of installation of a new fine paper machine at Cornwall. Work was also started on the biggest project, a new bleached kraft pulp mill at Lac Quévillon.

Net proceeds of sale of $20 million 5-3/4 per cent debentures amounted to $19.6 million, and 59,575 shares were issued for $1.3 million.

Net sales increased in all major divisions and reached $386 million which was 9 per cent more than in 1963. Operating profit was 20 per cent higher and pulp and paper accounted for 62 per cent of it, the same percentage as of net sales. Earnings of $25 million were also 20 per cent and represented $1.69 per share. The dividend rate remained at 80 cents.

M.C.G. Meighen joined the Executive Committee and also replaced Director Robert Bryce, who died in 1963, and Roger Letourneau was elected to replace W.E. Phillips, deceased.

1965

Capital expenditures rose to $67 million in 1965, more than double the highest previous figure in 1959. They were applied to four major pulp and paper items, the new Quévillon pulp mill, the new fine paper machine at Cornwall, expansion at Red Rock and modernization at Windsor Mills. Smaller items were the start of construction of a second tunnel kiln at the Cooksville brick plant and building of a $3 million metal powders plant at Ridgeway, Pa. Acquisitions were purchase of Plastic Packaging Products Ltd. in St. Laurent, also Wallaceburg Packing Ltd.

The only financing done was sale of $35 million 5-5/8 per cent debentures for $33.8 million net of discount. After normal redemptions the increase in funded debt was $27 million.

The company name was changed to Domtar Limited. While the six operating companies incorporated in 1962 were not changed, the annual report treated them as three groups:

Chemicals Group	Domtar Chemicals Ltd. Domtar Consumer Products Ltd.
Construction Materials Group	Domtar Construction Materials Ltd.

Pulp & Paper Group	Domtar Newsprint Ltd. (including Woodlands Division) Domtar Packaging Ltd. Domtar Pulp & Paper Ltd. (including Howard Smith Division) Kraft & Boxboard Division Domtar Pulp and Paper Inc. Domtar Pulp Sales Ltd.

The last two were noted as new subsidiaries, and a Containerboard Sales Division had been organized to market the added production from Red Rock.

Net sales increased by 5 per cent, but there was little change in operating profit. Net earnings rose by 7 per cent to $1.80 per share and the dividend was increased to 90 cents.

In January 1965, T.N. Beaupré* was elected to the Board in place of H.R. MacMillan who had resigned.

1966**

Capital expenditures of $58 million in 1966 were lower than in 1965 as the major expansion program begun in 1964 neared completion. The Quévillon pulp mill was almost at start-up date; the fine paper machine in Cornwall and the new facilities at Red Rock had started production. Other projects in progress included a $4 million expansion program in the packaging division, renovation of the two newsprint machines at Dolbeau and enlargement of the research center at Senneville.

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* - See Chapter 2 regarding the significance of his election and the immense benefits which followed.

** - Financial Reports for 1966 were restated in 1967 to reflect:

1. Writing off $3.5 million of preproduction expenses incurred by the new pulp mill and chemical plant at Quévillon. In the original annual report for 1966 these had been amortized over 5 years and only $0.7 million had been charged against income for the year.
2. Provision for income taxes based on reported income. $31.8 million of accumulated tax deductions at the end of 1966 was charged to surplus. Of this total $6.46 million was applicable to 1966.

The net result of these changes was a reduction of one-third in earnings originally reported for 1966 and considerable consternation among some members of the financial community to whom they came as a surprise.

Fixed assets included $76 million of construction in progress, primarily the new Quévillon mill and chemical plant. Financial changes were routine, and included issue of 78,985 shares of stock at $1.2 million ($15 per share) under the employees' share purchase plan.

Sales increased again by 6 per cent, but operating profit decreased, mainly because of start-up costs for new equipment at Quévillon and closing of obsolete plants at Toronto and Portneuf. Earnings were lower at $16.2 million or $1.10 per share compared with $26.3 million or $1.80 in 1965 but the dividend was raised to $1.

As in 1965 the annual report emphasized performance by the three major groups, pulp and paper, construction materials and chemicals, rather than by the incorporated subsidiary companies.

E.P. Taylor resigned as Chairman of the Board, succeeded by T.N. Beaupré, and de Gaspé Beaubien resigned for reasons of health. Wilbert Howard died on July 14, 1966 and was replaced by A.B. Mathews. Wilfred Hall resigned as President and was replaced by T.N. Beaupré who thus became Chairman and President.

1967

Domtar's investment in Italy was increased during the year by purchase jointly with its Italian affiliate of a majority interest in Cartiera Italiana e Sertorio Riunite, a company with two fine paper mills and one making moulded fibre products for the automobile industry. Its cost was part of an increase of $6.8 million reported for investments and advances, the balance being advances to the municipality at Quévillon. The new fine paper machine at Chieti started production late in the year.

Effective December 31, 1967 the Consumer Products Division excluding Sifto Salt was sold to Javex Consumer Products Ltd., wholly owned by Bristol-Myers Co., for $37.4 million, one-half cash and one-half due January 31, 1969. The reported capital gain was $30.3 million. The annual report explained that as the Domtar group was primarily engaged in pulp and paper, industrial chemicals and construction materials, development of this former division would be materially enhanced as part of a large international organization mainly interested in manufacture and marketing of consumer products.

In addition to the above payment of $18.7 million, working capital position was restored by sale of $35 million of 6-3/4 per cent 20-year debentures.

Capital expenditures of $16 million were greatly reduced as the larger expansion projects reached completion, and new ones were relatively small.

Net sales and revenues of $430 million were only a little lower than in 1966 but operating profit decreased by 14 per cent largely because of continued high preproduction expenses of more than $7 million at Quévillon. Earnings dropped from $16 million (restated for 1966) to $9 million, or 60 cents per share. Dividend paid was 90 cents but the quarterly rate was cut to 15 cents or 60 cents annually.

A.L. Fairley, President of Hollinger Mines Ltd., an Argus Company, was elected to the Board and appointed Chairman of the Executive Committee. Board membership was decreased by the death of Gordon Cockshutt and retirement of Shirley Dixon.

1968

There were no new acquisitions in 1968, and the plastics plant at Moorestown, N.J. was sold to St. Regis Paper Co. for an undisclosed amount, stated to represent a capital gain.

Capital expenditures were again considerably reduced, and at $10 million were the lowest since 1956 and only 40 per cent of the average yearly amount in the preceding 12-year period of rapid expansion. Main items included $1.2 million on the first 14 miles of a 55 mile all-weather road from the Dolbeau mill to a new cutting area, $1.5 million on wood harvesting facilities, expansion of the salt plant at Unity, and machine coating equipment for a second paper machine at Trois Rivières.

Net sales of $427 million were $17 million higher after adjustment for the sale of the Consumer Products Division in 1967, all major groups participating. Operating profit was slightly lower but earnings were higher at $10 million or 72 cents per share, and dividends of 60 cents were paid.

A change in organization concentrated all of the pulp and paper group operations under one incorporated company, Domtar Pulp & Paper Products Ltd. Thus the three-group organization which had gradually replaced the six divisions incorporated as subsidiary companies in 1962 were formalized under three companies each headed by its President, rather than a Vice-President. All head office personnel were moved to a new building from the four locations into which they had expanded in recent years.

Camille Lacroix was elected to the Board replacing R.D. Harkness, who retired.

1969

Again in 1969 there were no new acquisitions but capital expenditures increased to $25 million, widely diversified and aimed mostly at control of rising costs, improvement in operating efficiency and in quality of products. Funded debt was again reduced by $9 million to $147 million from the peak reached in 1967.

Net sales increased by 9 per cent, led by pulp and paper which gained 11 per cent, and contributed two-thirds of the total. Operating profit improved by 16 per cent, and earnings by 64 per cent to $18 million or $1.18 per share. Dividend payments remained at 60 cents.

Further changes in reorganization involved formation of a Pulp Division as part of Domtar Pulp & Paper Products Ltd. and consolidation of the pulp and paper traffic operations into a central traffic department with a corporate trucking fleet.

