

REPORT
OF THE
DIRECTORS TO THE SHAREHOLDERS
OF
THE BELL TELEPHONE
COMPANY *of* CANADA

FOR THE YEAR ENDED
31st DECEMBER
1938

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REPORT
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DIRECTORS TO THE SHAREHOLDERS
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Fifty-ninth Annual Report of the Directors

FOR THE YEAR ENDED 31st DECEMBER, 1938

To the Shareholders:

Your Directors herewith submit their report for the year 1938, together with the Income Statement for the year and the Balance Sheet as of December 31, 1938.

The decline in general business activity towards the end of 1937, referred to in the report for that year, continued through the spring of 1938, when the downward trend was arrested. The last half of the year saw a comparatively level trend substantially below that of the preceding year, but with indications of moderate improvement.

These conditions are reflected in the business of the Company. Long distance revenue was lower, and while there was an increase during 1938 in the total number of telephones in service, the demand for new and additional services was less than in 1937.

During the year, 188,182 telephones were connected and 169,378 disconnected, a net gain of 18,804 as compared with 37,444 in 1937.

At the end of the year 764,855 telephones were in service comprising 271,775 business and 493,080 residence telephones; 79,935 of the total were extension telephones.

Other telephone systems in Ontario and Quebec with which we interchange service now number 906, serving 144,052 telephones.

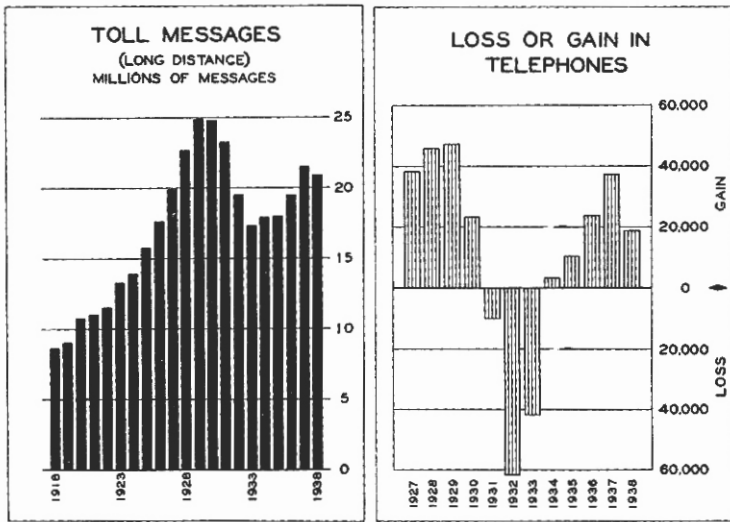
Revenues

Local service revenue was \$30,520,803, an increase of 3.2 per cent over 1937.

Long distance revenue was \$8,987,718, a decrease of 3.8 per cent.

Miscellaneous revenues and other income were \$2,186,458, an increase of 5.5 per cent over 1937.

The gross revenue from all sources amounted to \$41,694,979, an increase of 1.7 per cent over 1937.



Expenses

Operation and maintenance expenses for the year 1938 were slightly higher than in 1937, the increase of \$146,438 or seven-tenths of 1 per cent being due principally to higher contributions to the Employees' Pension Fund as called for by an actuarial study of the Fund made during 1938. Wage increases were also a contributing factor.

Taxes, including taxes on non-operating income, also have continued to increase and for the year 1938 reached a total of \$3,023,384, or \$40,984 higher than the previous year.

Net Income and Dividends

The net income available for dividends amounted to \$6,449,380 or \$8.10 per share of average outstanding capital stock.

Quarterly dividends at the rate of \$2.00 per share were paid throughout the year and totalled \$6,371,026, leaving a balance of \$78,353 carried to surplus.

Financing

Your Directors will ask the authority of the shareholders at the Special General Meeting called for the 23rd of February to issue additional bonds to an aggregate principal amount of \$30,000,000. This authority is desired so that Series A bonds, which are redeemable at the Company's option on or after March 1, 1940, may be refunded should it be in the Company's interest to do so.

