United Fuel Investments,
Limited

and

Subsidiary Companies

Twenty-Seventh Annual Report
For the Fiscal Year Ended
March 31, 1955

TWENTY-SEVENTH ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS, LIMITED

FOR THE FISCAL YEAR ENDED MARCH 31, 1955

Hamilton, Ontario,
June 14, 1955.

To the Shareholders:

This twenty-seventh Annual Report of your Directors contains information on the operations of your Company for the fiscal year ended March 31, 1955 and deals with other matters of interest to you. 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, 1955 with comparative figures for the previous fiscal year, together with the Report of your Auditors.

OPERATING RESULTS

The results of operations of your Company for the fiscal year ended March 31, 1955 as compared with the previous fiscal year are shown in the following condensed summary:

	Fiscal Year ended March 31 1955	1954	Increase or *Decrease* for 1955
Gross revenue from sales	$ 6,948,389	$ 7,612,062	*$ 663,673*
Other income	125,227	120,917	4,310
Total income	$ 7,073,616	$ 7,732,979	*$ 659,363*
Cost of products sold	$ 4,463,848	$ 4,921,968	*$ 458,120*
Distribution, selling, general and administrative expenses	1,111,570	1,076,396	35,174
Contribution to employees' pension fund	115,430	124,000	*8,570*
Depreciation	312,771	317,540	*4,769*
Interest and other funded debt charges	101,876	101,876	—
Total costs and expenses exclusive of income taxes	$ 6,105,495	$ 6,541,780	*$ 436,285*
Profit before income taxes	$ 968,121	$ 1,191,199	*$ 223,078*
Income taxes	484,000	595,000	*111,000*
Net profit for the year	$ 484,121	$ 596,199	*$ 112,078*

As referred to later in this Report, a substantial reduction in tonnage of coke sales and a decrease in the average price received per ton of coke sold were the main reasons for the decrease in net profit for the fiscal year ended March 31, 1955 as compared with the previous fiscal year.

REVENUES

Gross revenue from sales for the fiscal year ended March 31, 1955 decreased $663,673, or 8.7%, as compared with the prior fiscal year. This decrease in gross revenue was incurred as follows:

	Gross revenue from sales for fiscal year ended March 31, 1955	Increase or *decrease* compared with prior fiscal year. Amount	%
Coke Sales:			
Company production	$3,269,607	*$ 521,563*	*13.8*
Purchased for resale	73,933	73,233	—
Total	$3,343,540	*$ 448,330*	*11.8*
Gas sales	3,152,781	23,428	.7
Tar and other residual sales	452,068	*238,771*	*34.6*
Total	$6,948,389	*$ 663,673*	*8.7*

Gross revenue from the sale of coke produced by your Company decreased $521,563, or 13.8%, due to a decrease of 18,663 tons, or 8.6%, in the volume of sales and to a reduction in the average price received per ton as compared with the previous fiscal year.

Practically the entire coke production of the Company is now sold for industrial use, only nominal volumes being sold for domestic purposes. Thus, changes in the level of activity in industrial plants requiring coke in their operations have a direct bearing on the tonnages of coke that can be sold. The price per ton that can be realized from coke sales is affected by any resulting changes in demand and also by prices being quoted by competitors not only for coke produced in Canada but for coke of foreign origin entering Canada on an unrestricted and duty-free basis.

Because of a general slackening of activity in certain industrial plants using coke in their operations, which began in the previous fiscal year and carried over until late in the fiscal year ended March 31, 1955, the accumulation of an inventory carry-over of 44,577 tons of coke as at March 31, 1954 and the inability to obtain satisfactory prices for coke sold, the volume of coke production was reduced substantially, such production being 157,155 tons during the year ended March 31, 1955, as compared with 257,284 tons during the previous fiscal year. In the latter part of the fiscal year ended March 31, 1955, however, due mainly to increasing activity in the steel industry, the demand for coke rose sharply and prices realized per ton of coke sold firmed somewhat. In addition, emphasis was placed on the production by your Company of substantial volumes of high quality coke for metallurgical use, which coke, although more costly to produce than the type of coke generally produced by the Company, can be sold at somewhat higher prices. As a result, inventories of coke on hand at March 31, 1955 had been reduced to 3,567 tons and steps were being taken to increase the volume of coke production to satisfy at least part of the increased demand.

