

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

FOR THE YEAR ENDED
31st DECEMBER
1927

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THE BELL TELEPHONE COMPANY OF CANADA

DIRECTORS

*HON. THOS. AHEARN	Ottawa	HON. S. C. MEWBURN,	
*W. F. ANGUS	Montreal	K.C.	Hamilton
*GEO. CAVERHILL	Montreal	*F. W. MOLSON	Montreal
HUME CRONYN	London	GLYN OSLER, K.C.	Toronto
*K. J. DUNSTAN	Toronto	*ARTHUR B. PURVIS	Montreal
SIR GEO. GARNEAU	Quebec	*JOHN W. ROSS, LL.D.	Montreal
W. S. GIFFORD	New York	*C. F. SISE	Montreal
*L. B. MCFARLANE	Montreal	H. B. THAYER	New York

*Members of Executive Committee.

OFFICERS

L. B. McFARLANE

Chairman of the Board

C. F. SISE

President

K. J. DUNSTAN

Vice-President

W. H. BLACK

Secretary-Treasurer

J. E. MACPHERSON

Vice-President

E. PALM

Comptroller

P. A. McFARLANE

General Manager

FORTY-EIGHTH ANNUAL REPORT
OF THE DIRECTORS
FOR THE YEAR ENDED 31st DECEMBER
1927

To the Shareholders:

Your Directors respectfully submit the following report of the Company's operations for 1927 and of its financial position at the end of the year.

The net gain in telephones for the year was 38,222, compared with 40,840 in 1926. This growth involved the installation of 130,307 telephones and the removal of 92,085. On the 31st of December last, 61.4 per cent. of the telephones in service were in residences.

Connecting with the Bell Telephone Company, under mutually satisfactory arrangements, are 840 other telephone systems in Ontario and Quebec with 133,581 telephones.

REVENUES AND EXPENSES

The estimates of the Board of Railway Commissioners as to exchange revenues to be looked for under the revised schedules of rates effective March 1st last have proved to be substantially correct.

Exchange revenue for the year was \$24,780,812, compared with \$21,008,542 in 1926, an increase of \$3,772,270. ~~Long Distance revenue was \$7,950,318~~ compared with \$6,982,143 in 1926, an increase of \$968,175.

This notable increase in Long Distance revenue, while due in some measure to improved transmission and operating methods, is attributable chiefly to the prosperous condition of general business.

Miscellaneous revenues and revenues from outside investments amounted to \$1,150,520 as compared with the 1926 total of \$1,104,116, an increase of \$46,404.

After providing for dividends there remains a net balance of \$839,869, from which \$250,000 has been appropriated for the Employees' Benefit Reserve, leaving a balance of \$589,869 to be carried to surplus.

A STATEMENT OF POLICY

Last October, Mr. W. S. Gifford, President of the American Telephone and Telegraph Company, speaking before the National Association of Railroad and Utilities Commissioners, announced the policy and purpose of the Bell System in the United States as "The most telephone service and the best at the least cost to the public."

Mr. Gifford's statement of policy is so in accord with the policy of this Company that it seems to us fitting to reproduce it in part.

After referring to the position of his Company in respect to the wide distribution of its stock, and the fact that the business is from its very nature carried on without competition in the usual sense, circumstances which are paralleled in our case, Mr. Gifford says:—

"Obviously, the only sound policy that will meet these obligations is to continue to furnish the best possible telephone service at the lowest cost consistent with financial safety. This policy is bound to succeed in the long run and there is no justification for acting otherwise than for the long run.

"It follows that there is not only no incentive but it would be contrary to sound policy for the management to earn speculative or large profits for distribution as 'melons' or extra dividends. On the other hand, payments to stockholders limited to reasonable regular dividends with their right, as the business requires new money from time to time, to make further investments on favourable terms, are to the interest both of the telephone users and of the stockholders.

"Earnings must be sufficient to assure the best possible telephone service at all times and to assure the continued financial integrity of the business. Earnings that are less than adequate must result in telephone service that is something less than the best possible. Earnings in excess of these requirements must either be spent for the enlargement and improvement of the service furnished or the rates charged for the service must be reduced. This is fundamental in the policy of the management.