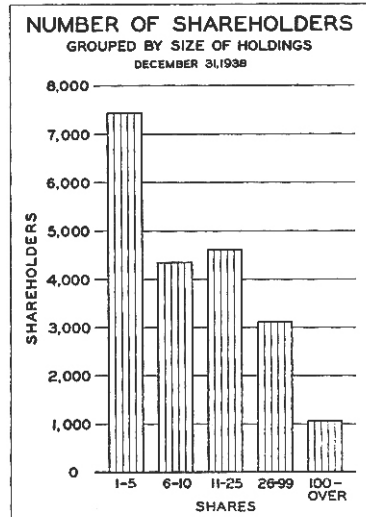
By securing the authority at this meeting the Company will avoid the necessity and consequent expense of calling a Special General Meeting of shareholders later in the year.

The only permanent financing during the year 1938 was the issue of 9,217 shares of capital stock, of a par value of \$921,700, to employees who had completed instalment payments on subscriptions under the Employees' Stock Plan.

Distribution of Stock

As of December 31, 1938, there were 20,600 shareholders, an increase of 449 during the year. This is a

slightly larger increase than took place in 1937. Those living in Canada number 19,279, or 93.6 per cent, and hold 68.45 per cent of the outstanding stock. The percentage of stock held by shareholders in Canada continues to grow and is now the highest in the Company's history; ten years ago this figure was 61.4 per cent.



The percentage of shareholders residing in the United Kingdom and other parts of the British Empire is 2.0 holding 4.4 per cent of the stock, while 4.4 per cent of shareholders live in the United States and other foreign countries and hold 27.2 per cent of stock. The latter figure includes the American Telephone and Telegraph Company's holding of 23.4 per cent.

The average holding per shareholder (excluding American Telephone and Telegraph Company) remains at 30 shares.

The proportion of women shareholders continues to increase and is now 57.0 per cent. They hold 23.6 per cent of the stock.

Employees numbering 3,554 hold 34,934 shares, representing 4.4 per cent of the total outstanding.

Plant

Gross additions to the Company's plant in 1938 amounted to \$14,125,000 of which the principal items were:

Land and Buildings	\$ 398,000
Central Office Equipment	2,661,000
Subscribers' Station Equipment	6,264,000
Outside Plant	4,077,000

The gross construction for 1938 was below that for 1937 by \$1,136,000, due to a lower demand for new telephone service. Plant was added, replaced or modernized where warranted to meet service demands and effect improvements and economies in operation.

The original cost of plant retired from service during the year was \$10,121,000.

Buildings

Central office buildings for new dial equipment were erected at St. Johns, Ste. Anne de Bellevue, Scarborough, Willowdale and Copper Cliff. In Montreal, an extension to the Crescent dial building was completed to permit the installation of additional equipment.

Manual central office buildings were erected at Bracebridge, Gananoque and Waterloo, Que. The building at Oshawa was extended to house additional long distance equipment.

Equipment

In Montreal, the new Atlantic dial office was put into service, replacing the manual exchange of the same name. Extensions to existing dial offices were made in Montreal, Toronto, Hamilton and Windsor. At the end of the year there were 469,487 dial operated telephones representing 91.5 per cent of the telephones in those centres where dial service is given and 61.4 per cent of the total company telephones.

Substantial progress was made in the programme of modernization of our smaller central offices through

the replacement of magneto switchboards by central energy dial or manual equipment. During the year, magneto equipment was replaced by dial at Whitby, Port Credit, Ste. Anne de Bellevue, Willowdale and Scarboro, and by central energy manual equipment at Lachute, Newmarket, Renfrew, Agincourt, Petrolia, Waterloo, Que., Gananoque, Hawkesbury and Islington—a total conversion of 14 magneto exchanges serving over 8,000 telephones.

Long Distance Plant

A seventeen-mile toll cable was completed connecting Ingersoll and Woodstock with the Toronto-London toll cable. This project was carried out with jute-protected cable buried in the ground, without the use of conduit, a type of construction which we have not previously used except for short distances.

Additional circuits were provided by installing carrier systems which permit superimposing long distance channels on existing open wire circuits.

Progress was made in constructing additional open wire toll circuits to the Maritime Provinces for service late in 1939.

