United Fuel Investments
Limited

and

Subsidiary Companies

Twenty-First Annual Report
For the Fiscal Year Ended
31st March, 1949

TWENTY-FIRST ANNUAL REPORT

OF THE DIRECTORS OF

UNITED FUEL INVESTMENTS, LIMITED

FOR THE FISCAL YEAR ENDED 31st MARCH, 1949

Hamilton, Ontario,
25th May, 1949.

To the Shareholders:

In this Report your Directors summarize matters of interest concerning the operations of United Fuel Investments, Limited, and its wholly owned Subsidiaries for the fiscal year ended 31st March, 1949. Incorporated herein are the Consolidated Balance Sheet of the Company and its Subsidiaries as at 31st March, 1949, and related Consolidated Statements of Profit and Loss and Surplus for the fiscal year ended 31st March, 1949, with comparative figures for the previous fiscal year, together with the Report of your Auditors.

OPERATING RESULTS

A condensed comparison of consolidated operating results for the fiscal year ended 31st March, 1949, with those of the fiscal year ended 31st March, 1948, for your Company and its wholly owned Subsidiaries is as follows:

	Fiscal Year Ended 31st March 1949	1948	Increase or *Decrease*
Gross revenue from sales	$7,962,747	$7,371,168	$591,579
Other income	89,453	86,496	2,957
Total income	$8,052,200	$7,457,664	$594,536
Cost of products sold	$5,474,206	$5,363,620	$110,586
Distribution, selling, general and administrative expenses	812,453	673,078	139,375
Provision for depreciation	251,126	239,990	11,136
Interest and other funded debt charges	162,979	168,061	*5,082*
Amortization of manufactured gas change-over costs	14,800	14,800	——
Total expenses, exclusive of taxes on income	$6,715,564	$6,459,549	$256,015
Profit before taxes on income	$1,336,636	$ 998,115	$338,521
Provision for taxes on income	457,000	489,300	*32,300*
Net profit transferred to Consolidated Earned Surplus Account	$ 879,636	$ 508,815	$370,821

REVENUES

Gross revenue from sales for the fiscal year ended 31st March, 1949, increased $591,579 as compared with the previous fiscal year as follows:

	Gross revenue from sales for fiscal year ended 31st March, 1949	Increase or *Decrease* compared with previous fiscal year
Coke Sales:		
Company production	$4,358,755	$419,043
Purchased for resale	241,663	*456,531*
Total	$4,600,418	*$ 37,488*
Gas Sales	2,791,744	564,899
Tar, benzol and other residuals sales	570,585	64,168
Total Sales	$7,962,747	$591,579

Gross revenue from sales of coke produced by your Company increased $419,043, or 10.6% due to an increase of $2.28 or 16.8% in the average selling price per ton, although volume of sales was reduced 15,336 tons, or 5.3%. However, there was a decrease of $456,531 in gross revenue from sales of coke purchased from other producers for resale by your Company, as the volume of such sales was reduced by 45,518 tons. During the war years and the period immediately after the war, it was the practice of your Company to purchase for resale to its customers any available supplies of coke which could be obtained from other producers. However, due to decreased demands for coke and the gradual elimination of the shortage in supply of this fuel, the requirements for coke can now be met almost entirely by production from the Company's ovens.

The increase of $564,899 in gross revenue from gas sales is attributable to a substantial increase in the volume of gas sold and a moderate increase in the average rate received. The following summary of the volume and value of gas sales for the fiscal year ended 31st March, 1949, with percentages of increase or decrease as compared with the fiscal year ended 31st March, 1948, shows the sources from which this increased revenue was obtained.

	Volume of sales in thousands of cubic feet		Average rate received per thousand cubic feet		Gross revenue from gas sales	
	Fiscal year ended 31st March, 1949	% Increase or *Decrease*	Fiscal year ended 31st March, 1949	% Increase or *Decrease*	Fiscal year ended 31st March, 1949	% Increase or *Decrease*
Residential sales	1,821,768	4.6	87.7c	8.8	$1,598,030	13.8
Commercial sales	490,602	*.9*	73.6c	17.9	361,023	16.9
Industrial sales	1,472,070	46.5	56.6c	11.2	832,691	62.7
	3,784,440	16.8	73.8c	7.4	$2,791,744	25.4

As a result of further increases in gas production and distribution costs, it was necessary to put into effect during the months of May and June, 1948, revised schedules of rates for gas sold in all markets served by your Company.

As at 31st March, 1949, there were 39,720 active meters on the lines, an increase of 305 during the year.

An increase in the volume of coal handled over the Company's dock for other coal importers was the main reason for the increase of $2,957 in Other Income.

