F. Francis

REPORT

OF THE

DIRECTORS TO THE STOCKHOLDERS

OF

The Bell Telephone Company of Canada

For the Year ending 31st December,

1912

MONTREAL:
MORTON, PHILLIPS & CO., PRINTERS

1913.

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Officers:

C. F. SISE, - - - - - -	President.
HON. ROBERT MACKAY, - -	Vice-president.
L. B. McFARLANE, - - - -	Managing Director
C. F. SISE, JR.,- - - - -	General Manager.
W. H. BLACK, - - - - -	Secretary.
WM. GEO. SLACK, - - - -	Treasurer.

Directors:

C. F. SISE	HUGH PATON
HON. ROBERT MACKAY	CHARLES CASSILS
THEO. N. VAIL	H. B. THAYER
ROBERT ARCHER	L. B. McFARLANE
WM. R. DRIVER	Z. A. LASH, K.C.

THE BELL TELEPHONE COMPANY OF CANADA

1912.

The Directors beg to submit their Thirty-third Annual Report.

31,514 Subscribers have been added during the year, the total number of telephones now being **192,748.**

The Company now owns and operates **456** Exchanges, an apparent decrease of **14** (caused by the consolidation of certain Exchanges).

6,216 miles of wire were added to the Long Distance system in **1912.** The Long Distance Lines now owned and operated by the Company comprise **64,321** miles of wire on **9,136** miles of poles, and **2,784** miles of wire in Underground and Submarine Cables.

Nine buildings have been added to the Company's Real Estate during the year, including those in process of construction.

The Company now has arrangements for exchange of business with **474** Local Organizations, serving over **54,942** subscribers.

$2,500,000 New Stock was issued and **$1,750,000** Bonds were sold, during the year **1912.**

From the Surplus Earnings of **1912,** amounting to **$449,133.01,** $5,358.55 has been charged off Patent Account; and $100,000.00 has been added to the Employees Benefit Fund; leaving a balance of **$343,774.46,** which has been carried to Surplus Account. The balance in Surplus Account to be carried to **1913** is $429,189.93.

All of which is respectfully submitted.

ROBERT MACKAY,
Vice-President.

C. F. SISE,
President.

Montreal, February 27th, 1913.

BALANCE SHEET. DECEMBER 31. 1912

ASSETS

Real Estate	$ 2,367,173.73
Telephone Plant	24,392,094.47
Furniture. Tools and Supplies	1.284.181.90
Cash and Deposits	256.117.26
Bills and Accounts Receivable	657.988.37
Stocks and Bonde	2.730.051.87
	$31,687,607.60

LIABILITIES

Capital Stock Issued	$15,000,000.00
5% Bonds, 1925	6,649,000.00
Accounts Payable	715,356.09
Accrued Liabilities not due	395.417.16
Unearned Revenue	45,894.11
Employees' Benefit Fund	180~000.00
Replacement and other Reserves	8.272.750.31
Surplus	429.189.93
	$31,687,607.60

Audited and verified.

P. S. ROSS & SONS.
Chartered Accountants.

E. PALM.
General Auditor.

EARNINGS STATEMENT FOR YEAR 1912

Gross Earnings		$ 7.638.304.03
Operation Expense	$2,647,862.77	
Current Maintenance	1.403.339.04	
Depreciation	1.535.000.00	
Taxes	171.917.10	
		5.758.118.91
Net Earnings		1,880,185.12
Deduct Interest		282.091.31
Balance		1.598.093.81
Deduct Dividends 8%		1.148.960.80
Surplus Earnings		$ 449.133.01

Audited and verified.

P. S. ROSS & SONS.
Chartered Accountants

E. PALM.
General Auditor.

STATISTICS

	At Dec. 31, 1912	Increase during Year
Number of Owned Stations. . .	192,748	31,514
Number of Connecting and Miscellaneous Stations..	55,337	10,577
Total Stations..	248,085	42,091

Number of Miles of Wire	529,436
Number of Central Offices	456
Number of Employees	7,403

Average Daily Connections 1912—Exchange . . .	1,456,986
Average Daily Connections 1912—Long Distance .	18,171

At the conclusion of the thirty-third year of the Company's existence, your Directors deem the time opportune for a statement of the Company's operations during that period.

The Company was chartered in 1880, and the work of that year was practically confined to organization and consolidation of several small corporations through purchase for cash or stock in this Company. The following statements of the growth and Revenue of the Company, in five year periods, and for nineteen hundred and twelve, may be interesting :—

	Exchanges	Number of Subscribers	Long Distance Wire in Miles	Pole Miles
1885	126	10,200	3,000	2,000
1890	212	20,437	8,228	4,071
1895	345	30,908	14,851	5,884
1900	343	40,094	21,350	6,525
1905	526	82,351	37,082	8,645
1910	508	138,370	54,133	8,861
1912	456	192,748	67,105	9,136

UNDERGROUND.

