

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

FOR THE YEAR ENDED
31st DECEMBER

1936

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

FOR THE YEAR ENDED
31st DECEMBER
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THE BELL TELEPHONE COMPANY OF CANADA

DIRECTORS

*HON. THOS. AHEARN, P.C.	-	-	Ottawa
*W. F. ANGUS	-	-	Montreal
*GEO. CAVERHILL	-	-	Montreal
HON. HENRY COCKSHUTT, LL.D.	-	-	Brantford
C. P. COOPER	-	-	New York
*K. J. DUNSTAN	-	-	Toronto
SIR GEO. GARNEAU	-	-	Quebec
W. S. GIFFORD	-	-	New York
*J. E. MACPHERSON	-	-	Montreal
HON. S. C. MEWBURN, K.C.	-	-	Hamilton
*LT.-COL. HERBERT MOLSON, C.M.G.	-	-	Montreal
GLYN OSLER, K.C.	-	-	Toronto
*ARTHUR B. PURVIS	-	-	Montreal
*C. F. SISE	-	-	Montreal
*P. F. SISE	-	-	Montreal

*Members of Executive Committee.

OFFICERS

C. F. SISE
President

J. E. MACPHERSON
Vice-President

P. A. MCFARLANE
Vice-President

F. JOHNSON
Vice-President

F. G. WEBBER
Secretary

J. CLEUGH
Comptroller

J. R. LOGAN
Treasurer

FIFTY-SEVENTH ANNUAL REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31st DECEMBER

1936

To the Shareholders:

Your Directors respectfully submit the following report of the Company's operations for the year 1936 and of its financial position at the end of the year.

The year 1936 was one of improved general business activity throughout the territory served by your Company. This improvement resulted in the increased telephone usage reflected in the largest net gain of telephones in service since 1929, and also in substantial increase in the number and value of long distance messages.

Despite this improvement the total stations in service at December 31, 1936, were still 76,189 below the total in service at December 31, 1930, while long distance revenue for last year was nearly 18 per cent below that for 1930, the peak year.

During the year, 181,344 telephones were connected and 157,502 disconnected, making a net gain of 23,842 as compared with 10,326 in 1935. As most of the gain occurred in the latter part of the year, local service revenues do not fully reflect the increase in telephones.

Of the 708,607 telephones in service at the end of 1936, 255,286 were business and 453,321 residence services; 74,152 were extension telephones.

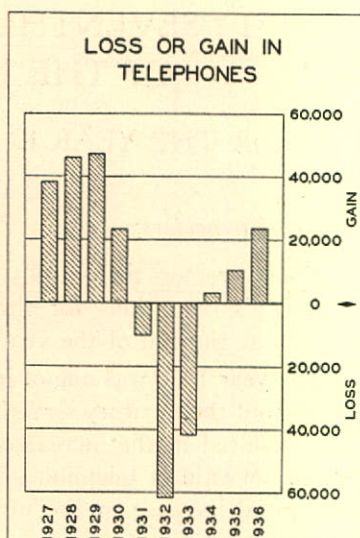
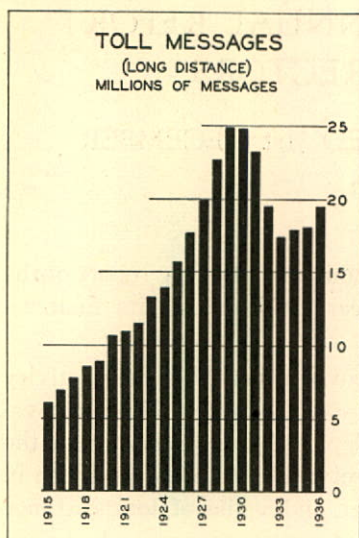
Other telephone systems in Ontario and Quebec with which we interchange service now number 863 serving 141,214 telephones, which is an increase of 2,767 during the year.

REVENUES

Local service revenue was \$28,232,549, an increase of 3.5 per cent over the year 1935.

Long distance revenue was \$8,512,409, an increase of nearly 12 per cent over 1935.

Miscellaneous revenues and revenue from outside investments were \$1,768,594, an increase of 7.1 per cent over 1935.



From all sources the gross revenue for the year 1936 was \$38,513,552, an increase of 5.3 per cent over the total of 1935, but still \$4,191,232 below the total of 1930, the highest year.