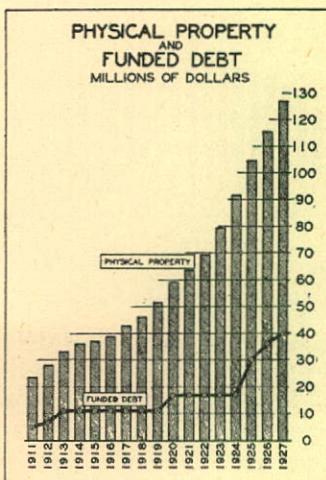
"The margin of safety in earnings is only a small percentage of the rate charged for service, but that we may carry out our ideals and aims it is essential that this margin be kept adequate. Cutting it too close can only result in the long run in deterioration of service while the temporary financial benefit to the telephone user would be practically negligible."

During the forty-seven years that this Company has been operating there has never been any bonus, stock split or payment to stockholders other than the regular dividend. The profits resulting from sales of plant might well have been distributed among the shareholders, to whom they belonged. Instead the proceeds of these sales, together with net earnings in excess of dividend requirements, have been reserved as surplus and invested in the business to safeguard the regular payment of Dividends in years when the earnings were insufficient. The wisdom of this policy is shown by the fact that we have been able to draw on our corporate surplus to the extent of upwards of four million dollars to meet our dividend requirements for the years 1920, 1921, 1925 and 1926.

FINANCES

In our last Annual Report, reference was made to bank loans amounting to \$6,000,000. At a special General Meeting of Shareholders on May 25th, a new issue of bonds to the amount of \$30,000,000 was authorized. Bank loans having by this time increased to \$9,500,000, the sale of \$10,000,000 of these 5 per cent. bonds was effected and the loans paid off.

To carry out the construction programme, an additional \$10,000,000 of stock was offered to shareholders for subscription at par, in the proportion of one share for each five shares then held, payable in four instalments at dates calculated to put the Company in funds as required. All but a fraction of one per cent. of this stock was taken by the shareholders.



PLANT

Gross additions to your Company's plant in 1927 amounted to \$18,206,339. The principal items were:—

Land and Buildings.....	\$1,404,705
Central Office Equipment.....	4,888,404
Subscribers' Station Equipment.....	5,167,456
Exchange Lines.....	5,216,291
Toll Lines.....	1,423,267

Existing plant, the original cost of which was \$6,898,926, was retired from service.

BUILDINGS

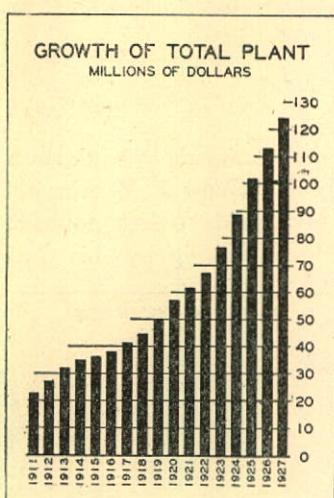
Construction was begun in October on a new Headquarters Building on Beaver Hall Hill, Montreal. The site is an admirable one, being centrally located between the uptown and downtown sections of the City.

The building, twenty storeys in height, will be steel framework with exterior walls of Canadian stone. It will furnish accommodation for the entire headquarters staff, now housed partly in rented quarters in several buildings in the City, and provide for the vacating of floor space in Company buildings planned and now required for the installation of central office apparatus. The initial structure will provide for expansion for some years to come, and the site will permit of extensions as may be required for future development.

A new building, "Hyland," for dial equipment was completed on Eglinton Avenue, Toronto, and a further dial system building, "Wilbank," on Atwater Avenue, Montreal, is nearing completion. "Amherst" Exchange building in Montreal, and "Lombard" in Toronto are being enlarged.

A new building for manual equipment was completed in Three Rivers and extensions to manual exchange buildings undertaken at Joliette and North Bay.

New garage and stores buildings were erected at Windsor and Quebec, and the Toronto Stores building is being extended.



