

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

FOR THE YEAR ENDED
31st DECEMBER
1925

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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

K. J. DUNSTAN
Vice-President

W. H. BLACK
Secretary-Treasurer

J. E. MACPHERSON
Vice-President

E. PALM
Comptroller

P. A. McFARLANE
General Manager

FORTY-SIXTH ANNUAL REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 31st DECEMBER
1925

TO THE SHAREHOLDERS:

Your Directors respectfully submit the following report of the Company's operations for the year 1925 and of its financial position at the end of the year.

Business in the territory served by the Company was inactive, especially during the early part of the year, but, notwithstanding this, the continued growth of your Company is reflected by the new business or net station gain amounting to 52,473, which is the largest increase in any one year in the Company's history. This increase involved the installation of 128,901 telephones and disconnection of 76,428. Approximately 75 per cent. of the new stations added were for residential service. The number of orders for new service awaiting completion, pending construction of additional facilities, was reduced to a normal figure during the year, and a considerable improvement has been made in the speed with which new service is established.

The Toll service rendered was satisfactory, as is the increase over the previous year in the number of messages handled. The use of rapid long distance communication between a large number of near-by exchanges was extensively developed.

Our relations with the 830 telephone companies with which we connect in Ontario and Quebec have been maintained on a satisfactory basis. These companies operate 129,221 telephones.

The use of Branch Banks for the receipt of payments by subscribers continues to grow, and affords facilities which appear to be appreciated.

ISSUE OF BONDS

Acting under the authority granted by the Shareholders at the Special General Meeting held on the 22nd of January, 1925, a Trust Indenture and Mortgage, dated March 1st, 1925, was entered into between the Company and the Royal Trust Company at Montreal, as Trustee, and on the 16th of February, \$25,000,000 Five per cent. 30 Year First Mortgage Gold

Bonds, Series "A," dated March 1st, 1925, were sold at a satisfactory price. The proceeds of this sale were used to retire the then outstanding 5% and 7% Bond Issues, which matured on the 1st of April, 1925, and which amounted to \$16,750,000. The remainder of the proceeds was temporarily invested to the best advantage, and used from time to time as required for the construction programme of the year.

A second sale of \$5,000,000 of these Bonds was made on the 2nd of November, 1925, at a still better price. The proceeds from this sale, not immediately required, were also temporarily invested, and are being used for our construction requirements.

OPERATING RESULTS

The matter of foremost interest to shareholders is, naturally, the financial situation in which the Company has been placed during the past year by reason of the inadequacy of the rates now charged for telephone service; together with the action of the Company in filing schedules of increased rates with the Board of Railway Commissioners for Canada.

The Company's gross income for 1925, after providing for expenses, except interest and other deductions, amounted to \$5,480,107.91, an increase of \$364,968.32 over 1924. Interest and dividend requirements, however, increased by \$906,837.78 over the preceding year.

The increase in interest was due to the financing undertaken during 1925, as explained elsewhere in this report. The increase in the amount required for the payment of dividends applies to the stock offered to shareholders in January, 1924, and which was not fully paid for and issued until January, 1925, since when it has participated in the regular quarterly dividend of \$2.00 per share.

During the year 1925 your Company failed to entirely earn the dividend paid during the year, and the deficiency was made up from surplus which has been accumulated in previous years.

Manifestly such a situation cannot continue if we are to furnish adequate telephone service in the coming years, that is, if we are to maintain our present service upon a satisfactory basis, and are also to meet the demands of the public in Ontario and Quebec for additional service.

In order to do this we must within the next five years con-

struct the plant necessary to operate not less than 225,000 additional telephones, and this means that we must expend approximately eighty-seven million dollars on plant extensions during that time.

While a part of this money should come from the reinvestment of the Company's reserves and surplus, the bulk of it must be obtained from the issue of stock and bonds. In order to secure this money we must have net earnings sufficient to produce a rate of return which will induce intelligent investors to purchase the securities upon terms favourable to it and in competition with similar investments of the securities of other companies.

The question naturally arises as to the cause of the situation with which the Company is confronted.

It may be said first that the expenses of operation have been kept at a minimum consistent with our effort to furnish the public with satisfactory service.

The heavy demand for new services during the last three years has necessitated large increases in the Company's plant investment.

