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United Fuel Investments,
Limited

and

Subsidiary Companies

Twenty-Ninth Annual Report
For the Fiscal Year Ended
March 31, 1957

UNITED FUEL INVESTMENTS, LIMITED

AND

SUBSIDIARY COMPANIES

Board of Directors

R. L. O'Brian	David P. Rogers
F. Palin	R. L. Warren
J. M. Pigott	T. Weir

Officers

David P. Rogers	*President*
R. L. O'Brian	*Vice-President*
T. P. Pinckard	*General Manager of Subsidiaries*
F. Palin, C.A.	*Comptroller, Secretary and Treasurer*
K. J. Burnett	*Assistant General Manager of Subsidiaries*
W. M. Common	*Assistant Secretary and Assistant Treasurer*

SUBSIDIARY COMPANIES

Hamilton By Product Coke Ovens, Limited—
Manufacturing coke, gas and by-products in Hamilton, Ontario.

United Gas and Fuel Company of Hamilton, Limited—
Distributing gas in Hamilton, Ontario.

United Suburban Gas Company, Limited:
Distributing gas in Oakville, Burlington, Dundas, Milton, Georgetown, Acton, Bronte, Port Nelson, Waterdown and other territory adjacent to Hamilton, Ontario.

By Letters Patent of Amalgamation, dated April 3, 1956, the former The United Suburban Gas Company, Limited and The Wentworth Gas Company Limited were amalgamated under the name of United Suburban Gas Company, Limited. Since April 3, 1956, the operations of the predecessor companies have been carried on under the name of United Suburban Gas Company, Limited.

TWENTY-NINTH ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS, LIMITED

FOR THE FISCAL YEAR ENDED MARCH 31, 1957

Hamilton, Ontario,
May 24, 1957.

To the Shareholders:

Increased costs of coal, higher production costs and a reduction in the volume of coke produced in the Company's ovens and sold, the impact of which was offset only partially by a moderate increase in the average price which could be realized per ton of coke sold, had an adverse effect on the operating results of the Coke Company during the past fiscal year. The operating results of the gas distributing companies were also affected by higher distribution and promotional costs incurred consequent upon the expansion of the gas properties to serve many new areas, as well as to serve additional customers in or adjacent to areas where gas service was already available, and because the potential volume of sales anticipated from such extensions will not be attained until some future date. The combined results of all operations of the Company for the fiscal year ended March 31, 1957, as outlined in this Annual Report of the Board of Directors reflect these conditions.

The following matters concerning the operations of the Company are of particular interest:

* Consolidated net earnings for the fiscal year ended March 31, 1957, were $598,440. This compares with net earnings of $697,295 for the previous year.
* Gas sales during the fiscal year ended March 31, 1957, totalled 4.46 billion cubic feet as compared with 3.91 billion cubic feet for the previous year.
* Meters on the lines at March 31, 1957, totalled 40,447, a net increase of 315 during the year, thus reversing the trend of reductions in meters on the lines which had been experienced in the past several years.
* Natural gas became available in additional markets served by the Company, other markets are to be converted to natural gas in the near future and present indications are that natural gas will be available in all areas served by the Company late in 1957 or by early 1958.

Incorporated herein are the Consolidated Balance Sheet and Statement of Consolidated Profit and Loss and Earned Surplus of the Company and its wholly-owned subsidiaries for the fiscal year ended March 31, 1957, with comparative figures for the previous fiscal year, together with the Report of the Auditors thereon.

OPERATING RESULTS

The results of operations of your Company for the fiscal year ended March 31, 1957, as compared with the previous fiscal year are shown in the following condensed summary:

	Fiscal Year ended March 31st 1957	1956	Increase or *Decrease* for 1957
Gross revenue from sales	$ 8,147,397	$ 7,879,255	$ 268,142
Other income	174,503	139,813	34,690
Total income	$ 8,321,900	$ 8,019,068	$ 302,832
Cost of products sold	$ 5,127,330	$ 4,880,139	$ 247,191
Distribution, selling, general and administrative expenses	1,362,678	1,196,034	166,644
Contribution to employees' pension fund	124,073	123,561	512
Depreciation	377,953	331,163	46,790
Amortization of natural gas conversion costs	6,600	1,500	5,100
Interest and other funded debt charges	85,526	101,876	*16,350*
Total costs and expenses exclusive of income taxes	$ 7,084,160	$ 6,634,273	$ 449,887
Profit before income taxes	$ 1,237,740	$ 1,384,795	*147,055*
Income taxes	639,300	687,500	*48,200*
Net Profit for the year	$ 598,440	$ 697,295	$ *98,855*