Trans-Canada Telephone System

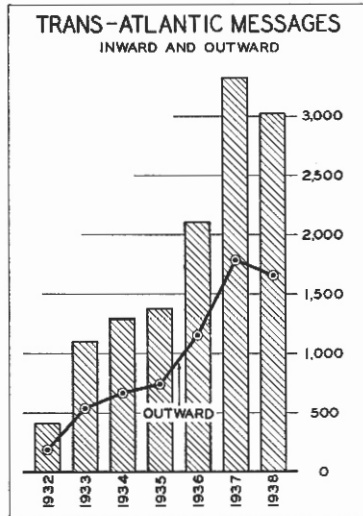
Although the increase in traffic over the Trans-Canada System was not so great as in recent years, there was a moderate growth in this long-haul traffic amounting to about 3 per cent. Service continued at a satisfactory level with over 90 per cent of the offered calls resulting in completed messages. On more than 80 per cent of the traffic, the connection was established while the customer remained at the telephone.

Radio Telephone Services

Service over the Montreal-London telephone circuit continued to be handled in a satisfactory manner, although the volume of traffic was not so great as in the previous year.

During the year plans were developed jointly by the Canadian Marconi Company and this Company to inaugurate radio telephone service between Montreal and St. John's, Newfoundland. This new service was opened officially on January 10th, 1939, when the Governor-General, Lord Tweedsmuir, in Ottawa, spoke to Sir Humphrey Walwyn,

Governor of Newfoundland in St. John's. This service constitutes the only means of telephone communication between Newfoundland and other countries.



Suburban Service

The increasing need of subscribers in the suburbs of several of the larger cities for communication with their nearby cities was met by the introduction of a new optional form of service known as Suburban Zone Service. This provides for normal local service in the suburban exchanges as well as communication with the neighboring city on a combined flat and measured rate basis. It is evident from its acceptance by our subscribers that this service is meeting their needs.

As part of the development of an adequate plan of service between the largest cities and their suburbs, Montreal and Toronto service was made available at a uniform rate in the nearby suburbs in place of the varying rates which had previously been in effect.

Organization

Effective October 1st an important change was made in our field organization outside of the metropolitan centres of Montreal and Toronto when, through consolidation, the number of administrative divisions and districts was reduced. The former territorial arrangement, which became effective in January 1930, was set up during a period of unexampled growth. It was decided that fewer and larger districts would afford opportunities for more effectual co-ordination and execution of work, and should result in a higher standard of operating technique and of service to the public.

Maintenance

The Company's plant and equipment has been well maintained. Troubles reported by customers averaged one per telephone in 14 months, an improvement over the previous year. When troubles did occur, they were promptly cleared as reported, 85 per cent on business telephones within two hours and 92 per cent on residence telephones within four hours.

Service

Service has been kept at a high standard. The number of local calls completed amounted to 83.3 per cent of the total, and the proportion of long distance calls completed was 93.3 per cent. Both of these figures indicate creditable performance, the disparity between

them being due to the fact that subsequent attempts are not made by the operator to complete local calls. The average time to establish long distance connections was 79 seconds, an improvement of 6 seconds over the previous year. The number of calls handled while the customer remained at the telephone was 92.6 per cent—a factor contributing to the high average speed of service on long distance calls.

Sales

Aggressive efforts to promote the sale of adequate services and equipment were continued throughout the year. Satisfactory results were obtained which will benefit both subscribers and the Company. The general employee body continued to assist in sales activities.

Employees' Pension and Benefit Plan

An actuarial study of the Company's Pension Plan for its employees was completed as of December 31, 1937, and as a result the annual contribution by the Company to the Pension Fund is being increased.

During the year 1938, benefits and pensions were paid in 2,571 cases under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, amounting to \$572,868, divided as follows:

	No. of	
	Cases	Amount
Pensions	489	\$288,648
Accident Benefits (including expenses)	156	9,558
Sickness Benefits	1,845	216,055
Death Benefits	81	58,607

Employees' Stock Plan

Employees continue to utilize the Stock Plan for the investment of their savings. Of 9,576 employees eligible to subscribe, 7,030 are now subscribing for 39,717 shares.

Life Insurance

Under the Employees' Life Insurance Plan adopted in 1927, whereby premiums are paid through deductions from pay, 2,874 employees are carrying \$11,119,700 of life insurance—an average per employee of \$3,878.

Board of Directors

During the year the Company suffered the loss of three members of its Board of Directors, all of whom were distinguished Canadians.