These additions have considerably increased the former average cost per telephone; therefore provision for interest and other charges on this increased cost can only be met by higher rates for the service.

With the rapidly increasing proportion of new plant in the system by additions and replacements, the effect of present-day costs becomes more evident in the necessary carrying charges. This cannot be evaded or retarded if the Company continues to provide adequate service when and where required.

The following table shows the number of subscribers' stations at the larger cities, with the extent and percentage of growth in the last ten years:—

City	1915	1920	1925	Increase in ten years	
				Stations	Percent.
Toronto...	58,336	95,686	154,740	96,404	165.3
Montreal..	50,881	77,247	138,225	87,344	171.7
Ottawa...	14,210	23,806	33,538	19,328	136.0
Hamilton .	8,241	14,797	23,358	15,117	183.4
Quebec...	7,769	11,311	17,245	9,476	122.0
London...	5,957	9,223	15,536	9,579	160.8
Windsor...	3,738	6,794	14,515	10,777	288.3

EXCHANGE RATES

There has been so much publicity in connection with the application to the Board of Railway Commissioners for revised rates, which was filed on the 26th of January, and the reasons for it, that it is not necessary to repeat all of them here, but, in general terms, we are affected by the causes which have raised wages and rents, increased the cost of merchandise and transportation, and, in short, increased the cost of living in Canada and other countries generally by about 60 per cent., during a period in which our rates have increased but 21 per cent.

The three principal purposes of the application are:

1st. To establish a more equitable schedule of rates, removing inequalities and discriminations which have arisen from changed conditions in the communities served.

2nd. To provide for adequate depreciation for the protection of your investment.

3rd. To permit of a proper return on the property used in giving service.

The causes of the decline in net earnings are:

1st. The decrease in the average yearly revenue per telephone due to the great increase in the proportion of party lines and other relatively low rate services.

2nd. Increase in the interest and dividend charges caused by the relatively high cost of plant now being installed.

DEPRECIATION

One of the chief items of expense in the operation of telephone properties is depreciation. When your Company was before the Board of Railway Commissioners for Canada in 1921, depreciation was provided for at the rate of 5.7 per cent. In order, however, to avoid substantial increases in telephone rates, and to tide over an emergency then thought to be existing, the Board required the Company as a purely temporary measure to reduce its depreciation charge, and to accumulate as soon as possible such exact details of its own experience as would enable a definite opinion to be formed as to the proper depreciation allowance.

For over a year our engineers have been carrying on exhaustive studies, the result of which shows that we must provide for depreciation at a higher rate in order to fully protect the plant investment.

INVENTORY

During the year an inventory and appraisal of the plant and physical property of the Company was completed. This has involved a very exhaustive examination of all the details entering into the Company's property and has cost \$346,468.00. The necessity for this inventory and appraisal was impressed upon us in the various rate cases which the Company has had before the Board of Railway Commissioners for Canada. It provides valuable records for administrative purposes and proves the value of the property to be greatly in excess of the amount shown on the Company's books. The cost is shown in the balance sheet under "Deferred Debit Items."

PLANT ADDITIONS

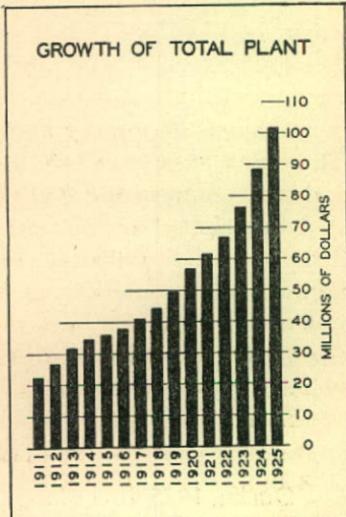
During 1925 the gross additions and betterments to plant and equipment amounted to \$18,552,538, of which the principal items were:—

Land and Buildings.....	\$1,326,845
Central Office Equipment.....	6,862,279
Subscribers' Station Equipment.....	4,939,586
Exchange Lines.....	5,001,547
Toll Lines.....	419,422

While the above was greater than in any previous year, it is expected that new construction will continue at a high level for some years to come, as the estimated demand for service indicates the need for continued expansion.