REVENUES

Gross revenue from sales for the fiscal year ended March 31, 1957, increased $268,142, or 3.4%, as compared with the prior fiscal year. This increase in gross revenue was realized as follows:

	Gross revenue from sales for fiscal year ended March 31, 1957	Increase or *Decrease* compared with prior fiscal year. Amount	%
Coke Sales:			
Company production	$ 3,473,299	$ *134,008*	*3.7*
Purchased for re-sale	467,254	*166,589*	*26.3*
Total	$ 3,940,553	$ *300,597*	*7.1*
Gas Sales	3,754,644	522,507	16.2
Tar and other residual sales	452,200	46,232	11.4
Total Sales	$ 8,147,397	$ 268,142	3.4

During the past few years there has been a substantial change in the nature of the market for coke and the over-all demand for the types of coke formerly produced by the Company has decreased. This reduction has been brought about by changed production methods in manufacturing plants and by competitive fuel costs, including prices of coke available from other sources. To offset as much as possible the effects of such inroads on the market for coke a change was made in the operating schedules of your Company to provide a special type of high quality coke for metallurgical and other use by certain industrial customers. However, considerably more time is required to produce such coke and as a result the quantity of coke produced in the Company's ovens during the fiscal year ended March 31, 1957, was 19,306 tons, or 10.3%, less and the volume of sales of coke produced was 21,929 tons, or 11.6%, less than for the fiscal year ended March 31, 1956, thus decreasing the value of such sales by $134,008, or 3.7%.

The somewhat higher price obtainable for this premium quality coke is not sufficient to offset the higher costs incurred in its production.

Substantial quantities of coke, of a quality not produced by the Company, were purchased from other producers for re-sale during the year, although the volume of such sales was 14.9% less than during the prior year. While only a nominal profit per ton is realized on such sales, as a service to its customers it is the practice of the Company to obtain from other sources coke of the quality requested when demands for such coke cannot be met from the Company's own production.

The total volume of gas sales was 14.1% greater and gross revenue from such sales increased $522,507, or 16.2%. The following tabulation shows a comparison of volumes of, and gross revenues derived from, gas sales by classes of customers served during the 1957 fiscal year as compared with the prior year.

	Volume in thousands of cubic feet			Gross Revenue in Dollars		
	Year to March 31, 1957	% of total	% over previous year	Year to March 31, 1957	% of total	% over previous year
Class of Customers						
Residential	2,043,040	45.8	5.2	$2,051,464	54.6	8.3
Commercial	631,779	14.2	9.6	524,703	14.0	12.0
Industrial	1,785,374	40.0	28.6	1,178,477	31.4	35.5
Total	4,460,193	100.0	14.1	$3,754,644	100.0	16.2

During the year certain areas formerly served with manufactured gas by your Company, including the Town of Dundas, were changed over to natural gas service. Natural gas was also made available in the Towns of Georgetown, Milton and Acton following the completion of a transmission line to transport natural gas to the distribution systems installed in each of these municipalities during the year by your Company.

Gross revenue from sales of tar and other residuals produced in the coke manufacturing plant increased $46,232, or 11.4%, due mainly to an increase in volume of such products sold at somewhat higher unit prices.

EXPENSES

There was an increase of $449,887, or 6.8%, in the total expenses of the Company, exclusive of income taxes, for the fiscal year ended March 31, 1957, as compared with the previous year. This increase in costs was incurred as follows:

Cost of Products Sold increased $247,191, *or* 5.1%.

The cost of coke sold decreased $116,947 due mainly to a reduction in the volume of such sales. The cost of gas produced and purchased for re-sale increased $358,462, attributed primarily to the cost of additional volumes of gas required to meet the growth in sales. The cost of all other residuals sold increased $5,676.

Distribution, Selling, General and Administrative Expenses increased $166,644, *or* 13.9%.

General increases in labor costs; higher gas distribution plant maintenance costs; increases in costs of materials, services and municipal taxes; greater gas sales promotion activities and the costs incident to the expansion of gas plant facilities and operations to serve an expanding service area were the main reasons for this increase in costs.

Contribution to Employees' Pension Fund increased $512.

The Company's contribution during the past year amounted to $124,073 as compared with $123,561 during the prior fiscal year.

Depreciation increased $46,790.

There was no change from the previous year in the basis of accruing depreciation on the coke manufacturing plant, although because of sundry plant account additions the depreciation accrual was $802 greater than for the prior year.

