

FOREIGN POWER SECURITIES
CORPORATION, LIMITED

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Annual Report
For the Year ending October 31st, 1949

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OFFICERS

President

A. J. NESBITT, Montreal

Vice-President

JAS. B. WOODYATT, Montreal

Directors

ROBERT DESPRES.....Paris, France
L. C. HASKELL.....Montreal
A. J. NESBITT.....Montreal
E. R. PARKINS, K.C.....Montreal
P. A. THOMSON.....Montreal
GUY M. TODD.....Montreal
JAS. B. WOODYATT.....Montreal

Secretary

V. J. NIXON

Assistant-Secretary

J. W. CUNNINGHAM

Treasurer

T. IRVING

Assistant-Treasurer

E. L. JOWETT

Bankers.....ROYAL BANK OF CANADA
Fiscal Agents....NESBITT, THOMSON & Co., LTD.
Auditors.....PRICE, WATERHOUSE & COMPANY
Trustee & Transfer Agents..MONTREAL TRUST CO.

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Head Office

355 ST. JAMES STREET WEST
MONTREAL
CANADA

FOREIGN POWER SECURITIES CORPORATION, LIMITED

*STATEMENT OF REVENUE AND EXPENSES AND DEFICIT
FOR THE YEAR ENDING OCTOBER 31, 1949*

(To be read in conjunction with the auditors' report to the shareholders dated January 17, 1950)

Net dividends and interest on investments in France (Fr. 31,968,269.47).....		\$117,084.28
Dividends and interest on investments in Canada.....		33,115.14
		\$150,199.42
Expenses in France (Fr. 672 393.83).....	\$ 2,825.21	
Net loss on exchange.....	1,366.29	
Directors' fees.....	180.00	
Legal fees.....	30.00	
Executive salaries.....	600.00	
Other expenses.....	5,812.12	10,813.62
		\$139,385.80
 LESS:		
Interest accrued on bonds.....	\$ 80,013.75	
Interest accrued from June 1, 1949 on unpaid bond interest at that date	24,004.12	104,017.87
		\$ 35,367.93
 DEDUCT:		
Bond redemption expense.....	\$ 28,385.34	
(Includes \$10,117.50 exchange in respect of encashment in U.S.A.)		
Interest accrued to June 1, 1949 on bond interest unpaid for period December 1, 1939 to June 1, 1949, pursuant to Supplemental Trust Deed of May 3, 1949	259,244.55	287,629.89
		\$252,261.96
Deficit, balance October 31, 1948.....		106,762.98
		\$359,024.94
Deficit at October 31, 1949.....		\$359,024.94

FOREIGN POWER SECURITIES CORPORATION, LIMITED

(Incorporated under the Dominion of Canada Companies Act)

BALANCE SHEET — OCTOBER 31, 1949

(To be read in conjunction with the auditors' report to the shareholders dated January 17, 1950)

ASSETS

	Located in France	Located in Canada	Total
DEPOSITED WITH MONTREAL TRUST COMPANY AS TRUSTEE:			
Investments in securities	\$7,320,087.66	*\$ 968,693.78	\$8,288,781.44
Cash (987,668 francs converted at .311 cents to the franc)	3,071.64	6,860.19	9,931.83
Accrued interest on investments	—	1,746.75	1,746.75
	\$7,323,159.30	\$ 977,300.72	\$8,300,460.02
CASH ON HAND AND IN BANKS.	—	29,065.18	29,065.18
INVESTMENT IN DOMINION OF CANADA BONDS, at cost. (Quoted market value \$13,390.00)	—	13,113.75	13,113.75
ACCRUED INTEREST ON INVESTMENTS.	—	32.50	32.50
ACCOUNTS RECEIVABLE. (Proceeds of this account can only be placed in a blocked account— 2,625,756.10 francs converted at .311 cents to the franc)	8,166.10	—	8,166.10
PREPAID ACCOUNTS.	—	922.07	922.07
	\$7,331,325.40	\$1,020,434.22	\$8,351,759.62
DEFICIT:			
Balance as per statement attached			359,024.94
			\$8,710,784.56

*Quoted market value of investments in Canada \$495,294.50.

CAPITAL AND LIABILITIES

TO THE PUBLIC:

First Collateral Trust 6% Bonds Series A—		
Outstanding		\$ 842,250.00
Bond interest accrued	\$ 981,221.25	
Interest accrued to October 31, 1949, on arrears of interest at June 1, 1949 . .	283,248.67	1,264,469.92

Note: The bonds matured on June 1, 1949, at which date there were outstanding \$1,684,500 par value. In accordance with Supplemental Trust Deed dated May 3, 1949, 50% of the par value of these bonds was called for redemption on June 1, 1949, and the maturity of the remaining 50% was extended to June 1, 1954. Pursuant to the Supplemental Trust Deed dated May 3, 1949, the unpaid interest at June 1, 1949, \$960,165.00, becomes due and payable on June 1, 1954, and bears interest at 6% from the original due date to date of payment.