BUILDINGS

New manual exchange buildings were constructed at Pembroke and New Toronto. Three new buildings for automatic equipment were completed in Toronto, and a fourth is nearing



completion. A new garage and warehouse was also built in Toronto. Extensive additions were made to the following buildings—Hamilton “Garfield,” Kitchener, Oshawa, Stratford, Peterborough and Montreal “Atlantic” and “Walnut.” Alterations are under way in the London building to provide for a second exchange. The Company’s garage at Montreal was rebuilt and extended.

The care and upkeep of the buildings owned and used by the Company (111 buildings in 66 cities and towns), and in which \$7,703,912.00 has been invested, have received careful attention. As a result of precautions against fire, the Company’s fire loss has been less than \$50,000 in the last ten years, the largest individual loss arising from a fire which originated in an adjoining building. This record has resulted in our obtaining reductions in our insurance rates.

CENTRAL OFFICE EQUIPMENT

During the year marked progress was made with the installation of automatic equipment. Seven new exchanges were placed in service, these being known as “Elgin,” “Lombard” and “Howard” in Toronto; “Lancaster,” “Harbour” and “Amherst” in Montreal, and an automatic exchange in Quebec. At the end of the year these exchanges were serving 42,519 subscribers’ stations, which is 7.2 per cent. of the total Company subscribers’ stations.

Difficult and intricate problems were encountered in connection with the introduction of automatic equipment, particularly to ensure proper functioning with the manual system. These problems have been dealt with in a satisfactory manner, and the automatic service is proving acceptable to the public.

New manual switchboards were placed in service at Sarnia, Stratford and Oshawa, replacing switchboards which had become inadequate owing to growth. At Weston and Port Colborne conversion was made from magneto to the central energy system. In addition, numerous extensions to manual switchboards were made at other exchanges.

TOLL PLANT

During 1925 direct long distance connection was established between Pembroke and Mattawa, affording a shorter and better

route for service between Montreal, the Ottawa Valley, North Bay, and the mining section of Northern Ontario.

At Hamilton an important long distance repeater station was equipped and placed in service.

A 16-mile cable was constructed between Quebec and Levis, and a toll cable erected across the Quebec Bridge. This cable, in addition to providing a new entrance for our main toll line to Quebec, will ultimately replace the submarine cables between Quebec and Levis, which have been difficult and expensive to maintain due to the movement of ice, and to other causes.

SERVICE

Records maintained for the purpose of measuring the quality of the service indicate that the service has been at a high standard during the year.

PERSONNEL

Under the plan adopted in 1923, the following employees received Awards and Citations during the year for acts of courage, initiative and public service performed while on duty:

Alice Longtin	Branch Manager	St. Constant.
Anna Stella Walsh	Chief Operator	Renfrew.
Catherine Ann Gibbons	Night Operator	Renfrew.
Thomas Francis Troy	Combinationman	Renfrew.
Florence M. Crawley	Night Operator	Toronto.
Geo. R. Gibbs	Foreman	Sault Ste. Marie.
Charles W. Biggin	Lineman	Stratford.
Morton H. Squires	Lineman-Chauffeur	Stratford.

A Group Certificate was granted to Foreman McInally and gang in recognition of First Aid promptly and efficiently rendered on two occasions of accidents to others than employees.

The First Aid Instruction which the Company continues to promote amongst its employees has proven of considerable value, both to employees and the public.

Under the Plan for Employees' Pensions, Disability Benefits and Death Benefits, payments were made in 2,492 cases during the year, the outlay amounting to \$260,108, divided as follows:—

	No. of Cases	Amount
Pensions.....	65	\$ 33,553
Accidents.....	429	40,627
Sickness Benefits.....	1,981	160,596
Death Benefits.....	17	25,332

EMPLOYEES' STOCK PLAN

The Employees' Stock Plan, operated primarily to encourage systematic saving by employees and to assist them to become part owners in the business in which they are engaged, has been in effect since May 1st, 1922. At December 31st, 1925, 8,255 employees were subscribing for 26,528 shares of capital stock on an instalment payment basis. The continued success of the Plan is indicated by an increase during the year of 1,145 in the number of employees subscribing for stock. At the beginning of the year 59 per cent. of the eligible employees had filed subscriptions, while at the close of the year the number subscribing had increased to 70 per cent. This increase is gratifying, and reflects a commendable tendency towards saving and thrift by employees of the Company.