EXPENSES

Total expenses of your Company exclusive of taxes on income, for the fiscal year ended 31st March, 1949, were $256,015 greater than for the previous fiscal year. The following comments deal with the most important of these changes in some detail:

Cost of products sold increased $110,586 net. While cost of coke purchased for resale was substantially less due to the reduction in volume of coke purchased for resale and there was a substantial decrease in cost of auxiliary gases produced or purchased for resale, further increases in the cost of raw materials used in production, principally coal, and increased labor costs, resulted in the net increase in cost of products sold. Coal is the most important raw material used in the production of coke and gas in the plants of your Company, and substantially all coal purchased is imported directly from the United States. Thus any change in the cost per ton at the mines, rail and boating costs, rate of United States exchange or any of the other items entering into the laid-down cost of coal on the Company's dock, has an important effect on the operating costs of your Company.

Due to a reduction late in the fiscal year and after the close of the 1948 boating season, in the market price of coal used for coking purposes, and in petroleum products used in the manufacture of auxiliary gases, it was necessary to reduce the inventory value of raw materials on hand at 31st March, 1949, by $299,339 in order that such materials would be valued at the lower of cost or market. Cost of products sold was charged with $158,839 of this reduction and the balance of $140,500 was charged to the Reserve for Inventories established in prior years to apply against any reduction in inventory values which might occur.

The net increase of $139,375 in total distribution, selling, general and administrative expenses was due mainly to increased gas distribution costs arising from higher labor and material costs and to higher selling expenses. Increased temporary bank loans of the Coke Company required to finance seasonal purchases of coal and other raw materials during the summer months, resulted in higher interest payments on such borrowings.

Provision for depreciation was greater by $11,136 as the result of plant additions. There has been no important change in the basis of providing for depreciation on the Company's properties during the past several years.

Interest and other funded debt charges were less by $5,082 due to debt retirement.

CONSOLIDATED FINANCIAL POSITION

As at 31st March, 1949, the working capital of your Company, after deducting $200,000 par value of First Collateral Mortgage Serial Bonds, Series "A", due 1st December, 1949, amounted to $1,691,934 as compared with $1,251,100 at 31st March, 1948, an increase of $440,834. The following statement shows in summarized form the income from profits during the year and the allocation made of these funds.

Net earnings for the year after all charges except provision for taxes on income	$1,336,636	
Less: Provision for Dominion and Provincial taxes on income	457,000	$ 879,636
Add: Charges against earnings which do not represent cash disbursements:		
Depreciation	$ 251,126	
Amortization of manufactured gas change-over costs	14,800	
Amortization of bond discount and bond issue expenses	9,876	275,802
Total funds provided from operations		$1,155,438
Accounted for as follows:		
Dividends on capital stock paid or provided for	$ 270,000	
Cost of additions to fixed assets (net)	177,963	
Increase in inventory of stores and spare equipment	66,196	
Increase in funds on deposit with trustees for bondholders	2,308	
	$ 516,467	
Less: Decrease in sundry deferred items (net)	1,863	
	$ 514,604	
First Collateral Mortgage Serial Bonds, Series "A", maturing 1st December, 1949	200,000	714,604
Resulting in an increase in net current assets of		$ 440,834
Working capital at beginning of year		1,251,100
Working capital at end of year		$1,691,934

Gross expenditures on Property Account additions and replacements amounted to $191,939. Of this amount $64,390 was expended on construction of additional boiler capacity for the production of steam, while the balance of $127,549 was expended on other extensions to or replacements of existing plant facilities. During the year, plant items with a gross book value of $65,235 were disposed of realizing $13,976, thus reducing the net expenditure on Property Account to $177,963. In addition to the reduction of $65,235 in Property Account arising from disposal of plant items, an amount of $200,000 was written out of Property Account and charged to Reserve for Depreciation and Renewals representing the gross book value of old gas manufacturing facilities abandoned. After allowing for the additions, and reductions, Property Account was reduced by $73,296 and Reserve for Depreciation and Renewals Account was reduced by $133, resulting in a decrease of $73,163 in the net book value of Property Account.

On 1st December, 1948, $200,000 par value of First Collateral Mortgage 3% Serial Bonds, Series "A", matured and were retired at par.

Dividends of $270,000 were paid during the year, being four quarterly dividends of 75 cents per share, or a total of $3.00 per share on the Class "A" 6% Cumulative Preferred Shares.