EQUIPMENT

The programme of conversions to the dial system was continued in the Cities of Toronto, Montreal and Quebec. At the end of the year there were in the three cities a total of 109,343 dial telephones in service, representing over sixteen per cent. of total Company stations.

Among the more important dial system projects completed were the "Crescent" Exchange in Montreal and the "Howard," "Elgin," "Lombard" and "Hargrave" in Toronto. Under construction during the year were the "Harbour" dial system exchange to serve a portion of downtown Montreal, and "Adelaide" in downtown Toronto.

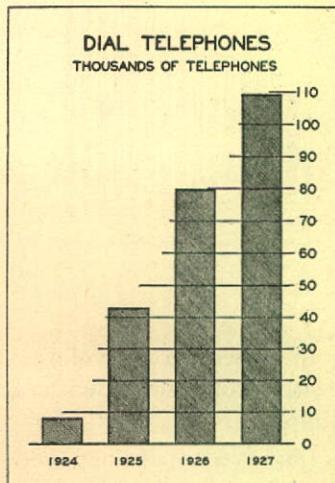
The latter equipment was cut into service on January 7th, 1928.

Extensions to manual exchanges were completed during the year at Toronto, Montreal, North Bay, Weston, Lindsay, Waterloo, Cornwall, Collingwood and Port Colborne. Further extensions are under way at Toronto, Montreal, Hamilton, Windsor, Owen Sound, Lachine, St. Lambert and St. Catharines. A new manual common battery switchboard was cut into service at Burlington, replacing the former magneto system.

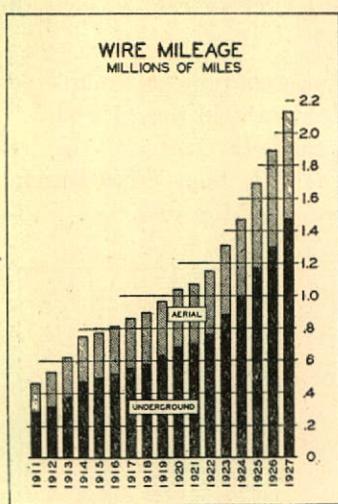
Extension of the dial system in Toronto involved the retirement from service of the "Gladstone" central office, which was first occupied in 1907 and which had become inadequate for present-day requirements.

TOLL PLANT

Extensive additions to both Central Office and outside Long Distance plant were made during the year, and to meet the growing demand a large programme is planned for 1928. This includes the erection of long distance cable on routes on which the volume of traffic and the need for increased facilities warrant this type of construction.



A long distance cable route between Hamilton and Buffalo has been under construction for some months, and the portion between Hamilton and Beamsville is already in service. Completion of this cable is expected early this year.



Engineering plans were completed for a cable connecting Toronto and Oshawa, on which construction will begin during the present year.

Numerous open wire circuits were constructed and plans prepared looking to the extension of long distance service by all Canadian routes between this Company's territory and New Brunswick on the East, and Manitoba on the West. It is expected that by means of these circuits service between Manitoba and the Maritime Provinces will be available during the present year.

SERVICE

In respect to the volume of calls completed and the quality furnished, our service, exchange and long distance, has continued to improve.

Improved operating methods have greatly reduced the interval between the placing and the completion of long distance calls. One now calls a telephone in a distant city with almost the same assurance of quick connection with which he asks for a number in the next block.

MAINTENANCE

Continuance of the programme of plant betterment has resulted in a reduction of twenty-nine per cent. in the number of troubles per telephone.

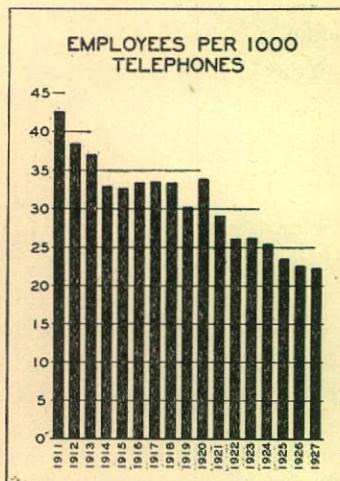
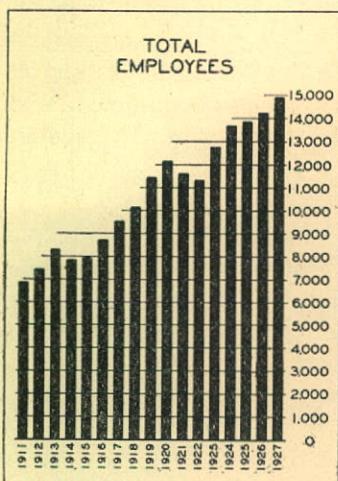
PERSONNEL