1970

Expansion was resumed in 1970 but on a modest scale. Three companies engaged in business similar to Domtar's were acquired by purchase of shares. These were:

1. Buntin Reid Paper Co. Ltd., the largest independent Canadian fine paper merchant with operations in Toronto, London and Ottawa.

2. Northwest Wood Preservers Ltd., producers of railway ties and lumber with a sawmill and plant at Dawson Creek and forest resources in northern B.C.

3. Superior Box Ltd. of Kitchener, a maker of corrugated containers and already partly owned.

All of these appear to have been "arm's-length" transactions involving purchase at the market price or value.

Capital expenditures increased to $39 million compared with $25 million in 1969 and $10 million in 1968. Other projects included improvements of newsprint machines at Dolbeau and Donnacona, conversion of the former mill from coal to oil fuel, pollution control at Cornwall and Red Rock. In construction materials a new $5.6 million arborite plant near Toronto was under construction, also a $2 million perlite plant at Cornwall.

Sales increased by 7 per cent to $485 million, of which 75 per cent was reported to be in Canada, 18 per cent in the U.S. and 7 per cent elsewhere. Operating profit was adversely affected by losses on U.S. exchange and net earnings decreased to $18 million

or $1.17 per share. The dividend remained at 60 cents.

Three Directors retired on reaching the age limit, George Bourke, G.B. Foster, and Percy Fox, and the Board was reduced from 24 to 21. Raymond Dupuis died in October and was replaced at the next annual meeting by Alex Barron, Chairman of Canadian Tire Co., also President of Canadian General Investments Ltd. of which Max Meighen was Chairman.

1971

In the general recession of 1971 conditions in Europe and prospects for fine papers led to a write-off of Domtar's $7.7 million investment in its two jointly owned Italian companies. A further write-off of $1 million of net book value resulted from the closing down of the sulphite mill, chlorine and caustic plant and vanillin facilities in Cornwall and from closing of the phthalic anhydride plant in Toronto. This total amount of $8.7 million was charged directly against profits for 1971. Capital expenditures were reduced to $24 million, about one-quarter of which was applied to pollution abatement. These charges reduced net fixed assets by $4 million and total net assets were lower by $21 million.

Final amalgamation of Howard Smith into Domtar involved conversion of the outstanding Howard Smith preferred stock into Domtar preference shares on a basis of 2 for 1. Purchase by St. Lawrence Corp. of almost all remaining shares of Hinde & Dauch also contributed to a total reduction of $7.8 million in minority interest.

Despite unfavourable economic conditions, net sales increased by 6 per cent and operating profits of both Construction Materials and Chemical groups also increased, but decreases for the Pulp & Paper Products caused an overall decline from $28 million to $20 million. Net earnings dropped from $17 million to $10 million before the extraordinary charge of $8.7 million noted above which reduced them to $1.2 million, or eight cents per share. The dividend of 60 cents was maintained.

E.P. Taylor, who had resigned as Chairman in 1966, retired from the Board on attainment of its age limit.

1972

Elimination of unprofitable operations was continued in 1972 with closing of the Siporex plant at Delson, writing off of surplus idle equipment at Red Rock and closing, pending sale, of the metal powder plant at Ridgeway, Pa. which had been damaged by an explosion and fire. Four idle newsprint machines in the old St. Lawrence mill at Trois Rivières were shut down and "mothballed"

pending future need. The net write-off was $4 million charged against profits for 1972. Capital expenditures of $29 million included about $6 million for necessary pollution abatement projects, the balance for general items including expansion of corrugating facilities at Toronto, the Goderich salt mine, tar products at Hamilton and improvements at Red Rock. The net result of these changes was a further decline of $4 million in reported net fixed assets.

Improved economic conditions contributed to a 9 per cent increase in net sales and a 66 per cent increase in earnings before extraordinary items, from 67 cents to $1.14 per share. Actual earnings after these charges were 86 cents compared with eight cents in 1971. The 60-cent dividend remained unchanged.

R.W. Cooper resigned from the Board and A.D. Hamilton replaced him, and G.H. Dobbie also resigned.

1973

Conditions improved greatly in 1973 with cash flow higher by $24 million. Capital expenditures were increased to $42 million of which $26 million was for increase of pulp and paper facilities, notably the building of a packaging distribution office and centre at Malton and expansion of linerboard facilities at Red Rock. An important addition was purchase of a million-ton-per-year salt mine in Cote Blanche, La.

During the year the partially idle newsprint and machine-coated publication paper mill at Trois Rivières was sold to Kruger Paper Co., Domtar continuing to service existing contracts for various periods.

Buoyant economic activity increased net sales by 17 per cent to $656 million, all operating companies recording gains. For the first time since it was completed early in 1967 the Quévillon pulp mill contributed to profits, and total operating profit rose to $96 million, a gain of 48 per cent. Net earnings of $41 million or $2.70 per share were more than double those of 1972 before extraordinary write-offs. The fourth quarter dividend was raised to 25 cents, the rate paid prior to 1967, and an extra of 30 cents made this rate of $1.00 applicable to 1973.

The return on capital invested reached 9.6 per cent in 1973, compared with an average rate of 5 per cent during the period 1966-73, both noted in the Annual Report as inadequate to justify additional investment in future years. It was also noted that because of the continuing inflation of prices and the resulting replacement costs of equipment values in terms of original cost, the depreciation allowances under current account procedures were inadequate, and use of them tended to overstate net earnings.

Colin Webster retired from the Board on reaching the age limit, and the number of Directors was reduced to 18.

1974

Domtar's performance in 1974 exceeded previous records of all kinds except new acquisitions and borrowing of which there were none. Despite the absence of new purchases capital expenditures rose to $72 million compared with the previous peak of $67 million in 1965 and were provided entirely from internal resources, notably cash flow of $124 million. Investments in listed securities were reduced by two-thirds on November 21, 1974 by sale to Abitibi of 361,258 shares of Price Co. common stock. These represented pro-rata acceptance of part of Domtar's holding of 684,525 shares, all of which were tendered in response to Abitibi's offer to buy 5 million shares at $25 when market price was about $12-1/2. Domtar's net realization after tax was an $8.6 million addition to cash resources. Domtar's capital gain on book value of $12.45 million was $2.46 million. The remaining 232,267 shares were sold to Abitibi in April 1975. These Price Company shares had been acquired with the other assets of St. Lawrence and carried as an investment.

Of this total $72 million expenditure, $59 million was applied to pulp and paper, including $12 million for sawmill projects at Quévillon and Dolbeau, $10 million for woodlands road construction, $5 million on increasing linerboard capacity at Red Rock, $4 million on a thermo-mechanical chip refining system at Donnacona, and widely distributed smaller amounts. About $8 million spent mostly on improvement of facilities was divided between the construction and chemical subsidiaries. Pollution abatement facilities absorbed $4.4 million.

The only changes in capitalization were continued reduction of both funded debt and outstanding preferred stock. Operation of sinking funds reduced funded debt by $7 million to $108 million, making a decrease of $57 million in seven years. In 1967 long term debt of $165 million represented 35 per cent of invested capital; by 1974 this relationship had been reduced to 20 per cent. During the year, 36,155 shares of Domtar preferred and 12,566 St. Lawrence preferred were bought at market price considerably below their par value, the gain realized being $754,000.

Net sales increased by 37 per cent to $898 million, and net earnings on common doubled at $82 million or $5.53 per share, compared with $2.70 in 1973. Dividends were increased to $1.60.

T.N. Beaupré, Chairman and President, died in March 1974 and in his place Maxwell Meighen was elected Chairman of the Board and A.D. Hamilton President and Chief Executive Officer. Directors J.E.L. Duquet, C.L. Gundy and J.N. Swinden retired on reaching the

age limit. The number of Directors of the company was reduced to 14.