The basis of accruing depreciation on the properties of the gas distributing companies was changed during the year to conform with the recommendations of the consulting engineers of those companies. The net effect of this change in basis of accrual and the necessity to provide for depreciation on the substantial property additions and extensions made during the year was to increase the depreciation provision of the gas companies by $45,988.

Amortization of Natural Gas Conversion Costs increased $5,100.

Total expenditures of $27,857 were incurred during the year in the conversion of gas burning appliances in the premises of customers to natural gas service. It is intended that these conversion costs, together with a total of $54,896 expended for this purpose in the previous fiscal year, will be written off over a period of approximately ten years. The pro rata charge to profit and loss account for this purpose, during the fiscal year ended March 31, 1957, was $6,600, an increase of $5,100 over the amount provided in the prior year.

Interest and Other Funded Debt Charges decreased $16,350.

Interest charges decreased $7,961 due to funded debt retirements. In addition, during the fiscal year ended March 31, 1957, a total of $8,389 interest during construction was charged to property account. No charge was made against property account for this purpose during the previous year.

UNITED FUEL INVESTMENTS, LIMITED

CONSOLIDATED FINANCIAL POSITION

Consolidated working capital of the Company and its wholly-owned subsidiaries as at March 31, 1957, was $2,389,413, a decrease of $1,600,016 during the year. The following table of source and application of funds indicates the funds which became available to the Company during the fiscal year ended March 31, 1957, and how these funds were utilized:

Source of Funds:		
Net earnings for the year	$ 598,440	
Add back: Amounts charged to earnings which did not represent cash outlay during the current fiscal year:		
Provision for depreciation	377,953	
Amortization of bond discount and bond issue expenses	9,876	
Amortization of natural gas conversion costs	6,600	
Total funds realized from earnings		$ 992,869
Reduction in inventory of stores and spare equipment	$ 12,721	
Reduction in income tax payable resulting from claiming for tax purposes capital cost allowances in an amount greater than the depreciation recorded in the accounts	41,558	
		54,279
Total funds made available		$1,047,148
Application of Funds:		
Gross expenditure on property account, less salvage	$1,735,468	
Dividends on capital stock paid or provided for	429,689	
Reduction in funded debt	310,000	
Increase in funds on deposit with Trustee for bondholders	129,669	
Natural gas conversion costs	27,857	
Increase in deferred charges and prepaid expenses	14,481	
		2,647,164
Resulting in a decrease in net current assets during the year of		$1,600,016
Excess of current assets over current liabilities at beginning of year (as adjusted by accumulated tax reductions applicable to future years in amount of $24,142)		3,989,429
Excess of current assets over current liabilities at end of year		$2,389,413

Property account expenditures during the year consisted of the following:

Gas companies:		
Property additions	$1,625,125	
Property replacements	98,321	
		$1,723,446
Coke Company:		
Property additions	$ 1,204	
Property replacements	25,969	
		27,173
Gross expenditures on property account additions and replacements		$1,750,619
Less: Amounts realized on property items sold or replaced		15,151
Net expenditure on property		$1,735,468

The property additions of the gas companies consisted mainly of transmission lines constructed to make natural gas available in new markets and extensions to distribution systems in areas converted to the distribution of natural gas.

Dividends totalling $429,689 were paid on the capital stock of the Company during the year as follows:

Class "A" 6% Cumulative Preference Shares—	
Four quarterly dividends of $ .75 each per share, or a total of $3.00 per share, on 90,000 shares outstanding	$ 270,000
Class "B" Non-Cumulative Preference Shares—	
Dividend of $1.00 per share paid on July 3, 1956 on 69,689 shares outstanding	69,689
Common Shares—	
Dividend of $1.00 per share paid on July 3, 1956 on 90,000 shares outstanding	90,000
Total Dividends Paid	$ 429,689

PERSONNEL

As at March 31, 1957, there were 473 regular employees on the payroll of the Company compared with 416 at the end of the prior fiscal year. A total of $1,691,-665 was paid in salaries and wages during the year to all employees, an increase of $224,400.

In addition to the benefits and protection provided for under various statutes, there is available to all regular employees a comprehensive insurance plan providing group life insurance on the lives of the employees, and sickness and accident insurance for their own benefit, with hospitalization, surgical and medical benefit insurance for themselves and dependents, the premium costs of which are borne jointly by the Company and the employees. There are also in effect an employee retirement income plan which is administered by a life insurance company, to which the Company and the employees contribute, and a retirement income plan for employees who were beyond the age limit for enrollment in the insured plan when it became effective, the entire cost of which is borne by the Company.