In order to provide a source from which to attract future employees and to create interest in telephone work as a vocation, close contact has been maintained with technical schools and

universities. In Montreal, special telephone equipment has been installed in the Montreal Technical School, and a course in telephone work is now part of the curriculum. In Toronto, two special evening classes were established in the Technical School for those interested in telephony, and these courses have been well attended.

In the past five years your Company has selected from the graduating classes of Canadian Universities no fewer than 320 of its staff. These men and women graduates have done excellent work in all departments of the service.

Supplementing day-to-day contacts between employees and their supervisors are joint conference committee meetings in which representatives of the employees and of the management discuss matters of common interest from the viewpoint of each. There are also training classes in all phases of telephone work in which the employee may qualify for advancement.



The above charts show, for the period 1911 to 1927, that while there has been a constant increase in the total number of employees, the increase has not been proportionate to the growth of the business. In 1911 we required 42 employees for each 1,000 telephones, while in 1927 the number had decreased to 23 employees per 1,000 telephones.

PUBLICITY

To keep the public informed on the Company's plans and the interesting features of telephone operation is to secure their helpful and intelligent co-operation. We have therefore con-

tinued our policy of general publicity. Lectures, demonstrations and moving pictures are employed to visualize the interesting records of telephone progress and visitors are conducted through our operating rooms. During 1927, over 90,000 people attended our lectures and demonstrations, and some 13,000 visited our operating rooms.

GREAT BRITAIN AND MEXICO SERVICE

Regular Commercial long distance service was inaugurated to Great Britain and Mexico, the former by combined land lines and Trans-Atlantic radio link, via New York.

THE DIAMOND JUBILEE CELEBRATION

The broadcast of the celebration at Ottawa on the occasion of the Diamond Jubilee of Confederation was an outstanding event of the year. This epoch-marking broadcast involved the linking-up of over twenty radio stations from the Atlantic to the Pacific.

Your Company undertook an important part of the line service throughout its territory, as well as the supply of equipment, and the general technical direction of transmission throughout Canada.

FIRST AID TRAINING

First Aid instruction continues to be an important part of the training of our employees and it is gratifying to learn from time to time of the invaluable aid rendered by telephone employees to victims of accident and mischance. Of the Company's total male Plant staff, numbering upwards of 4,400, over seventy-six per cent. are now qualified First Aiders.

EMPLOYEES' STOCK PLAN

Under the terms of the Employees' Stock Plan inaugurated in 1922, of 13,041 employees eligible to subscribe, 10,137 are now subscribing for 35,095 shares. Since the inception of the Plan 26,828 shares have been issued to employees.

EMPLOYEES' BENEFIT PLAN

During the year 1927, benefits and pensions were paid in 2,977 cases under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, amounting to \$296,941, divided as follows:

	No. of Cases	Amount
Pensions.....	91	\$ 44,092
Accident Benefits (including expenses).	554	26,745
Sickness Benefits.....	2,309	198,046
Death Benefits.....	23	28,058

EMPLOYEES' LIFE INSURANCE PLAN

During the year arrangements were made with two Canadian Insurance Companies for the acceptance of monthly premiums on policies issued to Bell Telephone employees, the collection of premiums being undertaken by this Company through pay roll deduction.

The purpose of this plan is to enable employees to secure a maximum of insurance protection on favorable terms as to policy conditions and method of payment.

This is an additional feature of the Company's policy to encourage thrift, of which the Stock Purchase Plan is part.

At December 31st the insurance written amounted to \$1,481,-605.

INCREASE IN CAPITAL

Application is being made to Parliament at the present session to increase our authorized capital from 75 million to 150 million dollars.