	Miles conduit	Miles single Duet.	Miles cable	Miles Wire
1890	1.85	43.16	1.04	103.72
1895	12.10	143.64	16.35	2,211.54
1900	46.71	321.07	156.57	30,686.40
1905	99.62	572.56	264.34	94,131.80
1910	191.10	1,014.66	453.35	208,956.02
1912	235.00	1,331.00	623.35	529,436.00

Total Investment, and Percentage of Net Revenue thereto, in five year periods, and for 1912.

Year	Total Investment	Exchange Revenue	Long Distance Revenue	Misc. Revenue and Revenue from Outside Investments	Expenses	Net Revenue	% Net Revenue to Total Investment
1885	1,527,503.	299,803.	36,629.	26,396.	196,496.	166,332.	10.8
1890	2,822,581.	462,600.	109,236.	40,195.	432,176.	179,855.	6.3
1895	4,765,644.	834,518.	178,313.	74,292.	760,463.	326,660.	6.8
1900	7,498,762.	1,137,660.	359,801.	116,801.	1,177,582.	436,680.	5.8
1905	14,062,605.	2,342,870.	901,367.	273,357.	2,512,696.	1,004,898.	7.1
1910	22,541,382.	3,838,019.	1,415,352.	257,314.	3,781,109.	1,729,576.	7.6
1912	30,773,502.	5,345,740.	1,897,623.	394,941.	5,758,119.	1,880,185.	6.1

In **1880** no known means existed for carrying the wires underground. Subscribers' Stations were connected by a single overhead iron wire costing about four cents per pound. To-day, **1913,** Subscribers' Stations are connected by a double wire of copper costing about nineteen and one-half cents per pound, carried in most cases underground in conduits, and costing on an average **$29.51** per circuit for conduit and wire.

The Central Office apparatus in **1880** consisted principally of small **50** wire Switchboards costing about **$3.00** per subscriber. The present Central Office Switchboards of the "Central Energy" type cost from **$20.00** to **$35.00** per subscriber.

Since the Company commenced business Operators' and Linemen's wages have advanced 75%.

Owing to the rapid changes in the Art a great expense is caused, and must be provided for, because of obsolescence. As an example — in Montreal and Toronto we have been obliged to change the Central Office apparatus **five** times, not because it was worn out, but because of improvements which made the changes not only expedient but imperative.

The plant of the Company has been kept "up-to-date." In the evidence given before the Railway Commission in the matter of the Montreal Rates, one of the Experts testifying on *behalf of the City*—answering a question as to the condition of the Montreal plant, stated: "Excellent condition. It is kept right up to spirit level. Magnificent."

The inevitable changes caused by removals, &c., &c., increase greatly the wst of plant. For example, in **1912** **19,385** Stations were removed, and **50,899** new Stations added, so that the net increase in Stations was but **31,514.**

The Plant additions in **1912,** as shown in the Annual Statement, amounted to **$4,346,950.** **It** is quite certain that the Company must provide for similar or greater expenditure on this account in the future and capital must be provided therefor inasmuch as experience has taught us, that at existing rates, provision cannot be made for this expenditure from current revenue.

The average Annual Revenue received from each subscriber's station in **1885** was **$31.76,** and in **1912** **$29.91,** thus showing an appreciable reduction in the wst of telephone service to the subscriber.

The Reserves carried in the Annual Statement comprise amounts absolutely essential to the solvency and success of the Company. For example: *The Depreciation* ***Reserve*** represents an amount set aside from earnings in order that a fund may be provided, from which worn out plant may be replaced. This fund now represents **15%** of our Plant Account, and it is agreed by conservative experts, who have given much time and consideration to this question, that not less than 6% should be set aside for this account annually.

Employees *Benefit* ***Fund*** represents an amount set aside from time to time from Net Revenue, for the purpose of providing funds for Pensions, and gratuities to worthy Employees who, through length of faithful service or other reasons, are entitled to such consideration.

In the earlier years of the Company's operations it was found impossible to procure satisfactory apparatus and wire and cables in Canada, and the Company had to choose between importing such plant at a great cost, or giving an unsatisfactory service, or undertaking the risks involved in inaugurating a novel manufacture in Canada of the plant required. After careful consideration it was decided to take the risks involved in promoting the manufacture in this Country. Accordingly The Imperial Wire & Cable Company and The Northern Electric & Manufacturing Company were organized and this Company took stock therein.