The Company's contributions to these group insurance and retirement income plans during the fiscal year ended March 31, 1957, totalled $177,342.

Your Directors record their appreciation of the loyalty and co-operation of all employees in maintaining high standards of service during a period in which the Company's operations and facilities were being widely expanded.

PROPERTY ACCOUNT

In former years, properties acquired by United Gas and Fuel Company of Hamilton, Limited prior to March 31, 1929, were carried at amounts which reflected appraised values entered on the books prior to 1920 and sundry plant items which had been retired from service. During the past year all properties of the gas distributing companies in place at March 31, 1956, were restated on the books on a cost basis as established by Stone and Webster Canada Limited, consulting engineers, who had been retained to make a fixed property cost study of the gas properties of the Company. The findings and recommendations of this study are contained in the June 13, 1956, report of the consulting engineers. The cost of the gas properties as thus determined eliminated appraisal value adjustments and the book value of property items retired from service but not previously written off, and included overhead costs written off as incurred in prior years applicable to properties in service at March 31, 1956. The net result of reflecting these costs in the records was to reduce the gross book value of fixed properties of the gas distributing companies by $480,868.

In accordance with a further recommendation contained in the June 13, 1956, report of the consulting engineers, the amount of accumulated depreciation carried on the books of the gas distributing companies was increased by $90,457 to record the estimated total depreciation accrued against the properties of the gas distributing companies.

The restating of the gross book value of fixed properties on a cost basis and the provision of the additional accumulated depreciation as referred to above were effected by a total charge of $571,325 against earned surplus account.

Effective April 1, 1956, the subsidiary gas distributing companies, in accordance with present public utility accounting practice, changed their basis of accounting for additions to properties to include therein applicable overhead costs and interest during construction. As of the same date, the gas companies adopted the basis of computing depreciation recommended by the consulting engineers. Had these changes in accounting procedure not been adopted, net profit for the year ended March 31, 1957, would have been $48,716 less than as shown on the attached Consolidated Statement of Profit and Loss.

NATURAL GAS

During the year United Suburban Gas Company Limited extended its natural gas service area by converting additional areas, formerly served with manufactured gas, for the distribution of natural gas. In addition, that company extended its transmission lines and distribution facilities to new markets previously without gas distribution systems, the most important of which were the towns of Georgetown, Milton and Acton, and made extensive additions to its distribution systems in areas already served with natural gas.

Sufficient natural gas is now available under its gas purchase contract with Niagara Gas Transmission Limited to enable United Suburban Gas Company, Limited to convert practically all of its remaining manufactured gas market to the distribution of natural gas and it is anticipated that this additional territory will be converted to natural gas by July, 1957. The conversion of these additional areas to natural gas will assist the gas companies in maintaining adequate service throughout the areas served with manufactured gas.

Union Gas Company of Canada, Limited, the parent company of United Fuel Investments, Limited now considers that it has sufficient assurance of an adequate long-term natural gas supply to warrant proceeding with its plans to lay a large diameter pipe line from its underground gas storage area in Dawn Township to a point near the Town of Oakville to deliver natural gas into the pipe line system of your Company. This line eventually will be connected with the transmission facilities of Trans-Canada Pipe Lines Limited.

The decision of Union Gas Company to proceed as soon as possible with the construction of these gas transmission facilities was made possible by the following developments:

> Under a contract dated April 21, 1954, Union Gas Company will purchase substantial volumes of natural gas from Panhandle Eastern Pipe Line Company in the United States. All required governmental approvals, licenses and permits to enable deliveries of gas to be made to Union Gas Company under this contract were received, deliveries of gas thereunder were commenced in November, 1956 and such deliveries are currently continuing.

> Under a contract dated January 18, 1955, Union Gas Company will purchase substantial volumes of natural gas from Trans-Canada Pipe Lines Limited for delivery at a point near Oakville, Ontario, for a period of at least 20 years. Certain of the conditions precedent to this contract to be met by Trans-Canada have already been fulfilled, and present indications are that gas will be available to Union Gas Company under this contract late in 1958. The 1954 Panhandle contract will be terminated one year after gas becomes available to Union Gas Company under the Trans-Canada contract, provided notice of such availability is given to the Panhandle Company by Union Gas Company by November 1, 1960.