Present indications are that these increased volumes of production and sales will continue throughout at least a substantial part of the fiscal year commenced April 1, 1955.

Increases of 4.6% in the volume of residential gas sales and 6.3% in the volume of commercial gas sales as compared with the prior year were more than offset by a reduction in the volume of gas sold for industrial purposes. As a result the total volume of gas sold was 2.2% less than for the previous fiscal year. However, as a substantial portion of the reduction in volume of industrial gas sales occurred in sales of surplus gas required to be produced in periods of low demand and disposed of on an interruptible basis at special reduced rates, the additional revenues received from the sale of the increased volumes of residential and commercial gas resulted in a net increase of $23,428, or .7%, in gross revenues from gas sales as compared with the previous fiscal year.

The decrease of $238,771 in gross revenues from sales of tar and other residuals produced in the coke manufacturing plant was attributable mainly to the smaller quantities of such products available for sale due to the reduced production and partly to reduced prices now being realized on the sale of certain residuals.

Other income of $125,227 was $4,310 higher than for the previous fiscal year due mainly to increased sundry interest income, partially offset by a reduction in profit derived from handling coal over the Company's dock for other coal importers.

EXPENSES

Total expenses of the Company, exclusive of income taxes, decreased $436,285, or 6.7%, during the fiscal year ended March 31, 1955 as compared with the previous fiscal year. This decrease is attributable mainly to the following:

Cost of products sold decreased $458,120. Due to the substantial reduction in tonnage of coke produced and sold, total cost of coke produced in the ovens of your Company and sold, including the cost of coke sold from the inventory carry-over from the prior fiscal year, decreased $691,202. Cost of gas produced and purchased for re-sale increased $216,869 and cost of coke purchased from other producers for re-sale increased $72,776 due to the purchase and re-sale of larger tonnages of such coke. The cost of all other residuals sold decreased $56,563 due mainly to a reduction in volume of such sales.

While the total cost of products sold decreased as referred to above, due mainly to the decrease in volumes of products produced and available for sale, the unit costs of production were higher because of the inability to adjust operating, maintenance and overhead costs in direct proportion to changes in rates of production. It was not possible for your Company to raise its selling prices to offset such increased unit production costs.

Total distribution, selling, general and administrative expenses increased $35,174 due mainly to a general increase in wage and salary rates, higher sales promotion costs and increased maintenance costs on gas distribution properties. Appliance sales totalled $306,313, a decrease of approximately 10% as compared with the previous fiscal year.

The contribution to the employees' pension plan was $8,570 less than for the previous fiscal year due to a reduction in the number of employees on the payrolls of the Company.

Provision for depreciation was $4,769 less than for the previous fiscal year. Depreciation was provided for at the same rates applied on the same basis as for the previous fiscal year but the application of these rates to the reducing balance (i.e., cost less accumulated depreciation) of the Property of the Gas Companies resulted in a reduced provision for depreciation.

CONSOLIDATED FINANCIAL POSITION

Consolidated working capital of the Company and its wholly-owned subsidiaries as at March 31, 1955 was $3,920,788, an increase of $327,527, during the year. The following table of source and application of funds indicates the monies which became available to the Company during the fiscal year ended March 31, 1955 and how these funds were utilized:

Source of Funds:		
Net earnings for the year	$ 484,121	
Add back: Amounts charged to earnings which did not represent cash outlay during the year:		
Provision for depreciation	312,771	
Amortization of bond discount and bond issue expenses	9,876	
Total funds realized from earnings		$ 806,768
Reduction in inventory of stores and spare equipment		45,630
Total funds made available		$ 852,398
Application of Funds:		
Dividends on capital stock paid or provided for	$ 429,689	
Gross expenditure on Property Account, less salvage	92,311	
Increase in sundry other assets	2,871	524,871
Resulting in an increase in net current assets during the year of		$ 327,527
Excess of current assets over current liabilities at beginning of year		3,593,261
Excess of current assets over current liabilities at end of year		$3,920,788

Property Account expenditures during the year consisted of the following:

Gas Companies:		
Propery additions	$ 38,913	
Property replacements	36,602	$ 75,515
Coke Company:		
Property additions	$ 2,940	
Property replacements	24,964	27,904
Gross expenditure on Property Account additions and replacements		$ 103,419
Less: Amounts realized on Property items sold or replaced		11,108
Net expenditure on Property Account		$ 92,311

