

J. Francis

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

FOR THE YEAR ENDED
31st DECEMBER
1926

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THE BELL TELEPHONE COMPANY
OF CANADA

DIRECTORS

*THOS. AHEARN	Ottawa	*F. W. MOLSON	Montreal
*W. F. ANGUS	Montreal	GLYN OSLER, K.C.	Toronto
*GEO. CAVERHILL	Montreal	*JOHN W. ROSS	Montreal
*K. J. DUNSTAN	Toronto	*C. F. SISE	Montreal
W. S. GIFFORD	New York	H. B. THAYER	New York
*L. B. MCFARLANE	Montreal	GEO. H. THOMSON	Quebec

*Members of Executive Committee.

OFFICERS

L. B. McFARLANE
Chairman of the Board

C. F. SISE
President

J. E. MACPHERSON E. PALM
Vice-President *Comptroller*

P. A. McFARLANE
General Manager

FORTY-SEVENTH ANNUAL REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31st DECEMBER
1926

TO THE SHAREHOLDERS:

Your Directors respectfully submit the following report of the Company's operations for 1926 and of its financial position at the end of the year.

The net gain in telephones for the year was 40,840 as compared with 52,473 in 1925. This growth involved the installation of 123,706 telephones and the removal of 82,866. On the 31st of December last, 56.8 per cent. of the telephones in service were in residences.

Connecting with the Bell Telephone Company, under mutually satisfactory arrangements, are 822 other telephone systems in Ontario and Quebec with 132,786 telephones.

The growth in the volume of Long Distance traffic is reflected in the gross revenue from that source. This increase is due to the adoption of new operating methods, making it possible to complete connections more speedily and therefore in greater numbers, and to successful commercial efforts in assisting subscribers in the development of profitable uses of long distance service.

REVENUES AND EXPENSES

Exchange revenue for the year was \$21,008,542, as compared with \$19,327,281 in 1925, an increase of \$1,681,261. Long Distance revenue was \$6,982,143 as compared with \$6,396,694 in 1925, an increase of \$585,449. This is a notable increase in gross earnings from Long Distance service in view of the growing proportion of short-haul traffic.

Miscellaneous revenues and revenues from outside investments amounted to \$1,104,116 as compared with the 1925 total of \$1,232,905, a decrease of \$128,789. The higher earning of 1925 included interest on funds from the bond issue, temporarily not employed in the Company's business.

While the gross revenue for 1926 exceeded that of 1925 by \$2,137,920, the margin of net earnings was not sufficient to meet the requirements for the regular dividend of 8 per cent. It was necessary, for that purpose, to draw on the accumulated surplus of earlier years to the extent of \$1,440,927.

This deficiency is due primarily to the continuance through 1926 of the inadequate rates from which arose the rate hearing referred to elsewhere in this report. There were also necessary in 1926 heavier operating expenses.

DEPRECIATION

A large and unavoidable increase in operating expense is in the amount required for depreciation. This amount, which is a percentage on the book value of the entire plant, had been reduced, as a temporary measure, in 1921, as required by the Board of Railway Commissioners. The temporary rates were continued, awaiting completion of the engineering studies indicated by the Board of Railway Commissioners as necessary, and referred to in the 1925 report. The temporary rate used in 1925 was 4.75 per cent., but 5.41 per cent. having been found by the engineers to be correct for our plant, that rate was applied in 1926, with a consequent increase in this important item of operating expense.

Depreciation is the capital used up in rendering service during the service life of the property. Property must ultimately be retired, and the fact that it is being used up in rendering service must be reflected in expenses at the time the capital is being consumed. Hence the necessity for charging monthly to operating expense the proportion of capital that is being used up.

MAINTENANCE

There has also been a heavy increase in the cost of maintenance of physical property. This expenditure is necessary because of the high standards established by the Company as to quality of transmission and continuity of service—standards to which the public is now accustomed. Important factors of expense are the complexity in plant which accompanies growth generally, and the increasing proportion of the intricate machine switching equipment.