EXPENSES

Operation and current maintenance expense increased by \$894,770 or 5 per cent, due largely to wage adjustments, the increase in the number of employees and the elimination for most of the employees of short time formerly in effect through necessary spreading of work.

Interest expense was reduced by \$93,101 as compared with 1935, due chiefly to repayment of bank loans in 1935.

Taxes for the year 1936 have continued to grow at a greater rate than business and at \$2,812,000 show an increase in excess of 14 per cent over 1935.

The net income available for dividends amounted to \$5,455,600 or \$6.96 per share of average outstanding capital stock.

Dividends were continued during the year at the rate of \$6.00 per share, the total dividend payment amounting to \$4,704,143. After dividends there was a balance remaining of \$751,457, which has been carried to earned surplus to restore to

this account, in part, the heavy withdrawals required by insufficient earnings in the preceding six years. The balance at the credit of total surplus is still \$1,844,879 short of what it was at December 31, 1929.

FINANCING

The only permanent financing during the year was the issue of 6,329 shares of capital stock. Of this total, 3,669 shares were issued to employees who had completed instalment payments on subscriptions under the Employees' Stock Plan, and 2,660 shares in payment for the securities of another telephone company.

Surplus and reserve funds of your Company not immediately required for other purposes have been invested temporarily in short term securities, mainly Dominion and Provincial government issues.

DISTRIBUTION OF STOCK

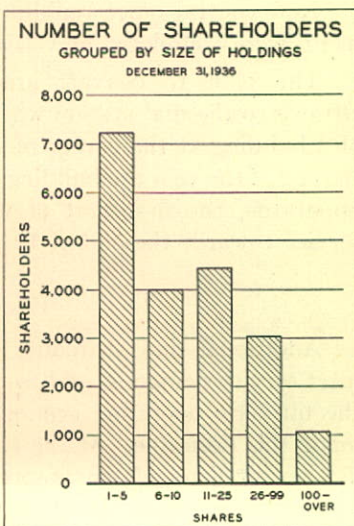
As of December 31, 1936, there were 19,756 shareholders. Those living in Canada number 18,439, or 93.3 per cent, and hold 67.5 per cent of the outstanding stock.

The percentage of shareholders residing in the United Kingdom and other parts of the British Empire is 1.9, holding 5.0 per cent of the stock, while 4.8 per cent of shareholders live in the United States and other foreign countries and hold 27.5 per cent of stock. The latter figure includes the American Telephone and Telegraph Company's holding of 23.9 per cent.

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

The proportion of women shareholders has now reached 56.5 per cent. They hold 23.3 per cent of the stock.

Employees numbering 3,332 hold 29,227 shares, representing 3.7 per cent of the total outstanding.



PLANT

Gross additions to the Company's plant in 1936 amounted to \$10,685,000, of which the principal items were:

Land and Buildings.....	\$ 389,000
Central Office Equipment.....	1,390,000
Subscribers' Station Equipment.....	5,720,000
Outside Plant.....	3,026,000

Expenditures for gross construction during the year were 15 per cent above the 1935 level. Over half the total was necessitated by the day-to-day orders from customers for the installation or moving of telephones and private switchboards. Other expenditures were determined by service demands and replacements.

The original cost of plant retired from service during the year was \$9,142,000.

BUILDINGS

New central office buildings, to house dial switching equipment, were completed at Granby, Que., and Bowmanville, Ont.

The plan to convert gradually the telephone service in Ottawa to the dial system was further advanced by the erection of a building at the corner of Albert and O'Connor Streets. By the end of the year the building was ready to receive dial switching apparatus, the first unit of which will probably be placed in service towards the end of 1937.

EQUIPMENT

Additional dial switching equipment has been installed to meet service demands, and to replace manual apparatus where the ultimate operating economies and service advantages have made this desirable. At the end of the year there were 407,491 dial-operated telephones, representing 93.5 per cent of the total telephones in those places where dial service is given*, and 57.5 per cent of the total Company telephones.

The Kenwood dial office was placed in service during the year, completing for Toronto the conversion from manual to dial operation begun in 1924.

Dial equipment installed in new company buildings was put into service at Granby, Que., and at Lancaster, Ont. The elimination of magneto equipment at Granby marked the inauguration of a programme designed to accelerate the replacement of this

magneto type of equipment in the larger offices of that class. Similar conversion of other offices to central energy dial or manual equipment is scheduled for the near future.