It is essential, that our authority to raise new capital be increased in order to provide plant and facilities to meet the continuous demand for telephone service.

STAFF

Your Directors wish again to record their appreciation of the excellent work of employees during the year. There is an evident desire on the part of the staff, now numbering close to 15,000 persons, not only to maintain the highest standard of service, but readily to adapt themselves to the many changes in methods necessary to the advancement of telephony.

For the Board of Directors,

C. F. SISE,

President.

Montreal, 8th February, 1928.

BALANCE SHEET—DECEMBER 31, 1927

ASSETS

FIXED CAPITAL (Including Construction Work in Progress):	
Intangible Capital.....	\$ 76,811.20
Land and Buildings.....	11,080,127.31
Telephone Plant and Equipment.....	113,029,163.63
General Equipment.....	2,086,371.05
	<u>\$126,272,473.19</u>
INVESTMENT SECURITIES.....	3,263,257.51
TOTAL PERMANENT AND LONG TERM INVESTMENTS.....	\$129,535,730.70
WORKING ASSETS:	
Cash and Deposits.....	\$ 1,038,927.40
Marketable Securities (Dom. Govt. Bonds).....	624,419.20
Bills Receivable.....	15,851.60
Accounts Receivable.....	1,418,635.42
Materials and Supplies.....	762,650.35
	<u>3,860,483.97</u>
ACCRUED INCOME NOT DUE.....	40,043.36
DEFERRED DEBIT ITEMS:	
Prepayments.....	\$ 228,381.69
Unamortized Debt Discount and Expense.....	1,342,122.38
Plant Inventory and Appraisal (Unapportioned).....	207,417.24
Other Deferred Debit Items.....	30,612.13
	<u>1,808,533.44</u>
TOTAL ASSETS.....	<u>\$135,244,791.47</u>

LIABILITIES

CAPITAL STOCK:	
Common Stock.....	\$ 50,027,700.00
Capital Stock Instalments.....	2,467,550.00
	<u>\$ 52,495,250.00</u>
BONDS:	
Series "A"—5%—Due 1955.....	\$30,000,000.00
Series "B"—5%—Due 1957.....	10,000,000.00
	<u>40,000,000.00</u>
WORKING LIABILITIES—ACCOUNTS PAYABLE.....	3,010,658.56
ACCRUED LIABILITIES NOT DUE.....	1,960,988.47
DEFERRED CREDIT ITEMS:	
Employees' Stock Plan—Instalment Payments.....	\$ 1,248,344.19
Advance Payments—Stock Subscriptions.....	763,422.39
Other Deferred Credit Items.....	29,337.24
	<u>2,041,103.82</u>
RESERVES:	
Employees' Benefit Reserve.....	\$ 1,260,258.34
Reserve for Accrued Depreciation.....	28,176,269.68
Reserve for Amortization of Intangible Capital.....	45,046.68
	<u>29,481,574.70</u>
PREMIUMS ON CAPITAL STOCK.....	1,995,022.97
CORPORATE SURPLUS.....	4,260,192.95
TOTAL LIABILITIES.....	<u>\$135,244,791.47</u>

Approved for Board of Directors,
 F. W. MOLSON,
 Director.
 W. F. ANGUS,
 Director.

E. PALM,
 Comptroller.

INCOME STATEMENT

YEAR ENDED DECEMBER 31, 1927

TELEPHONE OPERATING REVENUES.....	\$ 33,210,645.07
TELEPHONE OPERATING EXPENSES.....	<u>25,180,512.05</u>
NET TELEPHONE OPERATING REVENUES.....	\$ 8,030,133.02
DEDUCTIONS:	
Uncollectible Operating Revenues.....	\$ 133,079.32
Taxes Assignable to Operations.....	<u>1,377,300.00</u>
	<u> \$ 1,510,379.32</u>
OPERATING INCOME.....	\$ 6,519,753.70
NET NON-OPERATING REVENUES.....	<u>671,004.61</u>
TOTAL GROSS INCOME.....	\$ 7,190,758.31
DEDUCTIONS:	
Rent and Miscellaneous.....	\$ 158,871.19
Bond Interest.....	1,784,768.70
Other Interest.....	<u>434,573.00</u>
	<u> \$ 2,378,212.89</u>
BALANCE NET INCOME.....	\$ 4,812,545.42
DIVIDENDS.....	<u>3,972,676.88</u>
BALANCE.....	\$ 839,868.54
APPROPRIATION FOR EMPLOYEES' BENEFIT RESERVE.....	<u>250,000.00</u>
BALANCE FOR CORPORATE SURPLUS.....	<u> \$ 589,868.54</u>