Lt.-Col. Herbert Molson, C.M.G., M.C., died on March 21st. He had been a director since February 1929. His wise counsel and wide business experience made him an exceptionally valuable member of the Board.

The vacancy caused by Lt.-Col. Molson's death was filled by the appointment at the May meeting of Mr. James A. Eccles of Montreal.

On June 28th Hon. Thomas Ahearn, P.C., died at his home in Ottawa. Mr. Ahearn had been associated with the Company from its very beginning, having been its first Manager at Ottawa. A pioneer in the electrical field, he devoted his main activities to the several electrical enterprises at the Capital with which his name was associated. Mr. Ahearn was elected to the Board of the Company in February 1915, and in the ensuing twenty-three years he seldom missed a meeting, devoting his splendid abilities with rare zeal to the Company's welfare.

Mr. James M. Macdonnell of Toronto was appointed to the Board on December 21st.

A third loss, and one of peculiarly intimate concern, was sustained by the death at Toronto on December 30th of Mr. Kenneth J. Dunstan. Mr. Dunstan was an outstanding figure in the development of the telephone in Canada, his connection with the service beginning in Hamilton in 1878, two years prior to the incorporation of your Company. He was the Company's first Manager in Hamilton, where he remained until 1891, when he was appointed Manager at Toronto. There he directed the affairs of the Company during the years of the City's greatest development, being appointed a Vice-President in 1920. He was elected a Director in 1925, and while he retired from active service in 1931, he continued until his death to occupy a seat on the Board.

Mr. Dunstan's long experience in the practical affairs of the business, and his accurate and detailed knowledge of the entire history of telephone development, qualified him to render a service to the Board of especial value.

At the regular meeting of the Board held on January 25th, 1939, Mr. Paul A. McFarlane was appointed to fill the vacancy caused by the death of Mr. Dunstan.

Staff

Employees of all ranks merit warm commendation not only for the high technical quality of their work, but for the courtesy and cordiality which more and more characterize their contacts with your Company's patrons.

For the Board of Directors,

MONTREAL, February 8, 1939.

C. F. SISE,
President.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1938

Assets

FIXED CAPITAL:

Land and Buildings	\$ 20,668,831.27	
Cost of real estate owned by the Company.		
Telephone Plant and Equipment	176,293,805.12	
Cost of central office and subscribers' station equipment, poles, wire, cable, underground conduit, right-of-way, etc.		
General Equipment	3,397,841.76	
Cost of office furniture and fixtures, storeroom and garage equipment, motor vehicles and tools and implements.		
		\$200,360,478.15

INVESTMENT SECURITIES:

Subsidiary Companies	\$ 13,505,100.06	
Other Investment Securities	544,324.12	
Cost of shares in Subsidiary Companies and other investment securities. The aggregate of market values where available and book values where market values are not available exceeds the stated cost.		
		14,049,424.18

CURRENT ASSETS:

Cash	\$ 1,166,424.20	
Cash available for current needs.		
Temporary Cash Investments	3,286,538.58	
Dominion and Provincial Government and other short term securities at cost. Market value as of December 31, 1938, \$3,281,175.00.		
Material and Supplies	3,012,056.82	
Material and supplies held at cost in storerooms and yards less a reserve of \$34,471.05. Physical inventories were taken during September and October, 1938.		
Notes Receivable from Subsidiary Companies	331,100.00	
Notes due on demand or within one year from date of issue.		
Accounts Receivable and Other Current Assets:		
Subsidiary Companies	\$ 93,749.24	
Customers and Others and Other Current Assets	3,356,164.70	
Current accounts due the Company for service (less provision for uncollectible accounts), interest, dividends, rents and sundry miscellaneous items; also cash held by employees and agents as working funds.		
		3,449,913.94
		11,246,033.54

DEFERRED DEBITS:

Prepayments	\$ 705,395.38	
Rents, taxes, insurance, cost of directories and other expenses prepaid and applicable to period subsequent to December 31, 1938.		
Discount on Long Term Debt	1,179,794.84	
Balance of unamortized discount and expense pertaining to bonds outstanding.		
Other Deferred Debits	198,508.71	
Miscellaneous items, the final disposition of which had not been determined at December 31, 1938.		
		2,083,698.93