With these assurances that the volumes of gas for which it has contracted will be available, Union Gas Company is proceeding with its construction program and expects to have its gas transmission facilities completed to the point of connection with the pipe line system of your Company before the end of 1957. It is contemplated by Union Gas Company that the additional transmission facilities required will be owned and operated by its wholly-owned subsidiary, Ontario Natural Gas Storage and Pipelines, Limited.

Negotiations which had been carried on over an extended period of time, but suspended temporarily because of the uncertainty as to when adequate supplies of gas would become available, are being resumed for the completion of an agreement between your Company and Union Gas Company of Canada, Limited or Ontario Natural Gas Storage and Pipelines, Limited under the terms of which your Company would purchase on satisfactory terms sufficient annual volumes of natural gas to meet the requirements of its entire service area.

Current planning of your Company contemplates that sufficient volumes will be available to permit the distribution of natural gas throughout the entire service area of your Company late in 1957 or by early 1958.

On behalf of the Board of Directors.

DAVID P. ROGERS,
President.

AUDITOR'S REPORT

To the Shareholders of
United Fuel Investments, Limited:

We have examined the consolidated balance sheet of United Fuel Investments, Limited and its wholly-owned subsidiaries as at March 31, 1957 and the statement of consolidated profit and loss and earned surplus for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

We approve the changes in the basis of accounting for fixed assets and depreciation referred to in Note 2 appended to the financial statements.

In our opinion the accompanying consolidated balance sheet and statement of consolidated profit and loss and earned surplus are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the companies as at March 31, 1957 and the results of their operations for the year ended on that date, according to the best of our information and the explanations given to us and as shown by the books of the companies.

CLARKSON, GORDON & CO.,
Chartered Accountants.

Hamilton, Canada,
May 14, 1957.

UNITED FUEL INV

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ASSETS

	March 31, 1957	March 31, 1956
PROPERTY (notes 1 and 2):		
Gas and coke manufacturing plants, transmission lines, distribution systems, land, buildings, franchises, rights, organization expenses, interest during construction, etc. at cost	$13,823,505	$12,649,549
Less: accumulated depreciation	7,718,459	7,330,693
	$ 6,105,046	$ 5,318,856
Premium paid on acquisition of subsidiary companies	4,079,955	4,079,955
	$10,185,001	$ 9,398,811
CURRENT ASSETS:		
Cash	$ 1,504,778	$ 2,864,709
Government of Canada treasury bills at cost and accrued interest		499,545
Accounts receivable less allowance for doubtful accounts	826,862	810,778
Inventories as determined and certified by the management and valued at the lower of cost or market	1,046,596	930,712
	$ 3,378,236	$ 5,105,744
DEFERRED AND OTHER ASSETS:		
Stores and spare equipment	$ 196,704	$ 209,425
Funds on deposit with trustee for bondholders	259,112	129,443
Deferred charges and prepaid expenses	111,044	96,563
Natural gas conversion costs less amounts written off	74,653	53,396
Bond discount, commissions and expenses less amounts written off	26,316	36,192
	$ 667,829	$ 525,019
	$14,231,066	$15,029,574

Approved on behalf of the Board:

DAVID P. ROGERS, *Director*
ROLAND L. O'BRIAN, *Director*

ESTMENTS, LIMITED
laws of Canada)
OWNED SUBSIDIARIES

Balance Sheet
31, 1957
figures for 1956)

LIABILITIES

	March 31, 1957	March 31, 1956
SHAREHOLDERS' EQUITY:		
Capital—		
Class "A" 6% cumulative preference shares of $50 each redeemable at the option of the company or by purchase in the open market for cancellation at a price not exceeding $60:		
Authorized and issued . . 90,000 shares	$ 4,500,000	$ 4,500,000
Class "B" non-cumulative preference shares of $25 each purchasable in the open market by the company for cancellation at a price not exceeding $30:		
Authorized and outstanding . 69,689 shares	1,742,225	1,742,225
Common shares of no par value: Authorized and issued . . 90,000 shares	50,000	50,000
Contributed surplus arising from discount on redemption of Class "B" preference shares	417,220	417,220
Consolidated earned surplus	4,477,098	4,879,672
	$11,186,543	$11,589,117
FUNDED DEBT:		
First collateral mortgage serial and sinking fund bonds—		
Authorized $5,500,000, whereof originally issued $4,500,000		
Outstanding—		
4% Sinking Fund bonds Series "A" due December 1, 1959	$ 1,990,000	$ 2,300,000
DEFERRED:		
Accumulated tax reductions applicable to future years (note 3)	$ 65,700	$ 24,142
CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits	$ 563,202	$ 499,320
Accrued interest on bonds	26,242	30,330
Estimated income taxes payable	331,879	519,165
Dividend payable	67,500	67,500
	$ 988,823	$ 1,116,315
	$14,231,066	$15,029,574