The effect of this continuing expense, and of the carrying charges and depreciation on the heavy equipment investment necessary, would be to increase further our operating expenses, were it not for the offsetting operating savings, due to the adoption of machine switching.

THE RATE HEARING

The foregoing facts and the Company's financial needs were presented in detail before the Board of Railway Commissioners, during the hearings which were concluded on the 22nd of December, by the filing of reply briefs. The case was begun by the Company filing exchange rate schedules on the 26th of January, 1926, and continued through the year, several adjournments having been necessary for exhaustive inquiry by accountants and engineers on behalf of municipal bodies, and because of other important matters before the Board of Railway Commissioners. Evidence on every detail of the Company's business, and consisting of about 7,000 pages and 178 exhibits, was presented by thirty-three witnesses, and received the closest examination by the Commissioners. The actual days of hearing totalled fifty-four.

- As this is written the matter is still before the Board.

FINANCES

As the Company's earnings and the pending Rate Case made inopportune any plan of permanent financing, satisfactory arrangements were made with our bankers for the money required for the expansion of the business.

At the end of the year these loans, which are in the form of six months' notes, amounted to \$6,000,000.

PLANT

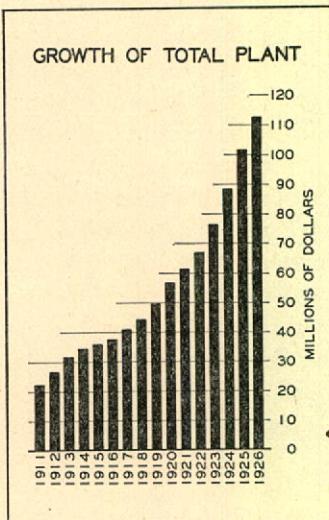
Although gross additions to your Company's plant were somewhat less than in 1925 (\$16,978,127 as compared with \$18,552,538) the construction programme for 1926 was an extensive one. The principal items of these gross additions were:—

Land and Buildings.....	\$ 645,104
Central Office Equipment.....	5,474,438
Subscribers' Station Equipment.....	5,042,401
Exchange Lines.....	5,022,165
Toll Lines.....	777,210

In March last, a destructive sleet storm occurred in the district lying between Oshawa and London. About 6,300 poles were broken, and open wire long distance lines suffered severely. The long distance cable recently erected between Toronto and Hamilton withstood the storm and proved invaluable in maintaining communication, and in aiding prompt restoration of service. The cost of reconstructing the plant damaged was \$625,000.

BUILDINGS

Two new buildings for automatic equipment were completed during the year, "Hargrave" in Toronto and "Crescent" in Montreal. An addition of two storeys was made to the "Adelaide" building in Toronto to furnish additional office accommodation. A building extension at Windsor to house additional switchboards, also a new building for garage and stores at Hamilton, were begun during the latter part of the year.



EQUIPMENT

Extensive additions were made to the automatic plant. In Toronto, three new automatic offices, "Kingsdale," "Lyndhurst" and "Hargrave"; in Montreal, a new office "Cherrier," and additions to "Lancaster" and "Amherst" were completed and placed in operation.

New manual central energy equipment was placed in service at New Toronto, Midland, Pembroke, Trenton and Shawinigan Falls, replacing magneto equipments which had become inadequate.

A second manual central office was opened at London.

Engineering plans were completed for a toll cable from Hamilton to Buffalo, to cost about \$850,000. It is expected to complete the portion from Hamilton to Grimsby by the summer of 1927, and the whole project early in 1928.

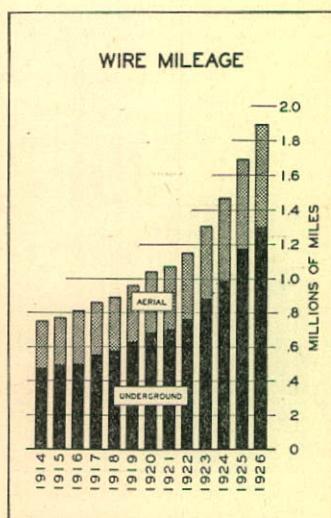
EXTENSION OF AUTOMATIC OPERATION

At the end of the year there were approximately 80,000 automatic telephones in operation, 25,000 at Montreal served from 4 central offices, 51,000 at Toronto served from 7 central offices, and 4,000 at Quebec.