Domtar's Annual Report emphasized the impact of increasing inflation on financial results as reported in accordance with traditional accounting principles. It pointed out the desirability of price-level accounting as an interim means of providing more significant information by application of an inflation index, and presented comparative data converting historical to current dollars by use of the Consumer Price Index. For 1974 the resulting changes were:

Increases	On Basis of Current $	As Reported in Historical $	Amount of Increase
	(Millions of dollars)		
Net fixed assets	486	339	147 or 43%
Capital employed	681	534	147 or 28%
Common equity	463	315	148 or 47%
Per share	$31.20	$21.25	$ 9.95 or 47%
Decreases			**Amount of Decreases**
Return on capital employed	12%	16%	4 points or 25%
Return on common equity	17%	26%	9 points or 35%
Net earned on common	78	82	4 points or 5%
Earnings per common share	$5.24	$5.53	$0.29 or 5%

APPENDIX C

MANAGEMENT AND CHANGES 1929-75

DIRECTORS AND OFFICERS

APPENDIX C

MANAGEMENT AND CHANGES 1929-75

DIRECTORS & OFFICERS

1929	1930	1931	1932	1933	1934	1935	1936	1937
DIRECTORS								
Sir Herbert Holt	"	"	"	"	"	"	"	"
J.H. Gundy	"	"	"	"	"	"	"	"
Russell Bell	"	"	"	"	"	"	"	"
Robert Dodd	"	A.Holt	"	"	"	"	"	"
E.G. Jackson	"	"	"	"	J.A.Kilpatrick	"	"	"
Albert Whitmore	"	"	"	"	"	"	"	"
Richard Look	"	"	"	"	"	H.R.MacMillan	"	"
Lionel Walsh	"	"	"	"	"	"	"	"
		D.Thomas	"	"	"	-		
OFFICERS								
Pres. Lionel Walsh	"	"	"	"	"	"	"	"
V-P Richard Look	"	"	"	-				
Sec. & Treas. Dudley Thomas	"	"	"	"	"	"	"	"

1937	1938	1939	1940	1941	1942	1943	1944	1945
DIRECTORS								
Sir Herbert Holt	"	"	"	-				
J.H. Gundy	"	"	"	"	"	"	"	"
A. Holt	"	"	"	"	"	"	"	"
J.A. Kilpatrick	"	"	"	"	"	"	"	"
H.R. MacMillan	"	"	"	"	"	"	"	"
Russell Bell	"	"	"	"	"	"	"	"
Lionel Walsh	"	"	"	"	"	"	"	"
Albert Whitmore	"	"	"	"	"	"	"	"
			A.O.Ponder	"	"	"	"	"
			L.L.Brown	"	"	"	"	"
					H.Crabtree	"	"	"
OFFICERS								
Pres. Lionel Walsh	"	"	"	"	"	"	"	"
V-P			A.O.Ponder	"	"	"	"	"
V-P			L.L. Brown	"	"	"	"	"
Sec. & Treas Dudley Thomas	"	"	"	"	"	"	"	"

MANAGEMENT AND CHANGES 1929-1975
(Continued)

1945	1946	1947	1948	1949	1950
DIRECTORS					
Lionel Walsh	"(C)	"(C)	"(C)	"(C)*	"(C)"
Russell Bell	"	"	"	"	"
L.L. Brown	"	"	"	"	M.W.McCutcheon
Harold Crabtree	"	"	"	"	-
J.H. Gundy	"	"	"	"*	"*
Andrew Holt	"	"	"	"	"
J.A. Kilpatrick	"	"	"	R.Dupuis	"
H.R. MacMillan	A.H.Marden	"	"	"	A.Martin*
A.O. Ponder	"	"	"	"*	"
A.E. Whitmore	"	"	"	P.Sise	"
			W.E.Phillips	"*	"*
			E.P.Taylor	"*(CE)	"*(CE)
OFFICERS					
Chairman	L.Walsh	"	"	"	"
Pres. Lionel Walsh	A.O.Ponder	"	"	"	A.Martin
V-P A.O. Ponder	-	A.H.Marden	"	"	"
V-P L.L. Brown	"	"	"	"	W.N.Hall
Sec. & Treas					
Dudley Thomas	"	"	"	"	"

MANAGEMENT AND CHANGES 1929-1975
(Continued)

1950	1951	1952	1953	1954	1955	1956
DIRECTORS						
Lionel Walsh (C)*	"	"	"	"	"	"
Russell Bell	"	"	"	"	"	"
M.W. McCutcheon*	"*	"*	"*	"*	"*	"*
Harold Crabtree	"	"	"	"	"	W.N.Hall*
J.H. Gundy*	"	Paul Fox	"	"	"	"
Andrew Holt*	"*	H.R.MacMillan	"	"	"	"
R. Dupuis	"	"	"	"	"	"
A. Martin	"*	"*	-	J.G.Kirkpatrick	"	"
A.O. Ponder*	J.A.McDougald	"	"	"	"	"
Paul Sise	"	C.Webster	"*	"*	"*	"*
W.E. Phillips	"*	"*	"*	"*	"*	"*
E.P. Taylor	"(C)*	"(C)*	"(C)*	"(C)*	"(C)*	"(C)*
OFFICERS						
Chairman Lionel Walsh	E.P.Taylor	"	"	"	"	"
Pres. A. Martin	"	"	"	E.P.Taylor	"	"
V-P W.N. Hall	"	"	"	"	"	-
V-P A.H. Marden	"	"	"	"	"	"
V-P & Treas. D. Thomas	"	"	"	"	"	"
Secretary	S.A.Kerr	"	"	"	"	"

MANAGEMENT AND CHANGES 1929-1975
(Continued)

1956	1957	1958	1959	1960	1961	1962
DIRECTORS						
Russell Bell	C.D.Howe	"	"	-	de G.Beaubien(2)	"
Raymond Dupuis	"	"	"	"	"	"
Percy Fox (3)	"	"	"	"	"*	"*
Wilfred Hall*	"*	"*	"*	"*	"*	"*
J.G. Kirkpatrick	"	"	"	"	"	"
H.R. MacMillan	"	"	"	"	"	"
M.W. McCutcheon*	"*	"*	"*	"*	"*(C)	-
J.A. McDougald	"	"*	"	"	"*	"*
W.E. Phillips*	"*	"*	"*	"*	"*	"*
E.P. Taylor (C)*	"*(C)	"*(C)	"*(C)	"*(C)	"*	"*(C)
Lionel Walsh	"	"	"	"	G.Bourke(2)	"
Colin Webster	"*	"*	"*	"*	"*	"*
		R.Crabtree(2)	"	"	"	"
		C.L.Gundy	"	"	"	"
			R.A.Bryce(1)	"	"	"
			C.G.Cockshutt*(1)	"*	"*	"*
			R.W.Cooper(1)	"	"	"
			S.G.Dixon(1)	"	"	"
			G.H.Dobbie(1)	"	"	"
			R.T.Hagar(1)	"	"	"
					N.A.Timmins(3)	2
					J.N.Swinden(2)	"*
					J.E.L.Duquet(3)	"
					G.B.Foster	"
					R.D.Harkness(2)	"
					W.H.Howard(2)	"
					N.Pitcairn(3)	"
					A.Ross*(3)	"*
OFFICERS						
Chairman E.P. Taylor	"	"	"	"	M.W.McCutcheon Vice-Chairman	-
Pres. E.P. Taylor	W.N.Hall	"	"	"	"	"
V-P A.H. Marden	"	W.E.Adkins	"	"	"	"
V-P Dudley Thomas	"	"	"	"	"	"
V-P	"	R.M.Collins	"	"	"	"
V-P		R.E.Kirbyson	"	"	"	"
V-P		W.R.Spence	"	"	"	"
V-P			P.N.Gross(4)	"	"	
				H.E.Mason	"	"
					C.M.Fellows	"
					W.H.Palm	"
					E.A.Thompson	"
					J.G.Wyllie	"
Sec. & Treas. S.A.Kerr	"	"	"	"	"	"

MANAGEMENT AND CHANGES 1929-1975
(Continued)