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 2, 1954 on 69,689 shares outstanding	69,689
Common Shares— Dividend of $1.00 per share paid on July 2, 1954 on 90,000 shares outstanding	90,000
Total Dividends paid	$ 429,689

PERSONNEL

Regular employees on the payroll of the Company totalled 405 as at March 31, 1955, a decrease of 28 during the year. Wages and salaries paid during the year to all employees, including those employed on a temporary basis, totalled $1,451,196, a reduction of $171,080 as compared with the previous year. Although wage and salary rates were generally higher during the year ended March 31, 1955 as compared with the prior year, total payrolls were reduced because of a decrease in the number of employees required to operate the coke plant consequent upon the slowing down of production operations as previously referred to.

During the year the plans under which all regular employees were entitled to subscribe for group life insurance on their own lives, and sickness and accident insurance for their own benefit, with hospitalization and surgical benefit insurance for themselves and their dependents were amended and extended to provide medical benefit insurance for the employees and their dependents. The premium costs of these benefits are borne jointly by the Company and the employees.

A formal retirement income allowance plan is available to all regular employees who qualify under the service and age requirements of the plan. The plan is administered by a life insurance company with contributions being made by the Company and by each participating employee. It is intended that the Company will pay monthly retirement income allowances to employees who were beyond the age limit for enrolment in the insured plan as they reach retirement age. The Company reserves the right to amend the retirement income allowance plans at any time, after reasonable notice to the employees.

NATURAL GAS

Your Directors and Management are participating in activities which, it is expected, will eventually lead to sufficient supplies of natural gas becoming available in Southwestern Ontario to make possible the conversion of the entire gas system of your Company for the distribution of natural gas. Considerable progress has been made towards finalizing the terms of a contract proposed to be entered into with Union Gas Company of Canada, Limited under which that Company would supply natural gas to the subsidiary gas companies of United Fuel Investments, Limited, in annual volumes estimated to be sufficient to serve your Company's markets for a period of at least 20 years.

Deliveries of natural gas to your Company under the proposed contract are predicated upon Union Gas Company of Canada, Limited receiving the volumes of gas contracted for by it from either Panhandle Eastern Pipe Line Company or Trans-Canada Pipe Lines Limited.

Deliveries of gas to be imported from the United States by Union Gas Company under the terms of its agreement with Panhandle Eastern Pipe Line Company, a United States corporation, will commence only after (a) final approval of that agreement by the Federal Power Commission of the United States or any governmental authority of the United States and/or Canada having jurisdiction and the issuance by such commission or authority of all export or import licences or permits of any nature which are requisite to the performance of the agreement, and (b) the acceptance by both parties to that agreement of any conditions imposed by the Federal Power Commission and any other governmental authority on the performance of the agreement. In the course of a hearing before the Federal Power Commission at Washington, D.C., officials of Union Gas Company submitted to the Commission all evidence and testimony required of them pertinent to Union Gas Company's phase of the proposal to export the additional gas to Canada which would enable Union Gas Company to supply gas to your Company in accordance with the terms of the proposed contract between your Company and Union Gas Company. The hearing before the Federal Power Commission, which is also dealing with other matters affecting the Panhandle Company, is presently in recess and will re-convene at a later date. The decision of the Commission on the gas export matter probably will be withheld until after the entire proceedings have been completed.

Under the terms of the Union Gas Company agreement with Trans-Canada Pipe Lines Limited deliveries of gas by Trans-Canada Company to Union Gas Company are contingent upon (a) the completion by Trans-Canada Company on or before October 31, 1955 of satisfactory contracts for the purchase of sufficient volumes of gas from producers in Western Canada to make feasible the Trans-Canada project to construct a gas transmission line from Western Canada to Southwestern Ontario and (b) the ability of Trans-Canada Pipe Lines Limited to construct and place in operation all pipeline and other facilities required to deliver the gas into the pipeline system of Union Gas Company.

Economic and operating studies made by your Company indicate that a natural gas supply contract between your Company and Union Gas Company can be completed on satisfactory terms, irrespective of which contracted source of gas supply becomes available to Union Gas Company, and it is anticipated that such a contract will be completed in the near future.