E. PALM,
Comptroller.

To THE SHAREHOLDERS:

THE BELL TELEPHONE COMPANY OF CANADA

I have examined the financial books and records of The Bell Telephone Company of Canada for the year ended 31st December, 1927, and have obtained all the information and explanations required by me.

In my opinion the foregoing Balance Sheet and relative statement of Earnings and Expenses are properly drawn up so as to exhibit a true and correct view of the financial affairs of the Company according to the information and explanations received by me and as shown by the books of the Company.

(Signed) JAS. G. ROSS,

Chartered Accountant,
Auditor.

Montreal, February 3rd, 1928.

STATISTICS

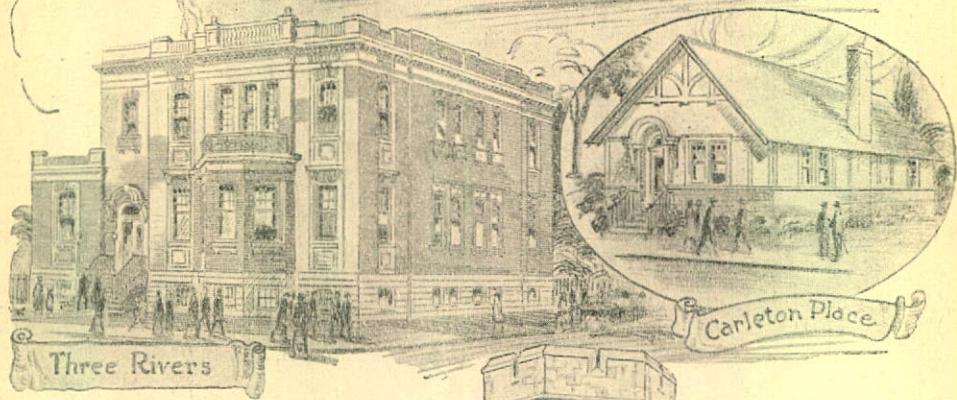
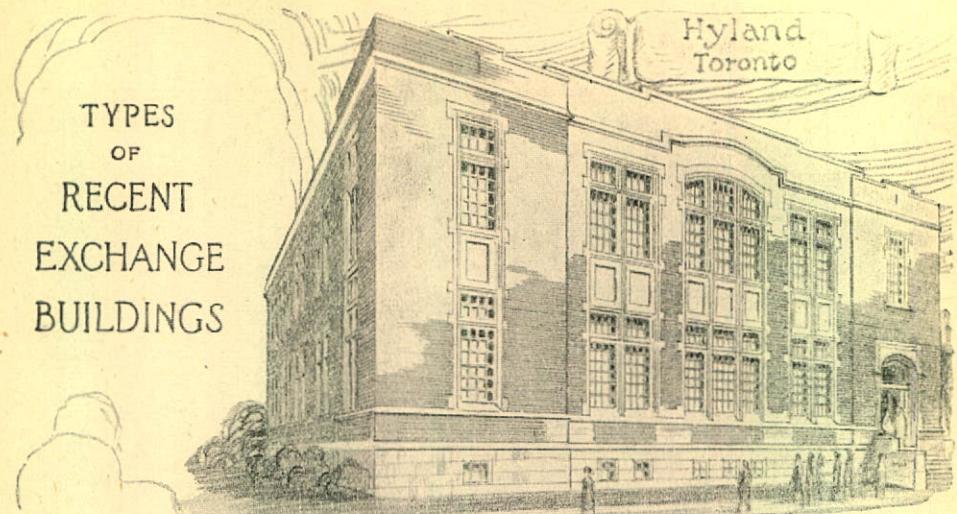
	December 31, 1927
Number of Company Stations.....	668,383
Number of Connecting and Miscellaneous Stations	133,581
Total Number of Stations.....	801,964
Number of Central Offices.....	385
Number of Owned Buildings.....	95
Miles of Pole Lines.....	23,045
Miles of Aerial Wire.....	663,203
Miles of Underground and Submarine Wire.....	1,468,139
Miles of Subway (Length of Street Occupied).....	637
Miles of Duct.....	3,181
Number of Male Employees.....	5,350
Number of Female Employees.....	9,549
Total Number of Employees.....	14,899
Total Pay Roll for Year 1927.....	\$17,649,373
Average Daily Connections 1927—Exchange.....	4,475,339
Average Daily Connections 1927—Long Distance.	58,801