Extensions to dial offices were made in Montreal, Toronto and Hamilton.

EXCHANGE PLANT

Extensive additions to exchange plant were made to meet service demands, and important reconstruction work was undertaken for improvement of plant and the avoidance of electrical hazards.

A trial installation was made south of St. Thomas, Ont., of approximately twenty-five miles of a newly developed, rubber insulated, paired wire which is buried directly in the ground. This wire is the outcome of efforts to provide an inexpensive long-lived type of plant for rural telephone lines where only one or two circuits are required along a route, and may be used where the nature of the terrain permits.

LONG DISTANCE PLANT

Expenditures on long distance lines were due largely to necessary rebuilding and to the repair of storm damage.

Work was completed on a $9\frac{1}{2}$ mile toll cable between Galt and the main Toronto-London toll cable at German Mills, near Kitchener.

TRANS-CANADA TELEPHONE SYSTEM

The grade of service given for long haul traffic over the Trans-Canada System continued to be satisfactory. The volume of traffic routed over this system was substantially greater than that handled in the previous year; the growth was the greatest for some time past, amounting to over 20 per cent. To make adequate provision for this increase, plans are under way to provide additional long distance circuits during 1937 to Winnipeg, Man., Saint John, N.B., and Halifax, N.S.

OVERSEAS TELEPHONE SERVICE

Overseas service was extended to several countries which could not previously be reached by telephone. The service is now available to 67 countries or territories and 21 ocean ships.

Transatlantic traffic over the direct Montreal-London channel continued to grow, and there was during the year an advance

of about 50 per cent over 1935. The grade of service continued to be of high quality.

MAINTENANCE

The condition of the Company's plant has been well maintained throughout the year. Reports of trouble on our long distance circuits were fewer than in the past. Troubles reported by subscribers were at the low rate of one per telephone per year, which was well below the 1935 level. Troubles were promptly cleared as reported, over 80 per cent on business telephones within two hours, and nearly 92 per cent on residence telephones within four hours.

SERVICE

The high standard of service rendered during recent years was maintained. The percentage of local calls completed was 83.6 and long distance calls completed 93.9 per cent of the total. This high standard accompanied greatly increased traffic. The average time for establishing long distance connections was 81 seconds. A contributing factor to this speed is the practice of completing connections while the customer remains at the telephone. During the year, the calls so handled were 92.4 per cent of the total.

Whenever possible, orders for the installation of telephone equipment are handled on the basis of making an appointment for a time suitable to the customer. In the case of over 95 per cent of orders, appointments were made and in nearly 99 per cent of such cases the Company was ready to make installation at the time specified.

STORM DAMAGE

Although no serious service interruptions were experienced, a number of storms occurred, necessitating the expenditure during 1936 of about \$300,000 to repair damage done to our plant.

LONG DISTANCE RATE CHANGES

Important revisions of long distance rates, estimated to effect an annual saving to users of \$250,000, became effective during the year. In January, 1936, low rates were established on night person-to-person and Sunday messages. A reduction in long haul rates for distances over 128 miles was made in September. Nearly all overseas rates were substantially reduced while low Sunday rates to many overseas points were introduced.

SALES PROMOTION

As has been the case during the past several years, active participation in sales work by the entire employee group contributed in no small measure to the substantial growth in business we have enjoyed.

EMPLOYEES' BENEFIT PLAN

During the year 1936, benefits and pensions were paid in 2,248 cases under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, amounting to \$494,890, divided as follows:

	<i>No. of Cases</i>	<i>Amount</i>
Pensions.....	400	\$249,870
Accident Benefits (including expenses)...	115	5,732
Sickness Benefits.....	1,653	183,796
Death Benefits.....	80	55,492

EMPLOYEES' STOCK PLAN

To encourage thrift and systematic saving amongst employees, those who have completed six months' continuous service are permitted, under the Employees' Stock Plan, to purchase at a fixed premium, shares of your Company's capital stock (one share for each \$300 annual salary), paying for it by deductions from pay at the rate of \$3.00 per share per month.

Of 9,417 employees eligible to subscribe for stock in the Company, 6,162 are now subscribing for 30,090 shares.

LIFE INSURANCE

Under the Employees' Life Insurance Plan adopted in 1927, whereby premiums are paid through monthly deductions from pay, 2,632 employees are carrying \$9,558,000 of life insurance—an average per Employee of \$3,636.