TOTAL ASSETS		\$227,739,634.80
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Approved for Board of Directors:

W. F. ANGUS, Director.
ARTHUR B. PURVIS, Director.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1938

Liabilities

CAPITAL STOCK:

Common Stock—Authorized 1,500,000 shares, par value \$150,000,000.00—Outstanding fully paid 800,441 shares.....	\$ 80,044,100.00
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LONG TERM DEBT:

Bonds—5% First Mortgage:		
Series A—Maturing March 1, 1955.....	\$ 30,000,000.00	
Series B—Maturing June 1, 1957.....	30,000,000.00	
Series C—Maturing May 1, 1960... \$14,500,000.00		
Less—Held in Treasury.....	7,000,000.00	
	<u>7,500,000.00</u>	
Notes.....	8,254,745.84	
Notes sold to Trustee of Pension Fund.....		<u>75,754,745.84</u>

CURRENT LIABILITIES:

Notes Payable to Subsidiary Companies.....	\$ 105,414.78	
Notes payable on demand.....		
Advance Billing and Payments.....	1,057,773.77	
Advance billing and payments for telephone service.....		
Accounts Payable and Other Current Liabilities:		
Subsidiary Companies.....	\$ 789,429.05	
Other Accounts Payable and Other Current Liabilities.....	650,523.99	
Amounts owing for supplies, pay rolls and sundry miscellaneous items which are in process of settlement.....	<u>1,439,953.04</u>	2,603,141.59

ACCRUED LIABILITIES NOT DUE:

Taxes	\$ 1,384,403.67	
Dominion, Provincial and Municipal taxes applicable to period ended December 31, 1938, but not due until after that date.....		
Other.....	2,424,330.26	
Interest, dividends and rents applicable to period ended December 31, 1938, but not due until after that date.....		<u>3,808,733.93</u>

DEFERRED CREDITS:

Employees' Stock Plan—Instalment Payments	\$ 1,847,791.84	
Instalments paid by employees who are subscribing for capital stock, together with interest thereon.....		
Other Deferred Credits.....	2,551.93	
Miscellaneous items, the final disposition of which had not been determined at December 31, 1938.....	<u>1,850,343.77</u>	

DEPRECIATION RESERVE.....

Provision for the ultimate retirement of depreciable plant when it has served its useful life.....	52,407,943.11
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PREMIUMS ON CAPITAL STOCK.....

Amount received in excess of par value.....	6,729,278.74
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UNAPPROPRIATED SURPLUS:

Capital Surplus:		
Balance at January 1, 1938.....	\$2,152,652.31	
Miscellaneous Additions (net).....	29,491.63	
	<u>2,182,143.94</u>	
Balance at December 31, 1938.....	\$ 2,182,143.94	
Earned Surplus:		
Balance at January 1, 1938.....	\$2,472,993.93	
Surplus for year (after dividends)....	78,353.58	
Miscellaneous Deductions (net).....	192,143.63	
	<u>2,359,203.88</u>	
Balance at December 31, 1938.....	2,359,203.88	4,541,347.82

TOTAL LIABILITIES	<u>\$227,739,634.80</u>
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J. CLEUGH, Comptroller.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE INCOME STATEMENT