UNITED FUEL INVESTMENTS, LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Statement of Consolidated Profit and Loss and Earned Surplus for Year Ended March 31, 1957

(with comparative figures for 1956)

PROFIT AND LOSS

	1957	1956
OPERATING REVENUE AND OTHER INCOME:		
Gross revenue from sales	$8,147,397	$7,879,255
Other income	174,503	139,813
	$8,321,900	$8,019,068
OPERATING EXPENSES AND INTEREST:		
Cost of products sold	$5,127,330	$4,880,139
Distribution, selling, general and administrative expenses	1,362,678	1,196,034
Contribution to employees' pension fund	124,073	123,561
Depreciation (note 2)	377,953	331,163
Amortization of natural gas conversion costs	6,600	1,500
Bond and other interest including bond discount and expense amortized (less interest charged to construction in 1957, $8,389)	85,526	101,876
	$7,084,160	$6,634,273
PROFIT BEFORE INCOME TAXES (note 2)	$1,237,740	$1,384,795
INCOME TAXES (note 3)	639,300	687,500
NET PROFIT FOR YEAR (notes 2 and 3)	$ 598,440	$ 697,295

Note: The expenditures of the companies for the year ended March 31, 1957 include:

Remuneration of directors (not including executive officers)	$ 8,900
Payments to counsel, solicitors and legal advisers	13,475
Remuneration of executive officers	39,790

EARNED SURPLUS

	1957		1956	
Balance at beginning of year		$4,879,672		$4,612,066
Add net profit for year as above		598,440		697,295
		$5,478,112		$5,309,361
Deduct:				
Dividends declared—				
Class "A" 6% preference shares	$270,000		$270,000	
Class "B" preference shares	69,689		69,689	
Common shares	90,000	$ 429,689	90,000	$ 429,689
Net reduction in property accounts (note 1)		571,325		
		$1,001,014		$ 429,689
Balance at end of year		$4,477,098		$4,879,672

UNITED FUEL INVESTMENTS, LIMITED

AND ITS WHOLLY-OWNED SUBSIDIARIES

Notes to Consolidated Financial Statements
March 31, 1957

(1) As of April 1, 1956, in accordance with a report dated June 13, 1956 of Stone & Webster Canada Limited, consulting engineers, the property accounts of the subsidiary companies engaged in gas distribution were reduced in the aggregate by $571,325 as follows:

Net reduction in asset values now restated at cost as computed by the consulting engineers (comprising principally (a) elimination of amounts added on appraisal prior to 1920 and plant retired, less (b) inclusion of applicable overhead and other costs previously charged to expense)	$480,868
Net increase in accumulated depreciation (adjusted to reflect the depreciation which in the opinion of the consulting engineers had accrued to April 1, 1956)	90,457
Amount deducted from earned surplus	$571,325

(2) As of April 1, 1956, the subsidiary companies engaged in gas distribution, in accordance with present public utility accounting practice, changed their basis of accounting for additions to properties to include therein applicable overhead costs.

Prior to April 1, 1956, the subsidiary companies engaged in gas distribution computed depreciation on the reducing balance method at maximum rates permitted for tax purposes. Because of the major expansion of facilities being undertaken in connection with the distribution of natural gas, this method is no longer appropriate. As of April 1, 1956, therefore, these companies changed their basis of computing depreciation to the straight-line method using rates approved by the consulting engineers. These changes reduced the depreciation charges by $47,324 and the overhead expenses charged against income by $61,392 in the year ended March 31, 1957. This had the effect of increasing the profit before taxes and the net profit for the year by $108,716 and $48,716 respectively.

(3) The subsidiary companies may for tax purposes deduct expenditures on conversion of facilities for utilization of natural gas in the year such expenditures are incurred, whereas these costs are being amortized in the accounts over a ten-year period. In addition, one of the subsidiary companies may deduct capital cost allowances for 1957 in excess of the depreciation recorded in the accounts. As a result, income taxes payable for the current year are less than the amount provided in the accounts by $41,558. This amount, together with a similar reduction of $24,142 in 1956, will be restored to income in those future years when the relative amounts recorded in the accounts will be greater than the amounts which may be claimed for tax purposes and are included in the balance sheet in the item "Accumulated tax reductions applicable to future years".