Payment of the bonds and interest to be made at the holders' option in Canada, New York or London.

Accounts payable and accrued liabilities (including \$79,500.00 6% Bonds called for redemption)	104,064.64
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TO THE SHAREHOLDERS:

6% Cumulative Redeemable Participating Preferred Stock—	
Note: Dividends in arrears amount to \$105.00 per share.	
Authorized and issued — 50,000 shares of \$100.00 each	5,000,000.00
Common Stock (no par value)	
Authorized—250,000 shares of which 125,000 shares are issued and outstanding at a stated value of	1,500,000.00

\$8,710,784.56

Signed on behalf of the Board:

A. J. Nesbitt	}	Directors.
Jas. B. Woodyatt		

FOREIGN POWER SECURITIES CORPORATION, LIMITED

355 St. James Street West
MONTREAL

February 6th, 1950.

To the Shareholders:

Your Directors submit herewith the Annual Report for the year ended October 31st, 1949.

There was no change during the year in the securities of French public utility companies held by your Corporation.

Having received assurance from the French authorities that the acceptance of distributions to the shareholders of companies subject to nationalization would not be construed as an abandonment of your Corporation's claim to be paid for its securities in cash, your Corporation accepted such distributions, and from the proceeds paid the capital levy of Frs. 2,531,068 referred to in our Report for the year ended October 31st, 1948, and transferred the balance of the funds to Montreal at the current rate of exchange. This revenue, although not all applicable to the year under review, has been taken into earnings during that period.

Your Corporation's operations for the year under review show earnings of \$139,385.80 before:

Unpaid Bond Interest for the year amounting to.....	\$ 80,013.75	
Bond redemption expense.....	28,385.34	
Interest accrued to June 1st, 1949 on Bond Interest unpaid for period Dec. 1st, 1939 to June 1st, 1949...	259,244.55	
Interest accrued from June 1st, 1949 to Oct. 31st, 1949 on Bond Interest unpaid at June 1st, 1949.....	24,004.12	\$391,647.76

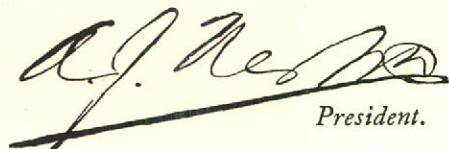
thus creating an Operating Deficit for the year of.....\$252,261.96

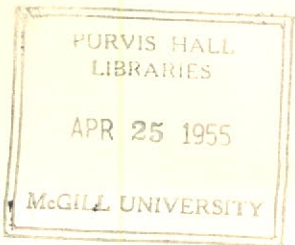
The Canadian investments of your Corporation, consisting of Dominion Government Bonds and other securities deposited with the Montreal Trust Company, had a quoted market value at October 31st, 1949 of \$495,294.50.

A principal amount of \$1,684,500 6% First Collateral Trust Bonds of your Corporation were outstanding and due for redemption June 1st, 1949. At the Corporation's request, the Trustee, Montreal Trust Company, called a meeting of the holders of these outstanding Bonds, which took place on May 3rd, 1949. This meeting approved and adopted Extraordinary Resolutions to: (1) waive default in payment of Bond Interest; (2) accept payment of 50% of principal amount of the Bonds; (3) extend the date for payment of the balance (50%) of principal amount for five years, with interest at 6% payable at such times as the Directors deem expedient but not later than June 1st, 1954; (4) provide that the Bond Interest due on and after June 1st, 1940, up to and including June 1st, 1949, shall, until paid, bear interest at 6% from the date instalment became due; and (5) change provisions of the Trust Deed to conform to these amendments. The Trustee was duly authorized by the Corporation to pay 50% of principal amount of the outstanding Bonds on or after June 30th, 1949, from the proceeds of the sale of securities held in Canada.

Notwithstanding continuous negotiations, no basis of settlement or payment has been arrived at for the holdings of your Corporation in French public utility companies taken over under the Nationalization Act, which became law on April 8th, 1946 and effective June 1st, 1946. These negotiations are continuing. Agreements have been concluded between the French Republic and the Belgian and the Swiss Governments, and we hope that a satisfactory agreement with your Company may be reached within a reasonable time.

Respectfully submitted on behalf of the Board.


President.