STAFF

The Directors record their thanks and appreciation to all employees for their continued devotion to the interests of the Company and the fine spirit that has been evident in giving to customers a high standard of service and in promoting its use.

For the Board of Directors,

Montreal, February 10, 1937.

C. F. SISE,
President.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1936

ASSETS

FIXED CAPITAL:

Land and Buildings.	\$ 20,810,417.03	
Cost of real estate owned by the Company.		
Telephone Plant and Equipment.	167,630,122.23	
Cost of central office and subscribers' station equipment, poles, wire, cable, underground conduit, right-of-way, etc.		
General Equipment.	3,571,280.71	
Cost of office furniture and fixtures, storeroom and garage equipment, motor vehicles and tools and implements.		
		\$192,011,819.97

INVESTMENT SECURITIES:

Subsidiary Companies.	\$ 13,537,214.06	
Other Investment Securities.	511,886.12	
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.		
		14,049,100.18

CURRENT ASSETS:

Cash and Special Deposits.	\$ 1,016,712.32	
Cash available for current needs and funds on special deposit.		
Temporary Cash Investments.	3,934,685.00	
Principally Dominion and Provincial Government short term securities at cost. Market value as of December 31, 1936 \$3,928,718.00.		
Material and Supplies.	3,088,834.94	
Material and supplies held at cost in storerooms and yards less a reserve of \$52,754.56. A physical inventory was taken during September, 1936.		
Notes Receivable from Subsidiary Companies.	154,500.00	
Notes due on demand or within one year from date of issue.		
Accounts Receivable and Other Current Assets:		
Subsidiary Companies.	\$ 31,827.73	
Customers and Others and Other Current Assets.	3,237,436.39	
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.		
	3,269,264.12	
		11,463,996.38

DEFERRED DEBITS:

Prepayments.	\$ 668,054.21	
Rents, taxes, insurance, cost of directories and other expenses prepaid and applicable to period subsequent to December 31, 1936.		
Discount on Funded Debt.	1,318,908.68	
Balance of unamortized discount and expense pertaining to bonds outstanding.		
Other Deferred Debits.	109,943.83	
Miscellaneous items, the final disposition of which had not been determined at December 31, 1936.		
		2,096,906.72

TOTAL ASSETS..... \$219,621,823.25

Approved for Board of Directors:

W. F. ANGUS, Director.

GEORGE CAVERHILL, Director.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE BALANCE SHEET—DECEMBER 31, 1936

LIABILITIES

CAPITAL STOCK:

Common Stock—Authorized 1,500,000 shares, par value \$150,000,000.00—Outstanding fully paid 785,709 shares.....	\$ 78,570,900.00
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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.....	6,747,786.67	
Notes sold to Trustee of Pension Fund.....		74,247,786.67

CURRENT LIABILITIES:

Notes Payable to Subsidiary Companies.....	\$ 107,211.10	
Notes payable on demand.....		
Advance Billing and Payments and Customers' Deposits.....	994,951.20	
Advance billing and payments for telephone service and deposits as security for payment of bills.....		
Accounts Payable and Other Current Liabilities:		
Subsidiary Companies.....	\$ 838,297.31	
Other Accounts Payable and Other Current Liabilities.....	1,088,815.67	
Amounts owing for supplies, pay rolls and sundry miscellaneous items which are in process of settlement.....	<u>1,927,112.98</u>	3,029,275.28

ACCRUED LIABILITIES NOT DUE:

Taxes.....	\$ 1,053,830.10	
Dominion, Provincial and Municipal taxes applicable to period ended December 31, 1936, but not due until after that date.....		
Other.....	2,020,591.14	
Interest, dividends and rents applicable to period ended December 31, 1936, but not due until after that date.....	<u>3,074,421.24</u>	

DEFERRED CREDITS:

Employees' Stock Plan—Instalment Payments.....	\$ 1,313,967.52	
Instalments paid by employees who are subscribing for capital stock, together with interest thereon.....		
Other Deferred Credits.....	1,617.89	
Miscellaneous items, the final disposition of which had not been determined at December 31, 1936.....	<u>1,315,585.41</u>	

DEPRECIATION RESERVE.....

Provision for the ultimate retirement of depreciable plant when it has served its useful life.....	48,494,027.27
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PREMIUMS ON CAPITAL STOCK.....