GENERAL

Prior to the outbreak of war in 1939, your Company sold its production of coke for use almost entirely in the domestic market. Shortly after the outbreak of war, however, the Dominion Government ordered that practically the entire coke output of your Company be diverted for industrial consumption in the manufacture of munitions of war. During the post-war period until late in the fiscal year ended 31st March, 1949, industry continued to take a very large portion of the coke production, but recently, due to the gradual elimination of the shortages in practically all types of fuel, there have been indications that there will be marked reductions in the demand for coke by industry. It will, therefore, be necessary for your Company again to look to the domestic coke market to absorb the bulk of its coke production.

As referred to earlier in this Report, there was recently a reduction in the cost per ton of coking coal laid down on your Company's dock due to a reduction in price at the mines. While this reduction in price will result in lower production costs, it now appears that the gross revenue to be received from sales will also be reduced, as the highly competitive market in which the products of your Company are sold has already made necessary a reduction in the unit selling price of certain of these products.

PERSONNEL

As at 31st March, 1949, there were 435 regular employees on the payrolls of your Company. All regular employees are eligible to subscribe to the Company's plans of group life insurance on their own lives, and sickness and accident with hospitalization and surgical fee benefit insurance for themselves and dependents, premium costs being borne jointly by the Company and the employees. Annual vacations with pay for various periods dependent upon length of service are granted to all regular employees.

In concluding this Report, your Directors record their appreciation of the co-operative spirit of the employees in all departments during the year and their assistance in maintaining operations at a high level of efficiency.

On behalf of the Board of Directors.

DAVID P. ROGERS,
President.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of United Fuel Investments, Limited and its subsidiaries, Hamilton By Product Coke Ovens Limited, United Gas and Fuel Company of Hamilton Limited, The Wentworth Gas Company Limited and The United Suburban Gas Company Limited, as at 31st March, 1949, and the statements of consolidated profit and loss and earned surplus for the year ended on that date. In connection therewith we made a general review of the accounting methods and, without making a detailed audit of the transactions, examined or tested the accounting records of the companies. We have obtained all the information and explanations we required.

Depreciation of capital assets has been provided for on the bases approved by the consulting engineer of the companies in 1942; subject thereto we report that in our opinion the accompanying consolidated balance sheet and related statements of consolidated profit and loss and earned surplus have been drawn up so as to exhibit a true and correct view of the state of the combined companies' affairs at 31st March, 1949, and of the results of their operations for the year ended on that date, according to the best of our information, the explanations given us and as shown by the books.

Clarkson, Gordon & Co.
Chartered Accountants.

Hamilton, Canada.
21st May, 1949.

UNITED FUEL INVESTMENTS, LIMITED

AND ITS SUBSIDIARIES

Statement of Consolidated Profit and Loss for Year Ended 31st March, 1949

(with comparative figures for the year 1948)

	1949		1948	
Profit from operations before charging bond interest, depreciation, etc., and, in 1949, after absorbing inventory losses of $158,839 (further inventory losses of $140,500 in 1949 were charged against the inventory reserve carried forward from 1948)		$1,750,741		$1,406,166
Deduct:				
Interest on bonds including premium on United States Funds	$153,103		$158,185	
Bond discount absorbed . . .	9,876	162,979	9,876	168,061
		$1,587,762		$1,238,105
Provision for depreciation on the bases approved by companies' consulting engineer . . .		251,126		239,990
Net profit before providing for taxes on income		$1,336,636		$ 998,115
Provision for taxes on income . . .		457,000		489,300
Net profit for year		$ 879,636		$ 508,815

Note: The expenses of the companies for the year ended 31st March, 1949 include:

Remuneration of directors (not including executive officers)	$ 5,250
Payments to counsel, solicitors and legal advisers	3,900
Remuneration of executive officers	27,900

Statement of Consolidated Earned Surplus for Year Ended 31st March, 1949

(with comparative figures for the year 1948)

	1949	1948
Balance at beginning of year	$1,496,724	$1,257,909
Add: Net profit for year as above	879,636	508,815
	$2,376,360	$1,766,724
Deduct: Dividends on 6% preferred shares	270,000	270,000
Balance at end of year	$2,106,360	$1,496,724