CONCENTRATION OF EQUIPMENT IN LARGER CITIES

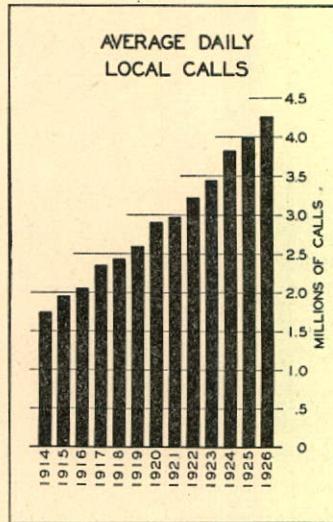
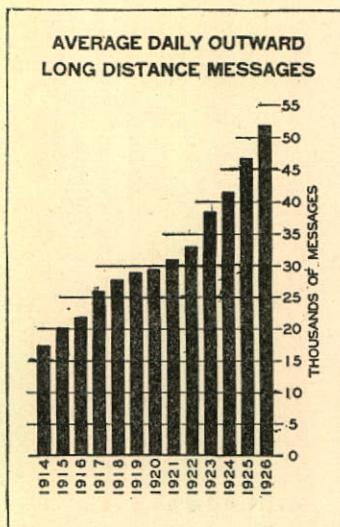
Developments in recent years have introduced many important changes in the engineering of telephone plant. The improvement in transmission efficiency of transmitters and receivers, and the development of cables containing a large number of fine wire conductors, have so altered the economic balance between the different elements of the plant, that in larger cities it is possible and economical to operate from fewer centres than formerly. For example, Toronto is now served from twelve general distribution and operating centres, and this number will be gradually reduced to seven; Montreal now has twelve centres, and this is expected to be reduced to six in the future. These general re-arrangements are being gradually effected, coincident with the replacement of the older manual switchboards and the necessary reconstruction and extension of the plant.

Already, as a result of this programme, several exchanges are located within the same building. In Toronto, "Grover" and "Howard" automatic exchanges are in the one building, and in Montreal, "Amherst" and "Cherrier" are housed together, as are "Lancaster," "Plateau" and "Harbour." In London, "Fairmont" and "Metcalf" manual exchanges are in the same building. It is anticipated that central office buildings may house as many as six exchanges serving in all about 60,000 lines.



SERVICE

There has been continuous refinement and improvement in operating methods, resulting in a more personal contact with subscribers.



The results have been satisfactory both to subscribers and to the Company, because of clearer mutual understanding of service requirements and possibilities. Records and tests indicate the maintenance generally of high grade exchange service.

In Long Distance, faster and more dependable service, with a higher grade of transmission, has been developed. What may be termed "Neighborhood Service" has been a feature of recent Long Distance development. For subscribers at points within a given radius of the originating exchange, the call is completed at once by the operator who first answers the calling telephone. This method of operating has made rapid progress during the past year, there being an increase of 60 per cent. over 1925 in the number of messages dealt with by this direct method. The volume of this traffic now represents 34 per cent. of the total Long Distance traffic.

EMPLOYEES' STOCK PLAN

The employees show an increasing interest in the Employees' Stock Plan, under which capital stock may be purchased on an

instalment payment basis. At December 31st, 1926, there were 12,429 employees eligible to subscribe, and of this number 9,317 were subscribing for a total of 31,047 shares. During the year 1926, subscriptions were completed for 7,148 shares of stock, the certificates for which have now been issued. At the beginning of the year 70 per cent. of the eligible employees had filed subscriptions, while at the close of the year the number subscribing had increased to 75 per cent.