1962	1963	1964	1965	1966	1967	1968
DIRECTORS						
de Gaspé Beaubien	"	"	-			
George Bourke	"	"	"	"	"	"
Robert Bryce	-	M.Meighen*	"*	"*	"*	"*
C.G. Cockshutt*	"*	"*	"	"	-	
Ralph Cooper	"	"	"	"	"	"
Roy Crabtree*	"*	"*	"*	"*	"*	"*
Shirley Dixon	"	"	"	"	-	
George Dobbie	"	"	"	"	"	"
Raymond Dupuis	"	"	"	"	"	"
J.E.L. Duquet	"	"	"	"	"	"
G.B. Foster	"	"	"	"	"	"
Percy Fox*	"*	"*	"	"	"	"
C.L. Gundy	"	"	"	"	"	"
R.T. Hagar	"	"	"	"	"	"
W.N. Hall*	"*	"*	"*	-	A.L.Fairley*(CE)	"*(CE)
R.D. Harkness	"	"	"	"	-	C.Lacroix
W.H. Howard	"	"	"	A.B.Mathews*	"*	"*
J.G. Kirkpatrick	"	"	"	"	"	"
H.R. MacMillan	"	"	T.N.Beaupré	"(C)*	"(C)*	"(C)*
J.A. McDougald*	"*	"*	"*	"*	"*	"*
W.E. Phillips*	"	R.Letourneau	"	"	"	"
N. Pitcairn	"	"	"	"	"	"
Arthur Ross*	"*	"*	"*	"*	"*	"*
J.N. Swinden	"*	"*	"*	"*	"*	"*
E.P. Taylor*(C)	"*(C)	"*(C)	"*	"*	"*	"*
N.A. Timmins	"	"	"	J.T.Timmins	"	"
C. Webster	"*	"*	"*	"*	"*	"*
OFFICERS						
Chairman E.P. Taylor	"	"	"	T.N.Beaupré	"	"
Pres. W.N. Hall	"	"	"	T.N.Beaupré	"	"
V-P R.M. Collins	"	"(S)	"(S)	"	-	
V-P C.M. Fellows	"	"	"	"	"	-
V-P R.E. Kirbyson	"	"	"	"	-	
V-P H.E. Mason	"	"(S)	"(S)	"	-	
V-P W.H. Palm	"	"	"	"	"	-
V-P W.R. Spence	"	"	"(S)	"	-	
V-P D.S. Thomas	-					
V-P E. Thompson	"	"(S)	"(S)	"	-	
V-P Fin. J.G. Wyllie	"	-				
V-P	W.E.Adkins	"	"	"		
			P.Delagrave	"	"	"
			W.R.Lawson	"	"	"
			R.J.Moyse(F)	"(F)	"(F)	"(F)
					A.E.Penny	
Sec. & Treas.						
S.A. Kerr	"	"	"	"	"	"

MANAGEMENT AND CHANGES 1929-1975
(Continued)

1968	1969	1970	1971	1972	1973	1974	1975
DIRECTORS							
T.N. Beaupré(C)*	"(C)*	"(C)*	"(C)*	"(C)*	"(C)*	-	-
George Bourke	"	-	-	-	-	-	-
Ralph Cooper	"	"	"	A.D.Hamilton	"	"*	"*
R. Crabtree	"*	"*	"*	"*	"*	"*	"*
George Dobbie	"	"	"	-	-	-	-
Raymond Dupuis	"	-	A.E.Barron	-	-	-	-
J.E.L. Duquet	"	"	"	"	"	-	-
A.L. Fairley*	"*(CE)	"*(CE)	"*(CE)	"*(CE)	"*(CE)	"*(CE)	"*(CE)
G.B. Foster	"	-	-	-	-	-	-
Percy Fox	"	-	-	-	-	-	-
C.L. Gundy	"	"	"	"	"	-	-
R.T. Hagar	"	"	"	"	"	"	"
J.G. Kirkpatrick	"	"	"	"	"	"	"
C. Lacroix	"	"	"	"	"	"	"
R. Letourneau	"	"	"	"	"	"	"
Bruce Mathews*	"*	"*	"*	"*	"*	"*	"*
J.A. McDougald*	"*	"*	"*	"*	"*	"*	"*
M. Meighen*	"*	"*	"*	"*	"*	"(C)*	"(C)*
N. Pitcairn	"	"	"	"	"	"	"
A. Ross*	"*	"*	"*	"*	"*	"*	"*
J.N. Swinden*	"*	"*	"*	"*	"*	-	-
E.P. Taylor*	"*	"*	-	-	-	-	-
J.T. Timmins	"	"	"	"	"	"	"
C. Webster*	"*	"*	"*	"*	-	-	-
OFFICERS							
Chairman T.N. Beaupré	"	"	"	"	"	M.Meighen	"
Pres. T.N. Beaupré	"	"	"	"	"	A.D.Hamilton	"
V-P P. Delagrave	"	"	"	"	"	W.D.Davidson	"(a)
V-P W.R. Lawson (b)	"	J.P.Lunderville	"	"	"	"	"(b)
V-P R.J. Moyse(c)	"	"	"	"	"	J.H. Smith	"(c)
V-P A.E. Penny(d)	"	G.L. Tomlinson	"	"	"	"	"(d)
V-P & Sec. S.A. Kerr	"	"	"	"	"	"	"(e)
V-P						R.G.Martin	"(f)

MANAGEMENT AND CHANGES 1929-1975
(Continued)

NOTES

(C)	Chairman of the Board
*	Executive Committee
(CE)	Chairman, Executive Committee
"	Same as previous year
(1)	Former Director of GLA
(2)	Former Director of Howard Smith
(3)	Former Director of St. Lawrence
(4)	Former President of GLA
(S)	Senior Vice-President
(F)	Finance
(a)	Corporate Development
(b)	Engineering Purchasing and Transportation
(c)	Finance
(d)	Research and Environmental Technology
(e)	Administration and Secretarial
(f)	Industrial Relations and Human Resources

BOARD OF DIRECTORS: ANNUAL CHANGES 1929-74

1931 Andrew Holt of London replaced Robert Dodd; Dudley Thomas was elected.

1934 J.A. Kilpatrick of Regina replaced E.J. Jackson.

1935 H.R. MacMillan of Vancouver replaced Richard Look; Dudley Thomas resigned.

1940 A.O. Ponder and L.L. Brown elected on appointment as Vice-Presidents.

1941 Sir Herbert Holt died.

1942 Harold Crabtree of Howard Smith joined the board.

1946 A.H. Marden replaced H.R. MacMillan.

1948 J.L. Kilpatrick died. W.E. Phillips and E.P. Taylor, both Argus, joined the Board.

1949 A.E. Whitmore died. R. Dupuis and Paul Sise joined the Board.

1950 M.W. McCutcheon (Argus) replaced L.L. Brown, retired, and Arthur Martin (Standard Chemical) replaced A.H. Marden.

1951 E.P. Taylor became Chairman in place of L. Walsh, who remained a Director. J.A. McDougald (Argus) joined the Board, replacing A.O. Ponder, retired.

1952 H.R. MacMillan returned to the Board replacing Andrew Holt (resigned). Percy Fox and Colin Webster replaced J.A. Gundy and Paul Sise, deceased.

1954 J.G. Kirkpatrick replaced Arthur Martin, deceased.

1956 W.N. Hall (Argus) joined the Board replacing Harold Crabtree, deceased.

1957 C.D. Howe replaced Russell Bell, deceased.

1958 Roy Crabtree (Howard Smith) and C.L. Gundy joined the Board.

1959 R.A. Bryce, C.G. Cockshutt, R.W. Cooper, S.G. Dixon, G.H. Dobbie and R.T. Hagar former Directors of Gypsum, Lime and Alabastine joined the Board.

1960 C.D. Howe died.

BOARD OF DIRECTORS: ANNUAL CHANGES 1929-74
(Continued)

1961 Lionel Walsh died; de Gaspé Beaubien, G. Bourke, R.D. Harkness, W.H. Howard and J.N. Swinden, formerly of Howard Smith, also J.E.L. Duquet, G.B. Foster, Nathan Pitcairn, Arthur Ross and N.A. Timmins (formerly of St. Lawrence) joined the Board. (Arthur Ross was associated with Central National in New York and J.N. Swinden with Argus).