Amount received in excess of par value.....	6,508,298.74
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UNAPPROPRIATED SURPLUS:

Capital Surplus:		
Balance at January 1, 1936.....	\$2,048,127.35	
Miscellaneous Additions (net).....	59,463.72	
	<u>2,107,591.07</u>	
Balance at December 31, 1936.....	\$ 2,107,591.07	
Earned Surplus:		
Balance at January 1, 1936.....	\$1,596,889.77	
Surplus for year (after dividends).....	751,457.30	
Miscellaneous Deductions (net).....	74,409.50	
	<u>2,273,937.57</u>	
Balance at December 31, 1936.....	<u>4,381,528.64</u>	

TOTAL LIABILITIES.....	<u>\$219,621,823.25</u>
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J. CLEUGH, Comptroller.

THE BELL TELEPHONE COMPANY OF CANADA

DESCRIPTIVE INCOME STATEMENT

Year Ended December 31, 1936

TELEPHONE OPERATING REVENUES.....	\$ 38,211,912.10
Revenues from local and toll service, telephone directory advertising and miscellaneous telephone operations.	
Less:	
Uncollectible Operating Revenues.....	115,330.89
Revenues which have proved to be uncollectible.	
TOTAL OPERATING REVENUES.....	\$ 38,096,581.21
TELEPHONE OPERATING EXPENSES:	
Operation Expenses.....	\$ 10,954,096.84
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 \$128,458.66; Salaries and fees paid to Counsel and other legal advisers \$23,680.46; and fees paid to Directors and members of the Executive Committee \$28,460.00, of which \$4,760.00 was paid and accounted for by Subsidiary Companies.)	
Current Maintenance.....	7,800,843.32
Cost of inspection, repairs and rearrangements required to keep the telephone plant and equipment in good operating condition.	
Depreciation.....	7,600,486.00
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.....	26,355,426.16
NET OPERATING REVENUES.....	\$ 11,741,155.05
Operating Taxes:	
Income Taxes.....	\$ 990,700.00
Other Taxes.....	1,821,300.00
Dominion, Provincial and Municipal taxes applicable to the current year.	
	2,812,000.00
NET OPERATING INCOME.....	\$ 8,929,155.05
Net Non-Operating Income:	
Income from Investment Securities.....	\$ 235,972.35
Dividends and interest received from investment securities owned by the Company.	
Other Non-Operating Income (net).....	65,667.61
Interest on temporary cash investments and bank balances; and other miscellaneous income less expenses incident thereto including Income Taxes of \$17,300.00 on non-operating income.	
	301,639.96
INCOME AVAILABLE FOR FIXED CHARGES...	\$ 9,230,795.01
Fixed Charges:	
Bond Interest.....	\$ 3,375,000.00
Interest charges on outstanding bonds.	
Other Interest.....	326,879.07
Interest charges on other debt obligations.	
Amortization of Discount on Funded Debt.....	69,556.92
Proportion of debt discount and expense applicable to the year in connection with outstanding bond issues.	
Other Charges.....	3,758.72
	3,775,194.71
BALANCE AVAILABLE FOR DIVIDENDS.....	\$ 5,455,600.30
Dividends.....	4,704,143.00
Dividends to owners of outstanding common stock.	
BALANCE FOR EARNED SURPLUS.....	\$ 751,457.30

J. CLEUGH, Comptroller.

MONTREAL, Que.,
January 30, 1937.

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, 1936. 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 operations of the Subsidiary Companies for the year ended December 31, 1936, resulted in a net loss which was fully covered by the combined surpluses of the Subsidiary Companies. The accounts of The Bell Telephone Company of Canada herewith submitted do not incorporate the net assets and operating results of the Subsidiary Companies otherwise than as investments and through inclusion of dividends received.