EMPLOYEES' BENEFIT PLAN

During the year 1926, benefits and pensions were paid in 3,120 cases under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, amounting to \$261,409, divided as follows:—

	No. of Cases	Amount
Pensions.....	75	\$ 37,888
Accident Benefits (including expenses).....	554	23,192
Sickness Benefits.....	2,470	169,281
Death Benefits.....	21	31,048

PERSONNEL

Under the plan adopted in 1923, awards and citation certificates have been authorized in recognition of meritorious acts of courage and resourcefulness for the following employees:

Margaret MacDonald, Night Operator, Lancaster
Gladys Ball, Night Operator, Dresden
Frederick Roy Yeomans, Switchman, Toronto
Charles Brisebois, Repairman, Montreal
William Harrison, Lineman, Kingston
William Marshall Otto Reid, Local Manager, Brampton
W. E. Barnard, Branch Manager, Lancaster
William Gordon, Cable Splicer's Helper, Montreal
Frederick Stevens, Cable Splicer's Helper, Toronto
John William Haley, Sr., C.O. Repairman, Montreal
James Kerr, Fieldman, Toronto
Albert Nelson Vardon, C.O. Man, Toronto

Group certificates were authorized for a group of three members of the installation forces at Montreal, and for seven of

the staff of the Plant School at Toronto. In both of these cases readiness and courage were shown where there was danger to life and property from fire.

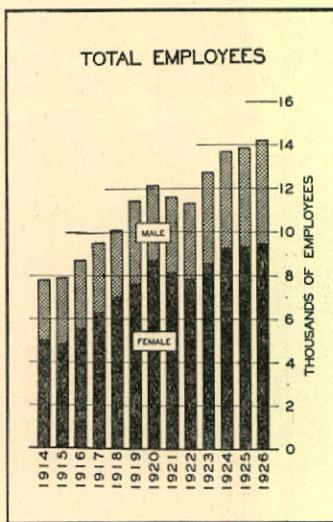
The extension of First Aid training throughout the Company's forces is being continued. At the end of the year, 2,396, or more than two-thirds of the Plant staff, held certificates, or higher First Aid qualification. In many instances our employees, through their First Aid knowledge, have been able to relieve suffering or to save life.

STAFF

At the end of the year the Company's staff consisted of 4,773 men and 9,439 women, a total of 14,212.

Your Directors wish to record their appreciation of the excellent work of employees. There is ample evidence of loyalty and understanding of the Company's primary object of providing the highest possible grade of telephone service, an understanding which is helped greatly by open discussion in joint conference committees.

The growth and operation of the business tend to increase the need for young men of high technical qualifications in all departments. Problems which develop almost daily afford to such young men both interest and opportunity.