Year Ended December 31, 1938

TELEPHONE OPERATING REVENUES.	\$ 41,305,993.79	
Revenues from local and toll service, telephone directory advertising and miscellaneous telephone operations.		
Less:		
Uncollectible Operating Revenues.	138,587.52	
Revenues which have proved to be uncollectible.		
TOTAL OPERATING REVENUES.		\$ 41,167,406.27
TELEPHONE OPERATING EXPENSES:		
Operation Expenses.	\$ 12,132,196.27	
Cost of operating the telephone property, including operators' wages and expense of handling messages, billing and collecting subscribers' accounts, directories, sickness, accident and death benefits, pensions, rents, etc. (Salaries paid to Executive Officers \$140,633.62; Salaries and fees paid to Counsel and other legal advisers \$27,740.15; and fees paid to Directors and members of the Executive Committee \$27,850.00 of which \$5,950.00 was paid and accounted for by Subsidiary Companies.)		
Current Maintenance.	8,359,635.03	
Cost of inspection, repairs and rearrangements required to keep the telephone plant and equipment in good operating condition.		
Depreciation.	7,743,655.00	
Provision to meet loss of investment when depreciable property is retired from service, based on rates of depreciation for the different classes of property which spread this loss of investment uniformly over its service life.		
TOTAL OPERATING EXPENSES.		28,235,486.30
NET OPERATING REVENUES.		\$ 12,931,919.97
Operating Taxes:		
Income Taxes.	\$ 1,127,600.00	
Other Taxes.	1,875,384.21	
Dominion, Provincial and Municipal taxes applicable to the current year.		
		3,002,984.21
NET OPERATING INCOME.		\$ 9,928,935.76
Net Non-Operating Income:		
Income from Investment Securities.	\$ 322,672.15	
Dividends and interest received from investment securities owned by the Company.		
Other Non-Operating Income (net).	66,313.21	
Interest on temporary cash investments and other miscellaneous income less expenses incident thereto including Income Taxes of \$20,400.00 on non-operating income.		
		388,985.36
INCOME AVAILABLE FOR FIXED CHARGES.		\$ 10,317,921.12
Fixed Charges:		
Bond Interest.	\$ 3,375,000.00	
Interest charges on outstanding bonds.		
Other Interest.	404,169.48	
Interest charges on other debt obligations.		
Amortization of Discount on Long Term Debt.	69,556.92	
Proportion of debt discount and expense applicable to the year in connection with outstanding bond issues.		
Other Charges.	19,814.57	
		3,868,540.97
BALANCE AVAILABLE FOR DIVIDENDS.		\$ 6,449,380.15
Dividends.		6,371,026.57
Dividends to owners of outstanding common stock.		
BALANCE FOR EARNED SURPLUS.		\$ 78,353.58

J. CLEUGH, Comptroller.

MONTREAL, QUE.,

January 31, 1939.

AUDITORS' CERTIFICATE

THE BELL TELEPHONE COMPANY OF CANADA,
MONTREAL.

We have made an examination of the financial accounts of The Bell Telephone Company of Canada for the year ended December 31, 1938. In connection therewith we examined or tested accounting records of the Company and supporting evidence and made a general review of its accounting methods, but we did not examine the details of all transactions. We have obtained all the information and explanations we have required.

The Balance Sheet and the Income Statement of The Bell Telephone Company of Canada herewith submitted do not include the assets, liabilities or the operating results of the Subsidiary Companies otherwise than as investments and through inclusion of dividends received. The operations of the Subsidiary Companies for the year ended December 31, 1938, resulted in an aggregate net profit.

In our opinion, based upon such examination, the attached Balance Sheet and Income Statement are drawn up in accordance with accepted principles of accounting consistently maintained by the Company during the year under review so as to exhibit a correct view of the financial position of the Company at December 31, 1938, and of the results from operations for the year ended that date according to the information and explanations received by us and as shown by the books of the Company.

(Signed) P. S. ROSS & SONS,
*Chartered Accountants,
Auditors.*

STATISTICS

December 31, 1938

NUMBER OF TELEPHONES:

Company Owned—Manual Service.....	295,368	
“ “ —Dial Service.....	469,487	
		<u>764,855</u>
Connecting and Miscellaneous.....		144,052
Total Telephones.....		908,907

NUMBER OF CENTRAL OFFICES..... 408

NUMBER OF OWNED BUILDINGS..... 113

MILES OF POLE LINES..... 23,114

MILES OF WIRE:

In Underground Cable.....	2,446,902	
In Aerial Cable.....	887,339	
Open Wire.....	219,219	
		<u>3,553,460</u>

MILES OF SUBWAY (Length of Street Occupied)..... 962

MILES OF DUCT..... 4,931

AVERAGE DAILY CONNECTIONS: (Year 1938)

Local.....		5,560,000
Toll.....		57,000

NUMBER OF EMPLOYEES:

Male.....	4,785	
Female.....	4,977	
		<u>9,762</u>

TOTAL PAY ROLL FOR YEAR 1938..... \$16,796,591

NUMBER OF SHAREHOLDERS:

In Canada.....	19,279	
Elsewhere.....	1,321	
		<u>20,600</u>

GROWTH IN NUMBER OF TELEPHONES OWNED BY COMPANY