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(*Incorporated under the*

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Consolidated

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ASSETS

	31st March, 1949	31st March, 1948
PROPERTY:		
Comprising gas and coke manufacturing plants, transmission lines, distribution system, real estate, buildings, automobiles, fixtures, franchises, rights, organization expenses, interest during construction, etc.	$11,797,805	$11,871,101
Deduct reserve for depreciation and renewals	5,442,451	5,442,584
	$ 6,355,354	$ 6,428,517
Note: The above assets are valued at cost with the exception of assets of United Gas and Fuel Company of Hamilton Limited, acquired prior to 31st March, 1929, aggregating $3,932,917, which are included at the values at which they were carried in the books of that company at that date.		
PREMIUMS paid on acquisition of subsidiary companies	4,079,955	4,079,955
	$10,435,309	$10,508,472
CURRENT ASSETS:		
Cash on hand and in banks	$ 181,474	$ 151,768
Investment in Dominion of Canada 3% Victory Loan bonds at cost and accrued interest (approximate market value 31st March, 1949, $210,250)	209,015	209,015
Accounts receivable less reserve	762,315	842,409
Inventories as determined and certified by the management and valued at the lower of cost or market, less reserve in 1948 of $140,500 for future price decline in inventories	1,818,692	1,391,835
	$ 2,971,496	$ 2,595,027
DEFERRED AND OTHER ASSETS:		
Bond discount, commissions and expenses less amounts written off	$ 105,324	$ 115,200
Deferred charges and prepaid expenses	161,698	176,950
Stores and spare equipment	273,262	207,066
Funds on deposit with trustee for bondholders	37,646	35,338
Refundable portion of taxes on income	30,632	32,043
	$ 608,562	$ 566,597
	$14,015,367	$13,670,096

Approved on behalf of the Board.

DAVID P. ROGERS, *Director.*

S. B. SEVERSON, *Director.*

This is the balance sheet referred to in our rep

Hamilton, Canada,
21st May, 1949.

ESTMENTS, LIMITED

Dominion Companies Act)

SUBSIDIARIES

Balance Sheet

March, 1949

LIABILITIES

	31st March, 1949	31st March, 1948
CAPITAL AND SURPLUS:		
Capital:		
Class "A" 6% cumulative preferred shares of $50 each redeemable at the option of the company or by purchase in the open market for cancellation at a price not exceeding $60:		
Authorized and issued . . 90,000 shares	$ 4,500,000	$ 4,500,000
Class "B" non-cumulative preferred shares of $25 each purchasable in the open market by the company for cancellation at a price not exceeding $30:		
Authorized and outstanding . 69,689 shares	1,742,225	1,742,225
Common shares of no par value:		
Authorized and issued . . 90,000 shares	50,000	50,000
Capital surplus arising from discount on redemption of Class "B" preferred shares	417,220	417,220
Consolidated earned surplus	2,106,360	1,496,724
	$ 8,815,805	$ 8,206,169
FUNDED DEBT:		
First collateral mortgage serial and sinking fund bonds—authorized $5,500,000, whereof originally issued $4,500,000:		
3% Serial bonds Series "A" due 1st December, 1950 . .	$ 200,000	$ 400,000
4% Sinking fund bond "Series "A" due 1st December, 1959	2,300,000	2,300,000
3¾ Serial bonds Series "B" due 1st December, 1951, to 1956 (payable in Canadian or United States funds at the option of the holder)	1,200,000	1,200,000
	$ 3,700,000	$ 3,900,000
Reserve arising from exchange on sale of Series "B" bonds in United States funds	$ 120,000	$ 120,000
CURRENT LIABILITIES:		
Accounts payable and accrued charges including meter deposits	$ 533,049	$ 591,353
Accrued interest on bonds	49,195	51,317
Reserve for taxes	429,818	433,757
Dividend payable	67,500	67,500
First collateral mortgage serial bonds Series "A"		
—due 1st December, 1949	200,000	
—matured 1st December, 1948		200,000
	$ 1,279,562	$ 1,343,927
RESERVE FOR CONTINGENCIES	$ 100,000	$ 100,000
	$14,015,367	$13,670,096

ort to the shareholders of 21st May, 1949.

CLARKSON, GORDON & CO.
Chartered Accountants.

UNITED FUEL INVESTMENTS, LIMITED

AND

SUBSIDIARY COMPANIES

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Officers

D. P. Rogers	*President*
S. B. Severson	*Vice-President*
T. P. Pinckard	*General Manager of Subsidiaries*
F. Palin, C.A.	*Comptroller, Secretary and Treasurer*
W. M. Common	*Assistant Secretary and Assistant Treasurer*

Directors

H. D. Hancock
R. L. O'Brian
D. P. Rogers
S. B. Severson
C. E. Weger
T. Weir

SUBSIDIARY COMPANIES

Hamilton By Product Coke Ovens Limited—
Manufacturing coke, gas and by-products in Hamilton, Ontario.

United Gas and Fuel Company of Hamilton Limited—
Distributing gas in Hamilton, Ontario.

The Wentworth Gas Company Limited—
Distributing gas in Dundas, Waterdown, Burlington and other territory adjacent to Hamilton, Ontario.

The United Suburban Gas Company Limited—
Distributing gas in Oakville, Bronte, Port Nelson and Burlington Beach, Ontario.