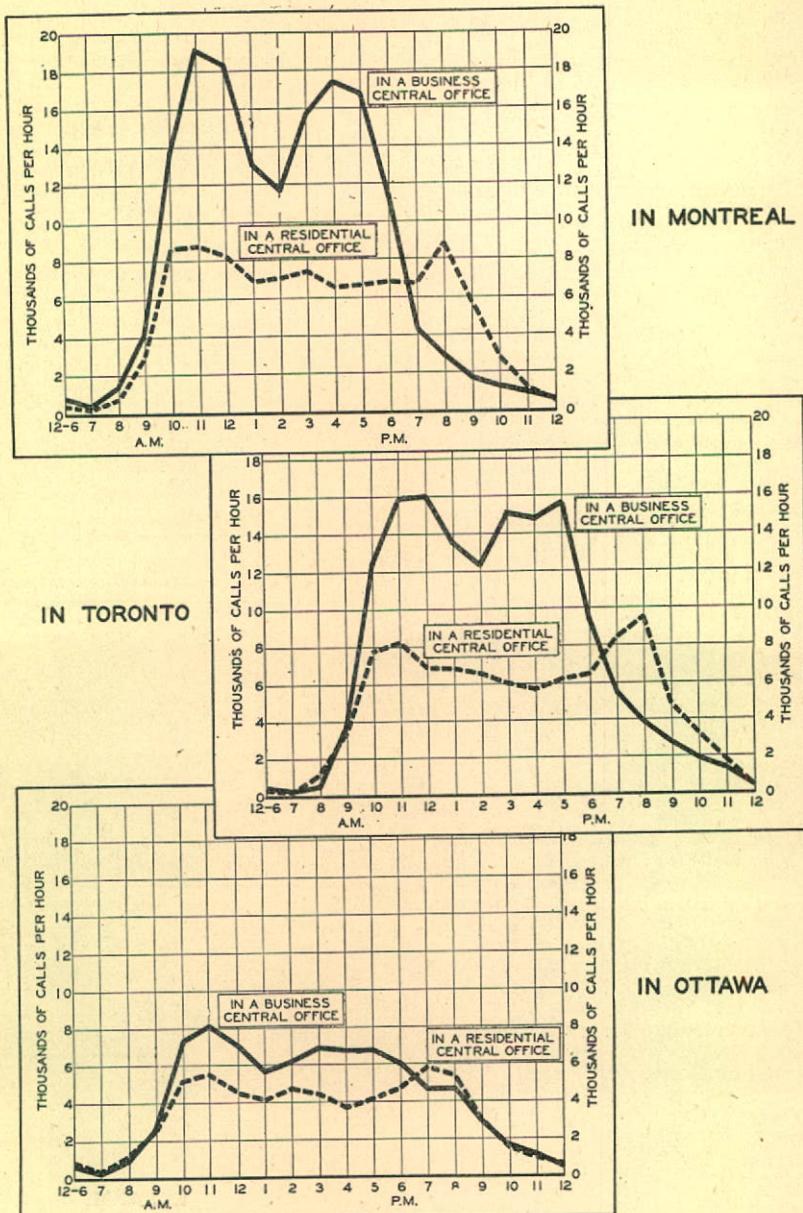


For the Board of Directors,

C. F. SISE,
President.

Montreal, 10th February, 1927.

A TYPICAL TELEPHONE DAY
Showing how number of calls varies from hour to hour.



BALANCE SHEET—DECEMBER 31, 1926

ASSETS

FIXED CAPITAL (Including Construction Work in Progress):

Intangible Capital.....	\$ 76,811.20
Land and Buildings.....	9,812,353.27
Telephone Plant and Equipment.....	102,989,524.58
General Equipment.....	1,927,779.81

_____ \$114,806,468.86
2,879,627.01

INVESTMENT SECURITIES.....

TOTAL PERMANENT AND LONG TERM INVESTMENTS..... \$117,686,095.87

WORKING ASSETS:

Cash and Deposits.....	\$ 414,294.78
Marketable Securities (Dom. Govt. Bonds).....	1,152,191.20
Bills Receivable.....	19,851.60
Accounts Receivable.....	1,125,524.56
Materials and Supplies.....	746,631.22

ACCRUED INCOME NOT DUE..... 3,458,493.36
42,650.79

DEFERRED DEBIT ITEMS:

Prepayments.....	\$ 168,979.06
Unamortized Debt Discount and Expense.....	1,371,489.60
Plant Inventory and Appraisal (Unapportioned).....	276,556.67
Other Deferred Debit Items.....	37,428.72

_____ 1,854,454.05

TOTAL ASSETS..... \$123,041,694.07

LIABILITIES

CAPITAL STOCK:

Common Stock.....	\$ 49,080,400.00
BONDS—1955—5% SERIES "A".....	30,000,000.00
LOANS FROM BANK.....	6,000,000.00

WORKING LIABILITIES:

Accounts Payable.....	2,529,840.40
ACCRUED LIABILITIES NOT DUE.....	1,716,412.25

DEFERRED CREDIT ITEMS:

Liability for Employees' Benefit Fund.....	\$ 911,777.98
Other Deferred Credit Items.....	29,570.32

_____ 941,348.30

EMPLOYEES' STOCK PLAN—STOCK INSTALMENTS.....	1,423,178.81
RESERVE FOR ACCRUED DEPRECIATION.....	25,883,116.08
RESERVE FOR AMORTIZATION OF INTANGIBLE CAPITAL.....	38,357.62
PREMIUMS ON CAPITAL STOCK.....	1,879,172.97
CORPORATE SURPLUS.....	3,549,867.64

TOTAL LIABILITIES..... \$123,041,694.07

Approved for Board of Directors,

F. W. MOLSON,

Director.