DISTRIBUTION OF OWNERSHIP

It is the policy of the Company to secure as wide a distribution of its stock as possible. The following figures indicate substantial progress in that direction:—

1915.....	No. of Shareholders.....	2,651
1920.....	".....	3,489
1925.....	".....	13,310

94.5 per cent. of the Shareholders reside in Canada, and 88.8 per cent. are in Ontario and Quebec.

CHANGES IN THE BOARD

Mr. George D. Milne, who had been a member of the Board since 1920, felt it necessary to resign owing to ill health. We regret to record the fatal termination of his illness on the 11th of August.

Mr. K. J. Dunstan, Vice-President of the Company at Toronto, was elected a Director to replace Mr. Milne.

OFFICIAL CHANGES

Last March Mr. L. B. McFarlane, President of the Company for ten years and in its service since 1880, expressed his desire to be relieved from the onerous duties of the office. This was acquiesced in by the Board with great regret, but it was felt that his long and valuable experience should still be available, and Mr. McFarlane was appointed Chairman of the Board.

Mr. C. F. Sise, formerly Vice-President and General Manager, was appointed President; Mr. J. E. Macpherson was appointed Vice-President, and Mr. P. A. McFarlane was promoted from the position of General Commercial Manager to that of General Manager.

We regret to report the death on the 10th March of Mr. Joseph Jones, whose appointment as Treasurer was announced last year. This vacancy was filled by combining the offices of Secretary and Treasurer, and Mr. W. H. Black, who has been Secretary of the Company since 1907, was appointed to fill this office.

STAFF

Relations between the Management and the employees throughout the year have been exceedingly satisfactory. Your Directors again wish to record their appreciation of the good work done by the Company's staff, of which there were at the end of the year 4,546 men and 9,313 women, a total of 13,859 employees. Their whole-hearted co-operation and interest in the Company's welfare have done much to improve not only the telephone service but our relations with the public.

For the Board of Directors,

C. F. SISE,

MONTREAL, 10th February, 1926.

President.

BALANCE SHEET—DECEMBER 31, 1925

ASSETS	
FIXED CAPITAL (Including Construction Work in Progress):	
Intangible Capital.....	\$ 76,811.20
Land and Buildings.....	9,233,935.54
Telephone Plant and Equipment.....	92,351,177.66
General Equipment.....	1,631,235.80
	<u>\$103,293,160.20</u>
INVESTMENT SECURITIES.....	<u>2,836,997.45</u>
TOTAL PERMANENT AND LONG TERM INVESTMENTS.....	<u>\$106,130,157.65</u>
WORKING ASSETS:	
Cash and Deposits.....	\$ 458,827.25
Marketable Securities (Dom. Govt. Bonds).....	1,679,963.20
Bills Receivable.....	1,523,560.38
Accounts Receivable.....	1,110,579.07
Materials and Supplies.....	1,364,571.28
	<u>6,137,501.18</u>
ACCRUED INCOME NOT DUE.....	<u>25,516.49</u>
DEFERRED DEBIT ITEMS:	
Prepayments.....	\$ 161,257.29
Unamortized Debt Discount and Expense.....	1,419,969.14
Plant Inventory and Appraisal (Unapportioned).....	346,468.17
Other Deferred Debit Items.....	67,899.75
	<u>1,995,594.35</u>
TOTAL ASSETS.....	<u><u>\$114,288,769.67</u></u>
LIABILITIES	
CAPITAL STOCK:	
Common Stock.....	\$48,694,600.00
BONDS—1955—5% SERIES "A".....	30,000,000.00
WORKING LIABILITIES:	
Accounts Payable.....	1,807,173.70
ACCRUED LIABILITIES NOT DUE.....	<u>1,710,773.90</u>
EMPLOYEES' STOCK PLAN—STOCK INSTALMENTS.....	<u>1,089,216.73</u>
DEFERRED CREDIT ITEMS:	
Liability for Employees' Benefit Fund.....	\$ 847,229.37
Other Deferred Credit Items.....	4,144.07
	<u>851,373.44</u>
RESERVE FOR ACCRUED DEPRECIATION.....	<u>23,295,998.96</u>
RESERVE FOR AMORTIZATION OF INTANGIBLE CAPITAL.....	<u>32,720.27</u>
PREMIUMS ON CAPITAL STOCK.....	<u>1,840,547.97</u>
CORPORATE SURPLUS.....	<u>4,966,364.70</u>
TOTAL LIABILITIES.....	<u><u>\$114,288,769.67</u></u>

Approved for Board of Directors,

F. W. MOLSON,
Director.

GEORGE CAVERHILL,
Director.