At the outset this Company took the entire output of these Companies, but as time went on and as other telephone undertakings became more numerous, the business of these Companies increased and the proportion of their output taken by this Company became less and less, till in 1912 this Company took about 30% of the output, the remaining 70% being taken by the Canadian public generally

These two Companies have no monopoly in the manufacture and sale of telephone apparatus arid wire and cables in Canada. There is strong competition in these businesses, both by Canadian manufacturers and by importations from the United States and elsewhere, and prices are controlled by this competition. The prices charged to and paid by this Company are the market prices which are charged to and paid by our competitors and others. We mention this, for it has been said that because this Company holds stock in these Manufacturing Companies it pays them higher prices for what it buys from them than it would have to pay elsewhere, and that it is in this way making the cost of telephone plant appear to be higher than it really is. It has also been stated that the establishment of these Companies was merely a roundabout way by which this Company might secure excessive profits from its telephone users.

We can give all these statements an unqualified denial. The facts are as herein stated. The Company pays no more than the Public; but on the contrary it purchases on the lowest market terms, and upon no principle of fairness or equity can it be contended that telephone users are entitled to the benefit of any part of the profits made by these Manufacturing Companies upon any part of their output, particularly upon the 70% thereof which this Company does not take.

The Company has from time to time found it expedient to sell its properties in different Provinces, notably Manitoba, Alberta, Saskatchewan, New Brunswick, Nova Scotia and Prince Edward Island. In most instances the Company has taken payment, part in cash, and balance in fully paid stock in the local Companies. The cash so received has been reinvested in the Plant of the Company without any addition to the capital. In the North West Provinces the Local Governments proposed to inaugurate local, provincially owned and operated systems, and we sold our plant at those points on mutually satisfactory terms.

It is only proper to state in this connection that our relations with those Provinces to which we sold our Plant, remain—as they always have been—most satisfactory.

In no case had we any desire to sell, but the Provinces wished to purchase and we had no wish to compete with Government owned and operated systems.

Included in the Company's Assets are—the stocks of the Manufacturing Companies referred to—premiums on stock (which were paid by the Shareholders and not by the Public)—and the proceeds of the sales above-mentioned (or the property in which some of such proceeds have been invested); but none of these bear any relation to the Company's telephone business, and do not affect the cost of the service or the revenue from it, and without these Assets the Company would have had to borrow money or increase its capital in order to carry on the business.

These operations have resulted in a wide variation between the capital stock, the investment in our operating business, and our total investment. It must be understood therefore, that the earnings on the capital stock bear no relation to the amount of our operating investment.

These Assets and their revenues belong to the Shareholders. They might have been distributed among them. The Company's reason for not making such distribution has been to strengthen its financial position and thus enable it more easily to procure the large sums which have been required from time to time for Capital Expenditure and which have been essential to an efficient public service.

Had the entire surplus revenue of each year been paid in Dividends instead of being used in extending the business, either additional Capital would have had to be raised or extensions would have had to be omitted. Had the Company been unable to procure the additional Capital, the only way to provide for extensions would have been to reduce Dividends and use profits for Capital Expenditure ; in which case new Capital could not have been secured except on ruinous terms, and the ultimate result of such a course would have been either an increase of rates to the Public, or failure to serve it efficiently.

In 1906 the operation of the Company was placed under the supervision of the Railway Commission, which has considered several matters brought before it for adjudication, and has, in its conclusions, acted in an impartial and judicial manner.

Our relations with the Public continue to be very satiefactory, and the general feeling now seems to be that the telephone service to be perfect must be universal, intercommunicating, interdependent, under one control, and that no isolated section can be considered independently of any other, or of the whole system, and that rates must be so adjusted as to make it possible for everyone to be connected who will add to the value of the system to others.

In accordance with this principle the Company has made contracts for intercommunication and exchange of business with 474 local organizations and individuals, owning and operating rural lines, which have in some cases been built by the owners and are operated at a very low cost without a reasonable prospect of any return in Dividends or proper provision for depreciation, etc., etc. Our relations with these Companies are satisfactory.

The stock of this Company has never been "watered" nor distributed as a bonus to any person or Corporation.

The Dividends paid since the organization of the Company are equal to 7.5% on the average paid up Capital Stock, but only 5.8% on the average amount invested in the plant, etc., connected with the public service.

For the Directors,

C. F. SISE,

President.

THE BELL TELEPHONE COMPANY OF CANADA

LOCAL

LONG DISTANCE TELEPHONE