APPRECIATION

Your Directors record their appreciation of the loyalty and co-operation of all the employees in maintaining the Company's high standards of service.

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, Hamilton By Product Coke Ovens, Limited, United Gas and Fuel Company of Hamilton, Limited, The Wentworth Gas Company Limited and The United Suburban Gas Company, Limited, as at March 31, 1955 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.

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, 1955 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 20, 1955.

UNITED FUEL INV

(Incorporated under the

AND ITS WHOLLY-

Consolidated

MARCH

(with comparative

ASSETS

	March 31, 1955	March 31, 1954
PROPERTY:		
Gas and coke manufacturing plants, transmission lines, distribution systems, land, buildings, franchises, rights, organization expenses, interest during construction, etc.	$12,261,719	$12,211,716
Less: accumulated depreciation	7,058,514	6,788,050
	$ 5,203,205	$ 5,423,666
Note: The above assets are valued at cost with the exception of assets of United Gas and Fuel Company of Hamilton, Limited acquired prior to March 31, 1929 aggregating $3,785,597 which are included at the values at which they were carried in the books of that company at that date.		
PREMIUMS paid on acquisition of subsidiary companies	4,079,955	4,079,955
	$ 9,283,160	$ 9,503,621
CURRENT ASSETS:		
Cash	$ 3,101,572	$ 1,938,579
Accounts receivable less allowance for doubtful accounts	730,164	698,759
Inventories as determined and certified by the management and valued at the lower of cost or market	846,986	1,744,079
	$ 4,678,722	$ 4,381,417
DEFERRED AND OTHER ASSETS:		
Bond discount, commissions and expenses less amounts written off	$ 46,069	$ 55,944
Deferred charges and prepaid expenses	119,094	118,811
Stores and spare equipment	248,979	294,609
Funds on deposit with trustee for bondholders	3,421	833
	$ 417,563	$ 470,197
	$14,379,445	$14,355,235

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, 1955
figures for 1954)

LIABILITIES

	March 31, 1955	March 31, 1954
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
Capital surplus arising from discount on redemption of Class "B" preference shares	417,220	417,220
Consolidated earned surplus	4,612,066	4,557,634
	$11,321,511	$11,267,079
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	$ 2,300,000	$ 2,300,000
Current Liabilities:		
Accounts payable and accrued charges including meter deposits	$ 330,381	$ 346,407
Accrued interest on bonds	30,330	30,330
Estimated income taxes payable	329,723	343,919
Dividend payable	67,500	67,500
	$ 757,934	$ 788,156
	$14,379,445	$14,355,235

UNITED FUEL INVESTMENTS, LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARIES

Statement of Consolidated Profit and Loss and Earned Surplus for Year Ended March 31, 1955
(with comparative figures for 1954)

PROFIT AND LOSS

	1955	1954
OPERATING REVENUE AND OTHER INCOME:		
Gross revenue from sales	$6,948,389	$7,612,062
Other income	125,227	120,917
	$7,073,616	$7,732,979
OPERATING EXPENSES AND INTEREST:		
Cost of products sold	$4,463,848	$4,921,968
Distribution, selling, general and administrative expenses	1,111,570	1,076,396
Contribution to employees' pension fund	115,430	124,000
Depreciation	312,771	317,540
Interest on bonds	92,000	92,000
Bond discount absorbed	9,876	9,876
	$6,105,495	$6,541,780
PROFIT BEFORE INCOME TAXES	$ 968,121	$1,191,199
INCOME TAXES	484,000	595,000
NET PROFIT FOR YEAR	$ 484,121	$ 596,199

Note: The expenses of the companies for the year ended March 31, 1955 include:

Remuneration of directors (not including executive officers)	$ 6,500
Payments to counsel, solicitors and legal advisers	5,750
Remuneration of executive officers	36,080

EARNED SURPLUS

	1955		1954	
Balance at beginning of year		$4,557,634		$4,391,124
Add net profit for year as above		484,121		596,199
		$5,041,755		$4,987,323
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
Balance at end of year		$4,612,066		$4,557,634

UNITED FUEL INVESTMENTS, LIMITED

AND

SUBSIDIARY COMPANIES

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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.

The Wentworth Gas Company Limited—
Distributing gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.

The United Suburban Gas Company, Limited—
Distributing gas in Oakville, Bronte, Port Nelson and Burlington Beach, Ontario.