1962 M.W. McCutcheon resigned.

1963 Robert Bryce died.

1964 Max Meighen (Argus) and Roger Letourneau joined the Board replacing Robert Bryce and W.E. Phillips, deceased. H.R. MacMillan resigned.

1965 de Gaspé Beaubien resigned. T.N. Beaupré (Argus) joined the Board.

1966 A.B. Mathews (Argus) and J.T. Timmins respectively replaced W.H. Howard and N.A. Timmins, deceased. W.N. Hall resigned as Director and President. T.N. Beaupré replaced E.P. Taylor as Chairman.

1967 A.L. Fairley (President of Hollinger and Argus Director) joined the Board. C.G. Cockshutt died, S.G. Dixon and R.D. Harkness retired.

1968 C. Lacroix of Matapie Co. joined the Board.

1970 George Bourke, G.B. Foster and Percy Fox retired. R. Dupuis died.

1971 E.P. Taylor retired as Director. A.E. Barron (Chairman Canadian Tire Corporation) joined the Board.

1972 A.D. Hamilton replaced R. Cooper, resigned. George Dobbie retired.

1973 Colin Webster retired.

1974 T.N. Beaupré died. J.E.L. Duquet, C.L. Gundy and J.N. Swinden retired.

APPENDIX D

GROWTH OF DOMTAR AND THE CANADIAN ECONOMY, 1929-74

APPENDIX D

DATA FOR CHART B

GROWTH OF DOMTAR AND THE CANADIAN ECONOMY

(Millions of dollars)

	Canada GNP*	Domtar Net Assets**
1929	$ 6,139	$ 10.4
1930	5,720	13.3
1931	4,693	13.0
1932	3,814	12.7
1933	3,492	12.2
1934	3,969	11.8
1935	4,301	11.9
1936	4,634	12.0
1937	5,241	12.0
1938	5,272	11.9
1939	5,621	11.5
1940	6,713	11.4
1941	8,282	11.2
1942	10,265	10.6
1943	11,053	10.4
1944	11,848	9.9
1945	11,863	10
1946	11,885	10
1947	13,473	14
1948	15,509	16
1949	16,800	17
1950	18,491	23
1951	21,640	29
1952	24,588	39
1953	25,833	53
1954	25,918	52
1955	$ 28,528	$ 53
1956	32,058	63
1957	33,513	135
1958	34,777	153
1959	36,846	184
1960	38,359	203
1961	39,646	323
1962	42,927	340
1963	45,978	340
1964	50,280	372
1965	55,364	421
1966	61,828	421
1967	66,409	477
1968	72,586	469
1969	79,749	474
1970	85,449	470
1971	93,094	449
1972	103,407	452
1973	118,678	474
1974	139,493	534

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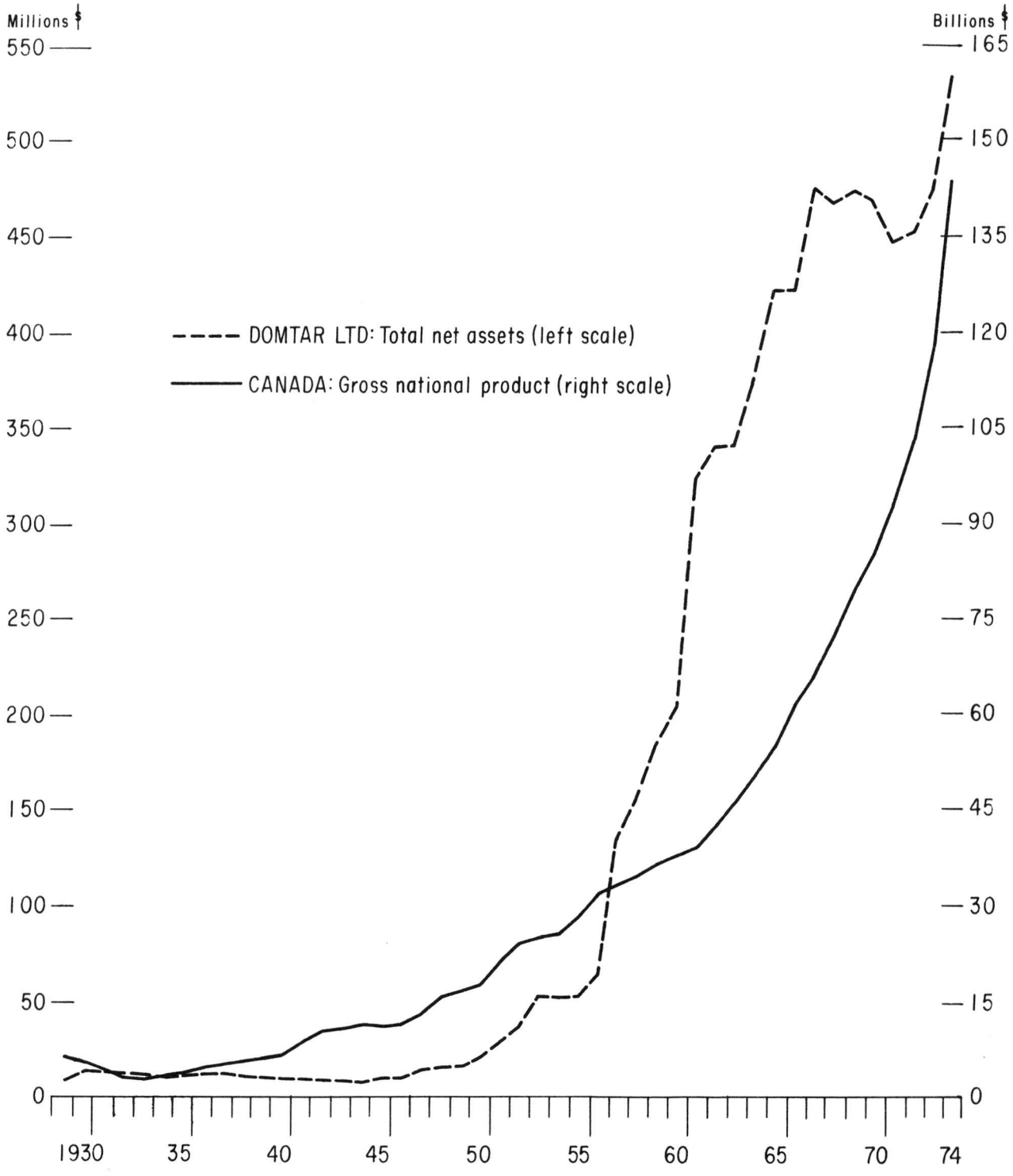
* - Gross National Product at Market Prices (National Income & Expenditure Accounts - Statistics Canada)

** - Total Net Assets (Company Annual Reports)

Growth of Domtar and the Canadian Economy, 1929-74

(In Actual Dollars)



CANADA: Gross National Product at Market Prices. (National Income and Expenditure Accounts — Statistics Canada).

DOMTAR: Total Net Assets (Company Annual Reports)

APPENDIX E

STATISTICAL RECORDS

APPENDIX E

STATISTICAL RECORDS

In this appendix five tables contain statistical data which for some purposes portray Domtar and its history more completely as well as more concisely than the text. They are all financial and in the interests of ease of reading and conservation of space all are expressed in millions of dollars except a few items in Table E-4.

For the same reasons and to avoid the clutter which can result from excessive detail the first three tables have been very much condensed in form. They are also confined to the more important and larger items with others collected in groups. Thus in Table E-1 the central column Total Net Assets effectively replaces both the Total Assets and Total Liabilities which would appear in an expanded balance sheet.

A similar form is used for Source and Use of Funds in Table E-3 where several columns do double duty by presenting net figures. These are explained by brief footnotes but might be confusing; notably the column "Sale of Securities" which includes money raised in this way but also, as a negative figure, money applied to reduction of debt or retirement of preferred stock. In the same way funds expended on fixed assets in this table are reduced in some years by the proceeds of assets sold and accordingly do not always correspond with the capital expenditures recorded in Table E-2.