Montreal 1, January 17, 1950

To the Shareholders of
Foreign Power Securities Corporation, Limited:

We have examined the balance sheet of Foreign Power Securities Corporation, Limited, as at October 31, 1949, together with the statement of revenue and expenses and deficit for the year ended on that date and have compared them with the books of the Corporation and have received all the information and explanations that we required.

The investments held in France consisted of shares of companies primarily engaged in the production and distribution of electricity and gas. Electricity and gas companies in Continental France were nationalized in 1946 but they may retain such assets as do not relate to the production, transport or distribution of electricity and gas. Under the basic law of April 8, 1946, as amended under date of August 12, 1948 compensation for the net assets taken over by "Electricité de France" and "Gaz de France" was to be effected through the issue by "Caisse Nationale de l'Energie" of 3% Participating Bonds, redeemable on or before December 31, 1996. In addition to the interest of 3%, "Electricité de France" and "Gaz de France" will provide each year a variable amount of not less than 1% of their receipts to pay a premium on the Bonds called for redemption and additional interest (at a rate not specified) on the unredeemed Bonds.

During the year under review the compensation in respect of five of the companies, in which your Corporation holds shares and which represent approximately 60% of the total book cost of the investment in securities in France, was determined and consists of 3% Bonds and cash. This determination as to 3% Bonds is, however, subject to adjustment in respect of those assets which will be transferred back to the companies concerned as not relating to the production, transport or distribution of electricity and gas, and therefore no effect has been given in the accounts of the Corporation at October 31, 1949, to the compensation receivable in bonds; however, it should be noted that, in the case of the five companies the stated value of the bonds to be received, before adjustment for retained assets, expressed in dollars at the official rate of exchange ruling at October 31, 1949, is very considerably less than the book value of the shares held by your Corporation in those companies.

The cash portion of the compensation in respect of the five companies referred to above and provisional cash compensation in respect to certain of the other companies in which your Corporation holds shares was collected. This cash compensation, which is included in the Corporation's revenue for the year ending October 31, 1949, in the amount of \$11,530.00, purports to represent half of a special compensation for earnings of the companies for the period between the close of the last accounting year preceding the date of nationalization and the date of nationalization, the other half being payable in 3% bonds.

The law under which nationalization was effected provided for special treatment for foreign shareholders and we understand that the French authorities have concluded agreements affecting the Belgian and Swiss shareholders concerned, in which provision is made for the calculation of compensation at a fixed rate of exchange to offset the effect of the devaluation of the franc occurring subsequent to nationalization and for the export of interest only. We also understand that negotiations are continuing towards securing agreements on behalf of Canadian shareholders, including your Corporation.

Of the investments in French companies, which are shown on the balance sheet at cost, less a reserve of \$170,000.00, shares having a book value of \$7,125,021.51 were currently quoted on the Bourse; these quotations, applied to the number of shares held, result in a total quoted price of Frs. 586,144,000. In view, however, of the negotiations referred to above, it is felt that these quoted prices are not of necessity a true indication of the ultimate realizable value of such shares presently held by your Corporation.

The Canadian investments deposited with the Montreal Trust Company are carried on the balance sheet at cost less a reserve of \$49,056.61 and had a quoted market value at October 31, 1949, of \$495,294.50.

There is a contingent liability of Frs. 1,117,500 in respect of uncalled capital on one investment in France.

Pending the issue of the 3% Bonds referred to above, "Caisse Nationale de l'Energie" is making distributions to the shareholders of the Companies subjected to nationalization on account of the interest on these bonds. Up to October 31, 1949, the total of such distributions received by the Corporation amounted to Frs. 28,687,888 after deducting French taxes withheld therefrom and this amount was encashed during the year ending on that date and is included in the Corporation's revenue for the year. We understand that the encashment of these distributions was proceeded with only after assurance was received from the French authorities that such action would not prejudice the Corporation's position in the negotiations now continuing. No interest has been received in respect of the shares in l'Energie Electrique Rhone et Jura, however we understand that this interest is payable by the Government to that Company rather than direct to its shareholders.

We have received a statement from the Montreal Trust Company confirming the investments of the Corporation which were hypothecated to them as Trustee for the bondholders at October 31, 1949, and have confirmed the Corporation's other investments at that date by means of certificates from depositaries stating that the securities were in their custody, with the exception of Dominion of Canada Bonds having a book value of \$13,113.75, which we examined.

We report that, in our opinion, the attached balance sheet as at October 31, 1949, read in conjunction with the foregoing, is properly drawn up so as to exhibit a true and correct view of the state of affairs of Foreign Power Securities Corporation, Limited at that date according to the best of our information and the explanations given to us and as shown by the books of the Corporation.

PRICE, WATERHOUSE & CO.

Auditors.