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, 1936, 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, 1936

NUMBER OF TELEPHONES:

Company Owned—Manual Service.....	301,116	
“ “ —Dial Service.....	407,491	
		708,607
Connecting and Miscellaneous.....		141,214
Total Telephones.....		849,821

NUMBER OF CENTRAL OFFICES..... 398

NUMBER OF OWNED BUILDINGS..... 109

MILES OF POLE LINES..... 23,356

MILES OF WIRE:

In Underground Cable.....	2,349,840	
In Aerial Cable.....	836,473	
Open Wire.....	219,277	
		3,405,590

MILES OF SUBWAY (Length of Street Occupied)..... 916

MILES OF DUCT..... 4,785

AVERAGE DAILY CONNECTIONS: (Year 1936)

Local.....	5,124,300
Toll.....	53,300

NUMBER OF EMPLOYEES:

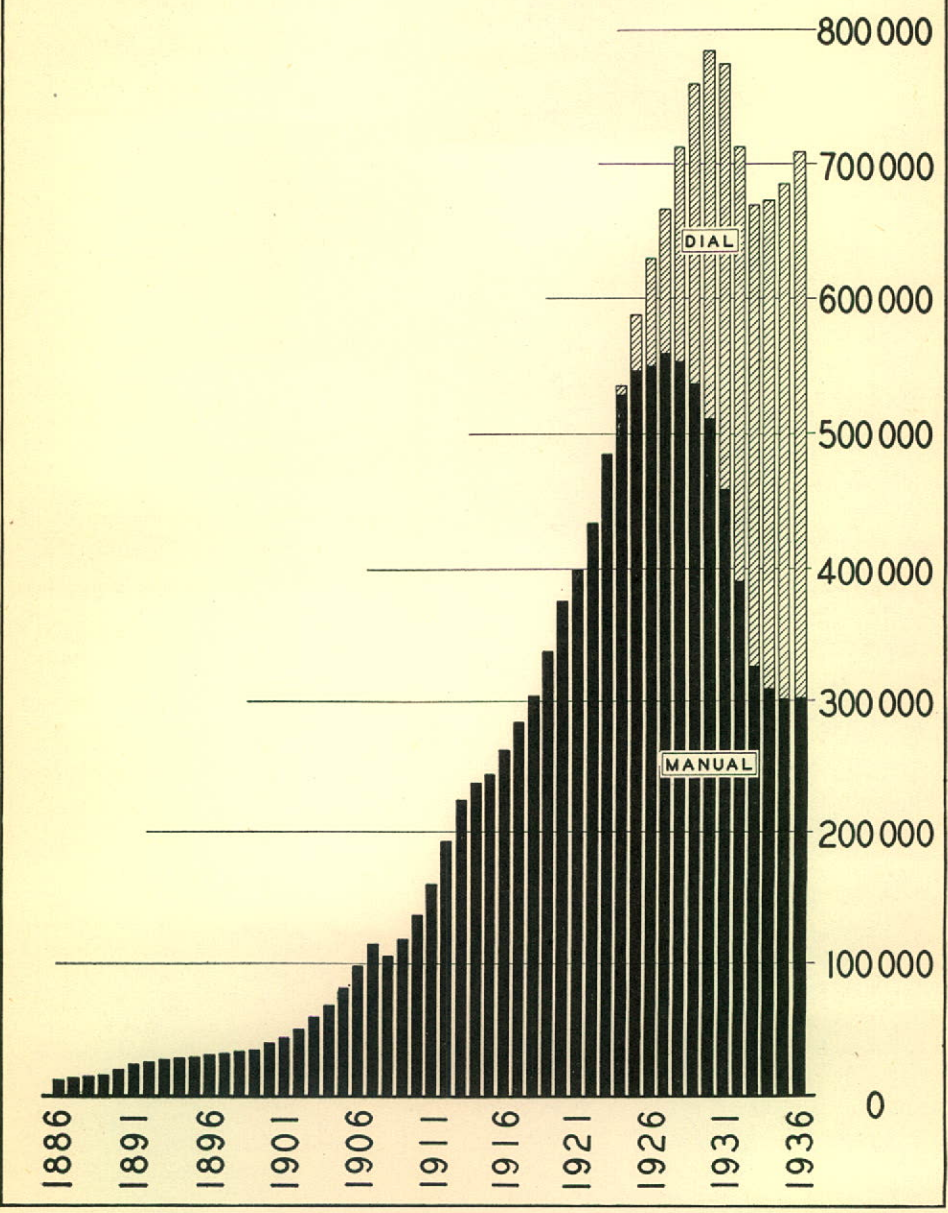
Male.....	4,688	
Female.....	5,048	
		9,736

TOTAL PAY ROLL FOR YEAR 1936..... \$14,910,755

NUMBER OF SHAREHOLDERS:

In Canada.....	18,439	
Elsewhere.....	1,317	
		19,756

GROWTH IN NUMBER OF TELEPHONES OWNED BY COMPANY





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