The sources of these data are the annual reports and prospectuses issued by Domtar and associated companies during the period covered by this history. In a few instances where amounts originally reported have been subsequently restated with adjustments by the company, the most recent or final figures have been used.

Table E-1

ASSETS AND LIABILITIES 1929-74

(Millions of dollars)

	Capital Invested				Represented by		
	Net Fixed Assets	Net Working Capital	Invest. and Other	Total Net Assets	Funded Debt	Other Liab.	Common Equity
1928	7.4	1.7	.67	9.8	4.0	5.3	.5
1929	7.7	2.0	.67	10.4	4.0	5.3	1.1
1930	10.9	2.4	-	13.3	6.0	5.6	1.7
1931	10.8	2.2	-	13.0	5.4	5.9	1.7
1932	10.7	2.0	-	12.7	5.7	5.4	1.6
1933	10.2	2.0	-	12.2	5.5	5.4	1.3
1934*	6.2	1.9	-	11.8	5.0	5.6	1.2
1935	5.9	2.1	-	11.9	4.8	5.7	1.4
1936	5.6	2.5	-	12.0	5.0	5.5	1.5
1937	5.3	2.8	.15	12.0	4.7	5.6	1.7
1938	5.2	2.9	.05	11.9	4.6	5.5	1.8
1939	5.3	3.0	.04	11.5	4.3	5.4	1.8
1940	6.4	2.4	-	11.4	4.2	5.3	1.9
1941	7.0	2.4	-	11.2	4.0	5.3	1.9
1942	6.4	2.6	-	10.6	3.8	5.3	1.5
1943	6.7	2.8	-	10.4	3.6	5.2	1.6
1944*	6.4	3.2	.3	9.9	3.3	5.0	1.6
1945	6	4	-	10	3	5	2
1946	7	3	-	10	3	3	4
1947	7	2	5	14	3	7	4
1948	11	4	1	16	2	8	6
1949	13	4	-	17	2	8	7
1950	14	5	4	23	6	7	10
1951	17	11	1	29	6	7	16
1952	25	11	3	39	16	7	16
1953	31	14	8	53	23	8	22
1954	18	30	4	52	22	7	23
1955	19	27	7	53	20	7	26

* - In 1934 Fixed Assets were revalued at $8.4 million less Depreciation of $2.2 million, net $6.2 million on a basis of estimated reproduction cost at 31 December 1927 with subsequent additions at cost, and a Goodwill item of $3.7 million was set up representing "the amount paid for shares of subsidiary companies in excess of the book value of the net tangible assets applicable thereto." This Goodwill item was gradually written off during the years 1938-44.

Table E-1

ASSETS AND LIABILITIES 1929-74

(Continued)

(Millions of dollars)

	Capital Invested				Represented by		
	Net Fixed Assets	Net Working Capital	Invest. and Other	Total Net Assets	Funded Debt	Other Liab.	Common Equity
1956	23	13	27	63	18	7	38
1957	85	45	5	135	32	42	61
1958	91	54	8	153	45	44	64
1959	142	39	3	184	43	44	97
1960	148	52	3	203	56	42	105
1961*	217	89	17	323	100	40	183
1962	227	96	17	340	111	36	193
1963	227	92	21	340	102	36	202
1964	235	115	22	372	116	36	215
1965	280	118	23	421	144	50	227
1966	316	78	27	421	137	80	204
1967	306	118	53	477	165	84	228
1968**	291	144	34	469	156	83	230
1969	291	147	36	474	147	87	240
1970	304	132	34	470	142	93	235
1971	300	124	25	449	127	94	228
1972	296	130	26	452	123	97	232
1973	295	153	26	474	115	93	266
1974	339	176	19	534	108	111	315

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* - Fixed Assets before accumulated depreciation and depletion were carried at $386 million, made up of Dominion Tar & Chemical $138 million, Howard Smith $131 million and St. Lawrence $117 million.

** - After sale of Consumer Products Division for $37.4 million.

Table E-2

RECORD OF OPERATIONS, 1929-74

(Millions of dollars)

	Operating Profit	Cash Flow	Capital Expenditures	Earned on Common	Common Dividends	Added to Surplus
1929	1.2	.92	.39	.55	0	.55
1930	1.7	.94	.83	.44	0	.44
1931	1.3	.50	.32	.003	0	.003
1932	.53	.03	-	(-.246)	0	(-.081)
1933	.52	.10	-	(-.651)	0	(-.32)
1934	.55	.23	-	(-.372)	0	(-.071)
1935	.97	.52	.02	(-.083)	0	.022
1936	1.2	.40	.05	.057	0	.121
1937	1.4	.69	-	.335	0	.138
1938	1.3	.58	.06	.228	0	.055
1939	1.6	.70	.45	.338	0	.059
1940	2.0	.71	1.04	.30	0	.05
1941	2.4	.82	.64	.34	0	-
1942	3.0	1.13	.14	.39	0	(-.32)
1943	2.3	.87	.26	.40	0	.58
1944	2.4	1.10	.12	.29	0	.31
(16 years)	(24.3)	(10.23)	(4.32)	(2.42)	(0)	(1.03)
1945	2.8	1.2	.30	.42	.09	.46
1946	3.4	1.7	1.00	1.1	.44	(-.49)
1947	4.0	2.1	.95	1.2	.44	.74
1948	5.4	3.4	5.4	1.9	.44	1.5
(4 years)	(15.6)	(8.4)	(7.6)	(4.6)	(1.4)	(2.2)
1949	4.8	2.7	3.3	1.5	.44	1.1
1950	5.3	3.2	.45	1.9	.44	3.0
1951	7.2	4.1	4.4	2.2	.78	1.4
1952	7.7	5.3	11.8	1.3	.90	-
1953	7.5	4.5	8.8	1.7	1.1	.32
1954	8.2	5.2	3.6	1.6	1.1	.46
1955	10.0	6.2	3.2	3.5	1.2	2.3
(7 years)	(50.7)	(31.2)	(35.6)	(13.7)	(6.0)	(6.6)

Note: Columns may not add to totals due to rounding.

Table E-2

RECORD OF OPERATIONS, 1929-74

(Continued)

(Millions of dollars)

	Sales and Revenues	Operating Profit	Cash Flow	Capital Expenditures	Earned on Common	Common Dividends	Added to Surplus
1956	80	12	7.7	7.4	4.6	1.6	3.0
1957	179	29	10	12	6.2	2.3	3.9
1958	182	28	18	13	7.0	2.5	3.2
1959	220	35	27	30	11	4.1	9.8
1960	216	35	23	15	10	4.1	5.0
1961	328	56	39	19	16	11	6.9
1962	346	58	40	27	17	12	8.2
1963	354	57	41	20	15	12	8.9
1964	388	69	50	29	21	12	13
1965	410	70	59	67	21	13	12
1966	432	63	50	58	16	15	1
1967	430	54	33	16	9	13	24
(12 years)	(3,565)	(565)	(398)	(313)	(154)	(103)	(99)
1968	432	52	38	10	12	9	2
1969	472	60	48	25	20	9	9
1970	492	56	44	39	17	10	3
1971	419	52	42	24	1.2	9	(-7)
1972	562	65	50	29	13	9	4
1973	662	96	74	42	40	15	25
1974	907	177	124	72	82	24	58
(7 years)	(4,046)	(558)	(420)	(241)	(185)	(85)	(94)

Note: Columns may not add to totals due to rounding.