TOTAL ASSETS, AND PERCENTAGE OF NET EARNINGS THERETO, IN
FIVE-YEAR PERIODS, AND FOR 1927

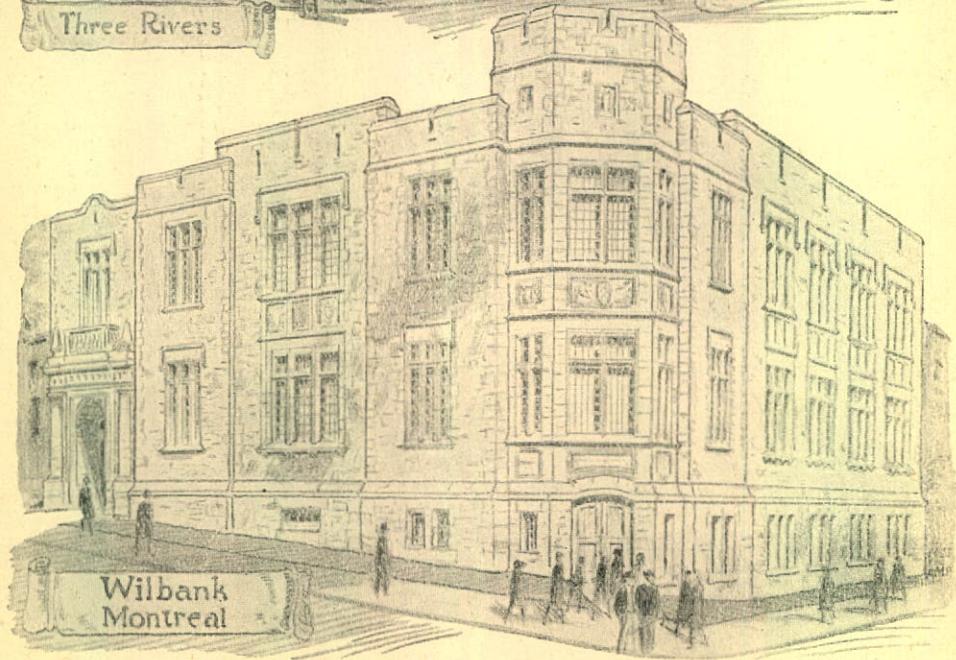
Year	Total Assets (Excluding Cash, Receivables, Prepayments, Accrued Income not Due, and De- ferred Debit Items)	Exchange Revenue	Long Distance Revenue	Misc. Revenue and Revenue from Outside Investments	Expenses	Net Earnings	Per Cent. Net Earnings to Total Assets
1900	\$ 7,498,762	\$ 1,137,660	\$ 359,801	\$ 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
1915	39,789,807	7,156,302	2,306,536	171,836	7,412,689	2,221,985	5.6
1920	62,050,089	11,748,513	4,764,872	663,479	16,295,341	881,523	1.4
1925	109,174,692	19,327,281	6,396,694	1,232,905	21,590,861	5,366,019	4.9
1927	130,922,800	24,780,812	7,950,318	1,150,520	26,849,763	7,031,887	5.4

TYPES
OF
RECENT
EXCHANGE
BUILDINGS

Hyland
Toronto



Carleton Place



(Printed in Canada)

TELEPHONES

OWNED BY

THE BELL TELEPHONE CO.
OF CANADA