W. F. ANGUS,

Director.

E. PALM,
Comptroller.

COMPARATIVE INCOME STATEMENT
 FOR THE YEARS 1925 AND 1926

	1926	1925	Increase
TELEPHONE OPERATING REVENUES....	\$28,460,923.25	\$26,168,977.42	\$ 2,291,945.83
TELEPHONE OPERATING EXPENSES....	<u>23,486,142.76</u>	<u>20,271,030.75</u>	<u>3,215,112.01</u>
 NET TELEPHONE OPERATING REVENUES.....	 <u>\$ 4,974,780.49</u>	 <u>\$ 5,897,946.67</u>	 <u>\$ *923,166.18</u>
 DEDUCTIONS:			
Uncollectible Operating Revenues..	\$ 143,074.80	\$ 114,686.37	\$ 28,388.43
Taxes Assignable to Operations....	<u>1,084,000.00</u>	<u>1,091,056.00</u>	<u>*7,056.00</u>
 TOTAL DEDUCTIONS FROM OPERAT- ING REVENUES.....	 <u>\$ 1,227,074.80</u>	 <u>\$ 1,205,742.37</u>	 <u>\$ 21,332.43</u>
 OPERATING INCOME.....	 <u>\$ 3,747,705.69</u>	 <u>\$ 4,692,204.30</u>	 <u>\$ *944,498.61</u>
NET NON-OPERATING REVENUES...	<u>633,877.68</u>	<u>787,903.61</u>	<u>*154,025.93</u>
 TOTAL GROSS INCOME.....	 <u>\$ 4,381,583.37</u>	 <u>\$ 5,480,107.91</u>	 <u>\$*1,098,524.54</u>
 DEDUCTIONS:			
Rent and Miscellaneous.....	\$ 123,736.67	\$ 114,088.99	\$ 9,647.68
Bond and Other Interest.....	<u>1,791,970.36</u>	<u>1,485,565.04</u>	<u>306,405.32</u>
 TOTAL DEDUCTIONS FROM GROSS INCOME.....	 <u>\$ 1,915,707.03</u>	 <u>\$ 1,599,654.03</u>	 <u>\$ 316,053.00</u>
 BALANCE NET INCOME.....	 <u>\$ 2,465,876.34</u>	 <u>\$ 3,880,453.88</u>	 <u>\$*1,414,577.54</u>
DEDUCT DIVIDENDS.....	<u>3,906,802.93</u>	<u>3,889,166.20</u>	<u>17,636.73</u>
 DEFICIT CHARGED TO CORPORATE SURPLUS.....	 <u>\$ 1,440,926.59</u>	 <u>\$ 8,712.32</u>	 <u>\$ 1,432,214.27</u>

E. PALM,
Comptroller.

*Decrease.

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, 1926, 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, 1927.

STATISTICS

December
31, 1926

Number of Company Stations.....	630,161
Number of Connecting and Miscellaneous Stations.....	132,786
Total Number of Stations.....	762,947
Number of Central Offices.....	379
Number of Owned Buildings.....	98
Miles of Pole Lines.....	22,684
Miles of Aerial Wire.....	590,006
Miles of Underground and Submarine Wire.....	1,304,642
Miles of Subway (Length of Street Occupied).....	603
Miles of Duct.....	3,056
Number of Male Employees.....	4,773
Number of Female Employees.....	9,439
Total Number of Employees.....	14,212
Total Pay Roll for Year 1926.....	\$16,612,424
Average Daily Connections 1926—Exchange.....	4,259,437
Average Daily Connections 1926—Long Distance.	51,768

TOTAL ASSETS, AND PERCENTAGE OF NET EARNINGS THERETO, IN
FIVE-YEAR PERIODS, AND FOR 1926

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
1926	119,584,918	21,008,542	6,982,143	1,104,116	24,836,954	4,257,847	3.6

GROWTH IN
TELEPHONES
OWNED BY
THE BELL TELEPHONE CO.
OF CANADA
FROM
DEC. 31, 1890 TO DEC. 31, 1926