E. PALM,
Comptroller.

**COMPARATIVE INCOME STATEMENT
FOR THE YEARS 1924 AND 1925**

	1925	1924	Increase
TELEPHONE OPERATING REVENUES....	\$26,168,977.42	\$24,208,411.08	\$ 1,960,566.34
TELEPHONE OPERATING EXPENSES....	20,271,030.75	18,671,614.51	1,599,416.24
 NET TELEPHONE OPERATING REVENUES	<u>\$ 5,897,946.67</u>	<u>\$ 5,536,796.57</u>	<u>\$ 361,150.10</u>
 DEDUCTIONS:			
Uncollectible Operating Revenues...	\$ 114,686.37	\$ 108,656.71	\$ 6,029.66
Taxes Assignable to Operations....	1,091,056.00	1,032,482.00	58,574.00
 TOTAL DEDUCTIONS FROM OPERATING REVENUES.....	<u>\$ 1,205,742.37</u>	<u>\$ 1,141,138.71</u>	<u>\$ 64,603.66</u>
 OPERATING INCOME.....	\$ 4,692,204.30	\$ 4,395,657.86	\$ 296,546.44
NET NON-OPERATING REVENUES...	787,903.61	719,481.73	68,421.88
 TOTAL GROSS INCOME.....	<u>\$ 5,480,107.91</u>	<u>\$ 5,115,139.59</u>	<u>\$ 364,968.32</u>
 DEDUCTIONS:			
Rent and Miscellaneous.....	\$ 114,088.99	\$ 95,188.68	\$ 18,900.31
Bond and Other Interest.....	1,485,565.04	1,252,854.07	232,710.97
 TOTAL DEDUCTIONS FROM GROSS INCOME.....	<u>\$ 1,599,654.03</u>	<u>\$ 1,348,042.75</u>	<u>\$ 251,611.28</u>
 BALANCE NET INCOME.....	\$ 3,880,453.88	\$ 3,767,096.84	\$ 113,357.04
DEDUCT DIVIDENDS.....	3,889,166.20	3,215,039.39	674,126.81
 BALANCE FOR CORPORATE SURPLUS..	<u>\$ *8,712.32</u>	<u>\$ 552,057.45</u>	<u>\$ 560,769.77</u>

*Deficit.

†Decrease.

E. PALM,
Comptroller.

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, 1925, 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 state of the Company's affairs, 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 9th, 1926.

STATISTICS

	At December 31, 1925	Increase during year
Number of Company Stations.....	589,321	52,473
Number of Connecting and Miscellaneous Stations.....	129,221	2,812
Total Stations.....	718,542	55,285
Number of Miles of Wire.....	1,690,544	
Number of Employees, 31st December, 1925.....	13,859	
Average Daily Connections 1925—Exchange.....	3,991,966	
Average Daily Connections 1925—Long Distance.....	46,727	

The following statements show the growth of the Company in five-year periods, beginning at 1900:

Year	Central Offices	Number of Subscriber Stations	Long Distance Wire Miles	Pole Miles
1900	343	40,094	21,350	6,525
1905	526	82,351	37,082	8,645
1910	508	138,370	54,133	8,861
1915	449	242,784	79,908	9,297
1920	413	376,361	102,187	9,549
1925	381	589,321	122,326	9,590

UNDERGROUND

Year	Miles Conduit	Miles Single Duct	Miles Cable	Miles Wire
1900	47	321	157	30,686
1905	100	573	264	94,132
1910	191	1,015	453	208,956
1915	300	1,860	820	450,665
1920	626	2,396	1,142	641,053
1925	703	2,842	1,645	1,129,022

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

Year	Total Assets (Excluding Cash, Receivables, Repayments, 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

GROWTH IN
TELEPHONES
OWNED BY
THE BELL TELEPHONE CO.
OF CANADA
FROM
DEC. 31, 1890 TO DEC. 31, 1925