Table E-3

SOURCE AND USE OF FUNDS

(Millions of dollars)

	SOURCES				USES			
Year	Operating Cash Flow [1]	Sale of Securities [2]	Other as Noted[3]	Total	Fixed Assets[4]	Net Working Capital [5]	Payment of Dividends	Other as Noted[6]
1956	8	7	-	15	7	(-14)	2	20
1957	10	33	27	70	12	32	3	23
1958	18	13	-	31	16	9	3	3
1959	27	21	-	48	30	(-15)	4	29
1960	23	13	-	36	15	13	4	4
1961	39	116	-	155	19	49	11	76
1962	40	12	-	52	29	6	12	5
1963	41	(-4)	-	37	20	3	12	2
1964	50	14	-	64	29	23	12	-
1965	59	25	-	84	67	2	13	2
1966	50	(-5)	(-5)	40	58	(-36)	15	3
1967	33	28	3	64	(-2)	44	14	8
(12 years)	(398)				(300)		(105)	
1968	38	(-11)	-	27	(-9)	26	9	1
1969	48	(-7)	-	41	23	3	9	6
1970	44	(-3)	-	41	39	(-15)	11	6
1971	42	(-13)	-	29	24	(-8)	10	3
1972	50	(-4)	-	46	28	6	10	2
1973	74	(-8)	-	66	26	22	16	2
1974	124	1	-	125	72	23	24	6
(7 years)	(420)				(203)		(89)	

1 - Net earnings plus depreciation plus deferred income tax plus minority interest.

2 - Sale of bonds and shares--net reduction of funded debt.

3 - 1957--minority interest in Howard Smith, 1966-67--change in accounting for deferred income tax.

4 - Capital expenditures plus other additions less divestments; 1967-68 after $19 million in each year from sale of Consumer Products Division, 1973 after $16 million from sale of Trois Rivières newsprint mill.

5 - Additions less reductions.

6 - 1956--$20 million investment in H. Smith shares; 1967--acquisition of H. Smith assets $45 million less already owned $22 million; 1959--acquisition of Gypsum, Lime assets $31 million less already owned $5 million; 1961--acquisition of St. Lawrence assets $68 million, minority interest $5 million.

Note; Columns may not add to totals due to rounding.

Table E-4

INCOME TAXES IN RELATION TO DIVIDENDS PAID

Year	Income Taxes* (000)	Common Dividends (000)	Per Cent Taxes over Dividends	Number of Common Shares Outstanding (000)
1956	$ 3,650	$ 1,645	122%	3,759
1957	3,170	2,345	35	5,000
1958	8,635	2,500	45	5,000
1959	10,530	4,069	159	6,782
1960	9,395	4,084	130	6,806
1961	16,304	11,191	46	14,322
1962	15,359	11,506	33	14,562
1963	15,603	11,650	34	14,562
1964	21,254	11,685	82	14,622
1965	19,970	13,160	52	14,622
1966	14,812	14,641	1	14,701
1967	6,041	13,231	-54	14,701
(12 years)	($144,723)	($101,707)	(42%)	
1968	7,900	8,821	10	14,701
1969	12,000	8,896	35	14,827
1970	9,300	10,379	-10	14,827
1971	9,000	8,896	1	14,827
1972	13,600	8,896	53	14,827
1973	26,600	14,827	79	14,827
1974	64,500	23,723	172	14,827
(7 years)	($142,900)	($ 84,438)	(69%)	
(19 years)	$287,623	$186,145	55%	14,827

* - Current plus deferred income tax deducted from earnings.

Note: Columns may not add to totals due to rounding.

Table E-5

NET PROFIT IN RELATION TO CAPITAL INVESTED AND TO SHAREHOLDERS' EQUITY

	Net Profit[1]	Capital Invested	Shareholders' Equity[2]	Net Profit Percentage of: Capital Invested	Shareholders' Equity
	(Millions of dollars)			(Per cent)	
1956	4.92	63.8	42.2	7.7	11.7
1957	6.56	135	68.1	4.9	9.6
1958	7.30	153	71.1	4.8	10.3
1959	11.2	184	104	6.1	10.8
1960	10.1	203	112	5.0	9.0
1961	15.9	323	190	4.9	8.4
1962	17.4	340	200	5.1	8.7
1963	15.7	340	208	4.6	7.5
1964	20.5	372	222	5.5	9.2
1965	21.7	421	234	4.2	9.3
1966	16.5	421	218	3.9	7.6
1967	9.11	477	242	1.9	3.8
(12 years)	(156.9)	(3,433)	(1,911)	(4.6)	(8.2)
1968	13.1	469	246	2.8	5.3
1969	20.3	474	258	4.3	7.9
1970	17.9	470	250	3.8	7.2
1971	1.80[3]	449	242	.4	.7
1972	13.3[4]	452	246	2.9	5.4
1973	40.6	474	270	8.6	15.0
1974	82.5	534	328	15.4	25.2
(7 years)	(189.5)	(3,322)	(1,840)	(5.7)	(10.3)
(19 years)	346.4	6,755	3,751	5.1	9.2

1 - Before preferred stock dividends

2 - Including preferred shares

3 - After write-off of $7.8 million of investment in Italian companies and $0.95 million of mills in Cornwall and Toronto.

4 - After write-off of $4.1 million of plants in Quebec, Pennsylvania and Ontario.

Note: Columns may not add to totals due to rounding.

APPENDIX F

MAJOR COMPANIES ACQUIRED

APPENDIX F

MAJOR COMPANIES ACQUIRED

This Appendix sets out some operating information on each of Domtar's major acquisitions -- Standard Chemical Co. Ltd., Howard Smith Paper Mills Ltd., Gypsum, Lime and Alabastine Ltd., and St. Lawrence Corporation Ltd. For details of how they were acquired, and discussions of their importance in Domtar's history, see Chapter 2.

STANDARD CHEMICAL LTD.

This company was established with the name Standard Chemical Co. of Toronto Ltd. in 1897 but its early history was relatively uninteresting until 1944 when control was acquired by interests of E.P. Taylor, W.E. Phillips and Allan Miller.

In that year Standard acquired the shares of Goderich Salt Co. in Ontario and in the following year, 1945, bought another salt plant at Nappan, near Amherst, N.S. Also in 1945 it acquired the Montreal firm Schofield-Donald Ltd., importers and exporters of industrial chemicals. Another important addition was Commercial Chemicals Ltd. of Vancouver and its 51 per cent ownerhip of Chemical Developments of Canada Ltd. in 1949, but the most significant development in this history was Standard's gradual purchase of shares of Dominion Tar and Chemical of which by the end of 1950 it held 52.7 per cent.

Following are data regarding the relative values of common shares of this company and Domtar's for the years immediately preceding its acquisition:

	Earned per Share		Dividend per Share	
Year	Standard	Domtar	Standard	Domtar
	($)		($)	
1949	.64	3.42	.40	1.00
1950	.71	4.38	.47½	1.00

Stock Market Price Range

	Standard			Domtar		
Year	High	Low	Mean	High	Low	Mean
		($)			($)	
1949	9-1/4	5	7	27	20	23-1/2
1950	12-3/4	7-1/2	10	39	21-1/4	30-1/8

HOWARD SMITH PAPER MILLS LTD.
(Major control 1957, full ownership 1961)

In 1957, when control was acquired by DTC, Howard Smith was the largest Canadian producer of fine papers, specialties, and laminated plastics. Its organization included three major wholly owned subsidiaries, Canada Paper Co., Alliance Paper Mills and the Arborite Co., also the Donnacona Paper Co. Ltd., in which it owned a majority of common shares, having started accumulation of them six or seven years earlier. A secondary group of subsidiaries was engaged mostly in distributing production of the group.

LOCATION AND PRODUCTS OF MILLS, 1957

Mills	Paper Machines	Main Products
Cornwall (Howard Smith)	5	Fine papers, pulps and chemicals (Vanillin, ledger). Book bond offset specialty, bristol and boxboard coated board.
Windsor (Canadian Paper)	4	Kraft wrapping, bags, pulp, roto, converted paper specialties.
Beauharnois (Howard Smith)	2	Rag content bond, ledger text, currency specialty and cigarette.
Crabtree Mills* (Howard Smith) (Joliette on Quareau River)	2	Toilet, wrapping tissue, envelope, book, litho
Merriton (Alliance)	4	Greaseproof,glassine, carbonizing specialty, boards, tag stock
Georgetown (Alliance)	-	Coated book, litho, specialties
Don Valley (Alliance)	1	Bristols, blotting cover and specialty. Bags and sacks for flour, potatoes, sugar, etc.

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* - This mill was sold to Westminster Paper Co. Ltd. in 1958 before Dominion Tar effectively exercised control over the Howard Smith properties.

Excluding Donnacona, which was primarily a newsprint and board mill, Howard Smith's annual productive capacity was 140,000 tons of paper products made in 7 mills as noted below. Production covered a complete range from bristol and coated boxboard, kraft wrapping, bags and sacks, through bond, book, ledger, currency, greaseproof, glassine, toweling, toilet wrapping and other tissues to specialties like cigarette paper.

The Donnacona mill operated 3 newsprint machines, groundwood and sulphite pulp mills, and a board mill with total annual capacity of 100,000 tons of newsprint, 30,000 tons of market pulp and 90 million feet of insulating board, hard and soft.

The Arborite Co. Ltd. produced 3,000 tons per year of paper- and cloth-based plastic laminates, for use as decorative wallboard, table and furniture tops, and industrial purposes.

The original company had built its first paper mill at Beauharnois in 1912 and acquired the business of Edwin Crabtree & Sons Ltd. at Crabtree Mills four years later. Following World War I it had gradually expanded its operations, concentrating on the paper products other than newsprint and market pulp, so that its sales had largely been confined to Canada by tariff barriers elsewhere. Nevertheless it had managed to develop appreciable export business which was increased under the new management.

Following is the condensed balance sheet at December 31, 1957:

	($MM)		($MM)
Capital Invested:		Represented by:	
Fixed assets net of depreciation (47)	44	Long term debt	16
Investments and other	2	Preferred stock	8
Net working capital	34	Common equity	56
	80		80

Following are data regarding relative values of common shares of this company and Domtar during the period of its acquisition:

	Earned per Share		Dividend per Share	
Year	H. Smith	Domtar	H. Smith	Domtar
	($)		($)	
1955	3.34	1.24	1.25	.42-1/2
1956	3.88	1.23	1.50	.50
1957	3.30	1.25	1.20	.50
1958	3.09	1.40	1.20	.50
1959	3.12	1.61	1.20	.60

Stock Market Price Range

Year	H. Smith High	H. Smith Low ($)	H. Smith Mean	Domtar High	Domtar Low ($)	Domtar Mean
1955	44-1/2	30	37	13-1/2	9-7/8	12
1956	49	33-3/4	41	18-1/2	10-1/2	14
1957	41	24	32-1/2	12-7/8	6-7/8	10
1958	40-5/8	25-1/2	33	15	9-7/8	12
1959	46-5/8	38-1/2	42	20	13-1/4	17

GYPSUM, LIME AND ALABASTINE LTD.
(Full ownership 1959)

When acquired by Dominion Tar in 1959, Gypsum, Lime and Alabastine had developed into a prosperous supplier of specific building products made from gypsum and limestone. The company's business covered the whole of Canada. Nine mines and quarries were in operation located at Nappan in N.S., Joliette and Ste. Emelie in Que., Beachville, Hespeler and Milton in Ont., Gypsumville, Man. and Blubber Bay, B.C. Fourteen plants were in production at Windsor, N.S., Montreal and Joliette in Que., Beachville, Caledonia, Hespeler and Paris in Ont., Winnipeg, Man., Calgary, Alta., Blubber Bay, Granville Island and New Westminster, B.C.

Their principal products were GYPROC wallboard, sheathing, lath and insulation, lime plaster, stucco, waterpaints, mortar mixes, and lime bricks and blocks, sand, crushed and pulverized stone.

The company had originated in 1889, as the Alabastine Company Paris Ltd., operator of a gypsum mine at Caledonia, Ont., and a producer of a powdered waterpaint named Alabastine. Amalgamation with a gypsum company, purchase of a lime plant, and acquisition of a company that manufactured stucco expanded its field of activity. Subsequently new gypsum quarries, lime plants and manufacturing facilities expanded the company's operations to a national scale matching that of DTC but in different although closely related products. Both operations benefited from the joining of forces.

Following are data regarding the relative values of common shares of this company and Domtar immediately preceding its acquisition:

Year	Earned per Share GLA	Earned per Share Domtar ($)	Dividends per Share GLA	Dividends per Share Domtar ($)
1957	2.35	1.25	1.20	.50
1958	2.99	1.40	1.20	.50
1959	-	1.61	-	.60

Stock Market Price Range

Year	GLA High	GLA Low ($)	GLA Mean	Domtar High	Domtar Low ($)	Domtar Mean
1957	38	22	30	12-7/8	6-7/8	10
1958	30-1/2	22	26	15	9-7/8	12
1959	49-1/2	38-1/2	44	20	13	17

ST. LAWRENCE CORPORATION LTD.
(93% ownership 1961)

When shareholders accepted Dominion Tar Company's offer in 1961, St. Lawrence Corp. had been incorporated for 31 years, initially as a holding company for St. Lawrence Paper Mills Co. Ltd., Lake St. John Power and Paper Co. Ltd. and Brompton Pulp & Paper Co. Ltd., and from 1952 as full owner of the assets of these and other former subsidiaries. It was operating five mills located as follows:

(1) Three Rivers, Que. This original property of St. Lawrence Paper Mills Co. had started to make newsprint in 1928 and by 1961 included 6 Fourdrinier machines with groundwood and sulphite pulp mills to supply them.

(2) Dolbeau, Que. Lake St. John Power and Paper Co. had built this mill in 1928 on the Mistassini River north of Lac St. Jean with 2 newsprint machines also groundwood and sulphite pulp facilities. It had subsequently been acquired by St. Lawrence Paper Mills Co.

Note: For many years these two St. Lawrence mills constituted the only large pulp and paper company almost solely engaged in making and selling newsprint.

(3) East Angus, Que. This mill on the St. Francis River had started making soda pulp in 1882 and in 1907 was the first mill in North America to manufacture sulphate or kraft pulp. In 1961 it consisted of mills making groundwood, bleached kraft and semi-chemical pulps with four small Fourdrinier machines for making kraft papers and container boards and a cylinder machine for other types of paperboard.

(4) Red Rock, Ont. This was a relatively new mill, completed in 1946 on Nipigon Bay of Lake Superior. It contained two modern Fourdriniers, one for newsprint, the other for container boards, also groundwood, unbleached kraft and semi-chemical pulp mills.

(5) The Nipigon mill, five miles from Red Rock, was a small groundwood pulp mill.

Total productive salable capacity was 685,000 tons per annum, consisting of 428,000 or 63 per cent newsprint, 214,000 or 31 per cent kraft products and 43,000 or 6 per cent market pulps.

Woodlands of about 9,000 square miles were located 60 per cent in Quebec and 40 per cent in Ontario and included about 200 square miles of freehold territory.

Balance sheet figures at September 30, 1960 showed:

Capital Invested:	($MM)	Represented by:	($MM)
Fixed assets, net of depreciation (147)	65	Long term debt	52
Investments and other	1	Preferred shares	13
Net working capital	46	Common equity	47
	112		112

Annual earnings after all charges were about $16 million.

Following are data regarding the relative values of common shares of this company and Domtar for the years immediately preceding its acquisition:

Year	Earned per Share		Dividends per Share	
	St. Lawrence	Domtar	St. Lawrence	Domtar
	($)		($)	
1957	1.58	1.25	1.00	.50
1958	1.13	1.40	1.00	.50
1959	1.24	1.61	1.00	.60
1960	1.47	1.43	1.00	.60
1961	1.49	1.29	1.00	.80

Stock Market Price Range

Year	St. Lawrence			Domtar		
	High	Low	Mean	High	Low	Mean
		($)			($)	
1957	18-3/4	11-1/8	15	12-7/8	6-7/8	10
1958	18	12	15	15	9-7/8	12
1959	19-5/8	15-1/2	18	20	13-1/4	17
1960	19	15-1/8	17	16-1/4	12-1/2	14
1961	26	18-1/2	22	20-1/8	14-1/4	17